9.1 Summary of Research Work

The economic reforms in India since 1991 have opened up new vistas to the corporate entities both in the domestic and international spheres. These entities over the past decade, while benefitting from decontrol and deregulation, are coming out with different corporate strategies to survive and to achieve competitive advantage. The scaling down of the import barriers and entry of multinationals have ushered a new mantra “beat them or join them”. Increased globalization and high degree of technological innovations are also attributable to this present situation. Competition has now become global and companies are competing in both domestic and global markets in order to maintain their competitive edge.

In the present competitive global business environment, growth is regarded as the fulcrum of every business and there is tremendous competition among corporate entities to eclipse their competitors and emerge as market leader through charting out an aggressive growth path. Growth can be achieved either internally or externally. Generally, the internal growth is attained by means of increased investment, leading to higher turnover which leads to maximum earnings and higher retained profits. The external growth, on the other hand, is accomplished by corporate restructuring through mergers and acquisitions (M&As). The latter option is considered to be the better option to the corporate entities in achieving the objective of growth. The concept has become an integral part of most of the business houses and aims at business restructuring, increasing competitiveness and shareholders’ value via enhanced efficiency. Synergy is popularly cited as one of the prime reasons for planning mergers.

Almost all the major sectors of the economy, during the last few years, have witnessed the entry of multinational companies (MNCs) and instead of setting up new units; they prefer to acquire either existing companies or capacities. A
significant number of Indian corporate entities, unable to withstand the fiercely competitive environment, have found an easy and lucrative way to sell their assets to those MNCs. Changes in business environment also pose serious challenge to the methods of operations practiced by the corporate entities and have compelled them to reconsider the ways in which they previously operated. The new environment demands that the businesses either maintain their status quo or grow. With growth becoming pivotal to the new economic environment, M&As are gaining increasing importance as means of corporate growth.

The Indian pharmaceutical industry is at present in the front rank amongst the developing nations with wide ranging capabilities in the complex field of drug manufacturing and technology used. The sector is unique as it traverses across geographies. Moreover, as health has no boundaries, this very boundary-less nature supports consolidation in this industry. With the easy availability of capital and increased global interest in the pharmaceutical industry, the sector has become one of the favourite routes for M&As. After traversing the learning curve through partnerships and alliances in the domestic industry as well as with international pharmaceutical firms, Indian pharmaceutical companies have now moved a step forward in the value chain and are now looking for a different route for growth through acquisitions. Many top and mid-tier Indian companies have gone for building up critical mass in international markets. Also, given the easy access to global finance, the Indian companies are also finding it easier to fund their acquisitions. Over the past few years several Indian companies have targeted developed market in their pursuit of growth. Companies such as Ranbaxy, Wockhardt, Cadila, Matrix and Jubilant have made one or more international acquisitions, while others are also scouting for potential targets. Besides gaining a faster entry into the target market, one of the basic strategies behind the acquisitions remains that of leveraging India’s low cost advantage by shifting the manufacturing base to India.

In this backdrop, the present study was a humble attempt to examine the post-merger performance of some selected Indian pharmaceutical companies that have gone through the process of M&As during 2000 to 2007 in order to observe
whether the process of M&As had any significant impact on the post-merger operating and financial performance of the acquirers.

The present research work has two aspects - exploratory and empirical. Exploratory part deals with theoretical discussion regarding different concepts associated with corporate restructuring, M&As as one of the techniques of corporate restructuring, M&As as is used by the global corporate entities as one of the growth strategies for survival, overall trends of M&As in the Indian corporate sector, regulatory framework as framed by the Companies Act and Securities and Exchange Board of India (SEBI) for M&As in India and major M&As that have taken place in the Indian Pharmaceutical Sector during recent past.

The empirical part of the research work deals with evaluation of the post-merger performance of some selected Indian pharmaceutical companies during 2000 to 2007 from various financial standpoints.

9.2 Observations Related to Exploratory Work

In Chapter: 2 we have given a conceptual understanding of the term 'Corporate Restructuring' and discussed about its various forms. We found that corporate restructuring refers to a broad array of activities that expand or contract a firm's operations or substantially modify its financial structure or bring about a significant change in its organizational structure and internal functioning. Thus, the concept encompasses four distinct groups of activities viz. expansion, contraction, financial restructuring and organizational restructuring.

