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An Empirical Study of Financial Impact on Acquiring Company During Post-merger Period

INTRODUCTION

Conceptual Framework

Mergers and Acquisitions (M&A) constitute a major and popular strategy for growth and diversification for companies in India and all over the world, judging by the M&A activities over the years. By most accounts, the number of M&A has increased significantly post liberalization, more specifically at the end of 20th century. As reported by the accounting firm Grant Thornton in the M&A publication Deal tracker (2008).

In the modern business environment, it is considered that corporate mergers and acquisitions are key growth strategies for any corporation. Corporate merger and acquisition activities today are aiming at lower costs as well as new technologies, markets, skills, and even employees (Business Week, 1999). In this regard, Amihud and Lev (1981) argued that firms even pursued mergers and acquisitions to protect their human capital. Furthermore, Auster and Sirower (2002) argued that "Even beyond the redistribution of billions of dollars of corporate assets and shareholder wealth, merger waves are important to understand because they reconfigure industries, fundamentally reshape corporate strategies, transform organizational cultures, and affect the livelihoods of employees." (p. 217)

Since maximization of a firm's value is the utmost purpose and role of any management, a number of empirical studies have attempted to test if corporate mergers and acquisitions

increase a firm's overall value. As a matter of fact, a significant body of finance literature has tried to find out post-acquisition performances of firms in terms of market-based performances (e.g., Mitchell & Stafford, 2000; Gregory, 1997; Rau & Vermaelen, 1998; Raad, Ryan, & Sinkey, 1999; Canina, 2001; Kwansa, 1994), accounting-based performances (e.g., Ramaswamy & Waegelein, 2003; Dickerson, Gibson, & Tsakalotos, 1997; Ravenscraft & Scherer, 1989), and other performance measures (e.g., Avkiran, 1999; Brush, 1996; Ferrier & Valdmanis, 2004).

While a number of empirical studies have attempted to investigate post-acquisition performances, the evidence is conflicting. It is clearly understood that the shareholders of acquired or target firms financially benefit from mergers and acquisitions. Yet, the financial returns for shareholders of acquiring firms are questionable. Mergers and acquisitions are carefully planned in an attempt to ensure financial success for both acquiring and acquired firms. Ironically, however, much of the empirical research to date on mergers and acquisitions has reported that acquiring firms commonly gain neutral to negative market reaction after mergers and acquisitions announcements (Connor & Geithman, 1988). In general, the shareholders of acquiring firms financially benefit from merger and acquisition announcements on less than half of the occasions (Early, 2004).

While there is significant body of research on post-acquisition performances, there is only a handful of studies concerning post-acquisition performances of acquired companies /sector.

The past decade have witnessed the largest merger and acquisition activities of companies in India. However, very little information regarding post-acquisition performances has been available for any industry to help financial stakeholders within the industry. Considering the sharp increase in mergers and acquisitions in all the industries, it is timely to study the post-acquisition performances of companies with newly available data.

Mergers and acquisitions (M&A) refer to the buying, selling, and combining of companies. In an M&A deal, two companies become one. M&A deals are typically facilitated by investment bankers. Before going through with a merger or an acquisition, both sides of the deal will conduct due diligence – a thorough analysis of all aspects and consequences relating to the proposed deal – to make sure it will be beneficial to their side of the deal. Mergers and acquisitions are a normal part of business happenings in a healthy economy. Though the terms are often combined, there is a difference between mergers and acquisitions. Mergers refer to the combination of two companies. Mergers are often mutually acceptable by both companies and the new entity often combines the names of the two original entities. In a merger, the two companies that merge combine and become a new company. This involves surrendering the stocks of the old companies and issuing stock for the new company. Acquisitions refer to one company purchasing another company. This typically occurs when one of the companies is significantly larger than the other company – the acquirer is larger than the target. In an acquisition, the target company ceases to exist as a separate entity and becomes a part of the acquiring company. Acquisitions are not always mutually acceptable to both parties – a company can buy another company even if the target company does not want to be bought. Sometimes mutually acceptable acquisitions are called mergers to make the deal sound friendlier. Mergers are always friendly, or mutually acceptable to both companies. Acquisitions can be either hostile or friendly. A hostile acquisition, or hostile takeover bid, is one in which the acquirer buys a target that does not wish to be bought. A friendly acquisition is one in which the target company does want to bought.

