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A STUDY OF MERGER AND ACQUISITION ON HEALTHCARE SECTOR OF INDIA

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Abstract

Mergers and acquisitions are consider as a significant tool for corporate restructuring and value present scenario. The present research paper aims to analysis the impact of merger on the operating and financial performance of healthcare sector various financial ratios of the sample company listed in BSE from the period of 2007-2012. Healthcare has become one of the India's largest sectors both in term of revenue and employment.

Keywords: *Mergers and acquisitions, Healthcare sector, operating performance, financial performance, revenue and employment*

INTRODUCTION

Mergers and acquisitions are increasingly becoming strategic choice for organizational growth achievement of business goals including profit, empire building, market dominance and long-termsurvival. The phenomenon of rising M&A activity is observeworld over across various continents, although, it has commenced much earlier in developed countries, and is relatively recent in developing countries. The rapid changing technologies, fast moving economies, the positive impact of globalization, accelerated revenues has triggered this activity manifold in recent times.

In India, the real impetus for growth in M&A activity had been ushering of economic reforms introduced in year 1991. In recent times, though the pace of M&A has increased significantly in India too and varied forms of this inorganic growth strategy are visible across various economic sectors. The term mergers and acquisition encompasses varied activities of stake acquisition and control of assets of different firms. In the liberalized economic and business enterprise in India, as companies realized the need to grow and expand in enterprise that they understand well, to face growing competition. Merger and acquisitions have emerged as one of the most effective methods of such corporate restructuring, and have therefore, become an integral part of the long- term business strategy of corporates in India.

Merger

A merger is combination of two or more companies into single company where one survives and the other loses their corporate existence. The survivor acquires the assets as well as liabilities of the merged company or companies. It is simply a combination of two or more businesses into one business.

Type of mergers:

Horizontal Mergers: Horizontal mergers involve two companies operating in the same kind of business activity (stage of production), usually in the same industry. The main purposes of such mergers usually could be:to obtain economics of scale and scope, eliminate a competitor company, increase market share, buy up surplus capacity or obtain a more profitable firm. Besides such benefits, this type of mergers has the drawbacks of restricting new entries into the market and harming outsiders due to diminishing competition.

Vertical Mergers: Vertical mergers involve two or more companies that operate at different stages of production process, where buyer-seller relation or manufacturing at different stages of the same product is possible. A vertical merger results in the consolidation of firms that have actual or potential buyer-seller relationships.

There are two type of vertical mergers:

(i) **Backward or upstream vertical integration,** in which the primary motive is usually to move towards a dependable source of supply

(ii) **Forward or downstream vertical integration,** in which the primary motive is to move towards the final customer, who may be another industrial user or the public.

Conglomerate Mergers: conglomerate mergers involve firms engaged in unrelated business activities, usually with the basic purpose of risk reduction through diversification, and to gain financial synergy. A conglomerate mergers result occurs when unrelated enterprises combine.

The type of conglomerate mergers include

(i) **Product Extension:** in this type of mergers, firms that sell non-competing products and use related marketing channels of production processes merger.

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(ii) **Market Extension:** In such mergers, merging firms manufacture the same product or services but market them in different territorial markets.

Pure Conglomerate Mergers: In such mergers, there is no relationship between firms neither in respect to manufacturing nor in respect to marketing, and merger are realize between firms operating in entirely different fields.

Concentric Mergers: Concentric mergers also called congeneric mergers, occurs between companies within an industry that serve the same customers but does not offer them the same product or services. Concentric mergers diversify the combined company's offerings and allows the firm to benefit from areas of shared expertise.

Acquisition

Acquisition in a general sense means acquiring the ownership in the property. It is the purchase by one company of controlling interest in the share capital of another existing company. Acquisition usually refers to a purchase of a smaller firm by a large one. Sometimes, however, a smaller firm will acquire management control of larger or longer established company and keep its name for the combined entity. Even after the takeover, although there, companies retain their separate legal identity. The companies remain independent and separate there is only a change in control of the companies.

