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AN ANALYTICAL STUDY OF IMPACT OF MERGER & ACQUISITION ON FINANCIAL PERFORMANCE OF CORPORATE SECTOR IN INDIA

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Abstract

The best strategies for accelerating a company's growth implementation plan are mergers and acquisitions. M&A is an aggressive expansion strategy that has been used in all industries. Although the idea of mergers and acquisitions is not new, the recent boom in M&A has allowed businesses more room to search for integration in order to meet their growth, market coverage, or other strategic needs.
The goal of this research paper is to examine how mergers and acquisitions affect the Indian corporate sector's financial performance. (When purchasing businesses) A list of six companies' data from 2018–2023 has been taken into consideration for study.
The findings indicated that there was no discernible impact of mergers on the financial performance of the Indian corporate sector.

Keywords: *post-merger, financial ratios, acquisitions and mergers.*

INTRODUCTION

In an M&A transaction, the acquired firm consciously transfers its assets and liabilities to the acquiring company. Many businesses decide to integrate with another organization in order to protect their enterprise from failure. It is a winning approach to proceed with M&A with successful similar businesses. The market's and its stakeholders' demands are best met by the combined M&A synergy of two businesses. There could be a good or negative effect on shareholders.
M&A offers businesses fantastic chances to expand and increase stakeholder wealth. M&As boost efficiency and value, which raises the value of holders. The term "M&A" is used to refer to a wide variety of business restructuring initiatives. Business leaders predict that merger and acquisition activity will pick up speed in 2018. A key component of the transactions being pursued is technology and digital strategy. Compared to $50.6 billion in 2016, deal values rose 53.3% to $77.6 billion in 2017. From 599 deals the year before to 614 agreements in 2017, deal volumes increased by 2.5 percent. In 2014, $33 billion worth of transactions engaged Indian corporations.

OBJECTIVE OF THE STUDY

1. To investigate and assess how mergers and acquisitions affect the chosen companies' profitability.
2. To investigate and assess how mergers and acquisitions affect the companies' leverage and liquidity positions.
3. To make suitable merger and acquisition recommendations for the Indian business.

REVIEW OF LITERATURE

➢ **Neelam Rani (2013)** analyzed that financial result over the long run of Indian M&A firms. Information was gathered from secondary sources such as NSE, CMIE, and so on. The information was gathered during a ten-year period. The 14 ratios were calculated: total assets turnover ratio (TATR), fixed assets turnover ratio (FATR), current assets turnover ratio (CATR), total debt over total assets ratio (DA), and current ratio (CR). The operating profit margin based on sales (OPMS), net profit margin (NPM), operating profit ratio based on assets (OPMA), labour -related expense ratio (LRE), selling, general, and administration expense ratio (SRE), and research and development expense ratio (RDE) are the ones that were calculated. To identify the noteworthy variations

➢ **Agnihotri (2013)** investigate that determinants of acquisitions in three industries in India and find that the volatility of earnings and business group affiliation has a significant influence on acquisitions by Indian firms. The paper focused more on increase in earnings due to Acquisitions.

