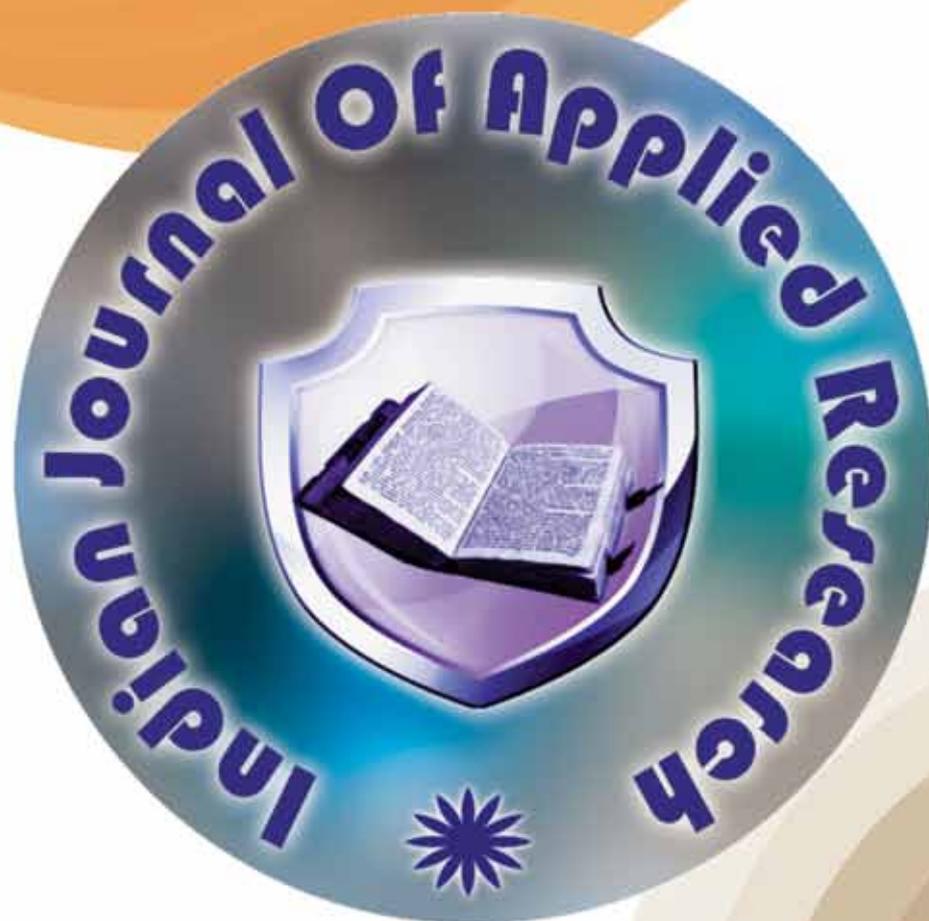


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## Financial Performance of Indian Corporate Sectors During Pre and Post Mergers and Acquisitions

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### ABSTRACT

*The Indian corporate sector has experienced a major restructuring through mergers and acquisitions, with the changes brought about by the Industrial Policy Resolution of June 1991. In today's globalized economy, mergers and acquisitions (M&A) are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale etc. The present study is mainly based on secondary data. In order to evaluate financial performance, Ratio analysis, Standard Deviation and 't' test have been used as tools of analysis.*

**Keywords : Merger & Acquisition, Corporate Restructuring, Financial Performance, Ratio Analysis**

### INTRODUCTION:

Corporate restructuring has become a major component in the financial and economic environment all over the world. Industrial restructurings have raised important issues for business decisions as well as for public formulation policy. Since 1991, Indian industries have been increasingly exposed to both domestic and international competition and competitiveness. Hence, in recent times companies have started restructuring their operations around their core business activities through mergers and acquisitions. The corporate sector all over the world is restructuring its operations through different types of consolidation strategies in order to face various challenges posed by the new pattern of globalization, which again led to the greater integration of national and international markets. The intensity of such operations is increasing with the deregulation of various Government policies as a facilitator of the new economic regime. The Indian corporate sector too experienced such a boom in mergers and acquisition led restructuring strategies especially after liberalization mainly due to the presence of subsidiaries of big MNCs here as well as due to the pressure recorded by such strategies on the domestic firms.

### MEANING AND DEFINITION OF MERGER AND ACQUISITION:

Merger is defined as combination of two or more companies into a single company where one survives and the other lose their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies.

