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Effect of mergers and acquisitions on financial performance. A study of selected mergers and acquisitions in Indian corporate sector

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Abstract: **This paper studies the impact of mergers and acquisition on financial performance of selected mergers and acquisition in Indian corporate sector. It evaluate the pre and post merger performance of the merged companies using value added metrics of corporate performance such as Economic Value Added, Market Value Added and Return on net worth and analyze financial performance through Ratios. Taking 26 mergers between 2005 to 2010 because to have minimum 3years pre and post merger data to evaluate the financial performance of merged and acquired companies. The presents study is mainly based on secondary data.**

Keywords: **Merger and Acquisition, Financial performance, Economic value added (EVA), Market value added (MVA), Return on net worth.**

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Introduction

The main objective of any of the company is sustainable growth of business to maximize the wealth of its stakeholders. Due to liberalization, privatization and globalization the competition in Indian business market becomes very tough. This leads the necessity for small and medium size companies to reduce competition, expansion of business, modern technologies with less investment. This is possible by way of corporate restructuring in the form of merger, acquisition, takeover, consolidation, reverse merger, demerger etc. one of the significant objectives of any sovereign is to achieve high rate of economic growth. For achieving this, it keeps reviewing and improving its policies from time to time and introduces various measure, both at micro and macro levels. It also requires various regulatory measures to channelize all economic efforts to achieve its social and economic objectives and to prevent unhealthy practices entering in to its economic system which is detrimental to public welfare.

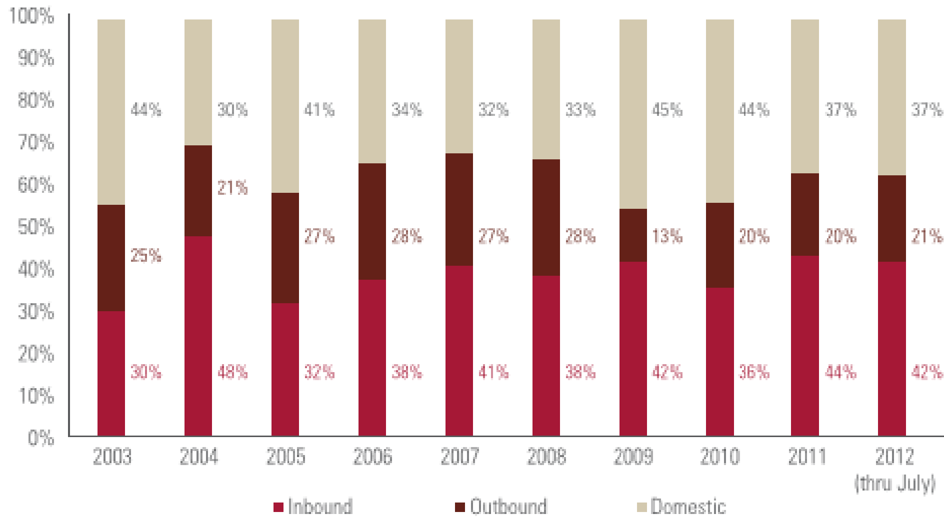
In purpose of these objectives, restrictions in India were placed on the corporate sector as per the provisions of various laws and regulations like Monopolistic and Restrictive Trade Practices, Industrial licensing policy etc. The MRTP Act 1969, placed restrictions on the expansion of an enterprise, establishment of new enterprise, division of undertaking, consolidation of undertakings and acquisition and transfer of shares of undertaking in order to check concentrations of economic power, control the growth of monopolies and prevent various restrictive trade practices likely to result from operation of economic system. The provision of FERA, 1973 placed restrictions on foreign investments in the country. These restrictions remained in vogue for over two decades and proved incompatible in keeping pace with the global economic developments to achieve the objective of faster economic growth. So, the government had to review its entire policy framework and initiate economic liberalization measure.

Though government began initiating steps toward liberalization in the post 1985 period, the real opining up of the economy started with the statement on industrial policy made in June 1991. This statement indicated continuity with change, the main thrust being on relaxation in industrial licensing, foreign investments, transfer of foreign technology and monopolies and restrictive trade practices laws. Since 1991, there been many industrial and economic reforms which have striven to clear the obstacles to faster the industrial development. MRTP Act has been amended and most of the sections restricting the expansion of companies have been deleted. Changes have also been made in FERA to permit foreign direct investment. The new Act,

