

A STUDY ON MERGER AND ACQUISITION OF SELECTED OIL COMPANIES IN INDIA

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Abstract

The objective of the paper is to why organization take decision to do merger and acquisition. The study mainly focuses on profitability, shareholder value and debt equity of the company. Other main objective is to see pre and post-merger situation of the acquiring company. To get uniformity and research and accurate conclusion, we have restricted our study to only Indian companies. We have taken all the secondary data for the comparison between pre and post-merger situation of the companies. To get a perspective on India, we study merger and acquisition in selected oil companies in India

KEY WORDS: Merger and acquisition, profitability, shareholder value, debt equity, oil companies, secondary data

INTRODUCTION

MEANING OF MERGER AND ACQUISITION

MERGER is an agreement between two exiting companies into one new company with the same goal and objective. In merger there is no requirement of fresh investment. there are two type of merger 1) merger with consolidation 2) merger with absorption. In merger with consolidated, two companies combine and makes a new company. In these types of merger old companies lose their existence and new company is formed. This is also known as amalgamation. 1) **AMALGAMATION IS MERGER BY CONSOLIDATION** 2) **MERGER BY ABSORPTION**. In this one company takeover another company but the existence with only one company. It depends on existence. In merger B.O.D (Board of directors) transfer to another company with one half existence of the company.

ACQUISITION word came from the acquire. Acquire means to buy or to obtain something and the acquisition means the act of acquiring or buying something. When one company is absorbed by another company. Here there are two parties 1) target company 2) acquirer company. **Target** company is the company that is being acquired and the **acquirer** company is the company that is acquiring the target.

DIFFERENCE BETWEEN MERGER AND ACQUISITION

In merger, two company comes together and create a new entity with the same goal and objective.

In acquisition, one company is acquired by another company.

Objective of doing merger

- Expand in business
- Increase in shareholder value
- Decrease in competition
- More profitability
- Increase in share price
- Development and growth of entity
- Increase the volume of customer retention

Objective of doing acquisition

- Expand the business
- If one company is loss making company, then one profit making company acquires the loss-making company to save it in the market.
- Acquiring company get controlled over acquired company. It depends on the minority holding interest.

In merger both companies get the existence but in acquisition, acquiring company take the whole existence of the company.

MERGER AND ACQUISITION IN OIL COMPANIES

As our study is on merger and acquisition of oil companies in India. As we all know that history often repeats itself. In industry life cycle we can see that **boom, bust, recovery and repeat**. This scenario is also the seen in oil industry, 15th February, 2017 (by C.H UNNIKRISHNAN- SENIOR ASSOCIATE EDITOR IN BUSINESS WORLD)

she said that size matters, particularly when we talk about OIL INDUSTRIES. In OIL INDUSTRY we can mostly focus on capital investment and risk. In Oil industries capital investment is high and risk level is also high. Investment and risk have direct relationship. IN FOURTH BUDGET SPEECH ON 1ST February FINANCE MINISTER ARUN JETLEY DECLARED” THE GOVERNMENT PLANS TO FORM A MAJOR OIL COMPANY BY MERGING SOME OF THE EXISTING COMPANY OF OIL INDUSTRY. Main reason to get high growth in emerging market, overcapacity in developed regions and the need to develop new efficient technology.

BACKGROUND OF OIL COMPANIES IN INDIA

Oil industry extends back to the period of British time, when petroleum first turns out to be a primary global energy source. In 1866 oil discovery at Nahorpong Assam, but not explored. In 1882, big 'oil seepage' in Digboi during construction of Dibrugarh- ledo railway line. The first production is starting India in 1889 near town of Digboi in the state of Assam. After India won independence in 1947, new government move to a communist system, often termed as license Raj, In October, 1959 an act of parliament was passed which gave the state-owned Oil and gas commission (ONGC) the power to plan, organize and implement programmes for the development of resources and the sale of petroleum products and to perform plans sent down from central government.

