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Research Paper Management

"Profitability Analysis Of Merger Textile Companies In India During Pre And Post-Merger Periods"

*Dr. M. Dhanabhakyam **R.Umadevi

* Assistant Professor, Dept. of Commerce, Bharathiar University, Coimbatore – 641 046

** Research Scholar, Dept. of Commerce, Bharathiar University, Coimbatore – 641 046

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
MEAN	**12.24**	**6.14**	**1.94**	**2.73**	**9.13**	**19.66**	**9.64**	**4.20**
S.D	**2.375**	**3.368**	**7.196**	**5.492**	**4.265**	**1.462**	**0.689**	**4.366**
C.V	**19.409**	**54.822**	**370.016**	**201.200**	**46.707**	**7.436**	**7.142**	**103.773**
t-test		**4.368***		**-0.188**		**-3.999 ***		**2.358**

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
MEAN	**3.96**	**2.07**	**-6.30**	**-3.69**	**5.43**	**11.19**	**2.20**	**-2.37**
S.D	**1.563**	**3.362**	**13.575**	**5.992**	**3.093**	**1.248**	**0.870**	**5.070**
C.V	**39.446**	**162.431**	**-215.220**	**-162.403**	**56.884**	**11.156**	**39.455**	**-213.710**
t-test		**1.604**		**-0.400**		**-2.722**		**1.716**

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
MEAN	**8.74**	**7.42**	**4.29**	**6.39**	**22.42**	**9.79**	**7.57**	**5.50**
S.D	**1.691**	**3.777**	**7.659**	**8.634**	**10.548**	**3.298**	**1.354**	**5.239**
C.V	**19.343**	**50.893**	**178.221**	**135.126**	**47.048**	**33.684**	**17.876**	**95.255**
t-test		**-0.772**		**-0.487**		**2.650**		**0.646**

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
MEAN	**9.18**	**6.76**	**3.42**	**-34.86**	**20.62**	**13.83**	**5.20**	**-8.68**
S.D	**2.634**	**11.289**	**28.672**	**50.314**	**8.319**	**5.701**	**2.194**	**25.240**
C.V	**28.702**	**166.824**	**837.140**	**-144.334**	**40.347**	**41.206**	**42.168**	**-290.711**
t-test		**0.513**		**1.534**		**4.650**		**1.021**

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.

SUGESSIONS

- 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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