M&A Synergy

The purpose of an M&A deal is to achieve synergy. Basically, synergy is the concept that the whole is greater than the sum of its parts, or one plus one equals three. The idea is that the two companies will be more valuable together than they were as separate entities. Synergies can be achieved in various ways. The combined companies may achieve cost efficiencies, greater market share, a stronger competitive position, and enhanced revenues. These benefits may be achieved through economies of scale, staff reductions, or sharing of technology. While striving for synergies is a goal in M&A deals, the combined companies do not always achieve the sought after synergistic benefits. In most open market transactions involving corporate acquirers, the acquirer anticipates that it will realize some synergies or strategic advantages by combining the acquired company with its existing operations. In open market transactions, anticipated synergies generally should be assessed separately from the estimated discretionary cash flows that a target company is expected to generate on a stand-alone basis. In most cases, anticipated synergies that can readily be quantified (such as headcount reductions) are assigned a probability factor based on the likelihood that they will be realized. The probabilized synergies are then added to the anticipated discretionary cash flows of the company on a stand-alone basis to derive the buyer's expectation of discretionary cash flows to be generated following the transaction. Synergies are unique to each acquirer. In most cases, an acquirer has a reasonably good idea about the synergies that are expected to arise following a transaction based on its knowledge of its own operations and those of the target company. Financial statement analysis can assist corporate acquirers in assessing the plausibility of its synergy assumptions, and in identifying synergies that may not be readily evident. Assessing the reasonableness of anticipated synergies generally is done through an evaluation of forecast data. Where the operations of the target company and the acquirer are similar, their respective financial ratios sometimes can be compared to determine whether the target company's operations can be rationalized to the extent anticipated. In some cases, it may be possible to find meaningful industry data to assist in the analysis. The identification of 'hidden' synergies generally involves an analysis of the target company's historical financial statements, and a comparison of relevant operating ratios to those of the acquirer (where the two are comparable). For example, where the acquirer has lower working capital requirements than the target, it may indicate that savings are possible through more stringent accounts receivable collection policies or more efficient inventory management. However, buyers must be cautioned against assuming that just because their own operations appear to be more efficient than those of the target company does not necessarily mean that synergies are available. Alternatively, if such synergies are possible, they may be difficult to realize, and hence should be discounted accordingly.

Use of Financial Ratios

Financial Ratios are used to measure financial performance against standards. Analysts compare financial ratios to industry averages (benchmarking), industry standards or rules of thumbs and against internal trends (trends analysis). The most useful comparison when performing financial ratio analysis is trend analysis. Financial ratios are derived from the three financial statements; Balance Sheet, Income Statement and Statement of Cash Flows. Financial ratios are used in Flash Reports to measure and improve the financial performance of a company on a weekly basis. There are five (5) major categories included in the financial ratios list are:

(a) Liquidity Ratios (b) Activity Ratios (c) Debt Ratios (d) Profitability Ratios and (e) Market Ratios

Liquidity Ratios

Liquidity ratios – Current Ratio and Acid Test Ratio(Quick ratio)-measure whether there will be enough cash to pay vendors and creditors of the company.

Activity Ratios

Activity ratios -Daily Sales Outstanding(DSO), Accounts Receivable Turnover, Daily Payable Outstanding, Accounts Payable Turnover, Inventory Days Outstanding and Inventory Turnover-measure how long it will take the company to turn assets into cash.

Debt Ratios

Debt ratios - Debt Ratio, Debt to Equity Ratio(D/E Ratio), Long Term Debt to Total Asset Ratio, Times Interest Earned Ratio, Fixed Charge Coverage Ratio and Debt Service Coverage Ratio (DSCR)-measure the ability of the company to pay its' long term debt.

Profitability Ratios

The profitability ratios -Gross Profit Margin, Operating Profit Margin Ratio, Net Profit Margin Return on Equity Ratio(ROE Ratio) and Return on Investment Ratio (ROI Ratio)-measure the profitability and efficiency in how the company deploys assets to generate a profit.

Market Ratios

The market ratios-Price Earnings Ratio(P/E Ratio), Earnings per Share (EPS), Price to Book Value Ratio(PBV Ratio), Price to Sales Ratio, Price Earnings Growth Ratio(PEG Ratio) and Dividend Yield- measure the comparative value of the company in the marketplace.

Objective

The broad objective of the study is to evaluate the impact of efficient management of post merger integration issues on the financial performance of acquiring company in the process of M&A.

Hypothesis

The study was conducted to test the following hypothesis.

Hypothesis 1:

Ho - The effective management of post merger integration issues has no relationship on financial performance of the acquiring company.

H1 - The effective management of post merger integration issues has positive relationship on financial performance of the acquiring company.

7. Research Process

The study covers companies across the industry. The companies which have acquired any other unit in the last 10 years were only selected for the survey and study. Majority of these companies are in operation in Delhi and NCR region.

In total there were 12 companies selected for the purpose of survey. These companies were selected based on the different product lines, their turnover, financial performance and accessibility of data and information on the subject. A brief description of these companies is furnished here.

