GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor – 5.047

A STUDY ON MERGER AND ACQUISITION IN FMCG INDUSTRY IN INDIA

SHIVAM M. TRIPATHI
Master of Commerce
Sheth Damodardas School of Commerce, Gujarat University,
Opp. Gujarat University Library, Navrangpura - 380009, India.
shivam.ks.1011@gmail.com

Abstract

M&A is broadly accepted corporate restructuring procedure in present financial situation. In each industry, organizations acknowledge this system for their quick development and improvement. In the nation like India FMCG part is having a major market size. An endeavor has been made in this study to break down the impacts of M&As in FMCG industry in India. Hypothetically it is accepted that mergers and acquisition improve organization performance because of expanded market control, upgraded benefit and hazard expansion. The research center around the M&A action on FMCG industry which converged somewhere in the range of 2000 and 2010. Similar research of money related information of Hindustan Unilever Limited and Emami Limited with assistance of Ratio Analysis for multi-year prior and multi-year after the M&A was directed to pick up learning that whether merger had prompted an improved presentation after the Merger and Acquisition. Secondary data from the yearly reports was gathered for multi-year prior and multiyear post to the M&As. The study is finished with the assistance of ratio analysis and interpretation by charts. The study found that M&As positively affect productivity of acquiring firms of FMCG organizations in India. There was additionally beneficial outcome of M&A action on Return on Capital Employed and Return on Net Worth and yet it found that M&A action has no constructive outcome on Operating overall revenue Ratio and Net Profit Margin Ratio of chose FMCG organizations. The study found that the measures utilized for examination that shows in general improvement in the presentation of chose FMCG organizations in India after M&As.

Key Words : *Merger & Acquisition, Corporate restructuring, FMCG, Acquiring Firms, Ratio Analysis*

1. INTRODUCTION

The quick moving purchaser products (FMCG) part is a significant supporter of India's GDP. It is the fourth largest sector of the Indian economy. There are three main segments in the sector – food and beverages which accounts for 19 per cent of the sector, healthcare which accounts for 31 per cent and household and personal care which accounts for the remaining 50 per cent. The FMCG sector has grown from US$ 31.6 billion in 2011 to US$ 52.75 billion in 2017-18. The area is additionally expected to develop at a Compound Annual Growth Rate (CAGR) of 27.86 percent to reach US$ 103.7 billion by 2020.The sector witnessed growth of 16.5 per cent in value terms between June–September 2018; supported by moderate inflation, increase in private consumption and rural income. It is forecasted to grow at 12-13 per cent between September–December 2018. FMCG's urban segment is expected to have a steady revenue growth at 8 per cent in FY19 and the rural segment is forecasted to contribute 15-16 per cent of total income in FY19. Post GST and demonetisation, modern trade share grew to 10 per cent of the overall FMCG revenue, as of August 2018.

Quick moving customer merchandise is prevalently named as buyer bundled products. It is a not a new sector in India, in India FMCG sector in popular from the times of British rule in India. Commodity in this category includes all consumables people buy at regular intervals. FMCG companies in India have always enjoyed a vast potential market because of the large population of the country. Comprehensively, the FMCG area has been fruitful in pitching items to the lower and center salary gatherings, and the equivalent is valid in India. The net revenue on FMCG items can be moderately little, however they are commonly sold in enormous amounts; along these lines, the aggregate benefit on such items can be generous. FMCGs have an enormous influence in the economy, as inelastic items that touch all aspects of purchaser life somehow.

The corporate division everywhere throughout the world is rebuilding its tasks through various sorts of solidification techniques like mergers and acquisitions so as to face difficulties presented by the new example of globalization, which has prompted the more noteworthy coordination of national and worldwide markets. Merger & Acquisition are mostly performed in the hope of realizing an economic gain, other than social or political objectives. For such transaction to be justified, the two firms involved must be worth more together than they were apart. By doing Merger & Acquisitions corporates can enjoy benefits like economies of scale, combining complementary resources, tax advantages.

Merger & acquisition have become an integral part of the Indian economy and daily headlines in newspapers. We have M&As in each industry of our economy. In a merger, the boards of director of two companies approve the combination and seek shareholder's approval. After the merger, the obtained organization stops to exist and turns out to be a piece of the securing organization. In acquisition, the acquiring company obtains the majority stake in the acquired company, which does not change its name or legal structure. There is one different concept which is known as consolidation in which a new company created, stockholders of both companies must approve the consolidation, and subsequent to the approval, they receive common equity shares in the new company. Therefore, for any business, inorganic development through M&A keeps on being an alluring choice.

2. REVIEW OF LITERATURE

Kumar &Bansal (2008)[1] found that in many cases of M&A, the acquiring firms were able to generate synergy in long run, which may be in the form of higher cash flow, more business, diversification, cost cuttings etc. They used ratio analysis and co-relation.

