A Study of Financial Performance of Merger and Acquisition Corporate Sector in India

Ashish Gupta[1], Dr. Gajraj[2]

[1]Research Scholar of Sri Satya Sai University
[2]Research Supervisor of Sri Satya Sai University

Abstract

Merger and Acquisition is the most effective ways to accelerate the growth implementation plan of companies. All industries have been using M&A as an aggressive strategy for growth. Merger and acquisition in is not a new concept and burst in M&A has given further space to companies to look for integration for their growth, market coverage or any other strategic requirement. The present research paper aims at studying the impact of mergers and acquisition on the financial performance of corporate sector in India.

Keywords: *Mergers, Acquisitions, Financial ratios, Post-Merger.*

1. INTRODUCTION

The Indian banking industry assumes a crucial part in the monetary advancement of the nation. The Indian banking industry has seen numerous changes in most recent thirty years. The banking business is isolated into two classifications, specifically, Scheduled commercial banks and Non-booked commercial banks. The banks enrolled according to the Schedule II of the save bank of India act, 1934 are known as booked commercial banks, which further sorted as Public-sector banks, Private sector banks and unfamiliar banks. The Nationalized banks, State bank of India and its partner banks, Regional Rural Banks fall in the class of a public sector bank. The Private sector banks incorporate the old Private sector banks and new Private sector banks. The territorial country banks are supported by specific bank, state government and focal government and working in rustic territories. The Merger and obtaining are one of the significant apparatuses to accomplish the development. The consolidation according to the Godbole (2013) is the "mix of the multitude of resources, liabilities, credits and business of at least two companies with the end goal that one of them endures." Many firms over the globe have embraced the procedure of consolidation and securing to accomplish high development in business. Further, the consolidation and procurement likewise fill the need of development, lessening the degree of rivalry and making of a huge substance.

The financial analysis is a strategy to contemplate the yearly report of company to give significant data to the chiefs. Gaining firm in every case needs to check financial performance of the objective firm as consolidation influences the financial position and abundance, all things considered. Since consolidation can have huge effect on financial performance of the getting firm in any of the ways, for example either certain or negative, the acquirer needs to assess the objective firm in well way prior to going for consolidation bargain. Once more, the consolidation can bring about poor financial performance. In M&A acquired company deliberately delivers its Assets and Liabilities in the hands of acquiring company. Many companies choose to select integration with another entity to safeguard its business from downfall. Moving forward with M&A with successful similar business is a winning strategy. The combined M&A synergy of two companies is most suitable for the demand of the market and its stakeholders. The impact on shareholder may be negative or positive. M&A’s provide tremendous opportunities for companies to grow and add value to stake holder’s wealth. M&A’s increase value and efficiency and thereby increase holders value. M&A’s is a generic term used to represent many different types of corporate restructuring exercises Corporate executives foresee an acceleration of Merger and Acquisition activity in 2018 Technology and digital strategy being considered as an important factor for deals being pursued. In 2017 deal values increased by 53.3% to $77.6 billion, compared with $50.6 billion in 2016 Deal volumes rose by 2.5% to 614 deals in 2017 compared with 599 deals the previous year 2014, Indian companies were involved in transactions worth $ 33 billion.

2. REVIEW OF LITERATURE

Smriti Nagaria and R. Lavanya Kumari (2020) – Banks are the pillars which support the economic structure of a contemporary economic system. The successes of theirs as well as screw ups are inextricably linked to the Indian economy. Indian banks have also had the proportion of theirs of troubles with consequences for the nation. Bank runs, awful debt, and so on, are actually a selection of the continual problems confronted with the aid of banking structures internationally. The analysis focus on the way the banking crisis effect on the economy. Nowadays, the banking system of India has been beset by way of a a huge bad debt crisis, which is actually crimping credit score to the productive sectors of the economy of ours. This particular weakening in fiscal institution credit score has dampening effect on domestic funding, leading to subdued increase in employment and Gross domestic Product. Regulatory interventions as well as oversight of central banks, government aid as well as stakeholder involvement develop commonly a success in preserving stability, though punctuated with obtrusive catastrophes. Nevertheless, it could be the very best time to reconsider the main style of the banking unit and restructure it by dealing with the flaws in the current day design of its through acquisitions and mergers. Moreover the paper concludes that merger is actually a very helpful approach with this particular bank is able to grow the operations of theirs as well as the general growth.

