

Financial Performance before and after Mergers and Acquisitions of the selected Indian Companies

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ABSTRACT

Financial statements are willing primarily for decision making. They participate in a dominant part in establishing the framework of managerial decisions. Though the info offered in the financial statements isn't an end in itself as no significant conclusions will be drawn from these statements alone. Nevertheless, the info offered in the financial statements is of enormous use in making choices through interpretation and analysis of financial statements. In this paper to investigate and test comparative financial performance before and after mergers and acquisitions of the selected Indian companies. All Companies which are selected as samples are from the different industries like Steel, Banking services, Drugs and Pharmaceutical, Energy, Automobile, Telecommunication involved in Mergers and Acquisitions.

1. Introduction

According to Hamptors John, the financial statement is an organized collection of data according to logical and consistent accounting techniques. Its motivation is to convey an understanding of financial aspects of a business firm. It may demonstrate a position at a snapshot of time as in the case of a balance-sheet or may reveal a service of activities over a given period of time, as in the case of an income statement. Financial statements are the summary of the accounting procedure, which gives helpful information to both internal and external parties. John N. Nyer also defines it "Financial statements give a summary of the accounting of a business enterprise, the balance-sheet reflecting the assets, liabilities and capital as on

a certain data and the income statement showing the aftereffects of operations during a certain period".

Financial statements generally consist of two important statements:

- The income statement or profit and misfortune account.
- Balance sheet or the position statement.

A part from that, the business concern also prepares a portion of the other parts of statements, which are extremely valuable to the internal reason, for example,

- Statement of changes in owner's equity.
- Statement of changes in financial position.

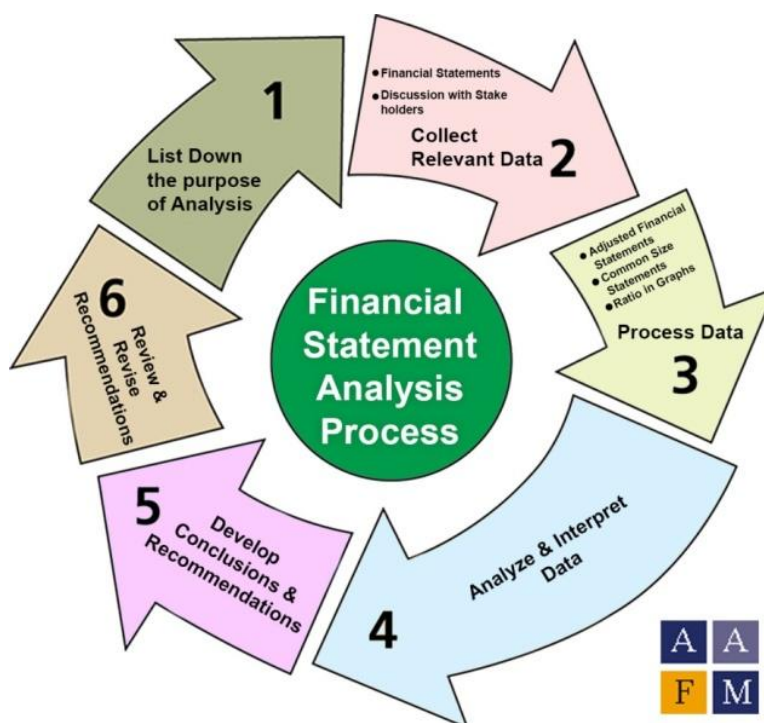


Figure 1: Financial Statement Analysis

2. Techniques of financial statement analysis

Financial statement analysis is interpreted mainly to determine the financial and operational performance of the business concern. Various methods or techniques are used to analyze the financial statement of the business concern. The following are the common methods or techniques, which are generally used by the business concern.

1. Comparative Statement Analysis

Comparative statement analysis is an analysis of financial statement at various period of time. This statement understands the comparative position of financial and operational performance at various period of time. Comparative financial statements again classified into two major parts, for example, comparative balance sheet analysis and comparative profit and misfortune account analysis.

