

“Impact of Leveraged Buyouts on Firm Performance and Financial Stability: An Empirical Study of Mphasis”

Mr. M. Prasad Rao¹, T. Siri Chandana²

1. Assistant Professor, Department of MBA, CMR Institute of Technology, Hyderabad, Telangana, India

2. Student of MBA, CMR Institute of Technology, Hyderabad, Telangana, India

Email id: thotasiri730@gmail.com

Abstract:

The study titled “Impact of Leveraged Buyouts on Firm Performance and Financial Stability: An Empirical Study of Mphasis” examines whether the Leveraged Buyout (LBO) improved the financial performance, profitability, shareholder value, and financial stability of Mphasis. The research problem focuses on understanding the financial impact of LBOs on a company’s growth and risk profile.

The objectives of the study were to evaluate the financial performance of Mphasis before and after the LBO, analyze the impact of the LBO on share price performance, examine changes in revenue, profit, and debt levels, and assess the overall effect of the LBO on the company. The study adopted a descriptive and analytical research design using secondary data collected from annual reports, financial statements, company websites, and stock market reports for the period 2015–2025. Analytical tools such as ratio analysis, stock price trend analysis, comparative analysis, correlation, regression, and hypothesis testing were employed.

The findings reveal that revenue, net profit, Return on Equity (ROE), and share prices improved significantly during the post-LBO period. Although debt levels fluctuated, the company maintained financial stability and operational efficiency. The hypothesis test (p -value = 0.003) confirmed a significant difference between pre- and post-LBO performance.

The study concludes that the Leveraged Buyout had a positive impact on Mphasis by enhancing profitability, shareholder value, operational efficiency, and long-term financial stability, despite increased leverage and financial risk.

Keywords: Leveraged Buyout (LBO), Financial Performance, Financial Stability, Profitability, Mphasis, Shareholder Value.

1. Introduction:

Leveraged buyouts are a process of acquiring the company by using borrowed (debt) money. It means the buyer purchasing the company with large portion of debt and small portion of equity. So, the company will repay its debt by using future cash inflows. LBO deals with positive and negative effects after acquisition. On positive way, there is proper usage of assets and improving profits by reducing costs i.e., optimization. On negative way, there is an increase of high debt and fluctuations in market conditions.

LBO is linked with changes in company’s profitability, financial risk, and liquidity. LBO is mostly done by private equity to improve the performance of the company.

The main aim of Private equity firm is to make the company more profitable after acquisition. Private equity firms want to reduce costs, improve efficiency and productivity. If their strategies work well, they may get more profits and become stronger. LBOs not only give good profits but also bring the risk because the firm carry heavy debt. If there is no improvement in performance of the company leads to decrease in cash inflow and increase in debt level. Increase in debt levels will harm financial performance.

Blackstone which acquired the Mphasis. This Study of Mphasis helps to understand changes made in before LBO and after LBO and whether value created for firm. Mostly these companies depend on employees, financial decisions, clients,

strategies which can affect their firm performance. This information helps the investors, customers, students, managers. This study is based on how the LBO takes place and debt- financed acquisition works in real world. Not only that, but it also helps to take better financial decisions in business.

LBO is mixed with both risk and opportunity. Each strategy which is decided by firm will lead to either opportunity (improve performance of the company) or risk (weaken the financial stability due to increase in debt level).

2. Literature Review

DeAngelo and DeAngelo (1987): “Management Buyouts of Publicly Traded Corporations”

DeAngelo and DeAngelo examined the impact of management buyouts on publicly traded companies. The study found that leveraged buyouts increase the debt burden of firms, which creates financial pressure on management. This pressure encourages managers to improve operational efficiency, reduce unnecessary expenses, and focus on profitability. The researchers concluded that although LBOs increase financial risk due to higher leverage, they can also improve firm performance by motivating managers to utilize resources more effectively and generate higher returns.

