An Analytical Study on the Financial Performance of Indian Public Limited Companies before and After M& A Transactions

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ABSTRACT

Mergers and acquisitions have become common practice in the business world. Factors like as cost, demand, sustainability, survival, growth, and profitability drive industries to pursue merger, acquisition, amalgamation, or takeover strategies. In today's competitive environment, the concept of "small is beautiful" may not be effective. The liberalised economic policies have exposed India's industry to a variety of scenarios. Economic activities have evolved throughout time, resulting in many corporate structures. Mergers and acquisitions are a common practice in today's business economy, with many large firms merging throughout time. This research compares the financial performance of public limited firms in India before and after mergers and acquisitions.

Keywords: Financial Performance Acquisitions, mergers, and takeovers Corporate Sector

1. INTRODUCTION

Mergers or amalgamations are the combining of two or more firms into one, in which the merging entities lose their identities. This procedure generates no new investment. However, an exchange of shares occurs between the parties participating in such a procedure. In general, the purchase firm lives, retaining its identity, whereas the selling business is extinguished. As rivalry grows and the economy globalises, mergers and acquisitions play a crucial role in maintaining a competitive advantage.

The world is in flux, impacted by globalisation and rapid technology advances, and as a result, businesses face fierce competition. Firms use inorganic growth strategies such as mergers and acquisitions, strategic alliances, and joint ventures to address difficulties and capitalise on opportunities. Sustainable and successful M&A strategies provide a competitive edge over competitors. Now it is time to see how this method will address the current issue. For more than three decades, mergers and acquisitions have been a source of enormous study potential for both academics and practical managers. The impact of business restructuring and transformation activities on organisational performance is becoming more important due to economic globalisation.

Studies on M&A in India provide a broader framework for assessing the effects of mergers from many perspectives. Over the previous four decades, various research on international mergers and acquisitions have been conducted. Still, there is need for further investigation.

2. Objectives of the study

1. Examine the liquidity of the chosen units using several key M&A metrics.

2. To analyse the profitability status of chosen units in M&A.

3. Suggest some remedial steps to enhance performance following M&A.

3. Review of Literature

Sarangapani and Mamathaa (2012) investigated many significant Indian merger and acquisition transactions. The report analysed recent M&A activity in India to get insight into the strategic purpose underlying it. According to Remya RM (2013), cross-border mergers and acquisitions (M&A) have remained a topic of interest for economists. The changing business climate has given Indian enterprises the potential to expand globally via M&A.

Sarangapani and Mamathaa (2014) investigated many significant Indian merger and acquisition transactions. The research aimed to analyse recent M&A activity in India to better understand the strategic purpose. Anecdotal information from senior management's public utterances in the media was used to analyse M&A intentions. The statistics may be verified by acquiring original data from the particular firms concerned.

Ramakrishnan, K. (2015) supported the idea by analysing the long-term performance of 87 domestic mergers in India. The author suggested that efficiency increased post-merger lending, resulting in synergistic advantages for the combined businesses. Mergers transformed India's formerly uncompetitive and fragmented enterprises into consolidated and operationally viable business units, resulting in synergistic advantages.

In their **2016 research, Manoj Anand and Jagandeep Sing** used event study technique to examine how merger announcements affect shareholder wealth in Indian private sector banks. **Beena (2017)** investigated the impact of mergers and acquisitions on industry concentration levels. The research analysed the effect of pharmaceutical mergers and acquisitions using an exclusive database and various least square regression frameworks.

3.1 RESEARCH GAP

Research indicates that the Indian business has seen an increase in corporate restructuring after liberalisation. Indian corporations may be altering their business structures to boost competitiveness both nationally and worldwide, as well as strengthen key strengths. Previous research on mergers and acquisitions in the Indian business sector has concentrated on various issues, but does not encompass the current sample or time of study. There is significant potential for empirical research on mergers and acquisitions.

