

# An Empirical Study on the Impact of Mergers and Acquisitions on the Corporate Performance in India: A Pre and Post Analysis

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## ABSTRACT

Mergers and acquisitions have always been a go to option for companies considering corporate restructuring. Mergers and Acquisitions increase the size of the company and its operations. This research paper analyses the impact of mergers and acquisitions on the corporate performance in India that happened during the year 2014-2015. The particular paper seeks the objective of studying the effect of merger and acquisition on the liquidity, solvency, profitability and the valuation of the companies. To achieve the objectives pre and post data of these companies was collected and analysed using various statistical tools like paired sample t test to see if there is any significant change in the performance. The results show that the liquidity position and the profitability position was not impacted by the merger activity and there was an improvement in the valuation of the company.

## 1. Introduction

### Mergers and acquisitions in india - A general analysis

The Indian economy has been developing with a fast pace and has been rising at the best, be IT, RandD, pharmaceutical, foundation, vitality, customer retail, telecom, money related administrations, media, and cordiality and so forth. It is second quickest developing economy on the planet with GDP contacting 9.3 % a year ago. This development force was upheld by the twofold digit development of the administrations area at 10.6% and industry at 9.7% in the primary quarter of 2006-07. Financial specialists, enormous organizations, modern houses see Indian market in a developing and multiplying stage, whereby returns on capital and the investor returns are high. Both the inbound and outbound mergers and acquisitions have expanded drastically. As indicated by Investment financiers, Merger and Acquisition (MandA) bargains in India will cross \$100 billion this year, which is twofold a year ago's dimension and fourfold of 2005. In the initial two months of 2007, corporate India saw arrangements worth near \$40 billion. One of the primary abroad acquisitions by an Indian organization in 2007 was Mahindra and Mahindra's takeover of 90 percent stake in Schoneweiss, a family-possessed German organization with more than 140 years of involvement in manufacturing business. What hit the features early this year was Tata's takeover of Corus for somewhat over \$10 billion. On the impact points of that bargain, Hutchison Whampoa of Hong Kong sold their controlling stake in Hutchison-Essar to Vodafone for an incredible \$11.1 billion. Bangalore-based MTR's bundled sustenance division found a purchaser in Orkala, a Norwegian organization for \$100 million. Administration organizations have additionally joined the M and A diversion.

The tax collection routine with regards to Mumbai-based RSM Ambit was gained by PricewaterhouseCoopers. There are numerous different offers in the pipeline. On a normal, over the most recent four years corporate income of organizations in India have been expanding by 20-25 percent, adding to improved benefit and sound monetary records. For such

organizations, M&As are a viable procedure to grow their organizations and procure worldwide impression.

Mergers or amalgamation, result in the mix of at least two organizations into one, wherein the consolidating substances lose their characters. No new speculation is made through this procedure. Be that as it may, a trade of offers happens between the elements associated with such a procedure. For the most part, the organization that endures is the purchaser which holds its personality and the dealer organization is quenched.

## 2. Review of literature

(Ausrine Lakstutienea, 2015) has studied the impact of mergers and acquisitions on the corporate performance of Lithuanian companies on profitability ratios and economic value addition. The evaluation is done during the economic slowdown. The two variables chosen are EVA and profitability ratios. The results show that there is a decrease in the EVA and the profitability during the short term but a constant growth in the long term. However the paper lacks the scientific researches evaluating the impact of these acquisitions hence this paper partially fills the gap.

(Ramachandran Azhagaiah) has studied the impact of M&As on the operational performance and the study is carried out with the objective of studying the pre and post operational performance of 39 selected companies who had gone into the process in 2006-2007. Factor analysis, correlation, multiple regression and chow tests were applied. The results show that there was a positive impact on the operational performance of these firms in the study period. Since the study only considers the manufacturing industry there is further scope for study in the effect on shareholders wealth post-merger.

(Momodou Sailou Jallow, 2017) has studied the analysis of the effect of Mergers and acquisitions on the financial performance on UK firms. The study uses descriptive statistics and paired sample T test. The results show that there is no

impact of M&A on the net profit margin while the return on assets and return on equity and earnings per share is affected positively by the Merger and Acquisition. The study only considers few financial ratios to analyse the financial effect of M&As. Further studies can be carried out to understand the overall effect on the performance of the companies.

