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Mergers and Acquisitions- A Major Prospect for Business Sustainability

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ABSTRACT

Mergers and Acquisitions have emerged as a major force for developing financial and economic environment due to increased market competition both in domestic and international market, excessive interdependence of companies for different products and services etc. The entire business world is looking forward towards sustainable growth and development. Sustainability issues are gaining ground in terms of business transactions due to the combined efforts of the merged business undertakings. The main objective of this research paper are evaluated the impact of mergers and acquisition of the companies sector wise and to identify the factors affecting mergers and acquisition of companies in current scenario. For this purpose, researcher has analyzed the mergers and acquisitions in five different sectors by considering both pre and post financial position of the amalgamated companies. Earnings per Share, Price Earnings Ratio, Return on Asset and Return on Equity are calculated to depict a clear picture of the impact of merger or acquisition on their financial position. Data are basically collected from secondary sources and compiled for an effective presentation.

Keywords: Mergers and Acquisition, Sustainability, Earnings per Share, Price Earnings Ratio, Return on Asset, Return on Equity

I. INTRODUCTION

The present era of globalised economy, demands innovative ways for a business to sustain itself in the increasingly competitive market. Mergers and Acquisitions is a common strategy for business sustainability which is being progressively used throughout the creation, for improving effectiveness of companies by acquiring larger market share leading to expansion of the selection to decrease the professional threat for entering into untapped markets and characteristics, providing greater cost-cutting of scale and many other reasons. One of the foremost prominent highlights of mergers is that they come in waves that are correlated with increment in share prices and prices/earnings ratios. Mergers and Acquisitions have become the major drive in shifting tides in global economic scenario.

The term Mergers and Acquisitions has often been used interchangeably. Mergers and Acquisitions are characterised as combination of two or more companies. The point of combining two or more businesses is to undertake and gain synergy, where the price of the new company is more than the amount of its parts. Differentiating the terms, Mergers is the consolidation of two companies to create one new company. Such kind of transaction generally happens between two companies that are of identical size and that recognizes the interest the other provides in terms of increasing deals, productivity, capabilities and efficiencies. Merger is often reasonably friendly and agreed to mutually, where the companies involved become equal partners in the new merged venture. Acquisition occurs when a company is taken over by the other. It happens when a company purchases another company and moulds it into its own operations. Some of the time the dealing is friendly and in some situation it happens to be a hostile takeover.

I. REVIEW OF LITERATURE

- **M. Yadagiri** and **M. Vijay Kumar** (2015), in their paper 'Sector wise analysis of mergers and acquisitions in India', explains about trends of mergers and acquisitions sector wise specifically focusing on the nonfinancial and financial sectors in the India. The result of the study depicts that mergers and acquisitions are more attracted in nonfinancial sector.
- **Mani Arora** and **Mr. Anil Kumar**(2012), in their study, it makes the detailed analysis of mergers and acquisitions and depicts out the main issues related with pre and post merging circumstances having special focus on the human aspects.
- **Harpreet Singh Bedi** (2010), in her paper 'Merger and Acquisition in India: An analytical Study', speaks of the presence of trends and progress of M&As in Indian corporation and analyses the year-wise variance in number and amount of M&A deals.
- **Bijay Gupta** and **Dr. Parimalendu Banerjee** (2017), in their paper 'Impact of Merger and Acquisition on Financial Performance: Proof from certain companies in India', studies effect of M &As upon the profitability and liquidity position and the researcher finds out that the acquirer company's financial position has not improved after merger.
- **Amish Bharatkumar Soni** (2016), in his paper 'Merger and Acquisition in India and its Impact on Shareholders Wealth', makes an analysis of shareholders' wealth for short term investment, the market return and script return as well as the short term effect of the deal. It has been found that the trend exhibits an upward movement of number of M&A deals in India and investors while making an investment shall keep in mind the corporate structure decision of the merged company
- **Priya Bhalla** (2014), in her paper "A sectoral analysis, focused on the differential significance of sectors in M & As and the paper explores the role played by India in the increasing number of mergers and acquisition activity".
- **Purvi Dipen Derashri** and **Hitesh Shukla** (2014) in their paper, 'Outcome of Cross Broader in the Case of Particular Indian Companies of Metal and its Product Sector', makes a comparison of value making already and later merger and acquisition by taking financial performance into consideration and the finding shows that cross border M & A of some merged companies have shown no notable result on the value creation.

