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A Study on Financial Performance Analysis of Selected Companies Pre & Post- Merger and Acquisition with Reference to India

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Abstract: In the present era of global economy, Mergers and Acquisitions have become the most widely used business strategy of corporate restructuring and strengthening to achieve greater market share, long term profitability, entering new markets, capitalizing on economies of scale etc. The effects of M&A on various parameters have already been analysed by many that yielded mixed results. The present study investigates the effects of mergers and acquisitions on the financial performance of selected companies in India. It details about the net profit margin, return on assets, return on equity , Asset turnover ratio etc. in the post-merger period. Hence through a pre and post-merger analysis the minute differences in the working efficiency of companies can be studied. The statistical findings of the five companies mergers & acquisitions present a very tricky and glowing picture of success and failure. The post-merger impact upon many companies above is a mixture of both positive and negative. The impact of post-merger on ONGC , Tech Mahindra and Cyient has been negative. This implies that while some have managed to synergize the merger and able to integrate respective companies with dynamic leadership and determinism, certain others had to face huge loss due to rising debt and other operational issues.

Keywords: Mergers, Acquisition, Financial Performance, Operating Performance

INTRODUCTION

A firm can achieve growth either internally by expanding its operations, establishing new units or externally through mergers and acquisitions (M&As), takeover, amalgamations, joint venture etc. With the level of competition getting intense day by day, Mergers and Acquisitions have emerged as the most preferred long term strategy of corporate restructuring and strengthening in the present globalised world. The main rationale behind the Mergers and Acquisitions is to create synergy that is one plus one is more than two. In Indian industry, the pace for mergers and acquisitions activity picked up in response to various economic reforms introduced by the Government of India since 1991, in its move towards liberalization and globalization. The Indian economy has undergone a major transformation and structural change following the economic reforms, and “size and competence" have become the focus of business enterprises in India. Indian companies realised the need to grow and expand in businesses that they understood well, to face growing competition; several leading corporates have undertaken restructuring exercises to sell off non-core businesses, and to create stronger presence in their core areas of business interest. Mergers and acquisitions emerged as one of the most effective methods of restructuring, and became an integral part of the long-term business strategy of corporates in India. Over the last decade, mergers and acquisitions in the Indian industry have continuously increased in terms of number of deals and deal value. It is found that Mergers & Acquisitions are a significant form of business strategy today for Indian Corporates

Review of literature

Literature review is a significant part of a research study and was conducted to search the recent studies done in the given field. Some of these literatures are depicted here:

Gupta, I., Raman, T. V., & Tripathy, N. (2021). Impact of Merger and Acquisition on Financial Performance: Evidence from Construction and Real Estate Industry of India. The study's aim is to look at how mergers and acquisitions affect the financial performance of construction and real estate firms. Secondary data was acquired for this study from a separate database, The research period is from 2011 to 2020, and the methodology adopted is paired t-test. There is thought to be a major difference between the pre-M&A and post-M&A periods. The study shows that the financial performance of Indian construction and real estate companies has improved generally for acquiring enterprises throughout the post-M&A period.

Shanmugavel, M., & Ragavan, N. (2020). Financial Performance Of Select Banks In India For Pre & Post-Merger Period-A Study To analysed the Profitability & Efficiency, Leverage, and Liquidity ratios of 10 Banks in Pakistan to recognize the effectiveness the merger strategy of the Banks. the researcher compares various financial parameters earlier and subsequently the merger. Unfortunately, the results show that there is no positive improvement in the financial performance of Pakistani banks following mergers and acquisitions, i.e., most banks' profitability, efficiency, liquidity, and leverage ratio have decreased, indicating that Pakistani banks' merger strategy has failed to improve their efficiency.

Aggarwal, P., & Garg, S. (2019). Impact of mergers and acquisitions on accounting-based performance of acquiring firms in India .The purpose of this study is to examine at the increase of M&A transactions in India over the previous two decades, as well as the influence of mergers on the acquiring company's accounting-based performance. Profitability, liquidity, and solvency are the three factors on which accounting-based success is judged. The pre- and post-merger averages of all seven parameters are compared arithmetically, followed by a paired sample 't' test. The companies were also classified into manufacturing and service sector companies to evaluate how mergers affected different types of businesses.

