IJBARR
E- ISSN -2347-856X
ISSN -2348-0653

# IMPACT OF FOREIGN MERGERS AND ACQUISITIONS ON THE FINANCIAL PERFORMANCE OF INDIAN FIRM'S

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***Abstract***
*The present paper examines the Impact of Post M&A particularly on foreign acquisitions of Indian Firms. The analysis is carried out by using ratio analysis and efficiency of the firms in the pre-and post-acquisitions are examined using paired sample t- test. The results helps to find out any significant changes are observed in the earnings of shareholders and their liquidity position. The study also relieves about the financial performance of top deals of foreign acquisitions in their long run and was able to generate value through M&As.*

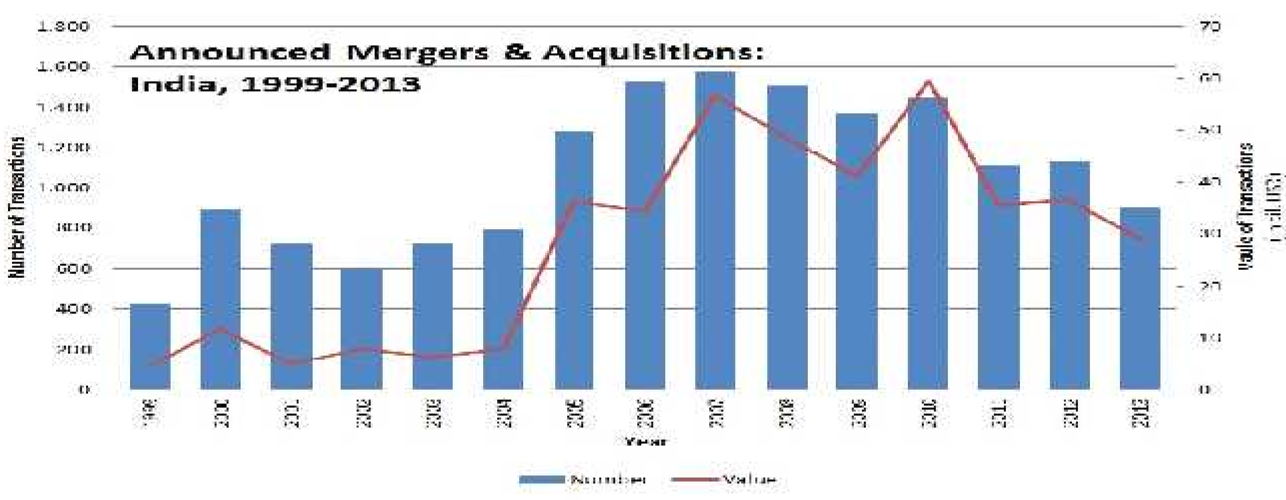
***Keywords: Mergers, Acquisitions, Financial Performance, paired sample t- test.***

## INTRODUCTION
Global M&As is one of the most happening in recent years and has become fundamental for corporate world. The companies enter into acquisitions with a motive to expand their business and enhancing their revenues. The concept of M&As in India was not popular till the year 1988, after the economic reforms led in 1991, there has been huge challenges for Indian Companies nationally and Internationally on the Intense competition, these made the corporate to opt for M&As and started refocusing on core competence, market share, global competitiveness and consolidation.
The driving forces for global acquisitions are:

- Right to entry
- Technology Transfer
- New Product Mix
- Reduce Country risk

## PRESENT STATUS OF INDIA
In India, there has been tremendous growth in M&A's as shown in figure-1. It has been seen in all Sectors, Verticals, Manufacturing etc., Many Indian companies are towards the growth phase and for exploring the growth potential in foreign markets they go for mergers and acquisitions. The factors which support for this growth are like government policies, capital flow, stability, investments and dynamic attitudes of corporate. Mergers and Acquisitions activity has been recovering steadily from the lower levels touched at the nadir of 2008/9. Even though we have seen a sharp fall in risk appetite over the months, corporate has held its nerve and volumes have help up relatively well. Business consolidation by large industrial houses and consolidations of business by MNC operating in India, the increasing competition amongst domestic companies and imports, all combined spurted M&A activities in India to look for foreign acquisitions.

**Figure-1, Number of Transactions on**




M&A's in India from 1999-2013, (*Source: **imaa-institue***)

In recent times, Indian companies have acquired many firms across the globe and have expanded their business, the below table-1 provides the list of top 5 foreign acquisitions based on deal value are taken for study and examined to understand about the M&A deals on corporate performance and shareholders' wealth creation.