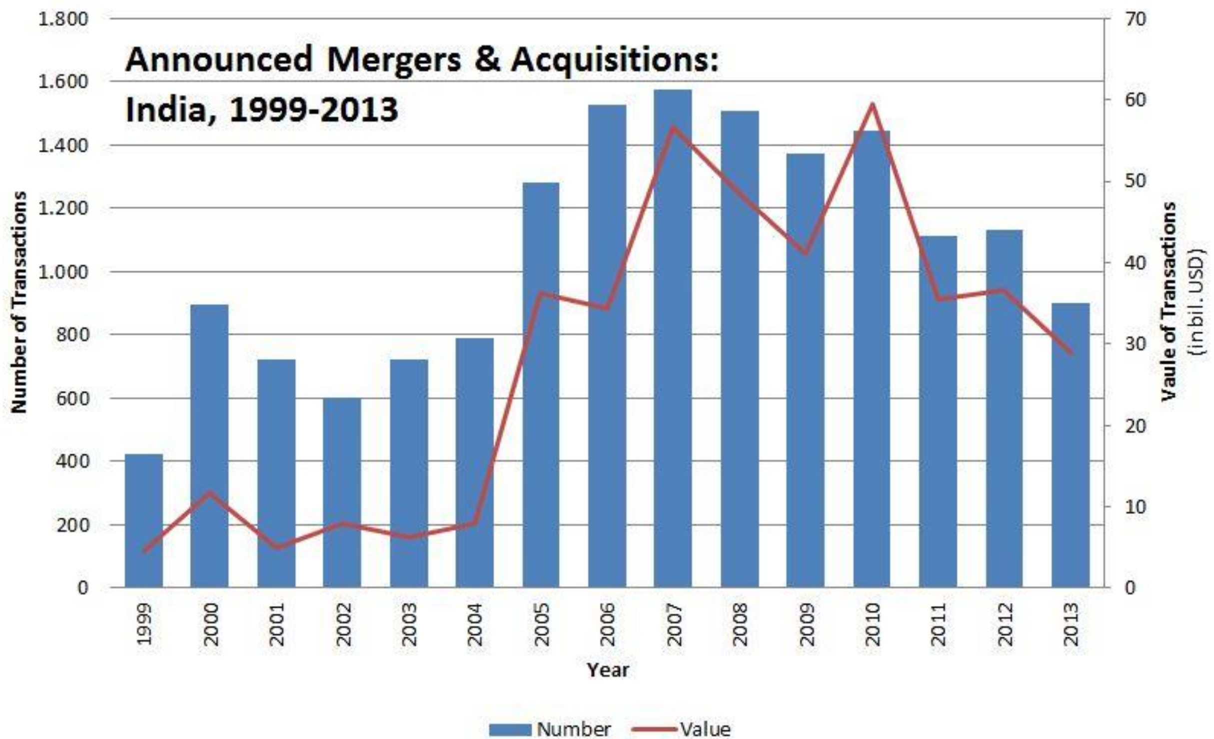
Foreign Exchange Management Act, 1999 (FEMA) has been introduced. Industrial licensing has been abolished in almost all industries.

Figure 1.1

Indian M&A volume



Source: mergermarket



Sources: From Institute of Mergers, Acquisitions and Alliance.

Literature review

Ansof (1971) found that after an acquisition, low sales growth companies showed significantly higher rates of growth, whereas, high sales growth companies showed lower rates of growth. However, even thought low sales growth companies showed higher rates of growth after acquisition, they actually suffered decreased in their mean P/E ratios, mean EPS and mean dividend payouts. The similar pattern of inconsistency found in the high sales growth companies whereby their performance levels for EPS, PE ratio, earnings and dividend payouts were greater.

Low sales growth companies financed their acquisitions through decreased dividend payouts and the use of new debts. In contrast, high sales growth companies with other strategies tended to decrease debts but increase dividend payout. Acquisitions were in general unprofitable, as they did not contribute to increase in the entire variable of the company's growth. Acquiring firms registered lower rates of growth as compared to the non-acquiring firms and this was more pronounced for low sales growth acquiring firms.

Ajit singh(1971) argued that after a two years period of takeover , there was a deterioration in their relative profitability records. He added that as in relation o the EPS, the biggest Potential losers are shareholders in bidding companies who were sacrificing profits for future growth. He added that those acquiring firms could have maintained their profitability records if they were not involves in takeovers and large companies tended to engage in higher gearing and this led to higher retention ratio and eventually higher growth is attained

Ingham (1992) concluded that small acquisitions into an existing organizational structure might be achieved without the severe problems of loss of control and subsequent decline in performance that beset large acquisitions. Allen and pat (1990) reiterated that an accepted premium should be no more than the discounted cash flows of a firm, as adjusted for any efficiencies or synergies the acquisition would exploit. In the Asian context. Most value creation (cost reduction) material from either worker layoffs or renegotiating supplier contracts during the merger process (fabric desmarescaux, 1998)

Share holders of target companies tend to benefit more from acquisition activities based on their cumulative average residuals (Kwansa 1994). Firth (1979) pointed out that there were no significant gains correlated to takeover and surprisingly the companies could not sustain their gains during their post acquisition period. With the view of considering types of shareholders, it seems long term shareholders do not gain significantly from merger acquisitions (loughran and vijh, 1997). This point is also reiterated by Kiymaz and Mukherjee (2000) as the participating companies failed to realize gains once the mergers were completed. Kummer and Hoffmeister (1978) found that share prices of the acquiring companies experience systematic deterioration during the post merger period.

Andrade and Stafford (2004) determine motivating factors for mergers both at industry and firm levels. The authors investigate the economic role of mergers in the US by performing a comparative study of mergers and other forms of corporate investment at both industry and firm levels. They find that industry capacity utilization has the opposite effects on merger and non-merger investments particularly during the 1970s and 1980s. While excess capacity drove industry consolidation through mergers, peak capacity utilization induced industry expansion through non-merger investment.

Maquieira, Megginson, and Nail(1998) examine 260 mergers in the US. They find significant net synergistic gains in non-conglomerate mergers and insignificant net gain in conglomerate mergers. Rhodes-Kropf, Robinson and Vishwanathan (2004) argue merger waves occur when the aggregate industry market valuation, measured as market to book value ratio, is high compared to estimates of true valuations.