The objectives behind such restructuring process were found to be expanding the business or operations of the company, carrying on the business of the company more economically and efficiently, reducing cost by deriving the benefits of economies of scale, obtaining tax advantage by merging a loss making company with a profit making one, accessing better technology, achieve better market share, establishing oneself as a globally competitive entity and eliminating competition between companies.

Amalgamation by way of M&As, different forms of takeovers viz. friendly takeover, bailout takeover and hostile takeover, purchase of a division or plant,
different forms of business alliances viz. joint venture, strategic alliance, equity partnership, licensing, franchising alliance and network alliance, spin-off, split-up, hive-off, equity carve out, financial restructuring, going private, management buyout and leveraged buyout were found to be the common forms of corporate restructuring.

In Chapter: 3, we have made a theoretical discussion on concept of M&As and various issues related to M&As. We found that, the terms 'amalgamation', 'merger' and 'acquisition' are often used interchangeably. However, technically they differ from each other. Amalgamation is a combination of two or more companies which can be done either by way of merger or by way of acquisition (or absorption). Merger is the process where two or more companies dissolve their identity to form a new entity (known as amalgamated firm), which takes over all the assets and liabilities of the dissolved firms (known as amalgamating firms). The shareholders of the amalgamating firms become the shareholders of the amalgamated firm. Acquisition (also called absorption), on the other hand, as the name suggests, is the acquisition of a company by another company to form larger entity. Asset and liabilities of the firm that went into liquidation (called the target) are acquired by the surviving firm (called the acquirer) at a price mutually agreed upon. Cash, ordinary shares, loan stock or convertible loan stock or any combination of these were found to be the major methods of payment of purchase consideration in a M&A transaction. The steps involved in a process of M&A were also discussed in brief.

Mergers and acquisitions can be of different types viz. horizontal mergers (merger of two or more companies competing in the same market, e.g. merger of two oil companies or two solid waste disposal companies), vertical mergers (merger of two or more companies producing different goods or services for one specific finished product, e.g. a car manufacturer purchasing a tyre company), conglomerate mergers (merger of companies in unrelated lines of business activities to achieve the objectives of product extension, entry into new geographic segments, entry into unrelated yet profitable businesses etc.), and reverse mergers (involves acquisition of a financially strong or a large-sized company by a financially weak or a small-sized company like merger of Corus with Tata).
Acceleration of growth of a company, particularly when its internal growth is constrained due to paucity of resources, enhancement of profitability due to cost reduction and efficient utilization of resources because of achievement of economies of scale, capacity of the merged firm to withstand the severity of the unforeseen economic factors which could otherwise endanger the survival of the individual companies, bringing stability of cash flows which in turn reduces the risk of insolvency and enhances the capacity of the new entity to service a larger amount of debt, limiting the severity of competition by increasing the company’s market power were pointed out as some of the benefits that a merged entity enjoys.

The most common reasons that can be attributed to the failures of mergers were found to be lack of proper post-merger planning and implementation of strategies adopted, failure to compensate the high costs of business consolidation (professional fees of bankers, lawyers, advisors, paperwork etc.), flawed intention in terms of unethical motivation or high expectations, entering into merger agreements based completely on the optimistic stock market conditions, lack of efficient management to unite different organizational cultures, conducting takeovers without proper audit of the financial affairs of the target company, differences of opinion and ego clash among the directors who sit in a common board room after merger, spending too much time on new activity neglecting the old activity by the acquirer etc.

In Chapter: 4, we have discussed M&As in global perspective. Looking at the global M&A history, a steady rhythm of merger waves had been observed. Like ocean waves, they rose to a peak and then crashed to the ground, with regularity. The 1980s buyout boom was driven by strong post-1982 economic growth, the creation and growth of the junk bond market which provided the funding for the leveraged buyouts and rising equity values. In 1988 Kohlberg, Kravis & Roberts (KKR) completed a leveraged buyout of US $ 25 billion acquisition of RJR Nabisco. It was both the high water mark and a sign of the beginning of the end of the 1980s buyout boom which eventually crashed in early 1990s due to rising interest rate and recession. The next M&A wave in the late 1990s was stimulated by economic recovery, lowering down of interest rates and lenient enforcement of anti-trust laws. During this wave, the global telecommunications, oil and gas, electronics, hardware
and financial sectors were reshaped by M&As. The collapse of the technology bubble, higher interest rates and the 2001 recession took the winds out of this M&A boom. However, the M&A activities turned around in 2003 and took a big leap since then with recovery of the global economies and reduction in the rate of interest to record low by the US Federal Reserve. Debt financing was readily available and no company seemed to be too large to be a target. This time, however, acquisitions covered a wider range of sectors viz. telecommunications, financial services, utility, pharmaceuticals etc. The year 2007 had witnessed the highest total deal values of all global M&As comprising US $ 4.27 trillion with as many as 46644 number of deals. The global meltdown of financial institutions and the global recession in 2008 and 2009 had evidently curtailed this M&A boom. M&A activity rebounded significantly in 2010 and 2011, ending the decline that began in 2008 and continued through 2009. Although showing a marked improvement over the 2008 and 2009 numbers, M&A activity has yet to return to the record setting level of 2007.

