A STUDY ON FINANCIAL PERFORMANCE OF SELECTED COMPANIES DURING PRE-POST MERGER AND ACQUISITION

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ABSTRACT

As per current scenario corporate restructuring is one of the most widely used strategic tools. In daily news we come across frequently with the headlines of merger, acquisitions, takeover, joint venture, demerger and so on. Since last two decades as especially after, the liberalization and consequent globalization and privatization have resulted into tough competition not only in Indian business but globally as well. 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 and Acquisition, Financial Performance, Ratio Analysis.

INTRODUCTION

The main objective of any company is profitable growth of enterprise to maximize the wealth of its shareholders. Further, to achieve profitable growth of business it is necessary for any company to limit competition, to gain economies of large scale and increase in income with proportionally less investment, to access foreign market, to achieve diversification and utilize underutilized market opportunities. In order to achieve goals, business needs to remain competitive and work towards its long term sustainability. Corporate restructuring has facilitated thousand 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 achieved successfully if as a strategic tool merger is adopted. The most remarkable examples of growth and often the largest increases in stock prices are a result of mergers and acquisitions.

Concept of Merger

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

Merger or amalgamation means "Combining of two commercial companies into one" and "Merging of two or more business concerns into one". 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.

Concept of 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.

REVIEW OF LITERATURE

Merger and acquisition for long have been an important phenomenon in the US and UK economics. In India also, they have now become a matter of everyday occurrence. They are the subject of counting interest to different persons such as the business executives who are looking for potential merger partners, investment bankers who manage the mergers, lawyers who advice the parties, regulatory authorities concern with the operations of security market and growing corporate concentration in the economy and academic researchers who want to understand these phenomenon better.

Gallet C.A (1996), "Merger and Market Power in the US Steel industry" He examine the relationship between mergers in the U.S. steel industry and the market power. The study employed New Empirical Industrial Organization (NEIO) approach which estimates the degree of market power from a system of demand and supply equations. The study analyzed yearly observations over the period between 1950 and 1988 and results have revealed that in the period of1968 to 1971 merges did not have a significant effect on market power in the steel industry; whereas mergers in 1978 and 1983 did slightly boost market power in the steel industry.

Anup Agraval Jeffrey F. Jaffe (1999), "The Post-merger Performance Puzzle" they examines the literature on long-run abnormal returns following mergers. The paper also examines explanations for any findings of underperformance following mergers. We conclude that the evidence does not support the conjecture that underperformance is specifically due to a slow adjustment to merger news. We convincingly reject the EPS myopia hypothesis, i.e. the hypothesis that the market initially overvalues acquirers if the acquisition increases EPS, ultimately leading to long-run under-performance.

Saple V. (2000), "Diversification, Mergers and their Effect on Firm Performance: A Study of the Indian Corporate Sector" he finds that the target firms were better than industry averages while the acquiring firm shad lower than industry average profitability. Overall, acquirers were high growth firms which had improved the performance over the years prior to the merger and had a higher liquidity.

Beena P.L (2000), 'An analysis of merger in the private corporate sector in India' she 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.

Vardhana Pawaskar (2001), "Effect of Mergers on Corporate Performance in India" he studied the impact of mergers on corporate performance. It compared the pre- and post-merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post- merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

Paul (2003) "The merger of Bank of Madura with ICICI Bank". The researcher evaluated the valuation of the swap ratio, the announcement of the swap ratio, share price fluctuations of the banks before the merger decision announcement and the impact of the merger decision on the share prices. He also attempted the suitability of the merger between the 57 year old Bank of Madura with its traditional focus on mass banking strategies based on social objectives, and ICICI Bank, a six year old 'new age' organisation, which had been emphasizing parameters like profitability in the interests of shareholders. It was concluded that synergies generated by the merger would include increased financial capability, branch network, customer base, rural reach, and better technology. However, managing human resources and rural branches may be a challenge given the differing work cultures in the two organizations.