Mall, Pinky & Gupta (2019) This investigation inspects the abundance impacts of merger declarations on acquirer firms in India, by fundamentally zeroing in on two stock attributes for example stock return and stock instability Sample of 429 merger declarations in India from 2008 to 2015 are inspected and an occasion window of 21 days is taken to investigations the effect of such declarations on acquirer's stock return and stock unpredictability. It is discovered that there is change consequently and a bounce in spread of profits after occasion day, and it proceeds as long as two days post occasion. These discoveries infer that investors of acquirer firms produce normal unusual gets back from merger occasions during and after declaration and returns become negative in since quite a while ago spat setting to India. These outcomes are comparative with the outcomes by Rani et al. (2013); Karels et al. (2011); Khanal et al. (2011); Mulherin and Boone (2011). If there should be an occurrence of return instability, a sharp expansion in variances is seen upon the arrival of merger declaration. These discoveries are reliable with the discoveries by considers directed by Kamerschen; (2008); Bharath and Wu (2005); Langetieg et al. (1980).

Aggarwal, Puja & Garg (2019) Merger is a corporate rebuilding system that influences the performance of the company on numerous boundaries. This investigation plans to look at the development of M&A exchanges in India in most recent twenty years and the effect of merger on the bookkeeping based performance of the getting company. The information of 68 mergers during the year 2007-08 - 2011-12 is examined to catch the said sway. The bookkeeping put together performance is estimated with respect to seven factors isolated into three classifications profitability, liquidity and dissolvability. The bookkeeping-based performance five years' pre-merger is contrasted and five years' post-merger. The comparative correlation is accomplished for a very long time pre- and post-merger. Normal of the multitude of 7 boundaries pre- and post-merger are thought about mathematically and afterward utilizing combined example 't'test. The organizations were likewise partitioned into assembling and administration sector firms to see the effect of merger on various classifications of firms. We found that merger has altogether affected profitability and liquidity of the procuring firm decidedly in five years yet had no critical effect on dissolvability position of the company. Administration sector firms have beated producing firms and begun demonstrating huge improvement in bookkeeping factors in medium term. We guarantee the innovation of the work done in this article.

Singh, Sonia & Das (2018) This examination was directed to survey the effect of merger and procurement exercises on the performance of Banks in India. The paper audits the patterns in M&A's in Indian banking and afterward effect of M&A's has been concentrated in three driving banks of India. The investigation covers the zone of performance assessment of M&A's in Indian banking sector during the period pre and post time of six years of Merger and Acquisition movement. The paper considered the post-merger financial performance of merged banks with the assistance of financial boundaries like, Net Profit edge, working Profit edge, return on Capital Employed, Return on Equity, income per share, capital sufficiency proportion, profit per share and so on The discoveries showed that methodologies and approaches in procedural, physical and socio-social settings were significant variables in the post-merger and securing measure. Moreover, the subjective effects of the post M&A exercises, for example, bookkeeping reports, market valuations and key source depictions are huge and indispensable to improve the performance of the Bank and its capacities. The investigation suggested that arrangements and procedures founded by the board, for example the credit strategy, should be returned to upgrade interior and outer activities, the calculated structure backing should be improved; a more extensive way to deal with coordinated showcasing correspondences blend should be set up in the advancement of the Bank's current and added items in order to acquire piece of the pie.

Md Alam Ansari (2018) Merger and Acquisition is the best approaches to quicken the development execution plan of companies. The sum total of what ventures have been utilizing M&A as a forceful technique for development. Merger and securing in is certifiably not another idea and barged in M&A has given further space to companies to search for incorporation for their development, market inclusion or some other key prerequisite. The current examination paper targets contemplating the effect of mergers and obtaining on the financial performance of corporate sector in India. (On obtaining companies) For the motivation behind analysis rundown of information of 6 companies has been considered from period 2012-2017. The outcome proposed that there is no critical change on the financial performance of corporate sector in India after merger.

