International Journal of Psychosocial Rehabilitation, Vol. 24, Issue 06, 2020
ISSN: 1475-7192

Post-merger performance of Selected Acquiring companies in India

[1]Silky Kaushik, [2]Dr. NarendraSinghChauhan

ABSTRACT--*In the present scenario, mergers and acquisitions (M&A) are seen as an important tool for corporate restructuring and value creation. It allows companies to expand their horizons, reduce business risks, explore new markets and geographic areas, thereby boosting profits and gaining competitive advantage. The goal of this research is to analyze the effect of fusions on the operational and financial performance of selected Indian companies analyzing different financial ratios of the sample of companies listed on bse / nse. For this purpose, for companies, three years of pre-and post-analysis has been done. The data is obtained from company annual reports.*

Keywords--*Merger, acquisitions, M and A, financial and profitability ratios, operating ratios, liquidity ratios.*

I. INTRODUCTION

Mergers and acquisition are the one of the most prominent practices that companies follows in order to gain global status. These are the corporate restructuring activities that invites the interest of the shareholders as they are the ultimate gainers if mergers are successful. There are two ways that the company can grow, one is organic way and another is inorganic way. Mergers and acquisitions are the inorganic way of growing followed by large business houses to create synergistic impact on the profitability, liquidity and market performance. Mergers and acquisitions have continually been taken because the one of the foremost convenient and profitable strategy to survive in the competitive setting. The intent is to achieve competitive advantage, capitalizing larger market share, making profits through synergistic impact and economies of scale there by bringing competencies and capabilities for a property company performance. The speedy ever-changing technologies, fast pacedeconomies, the positive impact of globalisation, accelerated revenues have triggered this activity manifold in recent times. M & A deals reached associate degree uncomparable high in 2006 with a complete worth of $3.7 trillion [Dobbs, Goedhart and Suonio 2007].At the startof twentieth century the drive for market share light-emitting diode to merger deals followed 3 decades later wherever the businesses got connected through worth chain, components of material and production through distribution.Merger and acquisitions in India Mergers and Acquisitions in Indian Industry Post economic liberalization in early 1990's Indian economy has undergone a massive transformation. The economic reforms gave enabled the corporate to introduce various structural changes and restructuring activities mainly followed by merger and acquisition deals. The Indian companies have understood well the significance of environmental adoptions, technological innovations and competitive advantage. A survey among Indian corporate managers across various industry sectors by Grant Thornton (2006) found that M&As are a significant form of

[1]*Research Scholar (HPU, Shimla)*
[2] *Assistant Professor (HPU)*

business strategy. The three main objectives necessitating any M&A transaction, for corporate were found to be: (1) improving revenues and profitability, (2) faster growth in scale and quicker time to market, and (3) acquisition of new technology or competence. Fig 1 (a) shows various merger and acquisition deals announced from a period of 1999 to 2018 showing a significant increase in the activity upto 2007 ,2010 and then a hue leap in 2018 where the highest amount of deal size and highest no. of deals have been attained. - fig 1 (a). There have been three distinct trends in the M&A's activities in Indian corporate sectors after the economic reforms took place in 1991 (Mantravadi and Reddy, 2008).In the initial period, there was a wave of consolidation in the Indian industries, to prepare themselves to face the potential aggressive competition in both domestic and overseas market. Under these circumstances, in order to achieve both internal and external economies of scale and scope, the companies have adopted the route of M&As. The second significant trend was apparent from 1995 and was characterized by consolidations of subsidiaries by the multinational companies operating in India and the same was followed by further entries of MNC‟s in India, as a consequence to the liberalized FDI norms in India. Indian companies were also focusing on their capital as well as business restructuring. The third wave has been evident since 2002 and characterized by the global venture adopted by the Indian companies. Indian companies has been acquiring the overseas companies and thus widening the scope of global market. During this period the changes in regulations made by the finance ministry have also made the road smooth for cross border M&As.

