CHAPTER I

INTRODUCTION

1.1 AN OVER VIEW

To business organization, being Big is Good and Growing Bigger is greater. Restructuring of the business organization is one of the means to achieve it. Mergers and Acquisitions (M&A) are one type business restructuring which facilitates to enjoy the benefits of large scale operation, improvement of operating efficiency and enhancement of wealth of its stakeholders. There are two ways of growth of business organization, that is organic and inorganic growth. Organic growth is through enhanced customer base, higher sales and increased revenue through more deployment of men, money, method, materials and machine with the idea of the judicious application of such resources. The inorganic growth provides an organization with an avenue for attaining accelerated growth enabling it to skip few upward steps on the growth ladder. Restructuring schemes through Mergers and Acquisitions (M&A), amalgamation and takeover etc., constitute the most important methods for securing the inorganic growth.

To achieve the profitable growth of business, it is necessary for any company to limit competition, to gain economies of large scale, increase net income with proportionally less investment and to access foreign market, reduce the operating cost, technology up-gradation, expansion, diversification, synergy effect, optimized market operations, need to face competitive business environment and work towards its long term sustainability. M&A has facilitated thousands of companies to re-establish their competitive advantage, respond more quickly and effectively to new business opportunities and unexpected challenges. M&A plays a major role in shaping business activities world-wide with advanced technology, widening their business operations and creating more demand for the product with affordable price. It has become imperative for every enterprise to devise the strategies to suit the vibrant market environment.
1.2 NEED OF THE STUDY

The world space is becoming smaller due to technology advancement, opening up of the economies, expansion of companies etc., M&A have been turning out to be one of the suitable options available to meet the challenges of the contemporary business environment. Moreover, deficit of natural resources, lack of professional managers and skilled employees, which are essential requisites for development of an organization coupled with government policies of quotas, licenses and imposition of trade barriers are few more challenges for the increasing number of cross-border mergers. Therefore, there is a need to study motives for M&A. Many researches have been conducted in USA and UK and very few in the other countries in this regard. However, only few comprehensive empirical studies are available in India.

In India, Mergers and Acquisitions have been the major route for restructuring organizations. Restructuring and reorganizing of an organization can be done through various methods like mergers and acquisitions, takeovers, spin off and joint ventures etc. Indian economy is currently experiencing a transformation from the controlled economy to market driven environment. Indian corporates have been increasingly focusing on stakeholders value as a means to survive and grow under the fast changing business environment. M&A is a sporadic event and there is a very little scope for companies to learn from their past experience. To determine the success of a merger, one needs to ascertain whether there emerges any economic gain from mergers. Post-Merger economic gain will be generated only if the two companies are more worth together than being apart. The basic motive of mergers and acquisitions can be understood as an attempt to emerge stronger. Most commonly given explanations have been to enjoy the benefits of economies of scale, synergy, acquisition of market share growth, diversification and tax advantage etc. Most of the motives are characterized over a period of time but they shift and change character, emphases and priorities during the course of business activities.

Basically, a merger process can be construed as a marriage proposal. A happy married life can be achieved through mutual understanding, adjustments and co-operation. The same concept will be applicable to merger deals too. Accordingly
in the present study an attempt has been made to focus on value creation in the economic sense through mergers and acquisitions as a mode of restructuring. Studying the depth concept of M&A, the synergy generated from these events and measuring their performance has been the most onerous problem confronting researchers. Most of the literature on M&A performance has used one or two standard financial measures: Accounting or Market based. Company performance is usually defined in terms of profitability, a very widely used parameter of measurement. Different researchers have used different tools and techniques to measure the performance of business operations.

An effort is being made in the present study to make an extensive review of literature in order to enhance the present level of understanding in the area of Mergers and Acquisitions (M & A), to evaluate the Pre and Post-Merger business performance (Profitability and Value Addition) gain an insight into the success or failure of M&As and formulate the problem for further research in this area.

1.3 STATEMENT OF THE PROBLEM

The New Economic Policies introduced by the Government of India (GOI) in 1990-91 has stimulated the Indian industries to enter into M&A. Merger activities have created lot of hype and expectation among the new and modified business entities. But whether they serve the purpose or not is a million dollar question.

The Indian domestic market has become highly competitive ever since it is open to global players to step in. In such competitive economic environment, size and focus matter even for the mere survival. Small companies find it far more difficult to survive during the economic slowdown. The cut-throat competition in international market also poses the serious threat for Indian firms to opt for suitable business strategies, making it a vital premeditated option. M&A have become a necessity in the changing business environment to ensure that the business attain the appropriate size. Hence the detailed study is required to analyse the impact of financial performance and the value additions of pre and post M&A process of Industries in India during the period selected for the study.
1.4 OBJECTIVES OF THE STUDY

I Primary objective:

- To study the impact of Mergers and Acquisitions (M&A) on the Financial Performance and the Value Additions (Market Value Added and Economic Value Added) of Select Indian Industries during the Pre and Post M&A Periods.

II Secondary objectives:

- To identify the motives behind the M&A, factors influencing M&A and success mantra for effective implementation of M&A of selected Industries in India

- To analyse the Industry-wise, Sector-wise and Relatedness-wise Financial Performance of selected Industries during the Pre and Post M&A Periods.