Michael C. Jensen (1989): “Eclipse of the Public Corporation” Michael Jensen explained that leveraged buyouts are an effective corporate restructuring mechanism. According to Jensen, the high debt associated with LBOs forces managers to focus on generating sufficient cash flows to meet debt obligations. This reduces agency costs and limits wasteful spending by management. The study argued that debt acts as a disciplinary tool, encouraging managers to improve efficiency and maximize shareholder value. Jensen concluded that firms undergoing LBOs often achieve better financial performance due to stronger managerial accountability.

Steven N. Kaplan (1989): “The Effects of Management Buyouts on Operating Performance and Value”

Kaplan analyzed the operating performance of firms after management buyouts and found significant improvements in profitability and cash flow generation. The study showed that companies experienced better operational efficiency through cost reduction, improved productivity, and more effective resource utilization. Kaplan concluded that LBOs create value by encouraging management to focus on performance improvement and long-term growth. The findings suggest that buyouts can positively impact both operating performance and shareholder wealth.

Renneboog (2007): “Public to Private Transactions in the UK”

Renneboog studied companies that moved from public ownership to private ownership through leveraged buyouts in the United Kingdom. The research found that private ownership allows firms to concentrate on long-term strategic goals without the pressure of meeting short-term market expectations. The study observed that firms reduced unnecessary costs, improved operational efficiency, and strengthened managerial control after LBOs. Renneboog concluded that public-to-private transactions can enhance company performance and create value for investors.

Kaplan and Strömberg (2009): “Leveraged Buyouts and Private Equity”

Kaplan and Strömberg provided a comprehensive review of leveraged buyouts and private equity transactions. The study identified three major sources of value creation in LBOs: financial restructuring, operational improvements, and better corporate governance. Financial restructuring helps optimize capital structure, operational improvements increase efficiency and profitability, and stronger governance improves decision-making. The authors concluded that successful LBOs enhance firm value, improve competitiveness, and support long-term organizational growth through effective management practices.

2. Research Gap:

From the above studies such as those by Michael C Jensen and Steven N. Kaplan mainly focused on developed countries like the United States and Europe. This study explains that LBOs influence the performance of the company. There is limited research done on how LBO affects the developing country like India, where there are changes in business environment, political environment.

Second, the studies focus on large samples of companies across different countries, and it ignores the individual firms. In these studies, there is a lack of focus on single firms like Mphasis, which gives us detailed information on the performance of the company after LBOs.

Need of the study:

- To understand how LBO affects company performance.
- To analyze whether debt improves or worse financial stability.
- To study real-world impact using Mphasis.

Statement of the problem:

In this study of Mphasis we examine that before the acquisition takes place it mostly depends on Hewlett-Packard (HP) for its business and revenue and leads to limited growth. After acquisition of the company, it becomes more independent and builds a strong position in competitive market.

We analyze the performance of the firm and its impact on before and after acquisition. We are going to determine:

1. Is the company's profitability increased after acquisition?
2. Has the revenue of the company increased?
3. Will the company be able to manage its debt level effectively?

Mostly we study to know changes in its strategies after acquisition focusing on artificial intelligence and cloud services.

Objectives of the study:

1. To evaluate financial performance before and after acquisition.
2. To analyze the impact of the Leveraged Buyout on the share price performance of Mphasis.
3. To study the changes in revenue, profit and debt.
4. To analyze the impact of LBO on Mphasis.

Limitations of the Study:

- Using only secondary data.
- This study mostly focuses on finance (revenue, profit, debt) only.
- Limited analytical tools.
- Limited to one company.
- This study is based on fixed periods (2015-2025).

3. Research Methodology

This study examines the impact of Leveraged Buyouts (LBOs) on the financial performance and financial stability of Mphasis Ltd. The study is based on secondary data collected from annual reports, financial statements, company websites, and stock market reports for the period 2015–2025. The selected period covers both the pre-LBO and post-LBO phases, enabling a comparison of the company's performance over time.