The study conducted by Parama Barai and Pitabas Mohanty concluded that the model that result from the logic analysis using industry weighted data give credence to the hypothesis that, in the Indian context, the typical target is one which has high growth potential along with high levels of free cash flow in spite of high leverage, that is, an inherently strong company valued highly in the market, but saddled with inefficient management. Size, which has been found to be significant in studies based on the US and the UK, was found to be trivial here. For prediction, the cut-off probability to be used for classification is derived from two methods, the minimization of Errors method proposed by palepu (1986) and the maximization of returns method put forward by powell(2001). It is found that the second method produced significantly greater accuracies of prediction. Thus, the combined greater accuracies of prediction. Thus, the combined effect of

using industry weighted financial ratios and cut-off calculation with maximization of return method can improve prediction accuracies significantly, implying that these should be incorporated in future acquisition studies. However, the target concentration in the predicted portfolio is still found to be very small.

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Substantial academic literature has underscored the importance of due diligence in target selection, making it one of the most crucial managerial decisions in undertaking acquisitions. Research on predictive models for acquisition target has relevance to all participants in acquisition industry who are involved in finding a target that best fits their requirements. This research provides insights into some of the factors to be considered, to arrive at more thoughtful assessments of the attractiveness of a potential target. A preliminary shortlist can be obtained by following the methodology adopted in this and other similar studies, betaking
variables that justify the realities of their search.

The study conducted by Dr. K.A.Goyal and Vijay Joshi on mergers in Banking Industry of India some emerging issues occluded that Banking sector one of the fastest growing areas in the developing economies like India. M&A is discussed as one of the most useful tool for growth, which has evoked the interest of researchers and scholars? Indian economy has witnesses fast pace of growth post liberalization era and banking is one of them. M&A in banking sector has provided evidences that it is he useful tool for survival of weak banks by merging into larger bank.
It is found in our study that small and local banks face difficulty in bearing the impact of global economy therefore, they need support and it is one of the reasons for merger.

The study conducted by Vikas Garg and satish Kr on mergers concludes that, in simple terminology, mergers are considered as an important tool by companies for purpose of expanding their operation and increasing their profit, which in façade depends on the kind of companies being merged. Indian markets have witnessed burgeoning trend in mergers, which may be due to business consolidation by large industrial house, consolidation of business by multinationals operating in India, increasing competition against imports and acquisition activities. Therefore, it is ripe time for business housed and corporate to watch the Indian market, and grab the opportunity.

The resutls of studies by Kummer and Hoffmeister(1978) , Dodd and Ruback (1977) Bredle (1980) and Bradley, Desai and Kim(1982) observed positive and significant abnormal Performance surrounding the event dates, thus concluding that takeovers are value maximizing decisions in which markets expect benefits to the bidding firm after the tender offer is successfully completed.

several market in several years create negative abnormal returns. Valuation effects of information leakage about M&A deals are statistically significant.

The study conducted by B.S.Chui sage international group limited Hong Kong has conclude that in conducting M&A activity , it is necessary to work on how to minimize the risk of implementation, people, cultures, different legacy systems, business which need to be considered. The important things that the M&A project manager should concern about are wether the project can be done with the objective of the M&A activity. The implementation of M&A project is not something that should be approached without a great deal of careful planning. Some obstacle should overcome at the path of implementation as well. The successful factors that should pay attention to are time, quality and cost of the project associated with real situation in the M&A process.

As from the illustration in this paper, the best target company that is more preferred to undergo merger or acquisition can be screened by the proposed M&A risk management model, so as to initially figure out which company is the best that can reduce most risks in the M&A activity, i.e the partner selection can reduce most possible risks from the M&A process. Moreover, the model can also identify the most important factors that can affect M&A activity. However, it needs to note that one of the major deficiencies of the model is that it is highly depends on the experts initial weighting on the factors, and the weighting also needed to be controlled by the project team, and find the most appropriated strategies to cope with.

Need of the study:

Many researchers conducted study on mergers and acquisition in western country where as in India only few of researchers have conducted study on Mergers, Acquisitions. Because of this and as it's a very important strategy to expand to generate synergic benefit and compete in better way. I have chosen this as my research area.

SIGNIFICANCE OF THE STUDY

"Peter Drucker has written that the chief strategic resource of the next 10year will be neither capital nor knowledge, but the ability to form powerful partnership. Some people run the race their own without purpose. Running by individual takes time. Collaborations and strategic alliance make the race winning"

One plus one makes three: this equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies – at least, that's the reasoning behind M&A. This rationale is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost efficient company. The companies will come together hoping to gain a greater market share or to achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone on the Merger, acquisitions and corporate finance world. Dramatic events in mergers, takeovers, restructuring and corporate control fill the newspaper headlines, every day. This is because: the common ways to expand any business include making strategic acquisition or merger with another business.