Interpretation

This ratio analysis shows relative use of debt and equity as source of capital to finance company assets; it determines the proportion of debt in the company's capital structure or say its financial leverage in the company's capital structure. In this, Bhushan steel ltd has highest debt equity ratio at 2.07 in 2006 and 3.23 in 2010 which has increased at an average annual rate of approximately 24% and similar analysis of India glycols Ltd shows an increase of 20% whereas other's like Minda corporation and Moser baer ltd are also increasing, but with a lesser percentage increase. parallel to this Dabur increasing with lowest proportion of 0.09

10. Comparative Analysis of the Performance

Table 1. A Comparative Analysis of Debt-Equity Ratio

Company Name	Debt-Equity				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	0	0	0	0	0
Usha Martin Ltd	0.92	1.26	1.05	1.11	1.46
Minda Corporation Ltd	1.61	1.53	1.5	1.27	1.44
Dabur India Ltd	0.17	0.13	0.04	0.05	0.09
DCM Shriram Consolidated Ltd	1.32	1.56	1.93	2.41	1.83
India Glycols Ltd	2.66	1.71	1.38	1.74	1.64
Escorts Ltd	0.19	0.33	0.7	0.94	1.19
Amtek Auto Ltd	0.94	1.14	0.88	0.97	1.23
Bhushan Steel Ltd	3.23	3.77	3.16	2.51	2.07
Greaves Cotton Ltd	0.06	0.12	0.13	0.18	0.38
Gateway Distriparks Ltd	0.02	0.01	0	0.02	0.14
Moser Baer (India) Ltd	1.34	1.36	1.07	0.82	0.82

in 2006 and 0.17 in 2010. On other hand Usha Martin Ltd has gone down by 11% on average annually and DCM Sriram Consolidated Ltd by 10 %. Similarly, Escorts ltd (20%), Amtek Auto ltd(6%), Greaves Cotton ltd(6%), and Gateway Distriparks ltd (2.5%) have shown decreasing tendency. The average annual decrease is shown in the brackets. It may be noted that Seimens Ltd has shown any debt. A further analysis reveals that there was relatively higher DE ratio for the companies in the post expansion phase as they have dependence on debt finance.

Table 2. A Comparative Analysis of Current Ratio

Company Name	Current Ratio				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	1.34	1.25	1.17	1.12	1.1
Usha Martin Ltd	0.69	0.88	1.03	1.13	1.14
Minda Corporation Ltd	0.87	0.71	0.8	0.88	0.91
Dabur India Ltd	0.94	0.94	0.99	0.97	0.79
DCM Shriram Consolidated Ltd	1.27	1.18	0.92	0.84	1.02
India Glycols Ltd	0.84	0.97	0.94	0.94	1.14
Escorts Ltd	1.01	1.05	1.16	1.05	0.96
Amtek Auto Ltd	6.86	7.13	5.91	7.46	9.72
Bhushan Steel Ltd	1.31	1.14	1.24	1.32	1.21
Greaves Cotton Ltd	1.14	1.14	1.13	1.18	1.28
Gateway Distriparks Ltd	3.17	3.88	5.34	7.4	5.79
Moser Baer (India) Ltd	2	1.79	2.12	2.83	3.25

Interpretation

The ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables). A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point. The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Companies that have trouble getting paid on

their receivables or have long inventory turnover can run into liquidity problems because they are unable to alleviate their obligations. The ideal current ratio is supposed to be 2:1. Among Current ratio of all companies, Amtek Auto Ltd has Highest Current ratio 6.89 in 2010 means having larger proportion of current assets as compared to current liabilities though they have diminished from the year 2006 and similar trend was followed by Gateway Distriparks Ltd with 3.17 in yr 2010 and 5.79 in 2006. Others like Siemens ltd, DCM Shriram Ltd, Bhushan Steel ltd and Dabur Ltd have moderate Current ratio, which was increasing at constant pace over these 5 years. For Usha Martin Ltd, Minda Ltd, India Glycols Ltd, Escorts Ltd and Greaves Cotton Ltd it is the other way round.

Table 3. A Comparative Analysis of Inventory Turnover Ratio

Company Name	Inventory Turnover				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	7.63	9.93	11.39	13.06	11.79
Usha Martin Ltd	3.61	4.89	4.22	5.2	4.89
Minda Corporation Ltd	22.02	26.47	15.02	16.56	17.81
Dabur India Ltd	10.28	10.47	11.81	12	11.24
DCM Shriram Consolidated Ltd	4.17	3.87	3.62	5.75	6.65
India Glycols Ltd	5.27	5.32	6.96	4.77	3.86
Escorts Ltd	11.16	10.78	11.06	12.58	11.64
Amtek Auto Ltd	3.5	3.6	6.29	7.5	6.77
Bhushan Steel Ltd	3.74	4.57	4.93	6.79	5.67
Greaves Cotton Ltd	9.94	8.31	10.82	12.54	12.17
Gateway Distriparks Ltd	0	0	0	0	0
Moser Baer (India) Ltd	3.39	3.6	3.39	4.2	4.38

Interpretation

A low turnover rate may point to overstocking, obsolescence, or deficiencies in the product line or marketing effort. However, in some instances a low rate may be appropriate, such as where higher inventory levels occur in anticipation of rapidly rising prices or shortages. A high turnover rate may indicate inadequate inventory levels, which may lead to a loss in business. This ratio inventory turnover is the ratio of cost of goods sold to inventory. In other words, this ratio Indicates how many times inventory is created and sold during the period.

