An Analysis of Financial Performance

RONW and Intra Company Comparison
MVA and Intra Company Comparison
EVA and Intra Company Comparison
Inter-Company Analysis with RONW, MVA and EVA
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Industry wise Classification and Analysis with RONW, MVA and EVA
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Conclusions
This chapter deals with the analysis of companies and at industry level using tools like RONW, MVA and EVA for selected companies of post and pre merger period is given in Table 5.1.

1. RONW AND INTRA COMPANY COMPARISON

The technique of cluster analysis has been followed for the next measure of value addition, RONW for different group of companies.

Group I

A set off sixteen companies in this case have shown improvement in profitability in terms of RONW in the four post merger years. The companies which have shown marked improvement include NLC Nalco India limited, Jindal Poly Films Limited, and Jubilant Organosys Limited.

There are other companies which have shown an increasing trend, though not very significant. These include Emami Paper Mills Limited.

Group II

Twelve companies get categories in this group showing decrease in profits according to the traditional measure of value addition in the four post merger years. Companies have shown significant deterioration in profitability in post-merger period includes BPL Limited, Dharamsi Morarji Chemicals Co Limited, and DLF Limited.
Some other companies’ shows decrease in profitability over the post merger years which is however; not very significant includes B&A Limited, Shyam Telecom Limited and Tata Coffee Limited.

Group III

A majority of Twenty eight belongs to this group indicating no impact of mergers on profitability in subsequent post-merger years. Some companies have shown marked improvement in profitability from first to second year which gets lost in the third year. To name a few companies all belong to this category. TRF Limited, Bayer Crop Science Limited PSL Limited.

Further, there are few companies which have shown no trend in post merger years thus signifying no effect, whatsoever of mergers on profitability.

2. MVA AND INTRA COMPANY COMPARISON

The observations with this measure of value addition are given in Table 5.2.

Group I

This group includes only six companies indicate an increase in value addition to shareholders in terms of their market’s assessment but increase in most cases is very significant. Companies like all add positive value to shareholders which has increased subsequently in post merger years. In a grup remaining companies shows value addition in
first post-merger years in negative but has decreased each year indicating an improvement in value addition. This group includes Twilight Ii-taka pharma Limited, Matrix Laborites, Hindustan Unilever Limited, Roto Pumps Limited, Rossell Tea Limited.

Group II

This group has Ten companies again exhibit the same trend. Few companies started with positive value in first year which reduced subsequently. Some companies started with negative values which increased in post-merger years. This group includes companies like Dr Reddys Laboratories, Tata Coffee Limited, Today’s Writing Products Limited.

Group III

The last group with maximum number of twenty three companies shows that mergers have no effect on market’s assessment of company’s value thus not showing any clear increasing or even decreasing trend in post-merger years. The companies included in this list are GMR Industries Limited, Sical Logistics Limited, Bright Brothers Limited, Zenith Computers.

3. EVA AND INTRA COMPANY COMPARISON

EVA has been computed for all sample companies for three post merger years to see whether shareholder value has improved in the
post-merger period i.e. has shareholder value addition improved in each passing year after the merger since it is generally believed that it takes a year or to start getting these benefits. The year-wise analysis has been summarized in Table 5.3.

Group I

The set of twelve companies belonging to this group show an increasing trend of shareholder value addition in the post-merger period by showing decreased value erosion from first post-merger year to the forth indicating an improvement in value addition in the subsequent years. like Zenith Infotech Limited, Arvind Products Limited, NLC Nalco India Limited, IFGL Refractories.

Group II

In this group of ten companies indicating decrease in value addition from first postmerger year or increase in negative value of EVA in subsequent years of merger. Khaitan Fertilizer Limited, Hindustan Organic Chemicals Limited, Gulf Oil Corporation Limited.