Indian economy is currently witnessing a sea change from the controlled environment to the market driven environment. Increasing shareholder values is the golden rule which Indian corporate are increasingly focusing on, as a means and end to survive and grow under the fast changing economic scenario. Merger and acquisition activity has become a part and parcel of the corporate and professional life. M&A is a sporadic event and there is very little scope for companies to learn from their past experience. Therefore, to determine the success of a merger, it has to be ascertained if there will be any economic gain from mergers. Post-merger economic gain will be generated only if the two companies are worth more together than apart. The basic motive of M&A can be understood as an attempt to create value. There are many reasons that appear to apply to each merger. Among the explanations offered at various times has been exploitation of economies, synergy, acquisition of market share, growth, diversification, tax advantage etc. Most mergers are controlled by multiple motives rather than single a one. However, many motives are characterized as having a hidden agenda (not expressed) or fake motive (intending to mask real ones). Many motives may not be consistent over time but shift, change character, emphasis and priority in the course of time. An acquisition involves acquiring ownership in the tangible and intangible assets of the business. An acquisition is the purchase, by the company of the controlling interest in the share capital of an existing company. When a company is acquired by another company, the acquiring company has two options: The first is to merge both the companies into one and operate as single entity and the second is two operate the takeover company as an independent entity, may be with changed management and changed policies. The first option is known as merger and second option is known as takeover. The merger has been defined as arrangement whereby the assets of two or more companies become vested in, or under the control of one company (which may or may not be one of the original two companies), which has its shareholders, all or substantially all the shareholders of the two companies. It may also include fusion of two or more companies in to another.

Synergic factor prompts most of the companies. The synergy in business pertains to the cost saving and revenue enhancement. The companies after merger decrease the staff keeping only the skilled labor, work with a single managing director, CEO etc. so there is good outlay saving. Moreover the economy of the sale i.e. the purchasing power of the company booms after merger.

Many mergers are made with the intension to oust the competitions and jointly rule the market. This presupposes healthy relation between the competing companies. Due to some or the other cause like the lack of required investment in the form of capital, tremendous competition etc. In such a situation this company can merge with one its parent company or any other company that has faith in the prior goodwill of the declining company and in its potential to grow and enhance. So companies also merge in order to overcome their internal inconsistencies.

A target company with good management and process systems will be useful to a buyer who wants to improve their own. Ideally, the buyer should choose a company who possesses systems that complements their own and should adapt to running a larger business.

Better production or distribution facilities are often less expensive to buy than to build. So, acquirer has to choose a target company that is only marginally profitable and have large unused capacity which can be bought at a small premium to net asset valu

SEBI MAKES AMENDMENTS TO THE TAKEOVER REGULATIONS

BACKGROUND

The Securities and Exchange Board of India (SEBI) has issued a notification on 26 March 2013 amending the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 2011(Takeover Regulations). This update aims to capture the key highlights of the said amendments.

PUBLIC ANNOUNCEMENT FOR MULTIPLE METHODS OF ACQUISITION

A new Regulation 13 (2A) has been inserted in the Takeover Regulations. This provides that in case of a public announcement, referred to in Regulation 3 and Regulation 4 of the Takeover Regulations, for a proposed acquisition of shares or voting rights in or control over the target company through a combination of (i) an agreement and any one or more modes of acquisition referred to in Regulation 13(2); or (ii) otherwise through any one or more modes of acquisition referred to in Regulation 13(2), would be required to be made on the date of the first of such acquisitions. This means that the acquirer cannot wait for making a public announcement till the open offer trigger is actually crossed in a series of successive acquisitions. Further, the acquirer is tasked with having to disclose the details of proposal to make all subsequent acquisitions in such public announcement.

For example, if an acquirer proposes to acquire 40% equity shareholding in the target company through 3 stages, i.e. 10%, 16% and 14% and in that sequence, then the public announcement on the entire sequence of acquisition would be required to be made on making of the first acquisition of 10%. However, the aforesaid would only apply if the acquirer has proposal for multiple acquisitions at the first instance. If, however, shares are acquired below the trigger point for public announcement under the Takeover Regulations and further shares are later acquired without the later acquisition being part of the original proposal, then in such case the public announcement would be triggered only when the open offer trigger under the Takeover Regulations is crossed.

PUBLIC ANNOUNCEMENT IN CASE OF ACQUISITION BY WAY OF A PREFERENTIAL ISSUE

Regulation 13(2)(g) of the Takeover Regulations, which provides for public announcement in case of preferential issue of shares, has been amended. It is now provided that the public announcement in such a case would be made on the date when the board of directors of the target company authorizes such resolution. The erstwhile requirement was that public announcement would be made on date of passing of special resolution approving the preferential issue.
Further, an amendment has also been made to Regulation 23 which provides for withdrawal of open offer in certain circumstances. Regulation 23(1)(c) has been amended by adding a proviso which provides that in case the acquisition through preferential issue is not successful, the open offer would still not be withdrawn. Though chances are slim, technically, these amendments may prove to be very onerous for an acquirer when the shareholders so not approve a proposed preferential issue of shares under Section 81(1A) of the Companies Act 1956. Further, these amendments would also affect the pricing in case of an open offer since the minimum offer price under the Takeover Regulations is calculated with reference to the date of public announcement.

ACQUISITIONS DURING OFFER PERIOD
A new Regulation 22 (2A) has been inserted providing that where the acquisition is proposed through preferential issue or through stock market settlement process other than bulk/block deals, the acquirer can acquire such shares while the open offer is in process. However, such shares would need to be kept in an escrow account and the acquirer would not be permitted exercise voting rights on such shares. The shares in the escrow account may, however, be released after 21 working days of the public announcement if the acquirer deposits 100% of the open offer amount assuming full acceptance as provided in Regulation 22 (2).