Pulak MISHRA (2018) The paper analyzes how mergers and acquisitions (M&As) in India after commencement of changes in 1991 have influenced firms' financial performance. Utilizing board information and applying the strategy for distinction GMM, it is discovered that neither market focus nor M&As influenced firms' financial performance as a result of the multidirectional structure-direct performance connections. All things considered, interindustry contrasts in performance have been brought about by capital force, endeavors identifying with showcasing and circulation, and unfamiliar innovation. The discoveries recommend for a relook at the opposition approaches and laws, global exchange, speculation and innovation advancement as they impact financial performance through market structure alongside firms' business techniques, efficiency and seriousness.

Mehrotra, Arpita & Sahay (2018) The Mergers and Acquisitions (M&A) wave was set off post-progression in 1991. The changed arrangements included evacuation of mechanical permitting just as lifting of Monopolistic and Restrictive Trade Practice (MRTP) Act. The techniques left the appearance of new arising situation where the joining organizations turned into a very much selected measure to battle the vicious rivalry through better administration in India. The reason for this article is to audit writing previously distributed relating to post-merger financial performance of acquirers. The survey uncovered that the examination is generally centered around the arrangements which occurred in created countries where M&A came into vogue as ahead of schedule as late nineteenth century. Further, a large portion of them were declaration related. The survey drew out the hole in examination attempted in arising countries. This article endeavors to push the scientists to the comprehension of the issues in M&A and suggests roads for future examination.

Ahmed, Farhan & Manwani (2018) This paper means to give near data on mergers and obtaining exercises in the banking sector of Pakistan. This investigation utilized bookkeeping proportions to break down the financial performance of banks in Pakistan after merger and acquisitions. The examination used secondary information which were taken from Thomson Financial Services Worldwide M&A data set, financial proclamations of bank's corporate site and Pakistan stock trade. In this investigation, financials for a very long time (2005-2016) were dissected by utilizing proportions. Regardless of specific impediments, bookkeeping proportions are as yet reflected as a simple and dependable scientific apparatus. Proportion analysis, being a reliable strategy, is most often utilized in all financial dynamic cycles. The outcomes show that the financial performance of banking sector of Pakistan in the limits of profitability, and influence, has been very palatable before the merger bargain. It implies that merger bargain neglects to improve the financial performance of the bank, and banks merge with other little or equivalent size banks just to catch piece of the pie, to open Islamic window, for cost-cutting, to make collaboration, to increase proficient assets and to open shrouded values

3. FINANCIAL PERFORMANCE

- **Profitability:** Consolidations increment or diminish the increases of the two combining firms from what they would have been in the event that they had not been blended. Most of the theories why consolidations occur imagine that administrator's exploit benefits. Effective consolidations increment the benefit of the joined company. An alternate point of view of the effect of consolidations about productivity accentuates determination from the capital market.

- **Liquidity:** Mergers increment or decrease the increases of the two combining firms from what they would have been on the off chance that they had not been merged. Most of the speculations why mergers occur believe that supervisor's exploit benefits. Effective mergers increment the profitability of the consolidated company. An alternate point of view of the effect of mergers about profitability stresses choice from the capital market.

- **Efficiency:** The efficiency can be characterized as a premise of added esteem. The wellsprings of significant worth can be spoken to in three classes: improving income, lessening costs and further development openings. Efficiency is cooperative energy drawn by mergers and acquisitions. Movement or turnover proportions are proportion of efficiency and by and large, "the higher the better". Efficiency proportions measure how viably the firm utilizes its assets.

Merger

A specific action is known as a merger when partnerships meet up to join and share their assets to accomplish regular targets. In a merger, the two firms consolidate to shape a third substance and the proprietors of the joining firms stay as joint proprietors of the new element.