Joydeep Biswas (2004) " Recent trend of merger in the Indian private corporate sector". They research about Corporate restructuring in the form M&A has become a natural and perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, M&A have become an important conduit for FDI inflows in India in recent years. In this paper it is argued that the Greenfiled FDI and cross-border M&As are not alternatives in developing countries like India.

Vanitha. S (2007) "Mergers and Acquisition in Manufacturing Industry" she analyzed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The author found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies.

Vanitha. S and Selvam. M (2007) "Financial Performance of Indian Manufacturing Companies during Pre and Post Merger" they analyzed the pre and post merger performance of Indian manufacturing sector during 2000-2002 by using a sample of 17 companies out of 58 (thirty percent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and 't' test. They found that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.

Kumar (2009), "Post-Merger Corporate Performance: an Indian Perspective" examined the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. The study attempts to identify synergies, if any, resulting from mergers. The study uses accounting data to examine merger related gains to the acquiring firms. It was found that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, show no improvement when compared with pre- merger values.

OBJECTIVES OF THE STUDY

The broad objective of this study is to measure the impact of mergers and acquisitions on financial Performance of Indian Corporate Sectors. Other objectives of the study are mentioned as under. To examine and evaluate the impact of merger and acquisitions on Return on Investment, Profitability and Liquidity position of selected companies.

RESEARCH METHODOLOGY

Data Collection

The study is based on the secondary data taken from the annual reports of selected units. And all the data relating to history, growth and development of Industries have been collected mainly from the books and magazine relating to the industry and published paper, report, article and from the various news papers, bulletins and other various research reports published by industry and various websites.

Selection of Samples

The study has been carried out on the micro-level, as it is not possible for the researcher to conduct it on the macro-level. The population of the study consists of all types of the companies having different operations of business and totally different nature of industries. As the study is to be carried out by the individual researcher it is not easy to select all the companies as the samples for the study. So, selection based upon growth aspect of companies from Indian industry in present scenario.

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.

Hypothesis of the Study

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

Null Hypothesis

There would be no significant difference in means score of Financial Performance in selected units, before and after merger and acquisition.

Alternate Hypothesis

There would be significant difference in means score of Financial Performance in selected units, before and after merger and acquisition.

TOOLS OF ANALYSIS

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.

Ratio Analysis

Ratios are among the well known and most widely used tools of financial analysis. Ratio can be defined as "The indicated quotient of two mathematical expression".[16] an operational definition of ratio is the relationship between one item to another expressed in simple mathematical form.

T-test Analysis

T – Test is based on T – Distribution and is considering an appropriate test for judging the significance of a sample mean. It can also be used for judging, the significance of the coefficients of simple and partial correlations.

The relevant test statistic, is calculated from the sample data and then compared with its problem value based on T – distribution at a specified level of significance for concerning degrees of freedom for accepting or rejecting the Null Hypothesis.

Financial Analysis

No.	Ratio	Mean (D)	S.D.(σ)	t_c	t_t	Result
01	EPS	-0.255	14.34	0.056	2.262	H_0
02	GPR	-1.111	5.63	0.624	2.262	H_0
03	NPR	-2.644	4.43	1.889	2.262	H_0
04	ROGCE	2.637	3.85	2.168	2.262	H_0
05	RONCE	-3.835	5.53	2.268	2.262	H_1
06	ROSHFUNDS	-6.069	9.60	1.999	2.262	H_0
07	ROLTFUNDS	-4.253	10.99	1.224	2.262	H_0

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.

Ho = $\mu_1 = \mu_0$ H1 = $\mu_1 \neq \mu_0$.

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 earnings 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:

- 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.
- The study is limited to five years before merger and five years after merger only.
- Accounting ratios have its own limitation, which also applied to the study.
- This study is related with ten units. Any generalization for universal application cannot be applied here.

Financial analysis do not repict 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.

LIST OF ABBREVIATION

EPS	-	Earning Per Share
GPR	-	Gross Profit Ratio
NPR	-	Net Profit Ratio
ROGCE	-	Return on Gross Capital Employed
RONCE	-	Return on Gross Capital Employed
ROSHFUNDS	-	Return on Share Holders Fund
ROLTFUNDS	-	Return on Long – Term Funds

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