According to the Oxford Dictionary the expression merger or amalgamation means "Combining of two commercial companies into one" and "Merging of two or more business concerns into one" respectively. A merger is just one type of acquisition. One company can acquire another in several other ways including purchasing some or all of the company's assets or buying up its outstanding share of stock.

To end up the word "MERGER" may be taken as an abbreviation which means:

M → Mixing  
E → Entities  
R → Recourses for  
G → Growth

E → Enrichment and  
R → Renovation.

### ACQUISITION:-

Acquisition in general sense is acquiring the ownership in the property. Acquisition is the purchase by one company of controlling interest in the share capital of another existing company. This means that even after the takeover although there is change in the management of both the firms retain their separate legal identity.

### MERGERS Vs ACQUISITIONS:

Although these are often used as synonymous, the terms 'merger' and 'acquisition' mean slightly different things. When a company takes over another one and clearly becomes the new owner, the purchase is called an acquisition. From the legal point of view, the target company ceases to exist and the buyer 'swallows' the business and stock of the buyer continues to be traded.

In the pure sense of the term, a merger happens when two firms, often about the same size, agree to go forward as a new single company rather than remain separately owned and operated. This kind of action is more precisely referred to as a "merger of equals". Both companies' stocks are surrendered and new company stock is issued in its place.

### WHY COMPANIES MERGE?

$2 + 2 = 5$  (Two Plus Two makes Five): This equation is the special alchemy of a merger or acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies – this is the main reason behind M & A.

This reason is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive and cost-efficient company. The companies come together hoping to gain a greater market share or to achieve efficacy. Because of these potential benefits, target companies will often agree to be purchased when they know that they cannot survive alone.

### REVIEW OF LITERATURE:

In this study an attempt has been made to briefly review the

work already undertaken and methodology employed. A brief review of selected studies has been presented as below:

- (1) Kruse, Park and Suzuki (7) examined the **long-term operating performance of Japanese companies** using a sample of 56 mergers of manufacturing firms in the period 1969 to 1997. By examining the cash-flow performance in the five-year period following mergers, the study found evidence of improvements in operating performance, and also that the pre- and post-merger performance was highly correlated. The study concluded that control firm adjusted long-term operating performance following mergers in case of Japanese firms was positive but insignificant and there was a high correlation between pre- and post-merger performance.
- (2) An empirical study entitled 'Takeovers as a strategy of turnaround' by Ravi Sanker and Rao K.V. (1998) analysis the implications of takeovers from the financial point of view with the help of certain parameters like liquidity, leverage, profitability etc. They observed that a sick company is takeover by a good management and makes serious attempts; it is possible to turnaround successfully.
- (3) Ruhani Ali and Gupta G S (1999) in their paper entitled 'Motivation and Outcomes of Malaysian takeovers: An international perspective' examine the potential motives and effects of corporate takeovers in Malaysia. The Mullar's methodology, which involves the use accounting measures like size, growth, profitability, risk and leverage is employed for the study to analyze the performance characteristics of takeover firms in the pre and post takeovers periods.
- (4) Jay Kumar S. (1999) in his dissertation entitled, 'Mergers and Acquisitions: An Evaluation Study' examines the relative benefits expected by a corporate enterprise when they adopts mergers and acquisitions as a strategy. The author studies the extent to which the security prices reacted to the announcement of merger.
- (5) The working paper entitled, 'An analysis of merger in the private corporate sector in India' by Beena P. L. (2000) attempts to analyze the significance of merger and their characteristics. The paper establishes that acceleration of the merger movement in the early 1990s was accompanied by the dominance of merger between firms belonging to the same business group of houses with similar product line.
- (6) The dissertation entitled, 'An Analysis of Mergers and Acquisitions' by Canagavally R. (2000), measures the performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigates the share prices of sample companies in response to the announcement of merger.
- (7) The study entitled 'Mergers and Operating Performance : Indian Experience' (2007) by Pramod Mantravadi and A. Vidyadhar Reddy, explains that This research study aims to study the impact of m & A on the operating performance of acquiring corporate in different periods in India, by examining some pre and post-merger financial ratios with chosen sample firms and mergers between 1991-2003. The result suggests that there are minor variations in terms of impact on operating performance following merger in different intervals of time in India.

## RESEARCH METHODOLOGY

### Research Objectives

The present research has been aimed at review operating performance of firms going for expansion through mergers and acquisitions. The broad objective of this study is to measure the impact of mergers and acquisitions on financial performance of selected units under study.

### Methodology

The data was collected for selected units for a period of five years before the merger and five years after the merger taking the merger year as base year. In the pre-merger years, the data consisted only of the acquiring firm and after the merger the data is that of the merged entity. Using t-test (Paired two samples for means), the pre-merger and post-merger performance was tested.

