

A Study of the Impact of Merger and Acquisition on Financial Performance of Indian Companies

Ms. Sangeeta Ghatekari, Assistant Professor, MET Institute of Management
Mr. Dhananjay Kaluse, Mr. Harsh Patel, Mr. Pratik Jajodia, Mr. Karan Kute, Mr. Anmol Koul –
MMS Students, MET Institute of Management

ABSTRACT

<https://doi.org/10.34047/MMR.2020.8209>

The objective of this research to determine the effects of mergers and acquisitions on the financial performance of Indian acquiring company. Over the years, mergers and acquisitions have been the most widely used strategy for inorganic business expansion. It is frequently used to restructure companies. Companies engage in mergers and acquisitions for strategic business reasons, which are mostly financial in nature. This study makes an effort to assess the effects of the acquiring company's financial performance pre and post the acquisition. The performance of the companies was compared before and after the merger to see if there was any impact on their financial performance. This was done using a descriptive research approach. The acquirer company in selected M & A deals in India in periods 2016-2017 (As there is impact of Covid-19 in 2020) using select financial ratios and paired t test at 5% significance.

Keywords: Mergers, Acquisitions, financial performance, Descriptive research

Introduction:

Mergers and Acquisitions (M&As) have become an integral part of the corporate world, providing a range of opportunities for companies to expand their business operations, increase their market share, and improve their financial performance. The Indian business scenario has seen a considerable increase in the number of M&As over the last two decades, making it imperative to study the impact of these transactions on the financial performance of Indian companies. The purpose of this study is to examine the impact of M&As on the financial performance of Indian companies and to determine the factors that contribute to the success or failure of these transactions. The study will focus on various financial metrics, including profitability, liquidity, solvency, and growth, to evaluate the impact of M&As on the financial performance of Indian companies. This research will provide valuable insights into the M&A landscape in India and will contribute to the existing literature on M&As and their impact on financial performance.

Objective of the Study:

To study the impact of mergers & acquisitions on the acquirer's financial Performance.

Review of Literature:

Mergers and acquisitions have an impact on financial ratios in an organisation.

The global financial crisis is one of the main factors limiting the performance of Indian acquirer enterprises. long term study can be done to study the impact over a period of time. (Poddar, 2019) According to theories, mergers increase firm performance due to synergies gained, market dominance, increased profitability, and risk diversification. To determine if mergers increase financial performance before and after merging, a comparative analysis of the organization's performance during the pre- and post-merger periods was carried out. (Anthony¹, 2017). A study on whether mergers increase value for shareholders in the Indian setting was conducted, and the results were noted as inconsistent. This encourages researchers to investigate whether there is a connection between mergers and the financial performance of target companies and whether, over time, they generate wealth for shareholders based on accounting studies. (Debi Prasad Satapathy, 2020). Operating performance of companies was better prior to merger and acquisition. In terms of return on shareholders, it was better prior to merger (Md Alam Ansari, 2018). To meet the study's purpose, secondary data from annual audited financial statements were obtained for the three years before and after the merger. Various financial ratios applied to assess the profitability and liquidity position (Bijoy Gupta, 2017).

This study, which used the variables return on assets, return on equity, earnings per share, and net profit

margin, was conducted primarily to examine and analyse the effects of mergers and acquisitions on the financial performance of UK companies in 2011. The impact of various financial ratio considers independently and considering them as base conclusion is made (Momodou Sailou Jallow, 2017).

The study comes to the conclusion that, for the acquiring corporations during the post-M&A phase, the financial performance of the Indian construction and real estate company has generally improved. According to the study, the construction industry backs the synergy theory, which claims that the resource consolidation that results from mergers and acquisitions will enhance synergy in the post-merger and acquisition phase. (Isha Gupta, 2021)

1. Introduction:

Consolidation of businesses is what is referred to as mergers and acquisitions (M & A). Between the two, mergers refer to the joining of two businesses. to create one, whereby Acquisitions is the taking over of one company by another. M & A is One of the key components of corporate finance. The concept of the usual explanation provided is that the two distinct businesses together create more value in comparison to taking a stand alone. With the primary goal of for the purpose of maximising wealth, businesses continually assess new prospects. by means of a merger or purchase. In this, synergy value can be determined by analysing the revenues (which will increase), expenses (which will decrease), or the cost of capital (lowering of overall cost of capital).

