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Cross Border Mergers and Acquisitions by Indian firms- An Analysis of Pre and Post Merger Performance

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ABSTRACT

The corporate sector all over the world is restructuring its operations through different types of consolidation strategies like mergers and acquisitions in order to face challenges posed by the new pattern of globalisation, which has led to the greater integration of national and international markets.. The intensity of cross-border operations recorded an unprecedented surge since the mid-1990s and the same trend continues (World Investment Report, 2000).The objective of the study is to analyse and compare the pre and post-merger and acquisition financial performance of four firms- Ranbaxy, Dr Reddy, Tata Steel and Hindalco through ratio analysis. For this, the data was being collected for three years before and after the acquisition from Capitaline database. Then to compare the changes, SPSS tool- Wilcoxon Signed Rank Test was being applied. The study concluded that cross-border Mergers and Acquisitions of the selected firms have resulted in no significant change in the financial performance of these firms.

Keywords: Cross-Border , Mergers, Acquisitions, Restructuring.

Academic Discipline And Sub-Disciplines

Management

SUBJECT CLASSIFICATION

Mergers and Acquisition

TYPE (METHOD/APPROACH)

Descriptive research which is based on authentic secondary source of data available from Bombay Stock Exchange, National Stock Exchange websites and individual firms' Annual Reports.

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INTRODUCTION

In today's globalised economy, mergers and acquisitions (M&A) are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, broadening the portfolio to reduce business risk for entering new markets and geographies, and capitalising on economies of scale and many other reasons. Mergers and acquisitions become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition.

Merger and Acquisition

The phrase **mergers and acquisitions** refers to the aspect of corporate strategy, corporate finance and management dealing with the buying, selling and combining of different companies that can aid, finance, or help a growing company in a given industry grow rapidly without having to create another business entity.

Cross Border Mergers and Acquisition

The rise of globalization has exponentially increased the market for cross border M&A. In 1996 alone there were over 2000 cross border transactions worth a total of approximately $256 billion. This rapid increase has taken many M&A firms by surprise because the majority of them never had to consider acquiring the capabilities or skills required to effectively handle this kind of transaction. In the past, the market's lack of significance and a more strictly national mindset prevented the majority of small and mid-sized intermediation as an option which left M&A firms inexperienced in this field.

Why Firms are Crossing Borders?

When we look at the business history, we can see at least four types of growth strategies adopted by the firms. Firms started with domestic production and began to export to the foreign markets, establishment of subsidiaries in overseas market was the next stage and as a fourth phase, firms started to acquire firms in foreign markets instead of establishing subsidiaries. The increasing magnitude of investment through cross-border mergers and acquisitions and its emergence as a major component of FDI (Foreign Direct Investment) even in the case of developing countries such as India, demand us to think why firms are engaging in cross-border instead of establishing subsidiaries or to engage in export oriented growth. This necessitates us to merge the prime objectives of foreign investment with that of mergers and acquisitions

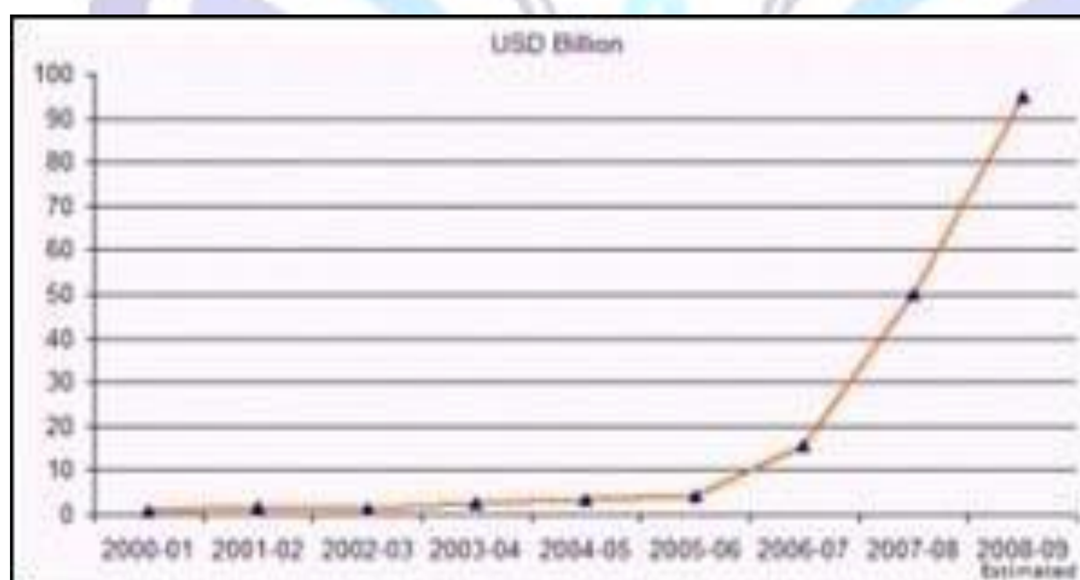
Cross Border Mergers and Acquisition in India