DISCLOSURES ON ACQUIRER’S HOLDING FALLING BELOW 5%
Regulation 29(2) of the Takeover Regulations has also been amended by the said notification. In addition to the requisite disclosure of change in shareholding or voting rights exceeding 2% in the target company by persons acting in concert already holding 5% or more shareholding or voting rights, the amendment requires disclosure to be made even in case of a change in the shareholding or voting rights of the acquirer falling below 5% in the target company. This amendment just clarifies the position on disclosure by the acquirer in case of sale of shareholding in the target company.

BUYBACK OF SHARES
Regulation 10(3) of the Takeover Regulations has been amended now providing that where there is an increase in voting rights of a shareholder in a target company triggering an open offer in case of buyback of shares, such shareholder shall be exempt from the obligation to make an open offer provided such shareholder reduces his shareholding such that its voting rights fall below the threshold referred to in Regulation 3(1) within ninety days from the date of closure of said buyback offer by the target company. Prior to this amendment, the reference date of reducing the shareholding was ninety days from ‘on which the voting rights would increase’. Similarly, Regulation 13(2)(h) has been amended which now provides that the public announcement pursuant to an increase in voting rights consequential to a buyback not qualifying for exemption under Regulation 10, would be made not later than the ninetieth day from the date of closure of the said buyback offer by the target company. Prior to this amendment, the reference date of making such public announcement was ninety days from ‘on which the voting rights would increase beyond the relevant threshold stipulated in Regulation 3’.

In a merger one of the two existing companies merges its identity in to another existing company, or one or more existing companies may form a new company merge their identities in to the new companies by transferring their businesses and undertakings all other assets and liabilities to the new companies (i.e. merged company). The shareholders of companies (s) whose identities have been merged (referred here as merging company(s)) get substantial shareholding in the merged company based on the share exchange ratio incorporated in the scheme of merger as approved by majority of shareholders of both merged and merging companies. The situation may be illustrated as under: Assume there are two companies X and Y which decide to merge: Option one: Where X company merges in to Y Company Combined merged company emerged Y Ltd. Option Two: Where Y company merges in to X Company Combined merged company emerges as X Ltd. Option Three: X Company and Y Company both merged to form a new Company Z. combined merged company emerges as Z Ltd. Amalgamations the legal process by which two or more companies join together

to form a new entity, or one or more companies are blended with another and as a consequence, amalgamating company loses its existence and its shareholders become shareholders of new company or amalgamated company.
As per Companies Act, 1956 (legislation that facilitates amalgamation), the terms merger and amalgamation are synonymous and not defined anywhere in the Act. Sections 390- 396 A of Companies Act define statutory provisions relating to these terms. As per the mandatory Accounting Standards AS-14 issued by the institute of Chartered Accountants of India (ICAI), amalgamation pursuant to the provisions of Companies Act or any other statute, which may be applicable to the companies.
Two methods of amalgamation are contemplated in AS-14:
a) Amalgamation in the nature of merger
b) Amalgamation in the nature of purchase

Amalgamation in the nature of merger is an organic unification of two or more entities or undertakings or fusion of one with another. Amalgamation in the nature of purchase is where one company's assets and liabilities are taken over by another and lump-sum is paid to the former by the latter. Both these amalgamations are within the purview of

Sections 390-396 A of Companies Act.

As per Income Tax Act, 1961, merger is defined as amalgamation under section 2 (1B) with the following 3 conditions to be satisfied:

1) All the properties of amalgamating company (s) should vest with the amalgamated company after amalgamation.
2) All the liabilities of Amalgamation Company (s) should vest with the amalgamated company after amalgamation.
3) Shareholders holding not less than 75% in value or voting power in amalgamating company(s) should become shareholders of amalgamated company after amalgamation.

Takeover is a general term used to defined acquisitions only and terms, acquisition and takeover, can be used interchangeably. A takeover may be defined as series of transactions, whereby, a person, individual, group of individuals or a company acquires control over the assets of a company, either directly by becoming the owner of those assets or indirectly by obtaining control of the management of the company. Takeover may be of the different types depending upon the purpose of management for acquiring a company.

1) A takeover may be straight takeover which is accomplished by the management of the company by acquiring shares of another company with the intention of operating 'taken over company' as an independent legal entity.
2) The second type of takeover is where ownership of company is captured to merge both companies into one and operate as single legal entity.
3) A third type of takeover of a sick company for its revival. This is accomplished by an order of Board for Industrial and Financial Reconstruction (BIFR) under
the provisions of Sick Industrial Companies (Special Provisions) Act, 1985.
4) The forth kind is the bail-out-takeover, which is substantial acquisition of shares in a financially weak company, not being a sick industrial company, in pursuance to a scheme of rehabilitation approved by public financial institution which is responsible for ensuring compliance with provisions of Substantial Acquisition of Shares and Takeovers Regulations, 1997 issued by SEBI which regulate the bail-out-takeovers. The regulatory framework for controlling takeover activities of a company consists of Companies Act, 1956, Listing Agreement and SEBI Takeover Code. Section 372 A of Companies Act is applicable to acquisition of shares through a company. The takeover of listed companies is also regulated by Section 40 A and 40 B of Listing Agreement which seek to regulate takeover act ivies by imposing certain requirements of disclosures and transparency. The Securities and Exchange Board of India had earlier issued SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1994 which was repealed by SEBI (Substantial

Acquisition of Shares and Takeovers) Regulations, 1997 issued on 20th February, 1997 and further amended on 28th October, 1998.
Therefore, there is a need to study motives for mergers and acquisitions which can be helpful in assessing the scope and degree of their financial success. Many researchers have been conducted in US and U.K. in this regard. However, a comprehensive empirical study is lacking in India. This study attempts to fill this void in the Indian context.