It seems to reason that both parties in an M&A transaction will have different opinions on the value of the target business: the seller wants to sell the business for as much money as possible, while the buyer will work to secure the lowest feasible price.

However, there are a lot of acceptable approaches of valuing businesses. Deal makers use a range of alternative techniques and tools to evaluate a target firm in addition to the most popular valuation method, which involves comparing it to similar businesses in the same industry.

2. Hypothesis:

H0: The financial performance of the chosen Acquirer company did not significantly change before or after the merger.

H1: The financial performance of the chosen Acquirer

company significantly changed before or after the merger.

To verify hypothesis T-tests will be used to analyse how mergers affect the company's financial performance before and after the merger. The test's significance level will be set at 5%.

3. Data and Methodology:

Fundamental analysis can be helpful since it allows investors to identify whether an asset is reasonably priced, overpriced, or undervalued by comparing the security's underlying value to its market value. Technical analysis, in contrast, focuses on determining price movement and use several tools, including chart patterns and price trends, to accomplish so moneycontrol.com is where the data for the M & A for the acquirer company was obtained. Money control provides the ratios' data. Data from before and after the merger were compared on average across three years. Financial ratios are included in the statistics. The paired t test has also been used to statistically demonstrate that the merger has had an impact on the financial performance of the acquirer company post-merger. If the post-merger performance differs statistically from the pre-merger performance, this test will demonstrate that difference.

Tech Mahindra Acquire CJS Solution:

The acquisition would not only establish Tech Mahindra as a major participant in the healthcare provider market, but it will also give the company the chance to expand further by implementing Electronic Medical Records (EMR) and related services.

Dr Reddy's Labs acquires Imperial Credit:

The purchase was done for a price of Rs 2.05 crore, and it became final after receiving regulatory approvals. The Hyderabad-based pharmaceutical company informed BSE that it intended to use this company to carry out the captive financial activities of the group.

Unilever acquires Blueair:

For an undisclosed fee, Hindustan Unilever (HUL)'s parent company Unilever purchased Swedish business Blueair, a pioneer in mobile air purifying technology. With this agreement, Unilever enters the air purification market, a move that will strengthen its current water purification operations.

Aditya Birla acquires Forever 21:

Aditya Birla Fashion and Retail Ltd (ABFRL) in the first quarter of this financial year acquired Forever 21 from Diana Retail Pvt Ltd for \$26 million. The company said that the acquisition would help the Group in becoming the largest integrated branded fashion player in the country.

HDFC Life merger with Max Life:

HDFC Chairman Deepak Parekh and Max Group Chairman Analjit Singh announced a deal merging their life insurance businesses to create what they said will eventually be India's largest listed life insurance. Under the three-step merger process, Max Life will first combine with its parent Max Financial Services Ltd. In the next stage, the insurance unit will be demerged from this entity into HDFC Life.

Selected Ratios:

Working Capital Ratio: The working capital ratio, like working capital, compares current assets to current liabilities and is a metric used to measure liquidity. The working capital ratio is calculated by dividing current assets by current liabilities.

Quick Ratio: The calculation for the quick ratio is current assets minus inventory minus prepaid expenses divided by current liabilities. The formula removes inventory because it can take time to sell and convert inventory into liquid assets.

Earnings per Share (EPS): The company's analysts calculate EPS by dividing net income by the weighted average number of common shares outstanding during the year.

Price-Earnings Ratio (P/E): To calculate the P/E ratio, divide a company's current stock price by earnings-per-share.