Until upto a couple of years back, the news that Indian companies having acquired American-European entities was very rare. However, this scenario has taken a sudden U turn. Nowadays, news of Indian Companies acquiring foreign businesses are more common than other way round. Buoyant Indian Economy, extra cash with Indian corporates, Government policies and newly found dynamism in Indian businessmen have all contributed to this new acquisition trend. Indian companies are now aggressively looking at North American and European markets to spread their wings and become the global players.

The Indian IT and ITES companies already have a strong presence in foreign markets, however, other sectors are also now growing rapidly. The increasing engagement of the Indian companies in the world markets, and particularly in the US, is not only an indication of the maturity reached by Indian Industry but also the extent of their participation in the overall globalization process.

Graphical representation of Indian outbound deals since 2000.

Figure 1.1



Source: **UNCTAD, *World Investment Report* 2011**

Indian outbound deals, which were valued at US$ 0.7 billion in 2000-01, increased to US$ 4.3 billion in 2005, and further

crossed US$ 15 billion-mark in 2006. In fact, 2006 will be remembered in India's corporate history as a year when Indian companies covered a lot of new ground. They went shopping across the globe and acquired a number of str ategically significant companies. This comprised 60 per cent of the total mergers and acquisitions (M&A) activity in India in 2006. And almost 99 per cent of acquisitions were made with cash payments.

Cross Border Mergers and Acquisition in India-Overview(2005-2010)
Table (a) (Million of Dollars)

Year	2005-2007	2008	2009	2010	Total
Sales	3119	10427	6049	5537	25132
Purchase	12558	13482	291	26421	52752

Table (a) exhibits Cross –border merger and acquisition in India for the period 2005 to 2010.
The table shows that cross border sales deals during 2005-2007 were 25132 million US $ while purchase deal were 52752 million US $.. Thus the table clearly depicts that our country"s counter cross border merger and acquisition purchase deals are more than the sales deal.

SCOPE OF THE STUDY

The scope of the study is confined to the cross border mergers and acquisitions undertaken by the Indian firms, focusing on 5 valuable cross border merger and acquisitions by Indian firms from the year 2005 to 2007. The study is based on the facts and figures available for the selected firms through authentic sources like their Annual Reports and National level Stock Exchanges like NSE (National Stock Exchange) and BSE (Bombay Stock Exchange).

OBJECTIVES OF THE STUDY

- To analyse and compare the pre and post merger and acquisition performance of the selected cross border deals made by the Indian firms:
- To analyse the changes in the financial and operating efficiencies of the merging firms three years before and after the deal.
- To analyse the effect of these mergers and acquisitions announcements on the stock prices of the selected firms.

HYPOTHESIS

We have set the following hypothesis for the study which we will test:

- Ho: There is no significant difference between the financial performance of the companies before and after the merger that is Ho: $\mu = 0$.
- H1: There is a significant difference between the financial performance of the companies before and after the merger that is H1: $\mu \neq 0$.

LIMITATIONS OF THE STUDY

- The period of study is up to 2006-07, since 3 year post merger performance data are required for the study.
- The sample size consists of only 4 companies, 2 each from the sectors- Pharmaceutical and Steel are taken.