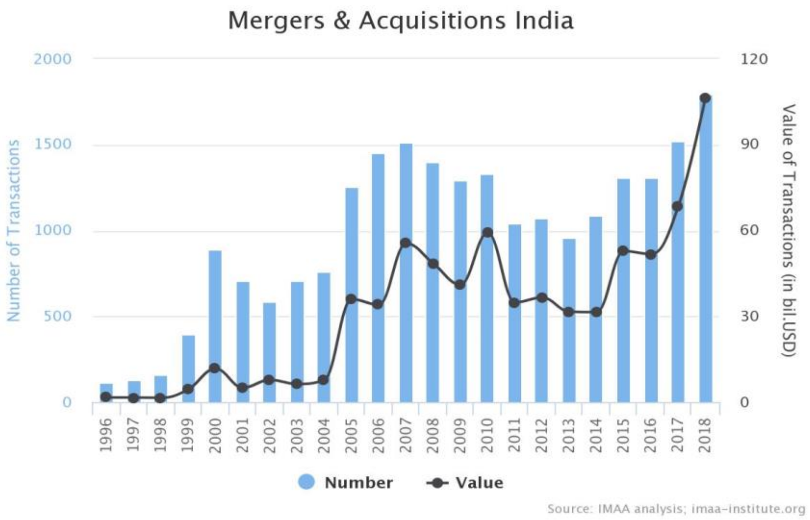

Figure 1(a): Mergers and Acquisitions activities in India

(source: www.imaa-instiiute.org)

II. REVIEW OF LITERATURE

Leepsa and Mishra (2013), suggests that the impact of M & A on companies are reflected in the immediate years, specifically the event year and the post M & A one Year. Leepsa & Mishra (2017) further state the quick ratio is most notable predictor of M & A success. Kumar and Bansal (2015) performs study on 74 cases and finds the financial performance has increased in more than 50 percent of the cases after merger and more than 60 percent in acquisition cases. But, working capital ratio and debt equity ratio also increases which imply that management should be cautious of such issues. Higher efficiency of utilization of assets and unrelated merger has increased the long term performance of the firms. The relative size of acquired firm and the method of payment do not have an important role in post merger results **(**Ramakrishnan,2016). Kumar (2009) conducted study on 30 firms found that Industry adjusted Return on capital employed of 15 firms show post merger improvement that performed better than industry average and Industry adjusted Asset Turnover Ratio of 14 firms show improvement in post merger period in comparison to pre merger period. The selected Indian M&A cases show improvement after post merger period in manufacturing as well as service sector (Reddy, Nangia & Agrawal,2008). Indian acquirers performed better after post –merger financially but the asset turnover ratio has not improved(Rani, Surender & Jain,2016).Abnormal returns across various industries are significantly different(Reza,Stuart & Jenny,2015).Sahu and Aggarwal (2018),states that export intensity is the major factor affecting M &A activities in pharmaceutical sector in India. A study conducted to determine the factors affecting M & A activities considering balanced panel data of a sector. The merger and acquisition in India has expanded because of increase in growth rate and development, globalisation, privatisation and avalability of cheap labour. (Agnihotri,2016) propounds that it is the earning volatility and business group affiliation is the main factors in deciding the acquisition move in India. Tuwei and Barno(2016) studied the impact of merger on capital structure in firm and found that there is steady increase in total assets , services and interbank after the merger.Sharma and Ho (2002) conducted a study on 36 Australian firms to see the impact on operating performance of the firms where the The study found no improvement in corporate operating performance for accrual and cash flow performance indicators. Mantrawadi and Reddy (2008) Operating and financial performance declined after merger period and type of industries also have an effect on the performance, a study conducted on 68 firms where a sample includes only stock for stock mergers. Mantrawadi and Reddy(2008) further conducted the study to find whether type of merger like vertical, horizontal and conglomerate have an impact on performance of firm considering OPM, GPM, NPM,ROCE,RPNW and D/E ratio and found that there is decline in NPM,RONW,ROCE and no change in GPM and OPM.

III. OBJECTIVES OF STUDY

The present study is an attempt by considering the following objectives to check the financial performance of merger and acquisitions deals with respect to some selected Industries in India.

(a)To see the effect of the mergers and acquisitions on selected biddercompanies profitability performance.

(b) To see the effect of the mergers and acquisitions on selected bidder companies operating performance.

(c) To see the effect of the mergers and acquisitions on selected bidder companies liquidity performance.

IV. DEVELOPMENT OF HYPOTHESES

H1: Merger and acquisitions has significant impact on profitability ratios of selected sample.