**Table-1, Top Deals of M&A (2006-2014)**

| S. No | Acquirer | Target | Year | Value (in $) |
|---|---|---|---|---|
| 1 | ONGC | Imperial Energy | 2009 | 2.1 billion |
| 2 | Sterlite | Asarco | 2008 | 2.6 billion |
| 3 | Tata Motors | Jaguar Cars and Land rover | 2008 | 2.3 billion |
| 4 | Hindalco | Novetis | 2007 | 6 billion |
| 5 | Tata Steel | Corus | 2006 | 7.6 billion |

The above table represents the top deals of mergers and acquisitions in India based on their deal value during the period 2006-2009. The study aims to find out the impact of these acquisitions on their financial performance.

**LITERATURE REVIEWS**

There has been an ongoing debate on short-term as well as long-term performance of M&A. Voluminous literature exists to support the debate on whether mergers create value or are wealth reducing events. Empirical work on the issue has adopted two major approaches; share price analysis and accounting measure analysis to investigate the issues related to mergers profitability.

(Josia, 2014), examined does corporate performance change in post acquisitions. The study employed accounting based approach to determine on post-performance, the accounting ratios like inflation adjusted return on assets, return on equity, operating profit margin and return on capital employed. The results conclude that there was no significant improvement on the performance indicators in post- merger and M&A did not experience any significant change in corporate performance within firs financial year of acquisitions.

(Babil & Bilal, 2011), studied on the impact of acquisitions on corporate performance in Indian manufacturing sector. The study examined on pre-and post- acquisitions of financial performance of the firm by employing ratios, the result revealed that there was no significant impact of mergers and acquisitions on the profitability of the firm in post-acquisitions period.

In an empirical survey of 152 companies, (Rani et al., 2010) have observed that the primary motive of mergers in India during 2003-2008 has been to take advantage of synergies. Operating economies, increased market share and financial economies have been indicated in order of importance as the desired synergies to be gained through corporate merger in India.

(kumar, 2009) Analyzed, the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India using accounting data to examine gains of the acquiring firms. It was found that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, show no improvement when compared with their pre- merger values.

It is evident from the findings of various studies that empirical research on post-merger long-term performance throughout world has not converged to a conclusion whether mergers are wealth enhancing or value destroying. In the present study, an attempt has been made to examine post-merger performance by utilizing financial measures. The study focuses on analysis of changes in financial performance. The change is examined by comparing financial performance ratios before and after merger. The study contributes to the existing literature by comparing financial performance of acquirers before and after M&A using ratios for a sample companies taken for study.

**OBJECTIVES OF THE STUDY**

The present research has been aimed to review the financial performance of the firms gone for foreign acquisitions through M&A has highest deal value from the year 2006-2014.

**FRAME WORK OF ANALYSIS**

**Sources of Data**

The study uses secondary data. The data are assessed from the SEBI websites and the database of CMIE, annual reports of selected companies from their related websites.

**Sample Selection**
The Convenience sampling method is used based on the deal value highest recorded in the year 2006 to 2009. However for this study, 5 companies have been selected as a sample based on deal value and listed in India.

**Tools Used**
Pre-acquisitions and post-acquisitions performance ratios were estimated and the mean values were compared for the set of sample firms. In order to assess their financial performance paired sample t-test were employed on selected financial ratios. The data were collected for a three year pre-merger and post-merger period.

**Research Hypothesis**
There is no significant change on the financial performance of the acquiring firm after acquisitions.

**Hypothesis Testing**

$$t = \frac{\bar{d} - 0}{s/\sqrt{n}}$$

Where n is the sample size, the degree of freedom used in this test n-1. S is the standard deviation of the sample, $\bar{d}$ is the deviation between two samples.

**ANALYSIS AND FINDINGS**
**Profitability Ratio**
The primary objective of a business undertaking is to earn profits. In order to understand the profitability of the mergers and acquisitions, the following ratios such as Earnings per share, Gross profit ratio, Operating Profit ratio, Return on Capital ratios are employed.

**Earnings Per share (EPS):** Earnings per share are a good measure of overall profitability. It indicates whether the earning power of the companies has increased in the post M&A periods as compared to pre M&A periods. The results comparing the performance during pre-and post-merger period based on EPS as shown in Table-2

**Table-2, Comparison of Earning Per Share**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 84.14 | 14.97 | 43.29 | 30.61 | 4.516 | 0.046* |
| 2 | Sterlite | 23.14 | 19.67 | 10.52 | 6.67 | 0.997 | 0.424 |
| 3 | Tata Motors | 41.26 | 7.81 | 29.09 | 9.9 | 2.07 | 0.181 |
| 4 | Hindalco | 82.75 | 64.86 | 15.48 | 6.95 | 1.851 | 0.205 |
| 5 | Tata Steel | 45.92 | 17.67 | 68.76 | 4.51 | -1.98 | 0.186 |

Note: *Significant at 0.05 levels

It is revealed that the EPS of the companies have shown marginally decrease in post-merger period, except Tata Steel. However, from the t-values it is clear that the changes in EPS are not statistically significant expect ONGC ltd.

