"MERGER AND ACQUISITIONS IN INDIA: A CASE STUDY ON INDIAN INFORMATION TECHNOLOGY SECTOR"

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ABSTRACT:

The purpose of this study to understand the concept of Merger/Acquisition in detail by taking examples of some companies. The objective is to find out the major issues associated with pre and post merging situations with special emphasis on the human aspect.In today's era the business entities have discovered M & A activity as the best tool to safeguard from the risks, gaining high profits through competitive advantage and improving the performance through efficiency gain. The number of M & A activities in IT sector in recent times has boost up not only in India and change in the financial performance post-merger activity in Indian IT sector. For this purpose, a set of 5 financial ratios have been analyzed of the sample companies listed in Bombay Stock exchange for pre 3 years and post 5 years period and an improvement in return to assets ratio and least impact on earnings per share and return to equity ratio in the merger cases taken as samples. The net profit and return on capital employed also marked an improvement in some cases depicting that merger has positive impact on performance of companies. Companies are acquiring more and more firms to expand their business and with lots of reasons which are discussed here. If any company is not adopting this way either they will not grow or will be acquired by the other major big firm.

Keywords: Merger, acquisition, IT Sector, Performance.

1. INTRODUTION:

Mergers and acquisitions (abbreviated M&A) are both aspects of corporate strategy, corporate finance and management dealing with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture. Mergers and acquisitions activity can be defined as a type of restructuring in that they result in some entity reorganization with the aim to provide growth or positive value and to face the challenge of increasing competition and to achieve synergy in business operations . M&As are not new in the Indian economy. In the past also, many companies have used this mechanism to grow and now Indian corporate enterprises are refocusing on the lines of core competence, market share, global competitiveness and consolidation.

This process of refocusing has been further hastened by the arrival of foreign competitors. Mergers and acquisitions, like organizational transitions in general, are typically followed by major structural and cultural changes. This discusses impact of merger with reference to human resource aspect, it has integrated most of the significant management subjects under considerations into the judgment. The results of this study provide relatively strong support for the existence of a positive relationship between employee participation from top to bottom with employee satisfaction, motivation and performance.

2. MERGERS AND ACQUISITIONS; CURRENT SCENARIO IN INDIA

Merger and acquisition (M&A) are the path or direction for businesses to achieve exponential result with not just linear growth and therefore continues to generate interest. The Indian M&A landscape are no different. M&As have become an integral part of the Indian economy and daily headlines. Based on macroeconomic indicators, India is on a growth trajectory with the M&A trend likely to continue. The catalysts for M&A could be varied, but almost invariably, inorganic growth is on top of the agenda. This is especially even with the government's efforts to improve ease of doing business in India, the gestation period for green field projects continues to be long, often rife with compliance with multiple regulations. Thus, for any business, inorganic growth through M&A continues to be an attractive option. Some of the other catalysts for M&A could be:

- Desire to reduce dependence and hence either backward or forward integration by way of investing in another function of the supply chain
- Distressed sales, leading to a business potentially being available 'cheap' several other catalysts of M&A activity globally are mirrored by India Inc.

As the government continued to push for resolutions, there was a wave of consolidation in sectors most affected by the build-up in non-performing loans such as financial services and energy. There was also a feeding frenzy in the consumer goods and e-commerce space as foreign companies swooped in to take aim at India's massive customer base.

The trend is expected to extend into 2019. In addition, as Internet penetration increases, especially in rural areas, consumer goods will experience an unprecedented level of deal activity as companies merge with each other to gain the upper hand.

3. REVIEW OF LITERATURE

Antonios et al. (2011) reviewed the method of measuring the economic gains of mergers and acquisitions [10]. This paper shows that widely used event study methodology, has failed to provide a meaningful insight of whether mergers and acquisitions create value or not. This paper states that right way to access the success and desirability of M&A is through a thorough analysis of company fundamentals.

Verma & Sharma (2014) dissected the effect of select financial and operating performance factors on Return on Shareholder's Fund (ROSF) to recognize M&A initiated changes and synergies, assuming any, subsequent to M&A's on acquirer organizations performance in the Indian Telecom Sector amid the period 2001-02 to 2007-08. The finding denoted critical underperformance in the financial performance and unimportant change in the operating performance for the acquirer firms' in the post-M&A period and that M&A's did not enhanced the shareholder funds of the acquirer firms'.