H2: Merger and acquisitions has significant impact on operating indicators of selected firms in sample.

H3: Merger and acquisitions has significant impact on the liquidity performance of the selected companies.

V. RESEARCH METHODOLOGY

a) Research design

Research design is the research strategy and framework so developed to obtain answers to potential research questions. The current study, being an exploratory, will have a thorough analysis of the selected firms. The study conducted as selected in the sample size, on ten businesses.

b) Sample Size

For the present study, convenience sampling technique was used to pick the sample firms. These sampling methods were used to better represent the firms and to show a better relationship with other variables. A total of ten companies have been chosen as sample size for acquisition deals in India.

1. Tata Group and Corus- Steel Industry (2007).
2. Vodafone- Hutchison (2007)
3. Tata Motors and Jaguar Cars & Land- Automobile Industry (2008).
4. Adani Enterprises and Port Terminals- Agribusiness Industry (2011).
5. Vedanta-Cairn(2017)
6. Hindalco Industries and Novelis- Aluminum Industry (2007-08).
7. Sterlite-Asarco(2009)
8. Mahindra and Mahindra-Schonewiess (2007)
9. Suzlon Energy Ltd. And RE Power- Wind Turbine Industry (2007)
10. RIL –RPL(2008)

c) Data Collection

Secondary data collected from audited annual financial statements and investment sites are used to perform the analysis. Under this analysis, selected sample units were combined and acquired in the year considered null (0). For evaluate the impact of M&A's on the financial status, an average of three years before and after the transaction was calculated for a collection of financial main ratios. With the aid of accounting ratios and statistical methods, post-merger financial health was compared with the prior merger results.

d) *Statistical Methods*

The review of the present study uses the known financial ratios to measure the efficiency of the company to d etermine the effect of the business presence combined on the financia health of the acquirer firms. Profitability of a business is calculated or evaluated on eight financial ratios.Net Profit Ratio (GPR %), Return on Net Worth (%) ,Return on Capital Employed (ROCE%), Current Ratio (CR), Quick Ratio (QR), Return on assets(%) , Inventory turnover ratio(%), Asset Turnover Ratio(%), and popularly known statistical tool as paired sample “t” test were applied. Data collected has been analyzed with the help of SPSS.

Received: 22 Sep 2019 | Revised: 13 Oct 2019 | Accepted: 15 Jan 2020

VI. DATA ANALYSIS & INTERPRETATION

Pre and post-merger average ratios are determined of each company selected in the sample size. Profitability, operating and liquidity position of each firm is separately analyzed in prior and post-merger of ten companies. In table 1, the net profit margin of 5 companies have statistically deteriorated and other Net profit margin for the other 5 companies have statistically improved. The Return on Net worth of only three companies have shown improvement and the values are statistically significant at 5 % and 10 % level of significance. The return on capital employed for 4 companies have shown no improvement, hence they are statistically insignificant. Fifty percent of the companies have improved their return on asset post merger showing significant values. Companies like Vodafone, Mahindra and Mahindra, Sterlite have shown no improvement at all after merger.

Table 1: Impact of Merger on Profitability Performance

Company	Net Profit Margin, Return on Net Worth, Return On Capital Employed,Return on Asset											
	Pre	**Post**	**Sig**	**Pre**	**Post**	**Sig**	**Pre**	**Post**	**Sig**	**Pre**	**Post**	**Sig**
Tata	21.15	21.81	.86	41.26	18.83	.18	24.81	8.82	.05**	16.86	7.62	.09*
Vodafone	-2.39	11.57	.23	1.24	15.91	.46	0.04	7.59	.24	-0.49	5.78	.19
Jaguar	7.32	4.71	.05*	28.57	10.80	.23	18.01	5.95	.009**	9.40	3.45	.007
Adani	38.94	48.67	.32	14.65	24.94	.05*	9.03	11.46	.42	6.50	9.39	.14
Vedanta	39.99	11.69	.04**	41.94	5.70	.19	39.27	4.90	.03**	35.07	3.78	.03**
Hindalco	14.17	10.35	.07*	18.40	7.81	.22	11.92	6.16	.02**	9.26	5.10	.04**
Sterlite	6.45	5.94	.87	14.49	15.05	.95	15.68	19.24	.74	5.16	6.35	.75