- *Comparative Balance Sheet Analysis*

Comparative balance sheet analysis concentrates only the balance sheet of the concern at various period of time. Under this analysis the balance sheets are compared with earlier year's figures or one-year balance sheet figures are compared with other years. Comparative balance sheet analysis may be horizontal or vertical basis. This sort of analysis understands the real financial position of the concern as well as how the assets, liabilities and capitals are placed during a particular period.

- *Comparative Profit and Misfortune Account Analysis*

Another comparative financial statement analysis is comparative profit and misfortune account analysis. Under this analysis, only profit and misfortune account is taken to compare with earlier year's figure or compare within the statement. This analysis understands the operational performance of the business concern in a given period. It may be analyzed on horizontal basis or vertical basis.

- *Pattern Analysis*

The financial statements may be analyzed by computing patterns of arrangement of information. It may be upward or downward directions which involve the percentage relationship of each and every thing of the statement with the common value of 100%. Pattern analysis understands the pattern relationship with various things, which appear in the financial statements. These percentages may also be taken as index number showing relative changes in the financial information resulting with the various period of time. In this analysis, only major things are considered for calculating the pattern percentage.

- *Common Size Analysis*

Other important financial statement analyses techniques are common size analysis in which considers reported are converted along with percentage to some common base. In the balance sheet the total assets figures is assumed to be 100 and all figures are communicated as a percentage of this total. It is one of the easiest methods of financial statement analysis, which mirrors the relationship of each and every thing with the base value of 100%.

2. Funds Flow Statement

Funds flow statement is one of the important tools, which is used in many ways. It understands the changes in the financial position of a business enterprise between the beginning and ending financial statement dates. It is also called as statement of sources and employments of funds. Institute of Cost and Works Accounts of India, funds flow statement is defined as "a statement planned or review, setting out the sources and application of the funds of an enterprise. The reason for the statement is to indicate clearly the prerequisite of funds and how they are proposed to be raised and the productive utilization and application of the same".

3. Cash Flow Statement

Cash flow statement is a statement which demonstrates the sources of cash inflow and employments of cash out-flow of the business concern during a particular period of time. It is the statement, which involves only short-term financial position of the business concern. Cash flow statement gives a summary of operating, investment and financing cash flows and reconciles them with changes in its cash and cash equivalents, for example, marketable securities. Institute of Chartered Accountants of India issued the Accounting Standard (AS-3) related to the preparation of cash flow statement in 1998.

4. Ratio Analysis

Ratio analysis is a commonly used tool of financial statement analysis. Ratio is a mathematical relationship between one numbers to another number. Ratio is used as an index for evaluating the financial performance of the business concern. An accounting ratio demonstrates the mathematical relationship between two figures, which have meaningful relation with each other.

- *Capital Use and Income Use, Capital Receipts and Income Receipts*

The preparation of Trading Account and Profit and Misfortune Account requires the learning of income use, income receipts and capital consumption and capital receipts. The learning shall facilitate the classification of income things and place them in the Trading account and Profit and Misfortune Account on one hand and prepare Balance Sheet based on capital things (use as well as receipts) on the other hand. Capital Use alludes to the use incurred for acquiring settled assets or assets which increase the earning capacity of the business. The advantages of capital consumption to the firm stretch out to number of years. Examples of capital consumption are use incurred for acquiring a settled asset, for example, building, plant and machinery and so forth. Income use, on the other hand, is a consumption incurred throughout normal business transactions of a concern and its advantages are availed of during the same accounting year. Salaries, carriage and so on are examples of income use. There is another category of consumption called conceded income use. These are the costs incurred during one accounting year however are applicable entirely or in part in future periods. These consumptions are otherwise of an income nature. Examples of conceded income consumption are heavy use on advertisement say for introducing another item in the market, use incurred on research and advancement, and so forth.