4. Research Methodology

4.1 Research design

This study employs both financial ratios and statistical tools to evaluate the performance of public limited companies in mergers and acquisitions (M&A). Specifically, profitability and liquidity ratios, along with statistical techniques, are used to analyze and interpret the data.

4.2 Data Collection

Data has been collected from a sample of public limited companies involved in M&A. The selected companies for this study include:

Companies in Sample: Ambuja Cement, Exide, SFC, Indian Cement, Reliance, Sterlite, Tata Chemical, Tata Steel, Voltas, and Zee Ltd.

4.3 Analytical Tools

4.3.1 Financial Ratios

The study applies two main types of financial ratios:

Profitability Ratios - These include metrics such as return on gross capital employed (ROGCE) to evaluate the profitability of the companies.

Liquidity Ratios - Used to assess the liquidity position and financial stability of each company in the sample.

4.3.2 Statistical Techniques

To further analyze and interpret data, the following statistical techniques are utilized:

Average - To find the central tendency of financial performance.

Index Number - To compare financial data across different time periods.

Standard Deviation - To measure the variation in performance.

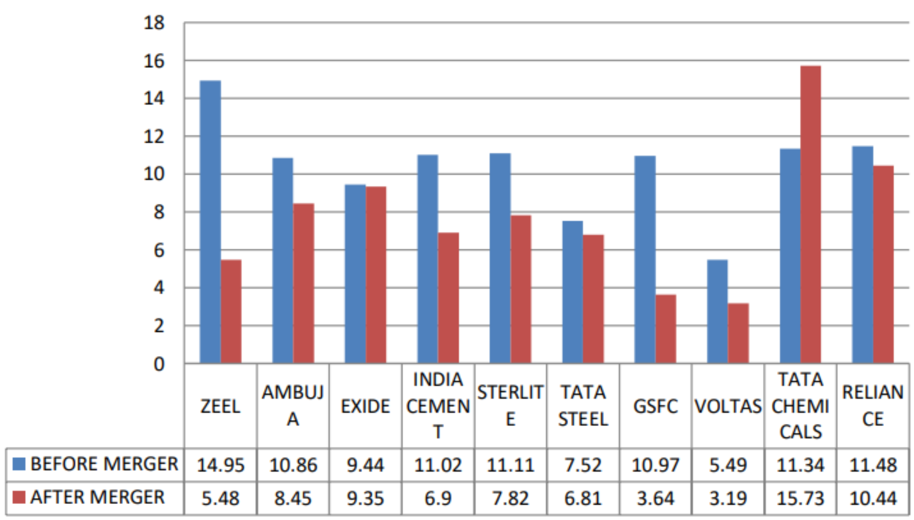
Student's t-test - To test the statistical significance of the results and validate findings.

5. Data analysis and interpretation

TABLE-1 ROGCE RATIO OF SAMPLE COMPANIES

Name of the Industry	Before Merger (P)	After Merger (Q)	Difference (D = Q - P)	Difference Squared (D^2)
Ambuja Cement	10.86	8.45	-2.41	5.8
Exide	9.44	9.35	-0.09	0.0081
GSFC	10.97	3.64	-7.33	53.729
Indian Cement	11.02	6.9	-4.12	16.97
Reliance	11.48	10.44	-1.04	1.089
Sterlite	11.11	7.82	-3.29	10.82
Tata Chemical	11.38	15.73	4.39	19.27
Tata Steels	7.52	6.81	-0.7	0.509
Voltas	5.49	3.19	-2.3	5.29
Zee Ltd.	14.95	5.48	-9.47	88.36
Total	104.22	77.81	$\Sigma D = -26.29$	$\Sigma D^2 = 203.172$
Average	10.422	7.781		

FIGURE-1 ROGCE RATIO OF SAMPLE COMPANIES



According to TABLE-1 and FIGURE-1, Voltas had the lowest rate of return on gross capital employed (5.49%) during the pre-merger era, while Reliance had the highest ROGCE at 14.95%. The average return in the business sector is around 10.422%. Figure 1 displays a variable rate of return on gross capital throughout the pre-merger and acquisition era. During the post-M&A era, Voltas had the lowest ROGCE of 3.19%, while Tata Chemical had the highest at 15.73. The corporate sector has an average ROGCE of around 7.781%. The sample firms' post-M&A financial performance demonstrates a sporadic rate of return.