FUTURE OUTLOOK IN OIL COMPANIES

Present government has been seriously infusing natural gas to complement the existing fuel mix and spread natural gas network across the country. For a long time, the eastern states like Odisha, west Bengal and Bihar has been waiting for the oil infrastructure. Government is stated their work to provide oil in eastern states. At present most, fast-tracked projects are to make natural gas available in Bhubaneswar. Government sets the target for the future that to reach 10 million households and additional thousands of industrial and commercial customers across the country by 2010.

According to the McKinsey (top consulting firm) predict a peak oil demand near 2030 and then a rapid decline in demand for oil the reasons behind it is strong push towards cleaner fuel, the natural gas of share in the primary energy mix, will be significant at least for the next three to four decades.

LITERATURE REVIEW

Kaur (2002) studied that pre and post situation of firm in view point of operating performance. The study found that there is declined in gross profit margin ratio, return on capital employee and asset turnover ratio after the merger. Suggesting that both profitability as well as efficiency of merging companies declined after the takeover. However, there is no significance change in merging company when 't- test' was used. For study ratio analysis, secondary data, considering eight financial ratios for comparing pre and post situation of firm.

Beena (2004) analyzed the performance of 84 domestic acquiring firm and 31 foreign owned acquiring firm, in the manufacturing sector in India during 1995-2000. The study used some financial ratio to test for difference of means between pre and post-merger phase using T- statistic and could not find any evidence at improvement in the chosen financial ratio of the acquiring firm in the sample. This study suggest that profitability ratios were seen to relatively better than when compared to the overall manufacturing.

Pawaskar (2001) analyzed pre and post operating performance of 36 acquiring firms during 1992-1995 using financial ratios of profitability growth, leverage, liquidity and tax provisions and found that acquiring firms performed better than industry in terms of profitability and that the merger led to financial synergies and a onetime growth of the acquiring firm's asset base. The study suggests that empirical testing of operating performance following mergers of Indian companies has thus been quite limited so far, and focused specially on manufacturing sector, using small samples over limited periods of time.

Lane et al. (2012) founded that after the merger and acquisition what type of effect in shareholder value creation. They include return to shareholder of acquiring companies in India during 2003-08 and to find the abnormal return after announcing merger and acquisition of the company.

Lane et al. (2001) The volume and magnitude of merger and acquisition continue to grow on a global basis. In 1980's a produced 55000 merger and acquisition transaction at a total volume of \$1.3 trillion known as merger mania. For the merger and acquisition increase in production. One observer suggests that merger and acquisition wave of the 1980 to 1990. It's becoming CEO's favorable growth strategy in the process.

Gupta (2012) suggest that corporate merger is very difficult for any country's economy. This is so because the corporate merger and acquisition is directly connected with growth of industries by generating economic scale, value maximization of shareholder increase the competition in market. As a conclusion merger and acquisition as most strategic concepts to make sure growth for the companies in corporate world.

Stevens (2008) considered the cyclical nature of resource nationalism. It's focusses on oil production in the era of middle east. In the middle east it has always dominated the global parameters ability and willingness of the region to convert its geology into supplies of oil in global market. It helps in converting the ability into growth. Here paper suggest two components limiting the operations of private international oil companies and increasing a greater national control over natural resources development.

Nalwaya and Vyas (2010) found that deal between hutch and Vodafone is successful. They have used ratio analysis and paired T-test for the said study. Their study is limited to only on case. They have analyzed that earnings and dividend both grew after merger. Rapid changes in economic environment and technology can be the result of these merger which has generated synergic benefit.

Lane et al. (1992) founded that the relationship between shareholders gains and the merging firm depend upon the compatibility of the firm's top-level management cultures. The hypothesis is tasted by the surveying that the perception of acquiring firm and the perception of stock market gains to the buying firms. The study suggest that culture differences and shareholder gains have a strong inverse relationship company should take care of it.

PRE AND POST MERGER SITUATION

After doing merger the main and first step is to see the hoe merger is beneficiary for the firm or not. There is significance change in the firm after doing merger and acquisition. There are various activity to find the significant change in company due to merger and acquisition. For example, 't-test'.