Kumar (2009)[2] considered and found that the post-merger productivity, resources turnover and dissolvability of the procuring organizations, by and large demonstrate no improvement when contrasted and pre-merger esteems. So it appears that, as opposed to basic convictions and desires mergers as a rule don't prompt improve the acquirer's money related execution.

Rani et al. (2015)[3] observed that there is significant improvement in the profitability of the acquiring companies involved in M & A. The outcomes relating to gainfulness, effectiveness (regarding usage of fixed resources), cost and liquidity proportions demonstrate that there is an improvement in execution of the procuring firms in the post-M and A period. The investigation as far as Du Pont demonstrates improvement in the long-haul working net revenue of the procuring firms. This implies higher benefit is created per unit net deals by the securing firms after the M and A. The higher benefits (benefit before intrigue and assesses and non-working pay) are produced essentially because of the better working edges. The improved working money streams are by virtue of the improvement in the post-M and A working edges of the acquirers, not because of the effective use of the advantages turnover to create higher deals by taking an example of 305 M and As amid the time of January 2003 to December 2008.

Srivastava & Prakash (2014)[4] examined & found that no statically significant difference in the mean value of all the measures except R&D expenses as percentage of operating expenses for the acquirer Indian firms before and after merger and acquisition event.

Reddy et al. (2013)[5] reported superior performance during the post-merger period for both manufacturing and services sectors. They used to earn management approach & t-stat for the study.

Lakhwani et al. (2017)[6] found that M&A is benefited in long term but it entirely dependent on the company who choose this path and the way take it forward by using Du-Pont analysis with a sample size of 24 during 2005-2006.

Ramakrishnan (2010)[7] inferred from his study that mergers have proven to be beneficial for the Indian corporate's performance in the long run. He conducted his study by taking sample of 87 firms from the merger deals of January 1996 to March 2002 and determined pre-tax operating cash flows for three years before and after merger.

Agnihotri (2013)[8] researched to find out the firm level determinants that play decisive role in deciding for the business enterprises as to whether go for acquisition or not. She took sample of 360 companies from the time frame 2004-2010 and restricting to three sectors – FMCG, Automobile and Pharmaceutical it was found that business group affiliation and earning volatility are the two crucial elements for the corporates to decide to opt for M&A or not.

Panda & Sriram (2013)[9] found that M&A improves the profitability as well as enhance the

[1] Kumar, S., & Bansal, L. K. (2008). The impact of mergers and acquisitions on corporate performance in India. Management Decision, 46(10), 1531-1543.

[2] Kumar, R. (2009). Post-merger corporate performance: an Indian perspective. Management Research News, 32(2), 145-157.

[3] Rani, N., Yadav, S. S., & Jain, P. K. (2015). Financial performance analysis of mergers and acquisitions: evidence from India. International Journal of Commerce and Management, 25(4), 402-423.

[4] Srivastava, R., & Prakash, A. (2014). Value creation through cross-border mergers and acquisitions by the Indian pharmaceutical firms. Journal of Strategy and Management, 7(1), 49-63.

[5] Srinivasa Reddy, K., Nangia, V. K., & Agrawal, R. (2013). Corporate mergers and financial performance: a new assessment of Indian cases. Nankai Business Review International, 4(2), 107-129.

[6] Lakhwani, V. M., Tiwari, S., & Jauhari, S. (2017). Mergers and acquisitions's impact on financial performance: an evaluation with perspective of time. Journal of Fundamental and Applied Sciences, 9(5S), 945-957.

[7] Ramakrishnan, K. (2010). Mergers in Indian industry: performance and impacting factors. Business Strategy Series, 11(4), 261-268.

[8] Agnihotri, A. (2013). Determinants of acquisitions: An Indian perspective. Management Research Review, 36(9), 882-898.

[9] Panda, T. K., & Sriram, S. (2013). Competitive advantage through mergers and acquisitions for Indian pharmaceutical companies. In Proceedings of International Conference on Business Management & IS (Vol. 2, No. 1).

speed of innovation. They conducted their study specific to Indian pharmaceutical sector by taking sample of four companies who done acquisition overseas. For arriving at result they took financial and patent fillings data for eight years and measured profitability with respect to gross profit and operating margins.

Sheela & Karthikeyan (2012)[10] analysed the financial performance of Indian Pharmaceutical sector by taking top 3 players as a sample. They used Du-Pont Analysis and calculated ROI and ROE accordingly for the period of ten years (2003-2012). They found that Pharma companies are more focused on absolute measures rather than relative which will may not present a true and fair picture every time. Hence relative size of the firms should also be taken into consideration while computing ratios.