The research follows a descriptive and analytical design. A quantitative approach was used because the study is based on numerical financial data such as revenue, net profit, debt, and financial ratios. Mphasis Ltd. was selected as the sample company since it is a well-known example of a leveraged buyout in India.

The collected data were analyzed using ratio analysis, trend analysis, and comparative analysis to evaluate changes in financial performance. Statistical tools such as correlation analysis and regression analysis were used to examine the relationship between debt and profitability and to assess the impact of leverage on company performance. Microsoft Excel was used for data analysis, calculations, charts, and graphical presentation.

To test the impact of the leveraged buyout, the following hypotheses were considered:

H₀: There is no significant difference between the pre-LBO and post-LBO performance of Mphasis.

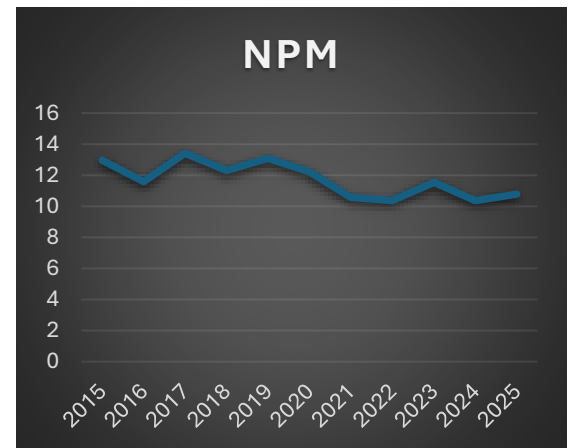
H₁: There is a significant difference between the pre-LBO and post-LBO performance of Mphasis.

The study is limited to one company and relies entirely on secondary data. Therefore, the findings may not be applicable to all companies that have undergone leveraged buyouts.

4. Results/ Findings:

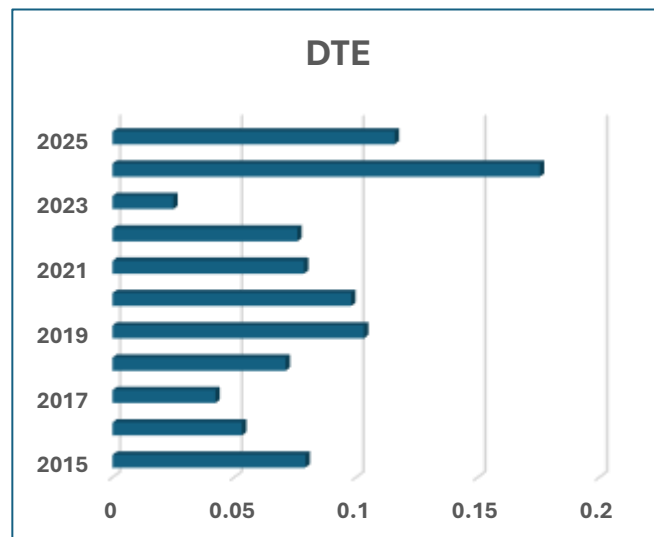
• Net Profit Analysis

Year	Net Profit	Revenue	NPM
2015	674.64	5,200	12.973846
2016	631.51	5,450	11.587339
2017	791.58	5,900	13.41661
2018	837.5	6,800	12.316176
2019	1,073.35	8,200	13.089634
2020	1,184.84	9,700	12.214845
2021	1,216.81	11,500	10.580957
2022	1,430.89	13,800	10.368768
2023	1,637.92	14,200	11.534648
2024	1,554.82	15,000	10.365467
2025	1,702.14	15,800	10.773038



Interpretation: The Net Profit Margin (NPM) of Mphasis was analyzed from 2015 to 2025 to evaluate the company's profitability. The company maintained a healthy profit margin throughout the study period. Although the NPM decreased slightly in 2016 due to higher expenses, it improved in 2017 and remained stable with minor fluctuations between 2017 and 2020. From 2021 to 2025, revenue increased, but the net profit margin declined slightly because of higher employee and operating costs.

