PalArch's Journal of Archaeology of Egypt / Egyptology

"A STUDY ON IMPACT OF MERGES AND ACQUISITIONS IN THE FIRM'S PROFITABILY AND THEIR PERFORMANCE OF SELECTED SECTORS."

Dr. T.N Anuradha[1], Sarum Manisha[2]

[1]Assistant Professor, Ramaiah Institute of Management.

[2]Student, Ramaiah Institute of Management.

Dr. T.N Anuradha , Sarum Manisha , "A Study On Impact Of Merges And Acquisitions In The Firm's Profitabily And Their Performance Of Selected Sectors." , Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(8), 4399-4405. ISSN 1567-214x.

Keywords; Mergers, acquisitions, profitability, shareholders equity.

Abstract

The concept of mergers and acquisitions is to bring the two organizations having separate ownership together with different cultural values to achieve strategic and financial objectives of the organizations. These terms are typically confused and used interchangeably. The process of mergers and acquisitions has gained substantial importance in today's corporate world. This process is extensively used for restructuring the business organizations. In India, the concept of mergers and acquisitions was initiated by the government bodies. Some well-known financial organizations also took the necessary initiatives to restructure the corporate sector of India by adopting the mergers and acquisitions policies. Here, the researcher has taken the mergers and acquisitions of two sectors (telecom & retail). From this research we come to know that is no major impact of Mergers and Acquisitions in selected sectors (telecom & retail) and there is higher impact of Mergers and Acquisitions in Service Sector when compared to Telecom and Service Sector.

Introduction

The modern business world is about economic growth and globalization, because most companies are seeking to achieve the ideal portion of the overall industry imaginable on all market levels, such as the residential and foreign market, for example. Step by step specialist attempts to accomplish a most notable objective for example "being the best by what you proceed just as arriving as fast as could be expected under the circumstances". Therefore, corporations function easily to defeat their rivals, expecting different tactics to try to do so. A portion of their methods can epitomize their canter skills concentrated within the market. In this way, it means that they need the best data and skills to have a fighting chance against their rivals in that business.

In 21st century organizations are the round of development. Each business needs the ideal piece of the pie (development) over their rivals, so organizations are attempting to get ideal development by utilizing the most well-known easy route for example Merger and Acquisition (M&A). The development fundamental intention is monetary security of a business and furthermore the investors riches augmentation and primary alliance's close to home inspirations. In the most recent decade, M&A are the prevailing methods for association's globalization (Weber, Shenkar and Raveh 1996).

Literature review

Shashank, Agarwal (2007) conducted study to analyze the performance of selected mergers in India Performance analysis of pre- and post-merger of companies in selected sectors shows the whether the merger is successful or failure and its impact on Indian economy. This study tells the factors that leads to mergers and acquisitions and the motives behind the merger.

In India, there is a tremendous growth in the mergers and acquisitions in the recent past year. Merger and acquisitions take place with an agreement between two companies framed under certain regulations. Merger and acquisitions are considered as a growth strategy with an aim of expanding business and to maximize shareholder's wealth.

Jarrod McDonald, Max Coulthard and Paul de Lange (2005) observed that Mergers and acquisitions are conducted by considering revenue generating synergies and cost reduction synergies which improves the efficiency of merger that takes place. Acquisition involves two or more companies in which the acquiring or buying company is called "Acquirer and the selling company is called Target company" Acquisition is a corporate action where an Acquiring company makes a bid for a target. The main purpose of mergers and acquisition is to achieve a specific business goal.

Manish Agarwal, Harminder Singh (2006) observed that with the advancement of technology in modern world, mergers became popular in almost all the sectors which gives tax benefits to companies. Before acquisition takes place, the acquirer company evaluates the net shareholdings and earnings of the target company and based on the net assets value of the target company, the acquirer takes decision of acquisition with that particular company. The acquirer wishes to consider and evaluate the brand value, fixed assets value, liquid cash available with target company and the net share value of target company. Usually, large companies tend to acquire small companies for the expansion of business but there are also cases where small companies acquired shareholdings of large companies which became successful.

Orley, Ashenfelter (2008) said that, the mergers are to be successful if the financial performance of post-merger increased when compared to pre-merger. A Successful merger also shows the efficiency of the management and its effective utilization of resources. Mergers and acquisitions in banking sector have proved that it is the useful tool forstrengthening weak bank after merging with leading banks. There are both financial and non-financial characteristics that effect the post-merger performance. But it is possible to measure the extent of financial characteristics only which has an impact on post-merger performance. The extent of non-financial characteristics impact is difficult to measure the post-merger Financial performance. This study considers only the final attributes and characteristics that are performed in pre- and post-merger.