- **The Advantages of Financial Statement Comparability**

Several factors point toward the importance of "comparability" of financial statement information across firms in financial analysis. According to the Securities and Exchange Commission (SEC) [2000], when investors judge the benefits of investments and comparability of investments, productive allocation of capital is facilitated and investor confidence sustained. The value of comparable financial statements is underscored in the Financial Accounting Standards Board (FASB) accounting concepts statement. Specifically, the FASB [1980, p. 40] states that "investing and lending decisions essentially involve evaluations of alternative opportunities, and they cannot be made rationally if comparative information isn't available" (our emphasis). Financial statement analysis course books almost invariably pressure the importance of comparability across financial statements in judging a company's performance using financial ratios. For instance, Stickney and Weil conclude that, "Ratios, independent from anyone else outside of any relevant connection to the subject at hand, give little information." Regardless of the importance of comparability, a measure of financial statement comparability isn't indicated and there is little proof on its advantages to financial statement clients.

3. Research Methodology

- **Research Design:** The Comparative investigation of financial performance when the merger and acquisition of the chose corporate sectors is completely founded on the Secondary Data of the Financial Statements of the Company
- **Sample Size:** The population of the study consists of all types of the companies. The researcher has selected 10 companies.
- **Data Collection:** The examination relies upon the auxiliary information taken from the yearly reports of picked units and EMIS information base site.

- **Period of the Study:** The present study is mainly intended to examine the financial performance of merged and acquirer or acquired Indian companies five years before merger and acquisition and five years after merger and acquisition.

- **Tools for Data Analysis:**

- Ratio Analysis
- Average
- Index Number
- The Standard Deviation

4. Results & Discussion

- **Return on Net Capital Employed Ratio**

The arrival on net capital employed is a manual for compare the profitability of business. It is additionally a sign of appropriate use of net capital utilized towards accomplishing attractive benefits. Net capital utilized is the aggregate of fixed resources in addition to current resources less present obligation. The main contrasts between the gross capital utilized and net capital utilized is that present liabilities are deducted from the gross capital utilized. Profit for net capital utilized has been processed by separating the net benefit before intrigue and assessments by the net capital utilized. Profit for net capital utilized is determined based on following recipe,

Return on net capital employed ratio

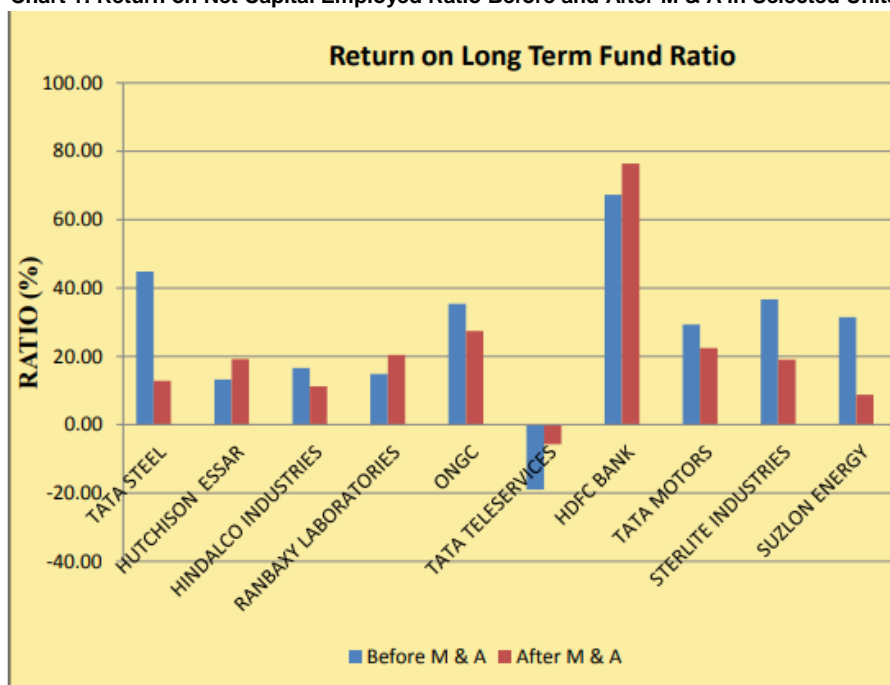
$$= \frac{\text{Net Operating Profit (ebit)}}{\text{Net Capital Employed}} \times 100$$