(Krishna Prasad V, 2018) has carried on a study on the motives of a merger followed by companies. The paper also contains a casual loop structure, which gives an idea about the benefits of the process. The success was identified by the growth rate and the increase in share price of the companies. The performance of the companies were measured to derive the success of the merger. However this study only deals with the qualitative data and this paper can be further extended by making quantitative analysis.

(Basit, 2018) has elaborated on the impact of M&As on the financial performance of the companies. The analysis of the financial performance of the 100 companies was done that were selected for the study. The key variables taken are return on equity, EPS, net profit margin. The results show that the M&A process improves the profitability of the firm and enlarge their market share. The value of shareholders is also increased through raising the demand dividends in the market stock. Furthermore, this research will help the management personnel to decide the future processes and help in conducting further researches.

(Rashid Mushtaq Bhutta, 2015) has depicted the pre and post effect of a Merger and Acquisition in the service industry in Pakistan. The article uses regression analysis to study the impact of financial ratios on bankruptcy score. The study also uses trend analysis to see the performance of these companies after the merger. The results show that there is a positive significant impact of ratios on bankruptcy score and it says that the profitability is unaffected in the long run. However the study is only done in one sector of Pakistan and it is quantitative in nature. Further studies can be carried out using qualitative variables.

(Anyanwu, 2015) has studied the impact of M&As on performance of manufacturing firms in Nigeria. The data was analysed descriptively using percentages. The results show that there is a significant impact of the M&A activity on the company's profitability. It also says that the capital of the company increases once merged which leads to increased profits. The study says that adequate manpower and focus on corporate culture improves the performance of the firms after mergers.

(Bijoy Gupta, 2017) in his study of impact of mergers and acquisitions on the profitability and liquidity position of the company has analysed various financial ratios. The study was done for 3 years prior and post the event. Paired T test and descriptive statistics was used to analyse the data. The findings of the study show that there is no improvement in financial performance of acquirer companies after the merger. Hence, further study can be carried on in various industries and other ratios can be analysed to study the same impact.

(Coontz, 2004) has emphasized on the economic impact of mergers and acquisitions on the shareholders wealth of the company. The focus of this study is to better understand the market reactions to mergers. The paper also presents certain relevant economic theories. The results show that the impact of mergers and acquisitions on the shareholders wealth is little to nothing. The overall trend in this study was also downward. This can be concluded by saying that investors should not invest in companies that have merged as the trend is downward sloping.

(Drogalas, 2015) has empirically tested the impact of mergers and acquisitions on the operating performance of firms involved in M&A in Greece. Certain accounting variables are selected to measure the operating performance. Certain explanatory variables were also used to examine the study. The findings conclude that there is no significant impact of the non financial factors on the profitability of these firms post-merger. The study also concludes that a firm's profitability was decreased due the merger event. However the study does not include the financial factors, so further study can be made to analyse the real impact of the financial factors on the performance of the firm.

### 3. Research objectives

The main motives behind M&A's are shareholder's wealth maximization, profit maximization and risk minimization. The present paper attempts to study the shift in the corporate performance post-merger and the impact of Mergers and Acquisitions on the various key financial ratios. The research objectives are

1. To analyse the impact of Mergers and acquisitions on the liquidity position, solvency position and profitability of selected companies pre and post-merger
2. To analyse if the selected companies have been successful in achieving synergy and creating value after the merger.

### 4. Statement of problem

When a firm is merged or is acquired by another company, it benefits both the companies. Hence, it can be said that companies are interested in resorting to corporate restructuring in the name of M&As. However, the questions that occur is whether all the firms that resort to M&A's see an increase in the corporate performance and if the restructuring process helped them in attaining synergy and creating value. Answering all the questions, this study is carried out to study the impact of Mergers and Acquisitions on the corporate Performance of the acquiring firms in India and to make an analysis of the value addition to the acquirer company, listed on the various stock exchanges during the financial year 2014-2015. An attempt has been made to study the corporate performance of the acquiring firms in the Short run and in the long run. The study attempts to study the level of impact and the measurement of performance pre and post the Merger or Acquisition event.

### 5. Scope of the study

The present paper attempts to understand the various implications of Mergers and Acquisitions on the corporate

performance in India. This study fills the gap of analysing the economic value added post the merger or acquisition process. The study will help many researchers and M&A enthusiasts about the impact of mergers and acquisitions on the performance of various Indian companies. This study also acts as a document of guidance for various companies to refer before taking any Mergers and Acquisition decision. This also helps various researchers and scholars in conducting further studies in the field of Mergers and Acquisitions.