Group III

Sample companies in this group, indicating no influence of mergers on shareholders’ value addition has the maximum number of thirty four companies belonging to it. There are companies which have shown significant deterioration in the second post merger year itself with
improvement in the third year. Companies includes in this group are Ratnamani Metal & Tubes Limited, Max India Limited, Balaramapur Chini Mills Limited, Finolex Cables Limited.

Table 5.4
Intra Company Analysis with Value Added Metrics: Summary of Results

<table>
<thead>
<tr>
<th>Group</th>
<th>RONW</th>
<th>MVA</th>
<th>EVA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Companies</td>
<td>%</td>
<td>No. of Companies</td>
</tr>
<tr>
<td>Group I</td>
<td>16</td>
<td>28.27%</td>
<td>23</td>
</tr>
<tr>
<td>Group II</td>
<td>12</td>
<td>21.43%</td>
<td>10</td>
</tr>
<tr>
<td>Group III</td>
<td>28</td>
<td>50.00%</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100%</td>
<td>56</td>
</tr>
</tbody>
</table>

Inter-Company Analysis with RONW, MVA and EVA

After post-merger assessment of value addition within companies, an investigation has been conducted to measure variations across companies for all the three value added metrics for average post merger period. In this case also, technique of cluster analysis has been applied by:

1. Ranking the companies by all three value added metrics separately in descending order.
2. Classifying companies with similar values into broad clusters or groups.
3. Examining these groups and explaining them.
The table 5.5 gives the average value addition in the post merger period by all three value added metrics, namely EVA, RONW and MVA along with their respective rankings. A perusal of the rankings in the table reveals the following groups:

Group I : Companies with Value Addition in Post-Merger Years

This group consists of companies with positive values indicating that such companies have added to shareholders value in the post merger period.

Group II : Companies with Value Erosion in Post-Merger Years

This group consists of companies with negative value indicating that these companies have eroded value in the post-merger period.
RONW and Inter Company Comparison

This empirical analysis study has been done with the traditional measure of profitability (RONW) and the following observations are made.

Group I

Grouping companies according to traditional measure of shareholder wealth creation (RONW) resulted in 43 companies (rank 1-43) falling in the first group with the range of 218.70 crores (by Pidilite Industries, which got the first rank) to 0.88 crores (by ION Exchange Co. Ltd. with 43 rank). In between, again there are companies like Dr. Reddy’s Laboratories Ltd., Gulf Oil Corporation Ltd., Hindustan Unilever Ltd., Hindustan Organic Chemicals Ltd. All showed positive returns to shareholders.

Group II

13 companies (from 44 to 56) belonged to this group which revealed negative value for average post merger period ranging from -0.30 crores (by carol Info Services) to 308.08 crores (by Bhilwara Spinners). In between, there were companies like Arvind Products. Ltd., Bright Brothers Ltd., Rossell Tea Ltd, Roto Pumps Ltd. all of which has resulted in loses for their shareholders in the post merger period.
MVA and Inter Company Comparison

This measure of market’s assessment of value addition to shareholders in the post merger period has again grouped sample companies into following two categories:

Group I

18 Companies from rank 1 to 18 belong to this group with positive shareholder value addition ranging from 1151.94 crores (by Hindustan Unilever Ltd. getting the first rank) to 0.16 crores (by Shayam Telecom Ltd.). Some other companies which have added to shareholder value include NLC Nalco Limited, Bayer Cropscience Ltd., Tata Infotech Ltd. (merged), Matrix Laboratories Ltd., etc.

Group II

From 19 to 56 fall in this category of value erosion as a result of merger as per market’s assessment in post merger period. The values range from -0.67 crores (by Hindustan Organic Chemicals Ltd.) to -86.71 crores (by Arvind Products Ltd.) companies like Areva T&D India Ltd., Rossell Tea Ltd., SRHHL Industries Ltd., DLF Ltd., etc all fall in this category.

EVA and Inter Company Comparison
Average economic value added (EVA) has been computed for the post merger period for all selected companies to see which companies have added value for their shareholders after mergers and which have destroyed it. Following classification has been done based on empirical results.