Received: 22 Sep 2019 | Revised: 13 Oct 2019 | Accepted: 15 Jan 2020

M & M	8.45	9.14	.61	25.01	22.27	.66	16.63	14.81	.62	10.98	9.7	.57
Suzlon	19.65	9.13	.02**	36.64	-4.77	.07*	29.89	-0.89	.07*	17.06	-0.30	1.24
RIL-RPL	11.09	9.1	.10*	19.83	13.29	.006**	12.75	8.29	.008**	9.71	6.60	.001**

Source: moneycontrol.com and investment sites

In Table 2, the operating performance of the companies reveals that only 2 companies i.e Vodafone and Jaguar have shown improvement in Inventory Turnover ratio and for the rest eight the ratio shows no improvement. The Inventory turnover ratio for these eight companies have statistically deteriorated. The asset turnover ratio of sevencompanies have shown improvement at 5 % and 10% significance level and for other three it has declined. For the seven companies there is statistically significant improvement.

Table 2: Impact of Merger on Operating Performance

Company	**Inventory Turnover Ratio**			**Asset Turnover Ratio**		
	Pre	**Post**	**Sig**	**Pre**	**Post**	**Sig**
Tata	7.75	7.54	.78	78.77	34.90	.01**
Vodafone	157.6	242.6	.10	36.99	49.65	.10*
Jaguar	10.46	11.88	.06	128.53	74.3	.001**
Adani	43.90	36.19	.13	16.38	19.34	.11
Vedanta	16.14	5.5	.13	87.47	27.54	.10*
Hindalco	3.67	3.62	.93	65.42	49.27	.03**
Sterlite	8.03	12.01	.17	89.90	101.77	.56
Mahindra &Manhidra	9.27	12.78	.16	129.06	104.96	.08*
Suzlon	4.13	4.96	.36	58.91	48.13	.85
RIL-RPL	8.69	8.33	.56	87.70	73.77	.10*

Source: moneycontrol.com and investment sites

In Table 3, the Liquidity performance reveals that the current ratio has improved only for two companies (i.e Vedanta and Mahindra and Mahindra) out of 10 companies and rest eight companies the ratio has declined after merger. The current ratio for these eight companies has statistically deteriorated. The Quick ratio for only one company is stable rest for the nine companies the ratio has declined and statistically insignificant.

Table 3: Impact of Merger on Liquidity Performance

Company	**Current Ratio**			**Quick Ratio**		
	Pre	**Post**	**Sig**	**Pre**	**Post**	**Sig**
Tata	0.76	2.27	.33	0.43	1.95	.31
Vodafone	1.81	0.82	.26	1.79	0.80	.25
Jaguar	1.14	0.54	.13	0.88	0.39	.13
Adani	0.97	1.50	.57	0.95	1.46	.58
Vedanta	3.00	0.40	.03**	2.48	0.20	.06*
Hindalco	1.49	1.45	.70	0.60	0.65	.77
Sterlite	1.14	1.17	.88	0.92	0.89	.84
Mahindra $ Manhidra	1.23	1.05	.06*	0.83	0.80	.46
Suzlon	1.62	1.58	.94	1.29	1.28	.98
RIL-RPL	1.21	1.33	.34	0.78	0.88	.41

Source: moneycontrol.com and investment sites

VII. CONCLUSION

Various companies combine intention to create synergies, profit efficiency, enhance competitiveness and ente r new geographical areas. Yet mergers and acquisitions might not always be successful for acquirer companies to expand and prosper. The purpose of this study is to analyze the impact of fusions on the financial performance of the mergers and acquisitions conducted by the bidder company. The results of the present study show that the profitability performance of selected samples declined and deteriorated after the merger and the profitability position indicators did not improve significantly, assessed by statistical instrument as a paired "t" test at 5 % and 10% confidence level. The comparison of pre and post-merger liquidity indicators ratios of the whole sample shows that there is decline in the mean of acquirer current ratios and quick ratios. The results from the analysis of selected sample of pre-post-merger on profitability and liquidity position indicates that there was a differential effect merger on profitability liquidity and operating position for different type.