REVIEW OF LITERATURE

Ravenscraft and Scherer (1989). They tested the hypothesis that other variables maintained equal, if mergers result in economies of scale or scope, the post-merger profits should be higher than the pre-merger profits and/or their industry averages. Their study of 2,732 lines of business for the years 1975- 77 did not find any improvement in the post-merger operating performance.

Cornett and Tehranian (1992) find an increase in the post-acquisition Return on Equity (ROE) and operating cash flow, but the authors focus only on 30 mergers between 1982 and 1987. In the later years, the observed post-acquisition performance of institutions involved in M&A deals improved on average.

Healy et al. (1992) examined the operating performance of the "combined" firm 3 years before and 3 years after the merger. Healy, Palepu, and Ruback find that the "combined" firm, on average, produces post merger improvements in asset productivity as compared to comparable firms in the same industry. They examined post-acquisition performance for 50 largest U.S. mergers between 1979 and 1984 by measuring cash flow performance, and concluded that operating performance of merging firms improved significantly following acquisitions, when compared to their respective industries.

Linder and Crane (1992), Chamberlain (1998) analyzed a sample of Merger and acquisitions deals that took place in the US in the 1980s and finds that these transactions did not yield any operating efficiencies. This result is

consistent with similar evidence that shows no improvements in Return on Assets (ROA) or growth in operating income in the same time period.

Piloff and Santomero (1998) and Calomiris and Karceski (2000) As per their research, the typical analysis of M&As using stock price data compares the change in returns after a deal is announced. These studies find a negligible effect of M&As deals on stock market value. There is a transfer of wealth from the acquirer to the target's shareholders mostly explained by high premiums paid on these transactions. The study is limited to the use of event methodology to analyze performance effects after cross-border M&As.

Ghosh (2001) examined the question of whether operating cash flow performance improves following corporate acquisitions, using a design that accounted for superior pre-acquisition performance, and found that merging firms did not show evidence of improvements in the operating performance following acquisitions.

Pawaskar (2001) analysed the pre-merger and post-merger operating performance of 36 acquiring firms during 1992-95, using ratios of profitability, growth, leverage, and liquidity, and found that the acquiring firms performed better than industry average in terms of profitability. Regression Analysis however, showed that there was no increase in the post-merger profits compared to main competitors of the acquiring firms.

Divesh and Jonathan (2002) used accrual and cash flow performance measures (for three years after and before merger) and found that corporate acquisitions did not lead to significant post-acquisition improvements in operating performance of acquiring Australian firms during 1986-91.

Surjit (2002) *In* this paper the impact of mergers and acquisitions on corporate performance is being studied in the Indian context particularly in relation to companies of financial sector. An analysis of 20 merging firms was carried out to compare the pre and post takeover performance, applying a set of eight financial ratios. He found out that profitability and efficiency of merging companies declined in the post takeover period.

Swaminathan (2002) studied the sample of five companies and found that four of the five acquiring firms improved operating and financial synergies (measured through financial ratios).

Vander Vennet (2002) studies a sample of European cross-border deals and finds an increase in profit efficiency for target banks on the first year after an acquisition. Nevertheless, the author does not find similar improvements in the cost efficiency and ROA measures.

Timothy (2003) examined the long-term operating performance of Japanese companies in a sample of 56 mergers of manufacturing firms, during 1969-97. On comparison of the operating returns and operating margin in the five-year period following mergers, with a control sample to account for changes in performance attributable to industry or economy-wide factors, the study found evidence of improvements in operating performance of merging companies, and also that the pre- and post-merger performances were highly correlated. Long-term performance was also seen to be significantly greater, following diversifying mergers, particularly for those that acquired their sales or trading company affiliates.

Beena (2004) analysed the pre and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of financial ratios and t-test. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-Merger period, for the acquiring firms.

Marina et al. (2006) investigated the long-term profitability of corporate takeovers in Europe, and found that both acquiring and target companies significantly outperformed their peers in the industry prior to the takeovers, but the profitability of the combined firm decreased significantly following the takeover. However, the decrease became insignificant after controlling for the performance of the control sample of companies.

Becalli and Frantz (2007) Using a larger sample of cross-border deals, find a decrease in the profit efficiency and an increase in cost efficiency after cross-border deals. The difference in the findings of various authors could be explained by the laxer sample selection criteria used in the latter study. The authors do not restrict the sample of deals to those acquisitions where the target bank's control is transferred to the acquiring institution. Therefore, the results might be driven by the effect of minority share acquisitions.