Healthcare Sector in India:

Healthcare has become one of India's largest sectors - both in terms of revenue and employment. Healthcare comprise hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players The Indian healthcare sector has achieved considerable success in addressing the healthcare needs of the population since independence. The Indian hospital sector is a key component of Indian healthcare industry with contribution of nearly 70 per cent of total revenues of the industry. Until 1980s mainly government-run and non-profit based institutions delivered healthcare. From 1980, the Indian hospital sector started receiving private capital from corporate investors. From that point on, increase in population, incidence of non-communicable diseases, rising middle class incomes, technological intervention for better quality delivery etc. have driven the growth for private sector hospitals in India.

Various incentives at the policy level along with legal clearance for FDI have played a great role in driving private sector participation. In 2012, the size of the private hospital industry in India was about $ 25 billion; it contributes more than 50 per cent of the total beds in India. Most private hospitals are located in urban India with very low penetration in the semi-urban and parts. To reach the goals of 12th five-year plan, India has to increase bed capacity by adding at least 650000 beds by 2017. Demand for services and requirement for increasing beds has created huge opportunities for investment in this sector. Increasing investments in this sector from private investors have increased financial risks and returns the investor expects from his portfolio of investments. Thus, financial performance of hospitals is the key factor that motivates and encourages investments into Indian hospital sector. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by public as well private players. Indian healthcare delivery system is categorize into two major components- public and private sector. Government i.e. .public healthcare system comprises limited secondary and tertiary care institutions in key cities and focuses on providing basic healthcare facilities in the form of primary healthcare centers in rural areas. The private sector provide majority of secondary, tertiary and quaternary care institutional with a major concentration in metros.

LITERATURE REVIEW

Various studies have concluded and resulted an optimistic effect of mergers and acquisitions on corporate performance of the company. By adopting certain parameters of measuring the operative and financial improvement in the companies, researches have been conclude.

Bijoy Gupta, Dr. Parimalendu Banerjee (2017) examined the impact of merger and acquisition on financial performance evidence from selected companies in India. Specific objective of the study is to compare and analyze the pre and post of liquidity position and profitability of bidders companies. A sample size of seven companies under going merger and acquisition deal from 2001-2015. They have paired t-test for the said study. They have analyzed that post-merger profitability performance of selected sample declines and it also indicated that they is not significantly improved measured by statistical tool as paired "t" test at confidence level of 0.05.

Azeem Ahmad Khan (2011) Study the effect of mergers and acquisitionson performance of Indian bank. A sample size of 35 Indian bank undergone merger and acquisition. Since post liberalization period study applied financial parameters in term of gross profit margin ratio, return on equity, debt equity ratio to analyze the pre-post financial performance. The statistical tool as independence t-test to assess the significance difference between two situations. This results merger and acquisitions have positive impact on operating performance of acquiring Indian banks, also found that shareholder value increased.

Neelam Rani, Surendra s. Yadav, P.K. Jain (2011) the examined impact of merger and acquisition on shareholder wealth in short-term abnormal returns to the shareholders of acquiring companies; the disaggregate analysis for such returns has also been attempted for domestic and foreign based targets. A sample size of this study 24 companies both domestic and foreign companies. The period of the study is 2001-2007. The result showed by regression models. The most significant finding of this research is that there are significant positive abnormal returns to shareholders of Indian pharmaceutical companies on their acquisition of foreign targets.

Neha Duggal (2015) in their study post-merger performance of acquiring firms: a case study on Indian pharmaceutical industry. They have used paired t-test. The data are collects on secondary sources, for data collection of various financial ratio for 1-year pre up to 5-years of merger of the sample companies. The main motive behind this research is to study the impact of merger on the performance of the firms. They have analyzed that profitability has improved as indicated by ratio like PBIT, cash profit margin but the improvement in performance is for short-run (only for 1-year).

