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**INDEX**

<b>Sr. No.</b>	<b>Title</b>	<b>Author</b>	<b>Subject</b>	<b>Page No.</b>
1	Accounting Programs for Cost Accounting	Prof. Kalola Rimaben A.	Accountancy	1-3
2	Petrography of the Volcanic and Metavolcanic Rocks of Middle Siang Valley, East Siang District, Arunachal Pradesh, India	P. Bhattacharyya , T.K. Goswami, C. Teye	Applied Geology	4-8
3	Petrography and geochemistry of the host rock of sulphide mineralisation in Potin area, Subansiri district, Arunachal Pradesh, India	P. Bhattacharyya , B.K. Tamuli, D. Majumdar	Applied Geology	9-13
4	Better Work Environment for Small Scale Industries in Developing Countries	Tapan Kumar Majumdar	Architecture	14-15
5	Generation of Bioelectricity from Waste water and Cow's urine	H.Vignesh, Hema Kalai Rani	Biotechnology	16-19
6	Constraints in Grapes Production: An Experience of Tamil Nadu Grapes Growers	Mr. Suresh. G, Dr. S. Krishnamurthy	Commerce	20-22
7	Determinants Of Dividend – A Study With Reference to Selected Companies in India	Dr.M.N.Periasamy	Commerce	23-26
8	Coffee Consumption in India: An Exploratory Study	Shri Arvind A. Dhond	Commerce	27-29
9	A Study on Impact of Women of Self Help GROUPs	D. Bhuvana	Commerce	30-31
10	Impact Of Micro Finance Through Shg-Bank Linkage Programme In Salem District, Tamilnadu	Dr. M. Sumathy, E. Nixon Amirtharaj	Commerce	32-33
11	“A Study On Job Stress With Special Reference To Textile Industries In Tirupur”	DR.M. DHANABHAKYAM , T.SUMATHI	Commerce	34-37
12	The Role of Individual Enterprise and Entrepreneurship in The Economic Development of India, Challenges and Opportunities	A.K.Chandra, B.P.Singh, V.S. Negi	Commerce	38-40
13	Customer Preferences And Attitudes Towards Maruti Cars In Pollachi Taluk	N. MANOHARAN, Dr. R. GANAPATHI	Commerce	41-45
14	(Disaster Management in India : An overview)	Dr. Pawar Ashok S. , Dr. Sunita J. Rathod , Shri. Budhwant R.G.	Economics	46-48
15	Economic condition of Banjara and Vanjari communities in India :An overview	Dr. Pawar Ashok S. , Dr.Rathod Sunita J. , Tidke Atish S.	Economics	49-51
16	(Rajshri Shahu Maharajache Shikshan Sarvatrikaran v Stri Sabalikaran Vishayak Drastikon)	Dr. Pawar Ashok S., Dr. Sunita J. Rathod ,Dr. Vishal Tayade	Economics	52-53
17	“Problems Of Self Help Group Members In Bidar District Of Karnataka”	DR.SANGAPPA V. MAMANSHETTY	Economics	54-56
18	The Role of Private And Public Sectors: An Analysis of Methodological Steps In Understanding Growth Cycles	Dr. Shivsharanappa Dhaba	Economics	57-59
19	“Reforms, Incidence Of Poverty And Employment In India”	Dr. Devraj G. Garvit	Economics	60-62
20	An Innovative Teaching Module to Enhance The Knowledge In Grammar Among The High School Students Of Palghat District	Elsamma Sebastian	Education	63-64
21	Construction of a web course material and evaluating its performance vis a vis conventional approach towards learning: a pilot study	Ms. Sreetanuka Nath	Education	65-67