- **Chawla, Mahesh Dilip (2017)** to analyze that Mergers and acquisitions in Indian Telecom sector: a strategic analysis changes implemented by the Department of Telecommunications and the Telecom Regulatory Authority of India (TRAI) have significantly changed the business climate in the Indian telecom industry. In India, this area has become a more significant performer. The telecom companies have chosen to use mergers and acquisitions (M&A) as a tactical instrument to improve and significantly increase their performance. The purpose of this study is to identify the overall strategic impact of mergers and acquisitions in the telecommunications sector. Previous studies have demonstrated the lack of success of mergers and acquisitions in the US and European telecom industries. Ten M&A offers in the Indian telecom companies that are listed on the BSE at some point in time are included in this paper.
- **Singh, Sasmita (2017)** to analyze that post-merger analysis of returns to equity shareholders: An Indian Telecom Sector Study, In India, the telecom sector is one of the fastest growing. Acquisitions and mergers are now a constant and necessary requirement for future growth in this sector. This research aims to determine whether or not the acquiring Indian telecom businesses' equity holders receive better profits as a result of these mergers. Particular attention is paid to the mergers that have occurred between 2008 and 2015. The results indicate that the majority of these mergers increase shareholder returns, even though the impact isn't always significant.
- **Viral Upendrabhai Pandya's (2017)** to analyze that Using time-series data and significant recent global developments research attempts to quantify the mergers and acquisitions industry in India from 1991 to 2010. This article further attempt to classify patterns in the manufacturing and non-manufacturing sectors in order to offer concrete proof of the intentions and rationales behind the specific behavior's noted, as well as the potential trajectory of mergers and acquisitions in India.
- **Rabi Narayan Kar and Amit Soni (2017)** study stressed the use of mergers as a tactic to increase enterprise value. In order to examine the impact of the mergers, researchers examined and chose the post liberalization period.
- **Sharma, Sachin and Verma, Priyanka, (2017),** Indian Telecom Sector: Pros & Cons of merger and acquisition for different players of Telecom Sector, merger and acquisition (M&A) strategies are becoming vital for organizations to maintain competitive advantages, including in the telecom sector. With numerous internal and external factors influencing the Indian telecom industry, a surge in M&A activities is anticipated. Previous M&A studies primarily focused on financial performance, but this research delves into opportunities and threats for key stakeholders like users, telecom service providers (TSPs), and government regulators. It also examines the potential for monopolization in the Indian telecom sector due to M&A and the role of the regulatory framework.

RESEARCH METHODOLOGY AND SOURCE OF DATA

The majority of the data used in this study is secondary. The information was gathered from the websites of businesses and their published annual reports. Additionally, we have recommended websites like Money Control and Yahoo Finance.

PERIOD OF STUDY

The study covers a period of five years from 2012 – 2017.

SCOPE OF THE STUDY

Since there would be too many companies for the researcher to consider for the study, the present paper covers six companies. The selection of these companies was based on the availability of necessary data and a practical sample procedure.

DATA ANALYSIS AND TOOLS USED

About Sun Pharmaceutical Industries
A pharmaceutical firm with headquarters in India, Sun Pharmaceutical is well-known throughout the world. In the Indian generic medication market, it is the biggest player. The business was established in 1981.
Sun Pharmaceutical Industries had a track record of successfully acquiring 16 businesses at the time it purchased Ranbaxy in 2014. The goal of the massive deal was to create the combined company the world's fifth-largest manufacturer of generic drugs.
With 50 production locations worldwide, it boasts a portfolio of almost 2,000 items.18

About Vedanta Limited

One of the biggest worldwide diversified natural resource companies is Vedanta Limited, a part of the Vedanta Group, according to Md. Alam Ansari et al. An analysis of how mergers and acquisitions affect financial performance

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Alam Ansari, M.D., and others. An analysis of how mergers and acquisitions affect financial performance

April–June 2018; Journal of Management Research and Analysis, 5(2):113–116 114 majors, operating in the following sectors: commercial electricity, copper, aluminum, iron ore, oil and gas, zinc, lead, and silver.

Since its founding in 1954, the company has developed into one of the world's leading low-cost producers of iron ore. It expanded into the production of metallurgical coke and pig iron between 1991 and 1995. Additionally, it has created environmentally friendly, domestic technology for the production of superior metallurgical coke.

It became a significant subsidiary of Vedanta Resources Plc in 2007.20

About JSW Energy

The operating generating capacity of JSW Energy is 3740 MW. Additionally, it is currently developing power generation projects with an estimated 8630 MW of installed capacity. For Rs 9,700 crore, JSW Energy, which is owned by billionaire Sajjan Jindal, purchased two hydropower projects owned by Jaiprakash Power Ventures. The plants have a combined capacity of 1,391 Mw.19.

About Adani Ports

The biggest private operator of many ports in India is Adani Ports and Special Economic Zone Limited (APSEZ). It is a member of the integrated infrastructure company Adani Group.21

About UltraTech Cement Limited

With its headquarters located in Mumbai, India, UltraTech Cement Limited is the country's biggest cement manufacturer and exporter. 93 million tons of gray cement may be produced annually (MTPA) by the company.22

About Lupin Limited

The largest cement manufacturer and exporter in India is UltraTech Cement Limited, a cement firm headquartered in Mumbai. The business is able to produce 93 million tons of gray cement annually (MTPA).22.

