CHAPTER VI: FINDINGS OF THE STUDY

Following are the findings drawn from the analysis of data & its interpretations. This chapter is segmented into three parts i.e. findings of Metals & metal products sector, Machinery sector and overall summery of it.

6.1. METALS & METAL PRODUCTS SECTOR

6.1.1. Liquidity Position

✓ From the analysis of Current Ratio of selected sample acquire firms, 07 out of 10 sample firms Current Ratio has declined in post-merger era. The average mean of all these sample firms’ are declined as compared to pre-merger period i.e. 1.4422 to 1.3591. Ideally it will be greater than 1 & in this case it was more than 1 in pre & post-merger period, which indicates that there are sufficient assets available to pay liabilities after the merger, still it decreased in post-merger period. Hence it confirms that after the merger firms have incurred more debts. Also this ratio will be reflected in the Working Capital position of the firms, are indicating the ability of firms to pay their short-term creditors from the realization of its current assets and without having to resort to selling their fixed assets to do so.

✓ Normally figure of Quick Ratio is always lower as compared to Current Ratio. It is noted that, 06 out of 10 sample firms ratio was decreased & the average mean of Quick Ratio marginally increased in the post-merger compared to pre-merger period i.e. 0.7846 to 0.8074. Ideally this ratio for manufacturing Industry is considered as better when it is in between 0.7 to 1.1. Hence in this case the ratio is in better position & it shows the good financial health of the sample firms, which indicate that the merged firms are having ability to pay their debts as they fall due.

✓ From the analysis, it is noted that 09 out of 10 sample firms Net Working Capital was highly increased in after the takeover by the new management in post-merger period. This means that all sample firms did have sufficient current assets to meet current liabilities, which is a sign of turnaround.

Therefore, from the analysis it is observed that, the liquidity position of the Metals & metal products firms is declined after the merger but it can be said that, it is in better position in post-merger period when it is compared to standard norms.
6.1.2. **Solvency Position**

- It is observed from the analysis of **Total Debt and Equity to Total Assets**, *08 out of 10 sample firms’ ratio is higher after the merger as of pre period but on the other side metals & metal products sector average mean of all sample acquire firms is lower i.e. 0.7406 in pre to 0.8712 in post-merger which normally happens after the merger*. Fundamentally this ratio should be less than one which is there. This means Total Debt both short term & long term and Total equity capital is equal to Total Assets. Which shows proportion of assets is financed by Total Debts as well as Total Equity in post-merger period by this sectors sample firms.

- **Total Debts and Equity to PBITDA** is the combination of Debt & Equity and Profit before Depreciation, Interests, Taxes & Amortization. After examining the result of this ratio, *07 out of 10 sample firms average ratio is found to be increased after the merger whereas average mean of metals & metal products sector is declined i.e. 4.1268 in pre period to -5.5250 in post-merger period*. It indicates there was increment shown in total debt & equity but the PBDITA was not increased rather it was significantly declined in post merger period.

- In case of **Interest Coverage Ratio**, it is found that *02 out of 10 firm’s average ratio is highly increased in post-merger period. Also in case of overall sector of metals & metal products, average mean is increased from 5.8147 in pre to 7.2988 in post-merger period*. Identically this ratio should be at least 1.5 or more & it is observed that, *07 out of 10 firms are able to maintain the higher ratio after the merger as compared to standard*. Therefore it suggests that sample firms are capable to pay its interest on outstanding debts very easily & also afford to take more debts after the merger.

Thus, it has been concluding that, these firms did not achieved better solvency after the merger. In simple words their solvency condition is declined as compared to pre-merger period but it is in good/average when compared to standard norms.
6.1.3. Profitability Position

✓ Operating Profit Ratio, 04 out of 10 sample firms’ ratio is increased in post-merger period and same with Operating Profit Margin. Whereas it is observed that the mean of operating profit of metals & metal products all sample firm is 10.9845% in post-merger period, indicating that average operating margin of Rs.10.98 was earned on sale of Rs.100 in post-merger period. This amount of Rs.10.98 is available for meeting non-operating expenses. In the other words operating profit ratio 10.9845% means that 10.9845% of net sales remains as operating profit after meeting all operating expenses.

✓ Net Profit Ratio & Net Profit Margin, 04 out of 10 sample firm’s average amount is increased in post-merger period as compared to pre period. Hence, from the result it found that the mean of net profit of metals & metal products all sample firms is decreased in post-merger period as like Operating Profit Ratio. It confirms that increased in operating expenses in post-merger period i.e. in pre-merger period it was 4.54 [OPR 11.89 (-) NPR 7.35] & in post-merger period it is 5 [OPR 10.98 (-) NPR 5.98]. Finally it may be conclude that, due merger & acquisition activity the operating expenses has increased & it reflects on decreased net profits of the sample firms in post-merger period.