TABLE 1: Return on Net Capital Employed Ratio in Selected Units (Before 5 years and After 5 years of (M & A)

Sr. No	Name of the Companies	Before M & A (X)	After M & A (Y)	Diff (D = Y-X)	Diff Squared (D ²)
1	TATA STEEL	43.88	12.61	(31.27)	977.60
2	HUTCHISON ESSAR	-19.34	6.55	25.89	670.29
3	HINDALCO INDUSTRIES	15.53	9.25	(6.28)	39.40
4	RANBAXY LABORATORIES	12.42	13.87	1.45	2.11
5	ONGC	35.30	23.71	(11.59)	134.26
6	TATA TELESERVICES	-14.00	-2.09	11.90	141.66
7	HDFC BANK	8.82	10.98	2.17	4.70
8	TATA MOTORS	27.01	16.72	(10.29)	105.78
9	STERLITE INDUSTRIES	31.46	16.70	(14.76)	217.93
10	SUZLON ENERGY	28.59	6.98	(21.61)	466.99

Source: Annual reports of the selected units and EMIS database website.)

Chart 1: Return on Net Capital Employed Ratio Before and After M & A in Selected Units



The above table no. 5.1 shows the arrival on Net capital employed ratio in chosen units, when merger and acquisitions. Also, Tata Steel shows the most noteworthy 43.88% and Hutchison Essar furthermore, Tata Teleservices shows minimal level of profit for capital utilized by 19.34% and 14% and rest of all Industry shows a normal profit for net capital utilized before mergers and acquisitions. Other than this, after mergers and acquisitions the exhibition of Hutchison Essar, Ranbaxy Laboratories, Tata Teleservices, HDFC Bank have been expanded by 25.86%, 1.45%, 11.90%, and 2.17% individually. Anyway rest of each of the six example units has decrease development rate on return on net capital utilized. Along these lines, the specialist can presume that after mergers and

acquisitions the money related execution of test units was not improved.

• Return on Long Term Fund Ratio

This ratio sets up the connection between net benefit and the long haul reserves. The term long haul assets allude to the all out speculation made in business for long haul. It is determined by separating Earnings before Interest and Tax (EBIT) by the all out long haul reserves. Profit for long term assets is determined based on following formula,

Return on long term fund ratio =

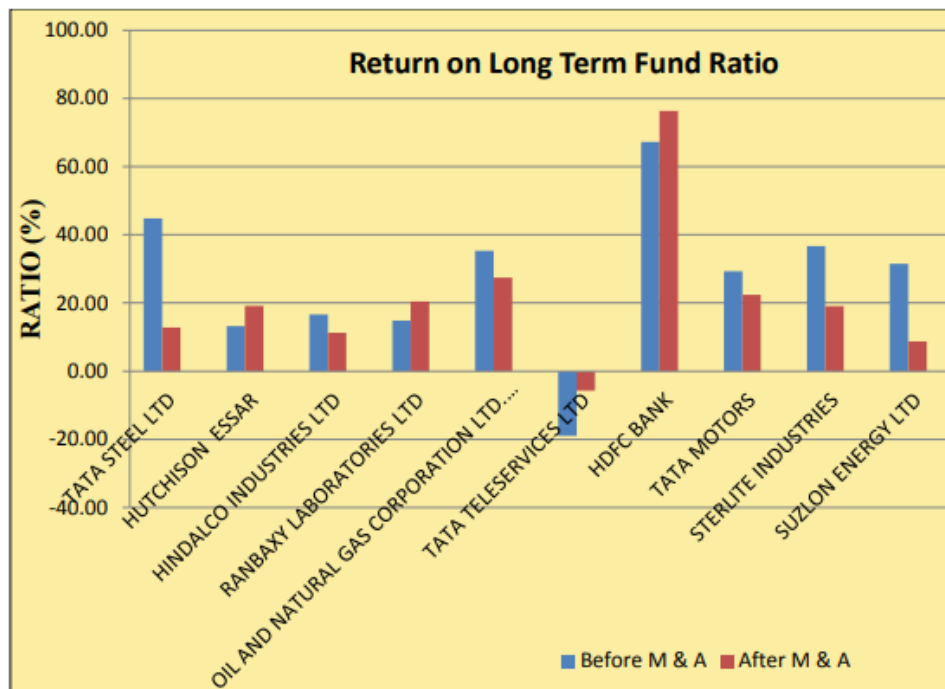
$$\frac{\text{Operating Profit (ebit)}}{\text{long term fund}} \times 100$$