Group I

This group consists of only 8 companies (by rank 1 to 8) only out of the companies selected which have revealed positive value addition in terms of EVA. The shareholder value addition has been in the range of 29.42 crores (by Hindustan Unilever Ltd., which got first rank) to 1.08 crores (by Jubilant Organosys Ltd., which got 8 rank). In between, there were other companies like Matrix Laboratories Ltd., Sun Pharmaceutical Industry Ltd., Gulf Oil Corporation Ltd., Gujarat Perstorp Electronics Ltd., etc.

Group II

All rest of the companies from rank 9 to 56 belong to this group with the negative value addition in the post merger period. The range of value erosion has been from -0.41 crores to (By berger paints Ltd.) to tune of -1080.89 crores (by Emami Paper Mills Ltd.). In between there are companies like B&A Ltd., BPL Ltd., NHN Corporation Ltd., Dr. Reddy’s Laboratories Ltd., etc. which have resulted in value erosion in the post merger period.
The summary of results of inter company analysis with these value added metrics is presented below in Table 5.6.

<table>
<thead>
<tr>
<th>Group</th>
<th>Ranks</th>
<th>RONW</th>
<th>%</th>
<th>Ranks</th>
<th>MVA</th>
<th>%</th>
<th>Ranks</th>
<th>EVA</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1–43</td>
<td>43</td>
<td>76.79</td>
<td>1–18</td>
<td>18</td>
<td>32.14</td>
<td>1–8</td>
<td>8</td>
<td>14.29</td>
</tr>
<tr>
<td>II</td>
<td>44–56</td>
<td>13</td>
<td>23.21</td>
<td>19–56</td>
<td>38</td>
<td>67.86</td>
<td>9–56</td>
<td>48</td>
<td>85.71</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>100</td>
<td></td>
<td>56</td>
<td>100</td>
<td></td>
<td>56</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Table 5.6
Inter Company Analysis with Added Metrics; Summary of Results

Industry wise Classification and Analysis with RONW, MVA and EVA

An attempt has been made to make inter industry comparison of post merger performance of selected companies in terms of value added metrics: RONW, MVA and EVA. Industry wise classification has been done by all fifty six companies into ten sub groups. Measuring and analyzing performance of merged companies at industry level gives useful insight. The industrial variations in value added metrics has also been analyzed using cluster analysis by:

1. Ranking industries by all these metrics in descending order.
2. Classifying industries with similar values into broad groups.
3. Examining these groups and explaining them.
The below table gives the average aggregate value addition in the post merger period by all the industries by all three value added metrics, namely RONWS, MVA and EVA along with their respective ranking. Perusals of ranking in Table 5.7 reveal the following two distinct groups.

RONW and Inter Industry Analysis

Same analysis has been carried out with this traditional measure of profitability and the following observations have been made.

Group I

With this traditional measure of profitability of shareholder value addition (RONW), 9 industries (from rank 1 to 9) get categorized in this group with positive values ranging from 73.72 crores (by Trading Industries, With first rank) to 1.33 crores (by Tea-coffee Industries) other industries includes Chemicals and Petrochemicals, Electric, Electronics, Computer-hardware all have resulted in gains for shareholders in post merger period.

Group II

The only remaining industry is Textiles with losses of -114.06 crores in post merger period get categorized in this group.

MVA and Inter Industry Analysis

This measure of market’s assessment of value addition to shareholders has again grouped all industries in to following two categories.
Group I

5 Industries (from rank 1 to 5) gets qualified in this group with positive shareholder value addition in the post merger period ranging from 160.36 crores (by Pharmaceutical Industries, with the first rank) to 20.00 crores (by Fertilizers Industries). Than there are other industries adding to shareholder value which includes Chemicals & petrochemicals, Trading, etc.

Group II

Remaining 5 industries resulted in negative values for shareholders. The range of value erosion is -4.88 crores (by packing industry) to -42.06 crores (by textile industry).