Reddy, K., Qamar, M., & Yahanpath, N. (2019). Do mergers and acquisitions create value? The post-M&A performance of acquiring firms in China and India. To see if mergers and acquisitions (M&As) in the Indian and Chinese marketplaces add value and to assure the estimator's consistency, efficiency, and lack of bias, this study recommends extending the sample size and time and employing instrumental variables regression. A large sample is significant, according to Stock and Watson (2007), since it has the ability to lower data variation, which helps to reduce bias and increase the outcomes' consistency and efficiency The impact of the financial crisis on the outcomes is the main barrier.

Dixit, B. K. (2019). Operating performance of acquirers after acquisition: evidence from India. The objectives of this paper is to use difference-indifference approach to assess Indian's operating performance. It also looks into if there is a difference in operating performance between partial and complete acquisitions. The final dataset is built using two data sources: the Thomson SDC mergers and acquisitions database and the Centre for Monitoring Indian Economy's Prowess database (CMIE). This study has significant consequences for investors, businesses, and politicians. The long-term operating success of Indian acquirers is demonstrated.

NEED FOR THE STUDY:

The global market is widespread with disagreement also it has gotten progressively worse. It's challenging for companies maintains afloat. In the modern world, businesses choose mergers and purchases because they think it's the best approach to grow their company globally, acquire power, lesser competition, and capture increased market share. As regarding the research that has been done, Although there are many studies on the mergers and acquisitions, none have been released that particularly examine the areas that are covered by this field's protections.

Objective of the study

- To examine the factors that affects pre and post-merger & acquisition financial performance of selected companies for the period of 10 years.
- To analyses and compare the financial performance of pre & post- merger & acquisition
- To analyse whether the pre- merger are performing well or post-merger of companies are more effective or not.

Hypotheses

- **Ho:** There is no significant difference between the financial performance of pre-merger and acquisition and post-merger and acquisition companies.

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- **H1**: There is a significant difference between the financial performance of pre-merger and acquisition and post-merger and acquisition companies.

Research methodology

Scope and type of the study: the scope of the study is limited in nature . the study is confined to the Indian services and manufacturing sector. Yet, the study covers selected companies only. The study is based on a comparative analysis which comes under the descriptive and analytical.

Period of the study: the study covers a period of 4 year pre and 4 year post (2012-2013 to 2021-2022)

Type of data: the study is based on secondary data

Sources of data collected : the information were collected from published data of selected companies, companies annual report, money control, companies website, journals, research paper, etc.

Analysis design: different financial and statistical tools are used to analyse the data (Descriptive statistic ,Paired sample T-Test)

Analysis and Result

Table 1: Average of Key Variables as per Company in per the year of (2012-2017) for Pre-Merger and Acquisition Companies

Company name	NPM	ROCE	ROA	ROE	CR
Piramal Enterprises	84.064	18.968	10.428	37.204	2.414
Havells	104.576	172.174	60.872	429.482	7.01
Bharti Airtel	18.298	8.604	8.534	31.926	10.996
Aurobindo Pharma	50.66	44.026	44.132	105.46	5.468
Cyient	46.504	52.166	55.802	69.63	14.898
ONGC	52.292	27.642	27.966	49.882	4.386
Wipro	71.004	59.736	59.41	94.336	3.214
Tech Mahindra	52.178	56.468	61.998	92.922	2.468
Dr.Reddy's Laboratories Ltd	58.974	47.602	47.754	91.45	3.342
Axis Bank	82.536	6.448	6.438	65.786	12.936
Average total	62.1086	49.3834	38.3334	106.8078	6.7132

In this analysis we observed a diverse range of performance metrics among the listed companies Havells and Piramal Enterprises stand out high The Havells and Net Profit Margin dazzle with outstanding Return on Capital Employed and Return on Equity. demonstrating remarkable utilization of capital and value creation for shareholder, Piramal Enterprises also shows a respectable ROE and Aurobindo Pharma and cyient exhibit strong operational efficiency with healthy ROA and ROCE numbers suggesting effective asset utilization and capital deployment However Axis Bank lags behind with comparatively lower ROCE and ROA although it maintains a decent ROE it Potentially due to leverage on average the group's financial performance appears strong with an average NPM,ROCE,ROA,ROE and Current Ratio .It's important to consider industry norms and other contextual factors while interpreting these metrics for a comprehensive assessment of each company's financial health.

