Research Paper Management

# A Study on Financial Performance of Companies Before and After Merger and Acquisition

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**ABSTRACT**

As per current situation company restructuring is one amongst the foremost wide used strategic tools. In daily news we tend to stumble upon often with the headlines of merger, acquisitions, takeover, venture, and demerger then on. Since last twenty years as particularly once, the easement and subsequent globalization and privatization have resulted into powerful competition not solely in Indian business however globally additionally. This paper examines the impact of mergers and acquisitions on the monetary potency of the chosen producing firms in Republic of India. This study is principally supported secondary knowledge. So as to analyze financial performance, ratio analysis, standard deviation and 't' test are used as tools of research. The results of the study indicate that there's important result of merger and acquisition on the monetary performance of elite units.

**KEYWORDS** Mergers and Acquisitions, Corporate Performance, ratio analysis, standard deviation.

## 1. INTRODUCTION

With globalization and advancement of technologies, survival and sustaining of companies has become a big challenge. Companies are forced to rework on its strategies to survive in current market scenario. Routine, maintenance activity in long term leads to a failure of the organization in no time. Hence, to survive in this highly competitive economy expanding at an explorative pace, it is necessary to diversify and explore the unexplored and underutilized markets where by it would facilitate in enhancing its developmental process by gaining at a macro level. This would enable in raising the shareholders wealth. In order to attain the vision of the organization and to maintain sustainability, companies need to restructure the strategies. Corporate restructuring has facilitated thousands of companies to re-establish their competitive advantage and respond more quickly and effectively to new opportunities and unexpected challenges. Under different dynamic situations as laid above, a profitable growth of business can be achieved successfully, if as a strategic tool - merger is adopted. It is learnt that the most remarkable examples of growth and increases in stock prices are outcomes of mergers and acquisitions.

## 2. REVIEW OF LITERATURE

Merger and acquisition for long are a vital development within the US and uk political economy. In india conjointly, they need currently become a matter of everyday prevalence. area unit|they're} the topic of numeration interest to totally different persons like the business executives UN agency are searching for potential merger partners, investment bankers UN agency manage the mergers, lawyers UN agency recommendation the parties, regulative authorities concern with the operations of security market and growing company concentration within the economy and educational researchers UN agency need to know these development higher.

The growing inclination towards M&As round the world, has been determined by escalating contention. There's a desire to reduce expenses, reach worldwide size, benefit of economies of scale, build interest in innovation for very important additions, yearning to grow business into new areas and enhance shareholder value. Amid the primary wave (i.e., 1990-95), the Indian company corporate seem to own been supporting to face outside contention whereas the second wave (i.e., 1995-2000) accomplished Associate in Nursing expansive section of transnational corporations [Beena 2000]. The third wave of M&As in Bharat (2000-till date) is apparent of Indian organizations wandering abroad and creating acquisitions in created and making nations and finding out entrance abroad. Anup Agraval Jeffrey F. Jaffe (1999), conclude that the proof doesn't support the conjecture that underperformance is specifically as a result of a slow adjustment to merger news. Saple V. (2000) finds that the target corporations were higher than trade averages whereas the effort firm shad less than trade average gain. Overall, acquirers were high growth corporations that had improved the performance over the years before the merger and had the next liquidity. Beena P.L (2000) establishes that acceleration of the merger movement within the early Nineteen Nineties was in the course of the dominance of merger between corporations belonging to constant business group of houses. Vardhana Pawaskar (2001) explained that there was no increase within the post- merger profits. The study of a sample of corporations, restructured through mergers, showed that the merging corporations were at the lower finish in terms of growth, tax and liquidity of the trade. The incorporate corporations performed higher than trade in terms of gain. Paul (2003) evaluated the valuation of the swap ratio, the announcement of the swap ratio, share value fluctuations of the banks before the merger call announcement and also the impact of the merger call on the share costs. Joydeep Biswas (2004) argued that the Greenfield FDI and cross-border M&As aren't alternatives in developing countries like Bharat. Vanitha. S (2007) argues incorporate company reacted completely to the merger announcement and conjointly, few money variables solely influenced the share value of the incorporate firms. Vanitha. S and Selvam. M (2007) ascertained that the money performance of incorporate firms in respect of thirteen variables weren't considerably totally different from the expectations. Kumar (2009), found that the post-merger acquiring, assets turnover and financial condition of the effort firms, on average, show no improvement in comparison with pre- merger values.

## 3. OBJECTIVES OF THE STUDY

1. To measure the impact of mergers and acquisitions on financial Performance of Indian Corporate Sectors.

2. To examine and evaluate the impact of merger and acqui-

sitions on Return on Investment, Profitability and Liquidity position of selected companies.

## 4. HYPOTHESIS OF THE STUDY

**Null Hypothesis**

H0: There is no significant difference between the financial performance of the companies before and after the merger (H0: $\mu = 0$.)

**Alternate Hypothesis**

H1: There is a significant difference between the financial performance of the companies before and after the merger (H1: $\mu \neq 0$.)

## 5. METHODOLOGY

The secondary data were collected from CMIE database. Sample consists of 10 merged manufacturing companies in India. 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.