H_0 denotes null hypothesis means no significance difference after doing merger and acquisition

H_1 denotes full hypothesis means there are significance change after doing merger and acquisition.

RESEARCH METHOLODOLOGY

RESERCH OBJECTIVE

My research is based on merger and acquisition in selected oil companies. Our objective is to see that it is beneficiary or not. In oil industries larger the capital investment and more risk are there. The main objective is to take an oil industry at international level. To meet the performance at international level as well as domestic level integrated public sector and private sector oil companies. Due to these actions we get benefit like large capital investment, increase in risk bearing capacity, create value for the shareholder.

NEED OF THE STUDY

To see the impact of oil companies pre and post situation due to merger and acquisition. If there is difference in pre and post situation and it is positive changes than it is beneficiary for the company. But if there no significance changes than it is not favorable for the company, if such is the case then company rethink about merger and acquisition.

DATA ANALYSIS

Oil industries helps to developing country to boost their growth and economic. there is no country in the world who can survive without oil. So, the demand of oil will increase, and more and more industries will participate in production of oil. The industry supports many industries like transportation, airlines, manufacturing, and other ancillary sectors which collectively account of the 15 % of the GDP. The production of domestic crude oil is 36.01MTs and India accounted 0.92% of world oil production in 2016-18. As on 31march, 2018 there is 23 crude oil refineries in India. The oil and gas sector are among the eight core industries in India and plays a major role for all the other important sections of the economy.

TOP 10 OIL PRODUCING COUNTRIES IN THE WORLD

Source (US energy information (as per the report of IBEF December ,2018)

COUNTRIES	PRODUCTION (MILLION BARRELS PER DAY)
USA	15.6
SAUDI ARABIA	12.1
RUSSIA	12.1
CANADA	11.2
CHINA	5.0
IRAN	4.8
IRAQ	4.7
UAE	4.5
BRAZIL	3.7
KUWAIT	3.4

In India Economic growth is closely related to energy demand, so that it is must to grow in oil companies.

MERGER BETWEEN RELIANCE AND IPCL

RELIANCE INDUSTRY LIMITED is one of the largest private sector in India and the second largest group in the world in terms of annual turnover. This company was founded MR DHIRUBHAI AMBANI. Reliance as a group has foray into oil and gas, retail, power, telecommunication, logistics, infrastructure and entertainment.

IPCL was established in the year 1969 by government of India. It was the second largest petrochemical industry in India. IPCL has over 130,000 tones. It produces LDPF, PP, PVC, AF, EG, LAB and benzene-based products. (Moneycontrol,2009)