**Gross Profit Ratio**
A gross profitability ratio measures the relationship between the relationship of gross profit to net sales and is usually represented as a percentage. It indicates the extent to which selling prices of goods per unit may decline without resulting in losses on operations of a firm. The results are presented in below Table-3

**Table-3, Comparison of Gross Profit Ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 51.08 | 7.46 | 50.55 | 3.15 | 0.135 | 0.905 |
| 2 | Sterlite | 8.48 | 2.98 | 4.25 | 1.87 | 1.528 | 0.266 |
| 3 | Tata Motors | 8.2 | 0.769 | 6.26 | 2.66 | 1.02 | 0.415 |
| 4 | Hindalco | 23.08 | 0.5 | 12.69 | 0.7 | 19.24 | 0.003* |
| 5 | Tata Steel | 30.73 | 9.92 | 37.07 | 3.12 | -0.847 | 0.486 |

*Note: *Significant at 0.05 levels*

Based on the above workings in table, the gross profit ratio of the acquiring firms have declined in the post-mergers expect Tata Steel Ltd. From the observations of t-values, it is clear that the changes in the gross profit ratio in post-acquisitions is not statistically significant expect Hindalco Industries Ltd.

**Operating Profit Ratio:**

Operating profit ratio is considered as a yardstick of operating efficiency as the cost of operations per rupee of sales. Operating profit ratio of M&A companies before and after merer period is exhibited in Table-4

**Table-4, Comparison of Operating Profit Ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 51.71 | 3.84 | 60.46 | 1.92 | -7.212 | 0.019* |
| 2 | Sterlite | 8.88 | 1.69 | 5.45 | 2.07 | 1.201 | 0.353 |
| 3 | Tata Motors | 10.66 | 0.96 | 9.33 | 2.39 | 0.74 | 0.536 |
| 4 | Hindalco | 23.13 | 0.921 | 16.05 | 1.03 | 22.79 | 0.02* |
| 5 | Tata Steel | 32.42 | 8.69 | 39.74 | 2.13 | -1.288 | 0.327 |

Note: *Significant at 0.05 levels

Based on the above workings in table, the operating profit ratio of the acquiring firms have declined in the post-mergers expect ONGC and Tata Steel Ltd. From the observations of t-values, it is clear that the changes in the operating profit ratio in post-acquisitions is not statistically significant expect ONGC and Hindalco Industries Ltd.

**Return on Capital Employed:**

Return on capital employed establishes the relationship between profits and capital employed. It is the primary ratio and is most used widely to measure the overall profitability and efficiency of business. Table-5 depicts the comparison based on return on capital employed

**Table-5, Comparison of Return on Capital Employed**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 36.96 | 0.59 | 30.49 | 3.5 | 3.599 | 0.069 |
| 2 | Sterlite | 10.49 | 6.3 | 6.39 | 1.7 | 0.891 | 0.467 |
| 3 | Tata Motors | 26.92 | 1.39 | 9.18 | 2.4 | 8.113 | 0.015* |
| 4 | Hindalco | 15.65 | 1.01 | 9.63 | 1.47 | 2.722 | 0.113 |
| 5 | Tata Steel | 38.5 | 17.69 | 19.94 | 6.8 | 1.329 | 0.315 |

Note: *Significant at 0.05 levels

Based on the above workings in table, the returns on capital employed of the acquiring firms have declined in the post-Mergers. From the observations of t-values, it is clear that the changes in the returns on capital employed in post-acquisitions is not statistically significant expect Tata Motors Ltd.

**Liquidity Ratio**

This ratio is used for measuring the short-term solvency or financial position of a firm. These ratios are calculated to comment upon short term paying capacity of a concern or the firm's ability to meet its current obligations.

**Current Ratio**

Current ratio is a general and quick measure of liquidity of a firm. It represents 'margin of safety' available to creditors and other current liabilities.