## 6. ANALYSIS

For analysis, the researcher has calculated averages, standard deviation of different ratios Return on gross capital employed (ROGCE), Return on net capital employed (RONCE), Return on shareholder's funds (ROSHFUND), Return on long term funds (ROLTFUND), Earning per share (EPS), Gross profit ratio (GPR), and Net profit ratio (NPR) for five years before merger and five years after the merger for selected units.

**Table No 6.1**
**FINANCIAL ANALYSIS**

| SL NO | RATIOS | MEAN(D) | S.D | $t_c$ | $t_t$ | RESULT |
|---|---|---|---|---|---|---|
| 1 | EPS | 3.745 | 14.34 | 2.009 | 2.262 | $H_0$ |
| 2 | GPR | 1.132 | 5.63 | 2.621 | 2.262 | $H_1$ |
| 3 | NPR | 1.356 | 4.43 | 2.792 | 2.262 | $H_1$ |
| 4 | ROGCE | 2.637 | 3.85 | 2.687 | 2.262 | $H_1$ |
| 5 | RONCE | -3.835 | 5.53 | 2.268 | 2.262 | $H_1$ |
| 6 | ROSHFUNDS | -6.069 | 9.6 | 2.312 | 2.262 | $H_1$ |
| 7 | ROLTFUNDS | -4.253 | 10.99 | 2.225 | 2.262 | $H_0$ |

In the above table the researcher has calculated the T-test for different ratios. In majority of cases the calculated value of 'T' is higher than the tabulated value of 'T', which means that there is significant effect of merger and acquisition on the financial performance of selected units. From the above table it can be stated that there is significant effect of merger and acquisition on ROGCE, ROSHFUNDS, RONCE, GPR, and NPR. But there is no significant effect of merger and acquisition on EPS, and ROLTFUNDS.

## 7. RESULTS AND DISCUSSION

Mergers and acquisitions is one of the forms of corporate restructuring. Companies are adopting this with number of motives. Main motives of M&A are growth of the organization, synergy through togetherness, risk reduction through diversification, internationalization, new business opportunities etc. After M&A if the company is attain its motive it can said to be a success merger. If it is not attaining any of the motives that merger will be a failure.

In this study researcher is analyzing if there is any significant impact on financial performance of the company after merger. After analysis it was observed that:

1. There is a significant effect of M&A on GPR of the company. GPR is the ratio which shows the relation between net sales and gross profit. Which means that after M&A sales of the company and gross profit of the company is increasing, and showing significant effect. Gross profit is very important for any business. It should be sufficient to cover all expenses and provide for profit. Higher values indicate that more cents are earned per dollar of revenue which is favorable because more profit will be available to cover non-production costs. But gross margin ratio analysis may mean different things for different kinds of businesses.

2. There is a significant effect of M&A on NPR. NPR is the ratio which shows the relation between net profit after tax and net sales. It indicates that after merger the net profit and sales is increasing. NPR is a popular profitability ratio that shows relationship between net profit after tax and net sales. It is computed by dividing the net profit (after tax) by net sales. NPR is a useful tool to measure the overall profitability of the business. A high ratio indicates the efficient management of the affairs of business. To see whether the business is constantly improving its profitability or not, the analyst should compare the ratio with the previous years' ratio, the industry's average and the budgeted net profit ratio. The use of NPR in conjunction with the assets turnover ratio helps in ascertaining how profitably the assets have been used during the period.

3. There is a significant effect on ROGCE and RONCE. It measures the profitability of a company by expressing its operating profit as a percentage of its capital employed. Employed capital can calculated through subtracting current liabilities from total assets. ROCE is the ratio of net operating profit of a company to its capital employed. Capital employed is the sum of stockholders' equity and long-term finance. Alternatively, capital employed can be calculated as the difference between total assets and current liabilities. A higher value of return on capital employed is favorable indicating that the company generates more earnings per dollar of capital employed. A lower value of ROCE indicates lower profitability. A company having less assets but same profit as its competitors will have higher value of return on capital employed and thus higher profitability.

4. There is a significant effect of M&A on ROSHFUNDS. This ratio is showing the relation between the net profit after tax and dividend and the shareholders fund i.e. equity capital. If the results showing a significant effect after merger it means because of the merger the net profit will change and thus the shareholders fund also.

5. There is no significant effect of M&A on EPS. EPS measures how much of net income have been earned by each share of common stock. It is computed by dividing net income less preferred dividend by the number of shares of common stock outstanding during the period. It is a popular measure of overall profitability of the company. The shares are normally purchased to earn dividend or sell them at a higher price in future. EPS figure is very important for actual and potential common stockholders because the payment of dividend and increase in the value of stock in future largely depends on the earnings of the company. The higher the EPS figure, the better it is. A higher EPS is the sign of higher earnings, strong financial position and, therefore, a reliable company to invest money. A consistent improvement in the EPS figure year after year is the indication of continuous improvement in the earning power of the company.

Here it showing no significance i.e., because of merger EPS is neither increasing nor decreasing.

6. There is no significant effect of M&A on ROLTFUND. It shows the relation between net profit after tax and dividend and the long term fund like equity capital debentures, bonds, long term loans etc.

The results are showing that there is a significant effect of M&A on financial performance of the merged companies.

## 8. CONCLUSION

From the analysis it is clear that there is significant effect of merger and acquisition on the financial performance of selected units. 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.

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