Telecom Merger And Acquisitions (M&A) Guidelines 2014 Of India

Telecom stakeholders are all excited due to the recent developments that have taken place in the telecom sector of India. The fact is that telecom environment of India is fast changing and this has given rise to many unique opportunities for the stakeholders around the world.
Pro active polices and guidelines like electronic system design and manufacturing, merger and acquisition (M&A) guidelines, FDI policy for telecom sector of India 2014 (PDF), approval to establish two semiconductor wafer fabrication manufacturing facilities in India (PDF), etc have already been announced by Indian government.
The guidelines for merger and acquisitions of telecom companies in India 2014 (PDF) have also been issued and many international telecom companies have shown their interest in this regard. The M&A policy for the telecom sector were scheduled to be presented before the cabinet for approval on 27 February 2014.
Nevertheless, the background developments and exercises have already started in the telecom field. National and international telecom companies have started exploring partnership; join venture, acquisitions and M&A possibilities.
At the same time regulatory compliances have also significantly increased in India in the telecom related fields. For instance telecom due diligence compliances is required to be ensured by foreign investors and those interested in M&A with Indian companies. Further, telecom stakeholders exploring the M&A route must also comply with the Internet intermediaries requirements and cyber law due diligence requirements (PDF) as prescribed by the Information Technology Act, 2000 (IT Act 2000).
Taxation issues have been at the core of dispute between big telecom companies and Indian Government. For instance, companies having commercial presence in India were accused of violating the transfer pricing laws of India. Transfer pricing orders have already been issued against Vodafone and Shell India and Nokia has been accused of violating the income tax and transfer pricing laws of India.
There are provisions under the Income Tax Act for avoidance of tax by certain transactions in securities and avoidance of income-tax by transactions resulting in transfer of income to non residents. To further curb income tax avoidance and to check black money accumulation in foreign jurisdictions, Income Tax Overseas Units (ITOUs) of India in foreign countries would also be established.
The Telecom Merger and Acquisitions (M&A) Guidelines 2014 of India must be read subject to all these techno legal requirements. Companies looking forward to M&A would also take the rights and obligations of the merged entity. A wrong telecom due diligence compliance may saddle them with unnecessary legal and financial liabilities.

OBJECTIVES OF THE STUDY

In the context of the above stated need the following objectives have been formulated in the study:
(i) To evaluate the pre and post-merger performance of the merged companies using the value added metrics of corporate performance such as Economic Value Added, Market Value Added and Return on Net Worth.
(ii) To examine the motives of corporate mergers in India as avowed in their merger schemes and to assess if, motives as avowed in the schemes have been fulfilled or not.

(iii) To evaluate the pre-and post-merger financial performance of merged companies and examine the influence of motives variables on mergers on mergers such as
a) Profit maximization
b) Growth
c) Tax Consideration
d) Diversification
e) Leverage
(iv) To suggest appropriate strategy for merger and acquisition of Indian industry.

HYPOTHESIS OF THE STUDY

To accomplish the objectives of the study, the following null hypotheses have been developed for empirical testing:
H.1 Mergers and acquisitions do not result in value addition to existing shareholders.
H.2 Merger in India is not predominantly horizontal.
H.3 There is no difference between pre- and post-merger performance of merged companies under the study period.
H.4 Synergy in profits, acquisition of market share, tax consideration and diversification, all do not result in value addition to existing shareholders.
H.5 There is no significant difference in the value addition to the existing shareholders due to Growth and Leverage.
H.6 Motives as avowed in the merger schemes have not been effected after mergers

The Sample & Data Collection

The study includes companies which have undergone merger and Acquisition during 2010. Out of total mergers and acquisition I have selected 10 companies for in depth analysis of 3years pre and 3years post merger financial performance to give a somewhat clear picture of their success or failure. The financial and non-financial data used in the study has been mainly drawn from Centre for Monitoring Indian Economy (CMIE) 'PROWESS" and Capital-line Database of Capital Market, and Bonanza make money not mistakes which is also considered as the most reliable Indian corporate database. Prowess a highly normalized database for over 13000 companies in India. This database is supplemented with powerful analytical software tools to enable extensive research.

TOOLS AND TECHNIQUES FOR ANALYSIS

This study has made the following analysis in terms of the objectives:

Post-Merger EVA Analysis

The onset of liberalization in the last ten years has shifted the focus of corporate goals to enhancing shareholder value. So, post-merger analysis of merged companies has been carried out in terms of value addition to shareholders. For this purpose, two method of measuring shareholder value have been employed. Firstly, broad measures comprising the value added twins namely, Economic Value Added (EVA) and Market Value Added (MVA) and secondly, the traditional measures of Return on Net worth (RONW) have been applied.
EVA, a new performance metric popularized by Stern Stewart of U.S. has started gaining popularity as a superior tool for measuring corporate performance. EVA indicates the amount of economic value created in any single accounting period and is simply stated as the amount a company earns in excess of its capital.

