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A STUDY ON MERGER AND ACQUISITION OF SELECTED COMPANIES OF GEMS AND JEWELLERY INDUSTRY OF INDIA

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Abstract

Corporate Restructuring is an exercise which involves changes in pattern of ownership and control, composition of liability and asset mix of the firm. Corporate Restructuring is a process of improving the performance of the company by changing its prevailing operations. Due to globalization, deregulation and unusual development of technology companies have become more competitive by gaining excellence in every term. As a result, today companies are working in a very high competitive market. The reason behind the restructuring is to make operations more effective and competitive for the market which in turn increases the value of the company as well as the market value of shares of the company. The process of restructuring is done internally by a company and the reasons behind it is the intense competition in the market due to globalization, technological changes, structural reforms in the industries due to LPG and foreign investments. Thus, these reasons have compelled Indian companies to accept the new changes to meet the global competition. In the global market the large corporate restructuring is seen to be successful. Hence due the success of large restructuring, many companies at a global level are restructuring their assets, operations, and contractual relationships with shareholders, creditors and other financial stake holders. Corporate restructuring has helped many companies and organisations in re-establishing their competitive advantage and becoming flexible for accepting new opportunities. Number of Indian firms are restructuring their operations by merging and acquiring stakes. Merger, acquisition and takeovers are used interchangeably though they differ from each other. Here merger means unification of two companies and acquisition is absorbing another company. This research includes two Indian Companies where one buys 62% of the stake of another company. This research is done to examine and analyse the changes that are observed after the acquisition. From the entire study it is clear that in the short run the acquisition has been profitable for the company, yet long run profitability is found to be doubtful because the period of study is limited as the restructuring was done before few years.

Key Words*: Merger, acquisition, gems and jewellery, performance, value*

INTRODUCTION

Meaning of Merger and Acquisition

The process of combining two companies into one is called Merger and Acquisition. Here the main purpose behind combining two or more companies is to achieve synergy where the new company is better than the former two companies. Two businesses of similar size merges to get the advantages provided by each other in terms of increase in sales, efficiency and capabilities. So merger is unification of two companies into one new company.

Merger, acquisition, and takeover are the three terms used interchangeably though they differ from each other. In acquisition, one company buys the other company and absorbs the same. Here both the acquiring and the acquired company remains separate entities at the end.

Whereas, in takeovers the acquiring company decides the maximum price for offering and so it takes less time in completing the transaction, if the management of the acquiring company is co-operative.

Gems and Jewellery Industry of India

In India second highest earner of foreign exchange after textiles is the Gems and Jewellery Industry. This industry is structured with gems, diamonds, jewellery, precious and semi-precious stones. Though, diamond dominates the total Gems and Jewellery exports. India is the global leader in diamond polishing having 95% of the market share. India is also major importer of the gems and jewellery and also contributes 16% to India's total merchandise exports. The Gems and Jewellery Industry of India is one of the largest contributor and exporter, which contributes 29% of the global jewellery consumption. In terms of global diamond market India has 60% of share and has 90% share in terms of value and volume.

LITERATURE REVIEW

Ekanayake, &Abeysinghe (2010) formed an Entrepreneurial Strategic Innovation model to attain premium value of the Sri Lankan Gems and Jewellery Industry. This study identifies the potential of the company and evaluate the problems for finding solutions by entrepreneurial innovative strategies which provides competitive advantage so that premium value for the industry is attained. Consumer's preference towards precious metals like gold, silver, diamonds is more than towards coloured gem stones found through mining. Innovative strategies provides knowledge connectivity between manufacturing process and consumer needs which results into valuable market innovation. The study was conducted by collecting primary data through questionnaire having semi-structured and exploratory types of question from industry practitioners of sixteen states, private and public.Here this research highlights the responsibility of entrepreneurship in creating industry value through value systems. By proper recognition and promotion of industrial related market information, consumer confidence towards coloured gemstones will increase. The deficiency of the "balance of payment account" is reduced through industry value generation. Hence, by identifying cause of the problem and providing remedial measures can lead to recommendations for corrective actions for the industry.