22	Academic Achievement In Relation to Time Perception and Coping Styles	Dr. D. Hassan, Dr. V. Tulasi Das	Education	68-71
23	Use Of E-Resources to Enhance Performance by the Student-Teachers	Dr. S. K. Panneer Selvam	Education	72-74
24	Studies on The Removal of Blue 4 Dye from Textile Effluents Using Cotton Stem	N. Prasanna, Renjitha Saji , S. Bhuvaneswari ,A. Priya	Engineering	75-77
25	Implementation of Self controlled Arbiter for High Speed Communication in on-chip	Kaushik Mukherjee, A.Ch. Sudhir , Dr. B Prabhakara Raob	Engineering	78-82
26	Rate Sequence Space (S2) π	B. Sivaraman , K. Chandrasekhara Rao , K. Vairamanickam Vairamanickam	Engineering	83-84
27	The Asphalt in The Hot And Cold Areas	Eng. Nasr Ahmad, Prof.Dr. Eng. Mihai Iliescu	Engineering	85-86
28	Corrective Measures to Reduce Physical Work Strain of Dairy Farming	Vinay Deepa, Sharma Suneeta	Ergonomics	87-89
29	Rural Women in Transition: A Case of Women Entrepreneurs	Varinder Randhawa , Ritu Mittal, Parul Gupta	Home Science	90-93
30	Nutritional Status and Impact of Functional Food Supplement on the Performance of Athletes	Uma Mageshwari.S , Mary Jenefer Sharmila.P	Home Science	94-96
31	Effective HRM for Global Competitiveness	Dr Mahalaxmi Krishnan	Human Resource Management	97-100
32	Role of Materials in English Language Teaching and Learning	Dr. Wajahat Hussain	Literature	101-102
33	Expatriate Women in The Fiction of Ruth Praver Jhabvala	P. Mohanapriya	Literature	103-104
34	Prakruti Pariyavaran and Sahitya	Dr. Sanjay Rathod	Literature	105
35	Samkalin Hindi Kavita me Manviya Jivan ke Badalte	Dr. Sanjay Rathod	Literature	106-107
36	A Servant Turned an Administrator: A Study of Naikar's Kanakadasa: The Golden Servant	Ashok Hulibandi	Literature	108-110
37	A Study on Metacognitive Strategy in Terms of Reading Comprehension of Post Graduate English Literature Students	J.P.Vandhana, T.Sakthivel	Literature	111-112
38	The Psychic Patterns In The Protagonist Of Bharati Mukherjee's Wife.	B. Kalidoss, Dr. S.Kanakaraj,	Literature	113-114
39	Integrating action research paradigm into decision making -An investigation of an action research model	Haresh B. Barot	Management	115-117
40	A Study on Green Marketing Mix Towards Green Products	Urmila Vikas Patil	Management	118-120
41	Viral Marketing – Is It A Mirage or Reality?	Dr. Viral Shilu	Management	121-122
42	Evaluation of Mandura Bhasma with & without Triphala Churna in Management Of 'Panduroga'	Dr.D.Anuradha, Dr. M.Srinivasulu	Management	123-125
43	A Conceptual Overview of Value Creation in Business Relationships	Abhishek Pande	Management	126-127
44	Plight of Women Entrepreneurs: A Diagnostic Study	Anuradha Averineni	Management	128-130
45	"Profitability Analysis Of Merger Textile Companies In India During Pre And Post-Merger Periods"	Dr. M. Dhanabhakym ,R.Umadevi	Management	131-133

46	Impact Of Ngo's On Rural Marketing	R. DURGA RANI,Dr. R. GANAPATHI	Management	134-135
47	Status Of Mutual Fund In India	D. JAYANTHI,Dr. R. GANAPATHI,	Management	136-138
48	A Study on "The relevance of Human Resource Accounting in the Present Scenario"	Dr.Giridhar K.V. , Krupa V.D.	Management	139-140
49	Customers Attitude Towards Domestic Air Conditioners With Reference To Lg	M. LAKSHMI PRIYA, Dr. R. GANAPATHI,	Management	141-149
50	Interaction of Gender and Sexual Appeal on Effect of TV Advertisements	P. Shanthi, Dr. S. Thiagarajan	Marketing	150-151
51	Study on Dislike towards TV advertisements – An empirical Evidence	Ruhani Mahajan, Sahil Goyal	Marketing	152-154
52	Emotions: Ace Tool For Marketing	Ashish Nathwani	Marketing	155-157
53	Comparison of Fluticasone propionate with Beclomethasone dipropionate in patients of Bronchial asthma"	RAMAKRISHNA GHUBDE, ARCHANA SHEKOKAR	Medical Science	158-160
54	A study of incidence and risk factors for neonatal systemic candidiasis	Dr Sheila Aiyer, Dr Pareshkumar A. Thakkar, Dr. Komal K. Patel, Dr. Kaushik A. Mehta	Medical Science	161-163
55	Pharmacoeconomic appraisal of antimicrobial utilization in a medical college hospital	Dr. Parveen Kumar Sharma, Dr. Rekha Bansal	Medical Science	164-166
56	Various aspects of antimicrobial utilization in OPD of a medical college hospital	Dr. Parveen Kumar Sharma, Dr. Rekha Bansal	Medical Science	167-168
57	Subjective well Being and Job Satisfaction Among Survivors of Economic Downturn	Vijaya. R, M. Y. Manjula	Psychology	169-172
58	Knowledge of Mothers About Nutrition of Child Under Five Years of Age	Dr.K.Jothy, Ms.S.Kalaiselvi	Social Sciences	173-175
59	Geriatric in India and Their Right to Health	Minni K. T.	Sociology	176-177