Malhotra, PengCheng Zhu (2008) This study examines the short-term stock performance of a sample of Indian firms acquiring U.S. firms in the period 1999-2005. Event study shows that Indian stock market reacts positively to the acquisition announcement. On carrying out multiple empirical tests, they conclude that the announcement returns in the Indian cross-border M&As are mainly driven by the price pressure effect rather than the informational effect

Mantravadi et al. (2008) This research study was aimed to study the impact of mergers and acquisitions on the operating performance of acquiring corporates in different industries, by examining some pre- merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003. The results suggest that there are minor variations in terms of impact on operating performance following mergers, in different industries in India. In particular, mergers seem to have had a slightly positive impact on profitability of firms in the banking and finance industry, the pharmaceuticals, textiles and electrical equipment sectors saw a marginal negative impact on operating performance (in terms of profitability and returns on investment). For the Chemicals and Agri-products sectors, mergers had caused a significant decline, both in terms of profitability margins and returns on investment and assets.

Fraser et al. (2009) The paper provides evidence on operating performance changes at a sample of U.S. banks acquired by non-U.S. banking organizations over the 1980–2001 period. The objective is to compare directly the pre acquisition performance of the targets with their post acquisition performance. We find that these cross-border acquisitions

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produce improved target performance. Cash flow profitability at the target increases, labour utilization improves, and loan losses do not rise.

Kumar et al.(2009) This paper presents a comparative study of the effect of mergers and acquisitions (M&A) on the wealth of shareholders of acquirer and target firms. The study is based on four subsets of a sample consisting of 252 acquirer and 58 target firms involved in acquisitions, and 165 acquirer and 18 target firms involved in mergers during the period 1998-2006. The results indicate that M&A are positive net present value activities for bidding and target firms. The average announcement day excess returns was found to be highest for target firms involved in mergers, followed by acquirer firms involved in mergers.

Selvam et al.(2009) the study states that to determine the success of a merger, it is to be ascertained if there is financial gain from mergers. It is very important to study the liquidity performance of those companies to test whether those companies have sufficient liquid assets to meet its current obligations. The present study is limited to a sample of companies which underwent merger in the same industry during the period of 2002-2005 listed in one of the Indian stock exchange namely Bombay Stock Exchange. It is proposed to compare the liquidity performance of the thirteen sample acquirer and target companies before and after the period of mergers by using ratio analysis and t-test during the study period of three years. The study found that the shareholders of the acquirer companies increased their liquidity performance after the merger event.

Sinha et al.(2010) The present paper examines the impact of mergers and acquisitions on the financial efficiency of selected financial institutions in India. While the results show a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value.

Kohli, Mann (2011) This paper seeks to compare target shareholders' wealth gains in domestic and cross-border acquisitions in India. Standard event study methodology has been applied to compute the announcement returns for domestic and cross-border acquisitions. The results indicate that both domestic and cross-border acquisitions have created value for the target company shareholders on the announcement. Nonetheless, the analysis of cross-border effect as well as regression analysis makes it evident that value creation is higher for domestic acquisitions as compared to cross-border acquisitions due to the influence of various factors.

RESEARCH METHODOLOGY

Research Design

The study on "**Cross border mergers and acquisitions by Indian firms - an analysis of pre and post merger performance"** is a Descriptive research. Descriptive studies are those which are fact finding and are concerned with describing the characteristics of a particular individual or a group. This research aims at studying the pre and post merger impact of 5 selected cross border mergers and acquisitions deals made by Indian firms from the year 2005 to 2007 where the hypothesis would be tested using data 3 years before and after the merger. The study is based on authentic secondary source of data available.

Source of Data

The research is based on secondary data. This is because as per the requirements of the research objectives, the pre and post merger effect is to be analysed and compared which could only be done through the actual facts and figures of the selected companies. This data will be obtained from authentic and reliable sources like the Annual Reports of the selected firms.

Population

The population of the study includes all the mergers and acquisitions undertaken by the Indian firms with foreign companies from the year 2005 to 2007.