Minda corporation Ltd has highest peak of inventory turnover 26.47 in 2009, 17.81 in 2006 year increasing at increasing proportion, it got diminish 22.02 in 2010 still be the highest stock turnover among all 12 companies, others like, Dabur India ltd, Escorts ltd are constant for all 5 years whereas Usha Martin Ltd, Moser Baer ltd is slightly diminish at constant rate from 2006 to 2010. Rest like Siemens ltd, DCM Shriram ltd, Amtek Auto Ltd, Bhushan Steel Ltd and Greaves Cotton Ltd show decrease in inventory at smaller proportion whereas India Glycols Ltd is completely inverse showing increase in inventory at constant proportion.

Table 4. A Comparative Analysis of Debtors Turnover Ratio

Company Name	Debtors Turnover				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	2.83	2.5	3.04	4.83	5.2
Usha Martin Ltd	7.92	7.9	7.6	7.36	5.95
Minda Corporation Ltd	9.58	9.24	8.12	11.08	9.3
Dabur India Ltd	23.72	22.78	26.24	37.25	35.94
DCM Shriram Consolidated Ltd	13.31	12.34	7.24	6.25	6.87
India Glycols Ltd	14.52	14.67	18.65	13.61	11.9
Escorts Ltd	8.36	5.14	4.13	5.6	7.61
Amtek Auto Ltd	3.97	3.7	6.18	8.24	7.82
Bhushan Steel Ltd	8.83	8.72	8.03	8.86	8.05
Greaves Cotton Ltd	8.07	8.91	13.43	13.54	12.16
Gateway Distriparks Ltd	27.55	33.54	23.99	19.82	18.97
Moser Baer (India) Ltd	4.07	6.3	6.1	5.85	4.87

Interpretation

This Ratio indicates the efficiency of the concern to collect the amount due from debtors. It determines the efficiency with which trade debtor are managed. Higher the ratio better it is as it proves that the debts are being collected very quickly. Here, DCM Shriram Consolidated Ltd, Gateway Distriparks Ltd Debtor turnover are increasing every year 6.87 to 13.31 and 18.97 to 27.55 over five years 2006 to 2010 on contrary Dabur India Ltd showing decrease in it 35.94 to 23.72 means debtor are not collected faster.

The Usha Martin Ltd, Minda Corporation Ltd, Escorts Ltd, Bhushan Steel Ltd, Moser Baer (India) Ltd are behaving constantly in terms of debtor turnover whereas India Glycols Ltd showing slight increase and at same time Siemens Ltd, Amtek Auto Ltd and Greaves Cotton Ltd are decrease at constant rate 5.2 to 2.83 and 12.16 to 8.07 from 2006 to 2010.

Table 5. A Comparative Analysis of Interest Cover Ratio

Company Name	Interest Cover				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	67.74	77.81	69.38	115.36	95.66
Usha Martin Ltd	2.1	2.65	3.32	2.79	2.22
Minda Corporation Ltd	3.65	2.68	2.86	2.66	2.56
Dabur India Ltd	40.69	30.37	34.44	42.74	38.5
DCM Shriram Consolidated Ltd	2.21	1.52	1.04	1.74	4.41
India Glycols Ltd	1.23	-0.59	6.01	2.35	3.39
Escorts Ltd	4.62	2.49	1.59	0.87	0.81
Amtek Auto Ltd	2.61	4.34	9.98	13.99	11.78
Bhushan Steel Ltd	6.48	3.22	4.93	5.34	2.92
Greaves Cotton Ltd	14.43	4.6	6.98	8.79	12.53
Gateway Distriparks Ltd	39.62	103.21	174.52	93.32	33
Moser Baer (India) Ltd	0.69	-0.26	0.45	1.96	1.04

Interpretation

Here, this Interest Cover referred to as interest coverage ratio, compare the earning available to meet interest obligation and often used in debt covenants to help protect the creditors. Siemens Ltd has high coverage, but decreasing from 2006 of 95.66 to 2010 of 67.74, though highest peak in year 2009 of 77.81. It goes inverse with Dabur India Ltd (38.5 to 40.69) and Gateway Distriparks Ltd (33 to 39.62) from 2006 to 2010. However, Usha Martin Ltd and Moser Baer (India) Ltd are almost constant during this phase. Minda Corporation Ltd (2.56 to 3.65), Bhushan Steel Ltd (2.93 to 6.48) and Greaves Cotton Ltd (12.53 to 14.43) have shown increase at constant proportion over these years whereas DCM Shriram Consolidated Ltd (4.41 to 2.21) and India Glycols Ltd (3.39 to 1.23) have shown diminishing tendency. Interestingly, Escorts Ltd (0.81 to 4.62) and Amtek Auto Ltd (11.78 to 2.61) showed opposite changes in interest coverage.

