

“IMPACT OF MERGERS AND ACQUISITIONS ON FINANCIAL PERFORMANCE-A STUDY OF SELECTED PHARMACEUTICAL COMPANIES IN INDIA”

ABSTRACT

In today's competitive era, companies are involved in several corporate restructuring activities which includes Mergers and Acquisitions, Joint venture, Demergers, Takeovers etc. to expand/contract business with ultimate objective to increase profitability and better management of funds. Mergers and Acquisitions is one of such activities resulting in to expansion of business. Due to increasing competition, many small entities are preferring to join hands with large companies and continue business. The trends as discussed in Introduction chapter showed that with overall increase in mergers and acquisition worldwide, India is also not an exception. Large proportion of increase in number of mergers and acquisition took place in Drugs and Pharmaceutical Industry during last two decades. Thus, it becomes essential to analyse that whether Mergers and Acquisitions in the Drugs and Pharmaceutical industry are successful or not and have helped to improve the financial performance and position of the acquirer companies.

Though enormous mergers and acquisitions are found in pharmaceutical sector in India but very few studies are carried out for examining the impact of mergers and acquisitions on financial performance and position. The present study focuses on measuring the impact of mergers and acquisitions on the financial performance of selected acquirer companies during the Post-Merger period.

The overall objective of the study is to examine the impact of Merger and Acquisitions on financial performance of selected sample pharmaceutical companies. The specific objectives of the study are as follows:

1. To evaluate the profitability of each of the selected sample company during the pre and post-Merger and Acquisition period.
2. To assess the Liquidity of each of the selected sample company during the pre and post-Merger and Acquisition period.
3. To examine long term financial strength of each of the selected sample company during the pre and post-Merger and Acquisition period.

4. To analyse financial health of the selected sample company during the pre and post-Merger and Acquisition period.
5. To analyse and evaluate the combined profitability, liquidity and long term financial strength of all the selected sample companies during the pre and post-Merger and Acquisition period.

For the purpose of study, period of 16 years commencing from 2000-2001 and ending on 2015-2016 is selected. Those Mergers and Acquisition which have taken place between the period 2005-2006 to 2010-2011 has been selected. The year in which Merger and Acquisition is completed is considered as Zero year. Years prior to merger and acquisition are considered Pre-Merger deal years and years after merger and acquisition are taken as Post-Merger deal years while conducting study on individual sample acquirer companies.

Based on purposive sampling technique, 7 cases of mergers and acquisitions are selected for the purpose of study.

The sample acquirer companies selected for purpose of study are as follows:

[1] Dr Reddy's Laboratories Ltd

[2] Hikal Ltd

[3] J. B. Chemicals & Pharmaceuticals Ltd.

[4] Kerela Ayurveda Ltd

[5] Lupin Ltd

[6] Makers Laboratories Ltd

[7] Strides Shashun Ltd [Now strides Pharma Science Ltd]

All the 7 selected sample acquirer companies (Cases) are listed on National Stock Exchange/Bombay Stock Exchange or both. The study is carried out based on secondary data. The secondary data collected has been tabulated and analysed using financial and statistical tools. Financial ratios are calculated to measure and analyse profitability, liquidity, long term solvency and efficiency of selected sample cases for the purpose of study. Statistical tools like Mean & Standard deviation has been applied for the purpose of study. Hypothesis framed are tested using one sample t-test for all individual sample company. The data collected is also analysed through graphical and diagrammatic presentation. Paired t-test

has been applied to test the hypothesis framed for consolidated data of all the selected sample companies. One Way Anova has been applied to study difference of means during Pre-Merger period [2000-2001 to 2004-2005], during merger period [2005-2006 to 2010-2011] and Post-Merger period [2011-2012 to 2015-2016].

For studying the impact of Merger and Acquisitions on the shareholder's wealth, Economic Value Added [EVA] and Market Value Added [MVA] has been computed for all sample companies during Pre and Post-Merger Period.

Composite score model for Profitability, Liquidity and Long term solvency has been developed by considering selected ratios for each sample company so as to analyse the performance during Pre-Merger and Post-Merger period. Each score has been tested applying Independent Sample t- test.

For detailed analysis, appropriate regression equation has been derived for Pre and Post-Merger period for each of the selected sample company.

Altman Z score has been also computed to check financial health of each selected sample companies during Pre and Post-Merger period and attempt has been made to assess company's financial health and changes in same due to Merger.

For the purpose of detailed study, analysis and Interpretation of data has been carried out in two sections. In the first section the financial performance of each of the selected acquirer companies is analysed and interpreted individually.