Jayashree (2016) this study mainly deals with the various drives for mergers in banking industries in India. Researcher studied financial performance of banks those were merged by studying pre and post-performance of those banks with the help of various parameters such as gross profit margin, Net profit margin, operating Profit margin, Return on Capital Employed, Return on Equity, and Debt Equity Ratio. Researcher studied the various literatures related to mergers and acquisition reveals the impact of mergers and acquisition on different countries.

Data for the study was collected through financial parameters since economic liberalization. In order to study the performance effectiveness of mergers in banks the statistical test called T – test was used. This test was conducted before and after mergers. The study reveals that the banks have been positively affected by the event.

Pankaj Sharma (2016) conducted the before and after the effect of mergers and acquisition in Indian Financial Services Sector. The data was collected from 160 companies on the basis of 10 parameters namely Profit Margin, Total Costs, Total Assets, Advance, Profit before Interest, Tax, Depreciation & Amortization (PBDITA), Net Profit (PAT), Current Ratio, Interest Cover (times), Return on Capital Employed and Profit Margin. On the basis of calculated ratios the study reveals that the importance of M&A as means towards reduction of risk by diversification. We see that diversification not only helps reduce the non-systematic risk as part of the total risk, but also has an impact on the systematic risk component, thereby helping reduce the overall risk of the firm.

Anand, Amit(2017) analyzed the cross border acquisitions by Indian IT sectors firms through Outward FDI. The data was collected by annual statements of companies. The studies conducted using this methodology looked in the post-acquisition financial performance of acquiring firms through evaluating financial and profitability measures viz. Operating cash flow, Return on Assets, Returns on Equity, Returns on Net Worth, Return on Capital Employed etc. The impact of M&A depends on both internal and external environmental factors. Internal environmental factors involve resources and performance of acquiring firm, and external environmental factors include economic growth and degree of competition at home country. The statistical model is developed attempted to find relationship between rates of Net Profit of acquired firms with the rate of change Net Profit of acquiring firm, and secondly Profitability analysis is done for analyzing what are the repercussions of acquisition on the acquired firm post acquisition. The results suggest mixed results about Indian IT firms successful for their cross border acquisitions.

4. OBJECTIVES OF THE STUDY

The present research focuses on examining the impact of mergers on the performance of Indian companies with the following objectives.

- To study the impact of merger announcement on the financial performance of the companies in the merger periods.
- Further the study intends to investigate the sustainability of the impact of merger +5 year period.

5. Research Hypothesis

To test the objectives above the following hypothesis was formulated:

i. H_{00}- There is no significant difference in the financial performance of Indian companies post-merger.
ii. H_{01}- There is significant difference in the financial performance of Indian companies post-merger.

6. Sample Selection

The present study takes into consideration the Mergers in IT sector announced between January 2012 to December 2018.A total of 26 company's mergers took place in the period. In the present study only IT sectorial companies mergers are considered for investigation, only 8 such cases existed. All the companies are listed in Bombay stock exchange. Only stock to stock mergers are included in the sample. Acquisitions have been excluded from the sample.

7. Data Collection and Analysis

- **Date Collection**

Secondary sources have been used for data collection on various financial ratios for 3 years pre and 5 years post of merger of the concerned companies. The data was extracted from prowess database of Centre for monitoring Indian economy (CMIE) and website of Bombay stock exchange (BSE). The announce dates and year of mergers of the sample firms was verified from the BSE website.

- **Date Analysis**

For the purpose of measuring the financial and operating performance of the merger following ratios have been considered to evaluate the impact of mergers.

Financial performance Indicators

- Return of equity
- Return on Assets
- Return on Capital employed
- Earnings per Share
- Net Profit Margin

The year of announcement in taken as the base year and denoted as "0". The period of 3 years before the merger is dented as (-3) and post five years period is denoted as (+5) respectively. The data of specified financial ratios is collected for 3 years per merger and up to 5 years post mergers starting from base year when merger was announced. To determine the impact on performance in pre and post-merger period, paired sample T-test has been conducted tested at confidence level of 0.05. The average of ration for pre 3 years period is compared with post 5 years averages of ratios using t-test. It is a case to case study and analysis of the findings.

8. EMPIRICAL RESULTS

The present paper aims at finding out the merger effects on financial performance of the companies. The following finding shows varied result in terms of performance. The return on equity ratio shows an improvement in most of the cases taken in the sample but the impact has not been significant enough, except in the case of CMC merger showing a significant of merger on the performance of the companies. The results are depicted in Table 1.