Table 6. A Comparative Analysis of PBIDTM

Company Name	PBIDTM (%)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	14.43	15.05	9.48	10.41	11.59
Usha Martin Ltd	19.21	18.75	19.77	18.67	19.39
Minda Corporation Ltd	10.91	11.82	11.22	7.35	8.33
Dabur India Ltd	19.87	19.26	18.97	19.12	17.5
DCM Shriram Consolidated Ltd	9.95	10.34	7.83	7.83	11.46
India Glycols Ltd	10.34	2.16	23.03	13.27	15.67
Escorts Ltd	10.06	10.26	7.55	5.82	6.57
Amtek Auto Ltd	38.49	37.3	31.79	36.72	33.01
Bhushan Steel Ltd	26.29	19.41	19.1	15.96	13.65
Greaves Cotton Ltd	14.59	11	13.81	14.65	15.12
Gateway Distriparks Ltd	55.92	60.58	60.97	73.27	70.89
Moser Baer (India) Ltd	29.38	19.72	26.1	29.03	23.92

Interpretation

PBIDTM (Profit Before Interest, Depreciation, and Tax Margin) analysis of all companies shows that Escorts Ltd, Amtek Auto Ltd, Bhushan Steel Ltd, Gateway Distriparks Ltd, Siemens Ltd and Moser Baer (India) Ltd have shown increasing trend whereas Usha Martin Ltd has shown stable performance during this period. However, Gateway Distriparks Ltd is at highest peak of profit among all though it has shown decreasing trend at 55.92 in 2010 from 70.89 in 2006. There was a slight decrease in DCM Shriram Consolidated Ltd, India Glycols Ltd, and Greaves Cotton Ltd whereas there was a slight increase in Dabur India Ltd at 17.5 in 2006 to 19.87 in 2010. This is evident that the earnings of selected companies have considerably increased in the post acquisition period.

Table 7. A Comparative Analysis of PBDTM

Company Name	PBDTM (%)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	14.23	14.87	9.36	10.33	11.48
Usha Martin Ltd	12.69	13.07	15.06	13.72	13.23
Minda Corporation Ltd	8.57	8.61	8.28	5.63	6.63
Dabur India Ltd	19.4	18.67	18.46	18.7	17.08
DCM Shriram Consolidated Ltd	7.5	6.23	4.67	5.14	9.5
India Glycols Ltd	5.49	-2.58	19.92	9.58	12.4
Escorts Ltd	8.19	6.84	4.14	1.56	1.2
Amtek Auto Ltd	28.75	31.39	29.35	34.51	30.69
Bhushan Steel Ltd	22.77	14.74	16.15	13.91	10.87
Greaves Cotton Ltd	13.71	9.09	12.06	13.13	14.02
Gateway Distriparks Ltd	54.75	60.07	60.67	72.56	68.94
Moser Baer (India) Ltd	20.53	10.59	16.97	23.03	18.52

Interpretation

Profit Before Depreciation and Tax Margin (PBDTM) analysis of all companies shows their respective strengths. For Gateway Distriparks Ltd, PBDTM is at highest peak, but showed a diminishing trend from 2006 (it was 68.94) to 2010(it was 54.75), similar trend can be seen with Amtek Auto Ltd (30.69 to 28.75), India Glycols Ltd (12.4 to 5.49), DCM Shriram Consolidated Ltd (9.5 to 7.5) and Usha Martin Ltd (13.23 to 12.69). Those few which have shown increase over 5 years were Siemens Ltd (from 11.48 to 14.23), Minda Corporation Ltd (6.63 to 8.57), and Moser Baer (India) Ltd(18.52 to 20.53) whereas, Escorts Ltd(1.2 to 8.19), Bhushan Steel Ltd (10.87 to 22.77) over 5 years have shown healthy rate of increase.