Debt-to-Equity Ratio: To calculate the debt-to-equity ratio, divide total liabilities by total shareholders' equity.

equity.

Return on Equity (ROE): (which is expressed as a percentage) is calculated by taking net income (income less expenses and taxes) figured before paying common share dividends and after paying preferred share dividends, and dividing the result by total shareholders' equity.

Paired t-test:

The mean difference between two sets of data is examined using the paired sample t-test to see if it is zero or not. It is possible to calculate the means of two samples, which can be data collected before and after an event, in order to determine if whether there is a difference between the data means. T-test is performed here. to understand how acquisitions affect a company's performance before to and following the merger.

For testing, there are two hypotheses: the null hypothesis and the alternative hypothesis. The alternative hypothesis will presume that the mean difference between the pre- and post-data is not equal to zero, whereas the null hypothesis will assume that there is no mean difference between the two. The test has a 5% level of significance.

4. Analysis and Findings:

In this study, Average data have been considered for analysis pre-merger and post-merger financial performance ratio of the Indian acquirer company in selected merger & acquisition deals in the period 2016-2017.

Table 1 Shows average three years data of ratio. To compare performance of the acquirer company pre-merger and post-merger, an average of three years selected financial ratios is calculated for each acquirer company.

Table 1 Financial Ratio

Name	WCR		QR		EPS		PE		D/E		ROE	
	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
Tech												
Mahindra	2.46	2.16	2.36	2.3	64.07	41.21	15.6	14.99	0.046	0.076	24.98	19.48
Dr Reddy's												
Labs	2.16	2.27	1.4	1.07	125.8	84.05	859.71	882.38	0.39	0.35	21.87	10.65
Unilever	1.19	1.33	0.86	1.033	19.17	24.24	40.46	53.59	0.0167	0.0167	94.34	71.64
Aditya Birla	0.69	0.82	0.13	0.31	-15.4	2.12	0	253.13	2.3	1.52	36.5	12.9
HDFC Life	23.39	1.52	23.39	2.29	3.89	5.43	4.42	167.96	0	0	31.61	23.06

Descriptive Statistics:

Table 2 Descriptive Statistics

Ratio		N	Mean	S.D.	Std Error Mean
WCR	Pre	5	5.978	9.759	4.364
	post	5	1.62	0.601	0.269
QR	Pre	5	5.628	9.962	4.455
	post	5	1.4	0.87	0.389
EPS	Pre	5	39.588	56.382	25.215
	post	5	31.408	33.355	14.916
PE	Pre	5	184.038	378.038	169.063
	post	5	274.384	352.661	157.714
D/E	Pre	5	0.55	0.991	0.443
	post	5	0.392	0.645	0.288
ROE	Pre	5	41.86	29.885	13.365
	post	5	27.552	25.141	11.243

Paired Sample T-test:

Table 3 T-test

Ratio	Differences (Pre-post)			Interval		T	DOF	P Value
	Mean	SD	Std Er.	Lower	Upper			
WCR	4.358	9.158	4.095	-7.7995	16.5155	0.9953	4	0.3759
QR	4.225	9.091	4.065	-7.4869	15.9417	1.0019	4	0.3731
EPS	8.18	23.027	10.298	-21.3251	37.6851	0.7697	4	0.4844
PE	-90.346	25.37	50.314	-230.0388	49.3468	1.7957	4	0.147
D/E	0.158	0.345	0.156	-0.2748	0.5908	1.0135	4	0.3681
ROE	14.308	4.743	3.723	3.9711	24.6449	3.8431	4	0.0184

Hypothesis (WCR):

According to the table above, it illustrated the mean value of working capital ratio pre and post mergers and acquisition is 4.358, the T value as 0.9953 and the P (2- tailed) analysis value 0.3759, which is more than the level of significant 0.05. Furthermore, this outcome determines that WCR of companies does not have a significant impact between merger and acquisition activities. Null hypothesis accepted

Hypothesis (QR):

The mean value of quick ratio pre and post mergers and acquisition is 4.225, the T value as 1.0019 and the P (2- tailed) analysis value 0.3731, which is more than the level of significant 0.05. Furthermore, this outcome determines that Quick ratio of companies does not have a significant impact between merger and acquisition activities. Null hypothesis accepted.