Table 2 shows the result based on analysis of return on assets ratio. The result show significant improvement in the performance except in two cases (Nokia & Alcatel-Lucent and Walmart Inc & Flipkart group mergers).on analysis return on capital employed (Table 3) significant improvement was seen only in tree cases. Wipro Ltd, CMC and Infosys showed considerable improvement in return on capital employed. Only Dell earning per share (Table 4) depicted improvement in the performance. Whereas on analysis the Net profit margin (Table 5) it was observed that Nokia, Infosys, and Dell companies showed better result post-merger.

Table-1: Return on equity of acquirer and target company pre and post merger

			ROE		
Sr. No.	**Acquirer name**	**Target company**	**Mean value (pre-merger) [-3]**	**Mean value (post-merger) [+5]**	**t-value [-3,+5]**
1	Nokia	Alcatel-Lucent	21.7637 (3.33767)	40.4667 (7.68503)	-4.028 [0.055]
2	Google	Moodstock	12.6367 (6.26395)	21.5733 (11.44394)	-0.868 [0.472]
3	Dell	EMC Corporation	22.7637 (1.27883)	23.2267 (4.52427)	-0.482 [0.671]
4	Tech Mahindra Ltd	CJS Solutions	22.8001 (6.71361)	24.7322 (15.65025)	-0.140 [0.895]
5	Wipro Ltd	InfoSERVER SA	24.4711 (4.22013)	16.0157 (7.16500)	1.323 [0.322]
6	CMC	Tata Consultancy Services	17.8264 (0.44791)	11.6322 (0.14434)	25.240 [0.002]
7	Infosys	Skava	30.4411 (7.95258)	17.2468 (9.51903)	1.464 [0.259]
8	Walmart Inc	Flipkart group	6.8057 (3.24642)	11.1840 (1.08752)	-2.131 [0.124]

Values in ( ) denotes standard deviation
Value in [ ] denotes value of significance
*denotes level of significance at 0.05

Table-2: Return on assets of acquirer and target company pre and post merger

			ROA		
Sr. No.	**Acquirer name**	**Target company**	**Mean value (pre-merger) [-3]**	**Mean value (post-merger) [+5]**	**t-value [-3,+5]**
1	Nokia	Alcatel-Lucent	20.8022 (4.67461)	36.7101 (9.02664)	-2.197 [0.160]
2	Google	Moodstock	43.0301 (9.85083)	78.5833 (9.66535)	-16.520 [0.004]
3	Dell	EMC Corporation	62.5068 (63.30067)	188.4433 (55.59055)	-10.110 [0.010]
4	Tech Mahindra Ltd	CJS Solutions	18.3233 (3.92556)	34.0933 (4.11233)	-17.516 [0.003]
5	Wipro Ltd	InfoSERVER SA	110.9000 (27.47988)	200.9067 (25.80569)	-24.470 [0.002]
6	CMC	Tata Consultancy Services	176.2500 (14.75856)	236.9233 (23.80586)	-6.671 [0.022]
7	Infosys	Skava	23.2667 (0.89969)	38.5000 (3.32667)	-12.032 [0.007]
8	Walmart Inc	Flipkart group	89.556 (0.89969)	94.2066 (8.31674)	-0.988 [0.427]

Values in ( ) denotes standard deviation
Value in [ ] denotes value of significance
*denotes level of significance at 0.05

Table-3: Return on capital of acquirer and target company pre and post-merger

			ROC		
Sr. No.	**Acquirer name**	**Target company**	**Mean value (pre-merger) [-3]**	**Mean value (post-merger) [+5]**	**t-value [-3,+5]**
1	Nokia	Alcatel-Lucent	8.4166 (4.25475)	8.0633 (0.49003)	0.134 [0.906]
2	Google	Moodstock	10.4066 (0.32501)	9.0464 (1.45884)	1.475 [0.278]
3	Dell	EMC Corporation	11.4633 (0.28918)	10.0333 (0.98738)	3.275 [0.082]
4	Tech Mahindra Ltd	CJS Solutions	11.3567 (0.09292)	9.1267 (1.97743)	1.866 [0.203]
5	Wipro Ltd	InfoSERVER SA	11.3967 (0.58227)	8.0633 (0.18771)	9.568 [0.011]
6	CMC	Tata Consultancy Services	10.2133 (0.56145)	8.0022 (0.21007)	4.966 [0.038]
7	Infosys	Skava	11.4100 (0..01000)	8.0133 (0.04933)	19.267 [0.000]
8	Walmart Inc	Flipkart group	8.4167 (4.25475)	8.0633 (0.49003)	0.133 [0.906]