EVA and Inter Industry Analysis

Average EVA has been calculated for for each industry after grouping all selected companies into - groups to see which industries have resulted in value addition to their shareholders after mergers and which have destroyed it. The following results have emerged.

Group I

This group consists of only one industry namely pharmaceutical. The positive shareholder value addition in the average post merger period is 0.80 crores.

Group II
The remaining 9 industries falling (from 2 to 10) in this group with negative EVAs indicating value erosion for shareholders in post merger period.

Value erosion for these industries has been in the range of -3.27 crores (by chemical industry) to -82.7 crores (by miscellaneous), In between other industries like chemical and petrochemical, steel and engineering, textiles, etc.

Table 5.8
Inter Industry Analysis with Added Metrics; Summary of Results

INTRA-INDUSTRY ANALYSIS WITH RONW, MVA AND EVA

After examining net gain or loss in terms of value addition for an industry as whole, it is further investigated whether within an industry with net gain or loss, are their any variations in terms of real gainers or losers i.e are there any value creators in industries which have on the whole not faired well or vice versa. Table gives the results of classification of all selected companies into ten broad categories along with average mean for each industry for all three values added metrics. More descriptive analysis based on above table has also been completed.
For this purpose correlation analysis has been used to establish the relationship between these three values added metrics within industry to get an insight into the variation in the performance vis-a-vis three metrics. Results of correlation between various values added metrics RONW, MVA and EVA for all industries are summarized in Table 5.9:

OBSERVATIONS

Chemicals and Petrochemicals

Out of the sample companies selected for the study there are eight companies has undergone for merger during 99-00 in Chemicals and Petrochemicals industries. In respect of traditional measure RONW in this industry are relatively stable with average 42.57 with few extreme gainers or losers.

In respect of value addition in terms of market assessment most of the companies in this industry have been gainers in post merger period with an average of 51.15 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -3.27 crores. However, companies like Hindustan Fluoro Carbans Ltd.and Jubilant Organosys Ltd. in post merger period with contribution of 10.05 crores and 1.08 crores respectively.

The correlation coefficients of this between RONW and MVA is 0.27 and 0.22 for post and pre merger period, while that of between
MVA and EVA 0.67 & 0.47 and between RONW and EVA is 0.12 and 0.41.

Electric, Electronics, Computer- Hardware

Out of the sample companies selected for the study there are nine companies has undergone for merger during 99-00 in electric, electronics and computer-hardware industries. In respect of traditional measure RONW in this industry are relatively positive with average 4.59 with few extreme losers.

In respect of value addition in terms of market assessment most of the companies in this industry have been losers in post merger period with an average of -17.11 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -104.76 crores.

The correlation coefficients of this between RONW and MVA is 0.59 and 0.32 for post and pre merger period, while that of between MVA and EVA 0.54 and -0.01 and between RONW and EVA is 0.91 and -0.31.

Fertilizers, Pesticides

There are three companies has undergone for merger during 99-00 in fertilizers and pesticides industries. In respect of traditional measure RONW in this industry are relatively positive with average 3.49.
In respect of value addition in terms of market assessment all the companies in this industry have been gainers in post merger period with an average of 20.00 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -7.71 crores.

The correlation coefficients of this between RONW and MVA is 0.98 and -0.70 for post and pre merger period, while that of between MVA and EVA 0.91 and 0.53 and between RONW and EVA is 0.80 and 0.24.

Packaging

There are four companies has undergone for merger during 99-00 in packaging industries. In respect of traditional measure RONW in this industry are relatively poor with average 5.44.

In respect of value addition in terms of market assessment all the companies in this industry have been losers in post merger period with an average of -4.88 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -11.42 crores.