Sample

The sample consists of 5 major cross border acquisitions made by the Indian companies worldwide from the year 2005 to 2007. The sampling technique being used is random sampling but an effort has been made to choose amongst the largest Cross border deals in terms of the deal value. The sample is chosen from the following list of Cross border deals made by Indian firms from 2005 to 2007.

Valuable deals made by Indian companies worldwide (2005 – 2007)

Acquirer	Target Company	Country targeted	Deal value ($ ml)	Industry
Tata Steel (2006)	Corus Group plc	UK	12,000	Steel
Hindalco (2007)	Novelis	Canada	5,982	Steel
Videocon (2006)	Daewoo Electronics Corp.	Korea	729	Electronics
Dr. Reddy's Labs (2006)	Betapharm	Germany	597	Pharmaceutical
Suzlon Energy (2006)	Hansen Group	Belgium	565	Energy

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HPCL (2005)	Kenya Petroleum Refinery Ltd.	Kenya	500	Oil and Gas
Ranbaxy Labs (2006)	Terapia SA	Romania	324	Pharmaceutical
Tata Steel (2005)	Natsteel	Singapore	293	Steel
Videocon (2005)	Thomson SA	France	290	Electronics
VSNL (2005)	Teleglobe	Canada	239	Telecom

Method of Data Collection

As already mentioned, the sample includes 5 Cross border mergers and acquisitions deal made Indian firms from 2005 to 2007, so the data will be collected from authentic secondary sources. The merger and acquisition announcement dates, transaction values and other related information is collected from the Capitaline database. Stock trading information and firm level data is obtained from Bombay Stock Exchange and National stock Exchange websites, and individual firms' Annual Reports.

Tools used

The pre and post merger and acquisition analysis is done using the Ratio analysis technique where all the key ratios of the merging firms are compared like the Profitability ratios, Liquidity ratios etc. are compared 3 years before and after the deal. Wilcoxon Signed Rank test (using SPSS) are carried out to assess the difference in the pre and post merger and acquisition performance of the selected firms.

DATA ANALYSIS AND INTERPRETATION

Table no 1.Changes in EARNING PER SHARE (EPS) Post-acquisition

The table depicts the changes in the EPS of the selected firms after the acquisition. For eg. Negative ranks- „3a for Ranbaxy here shows that in all the 3 years after the acquisition, EPS was less as compared to the pre-acquisition years.

	RANKS	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
EPS_post-EPS_pre	**Negative Ranks**	3a	1a	0a	3a
	Positive Ranks	0b	2b	3b	0b
	Ties	0c	0c	0c	0c
	Total	3	3	3	3

a.EPS_post < EPS_pre

b.EPS_post > EPS_pre

c.EPS_post = EPS_pre

Table 1.1- Significance level

	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
Z	-1.604a	.000a	-1.604a	-1.604a
Asymp. Sig. (2-tailed)	0.109	1	0.109	0.109

*significance level was set at .05

INTERPRETATION

By applying the Wilcoxon signed rank test, we can see that for all the 4 companies the significance level is more than .05 (Table 1.1) i.e.the null hypothesis is accepted that there is no significant difference between the pre and the post merger and acquisition performance on the basis of EPS of the companies.

But if we see the individual effect of acquisitions on these firms (Table 1) then for Ranbaxy for all the 3 years, the Earning per share after the merger was comparatively less than pre-merger years and same was the case for Hindalco. But for Tata the case has been different as for all the 3 years after the acquisition, EPS was more than the pre-acquisition period. Even for Dr Reddy, EPS was better for 2 out of 3 years post acquisition.

So, overall if we see on the basis of the average pre and post-acquisition performance of the firms, the post acquisition profitability performance on the basis of EPS, the post-acquisition performance is better for 2 firms out of the 4 sample firms.

Table 2.Changes in RONW post-acquisition

The table depicts the changes in the RONW of the selected firms after the acquisition. For eg. Negative ranks- „2a‟ for Ranbaxy here shows that in 2 out of the 3 years after the acquisition, RONW was less as compared to the pre-acquisition years.