II. OBJECTIVES OF THE STUDY

- To assess the influence of merger and acquisitions of the companies on their business.
- To identify the factors affecting mergers and acquisitions of the companies in the current scenario.

2.1 Scope of the Study

This study is restricted to the effect of M & As and undertaken by firms on their financial position, focusing on M & As in five different sectors from the year 2008-2017. The study also discusses the various factors affecting M & As in current scenario. The research paper is created on details offered for the selected companies through accurate sources and websites like Yearly Reports of companies, NASDAQ and money control.

III. RESEARCH METHODOLODY

a. Type of research: - The present study is a comparative study of the financial position of the companies before and after the mergers and acquisition. The study is therefore descriptive in nature.

b. Sample Size: - Although the study is secondary in nature, for analyzing the impact a sample size of 5 industries in five different sectors have been taken. The sector includes telecom sector, banking sector, automobile sector, pharmaceuticals sector and food sector. The researchers have selected five companies that underwent M&A during the period 2008-2017 as mentioned.

Table 1

Details of Acquiring and Acquired Company

Acquiring Company	Acquired Company	Target Country	Year Of M&A Deal
Amazon	Whole Foods	US	2017
TATA Motors	Jaguar and land rover (JLR)	US	2008
Bharti Airtel	Telenor India	India	2017
Dr.Reddy's Pharm-ceuticals	Imperial Credit Pvt. Ltd.	India	2017
Kotak Mahindra Bank	Ing Vysya Bank	India	2015

c. Type of Data: Secondary data has been used to conduct the study

d. Tools Used: The pre and post financial position of the business entity after M&A is done using Ratio Analysis techniques like P/E ratio, Return on Assets, Equity and salaries per share as well.

- Price Earnings Ratio: - Price earnings ratio is the ratio of the market price of one equity share and earnings per share.
- Earnings per share:-Earning per share is arrived by dividing net profit after taxes and preference dividend by the total number of equity shares.
- Return on Equity:-Return on Equity is the net income returned expressed as a proportion of shareholder's equity. It measures the income earned by the company by utilizing shareholders' investment.
- Return on Asset:-Return on asset shows how much revenue a company generates by utilizing its asset.

e. Period of the study: The study undertaken has considered the impact of M & As and undertaken by firms on their financial position, focusing on M & As in five different sectors from the year 2008-2017

2.1 Limitations of the Study

a. The dated of study is restricted to nine years that is from 2008-2017.

b. The sample size consists of only 5 companies from 5 different sectors i.e., automobile sector, telecom sector, pharmaceutical sector, banking sector and food sector.

IV. MAJOR FINDINGS

Mergers and acquisitions (M & A) activity remains robust worldwide. In the year 2016, around 26000 completed deals of M&A happened throughout the world. The aggregate deal value totalled about USD 2.5 trillion. Corporate India's M&A deal volume touched a seven year high in 2017 with 1022 transactions having value of USD 46.8 billion. The trend for this year looks promising as well. A fivefold increase in the deal value was witnessed in 2016 in telecom sector which had the highest deal value of USD 14.7 billion in last 10 years. The trend is expected to remain the same in the upcoming years as the government introduces comprehensive reform plan for creating conducive investment climate. There are numerous reasons inducing M & A like market penetration, innovations in technology and digitalization. In our research paper , researchers have taken M & A in five different sectors mainly food industry, telecom sector, banking sector, pharmaceutical sector, automobile sector and shoed the impact of M & A .

Food Industry- Amazon's Acquisition of Whole Foods: The acquisition of Whole foods by Amazon on June 2017 was a deal worth $13.7 billion. This led Whole Foods to operate as a subsidiary unit of Amazon. This resulted acquisition of the American chain super markets by the ecommerce company. Whole foods had been facing a decline in revenue growth and profits because of cut-throat competition and Amazon is considered to be topmost retailer in context of market capitalisation. The merger gave Amazon a bigger physical retail foot print and helped Whole Foods to convert its losses into profits. The acquisition combined two major brands which follow a customer-oriented approach. By being a partner with Whole foods, Amazon can expand its channels of business and enhances the customer experience. The impact of Acquision has been favourable for Amazon.