The correlation coefficients of this between RONW and MVA is 0.60 and 0.39 for post and pre merger period, while that of between MVA and EVA 0.85 and 0.33 and between RONW and EVA is 0.91 and 0.61.
Pharmaceuticals

Out of the sample companies selected for the study there are six companies has undergone for merger during 99-00 in pharmaceutical industry. In respect of traditional measure RONW in this industry are relatively stable with average 22.31 with few extreme gainers or losers.

In respect of value addition in terms of market assessment most of the companies in this industry have been extreme gainers in post merger period with an average of 160.36 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in little improvement with on an average -0.80 crores. However, companies like Matrix laboratories and Sun pharmaceuticals ltd. in post merger period with contribution of 18.11 crores and 9.27 crores respectively.

The correlation coefficients of this between RONW and MVA is 0.51 and 0.24 for post and pre merger period, while that of between MVA and EVA 0.58 and 0.48 and between RONW and EVA is 0.99 and 0.76.

Steel and Engineering

There are four companies has undergone for merger during 99-00 in steel and engineering industries. In respect of traditional measure RONW in this industries are relatively poor with average 9.86.
In respect of value addition in terms of market assessment all the companies in this industry have been without major change in post merger period with an average of -32.61 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -6.83 crores.

The correlation coefficients of this between RONW and MVA is 0.77 and 0.88 for post and pre merger period, while that of between MVA and EVA 0.96 and 0.86 and between RONW and EVA is 0.84 and 0.99.

Textiles

There are three companies have undergone for merger during 99-00 in Textile industry. In respect of traditional measure RONW in this industry is negative with average -114.06 In respect of value addition in terms of market assessment most of the companies in this industry have been extreme losers in post merger period with an average of -42.06 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -7.67 crores.

The correlation coefficients of this between RONW and MVA is -0.71 and 0.34 for post and pre merger period, while that of between MVA and EVA 0.75 and -0.46 and between RONW and EVA is -0.06 and 0.68.

Tea-Coffee
There are three companies have undergone for merger during 99-00 in Tea-coffee industry. In respect of traditional measure RONW in this industry is relatively stable with average 9.86. In respect of value addition in terms of market assessment most of the companies in this industry have been without major change in post merger period with an average of 32.61 crores. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -6.83 crores.

The correlation coefficients of this between RONW and MVA is 0.79 and 0.44 for post and pre merger period, while that of between MVA and EVA 0.90 and 0.84 and between RONW and EVA is 0.98 and 0.85.

Trading

There are two companies undergone for merger during 99-00 in trading industry. In respect of traditional measure RONW and market assessment in terms of MVA in this industry is relatively good positive with average 73.72 and 32.78 respectively. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -29.78 crores.

The correlation coefficients of this between RONW and MVA is 1.00 and 1.00 for post and pre merger period, while that of between MVA and EVA -1.00 and 1.00 and between RONW and EVA is -1.00 and 1.00.
Miscellaneous

There are fourteen companies undergone for merger during 99-00 in various industry like sugar, construction etc. In respect of traditional measure RONW and market assessment in terms of MVA in this industry is relatively positive with average 9.99 and 51.48 respectively. The average value addition in terms of EVA for all the companies in post merger period is resulted in value erosion with on an average -82.70 crores.

The correlation coefficient of this between RONW and MVA is 0.84 and 0.71 for post and pre merger period, while that of between MVA and EVA 0.13 and 0.11 and between RONW and EVA is 0.18 and 0.26.

REGRESSION ANALYSIS

In order to analyze data of post and pre merger period a statistical tool is useful and provides better understanding. To study the impact of merger on shareholders value creation we have carried out the regression analysis on Indian corporate sector.