The major M&As that have taken place in the history of international M&As were found to be the merger of British Petroleum (BP) with Amoco in 1998, the acquisition of Air Touch Communications by the Vodafone Group in 1999, the merger of Exxon with Mobil in 1999, the acquisition of Warner-Lambert by Pfizer in 1999, the acquisition of Mannesmann AG by Vodafone Air Touch PLC in 2000, the acquisition of Time Warner Inc. by America Online Inc. in 2000, the acquisition of Compaq by Hewlett-Packard in 2002, the acquisition of Banc One Corporation by JP Morgan Chase & Company in 2004, the acquisition of Shell Transport & Trading Company by Royal Dutch Petroleum Company in 2005, the acquisition of Bell South Corp by AT&T Inc. in 2006, the acquisition of ABN AMRO Bank by Royal Bank of Scotland et al. in 2007, acquisition of Jaguar and Land Rover from Ford Motors by Tata Motors in 2008, the acquisition of Wyeth by Pfizer Inc. in 2009, the acquisition of American Life Insurance Company by Metlife Inc. in 2010, the acquisition of Synthes GmbH by Johnson & Johnson in 2011 etc.

The M&As in the global pharmaceutical sector during 2000 to 2011 showed a total deal value of around US $ 1000 billion. Geographically, the US, Canada, England, Germany, Switzerland and France were found to be the home to the acquirers with respect to a number of deals with the leading target companies belong
to developed and developing countries. GlaxoSmithKline was responsible for the largest of the pharmaceutical M&As during the period of study. Glaxo Wellcome announced a US $74 billion merger with SmithKline Beecham in 2000, resulting in the entity known as GlaxoSmithKline. Other notable pharmaceutical M&As during the period were Pfizer’s acquisition of Wyeth in 2009 and Pharmacia in 2002, Sanofi Synthelab’s acquisition of Aventis in 2004, Johnson & Johnson’s acquisition of Synthes GmbH in 2011, Pfizer’s consumer healthcare unit in 2006 and ALZA Corporation in 2001, Teva’s acquisition of Ivax Corporation in 2005 and Barr Pharmaceuticals in 2008, Abbott’s acquisition of Knoll Pharmaceuticals in 2000 and Solvay Pharmaceuticals in 2009, Sanofi-Aventis’ acquisition of Genzyme Corporation in 2010 etc.

In Chapter: 5 we have presented the Indian scenario of M&As. It was found that the concept of M&As in India was not much popular until 1988 because of the regulatory and prohibitive provisions of MRTP Act, 1969, which stated that a company or a firm has to follow a pressurized and burdensome procedure to get approval for M&As. The year 1988 witnessed one of the oldest business acquisitions by Swaraj Paul to overpower DCM Ltd. and Escorts Ltd. Until up to a couple of years back, the news that Indian companies acquired American and European entities was very rare. Now these days, the scenario has completely been changed with increasing competition and globalization of business. Buoyant Indian economy, extra cash with Indian corporate houses, Government policies and newly found dynamism in Indian businessmen have all contributed to this new acquisition trend. It is believed that India has now emerged as one of the top countries in the arena of M&As.

