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FINANCIAL PERFORMANCE IN PRE & POST M&A IN INDIAN PUBLIC LIMITED COMPANIES: AN ANALYTICAL STUDY

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ABSTRACT

Merger and acquisition become the practice corporate world. The concept of cost, demand, sustainability, survival growth, profitability etc. are the some of the important factors pushing the sectors to adopt the strategy of merger, acquisition, amalgamation, takeover etc. Small is beautiful is not a suitable strategy in this days of competition. The liberalised economic policies have exposed India industry to several situations. Time is evident of various economic activities that have grown over a period of time which led to various forms of business organizations. Mergers and Acquisitions have been going on for a long time and the mergers of many big corporations have taken place and it has become a normal phenomenon in the modern corporate economy. The present study is undertaken to analyse the pre and post merger and acquisition financial performance of public limited companies in India.

KEY WORDS: Financial Performance
Mergers and Acquisitions
Amalgamation
Takeovers
Corporate Sector

INTRODUCTION

. Mergers or Amalgamations result in the combination of two or more companies into one where the merging entities lose their identities. No fresh investment is made through this process. However an exchange of shares takes place between the entities involved in such a process. Generally the company that survives is the buyer which retains its identity and the seller company is extinguished. With increasing competition and the economy heading towards globalization, mergers, acquisitions are expected to occur at a much larger scale than any time in the past and have played a major role in achieving the competitive edge in the dynamic market environment

RESEARCH PROBLEM

The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like mergers and acquisitions (M&A), strategic alliances, joint ventures etc. Sustainability and success of this strategy of M&A only help in establish a competitive advantage over their rivals. Now the need of time is how this strategy will answer the present problem.

RELEVANCE OF THE STUDY

More than ever, today mergers and acquisitions is an area of immense research potentials to both academicians and practicing managers for over three decades. Economic globalization has created a sense of urgency among companies resulting in an acute significance of examining the effect of corporate restructuring and change initiatives on the organizational performances. Studies on M& A in India suggest a wider framework for understanding the implications of merger from varied perceptions. There have been numerous studies on mergers and acquisitions abroad, in the last four decades. But still there is a scope for further research.

RESEARCH OBJECTIVES

1. To examine the liquidity of the selected units by some important parameters on M&A.
2. To examine the profitability position of selected units on M&A
3. To suggest some corrective measures to improve the performance after M&A

DEVELOMENT OF LITERATURE

Sarangapani and Mamathaa (2012) examined some large Indian M&A deals were studied. The intent of the study was to understand the strategic intent behind M&A activity by analyzing the recent M&A in India. **Remya RM (2013)** observed that cross-border mergers and acquisitions (M&A) have always kept the interest of economists alive. The new business environment has provided an opportunity for Indian companies to go global through M&A. **Sarangapani and Mamathaa (2014)** examined some large Indian M&A deals were studied. The intent of the study was to understand the strategic intent behind M&A activity by analyzing the recent M&A in India. Intents of M&A using anecdotal evidence gathered from public statements of top management personnel in the media were analyzed. The data can be corroborated through collecting primary data from specific companies involved. **Ramakrishnan, K (2015)** examined the long-term post-merger performance of firms in India on a sample of 87 domestic mergers validated the hypothesis. The author argued that the efficiency appears to have improved post-merger lending synergistic benefits to the merged entities. Synergistic benefits appear to have accrued due to the transformation of the hitherto uncompetitive, fragmented nature of Indian firms before merger, into consolidated and operationally more viable business units. **Manoj Anand and Jagandeep Sing (2016)** studied the impact of mergers announcements on shareholders wealth among Indian private sector banks by capturing the returns to share holders as a result of the merger announcements using the event study methodology. **Beena, S (2017)** attempted to find out whether the process of mergers and acquisitions are really contributing to the changes in the level of concentration in this industry. For the study, the author used an exclusive database on mergers and acquisitions in the pharmaceutical industry and applied multiple least square regression frameworks to assess the impact.

RESEARCH GAP

From the review of literature, it is observed that Indian industry has witnessed a spurt in the number of corporate restructuring exercises particularly in the post liberalization period. The possible reasons for restructuring of business and models by the Indian corporate increases competition both globally and domestically, improve the core competencies of the companies. After a thorough study of previous research relating to merger and acquisition in Indian corporate sector it was found that researchers have focused on different aspects of the merger and acquisition but for the present sample and period of study are not covered in any previous. Hence, there is a lot of scope for empirical study on merger and acquisition.

RESEARCH METHODOLOGY

Different tools of analysis have been taken. Firstly different profitability and liquidity ratios have been taken in this study. Secondly some statistical techniques such as – average, index number, standard deviation and student t-test is also used in this study.

ANALYSIS AND INTERPRETATION OF RESULT

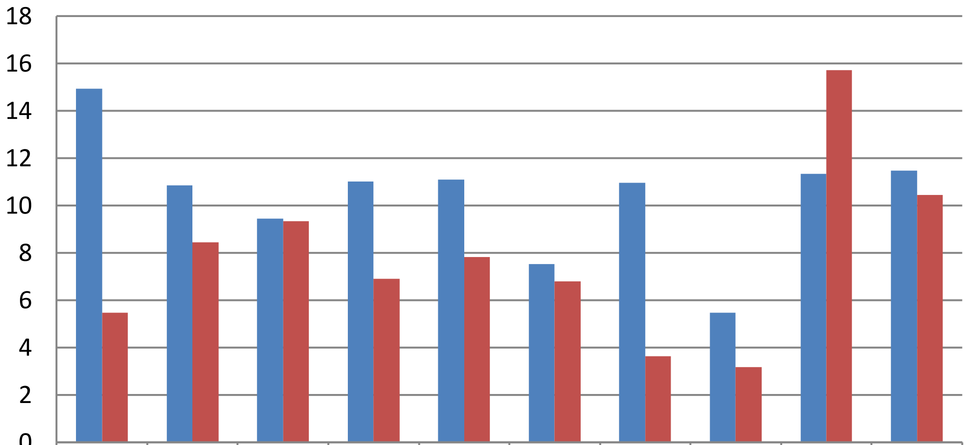
M&A of public limited companies of sample for the present study are consider to analyse the return on their gross capital employed (ROGCE). The present sample includes Ambuja Cement, Exide, SFC, Indian Cement, Reliance, Sterlite, Tata Chemical, Tata Steel, Voltas and Zee Ltd. The calculated figures of the above sample variable reflected in the following table and figure.