### Research Hypothesis

On the basis of data collection, the researcher has identified the following broader hypothesis for the study:

H0 There would be no significant difference in financial performance of selected units, before and after merger and acquisition ( $H_0 = \mu_1 = \mu_0$ ).

H1 There would be significant difference in financial performance of selected units, before and after merger and acquisition ( $H_1 = \mu_1 \neq \mu_0$ ).

### TOOLS OF ANALYSIS:

The present study has analyzed the financial performance of selected units. In order to evaluate the financial performance tools like, ratio analysis, mean standard deviation and student paired "t" distribution test has been used.

### PERIOD OF THE STUDY:-

The present study is mainly intended to examine the financial performance of merged companies five years before merger and five years after merger.

### Data Collection and Analysis

#### Data Collection

Data on key financial ratios depicting the operating performance for upto five years after the acquisition year and two years before the acquisition year was extracted from the database of EMIS. The data relating to the selected units under study have been obtained from prospectus, pamphlets and annual reports of the selected units.

#### Data Analysis

Pre-merger and post-merger performance ratios were estimated and the averages computed for the selected units, during five years before merger and five years after merger. Average pre-merger and post-merger financial performance ratios were compared to see if there was any statistically significant change in financial performance due to mergers, using Student paired "t" distribution test

### FINANCIAL ANALYSIS:

No.	Ratio	Mean (D)	S.D.(s)	tc	tt	Result
01	ROGCE	2.637	3.85	2.168	2.262	H0
02	RONCE	-3.835	5.53	2.268	2.262	H1
03	ROSHFUNDS	-6.069	9.60	1.999	2.262	H0
04	ROLTFUNDS	-4.253	10.99	1.224	2.262	H0
05	EPS	-0.255	14.34	0.056	2.262	H0
06	GPR	-1.111	5.63	0.624	2.262	H0
07	NPR	-2.644	4.43	1.889	2.262	H0
08	OPR	0.11	5.19	0.068	2.262	H0

In the above table, the researcher has calculated averages, standard deviation of different ratios like Return on gross capital employed, Return on net capital employed, Return on shareholder's funds, Return on long term funds, Earning per share, Gross profit ratio, Net profit ratio, and Operating profit ratio for five years before merger and five years after the merger for selected units.

$H_0 = \mu_1 = \mu_0$

$H_1 = \mu_1 \neq \mu_0$ .

In the above table the researcher has calculated the T-test for different ratios. In majority of cases the calculated value

of 'T' is lower than the tabulated value of 'T', which means that there is no significant effect of merger and acquisition on the financial performance of selected units but in the case of operating profit ratio and earning per share ratio of Exide Industry the calculated value of 'T' is higher than the tabulated value of 'T', that means there is significant effect of merger and acquisition on operating profit and earning per share of Exide Industry. From the above table it can be stated that there is no any significant effect of merger and acquisition on ROGCE, ROSHFUNDS, ROLTFUNDS, EPS, GPR, NPR, and OPR. But there is a significant effect of merger and acquisition on RONCE.

#### LIMITATION OF THE STUDY:-

Every live and non-live factor has its own limitations which restrict the usability of that factor. The same rule applies to this research work. The major limitations of this study are as under:

1. This study is mainly based on secondary data derived from the annual reports of industry. The reliability and the finding are contingent upon the data published in annual report.
2. The study is limited to five years before merger and five years after merger only.
3. Accounting ratios have its own limitation, which also applied to the study.
4. This study is related with ten units. Any generalization for universal application cannot be applied here.
5. Financial analysis do not depict those facts which cannot be expressed in terms of money, for example – efficiency of workers, reputation and prestige of the management

#### CONCLUSION:

It is evident from the above analysis both the hypothesis are not fully accepted. The conclusion emerging from the point of view financial evaluation is that the merging companies were takeover by companies with reputed and good management. Therefore, it was possible for the merged firms to turnaround successfully in due course. However it should be tested with a bigger sample size before coming to a final conclusion.

#### ABBREVIATION

M & A	:	Merger and Acquisition
OPR	:	Operating Profit Ratio
GPR	:	Gross Profit Ratio
NPR	:	Net Profit Ratio
EPS	:	Earning Per Share
ROGCE	:	Return on Gross Capital Employed
RONCE	:	Return on Net Capital Employed
ROSHF	:	Return on Shareholder's funds
ROLTF	:	Return on Long-terms funds
Tc	:	Calculated value of 'T'
Tt	:	Table value of 'T'

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