VIII. RECOMMENDATIONS

It is advisable for different or related sectors to follow inorganic modes of growth, i.e. merger and acquisitions with caution, based on this study. A business before merging; think a company could boost its financial status by implementing a subsidiary development strategy. Finally, based on this research it is not assumed that the combined entities are ineffective.

REFERENCES

1. Agnihotri, A. (2013). Determinants of acquisitions: An Indian perspective. Management Research Review, 36(9), 882-898.
2. Duggal, N. (2015). Post-merger performance of acquiring firms: A case study on Indian pharmaceutical industry. International Journal of Research in Management and Business Studies, 2(3), 24-28.
3. Kashiramka, Smita, and N. M. Rao. "Shareholders wealth effects of mergers & acquisitions in different deal activity periods in India." European Journal of Business and Management 5, no. 4 (2013): 116-129.
4. Kumar, R. (2009). Post-merger corporate performance: an Indian perspective. Management Research News, 32(2), 145-157.
5. Kumar, S., & Bansal , L. K. (2008). The impact of mergers and acquisitions on corporate performance in India. Management Decision, 46(10), 1531-1543.
6. Leepsa, N. M., & Mishra, C. S. (2013). Do mergers & Acquisitions pay off immediately? Evidence from mergers & Acquisitions in India. South Asian Journal of Management, 20(3), 39-57.
7. Leepsa, N. M., & Mishra, C. S. (2017). Predicting the Success of Mergers and Acquisitions in Manufacturing Sector in India: A Logistic Analysis. Singapore Management Journal, 6(2), 44-73.
8. Mahesh, R., & Prasad, D. (2012). Post merger and acquisition financial performance analysis: A case study of select Indian airline companies. International Journal of Engineering, Management & Sciences, 3(3), 362-369.
9. Mantravadi, D. P., & Reddy, A. V. (2008). Post-merger performance of acquiring firms from different industries in India. International Research Journal of Finance and Economics, (22).
10. Mantravadi, P., & Reddy, A. V. (2008). Type of merger and impact on operating performance: the Indian experience. Economic and Political Weekly, 66-74.
11. Moeller, S. B., Schlingemann, F. P., & Stulz, R. M. (2004). Firm size and the gains from acquisitions. Journal of Financial Economics, 73(2), 201–228.
12. Pandya, V. U. (2018). Mergers and Acquisitions Trends–The IndianExperience. International Journal of Business Administration, 9(1), 44-54.
13. Ramakrishnan, K. (2010). Mergers in Indian industry: performance and impacting factors. Business Strategy Series, 11(4), 261-268.
14. Rani, N., Yadav, S. S., & Jain, P. K. (2015). Financial performance analysis of mergers and acquisitions: evidence from India. International Journal of Commerce and Management, 25(4), 402-423.
15. Rani, N., Yadav, S. S., & Jain, P. K. (2015). Impact of mergers and acquisitions on shareholders' wealth in the short run: An event study approach. Vikalpa, 40(3), 293-312.

Received: 22 Sep 2019 | Revised: 13 Oct 2019 | Accepted: 15 Jan 2020

16. Rashid, A., & Naeem, N. (2017). Effects of mergers on corporate performance: An empirical evaluation using OLS and the empirical Bayesian methods. Borsa Istanbul Review, 17(1), 10-24.
17. Selvam, M., Vanitha, S. and Babu, M. (2005). Mergers and acquisitions in the banking industry: An evaluation. The Management Journal, 40(10), 771-777.
18. Selvam, M., Vanitha, S. and Raja, M. (2006). Share price reactions to mergers & acquisitions: A study on ICICI Bank. PSG Journal of Management Research, 1(2), 27-32.
19. Singh, F., & Mogla, M. (2010). Profitability Analysis of acquiring companies. The IUP Journal Of Applied Finance, 16(5), 72-83.
20. Shoo, S. K., & Agarwal, N. (2017). Inter-firm differences in mergers and acquisitions: a study of the pharmaceutical sector in India. Journal of Economic Studies, 44(5), 861-878.
21. Srinivasa Reddy, K., Nangia, V. K., & Agrawal, R. (2013). Corporate mergers and financial performance: a new assessment of Indian cases. Nankai Business Review International, 4(2), 107-129.