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.3-6

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

The standard deviation Because it is the square root of the mean of the squared variation from the arithmetic mean, standard deviation is often referred to as root mean square deviation.4.

Student t-test A suitable test for determining the significance of a sample mean is the T-test, which is based on the T-Distribution.4.

Below is the result of Analysis (Table 01)

1. Return on Gross Capital Employed: With the exception of Adani Ports, the financial performance of a few chosen units declined following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in return on gross capital employed. In certain divisions, the return on gross capital invested does not increase following mergers and acquisitions.

2. Return on Net Capital Employed: With the exception of JSW Energy, the financial performance of a few chosen entities declined following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in return on net capital employed.
3. Return on Shareholders Fund: With the exception of JSW Energy Ltd., the financial performance of a few chosen entities declined following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in the return on shareholders' funds.
4. Return on Long-Term Funds: Only JSW Energy and Adani Ports saw an increase in return on long-term funds following mergers and acquisitions. Following mergers and acquisitions, the difference in return on gross capital employed is not statistically significant, according to the results of the paired "t" test.
5. Earnings Per Share: Adani, JSW Energy, Ultra Tech, and Lupin Ltd. saw increases in EPS following mergers and acquisitions. The paired "t" test results show that there is no significant difference in EPS.
6. Gross Profit Ratio: With the exception of JSW, Ultra Tech, and Lupin Ltd., the financial performance of a few chosen entities declined following mergers and acquisitions. The paired "t" test indicates that there is no significant difference in the return on gross profit ratio.
7. Net Profit Ratio: With the exception of JSW and Lupin Ltd., the financial performance of a few chosen entities declined following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in the return on net profit ratio.
8. Operating Profit Ratio: With the exception of Lupin and JSW Energy, all units saw a decline in this ratio following mergers and acquisitions. The "t" test indicates that there is no significant difference in OPR.
9. Current Ratio: Lupin, Adani, and JSW saw a decline in their current ratio following mergers and acquisitions. The current ratio difference is not significant, according to the paired "t" test.
10. Quick Ratio: Only Sun Pharma and Vedanta saw a decline in their quick ratio following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in the Quick ratio.
11. Inventory Turnover Ratio: With the exception of Adani Ports Ltd., all sample units saw a rise in this ratio following mergers and acquisitions. The "t" test indicates that there is no significant variation in the ITR ratio.
12. Debtors Ratio: The paired "t" test indicates that there is no significant variation in the debtors ratio.
13. Debt to Equity Ratio: With the exception of Sun Pharma and Lupin Ltd., all units saw a decline in this ratio following mergers and acquisitions. The paired "t" test result indicates that there is no significant difference in the debt to equity ratio.
14. Fixed Assets Turnover Ratio: This ratio grew by three units following mergers and acquisitions. The Fixed Asset Turnover Ratio difference is not significant, according to the results of the paired "t" test.
15. Owners Funds Ratio: The paired "t" test result indicates that there is no significant difference between the owners funds ratio in the chosen units before and after mergers and acquisitions.
16. Working Capital Turnover Ratio: Only Sun Pharma saw an increase in this ratio following mergers and acquisitions. The paired "t" test result indicates that there is no significant change in the owners' funds ratios of the chosen 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 turn over ratio	1.19	0.19	1.79	0.42	6.29	0.1
Earnings 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

***Source*: Researcher Own Calculation basis input data from Annual Reports of companies (data input)**

SUGGESTIONS

Prior to the merger and acquisition, Vedanta Ltd's profitability was quite high; but, following the merger and acquisition, it declined. Therefore, these units need to focus on cost-cutting measures.
By lowering their current liabilities, Vedanta, JSW Energy, and Ultra Tech Cement should increase their working capital. Additionally, this will strengthen their liquidity situation. Vedanta Ltd.'s net profit dropped precipitously, therefore it needs to see how it can cut costs as much as possible.
Lupin and Sun Pharma's ROCE saw a significant decline; they should undertake a cost-benefit analysis before making any capital investments. Since its operating profit dropped following the merger, Sun Pharma needs to examine its operating costs.

CONCLUSION

It is clear from the results and analysis of important financial ratios both before and after the merger, as well as from the discussion above, that the firm's operations were not significantly impacted. Before mergers and acquisitions, companies' operating performance was better. Before the merger, the return for stockholders was higher.

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