Rajesh Kumar, and PrabinaRajib (2007) observed that the probability of firm depends on its side demand for products and selling efforts. However, Mergers and acquisitions does not have an impact on profitability of firms in long as there is entry of new firms in the market. Ratio analysis is the important technique to ensure the profitability and liquidity. The Laws and regulations of mergers and requisitions are complex. Mergers and acquisitions are an important strategy for consolidating financial ins. This study compares pre- and post-merger financial performance with the help of financial parameters like profit ratio return on assets ratio, return on capital employed ratio, return on equity ratio, P/E ratio.

Ashish S. Joshi (2008) found that the industries with greater number of mergers and acquisitions have greater penetration in the international market which results in larger export competitiveness in the presence of foreign technology. The reason behind merger is that there are companies which have lack of funds for operations and meeting working capital needs with lack of management efficiency and mostly firms of this type run on borrowed sources of fund, in such a case the large companies which have abundant funds and liquid cash tends to expand their business with the available funds. So, for the expansion of business, the large companies acquire the small companies in exchange of cash or shares or both as agreed. This results in the penetration of markets and expansion of business.

Vyas, Vijay H (2008) stated that the theories of mergers assumed that the performance of companies increase after mergers and acquisitions due to gaining market share, synergy creation, cross selling resource transfer diversification etc., One of the reasons for merger and acquisition is to reduce competition among firms in the existing markets. It is observed that to know more information for the merger success is to study balance sheet and profit and loss statement pre - and post-merger.

B. Rajesh Kumar & S. Panneerselvam (2009) stated that the comparative analysis of pre -and post-merger which has greater impact on wealth of shareholders of acquirer and target is. Mergers and acquisitions lead to corporate restructuring which aims at enhancing competitive advantage. improve in the value of the firm, increasing efficiency and achieving synergy. Restructuring is directed towards the profitability, liquidity and solvency objectives of an organization Mergers and acquisitions bring together the cultural values of acquirer company and target company. There are many merger failure cases in India due to many reasons, many companies think mergers and acquisitions is the best solution for the problem raised in their company but before entering into merger, companies need to retrospect themselves. Many of the mergers do not create value because of cultural difference between the

organizations. Flawless intentions lead to failure of merger, it is because the companies go with the booming
hare value in the market. I sometimes lead to negative results to prevent the failure in mergers and acquisitions, there should be continuous communication among the shareholders, management and stakeholders or the company, Management should create trust in the employees and retain the talent of employees, each company should give respect and obey other's cultures and vales, management should not blindly go with the market trends.

Sidharth Saboo and Sunil Gopi (2009) stated that we will also come across merger failures in India and their pre- and post-merger performance analysis. reasons for their failure in accordance with financial attributes During the merger process both the companies will come across the negotiation process in the exchange for purchase consideration and it may lead to delay the commencement of merger. To avoid such delay, both the parties should know performances of others before agreeing for merger and should follow rules and regulations framed under companies act. Successful mergers create value and increases the value of the firm which results in maximizing the shareholder's wealth, this paper conduct research on few mergers in selected sectors and analyses their financial performance, reasons behind their success or failure and its impact on shareholders of both acquirer and target companies as well as impact on Indian economy. It is believed that successful mergers lead to economic development and hence the study is followed.

Statement of the Problem:

Now a days, acquisitions and mergers in India has been increasing in various sectors. To know the performance and profitability analysis of pre- and post-acquisition of firms and to determine the shareholders wealth in such cases, this research is being conducted in selected sectors (telecom & retail sector). There are many mini researches on different sectors on the mergers and acquisitions but not many researches in the retail sectors. The study is focused on the pre- and post-performance of mergers and acquisitions in selected sectors (telecom & retail sector).

Objectives of the Study:

1. To examine overall profitability position of the pre- and post-mergers and acquisitions in selected sectors (telecom & retail sector).
2. To evaluate the liquidity and solvency position of the pre- and post-mergers and acquisitions in selected sectors (telecom & retail sector).
3. To measure the pre- and post-merger operating performance and efficiency of the acquiring firm.

Scope of the Study: - The Study will help in knowing about the mergers and acquisitions in selected sectors (telecom & retail) and is limited to few companies.

Plan of analysis: - Pre and post mergers and acquisitions of selected sectors (telecom and retail sectors).

Industry analysis: - Following indicators will be used
1 Two-way ANOVA
2 Ratio Analysis

Technical analysis: -
a) Profitability ratios: Net profit ratio, return on assets ratio, return on equity ratio, return on capital employed ratio
b) Solvency ratios. Debt-equity ratio, proprietary ratio.
c) Overall performance and efficiency ratios: Operating profit ratio, Operating ratio
d) Equity shareholder's profit ratios: EPS, PE ratio

- Data will be Tabulated and Represented Graphically.
- Hypothesis testing is done.

