A STUDY ON FINANCIAL IMPACT OF MERGER AND ACQUISITION OF SELECTED STEEL COMPANIES IN INDIA

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Abstract

Now a day, Merger and Acquisition has become a most important popular tool for corporate restructuring. M & A has three patterns: HORIZONTAL, VERTICAL and CONGLOMERATE. This paper is analyze the financial health of Indian steel companies during pre and post acquisition period. The study is also on the analyze the impact of acquisition on acquirer company after such acquisition. Data are collected from the audited balance sheet, profit and loss account of the selected companies, CMIE data base, Bombay stock exchange and National stock exchange, moneycontrol.com, internet. In this paper the study is based on the various accounting and statistical tools such as ratio analyses in that the ratios are operating profit ratio, net profit ratio, debt to equity ratio and EPS. Trend analysis is based on the proportion of the debt and net worth of the companies during pre and post acquisition. The result is shows the post acquisition period is have an effected by the M & A.

Key Words: Merger and Acquisition, steel company, corporate restructuring, Financial performance, Ratio & Trend analysis.

INTRODUCTION

Growth of any industry is largely depends on in financial performance. Due to Globalization, corporate sector are adopting different consolidation strategies for their existence and high market share. In present competitive business environment, Merger and acquisition (M & A) is one of the most accepted reconstruction strategies. Presently corporate sector are adopting different consolidation strategies like merger and acquisition to expand its growth minimize business risk, achieve greater market share. The Indian steel industry is currently one of the fastest growing industry among the world. It is not only beyond to the domestic market but also export high quality and low cost steel to the abroad including USA, Russia, China etc. It is ranked fourth in crude steel production. Indian steel industry is highly fragmented in nature, Currently it is going through a rough phase. The present paper is analyze the financial performance of the acquiring companies during pre and post merger period along with the impact of acquisition on acquiring companies.

LITRATURE REVIEW

ZAHID and SHAH, (2011) founded that Large number of corporate entities are adopting M&A as survival strategy and to improve competitiveness and synergy over other corporate. Corporate M&A becomes popular due to LPG policy. M&A is not a limited phenomenon and it extends worldwide. To compete in a competitive business environment M&A plays a vital role and it has been found that countries like India, China, Brazil etc, engaged in this consolidation to achieve greater market share and enhance its complete operating synergy during post M&A era.

SELVAM, Et AL, (2009) Indicate that the impact of merger and acquisition is on the liquidity, efficiency and profitability of the firms that participated in the restructuring mechanism in India. For this purpose 13 companies are selected that were engaged in the merger period 2002-2005, the result is an improvement in the liquidity position during post merger.

MANTRAVDI and REDDY (2008) suggested The impact of mergers on the operating performance of acquiring corporate in different industries, by examining some pre-merger and post-merger financial ratios. The result is minor changes in operating performance following mergers in steel industry in India.

CHOI&RUSSELL, (2004) Very few studies argue that the timing of transaction have a no significant effect on post merger performance.

BEENA P.L, (2004) founded that Indian manufacturing firms merger and acquisition shows there is no significant effect on profitability, liquidity, and efficiency and capital ratios.

RAMASWAMY and WAEGELEIN, (2003) shows Large Scale firm Acquisition are represent negative post merger performance in all aspect.

HAYWARD, (2002) indicating people undertaking merger and acquisition have a great opportunity to learn from their experience. The firm who have a small loss in prior acquisition are learn from their performance and outperformance on subsequent acquisition.
SALETR & WEINHOLD, (1979) study suggest that Corporate merger and acquisition are the principal vehicles with the help of this the firms enter into new market & expand the size of operation.

S. VANITHA and M. SELVAM, (2007) founded that Indian Manufacturing companies are successful in their pre and post merger time period. With help of hypothesis test they give result that manufacturing companies are growth in their post merger period and company also expand.

D. K. DATTA, G E PINCHES (1992) are analysis that merger and acquisition are wealth creation of company as measured in the observation across various studies.

**RESEARCH METHODOLOGY**

**OBJECTIVES OF STUDY**

In recent time, the M & A have a great place in corporate sector. In this paper our object is to find why it is preferred tool of growth even the risk are involved in it?

This study is based on the following objectives:

- To analyze the impact of acquisition on JSW steel, SAIL, Indian iron and steel company.
- To study the impact of the acquisition on profitability of JSW steel and SAIL.
- To Study on impact on Earning per share after the acquisition.
- Strength of merged entity to survive in market.

**DATA COLLECTION**

This study is based on the secondary data. Data are collected from Audited profit and loss account, Balance sheet, Reported financial ratios of the concerned companies website and financial sites like Bombay stock exchange, National stock exchange, economic times, moneycontrol.com, Google.

**SAMPLING:**

Convenience sampling technique is applied in the present study for selecting the sample companies. List of all steel companies in India is not available so convenience sampling method is applied in present study.

**METHOD**

This research paper is based on the study on the impact of financial performance of the sample company by using available information for the particular time period. For analyzing financial performance various research and accounting tools and technique applied.