Debt-to-equity Analysis:



Year	Total Debt	Equity	DTE
2015	434.38	5,479.77	0.0792698
2016	311.4	5,855.03	0.053185
2017	260.16	6,152.40	0.0422859
2018	389.88	5,481.79	0.0711228
2019	542.59	5,249.82	0.103354
2020	571.28	5,829.60	0.0979964
2021	513.45	6,526.71	0.078669
2022	527.24	6,943.14	0.0759368
2023	198.48	7,934.84	0.0250137
2024	1,543.57	8,794.61	0.1755132
2025	1,115.94	9,628.39	0.115901

Interpretation: The Debt-to-Equity Ratio of Mphasis was analyzed from 2015 to 2025 to understand its leverage position. The company maintained a low and stable debt level compared to shareholders' equity throughout the study period. Although the ratio fluctuated in some years due to business expansion and operational requirements, it remained at a manageable level. Overall, the company demonstrated strong financial stability and effective debt management after the acquisition.

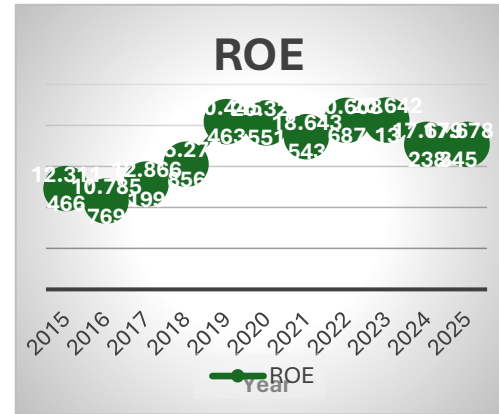
Share Price Analysis:

Year	Opening Price	Closing Price	Highest Price	Lowest Price	Average Share Price
2015	383.51	493.06	529.53	357.79	443.66
2016	494.3	560.15	618.37	400.45	513.56
2017	550.09	719.1	768.01	511.35	627.39
2018	722.82	1,009.27	1,267.27	700.72	1,024.30
2019	1,009.81	913.93	1,053.41	820.28	954.91
2020	918.64	1,526.06	1,632.15	624.32	1,097.83
2021	1,535.03	3,396.70	3,659.75	1,491.43	2,481.89
2022	3,392.00	1,972.80	3,479.00	1,896.05	2,570.90
2023	1,985.00	2,739.75	2,788.50	1,660.05	2,207.61
2024	2,775.00	2,847.20	3,237.95	2,187.00	2,754.93
2025	2,859.45	2,500.20	3,078.40	2,170.25	2,634.08

Interpretation: The share price of Mphasis was analyzed from 2015 to 2025 to understand its market performance. The company showed steady growth after the acquisition, reflecting improved investor confidence and business performance. Although the share price declined temporarily during the COVID-19 period, it recovered quickly and reached significant growth in subsequent years. Despite some fluctuations after 2022, Mphasis maintained overall growth throughout the study period.

- Return on Equity (ROE):**

Year	Net Profit	Equity	ROE
2015	674.64	5,479.77	12.311466
2016	631.51	5,855.03	10.785769
2017	791.58	6,152.40	12.866199
2018	837.5	5,481.79	15.277856
2019	1,073.35	5,249.82	20.445463
2020	1,184.84	5,829.60	20.324551
2021	1,216.81	6,526.71	18.643543
2022	1,430.89	6,943.14	20.608687
2023	1,637.92	7,934.84	20.64213
2024	1,554.82	8,794.61	17.679238
2025	1,702.14	9,628.39	17.678345



Interpretation: The Return on Equity (ROE) of Mphasis was analyzed from 2015 to 2025 to evaluate how effectively the company utilized shareholders' funds. The company maintained a healthy ROE throughout the study period, indicating good returns to investors. ROE improved significantly after the LBO, reaching above 20% in some years due to higher profitability and efficient fund utilization. Although it declined slightly in 2024–25, Mphasis continued to generate satisfactory returns and maintain strong financial performance.