## “Profitability Analysis Of Merger Textile Companies In India During Pre And Post-Merger Periods”

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### ABSTRACT

Mergers are important corporate strategy actions that, among other things, aid the firm in external growth and provide it competitive advantage. Studies on the post merger, long term performance of firms in both the developed and developing markets have not been able to come to a definite and convincing conclusion about whether mergers have helped or hindered the firm performance. This study compares the pre and post-merger profitability position of selected merger textile Company for the period of 8 years. Two objectives are framed for the study. The paired t test analysis has been used to find out profitability position of selected merger textile companies. The arithmetic means, standard deviation, coefficient of variation have been used to find out the profitability ratios at the pre and post-merger periods. The analysis indicates that there is significant difference from the pre-merger to the post - merger period of selected textile companies. Financial evaluation is that the merging company can be taken over by company only which has good and reputed management. Therefore it is possible for the merged firms to turn around successfully in due course of business.

**Keywords : Merger and Acquisition, Arithmetic Means, Standard Deviation, Coefficient of Variation, Paired t test.**

### INTRODUCTION

The textile industry is one of the leading sectors in the Indian economy as it contributes nearly 14 percent to the total industrial production. As it the biggest revenue earners and the most advantageous industrial sectors in the country, its expansion through merger and acquisition has become more popular and it becomes the main tool to adjust the industrial structure and to optimize the allocation of resources. Thus merger and acquisition gains much more essentials for economic growth. How can we make the new enterprise with enhanced capacity by M&A has been chosen to be focused on. Textile and garment enterprises have a typical feature that they all have large-scale sales and customer networks. The merger of the independent network after M&A is a key problem in the study. This study builds an optimization model to consider the profitability position of textile industry. Merger of two weaker textile companies with one healthy company can be treated as the faster and less costly way to improve profitability than spurring internal growth.

### STATEMENT OF THE PROBLEM

The performance of textile companies will obviously be better with higher profitability and lower risk. It is true that dramatic events like mergers, take covers, restricting and corporate controls occupy the Indian business news papers almost daily. Further they have become central focus of public and corporate policy issues. Mergers represent a major trend in the contemporary and economic environment. This is an area of potential good as well as potential harm in corporate strategy including manufacturing industry. Mergers take place due to various motives. Therefore an analysis has to be made to know the profitability position of the pre and post merger of selected textile companies to gain some insights into the factors that might have possibly including the merger. The present study is about the evaluation of profitability position of textile companies before and after mergers.

### OBJECTIVES OF THE STUDY

- To examine the profitability position of selected textile companies during the pre and post-merger periods.
- To offer valid suggestions and conclusions.

### METHODOLOGY

#### Source of data

In the present study the data used is secondary in nature and the required data were collected from the PROWESS - a database of CMIE, annual reports, newspapers, journals, magazines and websites.

#### Period of the study

The present study is mainly intended to examine the profitability position of merged companies for a period of four years before merger (2002-2006) and four years after merger (2007-2011). The year of merger (2006-2007) is excluded from this study.

#### Selection of Sample

The sample was drawn from the list of merged textile companies. For the present study, four textile companies have been selected, which are

#### List of sample

S. No	Deal Date	Acquirer Company	Target Company
1	3/3/2006	Precot Meridian Ltd	Meridian Industries Ltd
2	30/6/2006	Spentex Industries Ltd	Indorama Tex Ltd
3	23/2/2007	Bombay Rayon Fashion Ltd	DPJ Clothing Ltd
4	5/3/2007	Ginni Filaments Ltd	Ganesh Synthetics Pvt. Ltd

**TOOLS OF ANALYSIS**

The researcher has used the following tools for analyzing the profitability of selected merged textile companies in India. The tools are ratios, mean, standard deviation, co-efficient of variation and paired sample T – test.