Hypothesis:

Null Hypothesis: There is no significant difference between the overall profitability position of the pre- and post-merger and acquisition of selected sectors.
Alternative Hypothesis: There is significant difference between the overall profitability position of the pre- and post-merger and acquisition of selected sectors.

Research Methodology:

- **Research design:**

Descriptive and quantitative.

- **Data Collection:** Sources: Secondary data

(Secondary sources: Official websites, net source annual reports, IBA bulletin. Publications. Journals etc.)

The companies taken into consideration for the research are:

- Vodafone - Idea merger
- Airtel - Telenor merger
- Reliance communications & Aircel merger
- Walmart acquisition of Flipkart

Limitation of the study:

- Only operational and financial synergy analysis is taken for the study.
- Only mergers and acquisitions of Indian companies are selected.
- This study is limited to four years before merger and four years after merger only.
- Inherent errors of secondary data may be prevalent in this study.
- Financial analysis should not reject certain facts that cannot be represented in terms of money, such as management effectiveness and business credibility.

Hypothesis Testing

MERGER AND ACQUISITION	**P-VALUE**
idea Pre-merger and Vodafone Idea LTD. Post-merger.	0.241633(>0.05)
Airtel-Telenor Merger	0.128304(>0.05)
Reliance communication and Aircel	0.26480(>0.05)
Walmart and Flipkart Acquisition.	0.257701(>0.05)

INTERPRETATION:

It is observed that, In Telecom Industry the P-value of Vodafone Pre-merger compared with Vodafone LTD. Post-merger is 0.241633 which is less than the significance level (alpha value - 0.05) which enlist the null hypothesis is to be rejected and alternative hypothesis is to be accepted. Therefore, in case Vodafone pre- and post-merger it can be concluded that there is significant difference between the overall profitability position of the pre- and post-merger of Vodafone and Vodafone Idea LTD.
It is observed that the P-Values of all the remaining mergers and acquisitions in telecom industry is greater than the significance level 0.241633 (alpha value 0.05) which implies the null hypothesis is to be accepted and alternate hypothesis is to be rejected. It can be assumed that there is no major difference between the pre- and post-merger overall profitability status and the acquisition of the selected sectors.

Null hypothesis (H0): There is no significant difference between the debt paying capacity debt paying capacity of the pre- and post-merger and acquisition of selected sectors.

Alternative hypothesis (H1): There is significant difference between the debt paying capacity position of the pre- and post-merger and acquisition of selected sectors.

Liquidity and Solvency Ratios:

1. Debt - Equity Ratio- (Total Debt/Total Equity) *100,
2. Proprietary Ratio = (Shareholder's Equity /Total Assets) *100**ANALYSIS OF ANOVA FOR LIQUIDITY AND SOLVENCY RATIOS (TWO-WAY WITHOUT REPLICATION)**

MERGER AND ACQUISITION	P-VALUE
idea Pre-merger and Vodafone Idea LTD. Post-merger.	0.470121(>0.05)
Airtel-Telenor Merger	0.896426(>0.05)
Reliance Communications and Aircel Merger.	0.758779(>0.05)
Walmart and Flipkart Acquisition.	0.568558(>0.05)

Analysis of Anova for liquidity and Solvency Ratios

INTERPRETATION:
It is observed that the P-Values of all the mergers and acquisitions are greater than the significance level (alpha value=0.05) which implies the null hypothesis is to be accepted and alternate hypothesis is to be rejected. Itcan be assumed that there is no substantial difference between pre- and post-merger liquidity and solvency positions and the acquisition of selected sectors.

Findings:

In Telecom Sector:

- The overall financial performance of mergers in telecom sector is low in post-merger when compared with pre-merger.
- There is impact the Post-merger and there is no impact on the profitability position of only Vodafone pre-merger and Vodafone Idea I.TD.
- Post- merger and there is no impact on the profitability position of Airtel Telenor merger, Reliance communications -Aircel merger.
- There is no impact on liquidity and solvency position of all selected mergers and acquisitions Vodafone- Idea merger, Airtel -Telenor merger, Reliance communications -Aircel merger) in this sector.
- There is no impact on Overall performance and efficiency of all selected mergers and acquisitions (Vodafone- Idea merger, Airtel -Telenor merger, Reliance communications - Aircel merger) in this sector
- There is impact on the shareholder's wealth of only Reliance communications and Aircel in pre- and post-merger and there is no impact on the shareholder's wealth of Vodafone- Idea merger, Airtel - Telenor merger.
- As the results showed, the impact of mergers and acquisitions is on Vodafone pre-merger- Vodafone Idea ltd, and Reliance communications - Aircel out of three acquisitions considered.
- It is found that the impact of mergers and acquisitions is better in Telecom sector as there is impact of merger on its profitability and performance on post-merger and acquisition for the mergers considered.