Pre-Merger Model:

\[
EVA = \alpha_i + \beta_1 DE_{i,t} + \beta_2 CR_{i,t} + \beta_3 GR_{i,t} + \beta_4 OE_{i,t} + \beta_5 PM_{i,t} + \\
+ \beta_5 ROCE_{i,t} + \beta_6 ER_{i,t} + \beta_7 RONW_{i,t} + \beta_8 SG + \beta_9 BIFR + \varepsilon_{i,t}
\]

Post-Merger Model:

\[
EVA = \alpha_i + \beta_1 DE_{i,t} + \beta_2 CR_{i,t} + \beta_3 GR_{i,t} + \beta_4 OE_{i,t} + \beta_5 PM_{i,t} + \\
+ \beta_5 ROCE_{i,t} + \beta_6 ER_{i,t} + \beta_7 RONW_{i,t} + \beta_8 SG + \beta_9 BIFR + \varepsilon_{i,t}
\]
Where,

DE = Debt Equity Ratio

CR = Current ratio

GR = Gearing Ratio

OE = Operating Expense

PM = Profit Margin

ROCE = Return on Capital Employed

ER = Expense Ratio

RONW = Return on Net Worth

SG = Firm Acquired by Same Group

BIFR = Acquired firm was under BIFR

T = Period

α is intercept, β₁ and β₂ are regression coefficients and ε is the error.
<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Independent Variables</th>
<th>Pre Merger</th>
<th>Post Merger</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Debt Equity</td>
<td>-1.20</td>
<td>-2.189</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.28)</td>
<td>(-1.131)</td>
</tr>
<tr>
<td>2</td>
<td>Current Ratio</td>
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<td>-0.756</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(-0.92)</td>
<td>(-0.176)</td>
</tr>
<tr>
<td>3</td>
<td>Gearing Ratio</td>
<td>0.25</td>
<td>0.077</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(1.43)</td>
<td>(0.505)</td>
</tr>
<tr>
<td>4</td>
<td>Operating Expenses</td>
<td>0.06</td>
<td>0.097</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(14.69)*</td>
<td>(18.518)*</td>
</tr>
<tr>
<td>5</td>
<td>Profit Margin</td>
<td>12.53</td>
<td>-150.027</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.46)</td>
<td>(-4.083)*</td>
</tr>
<tr>
<td>6</td>
<td>ROCE</td>
<td>125.69</td>
<td>270.153</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2.26)**</td>
<td>(3.755)*</td>
</tr>
<tr>
<td>7</td>
<td>Expense Ratio</td>
<td>-4.79</td>
<td>-29.135</td>
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<tr>
<td></td>
<td></td>
<td>(-23.50)*</td>
<td>(-29.175)*</td>
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<td>8</td>
<td>RONW</td>
<td>-0.02</td>
<td>-0.027</td>
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<td></td>
<td></td>
<td>(-0.22)</td>
<td>(-0.431)</td>
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<td>9</td>
<td>Same Group</td>
<td>-6.73</td>
<td>-5.600</td>
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<tr>
<td></td>
<td></td>
<td>(-0.74)</td>
<td>(-0.520)</td>
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<td></td>
<td></td>
<td>(0.76)</td>
<td>(2.198)</td>
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<tr>
<td>11</td>
<td>R²</td>
<td>0.86</td>
<td>0.87</td>
</tr>
<tr>
<td>12</td>
<td>Adj.R²</td>
<td>0.85</td>
<td>0.86</td>
</tr>
<tr>
<td>13</td>
<td>F</td>
<td>92.99*</td>
<td>140.99*</td>
</tr>
</tbody>
</table>

Table 5.11
Independent and Dependent Variables
Looking at empirical results we can say that expense ratio of the firm is significantly and negatively related to pre and post merger’s shareholders value creation. It means higher expenses lead to lower shareholder’s value which is according to the theory of finance. We also find that operating expenses of the firm is positively related to EVA and also significant at 1% level in firm’s pre and post mergers performance. ROCE of the firm is significantly also positively correlated to EVA in pre and post mergers financial performance of firm. While Debt equity, Current Ratio, and RONW are negatively correlated with shareholders creation capacity of the firm. It can be said that increase in Debt equity, Current Ratio, and RONW will leads to decrease in EVA. While evaluating the impact of acquirer of firm and scheme of merger as dummy variable are not significant. But acquirer in same group is negatively correlated with EVA.