**ANALYSIS AND INTERPRETATION****TABLE - 1 GROSS PROFIT RATIO OF SELECTED TEXTILE COMPANIES IN PRE AND POST-MERGER PERIODS**

YEAR	Precot Meridian Ltd		Spentex Industries Ltd		Bombay Rayon Fashion Ltd		Ginni Filaments Ltd	
	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period
1	13.05	5.01	-8.79	1.21	4.49	19.4	9.29	0.19
2	10.1	1.91	6.23	-3.63	7.09	21.47	10.43	0.68
3	10.58	8.38	4.47	3.78	10.67	19.87	8.89	7.71
4	15.23	9.28	5.87	9.56	14.28	17.92	9.98	8.25
<b>MEAN</b>	<b>12.24</b>	<b>6.14</b>	<b>1.94</b>	<b>2.73</b>	<b>9.13</b>	<b>19.66</b>	<b>9.64</b>	<b>4.20</b>
<b>S.D</b>	<b>2.375</b>	<b>3.368</b>	<b>7.196</b>	<b>5.492</b>	<b>4.265</b>	<b>1.462</b>	<b>0.689</b>	<b>4.366</b>
<b>C.V</b>	<b>19.409</b>	<b>54.822</b>	<b>370.016</b>	<b>201.200</b>	<b>46.707</b>	<b>7.436</b>	<b>7.142</b>	<b>103.773</b>
<b>t-test</b>		<b>4.368*</b>		<b>-0.188</b>		<b>-3.999 *</b>		<b>2.358</b>

**Source: Annual Reports and Computed Data**

The above table reveals that the average gross profit ratio of selected textile companies is higher. According to CV value the variations in the gross profit ratio of spentex industries ltd after merger is high and Bombay rayon fashion ltd is low. The application of 't' test shows that the variation of Precot Meridian Ltd and Bombay rayon fashion ltd company's gross profit ratio is significant in after merging (t-value = 4.368, p<0.05, t-value = -3.999, p<0.05) whereas Spentex industries ltd and Ginni Filaments ltd companies don't have the significant value in t-test (t-value= -0.188, p>0.05, t-value = 2.358, p<0.05).

**TABLE – 2 NET PROFIT RATIO OF SELECTED TEXTILE COMPANIES IN PRE AND POST-MERGER PERIODS**

YEAR	Precot Meridian Ltd		Spentex Industries Ltd		Bombay Rayon Fashion Ltd		Ginni Filaments Ltd	
	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period
1	3.32	1.37	-25.95	-4.28	2.28	12.94	2.04	-5.73
2	2.92	-2.25	-4.82	-11.1	3.56	11.02	2.84	-7.59
3	3.32	3.54	2.77	-2.89	6.83	10.81	1.04	0.95
4	6.29	5.62	2.77	3.51	9.08	9.99	2.9	2.88
<b>MEAN</b>	<b>3.96</b>	<b>2.07</b>	<b>-6.30</b>	<b>-3.69</b>	<b>5.43</b>	<b>11.19</b>	<b>2.20</b>	<b>-2.37</b>
<b>S.D</b>	<b>1.563</b>	<b>3.362</b>	<b>13.575</b>	<b>5.992</b>	<b>3.093</b>	<b>1.248</b>	<b>0.870</b>	<b>5.070</b>
<b>C.V</b>	<b>39.446</b>	<b>162.431</b>	<b>-215.220</b>	<b>-162.403</b>	<b>56.884</b>	<b>11.156</b>	<b>39.455</b>	<b>-213.710</b>
<b>t-test</b>		<b>1.604</b>		<b>-0.400</b>		<b>-2.722</b>		<b>1.716</b>

**Source: Annual Reports and Computed Data**

The above table reveals that the average net profit ratio of selected textile companies is higher. According to CV value, the variations in the net profit ratio of spentex industries ltd after merger is high and Bombay rayon fashion ltd is low. The application of 't' test shows that the variation in the net profit ratio of Precot Meridian Ltd (t-value = 1.604, p<0.05), spentex industries ltd (t-value = -0.400, p>0.05), Bombay rayon fashion ltd (t-value = -2.722, p<0.05), and Ginni Filaments ltd (t-value = 1.716, p<0.05) after merger don't have significant value in t-test.