Going through the M&As trend over the last 10 years, it is found that the growth in M&A activity in India has taken its momentum from the year 2004 and reached to its peak in terms of deal value (US $ 51 billion) in 2007. In fact, 2007 would be remembered in India’s corporate history as a year when Indian companies had covered a lot of new ground. They went on shopping spree across the globe and made a number of significant cross-border acquisitions. During the years 2008 and 2009, due to global economic meltdown and heavy financial crisis the M&A activity in India have significantly decreased. In 2008, total deal value was US $ 31 billion
as compared to US $ 42 billion in 2007. The scenario has even further deteriorated in 2009 with a staggering deal value of only US $ 12 Billion. With the recovery of stock markets and the economy as well, the year 2010 witnessed a comeback of the Indian economy with a bang with a deal value of US $ 50 billion. Though there was a marked improvement over the 2008 and 2009 figures, Indian M&A activity had yet to return to the record setting level of 2007. In 2011, however, there is a decline in deal value because of the fact that cross-border inbound M&As has increased as compared to outbound deals.

A review of recent (2007 to 2011) sectoral trends has also been carried out where it is found that the sectors in which significant M&As took place in the stated period are oil & gas, pharmaceuticals, metals, telecom, banking & financial services and IT & ITes.

Tata Steel’s acquisition of Anglo-Dutch giant Corus in 2007, Bharti Airtel’s acquisition of Zain of Africa in 2010, Aluminium and Copper major Hindalco’s acquisition of Canadian company Novelis in 2007, Tata Motor’s acquisition of Jaguar and Land Rover from Ford Motors of UK in 2008, Mundra Port’s acquisition of Abbott point port of Australia in 2011, ONGC’s acquisition of Imperial Energy of UK in 2008, Hinduja Group’s acquisition of Belgian banking and Insurance group KBC’s banking arm KBL European Private Bankers in 2010, Suzlon Energy’s acquisition of Germany based Repower in 2007, Sterlite Industries India Ltd.’s acquisition of Asarco Inc. of US$ in 2009 and Essar Steel Holdings Ltd.’s acquisition of Canadian Algoma Steel Inc. in 2007 were considered to be the top billion dollar overseas acquisitions made by the Indian companies.

In Chapter: 6 we have discussed about regulatory framework governing M&As in India under the broad heads of Accounting Standard-14 (AS-14), Accounting for Amalgamation, issued by The Institute of Chartered Accountants of India (ICAI), The Companies Act, 1956, Securities laws, The Competition Act, 2002, Exchange controls and Tax Laws.

As per explanations given in Accounting Standard-14 (AS-14), Accounting for Amalgamation, issued by The Institute of Chartered Accountants of India (ICAI), amalgamations fall into two broad categories viz. amalgamation in the
nature of merger and amalgamation in the nature of purchase. In amalgamation in the nature of merger, there is a pooling of both assets and liabilities of the amalgamating companies as well as of shareholders’ interests and the businesses of these companies. The accounting method applicable for amalgamation in the nature of merger is called pooling of interests method. On the other hand, in an amalgamation in the nature of purchase, one company acquires another company but the shareholders of the acquired company usually do not get a proportionate share in the equity of the combined company or the business of the acquired company is not intended to be continued. The accounting method applicable for amalgamation in the nature of purchase is called purchase method. As per the standard, to qualify as an amalgamation in the nature of merger, certain conditions are to be fulfilled. Otherwise, an amalgamation will be treated as an amalgamation in the nature of purchase.

Companies in India are registered and regulated under the provisions of the Companies Act, 1956 which applies uniformly across India. The act stipulates the fundamental statutory framework for the investment into, transfer, purchase and sale, winding-up and liquidation of companies. Though the term ‘merger’ is not defined under the act, however, provisions dealing with schemes of arrangement or compromise between a company, its shareholders and its creditors for the purposes of reconstruction, amalgamation and combination transactions are thoroughly dealt with. The general law relating to M&As is embodied in section 391 to 396 of the act and hence, a merger in India has to comply with the provisions of these sections.

The securities market is regulated by the Securities and Exchange Board of India (SEBI), established under the SEBI Act, 1992 and the guidelines, rules and regulations made under the act. In relation to acquisitions, the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997 (SEBI Takeover Code) regulate the acquisition of shares and takeovers of listed companies. Further, companies that are listed on the stock exchanges also have to comply with the requirements of the listing agreements entered into with the stock exchanges on which they are listed. The SEBI Act and SEBI Regulations (including the SEBI Takeover Code) apply uniformly across India. Under the SEBI Takeover Code, the acquisition of shares or voting rights of a public listed company over the prescribed
percentage triggers the obligation to make a public offer to acquire a prescribed minimum amount of shares from the public shareholders of the company.