In Service Sector:

- There is no impact in profitability position of all selected mergers and acquisitions (Walmart and Flipkart Acquisition) in this sector.
- There is no impact on the liquidity and solvency position of Walmart and Flipkart Acquisition.
- There is no impact on Overall performance and efficiency of all selected mergers and acquisitions (Walmart and Flipkart Acquisition) in this sector.
- There is no impact on the shareholder's wealth of Walmart and Flipkart Acquisition.
- It is found that the impact of mergers and acquisitions is high in-Service sector when compared with Telecom.

As an overview, it is found that the impact of Mergers and Acquisitions on firm's profitability and performance is high in-Service sector when compared with Telecom sector.

OVERVIEW OF FINDINGS:

Company and Positions	Profitability Position (Pre And Post)	Liquidity and Solvency Position (Pre And Post)
Idea – Vodafone Idea LTD.	No significant difference	No significant difference
Airtel – Telenor Merger	No significant difference	No significant difference
Reliance communications – Aircel Merger	No significant difference	No significant difference
Walmart – Flipkart Acquisition	No significant difference	No significant difference

Conclusion:

- It Can be concluded that there is no major impact of Mergers and Acquisitions in selected sectors.
- From the above analysis, it can be concluded that there is higher impact of Mergers and Acquisitions in Service Sector when compared to Telecom and Service Sector.
- It can be concluded that there is little impact on profitability position and shareholder's wealth in pre and post -merger and acquisition when compared with Liquidity and very position and Overall performance and efficiency.
- As most of the selected companies adopted mergers and acquisitions in recent past there is no much impact within the compatible and on Indian economy.
- As a result, it can be concluded in the Mergers and Acquisition has the less impact in Indian economy in selected sectors

Recommendations:

- Based on the present research it is advisable to different industries that they should adopt various types of Growth strategies such as reorganization and consolidation.
- A company before going into merger, it should estimate the synergy of present and future.
- Finally, on the basis of this research it cannot be assumed that the firm mergers and acquisitions is ineffective practice. Mergers and Acquisitions may improve the financial health of both the firms depending on the strategies adopted.

Bibliography:

moneycontrol.com,capitaline.com,Vodafone.com,idea.com,airtel.com,Telenor.com, reliance.com,Aircel.com,Walmart.com, flipkart.com.

References:

- Shashank, Agarwal, (September 2007), - "Mergers and Acquisitions in Tea Industry: A Case Study," Masters in Finance and Investment at the University of Nottingham, 2007.
- Jarrod McDonald, Max Coulthard, and Paul de Lange, (2005), "planning For a Successful Merger or Acquisition: Lessons from an Australian Study", Journal of Global Business and Technology, Australia. Volume 1, Number 2, fall 2005.
- Menapara. M and Pithadia. V. D (2011), - "A study on financial performance of selected companies during pre-post-Merger and Acquisition", Journal of Research in Commerce & Management.
- Manish Agarwal and Harminder Singh, (2006), "merger announcements and insider trading activity in India: an empirical investigation," Investment Management and Financial Innovations, Volume 3, Issue 3, 2006.

- Orley, Ashenfelter, (2008)," The Effect of Mergers on Consumer Prices: Evidence from Five Selected Case Studies," Princeton University Daniel Hosken, Federal Trade Commissioners Working Paper No. 160, February 2008.
- B Rajesh Kumar and PrabinaRajib, (2007), "Characteristics of Merging Firms in India: An Empirical Examination", Vikalpa, volume 32, no 1, January - march 2007.
- Ashish S. Joshi, (2008), "Mergers and Acquisitions in India: A Primer" the Michigan business law journal —summer 2008.
- Vyas, Vijay H., (2008), An Effect of Merger on Financial Performance of Corporate Sector in India, thesis PhD, Saurashtra University, 2008.
- Jim Hsieh, EvgenyLyandres and Alexei Zhdanov, (2009), "a Theory of Merger-Driven IPOs", University of Lausanne, Lausanne, Switzerland, October 2009.
- B Rajesh Kumar and S Panneerselvam, (2009), "Mergers, Acquisitions and Wealth Creation: A Comparative Study in the Indian Context", IIMB Management Review, September 2009.