In the second section an attempt is made to analyse and interpret the consolidated financial performance of all the seven selected acquirer companies together

On the basis of analysis and findings, following conclusions are drawn-

Profitability of selected sample companies analysed through various tools like ratio analysis, composite index score based on profitability, Altman Z score indicated that there was improvement in performance of Dr Reddy's Laboratories Ltd., Lupin Ltd. and Strides Shashun Ltd. in the Post-Merger period as compared to Pre-Merger period. It is evident by improvement in maximum profitability ratios in Post-Merger period as compared to Pre-Merger period in above stated companies. Composite index score based on profitability increased in above mentioned 3 companies. Altman Z score also supported the above result

as score increased in Post-Merger period as compared to Pre-Merger period in above stated 3 companies. The composite index score tested by applying independent t- test at 5 % level of significance it can be concluded that in case of Lupin Ltd. change in profitability was significant.

Profitability declined in case of Hikal Ltd., J B Chemical and Pharmaceuticals Ltd., Kerela Ayurveda Ltd. and Makers Laboratories Ltd. which is evident by decline in majority of the profitability ratios. Composite index score based on profitability had also decreased in above mentioned 4 companies. Altman Z score also supports the above result as score decreased in Post-Merger period as compared to Pre-Merger period in above stated 3 companies excepting Kerela Ayurveda Ltd. where it increased marginally. The composite index score tested by applying independent t- test at 5 % level of significance it can be concluded that in case of Hikal Ltd. change in profitability was significant.

Liquidity of selected sample companies has been analyzed through various tools like ratio analysis & composite index score based on liquidity. The efficiency of selected sample companies gauged by calculating various efficiency ratios revealed mixed performance of all selected sample companies. Some of the efficiency ratios revealing liquidity were also included in calculation of composite index score based on liquidity like Inventory turnover ratio, Working capital turnover ratio and Debtors turnover ratio. Results indicated that there was improvement in liquidity performance of J B Chemical and Pharmaceuticals Ltd., Kerela Ayurveda Ltd., Lupin Ltd, Makers Laboratories Ltd. and Strides Shashun Ltd. in Post-Merger period as compared to Pre-Merger period. It is evident by improvement in majority liquidity ratios in Post-Merger period as compared to Pre-Merger period in above stated companies. The composite index score when tested by applying independent t- test at 5 % level of significance, it can be concluded that in case of Kerela Ayurveda Ltd. change in liquidity was significant.

Liquidity declined in case of Dr Reddy's Laboratories Ltd. and Hikal Ltd. which is evident by decline in majority of liquidity ratios. Composite index score based on liquidity had also decreased in above mentioned companies. The composite index score tested by applying independent t- test at 5 % level of significance it can be concluded that in case of Dr Reddy's Laboratories Ltd. change in liquidity was significant.

Long term solvency of selected sample companies analysed through various tools like ratio analysis, composite index score based on long term solvency indicated that there was improvement in long term financial strength of Dr Reddy's Laboratories Ltd., J B Chemical and Pharmaceuticals Ltd., Kerela Ayurveda Ltd. and Strides Shashun Ltd. as also evident by improvement in composite index score based on Long term solvency ratios of above stated companies. In other words, the capital structure became more sound and the companies were taking utmost advantage of financial leverage in the Post-Merger period as also reflected by increase in EPS. The composite index score tested by applying independent t- test at 5 % level of significance it can be concluded that in the change in long term solvency was not significant in above stated companies.

Long term solvency declined in case of Hikal Ltd., Lupin Ltd. and Makers Laboratories Ltd. which is evident by decline in composite index score based on long term solvency. The composite index score tested by applying independent t- test at 5 % level of significance it can be concluded that in all stated companies change in long term solvency was significant.

Impact of merger and acquisition on shareholder's wealth of selected sample companies was measured through EVA and MVA during Pre-Merger and Post-Merger period. It is concluded that overall wealth of shareholders improved in case of Dr Reddy's Laboratories Ltd., Lupin Ltd. and Strides Shashun Ltd. Thus, there is a positive impact of merger and acquisition. In case of Kerela Ayurveda Ltd. only MVA improved showing positive effect of merger and acquisition. In remaining 2 sample companies the shareholder's wealth declined.

Based on regression analysis it can be concluded that independent variables like working capital, operating expenses, capital employed, shareholders fund and finance cost affected net profit in majority of sample companies throughout the period of study.

Consolidated performance of all seven companies revealed that overall profitability, liquidity and long term solvency did not change significantly. However, fixed asset ratio, proprietary ratio and capital turnover ratio changed significantly. In other words, it can be concluded that there is no impact of Mergers and Acquisition on consolidated performances of all selected seven acquirer companies taken together. [Supported by (Ahmed & Ahmed, 2014). (S & M, 2007).

From selected seven acquirer companies Mergers and Acquisitions was overall fruitful for three sample companies viz. Dr Reddys Laboratories Ltd, Lupin Ltd and Strides Shashun

Ltd. whereas it was not benefiting in case of rest of the sample companies viz. Hikal Ltd. J B Chemical and Pharmaceuticals Ltd, Kerela Ayurveda Ltd and Makers Laboratories Ltd. Combined profitability performance of all seven cases together showed mixed results in Post-Merger period.