For this purpose various statistical tools have been used which are;

- Operating profit Ratio
- Net profit Ratio
- Debt-equity Ratio
- EPS (Earning per share)

**DATA ANALYSIS**

IN this we can take a two analysis Trend analyses and ratio analyses of the three merger which are:

1. JSW STEEL merged with JSW ISPAT
2. INDIAN IRON AND STEEL COMPANY merged with SAIL
3. VISVESVARAYA IRON AND STEEL merged with SAIL

**TREND ANALYSIS**

The direction of changes is shown by ratio of trend analyses. The analysis is depends on profit and loss account and balance sheet. Here the research is based on the financial performance of before and after Merger and Acquisition.

**JSW STEEL**

**TABLE - 1**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DEBT</th>
<th>EQUITY</th>
<th>TOTAL</th>
<th>YEAR</th>
<th>DEBT</th>
<th>EQUITY</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>11272.63</td>
<td>7959.25</td>
<td>19231.88</td>
<td>2014</td>
<td>24974.98</td>
<td>24284.18</td>
<td>50269.16</td>
</tr>
<tr>
<td>2010</td>
<td>11585.10</td>
<td>9706.34</td>
<td>21291.44</td>
<td>2015</td>
<td>25761.23</td>
<td>25724.60</td>
<td>51485.83</td>
</tr>
<tr>
<td>2011</td>
<td>10747.33</td>
<td>17225.27</td>
<td>27972.60</td>
<td>2016</td>
<td>31575.93</td>
<td>21049.03</td>
<td>52624.96</td>
</tr>
<tr>
<td>2012</td>
<td>12302.22</td>
<td>18497.49</td>
<td>30799.71</td>
<td>2017</td>
<td>33233.00</td>
<td>24098</td>
<td>57331</td>
</tr>
<tr>
<td>2013</td>
<td>16543.79</td>
<td>19937.37</td>
<td>36481.16</td>
<td>2018</td>
<td>31723.00</td>
<td>27907</td>
<td>59630</td>
</tr>
<tr>
<td>TOTAL</td>
<td>62451.07</td>
<td>73325.72</td>
<td>135776.79</td>
<td>TOTAL</td>
<td>147268.14</td>
<td>123062.81</td>
<td>270331.95</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>12451.07</td>
<td>14665.144</td>
<td>27155.358</td>
<td>AVERAGE</td>
<td>29453.628</td>
<td>246125.56</td>
<td>57066.39</td>
</tr>
</tbody>
</table>
Interpretation
We can see that the debt proportion is increased after the acquisition. In the year 2013 the debt fund is Rs.16543.07 crore and its suddenly increase by Rs.8431.19 crore. It has increasing trend same as the net worth. Equity part is also increasing gradually. The overall funds are increasing trend.

SAIL

<table>
<thead>
<tr>
<th>YEAR</th>
<th>DEBT</th>
<th>EQUITY</th>
<th>TOTAL</th>
<th>YEAR</th>
<th>DEBT</th>
<th>EQUITY</th>
<th>TOTAL</th>
</tr>
</thead>
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<tr>
<td>2001</td>
<td>14250.68</td>
<td>4536.88</td>
<td>18787.56</td>
<td>2006</td>
<td>4297.62</td>
<td>12601.41</td>
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<td>2002</td>
<td>14011.63</td>
<td>2829.75</td>
<td>16843.38</td>
<td>2007</td>
<td>4180.52</td>
<td>17313.15</td>
<td>21493.67</td>
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<td>2003</td>
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<td>2525.24</td>
<td>15494.98</td>
<td>2008</td>
<td>3045.24</td>
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<td>8688.76</td>
<td>5037.67</td>
<td>13726.43</td>
<td>2009</td>
<td>7538.79</td>
<td>27984.10</td>
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<tr>
<td>2005</td>
<td>8769.79</td>
<td>10306.65</td>
<td>16766.44</td>
<td>2010</td>
<td>16151.25</td>
<td>33316.70</td>
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<tr>
<td>TOTAL</td>
<td>55690.51</td>
<td>25236.19</td>
<td>80926.70</td>
<td>TOTAL</td>
<td>35573.42</td>
<td>114278.93</td>
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<td>AVERAGE</td>
<td>11138.102</td>
<td>5047.238</td>
<td>16185.35</td>
<td>AVE.</td>
<td>7114.68</td>
<td>22855.786</td>
<td>29970.27</td>
</tr>
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</table>