TABLE 2: Return on Long Term Fund Ratio in Selected Units (Before 5 years and after 5 years of M & A)

Sr. No	Name of the Companies	Before M & A (X)	After M & A (Y)	Diff (D= Y- X)	Diff Squared (D ²)
1	TATA STEEL	44.82	12.82	-32	1023.94
2	HUTCHISON ESSAR	13.22	19.18	5.96	35.52
3	HINDALCO INDUSTRIES	16.6	11.23	-5.37	28.8
4	RANBAXY LABORATORIES	14.82	20.43	5.62	31.53
5	ONGC	35.35	27.4	-7.96	63.31
6	TATA TELESERVICES	-18.95	-5.7	13.25	175.67
7	HDFC BANK	67.24	76.37	9.13	83.32
8	TATA MOTORS	29.28	22.41	-6.87	47.2
9	STERLITE INDUSTRIES	36.66	19.07	-17.59	309.23
10	SUZLON ENERGY LTD	31.49	8.75	-22.74	517.06
				-58.56	3429.23

(Source: Annual reports of the selected units and EMIS database website.)

Chart 2: Return on Long Term Fund Ratio before and after M & A in Selected Units



The above table no 5.2 shows the arrival on long haul supports ratio in chose 10 units, when mergers and acquisitions. The best yield on long haul assets is in the HDFC Bank by 67.24% and Tata Tele administrations shows the least - 18.95% , before mergers and acquisitions. In addition, Tata Steel , Hutchison Essar, Hindalco, Ranbaxy Laboratories, ONGC, Tata Motors, Sterlite Industry and Suzlon Energy appear on a normal 27% profit for long haul assets during pre mergers and acquisitions. Yet, after mergers and acquisitions, HDFC Bank shows the most elevated 76.37% of profit for long haul reserves. After mergers and acquisitions the exhibition of 4 units Hutchison Essar, Ranbaxy Laboratories, Tata Tele Services and HDFC Bank has been expanded by 5.96%, 5.62%, 13.25% and 9.13% individually. What's more, the staying 6 units show the decrease development rate on return on long haul subsidizes ratio after mergers and acquisitions incorporating sharp decrease in TATA steel by 32%. In this way, the scientist can reason that, the productivity of 4 units is

expanded and 6 units are diminished after mergers and acquisitions.

5. Conclusion

The achievements of any business venture is directly associated with the competencies of company management. The business venture can, as an outcome, create variations of how you can address the brand new complex and changing conditions of being successful in the marketplace. Therefore managers wish during bad times to alter the management strategy of theirs, to ensure stable and long-term running of the business venture. They're forced to constantly maintain and obtain suppliers and customers. By implementing these measures they've the chance to attain a competitive advantage over some other business enterprises. So in this way economic analysis is an effective mechanism of determining financial weaknesses and strengths of a firm. Nevertheless, the analysis is dependent on the info readily available in the financial statements.

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