- To analyse the Industry-wise, Sector-wise and Relatedness-wise Financial Performance on the Market Value Added (MVA) of selected Industries during the Pre and Post M&A Periods.

- To analyse the Industry-wise, Sector-wise and Relatedness-wise Financial Performance on the Economic Value Added (EVA) of selected Industries during the Pre and Post M&A Periods.

- To analyse the findings and also offer some suitable suggestions and recommendations.

1.5 SCOPE OF THE STUDY

Growth and value creation of the corporates have become most important aspects in today’s competitive world. The present study has its focus on the Financial Performance and Value Additions (MVA and EVA) during Pre-Merger and Post-Merger Periods of selected Industries which have involved in M&A Process in India. Five categories of Industries are considered for the study namely Banking Industry, Financial Services Sector, Automobile Industry, Pharmaceutical Industry and Cement Industry. 40 Companies were considered out of which 6 are
Pubic Sector Companies and the remaining 34 are Private Sector Companies. Among these 29 are related Mergers and the remaining 11 are Unrelated Mergers. For the purpose of evaluating the Financial Performance of these companies during their Pre and Post Merger periods, 15 important Financial Ratios have been considered for making the required analysis. These identified 15 financial ratios have been further classified on the basis of three types of Financial Performance Parameters such as Profitability Ratios (PR), Short-Term Solvency Ratios (STSR) and Long-Term Solvency Ratios (LTSR). These were applied to measure the effect on their Financial Performance during the selected period of the study i.e., 2004 to 2012 (Pre and Post-Merger durations). In addition to this, the value additions indictors such as MVA and EVA were also considered to measure the quantum of value additions to these companies as a result of the M&A. The year of M&A of a company is taken as the cut off Period and the financial Performance and value additions of 5 years prior to the cut off years, namely the Pre-Merger Periods and 5 years subsequent to the cut off year, namely the Post-Merger Periods comprising a Total period of 10 years time frame have been considered for the study.

The Financial Performance, during the period of the study of the selected companies were measured using the Parameters such as the Profitability Ratios (Gross Profit ratio, Net Profit ratio, Operating Profit ratio, Earning Per Share, Price Earnings ratio, Return on Total Assets, Return on Capital Employed, Retained Earnings ratio, Return on Net Worth, Dividend Pay-out in Net Profit, Dividend Payout in Cash Profit), Short-Term Solvency ratio (Current ratio and Quick ratio), Long-Term Solvency ratio (Debt-Equity ratio and Interest Coverage ratio) and the value added measurement like Market Value Added (MVA) and Economic Value Added (EVA).

1.6 LIMITATIONS OF THE STUDY

The following limitations that need to be acknowledged and addressed regarding this present study are:

- The Study is based on secondary published data which is already available to the extent they are reliable depending upon the limitations of various standards prescribed for their compilation.
The accuracy of the results and conclusions of this Study depends on the reliability of the secondary data.

The period of the Study ranges from 2004 to 2012 only for studying the relationship between Preiod Post-Merger Financial Performances, MVA and EVA of select Industries in India.

The Study mainly focuses on the financial aspect of M&A of select companies in India without giving weightage for the other factors such as Market conditions, Human element and share market implications etc.,

The study focuses only 5 categories of Industries consisting of 40 companies only, as the time and resources available to the researcher are limited.

1.7 CHAPTER SCHEME

Chapter I: Introduction:

This chapter introduces the concept of corporate restructuring, namely the Mergers and Acquisitions (M&A). It also brings out the objectives, scope and framework of analysis and limitations of the study.

Chapter II: Theoretical framework, Review of literature and Research Methodology used for the M & A process have been discussed in this chapter. The contents are:

- Theoretical framework explaining the concept related to M&A and motive behind the merger and acquisition in particular and the reasons for the success or failure of M&A.
- Review of literature outlines the extensive research done in the area of M&A’s in India as well as at global level.
- Research Methodology used in the research design, sampling techniques, financial and statistical tools used in the study have also been narrated here.
Chapter III: The impact of Industry-wise M&A on the Financial Performance and Value Additions (MVA &EVA)

- This chapter deals with the Industries-Wise (Banking, Pharmaceutical, Automobile, Cement and Financial Services Industries) analysis of Pre and Post-Merger Profitability Performance, Short-term Solvency Performance and Long-term Solvency Performance as well as the position of Market Value Added (MVA) and Economic Value Added Method (EVA) of select Industries in India.

Chapter IV: The impact of Sector-wise M&A on the Financial Performance and Value Additions (MVA &EVA)

- This chapter deals with Sector-Wise (Public and Private Sector) evaluation of Pre and Post-Merger Profitability Performance, Short-term Solvency Performance and Long-Term Solvency Performance as well as the impact on Market Value Added (MVA) and Economic Value Added (EVA) of select Industries in India.

Chapter V: The impact of Relatedness-wise M&A on the Financial Performance and Value Additions (MVA &EVA)

- This chapter deals with the analysis of Relatedness-Wise performance (Related Merger and Unrelated Merger) during the Pre and Post-Merger period on Profitability Performance, Short-term Solvency Performance and Long-term Solvency Performance and also the evaluation of Market Value Added (MVA) and Economic Value Added (EVA) of select Industries in India.

Chapter VI: This chapter deals with Summary of major Findings, Suggestions and Conclusions.