Table 2 : Average of Key Variables as Per Companies in Year of Period (2017-2022) for Post Merger and Acquisition Companies.

Company name	NPM	ROCE	ROA	ROE	CR
Piramal Enterprises	69.436	10.258	4.592	28.758	3.35
Havells	38.758	93.274	45.422	84.296	6.732
Bharti Airtel	51.948	13.462	14.074	66.636	9.338

Aurobindo Pharma	63.936	47.68	47.5	81.354	6.404
Cyient	39.862	42.932	42.572	65.51	10.588
ONGC	25.864	18.642	17.604	43.406	3.856
Wipro	66.694	48.846	48.694	73.842	8.152
Tech Mahindra	49.312	49.348	50.1	81.126	9.12
Dr.Reddy's Laboratories Ltd	42.08	25.93	30.376	46.448	6.454
Axis Bank	28.244	1.826	1.806	19.724	14.596
Averages	47.6134	35.2198	30.274	59.11	7.859

The provided financial metrics paint a diverse picture of the mentioned businesses. Piramal Enterprises exhibits a significant net profit margin (NPM) of 69.44% but a comparatively low ROCE and return on equity. (ROE). Havells excels in ROCE and ROE, signifying efficient capital utilization and strong shareholder returns. Bharti Airtel showcases a balanced set of metrics with respectable values across the board. Aurobindo Pharma exhibits strong profitability, while Cyient maintains consistent metrics. ONGC, despite moderate NPM, displays sound capital efficiency. Wipro and Tech Mahindra reveal good returns and NPM, and Dr. Reddy's Laboratories showcases solid ROA. Axis Bank has relatively lower 39 profitability metrics. The average figures indicate healthy overall performance, with strong net profit margins and above-average returns on capital and equity, although context within industries is essential for a comprehensive analysis.

DESCRIPTIVE STATISTICS

A sample's or data set's properties, such as a variable's mean, standard deviation, or frequency, are described or summarised using descriptive statistics. We can better understand the aggregate characteristics of a data sample's main components with the help of statistical analysis.

	Net profit Margin	ROCE	ROE	ROA	Current Ratio
N	100	100	100	100	100
Mean	12.7950	9.8092	18.9605	8.0297	1.7461
Median	11.3450	9.1900	16.5250	8.8200	1.7250
St. Deviation	7.89415	9.01684	19.93127	5.39009	1.03846
Skewness	2.335	2.060	3.926	.453	.740
Kurtosis	8.896	6.082	17.631	.986	.539
Minimum	.99	.06	.72	.06	.37
Maximum	52.95	48.36	128.50	29.63	5.12

The net profit margin reveals the companies' profitability., with a mean value of approximately 12.8%. The ROCE, which measures efficiency in utilizing capital, has a mean of around 9.8%. ROE, a measure of profitability relative to shareholders' equity, shows a mean of 18.96%. ROA, reflecting profitability based on total assets, has a mean of 8.03%. The current ratio, representing short-term liquidity, has a mean of 1.75. The median values, being less affected 34 by outliers, generally provide a more central view of the data. For instance, the median net profit margin is 11.35%, median ROCE is 9.19%, median ROE is 16.53%, median ROA is 8.82%, and median current ratio is 1.72. Standard deviation indicates the degree of dispersion around the mean. Higher values, as seen here, suggest greater variability in the data. Skewness and kurtosis provide insights into the data's distribution shape. Positive skewness suggests a tail towards higher values, and positive kurtosis indicates heavier tails and potential outliers. Minimum and maximum values reflect the range within which the data points lie. Some metrics, like net profit margin and current ratio, have relatively constrained ranges, while others like ROCE, ROE, and ROA exhibit wider variability.