## 6. Formulation of hypotheses

### Hypothesis 1

H1: Mergers and acquisitions have a significant impact on the liquidity position ratios of the selected companies in the sample

H0: Mergers and acquisitions do not have a significant impact on the liquidity position ratios of the selected companies in the sample

### Hypothesis 2

H1: Mergers and acquisitions have a significant impact on the Solvency position ratios of the selected companies in the sample

H0: Mergers and acquisitions do not have a significant impact on the Solvency position ratios of the selected companies in the sample

### Hypothesis 3

H1: Mergers and acquisitions have a significant impact on the financial performance ratios of the selected companies in the sample.

H0: Mergers and acquisitions do not have a significant impact on the financial performance ratios of the selected companies in the sample.

### Hypothesis 4

H1: Mergers and acquisitions have significantly created value post-merger in the selected companies

H0: Mergers and Acquisitions have not significantly created value post-merger in the selected companies.

## 7. Method of data collection

To conduct the study, secondary data has been collected from audited published financial statements and required

## 11. Analysis and interpretation

RATIOS AND SIG VALUE	Sun Pharma	Reliance	TCS	TC	HCL	Infosys	Tata Power	Asian Paints	M&M
Pre Current - Post Current	.005	.053	.464	.227	.168	.285	.278	.053	.977
Pre Quick - Post Quick	.001	.030	.721	.003	.266	.250	.275	.699	.152
Pre Dividend - Post Dividend	.949	.939	.681	.289	.089	.068	.989	.064	.209
Pre Debt to Equity - Post Debt to Equity	.284	.254	.184	.466	.184	0	.452	.205	.284
Pre ROA - Post ROA	.173	.277	.038	.218	.225	.951	.168	.164	.173

investment sites like moneycontrol.com and nseindia.com for the period covering 2011-2018.

## 8. Sampling technique

The present study being an explanatory study will have an in depth analysis of the selected companies. The study uses non-probability judgemental sampling technique to select the sample firms for the present study. The sample size is selected based on the value of the deal. The top 9 deals in India in terms of deal value has been considered as the sample size. Only manufacturing sector is considered and the service sector is ignored due to lack of data. The period of study is the financial year 2014-2015 and a period of 3 years is taken to analyse the pre and post impact. The companies selected are as below

1. Sun Pharmaceuticals
2. Reliance industries Limited
3. Tata Consultancy Services
4. Thomas Cook
5. HCL Technologies
6. Infosys
7. Tata Power
8. Asian Paints
9. Mahindra and Mahindra

## 9. Statistical design

The study is analysed using various accounting ratios and statistical tools. The study uses paired sample 't' test to check for the significance of difference between the performance of the company pre and post the Merger process. The study also uses descriptive statistics to analyse the data.

## 10. Limitations of the study

Every study has some pre-determined objectives and limitations of its own. The present study also has some limitations that can be addressed by conducting further research studies. The limitations of the paper are as follows

1. Further research can be conducted industry specific
2. The research is limited only to the financial year 2014-2015 and further research can be conducted for many years
3. The research considers only Top 10 merger and Acquisition deals of 2014-2015 and a further study can be conducted by taking into consideration more deals.

Pre ROCE - Post ROCE	.148	.413	.977	.495	.348	.506	.615	.156	.148
Pre NPM - Post NPM	.845	.299	.620	.640	.631	.338	.320	.739	.845
Pre ROE - Post ROE	.689	.555	.144	.804	.384	.257	.699	.516	.689
Pre EPS - Post EPS	.923	.348	.029	.438	.026	.005	.685	.225	.923
Pre Value - Post Value	.002	.030	.039	.039	.142	.021	.259	.000	.002
Pre Interest – Post Interest	0.68	.318	.233	.042	.051	0	.393	.189	.684

The present study has shown significant results in analysing the impact of mergers and acquisitions on the corporate performance on Indian companies. The analysis was done individually for all the companies in the aspects of liquidity ratios, solvency ratios and Profitability ratios. The results state that there is a significant impact of Mergers and acquisitions on the Valuation of the companies and the impact on other ratios are not significant in all companies.