EVA = Net operating profits after taxes- Cost of capital employed
= NOPAT – COCE

Where,
NOPAT- Profit after tax after subtracting tax adjusted interest
COCE- Weighted average cost of debt and equity capital X capital

While EVA measures shareholder value addition in terms of operating performance, its twin measure, MVA measures the markets' assessment of firm's value.
MVA = Market value – Capital employed of company
The relatively narrower measure of shareholder value creation is Return on Net worth (RONW) which is profit after tax divided by shareholders wealth in the company i.e. paid up capital + free reserves. This measure nets out the recommitted payment obligations to all classes of creditors and focuses only on wealth created for residual claimants.
Broadly,

$$RONW = \frac{\text{Profit after tax}}{\text{Net Worth}} \times 100$$

$$= \frac{PAT}{NW} \times 100$$

Method of Analysis
Using value added metrics following analysis has been carried out for selected companies for four post merger years.
(1) Intra-company comparison is carried out over post merger period to see if shareholder Value has improved over the post merger period.
(2) Inter company comparison is carried out for average post merger period to know who are the gainers in this detritus of shareholder value after merger.
For this purpose, absolute EVA and MVA data have been converted in to relative figures using following formula:

$$EVACE = \frac{EVA}{CE} * 100$$

Where,
EVACE: Economic Value Added as a percentage of capital employed.
EVA: Economic Value Added
CE: Capital Employed

Introduction:-
This deals with the analysis of companies and at industry level using tool like RONW selected companies of post and premerger period is given below:
Table shows RONW AND INTRA COMPANY COMPARISON

Sr No.	Company	RONW						
		POST			PRE			
		2013	2012	2011	2010	2009	2008	2007
1	Eco Recycling Ltd	1.97	1.39	2.62	.51	.13	10.09	10.40
2	Hindalco Industries Ltd	5.08	7-10	7.19	6.86	9.38	16.54	20.65
3	ACC Ltd	14.00	14.37	18.42	17.31	26.70	24.61	34.64
4	ADF Food Industries Ltd	10.01	9.07	14.67	14.60	11.79	10.13	18.95
5	AIA Engineering Ltd	15.60	15.74	15.43	16.47	20.57	20.62	15.72
6	AARTI Drugs Ltd	21.79	12.72	14.35	18.49	12.54	11.99	13.12
7	Aegies Logistics Ltd	12.40	13.79	11.80	20.90	17.72	24.81	19.90
8	Almondz Global Services Ltd	.01	-3.32	6.12	10.67	6.63	12.15	21.73

9	Amtek Auto Ltd	9.39	6.65	1.91	3.92	5.98	11.22	13.96
10	Ansal Properties Ltd	2.66	2.13	4.82	5.51	4.67	15.07	14.23

Group 1
Set six companies have shown improvement in their profitability in terms of RONW in the three post merger years. The companies which have shown marked improvement include Eco Recycling ltd, Hindalco Industries ltd, ACC ltd, Adf Food industries ltd, AIA Egg ltd and Aarthi drugs ltd.
Group 2
Set of four companies have shown decrease in profitability in terms of RONW in the three post merger years. The companies which have shown decrease in profitability includes Agies logistics ltd, Almondz Global Services ltd, Amtek Auto ltd, Ansal Properties ltd.

This deals with the analysis of companies and at industry level using tool like MVACE of selected companies of post and premerger period is given below:
Table shows MVACE AND INTRA COMPANY COMPARISON

Sr No.	Company	MVACE						
		PRE			POST			
		2013	2012	2011	2010	2009	2008	2007
1	Eco Recycling Ltd	207	35.2	59.05	230.6	-74.4	218.4	155.5
2	Hindalco Industries Ltd	4.653	1.847	-1.322	29.72	0.49	-12.743	0.0281
3	ACC Ltd	8749.2	6631.2	2635.7	1929.2	1568.53	880.9	2141.6
4	ADF Food Industries Ltd	210.13	-144.16	-97.33	23.25	207.9	-194.4	34.22
5	AIA Engineering Ltd	835.87	4239.94	12150	11918.6	5382.35	5.54	122.66
6	AARTI Drugs Ltd	103.62	-12	-20.48	-0.80	-8.846	-34.81	-23.52
7	Aegies Logistics Ltd	342	89.85	209	415.4	429.2	154.73	395.75
8	Almondz Global Services Ltd	43	-245	-208	-93	185	-90	59
9	Amtek Auto Ltd	57.28	-97	-47	-23.45	6	-64	91.17
10	Ansal Properties Ltd	66	-203.4	35.2	-55	-13.53	-94	125.34

Group 1
Set six companies have shown improvement in their Market value in terms of MVACE in the three post-merger years. The companies which have shown marked improvement include Eco Recycling ltd, Hindalco Industries ltd, ACC ltd, Adf Food industries ltd, AIA Egg ltd and Aarthi drugs ltd.

Group 2
Set of four companies have shown decrease in Market value in terms of MVACE in the three post merger years. The companies which have shown decrease in profitability includes Agies logistics ltd, Almondz Global Services ltd, Amtek Auto ltd, Ansal Properties ltd.