The government enacted the Competition Act, 2002, (Competition Act) to replace the Monopolies and Restrictive Trade Practices Act, 1969 (the MRTP Act). The Competition Commission of India (CCI) has been established to control anti-competitive agreements, abuse of dominant position by an enterprise and for regulating certain combinations. One of the major changes brought in by this legislation is the pre-merger notification procedure in cases where certain thresholds are exceeded in relation to turnover and market share.

For cross-border business combinations and transactions, the implications under the Foreign Exchange Management Act 1999 (FEMA) and the regulations issued there under by the Reserve Bank of India (RBI) will have to be considered. The regulations issued under the FEMA also govern any outbound acquisition by Indian companies.

Tax considerations may be crucial to the transaction, particularly in the context of a slump sale or ‘cherry picking’ of the assets. The Indian Income Tax Act, 1961 (ITA), as amended by the Finance Act enacted every year, is the key legislation in this regard. The ITA also provides for certain beneficial tax treatment to mergers, subject to the fulfillment of certain prescribed conditions.

In Chapter: 7 we have discussed about M&As in Indian Pharmaceutical Sector. It has been found that many top and mid-tier Indian companies have gone for building up critical masses in international markets. Also, given the easy access to global finance, the Indian companies are also finding it easier to fund their acquisitions. Over the past few years several Indian companies have targeted developed market in their pursuit of growth. Indian companies such as Ranbaxy, Wockhardt, Glenmark, Jubilant Organosys, Nicholas Piramal, Matrix Laboratories, Aurobindo Pharma, Cadila Healthcare, Dr. Reddy’s Laboratories, Sunpharma, NATCO Pharma and a few others made international acquisitions in areas of generics, marketing, custom synthesis, contract research, pharmacies, manufacturing assets, while others are also scouting for their potential targets. Besides gaining a faster entry into the target market, one of the basic strategies behind the acquisitions
remains that of leveraging India’s low cost advantage by shifting the manufacturing base to India.

It was also observed that, before 2006 no clear trend in number of M&A deals in the Indian Pharmaceutical Industry was noticed. The number of M&A deals in this sector had touched the highest of 103 in 2007. In 2008, the number was slightly reduced to 93. The year 2009 and 2010 were the corrective years for the Indian economy as a whole after the global economic meltdown. This had curtailed the number of M&A deals significantly in this sector as well. Although there is an improvement in the scenario in 2011 over 2009 and 2010 figures, M&A activity in the Indian pharmaceutical industry has yet to return to the record setting level of 2007. Some major inbound and outbound M&As involving Indian pharmaceutical companies were also accounted for in this chapter by giving brief description for each case. Examples include Dr. Reddy’s Laboratories’ acquisition of Betapharm, Sun Pharmaceutical’s acquisition of Taro Pharmaceuticals, Ranbaxy Laboratories’ acquisition of Terapia amongst the outbound deals and Daiichi’s acquisition of Ranbaxy, Abbott’s acquisition of domestic formulation business of Piramal Healthcare and nutrition business of Wockhardt, Sanofi-Aventis’ acquisition of Shantha Biotech, Mylan Laboratories’ acquisition of Matrix Laboratories amongst the inbound deals.

9.3 Findings of Empirical Research Work

The research project endeavours to make an evaluation of the post-merger performance of some selected pharmaceutical companies in India.

The analytical part, in this thesis, is subdivided into two parts viz. (1) Company Specific Analysis and (2) Ratio Specific Analysis.

Under company specific analysis, first, the selected companies are taken up for study individually. Then, all the stated 18 financial parameters are calculated for each company separately for three years prior to and three years subsequent to the merger year. These financial parameters are then compared with respect to different time-points during pre and post-merger period and on an overall average basis to identify any significant improvement during the post-merger period. Population proportion tests have been conducted company-wise to see whether majority of the
financial parameters taken up for study have been improved during post-merger period. Since, the sample size is small (only 18 financial parameters) exact binomial tests are conducted in place of z-test.