TABLE-1 ROGCE RATIO OF SAMPLE COMPANIES

NAME OF THE INDUSTRY	BEFORE MERGER(P)	AFTER MERGER (Q)	DIFFERENCE D=Q-P	DIFFERENCE SQUARED = D^2
Ambuja cement	10.86	8.45	(2.41)	5.80
Exide	9.44	9.35	(0.09)	0.0081
GSFC	10.97	3.64	(7.33)	53.729
Indian cement	11.02	6.90	(4.12)	16.97
Reliance	11.48	10.44	(1.04)	1.089
Sterlite	11.11	7.82	(3.29)	10.82
Tata chemical	11.38	15.73	4.39	19.27
Tata steels	7.52	6.81	(0.7)	0.509
Voltas	5.49	3.19	(2.3)	5.29
Zee ltd.	14.95	5.48	(9.4)	88.36
Total	104.22	77.81	$\sum D$= -26.29	$\sum D^2$=203.172
Average	10.422	7.781		

Source: - Collected and compiled data

FIGURE-1 ROGCE RATIO OF SAMPLE COMPANIES



	ZEEL	AMBUJA	EXIDE	INDIA CEMENT	STERLITE	TATA STEEL	GSFC	VOLTAS	TATA CHEMICALS	RELIANCE
BEFORE MERGER	14.95	10.86	9.44	11.02	11.11	7.52	10.97	5.49	11.34	11.48
AFTER MERGER	5.48	8.45	9.35	6.9	7.82	6.81	3.64	3.19	15.73	10.44

Source: - Collected and compiled data

The TABLE-1 and FIGURE-1 shows that the rate of return on gross capital employed during the pre merger period was lowest in case of Voltas i.e. 5.49%, where as the highest in the case of ROGCE were 14.95% for Reliance. The average return across the corporate sector shows about 10.422%. The Figure-1 also shows a scattered rate of return on gross capital employed on pre merger& acquisition period. The post M&A period shows a lowest ROGCE about 3.19% for Voltas and the highest ROGCE about 15.73 for Tata Chemical. The average ROGCE is about 7.781% for corporate sector. The post M&A financial performance shows a scattered rate of return for the sample companies. The Figure-1 also shows support the rate of return on gross capital employed on post merger& acquisition period.

TABLE-2 TRENDS OF ROGCE RATIO OF SAMPLE COMPANIES

NAME OF THE INDUSTRY	BEFORE MERGER(P)	AFTER MERGER (Q)	TREND
Ambuja cement	10.86	8.45	DECLINING
Exide	9.44	9.35	DECLINING
GSFC	10.97	3.64	DECLINING
Indian cement	11.02	6.90	DECLINING
Reliance	11.48	10.44	DECLINING
Sterlite	11.11	7.82	DECLINING
Tata chemical	11.38	15.73	**INCREASING**
Tata steels	7.52	6.81	DECLINING
Voltas	5.49	3.19	DECLINING
Zee ltd.	14.95	5.48	DECLINING

Source: - Collected and compiled data

TABLE-2 shows that all the sample companies are failed to improve their financial performance except Tata Chemical, where the financial performance is improved in the post M&A period. So, it is concluded that after merger and acquisition the financial performance of selected units was not improved. It is concluded at the end that the gross capital employed ratio declines for 9 units taken and only one unit responds positively towards it.

CALCULATION OF T- TEST

Ho = No significant difference in mean score of ROGCE ratio sample companies

TABLE-3 ANALYSIS OF T - TEST IN SELECTED UNITS UNDER THE STUDY PERIOD RETURN ON GROSS CAPITAL RATIO

N	Mean(D)	S.D(a)	D.F	Tc	Tt	Result
10	2.637	3.85	= N-1 = 10-1 = 9	2.168	2.262	Ho

Sources: Compiled from collected data

At 5% level of significance table value = 2.262, which is taken as (Tt) in the abbreviated form.

The calculated value of T is 2.168, which is taken as (Tc) and table value of Tt is 2.262(at 5% level of significance). Hence, Tc< Tt

The calculated value of't' is less than the table value. The Null Hypothesis is accepted. The results are as per the expectation.

RESULTS

M&A do not create immediate shareholder wealth and margins for the merging firms in the immediate short run. However from a longer perspective a consolidated company would be able to better cope up with competition, increased pressure to cut costs and grow in the changing business environment. Overall the study conducted by the researcher shows that the financial performance and of merged company gets deteriorated on post acquisition period. It is understood from the above study that operationally and financially the merger would prove successful in long run. The researcher has analyzed specific merging cases and the findings have been constant. It has been seen that significantly the mergers have been very strong and looks very definite to drive value for the industry. It can also be concluded that other than the steel industry on certain parameters merger have not been able to create enough scope for the merged firms.

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