Table 8. A Comparative Analysis of APATM

Company Name	APATM (%)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	8.66	10.22	5.83	6.62	7.52
Usha Martin Ltd	4.75	6.41	7.89	6.49	4.86
Minda Corporation Ltd	5.19	4.26	3.98	1.71	1.47
Dabur India Ltd	15.04	15.41	14.96	15.4	13.8
DCM Shriram Consolidated Ltd	2.03	2.85	0.02	1.38	4.65
India Glycols Ltd	0.71	-3.67	11.71	3.91	7.34
Escorts Ltd	4.97	4.12	0.07	-0.06	-1.15
Amtek Auto Ltd	11.2	14.46	16.31	21.12	18.72
Bhushan Steel Ltd	14.16	7.81	9.12	7.5	5.16
Greaves Cotton Ltd	8.07	4.85	8.37	10.06	8.12
Gateway Distriparks Ltd	48.69	46.06	45.58	56.71	55.84
Moser Baer (India) Ltd	-2.41	-11.18	-5.08	5.29	0.27

Interpretation

Adjusted profit after tax margin (APATM) a company's after-tax profit margin is important because it tells investors the percentage of money a company actually earns according to its sales. This ratio is interpreted in the same way as profit margin - the after-tax profit margin is simply more stringent because it takes taxes into account. This data indictates that Gateway Distriparks Ltd is having highest margin throughout the period but showed slightly decreasing trend with 48.69 in 2010 from 55.84 in 2006, whereas Bhushan Steel Ltd has shown constantly an increase in this period from a low of 5.16 to a high of 14.16 from 2006 to 2010 with a dip in the value in 2009. As all others have shown either a slight increase or decrease except Moser Baer (India) Ltd which has shown negative growth during this period.

Table 9. A Comparative Analysis of ROCE

Company Namea	ROCE (%)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	39.97	48.86	41.1	58.92	54.61
Usha Martin Ltd	11.02	15.92	17.38	15.81	14.44
Minda Corporation Ltd	21.94	18.16	19.72	17.77	13.68
Dabur India Ltd	62.55	62.66	80.43	69.37	54.04
DCM Shriram Consolidated Ltd	6.49	7.31	3.54	7.36	15.67
India Glycols Ltd	5.67	-2.75	29.94	11	12.62
Escorts Ltd	13.34	12.69	8.94	0	6
Amtek Auto Ltd	5.19	5.06	8.15	11.72	10.62
Bhushan Steel Ltd	10.68	9.32	11.46	12.41	9.76
Greaves Cotton Ltd	41.81	23.47	42.7	54.08	53.21
Gateway Distriparks Ltd	11.11	16.79	13.75	14.82	19.8
Moser Baer (India) Ltd	3.25	-1.25	1.93	6.53	2.68

Interpretation

Return On Capital Employed (ROCE) ratio is considered the best measure of profitability in order to assess the overall performance of the business. It indicates how well the management has used the investment made by owners and creditors into the business reflect higher the return on capital employed, the more efficient the firm is in using its funds.

Minda Corporation Ltd(13.68% to 21.94%), Dabur India Ltd(54.04% to 62.55%) and Escorts Ltd(6% to 13.34%) have shown increasing trend in profitability over these 5 years. Now, Siemens Ltd, Usha Martin Ltd, DCM Shriram Consolidated Ltd, India Glycols Ltd, Amtek Auto Ltd, Greaves Cotton Ltd and Gateway Distriparks Ltd have shown decreasing trend from 2006 to 2010. However, Bhushan Steel Ltd(9.76% to 10.68%) and Moser Baer (India) Ltd (2.68% to 3.25%) have shown not much growth. Return on capital employed also increased in the post acquisition period in the selected companies.

Table 10. A Comparative Analysis of RONW

Company Name	RONW (%)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	25.88	35.3	27.44	39.82	38.59
Usha Martin Ltd	7.33	15.3	17.92	15.61	12.57
Minda Corporation Ltd	34.82	22.73	23.33	15.15	11.32
Dabur India Ltd	58.27	58.99	68.01	59.24	48.12
DCM Shriram Consolidated Ltd	5.66	8.56	0.06	7.38	23.91
India Glycols Ltd	2.47	-9.73	44.65	13.59	22.1
Escorts Ltd	9.04	8.02	0.18	0	-3.01
Amtek Auto Ltd	4.43	6.1	10.23	15.66	16.26
Bhushan Steel Ltd	28.23	23.02	29.84	29.78	19.06
Greaves Cotton Ltd	28.04	14.45	33.11	48.34	43.4
Gateway Distriparks Ltd	11.86	14.63	11.88	12.96	19.6
Moser Baer (India) Ltd	-3.02	-13.77	-4.91	5.35	0.23

Interpretation

Return On Networth Ratio (RONW) is the ratio of net profit to shareholder's investment. It is the relationship between net profit (after interest and tax) and shareholder's/proprietor's fund. This ratio establishes the profitability from the share holder's point of view and also indicates the general financial position of the Business Concern.

Now, Dabur India Ltd has highest RONW and has shown increase from 48.12% to 58.27% in five years down the line from 2006 to 2010 whereas similar trends were found in Minda Corporation Ltd (11.32% to 34.82%), Bhushan Steel Ltd(19.06% to 28.23%) and Escorts Ltd(3.01% to 9.04%) .