**Table – 6, Comparison of Current ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 1.46 | 0.087 | 1.23 | 0.14 | 1.992 | 0.185 |
| 2 | Sterlite | 1.08 | 0.13 | 2.52 | 1.22 | -2.302 | 0.148 |
| 3 | Tata Motors | 0.97 | 0.105 | 0.46 | 0.046 | 5.873 | 0.028* |
| 4 | Hindalco | 1.07 | 0.045 | 1.1 | 0.091 | -0.384 | 0.738 |
| 5 | Tata Steel | 0.69 | 0.035 | 2.1 | 1.5 | -1.641 | 0.243 |

*: *Significant at 0.05 levels*

Based on the above workings in table, there is no specific variation in the mean value on the post-merger expect Sterlite industries and Tata steel. From the observations of t-values, it is clear that the changes in the current ratio in post-acquisitions is not statistically significant expect Tata Motors Ltd.

**Long term Solvency ratios**

Long term solvency ratios convey a firm's ability to meet the interest costs and repayment of its long-term obligations. In order to assess the long-term solvency of the acquiring company's ratios such as Debt-Equity ratio and Interest coverage ratios were computed.

**Debt-Equity ratio**

Debt-Equity ratio describes the lender's contribution for each rupee of owner's contribution. It indicates the long term solvency of the business.

**Table -7, Comparison of Debt- Equity ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 0.22 | 0.034 | 0.06 | 0.109 | 2.79 | 0.108 |
| 2 | Sterlite | 0.606 | 0.097 | 0.2533 | 0.015 | 7.35 | 0.018* |
| 3 | Tata Motors | 0.5767 | 0.041 | 0.68 | 0.33 | -0.595 | 0.612 |
| 4 | Hindalco | 0.46 | 0.07 | 0.35 | 0.125 | 0.93 | 0.45 |
| 5 | Tata Steel | 0.823 | 0.474 | 1.03 | 0.327 | -0.461 | 0.69 |

*Note: *Significant at 0.05 levels*

Based on above table-7 report, there is no significant variation is observed on post-merger expect the Sterlite Industries ltd, had shown decrease in post-merger and significant.

**Interest Coverage Ratio**

This ratio indicates the number of time interest is covered by the profits available to pay the interest charges. Generally, the high ratios are safer to the companies.

**Table-8, Comparison of Interest Coverage ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 791.26 | 466.83 | 1516.4 | 840.64 | -1.126 | 0.377 |
| 2 | Sterlite | 5.5 | 2.93 | 6.77 | 1.21 | -0.53 | 0.649 |
| 3 | Tata Motors | 7.81 | 0.744 | 2.57 | 0.133 | 10.338 | 0.009* |
| 4 | Hindalco | 10.69 | 1.59 | 9.45 | 4.74 | 0.362 | 0.752 |
| 5 | Tata Steel | 13.92 | 9.78 | 13.41 | 11.14 | 0.043 | 0.97 |

*Note: *Significant at 0.05 levels*

The interest coverage ratio of selected companies, except ONGC and Sterlite Industries ltd have shown decrease in the post-acquisitions and from the t-value it is observed that only Tata Motors
Have shown significant changes in post-acquisitions.

**Management Efficiency Ratios**

These ratios are also called turnover ratios because they indicate the speed with which asets are converted into turnover.

**Inventory Turnover Ratio**

The ratio indicates how many times the stocks are converted into sales. The results are provided in below table-9

**Table-9, Comparison of Inventory Turnover Ratio**

| S.No | Company Name | Pre-Merger Period | | Post-Merger Period | | t-value | sig |
|---|---|---|---|---|---|---|---|
| | | Mean | S.D | Mean | S.D | | |
| 1 | ONGC | 53.06 | 60.39 | 39.74 | 41.64 | 0.256 | 0.822 |
| 2 | Sterlite | 7 | 0.508 | 7.05 | 1.91 | -0.053 | 0.963 |
| 3 | Tata Motors | 13.31 | 0.71 | 13.37 | 0.19 | -0.132 | 0.907 |
| 4 | Hindalco | 4.09 | 1.26 | 4.37 | 0.76 | -0.421 | 0.715 |
| 5 | Tata Steel | 8.05 | 0.591 | 9.29 | 1.57 | -1.001 | 0.422 |

Note: *Significant at 0.05 levels

Inventory turnover ratio of all the M&A firms the results points that out the mean value of some of the firms have shown marginally increase in post-merger and they are not statistically significant.

**CONCLUSION**

The study was carried out to test the impact of foreign mergers and acquisitions on their corporate performance of 5 firms. Based on results, it was found that there was no significant difference on their financial performance of the firm gone for acquisitions. The foreign acquisitions benefits have not reap the benefits to the firm. The key financial ratios identified here may not alone be the only measure in gauging the performance of acquisitions and the results may vary when a bigger sample size and long-term performance are taken for study.

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