Simoni et al.(2010) studied the marketing practices prevailing in the Italian and Indian Gems and Jewellery SMEs of the US. This study says that the Italian Companies are primarily reactive whereas, Indian companies focuses on expanding immigrant community. Italian firms mostly depends on the historical import and export relationship for marketing whereas, Indian firms uses internet as a channel and a medium for marketing. So it concludes that Italian SMEs that are struggling because of new entrants emerging in the market as they are not as competitive as they used to be, while Indian firms are expanding their share in US market and also among the non-ethnic customers. For this study the data was collected through depth interviews from owners and managers of four Italian and Indian firms. Therefore, the Italian Gold jewellery lost some of its share in the US market, whereas because of its uniqueness Indian gold jewellery is becoming more competitive.

Cuyvers et al.(2000) made a comparative analysis on gems, diamonds, and jewellery businesses of Belgium and Thailand. The data used for this research was collected via mail survey sent to 260 gems and jewellery companies of Thailand, where questions were related to export promotion and behaviour, commercial and political risk insurance and competitiveness. While in Belgium, survey was sent to Flemish firms that were active in gems, jewellery and diamonds business. Other techniques use were multiple regression analysis and discriminant analysis. Through these analysis, significant differences found between Thai and Belgian firms suggested that Thai firms had higher competitiveness and higher reliance on instruments of export promotion and on instruments that reduces commercial and political risks. But here the factors that influences the relationship between marketing strategy and export performances are large in number and only few are included in the study which might give unsatisfactory results.

Kumar&Punithavathi, (2014) studied country wise exports of gems and jewellery from India. India is world's largest manufacturer of cut and polished diamonds, contributing 60% in terms of value and 80% in terms of volume. The objectives of this study are to understand the role of gem and jewellery export council and to analyse the exports of gem ad jewellery. Here, financial appraisal is assumed to be a significant role in determining the growth of industries leading to examining and understanding how management of finance plays a crucial role in the growth of the companies. Methods like planned research design, sample selection, data collection, and analysis of the results are used, where the research design is exploratory. Secondary data was collected from various sources like RBI bulletin and so on. This study concludes that gems and jewellery product exports brings crores of foreign currency to India increasing employment opportunity on a large scale. Hence, the production of gems and jewellery should be increased so that our exports get a large portion in world market.

Sanjula(2017) researched on the perception of consumer on branded jewellery. Awareness of branded jewellery, comparison in terms of price, quality and reliability between branded and non-branded jewellery, consumer's buying decision, consumer satisfaction and various marketing strategies used by different jewellery brand are studied here. This study elucidates that consumers have a strong attitude towards buying a gold jewellery as they pay higher amount than that they spend on other products on daily basis. Hence, this proves that the price, purity and design which scores the highest is preferred.

Tiangsoongnern,(2011) studied purchasing behaviour and attitudes of organisational gemstones buyer. It was suggested that buying gemstones using face-to-face contact was more likely to be used by foreign buyers than Thai buyers. It suggests more the buyer deemed the marketing strategies by the sellers met their expectations, the higher the buyers satisfaction, trust and interest towards buying gemstones. This study also found that price strategies did not seem to be efficient methods to segment the gemstone market and should be categorised by demographical bases such as country.

Joseph found the effects of imitation jewellery on real sales of gold jewellery. Imitation jewellery offers the benefit of affordable prices and also mimics the appearance of real jewellery, where precious gems and metals make the jewellery quite expensive. Study is done to have understanding of effects of imitation jewellery and to analyse the perception of customers towards it. The imitation jewellery is an alternate and is going to flourish side by side the real jewellery because of changing trends in the market and less risk of burglary of imitation plays a significant role in affecting the sale of real jewellery.

Trivedi studied the consumer preferences on branded jewellery in Rajkot. The branded jewellery segment occupies a very small share of total jewellery market as Indian buyer prefer jewellery as an investment and that from a local maker. Here branded jewellery players have to change the mind-set of the consumer by providing them with attractive designs and win their trust by hallmarking and showing the purity of the gold. The guiding factor behind purchasing jewellery is price, purity and design which score the maximum. Other factors are variety, brand image, influence of friends and family. It is proved that respondents have selected fashion over investment.