RATIO ANALYSIS:
**JSW STEEL**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>O.P.E.RATIO (%)</th>
<th>N.P.RATIO (%)</th>
<th>D.E.RATIO (%)</th>
<th>E.P.S.</th>
<th>YEAR</th>
<th>O.P.E.RATIO (%)</th>
<th>N.P.RATIO (%)</th>
<th>D.E.RATIO (%)</th>
<th>E.P.S.</th>
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<tbody>
<tr>
<td>2009</td>
<td>20.42</td>
<td>3.27</td>
<td>1.14</td>
<td>22.96</td>
<td>2014</td>
<td>19.38</td>
<td>2.94</td>
<td>1.03</td>
<td>54.05</td>
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<td>2010</td>
<td>23.52</td>
<td>11.13</td>
<td>1.2</td>
<td>106.59</td>
<td>2015</td>
<td>19.24</td>
<td>4.7</td>
<td>1.00</td>
<td>88.47</td>
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<tr>
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<td>20.44</td>
<td>8.6</td>
<td>0.62</td>
<td>88.87</td>
<td>2016</td>
<td>17.35</td>
<td>-9.61</td>
<td>1.58</td>
<td>-14.6</td>
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<tr>
<td>2012</td>
<td>17.53</td>
<td>5.06</td>
<td>0.66</td>
<td>71.62</td>
<td>2017</td>
<td>22.07</td>
<td>6.84</td>
<td>1.38</td>
<td>14.89</td>
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<tr>
<td>2013</td>
<td>17.78</td>
<td>5.08</td>
<td>0.83</td>
<td>79.48</td>
<td>2018</td>
<td>21.14</td>
<td>7.11</td>
<td>1.14</td>
<td>19.22</td>
</tr>
<tr>
<td>TOTAL</td>
<td>99.69</td>
<td>33.14</td>
<td>4.72</td>
<td>369.52</td>
<td>TOTAL</td>
<td>99.18</td>
<td>11.98</td>
<td>6.05</td>
<td>162.03</td>
</tr>
</tbody>
</table>

SAIL

<table>
<thead>
<tr>
<th>YEAR</th>
<th>O.P.E.RATIO (%)</th>
<th>N.P.RATIO (%)</th>
<th>D.E.RATIO (%)</th>
<th>E.P.S.</th>
<th>YEAR</th>
<th>O.P.E.RATIO (%)</th>
<th>N.P.RATIO (%)</th>
<th>D.E.RATIO (%)</th>
<th>E.P.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>12.95</td>
<td>-5.1</td>
<td>3.14</td>
<td>-1.76</td>
<td>2006</td>
<td>23.24</td>
<td>14.23</td>
<td>0.34</td>
<td>9.72</td>
</tr>
<tr>
<td>2002</td>
<td>1.69</td>
<td>-12.34</td>
<td>4.95</td>
<td>-4.11</td>
<td>2007</td>
<td>28.09</td>
<td>18.07</td>
<td>0.24</td>
<td>15.02</td>
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<tr>
<td>2003</td>
<td>11.86</td>
<td>-1.78</td>
<td>5.14</td>
<td>-0.74</td>
<td>2008</td>
<td>28.20</td>
<td>18.86</td>
<td>0.13</td>
<td>18.25</td>
</tr>
<tr>
<td>2004</td>
<td>20.72</td>
<td>11.60</td>
<td>1.73</td>
<td>6.08</td>
<td>2009</td>
<td>20.41</td>
<td>14.10</td>
<td>0.27</td>
<td>14.95</td>
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<tr>
<td>2005</td>
<td>36.53</td>
<td>23.74</td>
<td>0.56</td>
<td>16.50</td>
<td>2010</td>
<td>22.70</td>
<td>16.64</td>
<td>0.50</td>
<td>16.35</td>
</tr>
<tr>
<td>TOTAL</td>
<td>83.75</td>
<td>16.12</td>
<td>15.52</td>
<td>15.97</td>
<td>TOTAL</td>
<td>122.64</td>
<td>81.9</td>
<td>1.48</td>
<td>74.29</td>
</tr>
</tbody>
</table>

INTERPRETATION

Operating ratio
The operating ratio of the JSW steel it has no significant effect. Before acquisition it is 99.69% which is same in the period of post-acquisition 99.18%. In case of SAIL this ratio is increasing, pre operating ratio is 83.75% and post acquisition ratio is 122.64%. It indicate the operating efficiency in post acquisition period has enhanced.

Net profit ratio:
Net profit ratio of JSW steel pre-acquisition period is 33.14% which is decreased in post acquisition period. It shows the negative impact of merger in profitability. But in case of SAIL it has an increasing profitability because of the acquisition. Pre-acquisition ratio is 16.12% while in post-acquisition ratio is 81.9%.

Debt-Equity ratio:
In case of JSW steel the debt-equity ratio is in pre period 4.72 which have increasing and reach 6.05. But in the case of SAIL this ratio is decreasing trend.

EPS:
After the acquisition the EPS is decreasing in the case of JSW steel, which show the negative impact but in SAIL this acquisition have an positive effect on EPS it was increased.

LIMITATION OF THE STUDY

- This study is based on financial performance, it was ignored the impact of overall position of the firm.
- It also ignore the impact of possible differences in the accounting method adopted by different companies in sample.
- It is based on only selected company in Indian steel industry.

CONCLUSION

Throughout study of impact of financial performance. We found that what are the changes are done in the pre acquisition and post acquisition period. We see that one company have a positive effect of M&A in their financial performance and increasing trend in total fund, but it is not same for another case in this the shoes the negative impact of M&A. the overall we can see that the M&A is a good strategy for corporate restructuring but it involves both the positive impact as well as the risk proportion is also high. The risk is because of issues like low management, insufficient fund, wrong decision etc

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