	RANKS	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
RONWpost - RONWpre	**Negative Ranks**	2a	1a	2a	1a
	Positive Ranks	1b	2b	1b	2b
	Ties	0c	0c	0c	0c
	Total	3	3	3	3

a. RONWpost < RONWpre
b. RONWpost > RONWpre
c. RONWpost = RONWpre

Table 2.1- Significance level

	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
Z	-1.069a	-.535a	-1.069a	-.535a
Asymp. Sig. (2-tailed)	.285	.593	0.285	.593

*significance level was set at .05

INTERPRETATION

Looking at the individual firms(Table 2), we can observe that for Dr Reddy and Hindalco, post acquisition performance of RONW ratio was better than the pre acquisition period for 2 out of 3 years compared. And for Ranbaxy and Tata the pre acquisition performance was better for 2 out of 3 observed years.
So overall on the basis of the average pre and post acquisition performance of the firms, the post acquisition profitability performance on the basis of Return on Net worth, the post acquisition performance was better for 2 out of the 4 sample firms.

Table no 3.Changes in Current Ratio Post-acquisition

The table depicts the changes in the Current Ratio of the selected firms after the acquisition. For eg. Negative ranks- „3a for Ranbaxy here shows that in all the 3 years after the acquisition, Current Ratio was less as compared to the pre-acquisition years.

	RANKS	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
CURRENT RATIO_post-CURRENT RATIO_pre	**Negative Ranks**	3a	2a	0a	3a
	Positive Ranks	0b	1b	3b	0b
	Ties	0c	0c	0c	0c
	Total	3	3	3	3

a.CURRENT RATIO_post < CURRENT RATIO_pre
b.CURRENT RATIO_post > CURRENT RATIO_pre
c.CURRENT RATIO_post = CURRENT RATIO_pre

Table 3.1. Significance level

	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
Z	-1.604a	-1.069a	-1.604a	-1.604a
Asymp. Sig. (2-tailed)	0.109	.285	0.109	0.109

*significance level was set at .05

INTERPRETATION

From the analysis we can see that the significance level for all the companies Current ratio is more than .05 (Table 3.1) i.e. the null hypothesis is accepted that there is no significant difference between the pre and the post merger and acquisition performance of the companies on the basis of current ratio.
But looking at the individual performance of the firms (Table 3), we can find that only for Tata, the post acquisition liquidity performance for all the 3 years has been better than the pre acquisition period. But for rest all three firms ,post acquisition performance was not better than the pre period for all the 3 years for Ranbaxy and Hindalco and for Dr Reddy for 2 out of 3 years.
So overall on the basis of the average pre and post acquisition liquiidty performance of the firms on the basis of current Ratio, the post acquisition performance was better only for 1 out of the 4 sample firms.

Table no 4.Changes in EARNING PER SHARE(DEBT-EQUITY) Post-acquisition

The table depicts the changes in the DEBT-EQUITY of the selected firms after the acquisition. For eg. Positive ranks- „3b for Ranbaxy here shows that in all the 3 years after the acquisition, DEBT-EQUITY was more as compared to the pre-acquisition years.

	RANKS	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
DEBT-EQUITY_post-DEBT-EQUITY_pre	**Negative Ranks**	0a	0a	2a	1a
	Positive Ranks	3b	3b	1b	2b
	Ties	0c	0c	0c	0c
	Total	3	3	3	3

a.DEBT-EQUITY_post < DEBT-EQUITY_pre
b.DEBT-EQUITY_post > DEBT-EQUITY_pre
c.DEBT-EQUITY_post = DEBT-EQUITY_pre

Table 4.1- Significance level

	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
Z	-1.604a	-1.604a	-1.069a	-0.535a
Asymp. Sig. (2-tailed)	0.109	0.109	.285	0.593

*significance level was set at .05

INTERPRETATION

From the analysis we can see that the significance level for all the companies Debt Equity ratio is more than .05 (Table 4.1) i.e.the null hypothesis is accepted that there is no significant difference between the pre and the post merger and acquisition performance of the companies on the basis of Debt Equity ratio.
Looking at the individual performance of the firms (Table 4), we can see that for Ranbaxy and Dr Reddy, the post-acquisition performance on the basis of Debt Equity ratio for all the 3 years has been better than the pre-acquisition period. Even for Hindalco it was good for 2 out of 3 years. Only in Tata the Debt Equity ratio post acquisition performance was not better than the pre period for 2 out of 3 years.
So overall on the basis of the average pre and post acquisition solvency performance of the firms on the basis of Debt Equity, the post acquisition performance was better for 3 out of the 4 sample firms.