This deals with the analysis of companies and at industry level using tool like EVACE selected companies of post and premerger period is given below:
Table shows EVACE AND INTRA COMPANY COMPARISON

Sr No.	Company	EVACE

		PRE			POST			
		2013	2012	2011	2010	2009	2008	2007
1	Eco Recycling Ltd	0.7045	-16.709	2.46	-0.3301	-1.143	18.71	12.63
2	Hindalco Industries Ltd	2.251	0.423	4.252	4.095	6.05	30.537	27.745
3	ACC Ltd	578.49	355.17	177.53	136.92	202.8	10.804	276.41
4	ADF Food Industries Ltd	29.92	20.42	51.20	22.53	-18.87	26.60	15.75
5	AIA Engineering Ltd	100.52	325.6	627.9	589.28	235.25	5.64	352.13
6	AARTI Drugs Ltd	8.18	0.89	35.15	4.34	6.40	-0.363	0.66
7	Aegies Logistics Ltd	20	27.12	25	33	49	48	34.24
8	Almondz Global Services Ltd	-14.09	0.184	12	21.25	18.4	11	8.02
9	Amtek Auto Ltd	7.39	4	-4	1.2	3	10	16.14
10	Ansal Properties Ltd	-4.732	-6	2.4	8.4	2.4	14.3	42.63

Group 1
Set four companies have shown improvement in their Economic Value in terms of EVACE in the three post merger years. The companies which have shown marked improvement include ACC ltd, Adf Food industries ltd, AIA Egg ltd and Aarthi drugs ltd.
Group 2
Set of four companies have shown decrease in their Economic value in terms of EVACE in the three post merger years. The companies which have shown decrease in profitability includes Eco Recycling ltd, Hindalco industries ltd, Agies logistics ltd, Almondz Global Services ltd, Amtek Auto ltd, Ansal Properties ltd.

INTER COMPANY ANALYSIS WITH RONW, MVA, AND EVA

Sr No	company	Average RONW	Average MVACE	Average EVACE

		Post	Rank	Pre	Rank	Post	Rank	Pre	Rank	Post	Rank	Pre	Rank
1	Eco Recycling ltd	1.9	8	5.3	10	100.41	4	132.52	4	-4.51	10	7.46	9
2	Hindalco industries ltd	6.5	5	13.35	6	1.73	6	4.37	7	2.29	7	17.10	4
3	ACC ltd	16	2	26	1	6005.36	1	1630,05	2	370.39	1	156.73	2
4	Adf foods industries	11.25	4	14	5	-10.45	7	17.74	5	33.84	3	11.5	7
5	AIA Egg ltd	16	2	18.35	3	5741.93	2	4357.28	1	351.34	2	295.57	1
6	Aathi drugs ltd	16.3	1	14.035	4	23.713	5	-16.99	10	14.74	5	2.75	10
7	Aegies logistics ltd	13	3	20.83	2	213.62	3	348.77	3	24.04	4	41.06	3
8	Almondz Global service ltd	0.93	9	13	7	-136.66	10	15.25	6	-0.63	8	14.66	6
9	Amtek Auto ltd	6	6	9	9	-86.72	9	2.43	8	2.46	6	7.58	8
10	Ansal Properties ltd	3.20	7	10	8	-34.133	8	-9.29	9	-2.77	9	16.93	5

The above table shows that in Average RONW Aarthi drugs ltd in post merger has acquire 1Rank with 16.3% growth in RONW in post merger period and ACC ltd has show growth of 6005.36% in post average MVACE secured 1st Rank, in average EVAC E again ACC ltd has acquired 1st rank by showing growth rate of 370.39% in post merger period. It shows cement industry will have more growth in post merger period compare to other industry in India.

Industry correlation analysis

Sr No	Parameters	Correlation values
1	RONW	0.7712
2	MVACE	0.0001323
3	EVACE	0.000007172

Hence there is a fairly high degree of positive correlation between post and pre merger average of RONW, MVACE and EVACE. We may therefore conclude that in general RONW, MVACE, EVACE has increased post merger period wealth.

LIMITATIONS OF THE STUDY

♦ Impact of mergers on financial performance of companies due to certain other factors such as change in industry, economy, and stock market have not been covered by this study.
♦ This study is based on secondary data and secondary data has its own limitations.
♦This study is limited to the merger of the selected companies and the findings cannot be generalized to whole industry.
♦ There are many approaches to measure the impact of merger on financial performance of the company. There is no unanimous opinion among the experts. So the researcher has taken the approaches, which might be appropriate for the study.

CONCLUSION

The changes relating to disclosures and reference date in buyback of shares by the target company are only clarificatory in nature. However, the changes brought by SEBI in terms of timing of making a public announcement in case of successive and connected acquisitions of shares or voting rights in the target company as well as those concerning timing of public announcement as well as withdrawal of open offer in case of acquisition by way of preferential issue are quite significant. Many obstacles have been removed from MRTP Act and introducing new Act, Foreign Exchange management Act, 1999(FEMA) which has given more importance for expansion of business through mergers and acquisitions. Which intern created more scope for mergers and acquisition in Indian corporate?
The analysis of this study shows that Drug and cement industry has got more growth in post merger Average RONW, Average EVACE and Average MVACE than any other industry which have chosen for the study. All other companies are also shown growth in Average RONW, MVACE and EVACE in post merger period.

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