Table 2

EPS and P/E ratio during Pre-Merger and Post Merger of Amazon

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Particulars/ Year	2017 (Pre-merger)	2018 (Post-merger)
EPS	Rs 0.40	Rs 5.07
P/E Ratio	181.96 times	214.08 times
ROE	11%	12.91%
ROA	12.79%	5.28%

(Source: NASDAQ, Y-charts)

Inference: It is evident from the table above that the EPS of Amazon has increased, indicating increasing earning capacity of the business. P/E Ratio of the entity is increasing which advises that the financiers are anticipating advanced returns development in yet to come. Likewise, ROE of the company has also improved indicating that the company is using its investors fund effectively to generate profits. But the ROA of the company has reduced implying that the company has not used assets efficiently to generate profits.

c. **Automobile Industry- TATA Motors Acquired to Jaguar Landrover Limited (JLR):** JLR was acquired by TATA Motors from Ford Motors Company for a deal value of $2.3 billion. The US market was sleeping into a recession in the year 2008 due to which the demand for exorbitant cars and SUVs were sliding, so JLR was facing continuous losses, TATA motors was of the opinion that it could convert the losses of JLR into profits leading to a successful business venture. The acquisition made TATA motors to gain a global footprint.

Table 3
EPS and P/E ratio during Pre-Merger and Post Merger of Tata Motors

Particulars/Year	2008(Pre-merger)	2009(Post merger)
EPS	Rs.56.23	Rs.-48.74
P/E Ratio	16.11 times	9.21 times
ROE	24.99%	-48.23%
ROA	6.03%	-3.37%

(Source: Money control, Macro trends)

Inference: The EPS, P/E Ratio, ROE and ROA have reduced. This implies that the company face losses immediately after merger because of high interest payment on the bridge loan taken to finance the deal. Even the share prices the company started falling after merger. Although the company faced short term losses, it got long term benefits.

d. **Telecom Industry: Acquisition of Telenor India by Airtel:** On February 2017 Telecom major Bharti Airtel acquired Indian arm of Telenor communications. The deal increased Airtel's customer base in India to 330 million. The acquisition has helped Airtel to have the market leadership, stabilizing the network portfolio in major markets and add to shareholders value. This deal will enhance Airtel's already strong spectrum base. Bharti Airtel's acquisition of Telenor has given it an advantage over its competitors especially Reliance Jio.

Table 4
EPS and P/E ratio during Pre-Merger and Post Merger of Bharti Airtel

Particulars/Years	2017(Pre-Merger)	2018(Post Merger)
EPS	Rs.9.51	Rs.2.75
P/E Ratio	32.3 times	82.2 times
ROA	1.62%	0.43%
ROE	5.63%	1.58%

(Source: Money control, Macro trends)

Inference: The EPS, ROA and ROE have reduced since it takes time to recoup the financial position after the acquisition. But the P/E ratio is increasing indicating that the market is ready to pay more for each rupee of annual income.

e. **Banking Sector: Kotak Mahindra Acquisition of Ing Vysya Bank:** Kotak Mahindra Bank declared its acquisition of Ing Vysya Bank in November 2014 bringing Kotak Mahindra Bank among the top 4 largest private banks of the country. After the acquisition, the new entity will have a extensive network of 1214 branches throughout the country. This deal has been seen as a masterstroke by many.

Table 5
EPS and P/E ratio during Pre-Merger and Post Merger of Kotak Mahindra

Particulars/Years	2015(Pre-Merger)	2016(Post Merger)
EPS	Rs.39.49	Rs.18.91
P/E Ratio	27.5 times	36.00 times
ROE	10.36%	13.75%
ROA	1.43%	2.04%

(Source: Moneycontrol, Macrotrends)

Inference: The EPS of the company has decreased post-merger, this may be due to decrease in the profits of the company. The ROA and ROE has been utilised properly which indicates that the assets and the shareholders fund has been utilised properly to generate profit. The P/E Ratio has increased which implies that the investors are expecting higher returns.

f. **Pharmaceutical Sector: Acquisition of Imperial Credit Private Limited. by Dr. Reddy's Laboratories:** Dr Reddy's Laboratories Ltd(Headquartered at Hyderabad) acquired non-banking financial company Imperial Credit Pvt. Ltd on March 2017. While it is intriguing that a drug maker is buying an NBFC, the company said this was not a foray into the NBFC business and has more to do with operational flexibility. The deal comes at a time when an easing of foreign investment rules for NBFC's earlier this year and high growth at these lenders compared with banks have attracted several investors to the sector.