Hypothesis (EPS):

The mean value of Earning per share pre and post mergers and acquisition is 8.18, the T value as 0.7697 and the P (2- tailed) analysis value 0.4844, which is more than the level of significant 0.05. Furthermore, this outcome determines that EPS of companies does not have a significant impact between merger and acquisition activities. Null hypothesis accepted.

Hypothesis (PE):

The mean value of Price earning ratio pre and post mergers and acquisition is -90.346, the T value as 1.7957 and the P (2- tailed) analysis value 0.147, which is more than the level of significant 0.05. Furthermore, this outcome determines that PE of companies does not have a significant impact between merger and acquisition activities. Null hypothesis accepted.

Hypothesis (D/E):

The mean value of Debt-to-equity pre and post mergers and acquisition is 0.158, the T value as 1.0135 and the P (2- tailed) analysis value 0.3681, which is more than the level of significant 0.05. Furthermore, this outcome determines that Debt to equity of companies does not have a significant impact between merger and acquisition activities. Null hypothesis accepted.

Hypothesis (ROE):

The mean value of Return on equity pre and post mergers and acquisition is 14.308, the T value as 3.8431 and the P (2- tailed) analysis value 0.0184, which is less than the level of significant 0.05. Furthermore, this outcome determines that ROE of companies have a significant impact between merger and acquisition activities. Null hypothesis rejected.

5. Conclusion:

The primary goal of this study was to evaluate and assess how mergers and acquisitions affect financial performance. The sample size of 5 companies that has undergone mergers and acquisitions in India. As a result, a discussion of the impact of the research objective's accomplishment is conducted in this part. The initial objective is to examine the impact of mergers and acquisitions on financial performance and by referring to the paired sample test, the results shows that the total mergers and acquired firms used in as sample size encounter does not have significant change in WCR, QR, EPS, PE, D/E before and after merger and acquisition but there is impact on ROE. From the above ration it may be conclude that ROE has significant impact on financial performance of companies.

References

- Anthony1, M. (2017). Effects of merger and acquisition on financial performance: case study of commercial banks. *International Journal of Business Management & Finance*, 93-105.
- Bijoy Gupta, D. P. (2017). Impact of merger and acquisitions on financial performance: Evidence from selected companies in India. *IMS Business School Presents Doctoral Colloquium*.
- Debi Prasad Satapathy, S. M. (2020). Effect of Merger and acquisition on Financial Performance: Empirical Evidence. *PJAEE*, 9-17.
- Isha Gupta, T. V. (2021). Impact of Merger and Acquisition on Financial Performance: Evidence from Construction and Real Estate Industry of

India. *FIIB Business Review*.

- Md Alam Ansari, M. (2018). An analytical study of impact of merger & acquisition on financial performance of corporate sector in India. *Journal of Management Research and Analysis*, 113-116.
- Momodou Sailou Jallow, M. M. (2017). The effects of mergers & acquisitions on financial performance: case study of uk companies. *International Journal of Accounting & Business Management*, 74-92.
- Poddar, N. (2019). A Study on Mergers and Acquisition in India and Its Impact on Operating Efficiency of Indian Acquiring Company. *Theoretical Economics Letters*, 1042-1052.
- DePamphilis, D. (2001). Mergers, Acquisitions, and Other Restructuring Activities.
- financial Ratios. (2022, 09 02). Retrieved from Moneycontrol: <https://www.moneycontrol.com/financials/reliancecommunications/ratiosVI/RC13/2#RC13>
- thehindubusinessline. (2016-2017). Retrieved from thehindubusinessline: <https://www.thehindubusinessline.com/info-tech/tech-mahindra-to-buy-cjs-solutions-for-110-m/article9572329.ece>