Acquisition

An acquisition is a movement where a firm takes a controlling possession interest in another firm, a legitimate auxiliary of another firm or chose resources of another firm. This may include the acquisition of another company's resources or stock. Getting all the resources as opposed to securing stocks or portions of the selling firm will keep away from the expected issue of being the minority investor. In any case, the expense of moving the resources is commonly high.

4. POST-MERGER FINANCIAL PERFORMANCE

Today, the business environment is rapidly changing with respect to competition, products, people, markets, customers and technology. It is not enough for the companies to keep pace with these changes but is expected to beat competitors and innovate in order to continuously maximize shareholder value. Growth is inevitable for the companies to keep pace with the changes. Growth strategy is divided into two types viz. organic and inorganic. Mergers and acquisitions (M&A) are the inorganic growth strategies for achieving accelerated and consistent growth. It has gained importance throughout the world in the current scenario due to globalization, liberalization, technological developments and intensely competitive business environment. The increased competition in the global market has prompted the Indian companies to go for mergers and acquisitions as a significant strategic alternative to survive and grow.

1. Merger and Acquisition Trends in India

The trends of mergers and acquisitions in India have changed over the years. M&A activities have also become increasingly global due to the growing global competition among many other reasons.

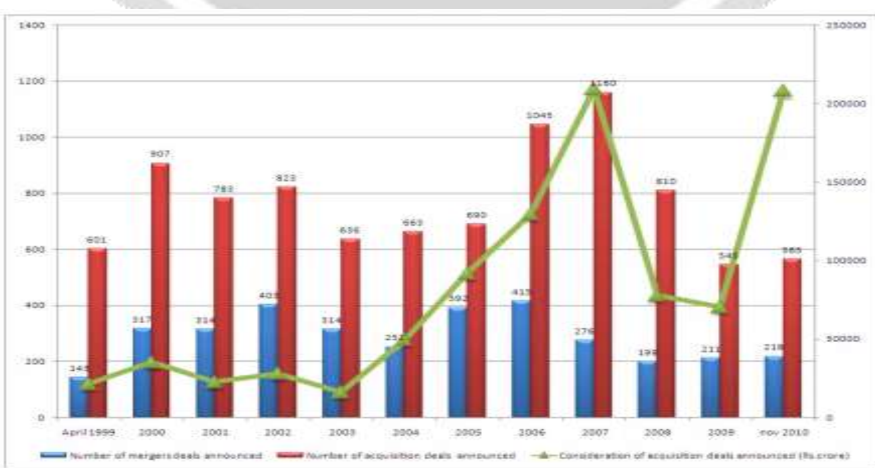

Figure 1: Volume of Mergers and Acquisitions deals announced in India

The total number of acquisitions from 1st April 1999 to 30th November 2010 is 9,228, highest being 1,160 in 2007. The total number of merger deals is 3,454, highest being 415 in 2006. The lowest consideration amount is `15,925.28 crore and highest is `2, 09,247.97 crore, total amount being ` 9, 58,147.28 crore. M&A is prevalent in all the sectors but compared to other sectors the manufacturing sector has the highest number of M&A deals. Manufacturing industries accounted for the most of M&A deals in these years with 40% share out of total.