**TABLE – 3 RETURN ON CAPITAL EMPLOYED RATIO OF SELECTED TEXTILE COMPANIES IN PRE AND POST-MERGER PERIODS**

YEAR	Precot Meridian Ltd		Spentex Industries Ltd		Bombay Rayon Fashion Ltd		Ginni Filaments Ltd	
	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period
1	9.27	5.68	-3.62	3.5	23.49	14.35	7.83	0.54
2	7.36	2.92	0.24	-2.53	36.8	10.08	9.33	1.75
3	7.44	10.52	13.83	6.55	16.5	7.53	6.98	8.16
4	10.91	10.57	6.74	18.04	12.89	7.21	6.16	11.55
<b>MEAN</b>	<b>8.74</b>	<b>7.42</b>	<b>4.29</b>	<b>6.39</b>	<b>22.42</b>	<b>9.79</b>	<b>7.57</b>	<b>5.50</b>
<b>S.D</b>	<b>1.691</b>	<b>3.777</b>	<b>7.659</b>	<b>8.634</b>	<b>10.548</b>	<b>3.298</b>	<b>1.354</b>	<b>5.239</b>
<b>C.V</b>	<b>19.343</b>	<b>50.893</b>	<b>178.221</b>	<b>135.126</b>	<b>47.048</b>	<b>33.684</b>	<b>17.876</b>	<b>95.255</b>
<b>t-test</b>		<b>-0.772</b>		<b>-0.487</b>		<b>2.650</b>		<b>0.646</b>

**Source: Annual Reports and Computed Data**

The above table reveals that the average return on capital employed of all selected textile companies is higher. According to CV value, the variations in the return on capital employed ratio of spentex industries ltd and Ginni Filaments ltd after merger is high whereas in Precot Meridian ltd and Bombay rayon fashion ltd is low. The application of t' test shows that the variation in the return on capital employed ratio of Precot Meridian ltd (t-value = -0.772, p<0.05), spentex industries ltd (t-value = -0.487, p>0.05), Bombay rayon fashion ltd (t-value = 2.650, p<0.05), and Ginni Filaments ltd (t-value = 0.646, p<0.05) after merger don't have significant value in t-test.

TABLE – 4 RETURN ON NET WORTH RATIO OF SELECTED TEXTILE COMPANIES IN PRE AND POST-MERGER PERIODS

YEAR	Precot Meridian Ltd		Spentex Industries Ltd		Bombay Rayon Fashion Ltd		Ginni Filaments Ltd	
	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period	Pre-merger period	Post-merger period
1	7.98	3.62	-12.17	-21.7	30.2	20.03	5.22	-15.96
2	7.76	-7	-23.18	-97.28	24.61	17.33	8.2	-40.58
3	7.85	10.76	42.2	-44.23	15.82	9.21	3.01	4.84
4	13.13	19.69	6.85	23.77	11.85	8.78	4.39	16.97
<b>MEAN</b>	<b>9.18</b>	<b>6.76</b>	<b>3.42</b>	<b>-34.86</b>	<b>20.62</b>	<b>13.83</b>	<b>5.20</b>	<b>-8.68</b>
<b>S.D</b>	<b>2.634</b>	<b>11.289</b>	<b>28.672</b>	<b>50.314</b>	<b>8.319</b>	<b>5.701</b>	<b>2.194</b>	<b>25.240</b>
<b>C.V</b>	<b>28.702</b>	<b>166.824</b>	<b>837.140</b>	<b>-144.334</b>	<b>40.347</b>	<b>41.206</b>	<b>42.168</b>	<b>-290.711</b>
<b>t-test</b>		<b>0.513</b>		<b>1.534</b>		<b>4.650</b>		<b>1.021</b>

Source: Annual Reports and Computed Data

The above table reveals that the average returns on net worth ratio of selected textile companies is higher. According to CV value, the variations in the return on capital employed ratio of Precot Meridian ltd and Bombay rayon fashion ltd after merger is high and spentex industries ltd and Ginni Filaments ltd is low. The application of t' test shows that the variation in the return on net worth ratio of Precot Meridian ltd (t-value = -0.513, p<0.05), spentex industries ltd (t-value = 1.534, p>0.05), Bombay rayon fashion ltd (t-value = 4.650, p<0.05), and Ginni Filaments ltd (t-value = 1.021, p<0.05) after merger don't have significant value in t-test.

#### SUGRESSIONS

- The profitability position of spentex industries ltd and Ginni Filaments ltd is good before merger and acquisition but after merger and acquisition it was decreased. So, these companies require concentration on cost reduction system.
- The net profit, return on capital employed and return on net worth ratio's of selected merger companies are not satisfactory. Hence, the companies need to increase their equity and sales in near future.

#### CONCLUSION

It is evident from the above analysis that gross profit and earnings per share ratio of Precot Meridian ltd and Bombay rayon fashion ltd companies is satisfactory and is significant whereas net profit, return on capital employed, return on net worth ratio's of spentex industries ltd and Ginni Filaments ltd companies are not satisfactory and is not significant also. Hence to conclude from the above point of view of financial evaluation is that the merging company can be taken over by company only which has good and reputed management. Therefore it is possible for the merged firms to turn around successfully in due course of business. However, it should be tested with the bigger sample size before coming to a final conclusion.

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