Amish Bharat Kumar Soni (2016) their study merger and acquisition in India and its impact on shareholders wealth. The main objective of this study is to measure the wealth of shareholders for short-term effect pre and post-merger compare to market. Pre-merger and post-merger financial ratio have been examine using paired sample t-test. The sample size of this study is top ten mergers and acquisitions in India deal from 2004-2014. In both the hypothesis, there is no significance difference between pre and post-merger analysis of the company but it differ from the market return. As an investor for short-term they have to look in this strategic alliance and develop short-term investment strategies.

Gurbaksh Singh, Sunil Gupta (2015) studied the effect of merger and acquisition on productivity and profitability of consolidation banking sector in India. The objective is to examine the strength and weakness of the merged banks in Indi and find out the improvement faced by the beneficiaries. To analyze the impact of merger and acquisition paired t-test was applied to the various financial ratio for before and after merger data. The sample size of this study is based on secondary data deal 2008-2015. To be concluded that before and after the financial performance of the banks has increased which margin to the gain of selected public and private sector bank in Indian banking sectors.

Ms. Neena Sinha, Dr. K.P.Kaushik (2010) examined in a research paper it analyzed that the series of M&A'staking place in financial sector in India more than half of the merging firms should improve financial performance in the post-merger period as compared to the per-merger period. The result of the study indicate that in most of the M&A cases, in the long run the acquiring firms were able to generate value creation in one or the other form.

Viclhisha' VYAS', Krishnan Narayana, A. Ramanathhan (2012) found that determinates of the M&A in India pharmaceuticalindustry, the present study analyses M&A activity in pharmaceutical industry and its determinants in the context of developing country, namely India. There is a scope to improve the present analysis by looking into the role of cross border M&A deals as well as the impact of type of mergers in determining the factor driving M&A in this particular industry.

Manoj Anand, Jagandeep sigh (2008) studied in a research paper impact of merger announcement on shareholder wealth evidence from Indian private sector banks founded that analyzed five mergers in the Indian banking sector to understand the shareholders wealth effect of bank mergers by an event study methodology during the period 1990-2005.in this case study it concluded that merger in Indian baking industry have positive and significant impact on the shareholders wealth effect both for the bidder and target bands.

Dr. Sinha (2010) found that the measuring post-merger and acquisition performance, an investigation of select financial sector organization's in India. The M&A's taken place in financial sector in India more than half of merger firms have shown a positive financial performance in the post-merger as compare to pre-merger period. It is also significant to note that before tax in all the merging cases has shown a positive trend for both financial sector companies.

RESEARCH METHODOLOGY

Objective of the study

Main objective of the study is to find out the major issues associated with pre and post-merger and acquisition. To study the impact on profitability and liquidity after the merger and acquisitions in selected healthcare sectors

Research Design

Research design is the plan and structure of investigation so conceived as to obtain answer to research questions proposed. The study conducted on onecompany as selected in the sample size.

Sample Size

A total company deals merger and acquisition in India have selected as sample size.

1. Abbott Healthcare Limited - Piramal healthcare Limited (2009-2010).

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DATA COLLECTION AND ANALYSIS

Data collection

The present study is mainly based on secondary data. The data is obtained from the annual reports relating to the various operating performance of healthcare sectors firms. The data has been augmented from websites, investment sites for the period covering from 2007-2012. To analyze the effect of mergers and acquisitions on the financial status, based on averages for a set of financial key ratios were determined for three years pre-merger and five years post-merger. Post-merger financial health is compare with the performance with help of accounting ratios.

Data Analysis

For measuring the financial and operating performance of the merger and acquisition following ratio have considered evaluating the impact of mergers and acquisitions.

Financial performance ratio	Liquidity and solvency ratio	Operating performance ratio
• Operating profit margin	• Current ratio	• Inventory turnover ratio
• PBIT margin	• Quick ratio	• Debtor turnover ratio
• Cash profit margin	• Long term debt ratio	• Investment turnover ratio
• Net profit margin	• Interest cover ratio	• Assets turnover ratio
• Return on capital employed		
• Return on net worth		
• Return on assets excluding revaluations		

Following table shows different financial performance, liquidity, solvency, and operation performance ratio obtained from the consolidated financial statement of Abbott healthcare.