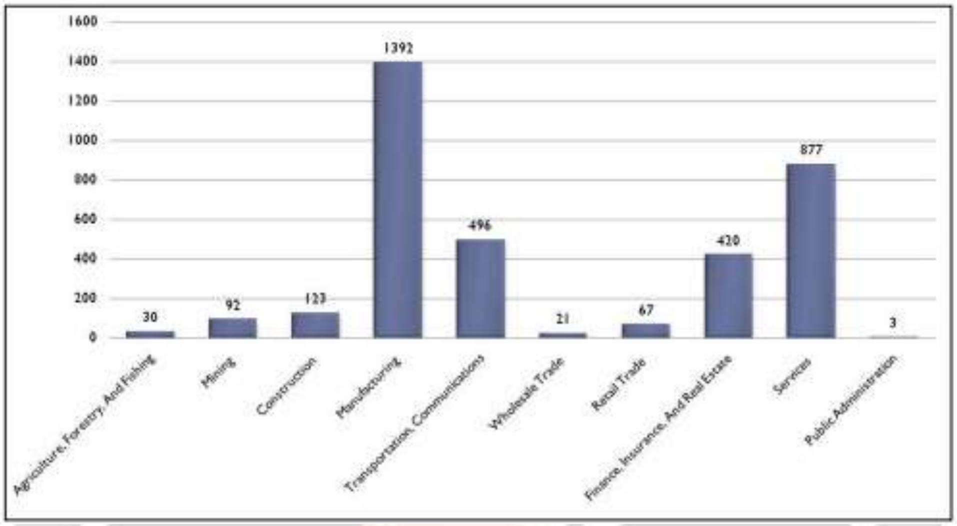

Figure 2: Sector wise Volume of Deals

5. RESEARCH METHODOLOGY AND SOURCE OF DATA

Present study is primarily based on secondary data. The data were obtained from company's websites and published annual reports of companies. We have also referred websites such as Yahoo Finance, Money Control etc.

6. DATA ANALYSIS AND TOOLS USED

About Sun Pharmaceutical Industries

Sun Pharmaceutical is an India based pharmaceutical company having presence at the global level. It is the largest entity in Indian generic drug market. The company was founded in the year 1981. By the time Sun Pharmaceutical Industries acquired Ranbaxy in 2014 it has credit of successful acquisitions of 16 companies. The mega deal was target to make combined entity the 5th largest generic drug making company in the world. It has a portfolio of more than 2,000 products with 50 manufacturing facilities cross the world.

Tools of Analysis

Ratio Analysis Ratios are among the well-known and most widely used tools of financial analysis. Ratio is the relationship between one items to another expressed in simple mathematical form.

1. Gross Capital Employed Ratio

2. Net Capital Employed Ratio

3. Return on Long Term Funds Ratio

4. Gross Profit Ratio

5. Net Profit Ratio

6. Operating Profit Ratio

7. Earnings Per Share Ratio etc.

8. Current Ratio

9. Quick Ratio

10. Inventory Turnover Ratio

11. Debtors Ratio

12. Long Term Debt to Equity Ratio

13. Fixed Assets Turnover Ratio etc.

Statistical Techniques

Standard deviation Standard Deviation is also known as root mean square deviation for the reason that it is the square root of the mean of the squared deviation from arithmetic mean.

Below is the result of Analysis (Table 01)

1. Return on Gross Capital Employed: After mergers and acquisitions the financial performance of selected units was decreased except Adani Ports. The result shown by paired‘t’ test reveals that the difference in return on gross capital employed is not significant After mergers and acquisitions the return on gross capital employed is not improved in selected units.

2. Return on Net Capital Employed: After mergers and acquisitions the financial performance of selected units was decreased except JSW Energy. The result shown by paired‘t’ test reveals that the difference in return on net capital employed is not significant

3. Return on Share Holders Fund: After mergers and acquisitions the financial performance of selected units was decreased except JSW Energy Ltd. The result shown by paired‘t’ test reveals that the difference in return on shareholders’ funds is not significant

4. Return on Long-term Funds: After mergers and acquisitions return on long term funds increased only for JSW Energy and Adani Ports. The result shown by paired ‘t’ test reveals that the difference in return on gross capital employed is not significant after mergers and acquisitions.

5. Earnings Per Share: After merger and acquisitions EPS increased for Adani, JSW Energy, Ultra Tech and Lupin Ltd The result hown by paired ‘t’ test reveals that the difference in EPS is not significant

6. Gross Profit Ratio: After mergers and acquisitions the financial performance of selected units was decreased except JSW, Ultra Tech and Lupin Ltd The result shown by paired ‘t’ test reveals that the difference in return on gross profit ratio is not significant.