On other hand, Decreasing trend in RONW is seen in Siemens Ltd (38.59% to 25.88%), Usha Martin Ltd(12.57% to 7.33%), Amtek Auto Ltd(16.26% to 4.43%), Greaves Cotton Ltd (43.4% to 28.04%), and Gateway Distriparks Ltd(19.6% ti 11.86%) over five years from 2006 to 2010.

Lastly, India Glycols Ltd has shown drastic change 22.1% to 2.47% from 2006 to 2010 at same time Moser Baer (India) Ltd (0.23% to -3.02%) has shown negative growth.

Table 11. A Comparative Analysis of EV/EBIDTA

Company Name	EV/EBIDTA				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	18.71	11.37	12.95	24.01	30.88
Usha Martin Ltd	10.48	4.84	7.95	5.55	5.64
Minda Corporation Ltd	0	0	0	0	0
Dabur India Ltd	23.95	18.28	23.5	26.08	29.58
DCM Shriram Consolidated Ltd	6.31	6.33	2.66	12.79	8.88
India Glycols Ltd	9.13	-38.18	3.49	5.95	7.35
Escorts Ltd	8.62	4.93	6.3	11.08	7.57
Amtek Auto Ltd	11.53	11.28	9.89	15.13	13.25
Bhushan Steel Ltd	11.73	9.2	9.59	7.98	6.65
Greaves Cotton Ltd	7.78	4.73	4.84	9.24	10.4
Gateway Distriparks Ltd	15.22	4.6	10.76	13.61	21.86
Moser Baer (India) Ltd	5.01	5.15	8.5	7.99	9.56

Interpretation

EV/EBIDTA (Enterprise value/ Earnings before Interest, Depreciation, Tax and Amortization) indicates the financial health of a company. It is calculated after all expenses are deducted from revenue and it essentially is a good indicator of a company's financial performance. In other words, it shows the true earnings of a Company. Dabur India Ltd (29.58 to 23.95) has consistantly showed high value for all 5 years whereas others have showed mixed trends. Usha Martin Ltd (5.64 to 10.48), India Glycols Ltd (7.35 to 9.13), Escorts Ltd (7.57 to 8.62) and Bhushan Steel Ltd(6.65 to 11.73) are showing increasing trend from 2006 to 2010.

Whereas, Siemens Ltd(30.88 to 18.71), DCM Shriram Consolidated Ltd(8.88 to 6.31), Amtek Auto Ltd(13.25 to 11.53), Greaves Cotton Ltd(10.4 to 7.78), Gateway Distriparks Ltd(21.86 to 15.22) and Moser Baer (India) Ltd(9.56 to 5.01) are showing decreasing trend from 2006 to 2010.

Table 12. A Comparative Analysis of PAT

Company Name	PAT				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	-20.83	76.1	-0.54	65.65	41.36
Usha Martin Ltd	-37.08	1.19	42.72	56.2	58.97
Minda Corporation Ltd	96.19	16.18	79.77	50.17	-13.82
Dabur India Ltd	16	17.92	25.66	33.32	27.75
DCM Shriram Consolidated Ltd	-29.97	-84.83	1364.72	-60.23	10.3
India Glycols Ltd	-121.77	-151.47	334.91	-29.92	-25.82
Escorts Ltd	53.29	655.94	-284.32	-133.89	-51.39
Amtek Auto Ltd	-6.02	-41.73	10.77	44.2	76.14
Bhushan Steel Ltd	100.76	-0.57	35.26	102.82	0.72
Greaves Cotton Ltd	110.66	-49.16	-9.94	43.75	37.04
Gateway Distriparks Ltd	-17.65	24.66	-2.73	6.47	108.98
Moser Baer (India) Ltd	-76.01	91.19	-171.87	2256.01	-92.33

Interpretation

Profit After Tax (PAT) is the net profit earned by the company after deducting all expenses like interest, depreciation and tax. PAT can be fully retained by a company to be used in the business. However, dividend is paid to the share holders from this residue. Complete picture of all 12 companies is moving from negative to positive proportion. As most profitable, India Glycols Ltd at -25.82 to 121.77, Bhushan Steel Ltd at 0.72 to 100.76 over 5 year period and complete opposite of it is Gateway Distriparks Ltd at 108.98 to -17.65, Amtek Auto Ltd at 76.14 to -6.02, Usha Martin Ltd at 58.97 to -37.08 and Siemens Ltd at 41.36 to -20.83 and similar trend followed by DCM Shriram Consolidated Ltd (10.3 to -29.97) and Escorts Ltd (-51.39 to 53.29).

Dabur India Ltd shown though diminishing PAT trend, it had a consistently positive performance from 27.75 to 16 whereas Moser Baer (India) Ltd showed mixed results with positive PAT in 2009 but largely remaining in the negative during this periodand for other years it is negatively performing from 2006 to 2010.