Financial performance ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Operating profit margin	13.7%	10.96%	12.30%	6.74%	13.68%	12.21%
PBIT margin	11.76%	9.65%	10.77%	5.47%	12.86%	10.88%
Net profit margin	10.99%	8.89%	9.80%	5.88%	9.53%	8.75%
Return on capital employed	42.69%	41.04%	43.29%	30.82%	33.11%	31.63%
Return on net worth	29.62%	27.95%	28.68%	19.95%	22.12%	22.36%
Return on assets excluding revaluations	159.62%	161.79%	198.58%	223.31%	256.08%	304.41%

Liquidity and solvency ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Current ratio	1.47%	2.31%	2.95%	2.68%	2.87%	3.07%
Quick ratio	0.59%	1.59%	2.03%	1.80%	2.12%	2.05%
Long-term debt ratio	-	-	-	-	-	-
Interest cover ratio	4953.50	4556.50	580.53	2432.26	215.33%	8561.62

Operating performance ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Inventory turnover ratio	7.41%	7.74%	7.92%	8.18%	5.87%	6.27%
Debtor turnover ratio	23.11%	22.18%	20.69%	18.89%	18.07%	12.08%
Investment turnover ratio	7.41%	7.74%	7.92%	8.18%	5.8%	6.27%
Assets turnover ratio	2.60%	3.06%	3.22%	3.59%	2.25%	2.78%

Piramal healthcare limited

Financial performance ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Operating profit margin	17.09%	20.88%	21.85%	22.32%	(15.55%)	(11.87%)
PBIT margin	12.24%	16.58%	17.06%	17.87%	(14.42%)	(12.63%)
0.02%Net profit margin	11.69%	15.72%	11.85%	16.69%	1583.53	11.33%
Return on capital employed	18.35%	26.47%	26.99%	29.83%	5.22%	2.60%
Return on net worth	18.26%	29.52%	23.15%	29.53%	2.42%	1.17%
Return on assets excluding revaluations	48.71%	48.63%	56.89%	71.80%	696.69	645.61

Liquidity and solvency ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Current ratio	1.14%	1.29%	2.02%	1.96%	8.66%	2.32%
Quick ratio	1.46%	1.53%	2.18%	1.83%	9.16%	3.85%
Long-term debt ratio	0.27%	.0355	0.74%	0.40%	0.02%	0.02%
Interest cover ratio	6.69	5.59%	3.24%	4.12%	3.58%	1.61%

Operating performance ratio	Pre-merger			Post-merger		
	2007	2008	2009	2010	2011	2012
Inventory turnover ratio	7.73%	8.12%	8.44%	9.69%	3.59%	4.40%
Debtor turnover ratio	7.96%	7.20%	6.99%	8.36%	3.38%	5.11%
Investment turnover ratio	7.73%	8.12%	8.44%	9.69%	3.59%	4.40%
Assets turnover ratio	1.23%	1.29%	1.26%	1.23%	0.12%	0.09%

Earnings per share of Abbott and piramal healthcare limited

Company	2007	2008	2009	2010	2011	2012
Abbott	47.28	45.24	56.96	44.56	56.66	68.10
Piramal	8.90	14.36	13.17	21.21	768.06	7.58

In this case, of deal one sees that the buyers P/E post-merger for the years is above the acquisition P/E, this was also evident from the EPS accretion that was happening and the positive synergies.

CONCLUSION

This is an expensive deal as shown in the analyses part if one is to consider the premium on the market price that piramal healthcare has demanded one would get a valuation of approximately 12000 crores, but it paid approximately 15000 crores to acquire the business. Piramal have positive impact on earning per share and company have taken benefit of operational benefit. In case of this, deal the buyers P/E post-merger for the three year after the merger there is positive synergies.

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