7. Net Profit Ratio: After mergers and acquisitions the financial performance of selected units was decreased except JSW and Lupin Ltd. The result shown by paired ‘t’ test reveals that the difference in return on net profit ratio is not significant

8. Operating Profit Ratio: After merger and acquisitions Operating Profit Ratio was decreased for all units except Lupin and JSW Energy. The ‘t’ test reveals that the difference in OPR is not significant

9. Current Ratio: After mergers and acquisitions the current ratio was decreased for Lupin, Adani & JSW. The paired ‘t’ test reveals that the difference in current ratio is not significant

10. Quick Ratio: After mergers and acquisitions quick ration was decreased only for Sun Pharma and Vedanta. The result shown by paired ‘t’ test reveals that the difference in Quick ratio is not significant

11. Inventory Turnover Ratio: After mergers and acquisition inventory turnover ratio was increased in all the sample units except Adani Ports Ltd. The ‘t’ test reveals that the difference in ITR ratio is not significant

12. Debtors Ratio: The result shown by paired ‘t’ test reveals that the difference in Debtors ratio is not significant

13. Debt to Equity Ration: After mergers and acquisitions debt to equity ratio was decreased for all the units except Sun Pharma and Lupin Ltd. The result shown by paired ‘t’ test reveals that the difference in debt to equity ratio is not significant

14. Fixed Assets Turnover Ratio: After mergers and acquisitions the fixed assets turnover ratio was increased in three units The result shown by paired ‘t’ test reveals that the difference in Fixed Asset Turnover Ratio is not significant

15. Owners Funds Ratio: The result shown by paired ‘t’ test reveals that the difference in owners funds ratio is not significant in the selected units, before and after mergers and acquisitions

16. Working Capital Turnover Ratio: After mergers and acquisitions the working capital turnover ratio was increased only for Sun Pharma The result shown by paired ‘t’ test reveals that the difference in owners funds ratio is not significant in the selected units, before and after mergers and acquisitions.

Table 1: Calculation of Financial Ratios

Tools	Pre-Merger		Post-Merger		t-value	P value
	Mean	SD	Mean	SD		
Gross profit ratio	58.78	4.84	57.38	5.65	1.12	0.46
Net profit ratio	29.76	4.76	18.75	2.71	1.68	0.34
Operating profit ratio	41.64	2.39	33.47	6.88	36.49	0.02
Return on gross capital employed	24.29	0.09	19.15	1.83	2.73	0.22
Return on net capital employed	25.52	0.66	21.58	1.68	4.03	0.15
Return on shareholders funds	20.81	1.28	17.18	1.67	1.31	0.42
Return on long tern funds	24.29	0.09	19.13	1.83	2.73	0.22
Owners fund ratio	0.73	0.02	0.58	0.05	6.73	0.09
Working capital turnover ration	1.19	0.19	1.79	0.42	6.29	0.1
Earning per share	28.25	0.78	20.68	5.88	0.95	0.52
Current ratio	3.85	0.12	2.27	0.62	11.16	0.06
Quick ratio	3.04	0.13	1.83	0.54	14.58	0.04
Inventory turnover ratio	4.11	0.38	4.74	0.32	2.11	0.28
Debtors ratio	91.09	4.99	73.09	17.07	3.19	0.19
Long term debt to equity ratio	0.37	0.03	0.73	0.14	6.83	0.09
Fixed asset to turnover ratio	1.29	0.04	1.31	0.18	4.15	0.15

7. CONCLUSION

The results and analysis of key financial ratios prior to Merger and post-Merger, and with above discussion it is evident that there was no significant effect on the business of the firm after Merger. Operating performance of companies was better prior to merger and acquisition. In terms of return on shareholders, it was better prior to merger. The profitability position of the companies has increased in terms of return on capital employed and decreased in terms of return on net worth. But the good thing is that the increase has been statistically significant and decrease has been statistically insignificant. The financial performance of the companies’ improved after merger in terms of current ratio, quick ratio, return on capital employed, interest coverage ratio. But most of the results are not statistically significant. The not so significant improvement in financial performance put a question mark on the motive behind mergers. Also, the financial performance may not be the only parameter for M&A success. The future scope of study is to compare the performance of companies taking the firms involved in merger activities and the firms without the merger deals. Study can also be extended to the cases of acquisitions.

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