Values in ( ) denotes standard deviation
Value in [ ] denotes value of significance
*denotes level of significance at 0.05

Table-4: Earning per share of acquirer and target company pre and post merger

			EPS		
Sr. No.	**Acquirer name**	**Target company**	**Mean value (pre-merger) [-3]**	**Mean value (post-merger) [+5]**	**t-value [-3,+5]**
1	Nokia	Alcatel-Lucent	6.3167 (2.63603)	6.1267 (2.96261)	0.075 [0.947]
2	Google	Moodstock	5.6600 (4.10015)	15.0433 (7.16737)	-1.467 [0.280]
3	Dell	EMC Corporation	8.8333 (15.29978)	39.4167 (6.80769)	-4.409 [0.046]
4	Tech Mahindra Ltd	CJS Solutions	3.9267 (1.96001)	6.9500 (3.48607)	-0.986 [0.428]
5	Wipro Ltd	InfoSERVER SA	25.3367 (9.59146)	27.7100 (8.67300)	-0.241 [0.832]
6	CMC	Tata Consultancy Services	28.1733 (3.52142)	26.2133 (2.97987)	3.188 [0.086]
7	Infosys	Skava	6.3167 (2.63603)	6.1267 (2.96261)	0.075 [0.947]
8	Walmart_Inc	Flipkart_group	7.6167 (1.19889)	10.2033 (1.57988)	-1.962 [0.189]

Values in ( ) denotes standard deviation
Value in [ ] denotes value of significance
*denotes level of significance at 0.05

Table-5: Net profit margin of acquirer and target company pre and post merger

			Net profit margin		
Sr. No.	**Acquirer name**	**Target company**	**Mean value (pre-merger) [-3]**	**Mean value (post-merger) [+5]**	**t-value [-3,+5]**
1	Nokia	Alcatel-Lucent	7.3367 (1.32019)	16.1957 (1.68503)	-10.088 [0.010]
2	Google	Moodstock	4.8233 (2.24926)	9.8100 (4.32391)	-1.327 [0.316]
3	Dell	EMC Corporation	7.033 (0.24090)	11.6922 (2.03594)	-4.405 [0.048]
4	Tech Mahindra Ltd	CJS Solutions	7.3533 (2.28173)	13.2833 (6.99684)	-1.121 [0.378]
5	Wipro Ltd	InfoSERVER SA	12.6800 (4.01374)	15.7767 (3.43767)	-0.843 [0.488]
6	CMC	Tata Consultancy Services	16.1211 (2.82313)	15.0922 (1.19182)	0.444 [0.701]
7	Infosys	Skava	5.9522 (0.33767)	8.8557 (0.43767)	-7.502 [0.017]
8	Walmart_Inc	Flipkart_group	7.8367 (1.94878)	7.7633 (3.33767)	-0.046 [0.967]

Values in ( ) denotes standard deviation
Value in [ ] denotes value of significance
*denotes level of significance at 0.05

9. CONCLUTION:

Indian IT sector is going through a remarkable phase from last two decades.The inorganic growth option has occupied a significant place in strategy formulation process of Indian corporate sector. Growing competition led to realization of importance of mergers and acquisition activities among company's entities. It minimizes the expenses, improves profits and eliminates competitors. The aim to conduct the present study was to know the financial improvement in companies post-merger. On analyzing the given relations for a period of 3 years pre and 5 year post it become evident that major impact was seen in terms of return to assets ratio as maximum companies in the samples showed significant results. Least performing ratios were return on equity and earnings per share. Whereas net profit margin and return to capital employed depicted a considerable improvement. Thus to conclude mergers have proved to have a propound effect on companies' ability to earn profits and building on assets for future growth. The analysis indicates the merger creates positive financial synergy. The synergy is calculated based on actual facts and figures. The actual beta as on effective date was taken into consideration. Risk Free Return was derived from the government bond rate. The growth rate was taken directly from the industry at that point of time. Finally, the financial synergy was calculated on the base of Discounted Cash Flow model. The cash flow was calculated based on actual facts and figures of the company. The financial synergy shows considerable positive value.Therefore, it can be concluded that merger is successful in terms creating financial wealth.

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