- Statistical Analysis:**

- Hypothesis Testing:**

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net Profit	791.58	837.5	1,073.35	1,184.84	1,216.81	1,430.89	1,637.92	1,554.82	1,702.14
Shareholders Equity	6,152.40	5,481.79	5,249.82	5,829.60	6,526.71	6,943.14	7,934.84	8,794.61	9,628.39
ROE	12.866199	15.277856	20.445463	20.324551	18.643543	20.608687	20.64213	17.679238	17.678345

H₀: There is no significant difference between the pre-LBO and post-LBO performance of Mphasis.

H₁: There is a significant difference between the pre-LBO and post-LBO performance of Mphasis.

$$p\text{-value} = T.TEST(AK22:AL22, AA22:AI22, 2, 3)$$

$$p\text{-value} = 0.0030369 < 0.05$$

2. Correlation Analysis

Correlation (r) = CORREL(Z28:AK28,Z29:AK29)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Debt	434.38	311.4	260.16	389.88	542.59	571.28	513.45	527.24	198.48	1,543.57	1,115.94
Net Profit	674.64	631.51	791.58	837.5	1,073.35	1,184.84	1,216.81	1,430.89	1,637.92	1,554.82	1,702.14

= 0.5551248

3. Regression Analysis:

Equation: Net Profit = Intercept + Slope*Total Debt

- Slope =SLOPE(AA29:AK29,AA28:AK28)

= 0.540343

- Intercept =INTERCEPT(AA29:AK29,AA28:AK28)

= 843.02562

R² (Coefficient of Determination) =RSQ(AA29:AK29,AA28:AK28)

= 0.3081636

Findings from Analysis:

- The hypothesis test produced a p-value of 0.003, which is less than the significance level of 0.05. This indicates a significant difference between the pre-LBO and post-LBO performance of Mphasis, confirming that the leveraged buyout had a positive impact on the company's performance.
- The correlation analysis showed a correlation coefficient (r) of 0.555, indicating a moderate positive relationship between Total Debt and Net Profit. This suggests that increases in debt were associated with improvements in profitability during the study period.
- The regression analysis revealed a positive relationship between leverage and profitability. The regression coefficient ($\beta = 0.540$) indicates that higher debt levels contributed to higher net profits. The R² value of 0.308 shows that approximately 31% of the variation in net profit can be explained by changes in total debt.
- Overall, the inferential analysis indicates that the leveraged buyout improved the financial performance of Mphasis by supporting profitability growth and enhancing operational efficiency while maintaining financial stability.

Conclusion:

The study concludes that the leveraged buyout had a positive impact on the financial performance and financial stability of Mphasis. The analysis of profitability ratios, leverage ratios, liquidity ratios, and market performance indicates significant improvement during the post-LBO period. Revenue growth, net profit, return on equity, and earnings per share showed positive trends after the leveraged buyout.

Although the company experienced an increase in debt levels during certain years, effective financial management and operational efficiency helped maintain strong profitability and financial stability. Share price performance also improved, reflecting increased investor confidence and enhanced shareholder wealth.

The objectives of the study were successfully achieved through ratio analysis, statistical interpretation, and financial performance evaluation. The research highlights the importance of strategic financial planning, efficient resource utilization, and effective debt management after leveraged buyouts.

Overall, the study indicates that the leveraged buyout contributed positively to the growth, operational efficiency, market value, and long-term sustainability of Mphasis. The findings of the research can help managers, investors, researchers, and policy makers better understand the financial and strategic impact of leveraged buyouts in the IT industry.

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