1. The company Sun Pharma reveals that there is an impact of M&As on the current ratio and on the Quick ratio whereas there was no impact on dividend pay-out ratio, solvency ratios and on the profitability ratios. The valuation of the company has seen a significant increase after the merger. The reasons for this is the synergy that has been attained by the companies after the merger. There was no increase in the profitability ratios because as the income increases due to shared resources the operational costs also increases and hence no significant change in the value of these ratios.
2. The company Reliance industries Limited reveals that there is a significant impact only on the quick ratio of the company and not on any other liquidity ratios of the company. There was no impact on the solvency ratios and the solvency position of the company did not increase significantly. There was no increase in the profitability of the company as well as the net Profits were increased in the same ratio to the costs as before. There was a significant increase in the valuation of the company.
3. The company Tata Consultancy services showed no change in the liquidity position as the company increased its current liability in the same ratio to their current assets like the previous years. The solvency position of the company has also not seen any change as the company increased its capital and debt in the same ratios. The ROA and EPS of the company has increased significantly and rest of the profitability ratios have not significantly been impacted by the merger. The valuation of the company has significantly been impacted by the merger and increased due to pooling of resources.
4. There was no significant impact of the Acquisition activity on the liquidity position of the company except for the quick ratios. The interest coverage of the company was impacted and significantly increased after the merger but the profitability of the company was not affected by the acquisition and the valuation of the company was increased significantly after the merger.

5. The liquidity position of HCL Technologies was not impacted by the merger activity as it did not improve the liquidity of the company. Both the assets and liabilities of the company increased in the same ratio. The solvency of the company was also unaffected by the merger activity. Likewise except the EPS all other profitability ratios of the company were unaffected by the restructuring activity because of post merger issues. The valuation of the company increased after the merger.
6. Infosys showed no fluctuation in their liquidity position compared to their prior years before the merger. The company's EPS had significantly been impacted by their acquisition activity. The company showed an increase in the EPS and the other profitability ratios did not show any significant change due to the acquisition activity. The valuation of the company had increased after the merger.
7. The liquidity position of Tata Power was not impacted by its Merger activity. The liquidity position of the company was not impacted after the merger. The solvency position of the company also was not impacted by merger. Since the merger did not lead to any operational efficiency the profitability of the company also remained unchanged. The valuation of the company was not impacted and there was no significant increase in the valuation of the company.
8. Asian paint did not see any significant increase in the liquidity position. The company maintained the same liquidity position even after the merger. The solvency position was also not impacted after the merger. The profitability of the company did not change because the motive behind the merger was not to increase profitability but to eliminate competition. Although the valuation of the company increased significantly after the merger.
9. The motive behind Mahindra and Mahindra merger was to expand and acquire the expertise of the target company. Hence the liquidity position of the company remained the same as well as the solvency position. The profitability ratios of the company was also unaffected by the acquisition. The value of the company was impacted by the Merger and it showed a significant increase in the value of the company.

## 12. Conclusion

From the study, it can be concluded that the impact of a Merger and Acquisition depends upon the motive of the company behind its merger or acquisition. Diverse

organizations join in expectation to make collaborations, benefit productivity, to improve intensity and go into new geographic zones. In any case, mergers and acquisitions may not be constantly productive for extension and development of acquirer organizations.

The present investigation has indicated critical outcomes in breaking down the impact of mergers and acquisitions on the corporate execution on Indian organizations. The investigation was done separately for every one of the organizations in the parts of liquidity performance, solvency positions and profitability position. The outcomes express that there is a noteworthy effect of Mergers and acquisitions on the Valuation of the organizations and the effect on different liquidity, solvency and profitability positions are not critical in all organizations. The motivation behind this present examination is to investigate the impact of mergers on the corporate performance in India. The finding of present examination demonstrate that post-merger productivity of the companies decreases and crumbled and the valuation of the company has

seen a significant increase. The company's motive behind the merger vastly affects the performance of the company. Some companies whose main motive was to attain operational efficiency saw some significant change in their liquidity and solvency position. Certain companies whose main motive was to increase its market share, eliminate its competitors or to diversify its investments saw no significant change in its liquidity position or in its solvency position as its main intention was not to increase its operational efficiency but to increase its presence in international or domestic markets.

The profitability of the companies did not see any significant increase due to the merger activity as all the companies' motive behind these mergers and acquisitions was not to increase its profitability position but to expand into newer markets. Companies are focussing more on increasing their market share and market growth rather than increasing their liquidity positions. The motives behind all these mergers were strategic in nature and all the plans were long term.

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