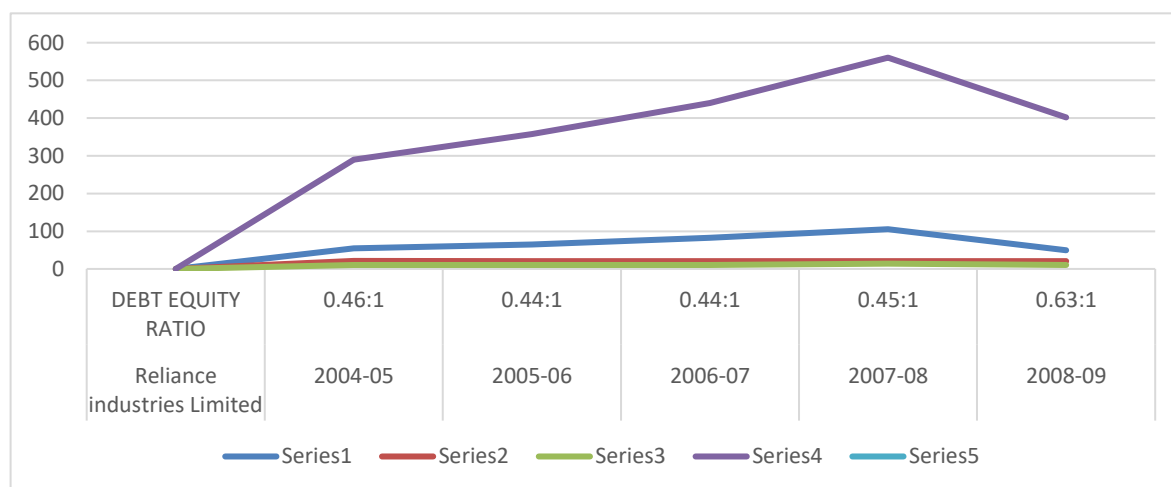
SYNERGY

One of the biggest mergers in the Indian oil sector between Reliance and IPCL on 1st April 2007. The swap ratio of the merger was fixed 1:5. This mean that for every five shares of IPCL the shareholders would get 1 share of RIL(Hindu,2007). These two companies also approved payment of interim dividend. While Reliance board approved an interim dividend of Rs 11 per share, IPCL board approved an interim dividend payout at Rs 6 per share. (As per times of India report). This merger would create for the companies' shareholders. RIL would benefit from a larger and a stronger balance sheet whereas IPCL shareholders will benefit from the new dynamism, experience and brand of RIL.

FINANCIAL ANALYSIS

Reliance industries Limited	2004-05	2005-06	2006-07	2007-08	2008-09
DEBT EQUITY RATIO	0.46:1	0.44:1	0.44:1	0.45:1	0.63:1
EPS	54.2	65.1	82.2	105.3	49.7
RETURN ON CAPITAL EMPLOYEED	21.3	20.5	20.5	20.3	20.3
NET PROFIT MARGIN	10.3	10.2	10.1	14	10.5
BOOK VALUE PER SHARE	289.9	357.4	440.0	560.3	401.5

(Source- from the financial report of reliance industry)



Reliance is one of the biggest companies in India. In 2007 RIL and IPCL merged. Here we will find the difference between pre and post situation of the both the companies. After the merger reliance industry debt equity ratio is increase from 0.44:1 to 0.45:1. EPS is increase due to merger from 82.2 to 105.3 it was good for the industry. Return on capital employed to constant after the merger. Net profit margin increased after the merger from 10.1 to 14 and it is good for the industry. After 2007 all the data is considered of reliance as well as IPCL because reliance acquired IPCL.

INDIAN OIL CORPORATION LIMITED AND IBP MERGER

IOC (Indian Oil Corporation) introduced in the year 1959. IOC operates mainly in the downstream segment which involves refining and marketing oil and petrol-based product. It operates into aviation turbine fuel, petrol spirit, high speed diesel and liquefied petroleumgas. It also has three subsidiaries CPCL, BRPL AND IOBL (Source: - www.iocl.com)

IBP is one of the oldest companies in the oil and gas sector in India which was established in the year 1909. The company is Indo-Burma Petroleum based company operating in India. IBP is mainly engaged into the storage, distribution and marketing of petrol-based products in India. It is mainly engaged into industrial and

<https://www.gapinterdisciplinaries.org/>

special containers. IBP merger took place in 2007 with a share ratio 1.25:1. This means that for every IOC shareholder would get 125 shares for every 100 IBP share held (Hindu business line,2007)