Table 6
EPS and P/E ratio during Pre-Merger and Post Merger of Dr. Reddy's Laboratories

Particulars/Years	2017(Pre-Merger)	2018(Post Merger)
EPS	Rs.77.53	Rs.57.08
P/E	46.61 times	35.87 times
ROE	10.53%	7.53%
ROA	5.92%	4.19%

(Source: Money control, Macro trends)

Inference: The EPS and P/E Ratio has reduced which indicates that the profits have been reduced and the prices of share are undervalued, post-merger respectively. The ROA and ROE has reduced which implies that the assets and investors funds is not utilised efficiently, post-merger.

General factors affecting Mergers and Acquisitions

Mergers and Acquisition are a way of boosting and solidifying a company's competitive position and has become a major source of company's growth however they can also make difficulties for taking a once more formed object into a safe harbour .So it requires conducive business climate provoked by key success factors. The various factors that affect mergers and acquisitions are illustrated in the following table.

Table 7
General factors affecting Mergers and Acquisitions

1. Growth	8. To Follow Clients
2. Technology	9. Diversification
3. Product Advantage	10. Capacity Augmentation
4. Government Policy	11. Achieving Competitive Edge
5. Rate of Interest	12. Replacing Leadership
6. Political and Economic Stability	13. Surviving Tough Times
7. Differential Labour costs and Productivity	14. Increase the Brand Value

However, in case of mergers of the companies in the selected sample, the following factors played a major role.

Table 8
Analysis of Various Key factors Dominant in Mergers & Acquisitions

S.No.	M&A	Factors
1.	Amazon Acquiring Whole Foods	**-Brand Equity:** Whole foods have a strong private label business with its 365 brands. Amazon is now days becoming more vertical integrated and more interested in acquiring private brands as private brand product represents differentiation. **-Market Expansion:** Amazon wanted to enter into retail business.
2.	TATA Motor Acquiring JLR	**-Growth and Expansion:** This acquisition helped TATA Motors to enter the global automobile industry. **-Cost and Revenue Synergies:** Because of the acquisition TATA got various cost and revenue benefits.
3.	Bharti Airtel Acquiring Telenor India	**-Market Extensions:** The Acquisition provided Airtel with additional 54 million customers. **-Technological Factor:** The technological Advantage that the company gets is Telenor India's 4G airwaves
4.	Kotak Mahindra Acquiring Ing Vysya Bank**:**	**-Growth:** Acquisition gave Kotak access to Ing Vysya's expanded network in south India and to create a diversified customer base.
5	Dr. Reddy Laboratories Ltd Acquiring Imperial Credit Private Limited	**-Diversification:** This acquisition led to diversification from its product line that is medicine to acquire a non banking financial institution.

V. CONCLUSION

Various companies combine for generating synergies, improving the profit efficiency, enhancing competitiveness and exploring new markets. But every M&A need not essentially add value; there are business combinations that may lead to value destruction as well. The impartial of the present reading is to examine the effect of M & As on financial performance of the acquiring after M&A in during the period 2008-2017. It is clearly evident that after merger the profitability of some companies out of the selected sample declined and deteriorated and the profitability position indicators have not significantly improved. In case of Amazon the EPS, ROA, ROE and P/E, all the ratios have improved. But in case of the other four companies (i.e., Airtel, Kotak Mahindra bank, Dr. Reddy's Laboratories, Tata Motors) the EPS, ROA, ROE and P/E ratios of the acquirer company has declined. Overall, the financial position is not significantly improved. The results suggest that financial position indicators of most of the companies significantly deteriorated after M&A of the business. But sometimes giving up something in the short run can yield a big reward in the long term. These businesses although are facing short term losses but they have combined for getting long term benefits. The study also attempted to explore the significant factors affecting M & As activity in the current scenario. These factors are to be kept in consideration before entering into M&A deal.

VI. RECOMMENDATIONS

- Recommendation given to the future researcher is to consider a larger sample size with wider time span which will lead to better outcome as effects for a longer term can be seen.
- The researchers can make a comparison of M & A in different countries.
- The researchers can further make an analysis of changes in share prices after mergers & acquisitions.
- They can analyse the impact of cross broader M&A on the country's GDP.
- They can also assess the effect of M & A on the retail market.
- The researchers can use other variables like Gross Profit Margin, Financial Leverage and Return on Capital Employed and Dividend Payout ratio to have a better understanding of financial position.

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