Rao(2009) wrote about the rise, recession and revival of Indian Diamond Industry.This study is conducted for over the period of last four years which includes insights about the remarkable rise, growth and the unique working of the industry. The Indian diamond industry has flourished like a close-knit community. As the volume of business increased, they passed on the business to others connected to the same community.Outcome of this study is that industries and companies with close knit community culture are likely to make use of their people management skills to survive the difficult times.

Purani& Mehta(2000) studied Surat Diamond Industry. Here a model is prepared to study entrepreneurial orientations or strategies which results in innovation in industry. Exploratory and conclusive research is done where extensive literature survey of secondary data is done and in depth personal interviews are taken. Conclusive research is also done by story building and content analysis. Literature and Experience survey highlighted that there's high amount of innovation in more or less all areas so far as this industry is concerned. The entrepreneurs independently or collectively have contributed in most of the areas during different phases and of different degrees of contributions. Gujarat, better known as entrepreneurial hub of India has enterprise as base of Innovation.

RESEARCH METHODOLOGY

Objectives of the study

The objective of the study is to analyse the pre-merger and the post-merger data of Titan Company Ltd which acquires the 62% stake of online jewellery store Caratlane.

Data collection:

The data for the analysis is collected from the financial reports and annual reports of Titan Company Ltd.

Ratios calculated are Earnings Per Share, Net Profit Ratio, Return On Equity, Debt-Equity Ratio, Return on Capital Employed and Asset Turnover Ratio.

Period of the study:

The period of pre-merger includes two years before the merger i.e. 2014-2015 and the period after the merger is from the year 2016 to 2018.

ANALYSIS AND FINDINGS

Table showing ratio analysis of both pre-merger period and post-merger period

Ratios	Average of pre-merger (2014-2015)	Average of post-merger (2016-2018)
EPS	8.81	9.876667
Net profit ratio	6.84	6.983333
ROE	8.81	10.58333
Debt-equity ratio	53.79%	0.38233
ROCE	1.4744	0.4381
Asset turnover ratio	0.255	0.193333

Earnings per share is an indicator for company's profitability. As the above table shows, EPS has increased from 8.81 to 9.8766 after the merger, this shows that the profitability of the company after the merger has increased.

Net profit ratio also known as profit margin indicates the profitability of the company. Here this increases from 6.84 to 6.9833 which again shows that the company is earning higher profits after merger.

Return on Equity is a measure which shows how efficiently a company is using its investments for creating profits. As the above table suggests, ROE has increased from 8.81 to 10.58 after the merger concluding that efficiency of the company has increased after merger.

High debt-equity ratio associates high risk which shows company is using more debt finance for the growth of the company. Here this ratio which was 53.79% in 2014-2015 has reduced to a great extent after the merger which shows the efficient use of finance.

Return on capital employed indicates how well a company is using its capital to generate profit. This ratio decreased from 1.4744 to 0.4381 which shows that after merger the company is not employing its capital effectively.

Asset turnover ratio shows the effective use of assets done by company to generate profit. The above table shows that this ratio decreased from 0.255 to 0.193 after the merger which says that after the merger the company is not making efficient and proper use of its assets to generate profit.

LIMITATIONS OF THE STUDY

- Only one sector or the industry is selected for this study.
- Only one specific acquisition is taken into consideration, therefore, this study does not provide overall analysis of merger and acquisition of the whole industry.
- Limited period of time is considered.
- This study is based on secondary data collected through financial statements of the company through internet and so ambiguity can't be denied.

CONCLUSION

Corporate restructuring is done when the company wants to restructure its operations by which it can gain higher returns. Here Titan Co. acquires stake of Caratlane to receive benefits. The findings and the analysis shown above states that the ratios like Earnings Per Share and Net Profit Ratio which indicates the profitability of the company has increased hence, showing hike in profit. Another ratio called Return on Equity also shows hike which indicates that company is using its investments efficiently. Whereas, Debt-equity Ratio has reduced which suggests efficient use of finance is done by the company. Another two ratios called Return on Capital Employed and Asset Turnover Ratio has reduced which indicates that use of company's capital and assets for profitability is not efficacious. Thus, this overall study elucidates that after Titan acquired 62% stake of Caratlane, profitability of both the companies has increased. Though the time period selected for this study is short, success of this merger and profitability of both the companies in the long run can be dubious.

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