Table no 5.Changes in EARNING BEFORE INTEREST AND TAX (EBIT) Post-acquisition

The table depicts the changes in the EBIT of the selected firms after the acquisition. For eg. Negative ranks- „2a for Ranbaxy here shows that in all the 3 years after the acquisition, EBIT was less as compared to the pre-acquisition years.

	RANKS	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
EBIT_post-EBIT_pre	**Negative Ranks**	2a	1a	0a	3a
	Positive Ranks	1b	2b	3b	0b
	Ties	0c	0c	0c	0c
	Total	3	3	3	3

a.EBIT_post < EBIT_pre
b.EBIT_post > EBIT_pre
c.EBIT_post = EBIT_pre

Table 4.1- Significance level

	Ranbaxy	Dr Reddy	Tata Steel	Hindalco
Z	-1.604a	-1.069a	-1.604a	-1.604a
Asymp. Sig. (2-tailed)	0.109	.285	0.109	0.109

*significance level was set at .05

INTERPRETATION

From the analysis we can see that the significance level for all the companies Earning before interest and taxes margin is more than .05(Table 5.1) i.e. the null hypothesis is accepted that there is no significant difference between the pre and the post-merger and acquisition overall efficiency performance of the companies.
Looking at the individual performance of the firms (Table 5), we can see that for only Tata, the post-acquisition performance on the basis of EBIT for all the 3 years has been better than the pre acquisition period. Even for Dr Reddy it was good for 2 out of 3 years. But for Hindalco the EBIT post acquisition performance was not better than the pre period for all the 3 years and for Ranbaxy for 2 out of 3 years.

So overall on the basis of the average pre and post acquisition efficiency (overall) performance of the firms on the basis of EBIT, the post acquisition performance was better for 2 out of the 4 sample firms.

FINDINGS

1. For Ranbaxy if we compare all the ratios, then we come to the see that only for the solvency parameter i.e. the Debt equity ratio, the post-acquisition performance has improved for the firm but not significantly. For rest all the parameters (Profitability, Liquidity and Overall Efficiency), the performance has not improved after the acquisition.
2. For Dr Reddy, comparing all the ratios, we can observe that for all the parameters except the Liquidity one i.e. current ratio, the post merger acquisition performance has been better though not significant.
3. For Tata if we observe all the ratios, we can see that out of the two factors on which the profitability was measured, EPS resulted in a positive result while Return on Net Worth resulted in negative result. Thus it is difficult to comment on the exact impact of acquisition on the profitability of the firm.
4. But for the Solvency and Overall efficiency parameter the result has been positive but for the Liquidity one it is negative but not significant.
5. For Hindalco too the results are quite similar. The profitability parameter is not giving a clear result as the Return on Net Worth is improving post acquisition but EPS is not. Also the Liquidity and Overall Efficiency parameter are giving negative results and only the Solvency parameter is giving positive results i.e. an improved post acquisition performance. The overall impact though has not been significant enough to prove the fact that mergers and acquisitions lead to a change in the financial performance of the firms.

CONCLUSION

Thus, from the above analysis, we can conclude that Mergers and Acquisitions are not leading to a significant change in the performance of firms. It means that whatever changes, be it favourable i.e. resulting in improved performance or not which occur post-acquisition are not significant enough. Also, if we see the overall impact of these acquisitions on the firms even though not significant it has been positive for at least one of the parameters for all the firms.
To acquire a company, large chunk of money has to be shelled out by the acquiring firm. It is not easy for the company to regain that amount of money in a short span of few years. Since the time period for the comparison here was 3 years before and after the acquisition, the impact of the acquisitions could not be seen. Moreover, in the present study we have only considered the tangible factors for the analysis of the impact of mergers and acquisitions. Tangible factors like Patents etc for which companies generally go for such consolidation strategies were not a part of the study.

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