A sharp increase in PAT is observed in case of Minda corporation and Greaves cotton immediately after the acquisition in 2010.

Table 13. A Comparative Analysis of EPS

Company Name	EPS (Rs.)				
	Mar-2010	Mar-2009	Mar-2008	Mar-2007	Mar-2006
Siemens Ltd	23.7	30.14	17.09	34.57	20.83
Usha Martin Ltd	2.86	5.67	5.6	20.48	14.25
Minda Corporation Ltd	20.45	10.3	8.82	17.45	11.66
Dabur India Ltd	4.65	4.02	3.41	2.72	3.05
DCM Shriram Consolidated Ltd	4.14	5.97	39.68	2.62	6.78
India Glycols Ltd	6.92	0	63.35	14.21	20.59
Escorts Ltd	13.19	9.72	1.31	0	2.63
Amtek Auto Ltd	6.93	10.71	18.44	17.48	13.07
Bhushan Steel Ltd	194.91	98.78	99.35	73.34	37.06
Greaves Cotton Ltd	21.7	10.86	21.54	24.04	16.41
Gateway Distriparks Ltd	6.56	8.1	5.91	7.88	7.46
Moser Baer (India) Ltd	0	0	0	9.58	0.28

Interpretation

Earnings per share (EPS) indicate relation between net profit after tax and number of equity shares and is a good measure of profitability and when compared with EPS of similar companies, it gives a view of the comparative earnings or earning power of a firm.

Now, if we comparatively analyze EPS of several years it is found that Bhushan Steel Ltd has highest EPS 194.91 in 2010 and it was 37.06 in 2006. Others are performing on and off at similar level during the period of 5 years, but Siemens Ltd, Minda Corporation Ltd, Escorts Ltd, Greaves Cotton Ltd are performing at slight increasing rate of EPS over 2006 to 2010. Contrast to it are Usha Martin Ltd, DCM Shriram Consolidated Ltd, Amtek Auto Ltd, and Gateway Distriparks Ltd which are showing decreasing trend whereas India Glycols Ltd are showing diminishing and impulsive EPS changes. And lastly Moser Baer (India) Ltd is underperforming from 2006 to 2010.

Overall analysis indicates that the financial performance of majority of the acquiring companies has shown positive impact in the post acquisition period. To an extent it was possible on account of effective management of post merger integration issues in the post acquisition period.

Thus, it can be interpreted that effective management of post merger integration issues has positive impact on the financial performance of the acquiring companies. Therefore the null hypothesis is rejected.

11. Suggestions and recommendations

The suggestions and recommendations have been arrived at on the basis of research findings and data analysis. The opinion and views obtained during the surveys through personal interactions with the concerned officials of the companies have been given due consideration. The following are suggestions based on the study.

12. Financial Aspects

1. In 60 per cent cases the acquiring companies felt that the valuation of the acquired company was on higher side. The reasons as revealed from the personal interactions are may such as non reliable financial information, hidden costs, over valuation of assets etc. It is required by

the acquiring company to undertake detailed financial evaluation of the acquired company to avoid over valuation. This requires certain extra efforts on the part of acquiring company management team through a proper planning.

2. While evaluating the financial performance the important parameters considered during the study included adjusted profit after tax, earning per share, return on capital employed, growth in profit after tax etc. There is no definite direction to conclude. However it is observed that in the acquiring companies where post merger integration process was managed in an effective manner there was positive impact on financial performance.

3. The due diligence is one of the important and vital aspects in the process of acquisitions. It is a systematic process of acquiring and analyzing information which helps a buyer or a seller to determine whether to proceed with a transaction or not. Such information relates to all aspects of the business to be purchased. Due diligence includes assimilating and processing both quantitative information like sales, cash flows and other financial data and qualitative information like location, quality of management, internal control systems and other important related aspects of the acquiring company. It also involves the analysis of public and proprietary information related to asset and liabilities of the company which is being acquired. Due diligence provides the buyer an opportunity to buyer to verify the accuracy of information provided by the acquiring company. In a nutshell it is an indication towards potentials of the acquiring company. It has direct impact on valuation. During the study it is observed that only in 20 per cent cases of the sample due diligence was complete in all respects. This suggests scope for improvement and adhering due care in due diligence process.

4. The other important factors from financial angle include the nature of cash flows, dividend payment record, cash support to operations etc. This will give a view about the future potentials.

5. It is imperative for the acquiring company to know the weaknesses of the acquired company earliest and address remedial action during the integration process which should be planned thoroughly.

REFERENCES

1. Financial Statement Analysis in Mergers and Acquisitions Howard E. Johnson, MBA, CA, CMA, CBV, CPA, CFA *Campbell Valuation Partners Limited*