✓ From the result of Debt-Equity Ratio, 07 out of 10 sample firms ratio is decreased after the merger as well as in case of average mean of metals & metal products sector is also marginally decreased from 1.231 in pre to 1.170 in post-merger period. Thus it is noted that majority of assets are financed through equity in post-merger period.

✓ In case of Net worth & Return on Net Worth, it is observed that all sample firms net worth is significantly increased whereas none of them are able to increase return of net worth in post-merger period as of pre period. Hence it is said that the increased in net worth will help to increase in credit worthiness of them in post period. Further it is concluded that due to merger & acquisition the amount of net worth is significantly increased but then merged firms were not able to get required returns on net worth after the merger.

✓ Return on Investment, 07 out of 09 sample firms’ ratio is declined in post-merger period. In case of the average mean return of investment of metals &
metal products all sample firms is decreased (7.3136 in pre & 4.4020 in post-merger period). Therefore, it is said that the leverages the investment is decreased in post-merger period. Also the operating as well net profit is decline in post-merger period is one of the reasons for the declined in this ratio.

✓ Return on Capital Employed, 07 out of 09 firms is decreased in post merger period. Also same with the average mean return of capital employed of metals & metal products all sample firms is decreased (11.376 in pre & 6.699 in post-merger period). It seems that these firms after the merger showed inefficiency in using their funds & also reveals that management has shown inefficiency in using the investment and creditors into the business.

It is concluded that the performance of profitability parameters are unsatisfied in post-merger period as of pre period. Hence it can be noted that since merger were found to negatively impact on the performance in terms of profitability as well as in returns.

6.1.4. Business Expansion Activities

✓ All sample firms average mean of Capital Formation is increased during the post-merger period. It reveals that, a good sign because sample companies after merger improved their capacity. Whereas in case of Increased Investment in Fixed Assets, 07 out of 09 sample firms average amount of increased investment in fixed assets by merged firms is greater during post-merger period than that of pre-merger period.

It is a clear proof that, metals & metal products sectors firms have undertaken expansion or modernization through increasing their investment in fixed assets and further their attempt after merger turn around positively.

6.1.5. Types of Merger

It has been observed that, 6 firms are going for Product extension merger while 2 firm each for Horizontal & Vertical merger.
6.2. MACHINERY SECTOR

6.2.1. Liquidity Position

✓ Examining the results of Current Ratio of selected sample acquire firms of Machinery sector, 05 out of 15 sample firms Current Ratio are increased in post-merger era. The average mean of these entire sample firms are significantly declined as compared to pre-merger period i.e. 1.706 to 0.234, which indicate that there are insufficient assets available to pay their liabilities after the merger, due to average mean of this ratio is drastically decreased in post-merger period and it is noted that after the merger firms are incurred more debts which may be reflected in the Working Capital position of the firms & it shows the incapability to pay its short-term creditors from the realization of its current assets.

✓ The Quick Ratio is always lower as compared to Current Ratio. It have been observed that, 09 out of 15 sample firms ratio was decreased & the average mean of Quick Ratio marginally decreased in the post-merger compared to pre-merger period i.e. 0.849 to 0.794. Basically this ratio is considered as better when it is in between 0.7 to 1.1 for manufacturing Industry and in this case it is observed that this ratio is declined in post-merger but still is in better position & it shows the good financial health of the sample firms, which indicate that the merged firms are having ability to paying its debts as they fall due.

✓ From the analysis, it is found that 08 out of 15 sample firms Net Working Capital was highly increased in after the takeover by the new management in post-merger period. This means that all sample firms did have sufficient current assets to meet current liabilities, which is a sign of turnaround.

Therefore, from the analysis it is observed that, the liquidity position is declined of the Machinery firms but it can be said that it is normal in post-merger period when compared to standard norms.
6.2.2. **Solvency Position**

- Basically this ratio should be less than one. Results of analysis of **Total Debt and Equity to Total Assets** ratio of selected sample firms of Machinery sector, *09 out of 15 sample firms achieved growth in this ratio after the merger as compared to pre period but on the other side machinery sector average mean of all sample acquire firms is marginally higher (0.2619 in pre to 0.2583) after the merger.* It is said that they are able to cover their total debt and equity by total assets also in post-merger period.

- After studying the results of **Total Debts and Equity to PBITDA**, *11 out of 15 sample firms average ratio is declined after the merger while average mean of machinery sector is slightly improved from 4.1433 in pre period to 4.5463 in post-merger period*, which confirms that the growth in ratio of total debts & equity to PBITDA after merger have been due to addition of assets to the acquiring firms.

- In case of **Interest Coverage Ratio**, it is found that *04 out of 14 firm’s average ratio is highly increased in post-merger period.* Also in case of overall sector of metals & metal products, average mean is increased from 47.688 in pre to 49.440 in post-merger period. It is observed that *09 out of 11 firms are able to maintain the higher ratio after the merger as compared to standard.* Therefore it suggests that sample firms are capable to pay its interest on outstanding debts very easily & also afford to take more debts after the merger.