Paired Samples T-Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	NPM - NPM	14.50	29.36	9.28	-6.50	35.50	1.56	9.00	0.15
Pair 2	ROCE - ROCE	14.16	23.94	7.57	-2.96	31.29	1.87	9.00	0.09
Pair 3	ROA - ROA	8.06	7.66	2.42	2.58	13.54	3.33	9.00	0.01
Pair 4	ROE - ROE	47.70	106.99	33.83	-28.84	124.23	1.41	9.00	0.19
Pair 5	CR - CR	-1.15	3.19	1.01	-3.43	1.13	-1.14	9.00	0.29

The mean of the paired differences between the NPM values is 14.4952. The standard deviation and standard error mean provide information about the variability and precision of this difference. The 95 percent confidence level suggests that the true difference in NPM values could range from -6.5046 to 35.4950. The t-value and p-value indicate that the difference is not statistically significant at the chosen significance level of 0.05. This means that the observed There could have been a difference. by chance. The mean of the paired differences between the ROCE values is 14.1636. The standard deviation and standard error mean provide information about the variability and precision of this difference. The 95% confidence interval suggests that the true difference in ROCE values could range from -2.9628 to 31.2900. The t- 37 value and p-value that the difference is not statistically significant at the chosen significance level of 0.05. This means that the observed difference could have occurred by chance. The mean of the paired differences between the ROA values is 8.0594. The standard deviation and standard error mean provide information about the variability and precision of this difference. The 95% confidence interval suggests that the true difference in ROA values could range from 2.5827 to 13.5361. The t-value and p-value indicate that the difference is statistically significant at the chosen significance level of 0.05. This means that the observed difference is likely not due to chance and may represent a meaningful difference in ROA.The mean of the paired differences between the ROE values is 47.6978. The standard deviation and standard error mean provide information about the variability and precision of this difference. The 95% confidence interval suggests that the true difference in ROE values could range from -28.8394 to 124.2350. The t-value and p-value indicate that the difference is not statistically significant at the chosen significance level of 0.05. This means that the observed difference could have occurred by chance. The mean of the paired differences between the CR values is -1.1458. The standard deviation and standard error mean provide information about the variability and precision of this difference. The 95% confidence interval suggests that the true difference in CR values could range from -3.4252 to 1.1336. The t-value and p-value indicate that the difference is not statistically significant at the chosen significance level of 0.05. This means that the observed difference could have occurred by chance.

Limitations of the Study:

- Given that the outcomes are subject to a amount of restrictions, such as unstable economic climate based on results
- The study is concentrated on the revaluation of quantitative data
- Aside from Merger & Acquisitions Over time, micro and macroeconomic factors may also have an impact on the acquiring firm's accounting performance. This study has looked at how a merger affects the acquiring company's accounting performance
- The current study is only focused on the ten years 2012-2013 to 2017-2022

Conclusion:

This study discovered a connection between pre- and post-merger financial performance. The relationship between Net profit margin before and after a merger is positive, as was previously stated. Additionally, a positive correlation between pre- and post-merger return on capital employee was found. Similar to this, return on equity has significantly increased as a result of recent company mergers. The performance prior to and following the merger was then found to have a favourable impact on equity stockholders. To what end The goal of the study is to 43 assess each company's performance from 2013–2014 through 2020–2021 and compare them to one another in order to identify company differences and their effects on subsequent mergers and acquisitions. A number of financial criteria of the companies' performance increased after the merger, as we saw. It's possible that things will get better in the upcoming year, leading to the realisation of a sizable profit. Comparative financial statement analysis aids in identifying variations in business performance.

Scope of Further Research:

Merger and Acquisition are becoming common on a global scale. the key strategy for corporate restructuring especially as the finance industry develops. The development is a result of 20 mergers of very large businesses and financial institutions. Strong competition is also the primary driving element for merger activity. Businesses that are rivals in the same industry prioritise the economy in their competition. Think about things like scalability, cost effectiveness, and profitability.

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