Under Ratio specific analysis, since the selected sample includes companies engaged both in domestic and cross-border acquisitions, first we have conducted the non-parametric Mann-Whitney test for each of the 18 financial parameters to see whether there is any significant difference between the averages of the companies went for domestic acquisitions and the companies went for cross-border acquisitions as far as a particular financial parameter is concerned. Based on the results of the Mann-Whitney tests, the performance of these companies are evaluated by applying the non-parametric Wilcoxon signed rank test to observe whether there is any significant improvement in the post-merger financial performance of the acquirer companies. At the time of conducting the Mann-Whitney test, if any significant difference is found between the two sets of companies, the Wilcoxon signed ranks tests are performed separately to evaluate their post-merger performance. Otherwise, ratio-wise performances of all the 17 acquirer companies included in the sample are evaluated together.

The outcome of the statistical tests, conducted on the selected firms from various standpoints and based on different financial parameters, are summarized below:

❖ While conducting various time-point comparisons and comparison on an average basis of the financial parameters under each company, we noticed that only in case of 2 companies (out of 17) namely Dabur India Ltd. and Unichem Laboratories Ltd., significant number of comparisons (as per exact binomial test at 5% level of significance) showed overall improvement during post-merger period. In case of rest 15 companies, number of comparisons which showed improvement during post-merger period were found to be insignificant as per exact binomial test at 5% level of significance.

❖ While conducting the company-specific analysis to find out the number of companies for which overall improvement has taken place post-merger under each basis of comparison (9 time-point comparisons and 1 periodic comparison on an
average basis), we observe that such number ranges in between 3 to 11 for various bases of comparison. None of these numbers are significant as per exact binomial test at 5% level of significance.

❖ As per the results of Non-Parametric Mann-Whitney test, in case of 11 parameters viz. Gearing Ratio, Capital plus Short-Term Debt / Total Debt, Equity to Total Liabilities, Interest (& Dividend) Coverage Ratio, Cash Debt Service Coverage Ratio, Pre-Tax Interest Coverage Ratio, Current Ratio, Profitability Margin, Operating Profit Margin, OCF to Sales and Net Cash Accrual to Total Debt, no significant differences are being found between the averages of those companies went for domestic acquisitions and that for cross-border acquisitions over the period of the study. In case of the remaining 7 parameters viz. Capital to Long-Term Debt, Tangible Net Worth, Return on Capital Employed, Return on Net Worth, Operating Cash Flow (OCF) to Total Assets, OCF to Long-Term Debt and OCF to Total Debt, significant differences are being found between the averages of the two sets of companies over the period of the study.

❖ As per the results of the Non-Parametric Wilcoxon Signed Rank Tests applied for ratio specific analysis, we have noticed that most of the financial parameters have not shown any considerable improvement over the post-merger period as compared to the pre-merger period. These parameters are:

a. Capital plus Short-term Debt to Total Debt Ratio,
b. Equity to Total Liabilities Ratio,
c. Interest (& Dividend) Coverage Ratio,
d. Pre-Tax Interest Coverage Ratio,
e. Current Ratio,
f. Net Cash Accrual to Total Debt Ratio,
g. Return on Capital Employed Ratio (for both domestic and cross-border groups),
h. Return on Net Worth Ratio (for both domestic and cross-border groups), and
i. Operating Cash Flow to Long-Term Debt Ratio (for both domestic and cross-border groups)
j. Capital to Long-term Debt (for cross-border group)
k. Operating Cash Flow to Total Debt (for domestic group)
In few cases post-merger improvement has been observed after one or two years from merger. However, such situation seems only short-lived and their sustainability is questionable over the long-run. These parameters are:

a. Tangible Net Worth (for cross-border group),
b. Cash Debt Service Coverage Ratio,
c. Profitability Margin,
d. Operating Cash Flow to Total Assets (for domestic group) and
e. Operating Cash Flow to Total Debt (for cross-border group)
f. Capital to Long-term Debt (for domestic group)

In respect of other cases it is found that there is noteworthy improvement in performance post-merger only after three years from merger year. However, sustainability of such improvements cannot be confirmed as the study is restricted to three post-merger years only. These parameters are:

a. Operating Profit Margin
b. Operating Cash Flow to Sales
c. Operating Cash Flow to Total Assets (for cross-border group)

d. Operating Cash Flow to Total Assets (for domestic group)

Indications of sustainable post-merger improvement are rarely observed. [only in case of Gearing Ratio and Tangible Net Worth (for domestic group)]

In conclusion, it may be stated that, the overall position of the selected pharmaceutical companies included in the sample have not been significantly improved during post-merger as far as these financial parameters are concerned except for one or two isolated cases. Thus the study establishes the fact that the selected companies can barely make any significant financial synergy out of the acquisitions made by them.