In pre-merger regression analysis results shows that the value of $R^2$ is 0.86, which shows that the sample regression explain 86% of aggregate data. The overall model is also significant with adjusteo $R^2$ value of 0.85. So, it can be concluded that the model applicable to Indian corporate.
Regression result of post merger indicates the value of $R^2$ and adjusted $R^2$ value are 0.87 and 0.86 which is significant at 1% level. So model is fit for study.

The classical finance theory said that firm’s shareholders value creation is based on firms earning ability and firms return on its net worth. On the basis of our regression research we have proved that the firm’s shareholders value creation is highly dependent on Operating expenses, Profit market, ROCE and Expense ratio.

CONCLUSIONS

In case of any business shareholders value maximization being recognized as the most important goal, performance evaluation of fifty six selected companies which have undergone mergers during the 2005-06 has been done using value added metrics EVA and MVA and the traditional value added measure metric RONW. The following conclusions have been drawn based on empirical results and their analysis:

1. From the analysis of companies for four cross sectional post merger years, it was found that 81% of companies resulted in value erosion in terms of EVA with decreasing or no trend over the four merger years. Only 19% of sample companies revealed positive value addition with increasing trend in post merger years.

2. The traditional measure of estimation of value for shareholders, namely RONW revealed results with EVA. Only 28% companies
showed increasing trend of value in post merger period. The remaining 72% of companies failed to deliver value after mergers.

3. With regards to market’s assessment of company’s value in post merger period, 67% of companies revealed positive post merger values in the first year indicating that companies gained from mergers in terms of appreciation in their stock value. Only 14% of these companies however, exhibited an increasing trend over four years which was very significant. Number of companies benefited maximum in terms of shareholder value appreciation in the post merger period. But in most of the companies, however, appreciation in stock value gained immediately after mergers was lost in the subsequent years.

4. Inter companies analysis carried on with average post merger computed values of EVA revealed value erosion in case of 81% of companies. Only 19% of companies gained values for their shareholders, the important ones being Berger paints Ltd, Emami Paper Mills Ltd., B&A Ltd., BPL Ltd., NHN Corporation LTD., Dr. Reddy’s Laboratories Ltd., etc. which have resulted in value erosion in the post merger period. This indicates that the null hypothesis that mergers do not result in value addition to shareholders has been accepted and alternate hypothesis that merger result in value addition to shareholders has been rejected. As regards the other measure of value addition, i.e. MVA, the result was almost 50%.

5. The result of inter company analysis with RONW showed all most opposite findings. As per this measure, 77% of companies added
value for their shareholders after mergers indicating that mergers are profitable. Only 23% of companies resulted in value erosion.

6. Results of inter industry analysis revealed that most of industries on the whole (9 out of 10) lost shareholder value in the post merger period in terms of EVA. Only one industry gained positive value for their shareholders. However in terms of other value added metrics, MVA and traditional measure RONW, the results were reverse Pharmaceutical Industries, Fertilizers Industries and other industries adding to shareholder value which includes Chemicals & petrochemicals, Trading, etc. industries gained value in terms of appreciation in post merger period.

7. Merger has been spread over various industries. Over all, as compared to other industry groups, companies in chemicals, petrochemicals, electric and electronics have had relatively higher involvement in merger activity.

8. These results are also corroborated by correlation co-efficient calculated between these measures for all industries separately. In industries like steel, engineering, tea and coffee shows significantly high correlation has been revealed between the new values added metric EVA and traditional metric RONW. For other industries this relationship is low and insignificant As far as association between economic efficiency of industry and its market assessment is concerned, in case of industries like chemical, petrochemicals, electric, electronics and computer industries it has emerged significant. For the rest of the industries
economic performance does not seem to drive market value. However, no significant correlation was observed between MVA and RONW in most of the industries.

9. Thus, in this chapter, post-merger performance of sample merged companies has been evaluated in terms of shareholders value additions.

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