Hence, it has been found that, machinery sector is able to achieve better solvency after the merger but the sample firms from machinery sector did not achieve better solvency in post-merger period. In simple words their solvency condition is declined as compared to pre-merger period but it is in good / average position when it has been compared to standard norms.
6.2.3. **Profitability Position**

- **Operating Profit Ratio**, 12 out of 15 sample firms’ ratio is increased in post-merger period, while Operating Profit Margin (13 out of 15 sample firms’). Whereas it is observed that the average mean of operating profit of machinery sector is marginally decreased from 8.006 in pre-merger to 7.625% in post-merger period, which signifying that average operating margin of Rs.7.625 was earned on sale of Rs.100 in post-merger period. This amount of Rs.7.625 is available for meeting non-operating expenses. In the other words operating profit ratio 7.625% means that 7.625% of net sales remains as operating profit after meeting all operating expenses.

- **Net Profit Ratio & Net Profit Margin**, 08 out of 15 firm’s average amount is increased in post-merger period as compared to pre period. But, it observed that the average mean of net profit of machinery sector is marginally declined from 4.131 in pre-merger to 4.009 in post-merger period as like Operating Profit Ratio. It confirms that increase in operating expenses in post-merger period i.e. in pre-merger period it was 3.875 [OPR 8.006 (-) NPR 4.131] & in post-merger period it is 3.616 [OPR 7.625 (-) NPR 4.009]. Finally the researcher concludes that, due to merger & acquisition activity the operating expenses marginally decreased & it reflects on net profits of the sample firms in post-merger period.

- Observing the result of Debt-Equity Ratio, 09 out of 15 sample firms ratio is increased after the merger but in case of average mean of machinery sector is marginally decreased from 0.576 in pre to 0.676 in post-merger period. Thus it is noted that majority of assets are financed through equity in post-merger period.

- It has been noted from the results of **Net worth** that all sample firms net worth is significantly increased & while in case of **Return on Net Worth**, 08 out of 15 sample firms have achieved growth in return of net worth in post-merger period as of pre period. Hence it is said that the increase in net worth will help to increase in credit worthiness of them in post period. Further it is concluded that due to merger & acquisition the amount of net worth is significantly increased but then merged firms did not able to get required returns on net worth after the merger.
It is found that, 08 out of 15 sample firms Return on Investment are improved in post-merger period. In case of the average mean return of investment of machinery sector all sample firms is also marginally improved (7.913 in pre & 8.604 in post-merger period). Therefore, it is said that the leverages the investment is increased in post-merger period. Also the operating profit (11 out of 15 firms’) as well net profit (09 out of 15 firms’) is marginally improved in post-merger period and is one of the reasons for the showing marginal improvement in this ratio.

Exporting the result of Return on Capital Employed, it has been found that 08 out of 15 firms are shown growth in post-merger period. Also same with the average mean return of capital employed of machinery sector all sample firms have increased (15.178 in pre & 17.046 in post-merger period). It confirms that these firms after the merger is showed efficiency in using its funds & also reveals that management has shown efficiency in using the investment and creditors into the business.

Thus it suggests that the performance of profitability parameters are satisfied in post-merger period as of per period. Hence it can be noted that since merger were found to have positive impact on the performance in terms of profitability as well as in returns.

6.2.4. Business Expansion Activities

It is found that all sample firms average mean of Capital Formation is increased during the post-merger period. It reveals that, a good sign because sample companies after merger improved their capacity. But in case of Increased Investment in Fixed Assets, 12 out of 14 sample firms average amount of increased investment in fixed assets by merged firms is greater during post-merger period than that of pre-merger period.

Evidence from the result indicates that, machinery sector sample firms have undertaken expansion or modernization through increasing their investment in fixed assets and further their attempt after merger turn around positively.
6.2.5. **Types of Merger**

It has been observed that, 7 firms are going for Product extension merger while 4 firm for Horizontal merger, 3 for Vertical merger and 1 for conglomerate merger.

6.3. **SUMMARY**

- Liquidity position of Metals & Metal Products sector and Machinery sector & their respective selected sample firms liquidity parameters are declined after the merger but it can be said that it is in better position after merger period when it compared to standard norms.
- From the evidences, it clearly proved the Metals & Metal Products sector and selected sample firms are not achieved solvency in post-merger period. While on the other hand, Machinery sector is achieved better solvency but selected firms did not achieved solvency in post-merger period as compared pre-merger. Finally for all concludes that, it is in good position when compared to standard norms.
- It is noted that, merger were found to negatively impact on the performance in terms of profitability as well as in returns in case of Metals & Metal Products sector and sample firms. Whereas, merger were found to positively impact on the performance in terms of profitability as well as in returns in case of Machinery sector & their respective selected sample firms.
- The selected merged firms from both sector Metals & Metal Products and Machinery sector are undertaken expansion or modernization of their business activities after the merger.
- Finally it can be concluded that, merger & acquisition shatter positively as well as negatively on the entire firms after the take place.