Figure 1 also depicts the rate of return on gross capital utilised in the post-merger and acquisition phase.

TABLE-2 TRENDS OF ROGCE RATIO OF SAMPLE COMPANIES

Name of the Industry	Before Merger (P)	After Merger (Q)	Trend
Ambuja Cement	10.86	8.45	DECLINING
Exide	9.44	9.35	DECLINING
GSFC	10.97	3.64	DECLINING
Indian Cement	11.02	6.9	DECLINING
Reliance	11.48	10.44	DECLINING
Sterlite	11.11	7.82	DECLINING
Tata Chemical	11.38	15.73	INCREASING
Tata Steels	7.52	6.81	DECLINING
Voltas	5.49	3.19	DECLINING
Zee Ltd.	14.95	5.48	DECLINING

TABLE-2 reveals that all sample firms failed to enhance their financial performance, except for Tata Chemical, which improved in the post-M&A era. The study found that mergers and acquisitions did not increase the financial performance of chosen divisions. The study concludes that the gross capital employed ratio decreases for 9 units, with just one unit showing a positive response.

CALCULATION OF T- TEST

Ho = No significant difference in mean score of ROGCE ratio sample companies

TABLE-3 ANALYSIS OF T - TEST IN SELECTED UNITS UNDER THE STUDY PERIOD RETURN ON GROSS CAPITAL RATIO

N	Mean (D)	S.D. (a)	D.F.	Tc	Tt	Result
10	2.637	3.85	9	2.168	2.262	Ho

At the 5% level of significance, the table value is 2.262, abbreviated as (Tt). The estimated value of T is 2.168, which is used as (Tc), whereas the table value of Tt is 2.262 (at a 5% level of significance). Hence, Tc < Tt.

The estimated value for 't' is smaller than the table value. The Null Hypothesis was accepted. The findings are as expected.

6. Discussion

Mergers and acquisitions do not immediately increase shareholder wealth or profits for merging corporations. Consolidating a firm may help it better adapt to competition, decrease expenses, and flourish in a changing business environment over time. The researcher's analysis found that the financial performance of amalgamated companies declined after purchase.

The assessment suggests that the combination will be successful in both operational and financial terms in the long run. The researcher analysed particular merging scenarios, and the conclusions were consistent. Mergers have shown to be very effective in increasing industry value. Mergers, save in the steel sector, have not resulted in sufficient opportunities for the amalgamated enterprises.

7. Conclusion

The study's general research aims were to evaluate the M&A transactions carried out by a randomly chosen sample of Indian public limited firms, as well as to examine the financial profitability of these companies' financial statements before to and after the M&A transactions. After testing the influence of M&A on these firms' profitability using profitability measures, liquidity ratios, and the statistical technique of the t-test, the research determined how much M&A improved these companies' ROGCE.

The findings revealed that, with the majority of M&As failing to meet expectations, there was a negative shift in enterprises' financial performance as evaluated by the ROGCE after the merger. Tata Chemicals stands out with an increasing trend in profitability, while the rest of the firms saw a decline. The post-M&A t-test analysis of our proxies also evaluated the null hypothesis, which revealed that there was no substantial increase in financial performance after M&A.

However, despite all of the advantages predicted from M&A transactions and possible enhancements in a company's competitive position, the anticipated extra financial gains do not usually occur immediately. This article contributes to our understanding of the impact of mergers and acquisitions on financial performance, and it suggests that future research should look at long-term efficiency and other variables influencing post-merger success.

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