9.4 Limitations of the Study

Inspite of giving our best efforts, the study suffers from the following limitations:

The study is limited to a sample size of 17 companies only which have undergone M&As during the period 2000 to 2007. Inclusion of more number of sample units might have produced different results.
❖ Only three years’ pre-merger and post-merger data are undertaken for the study. Consideration of a longer pre-merger and post-merger period might have produced more appropriate results.

❖ The study has not taken into account any benchmark or yardstick for comparison such as industry average of firms with similar characteristics.

❖ The study has also ignored the impact of possible differences in the accounting methods adopted by different companies included in the sample.

❖ The analysis is made on the basis of financial data only. Qualitative aspects such as organizational cultures etc. are ignored.

9.5 Further Scope for Research

Further research in the following areas could be considered as an extension of the present study:

❖ Regarding sudden burst in M&A activities in different sectors of the Indian industry during 1990s following the liberalization of the Indian economy as compared to the pre-liberalization period and the reason behind the same

❖ Regarding improvement or otherwise of post-merger market performances of the acquirers

❖ Regarding the impact of financing method in M&As, debt or cash financed and equity financed, on the post-merger performance of the acquirers

❖ Regarding shareholders’ benefit from M&As

❖ Regarding announcement period (comprising of a few days before and after the first date of announcement of the merger) abnormal stock price returns to both the bidder and the target firms
9.6 Conclusion

M&As have become a common phenomenon in India, especially after the initiation of economic reforms in 1991. Among the different Indian industries that have resorted to M&As, telecom, pharmaceuticals, finance, fast moving consumer goods (FMCG), construction materials, automobile industry and steel industry are deserve mentioning. With the increasing number of Indian companies opting for M&As, India is now one of the leading nations in the world in terms of M&As.

The Indian pharmaceutical industry is at present in the front rank amongst the developing nations with wide ranging capabilities in the complex field of drug manufacturing and technology used. The sector is unique as it traverses across geographies. Moreover, as health has no boundaries, this very boundary-less nature supports consolidation in this industry. With the easy availability of capital and increased global interest in the pharmaceutical industry, the sector has become one of the favourite routes for M&As. Over the past few years several Indian companies have targeted developed market in their pursuit of growth. Companies such as Ranbaxy, Wockhardt, Cadila, Matrix and Jubilant have made one or more international acquisitions, while others are also scouting for potential targets. However, in recent times, with local companies facing stress in domestic operations and valuations are down, the multinationals are very much attracted by the generic pipeline of Indian companies. After Daiichi Sankyo of Japan had acquired Ranbaxy Laboratories in 2008 for US $ 4.6 billion and Abbott Laboratories bought the domestic formulations business of Piramal Healthcare in 2010 for US $ 3.7 billion, the sector had gone quiet. The valuations expected by the Indian promoters have softened because of the increasing stress on their balance sheets caused by raising power costs, pricing curbs and other policy uncertainties. Moreover, a few proposals from overseas companies to invest in Indian drug markets are stuck at the government, though a 100 per cent foreign direct investment is allowed in the sector under the automatic route. So, guidelines are being framed which will enable the Competition Commission to vet all cases of acquisition of an Indian drug maker by an overseas company after taking necessary permission before discontinuing production of an essential drug.
Even though M&As have been an important element of corporate strategy all over the world for several decades, reviewing literature on M&As has not been able to provide conclusive evidence on whether they enhance post-merger performance and create shareholder’s wealth. There is, thus, an ongoing universal debate on the effects of M&As on firms’ post-merger performance. Moreover, very little appears to be known about the long-term post-merger performance of firms in India and the strategic factors that affect this performance. In this backdrop, our study was an attempt to bridge this gap to some extent.

The statistical analyses (viz. exact binomial test, non-parametric Mann-Whitney test and non-parametric Wilcoxon signed rank test) pertaining to 17 Indian pharmaceutical companies show that the overall positions of the selected pharmaceutical companies included in the sample have not been significantly improved during post-merger period as compared to pre-merger period as far as the financial parameters taken up for the study are concerned except for one or two isolated cases. The study, thus, may conclude that the selected companies be unsuccessful to make any significant financial synergy out of the acquisitions made by them.