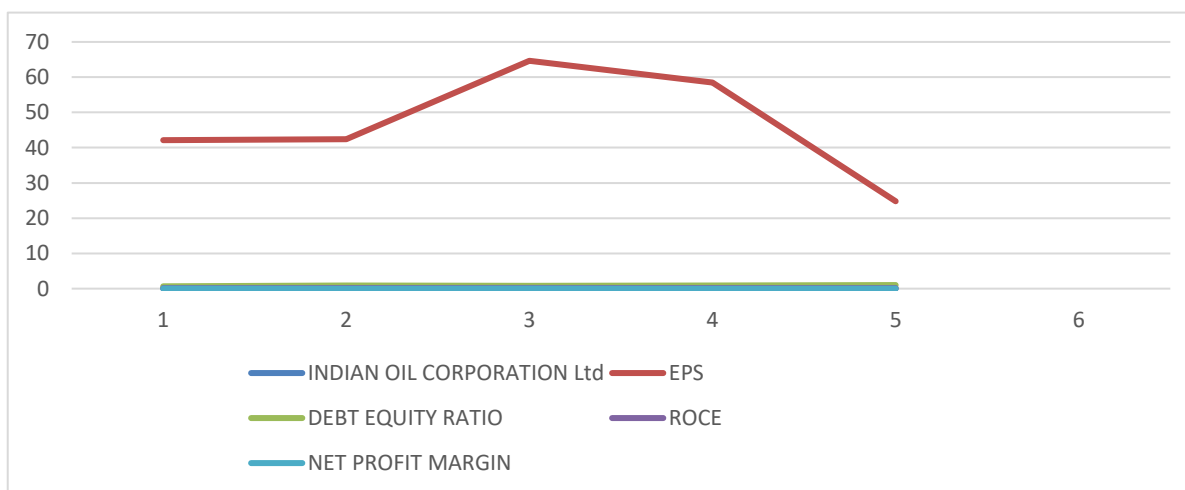
SYNERGY

IOC would get merger and acquisition to get benefit of tax savings to the tune of Rs 45 crore. IBN is an oil marketing company which has a strong marketing and distribution of oil products in northern India. The board also declared a proposal to pay interim dividend of 45% per share, which will result in an outgo of Rs 526 crore.(From economic time the largest downstream operator of oil and gas in India.). IBP also severs other segment like industrial explosives and cryogenics. IOC is also. It would be give better visibility and brand power to IOC (Venkiteswaran, 2008)

FINACIAL ANALYSIS

Comparison between two company's financial data. Here we take two years data before the merger and two years after the merger.

INDIAN OIL CORPORATION Ltd	2004-05	2005-06	2006-07	2007-08	2008-09
EPS	42.17	42.37	64.65	58.51	24.79
DEBT EQUITY RATIO	0.67	0.90	0.78	0.86	1.02
ROCE	19.7%	16.6%	20.3%	17.9%	18.2%
NET PROFIT MARGIN	3.5%	2.8%	3.5%	2.8%	1%



Indian Oil Corporation with its merger with IBP has seen deterioration in the overall shareholder wealth for the company. Now we compare pre and post situation of the IOC company. In EPS it shows the shareholder value creation. Before the merger EPS is 42.27 (average of two pre-years) and after the merger EPS is 64.65 so it is shows significant changes. To compare the liability, we take debt equity ratio before merger 0.785(average of two pre-years) and after the merger is 0.78. it is almost same after the merger and acquisition in debt equity ratio. Before the merger capital employed is 18.15(average of pre-two years) and after the merger and acquisition it is 20.3% so it is beneficiary of the company. To see the profitability of the company we take net profit margin before it was 3.15 and after merger and acquisition it was 3.5 so it shows the significance change in net profit margin. It is good for the company.

FORMULA USE TO FIND ALL RATIO

- $EPS = \frac{\text{total earnings}}{\text{no of outstanding shares}}$
- $NET PROFIT MARGIN = \frac{NET INCOME}{NET SALES} \times 100$
- $ROCE = \frac{OPERATING PROFIT}{CAPITAL EMPLOYED} \times 100$
- $DEBT EQUITY RATIO = \frac{\text{TOTAL LIABILITIES}}{\text{SHAREHOLDERS' EQUITY}}$

CONCLUSION

From the above study we can understand about merger and its importance. In this study we have comparison between pre and post situation of the companies. Merger and acquisition are mainly affected by three aspects Profitability, shareholder value and debt equity of the company. Here merger and acquisition do not create immediate shareholder value and net margins for the acquiring firm. It takes long time for the growth. Merger and acquisition are win-win situation for all the concerned stakeholders of the company. For the merger company get long term benefit.

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