3. RESEARCH GAP

Though the currently available literature on study of M&A in FMCG sector of India is very few, still a lot of research needs to be done in specific geographic national market (S. Kumar & L. Bansal, 2008)as the exploration demonstrates that administration can't assume that cooperative energy can be created and benefits can be expanded essentially by going for mergers and acquisitions.(R. Kumar, 2009) opined that further examinations may build up some substitute proportions of merger-related gains as monetary measures have confinements to catch the full effect of merger on corporate execution. Additionally, an investigation giving subtlety bits of knowledge into the reasons and examples of post-merger corporate execution over the sorts of mergers and industry would be helpful. The writing survey led for the momentum research clarifies that exploration isn't done on impacts of M&As on chose organizations of FMCG segment, either as a rule or with reference to India. Subsequently, it is chosen to lead an investigation on M&A of chose FMCG organizations of India.

4. RESEARCH METHODOLOGY

4.1 Objective of study

The main objective of the study is to gain knowledge of effects of M&As in FMCG sector in India.

4.2 Sources of data

The study is based on the secondary data taken from the annual reports of selected units. The data relating to the selected units under the study have been obtained from annual reports of the selected units. The data is collected of FMCG companies two years of pre-merger & two years of post-merger.

4.3 Population of study

The population can be used in this study are all the 645 FMCG companies in India till now. The reason for choosing FMCG companies for the research was because there is very less research carried out with reference to the Indian context, yet many studies done globally.

4.4 Selection of Samples

The study has been carried out at micro-level. As such scope of the study is Indian FMCG Industry, here two companies selected (which are M&A in FMCG industry during 2000 to 2010) **Hindustan Unilever Limited** (who acquired the Cooked Shrimp and Pasteurized Crabmeat business of the Amalgam Group of Companies) & **Emami Limited** (who acquired Zandu Pharmaceuticals Works Limited).

4.5 About Hindustan Unilever Limited

Hindustan Unilever Limited (HUL) is India's greatest Fast-Moving Consumer Goods Company with a heritage of over 80 years in India. On some random day, the vast majority of Indian family units utilize our items to feel better, look great and get increasingly out of life – giving us a one of a kind chances to fabricate a more promising time to come. HUL attempts to make a superior future consistently and enables individuals to feel better, look great and get increasingly out of existence with brands and administrations that are beneficial for them and useful for other people. With more than 35 brands traversing 20 particular classifications, for example, cleansers, cleansers, shampoos, healthy skin, toothpastes, antiperspirants, beautifying agents, tea, espresso, bundled sustenance's, frozen yogurt, and water purifiers, the Company is a piece of the regular day to day existence of a large number of shoppers crosswise over India. Its portfolio incorporates driving family unit brands, for example, Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair and Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Ax, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. The Company has about 18,000 employees and has a sales of INR 34619 crores (financial year 2017-18). HUL is a subsidiary of Unilever, one of the world's leading suppliers of Food, Home Care, Personal Care and Refreshment products with sales in over 190 countries and an annual sales turnover of €53.7 billion in 2017. Unilever has over 67% shareholding in HUL.

[10] Sheela, S. C., & Karthikeyan, K. (2012). Financial performance of pharmaceutical industry in India using dupont analysis. European Journal of Business and Management, 4(14), 84-91.

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS
GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor – 5.047

4.6 About Emami Limited

Emami Limited is one of the main and quickest developing individual and medicinal services organizations in India, with a lucky arrangement of family unit brand names, for example, BoroPlus, Navratna, Fair and Handsome, Zandu Balm, Mentho Plus Balm, Fast Relief and Kesh King. Set up in 1974, we have a course of action of in excess of 300 things reliant on ayurvedic plans.Our present activities contain in excess of 60 nations including GCC, Europe, Africa, CIS nations and the SAARC. More than 121 Emami items are sold each second some place the world over. Emami Limited, the leader organization of the Group, recorded a turnover of Rs. 2541crore, 2017-18.Emami gained the legacy brand Zandu in 2008 based on gigantic business collaboration between the two brand portfolios. Emami likewise gained Ayurvedic Hair and scalp business of "Kesh King" as a business technique in 2015.We utilize about 3300 individuals, connect with 40 lakh in addition to retails outlets through a system of 3150 wholesalers and have put resources into Eight plants, Four provincial workplaces, 1 abroad unit, Nine abroad backups and 31 circulation focuses and 1 Associate crosswise over India.

4.7 Accounting tools of analysis

Ratio Analysis

Profitability Ratios

The main object of all the business concerns is to earn profit. Profit is the measurement of the efficiency of the business. Equity shareholders of the company are mainly interested in the profitability of the company. Profitability ratios include the following: -

1. Operating Profit Margin Ratio
2. Net Profit Margin Ratio
3. Return on Capital Employed Ratio
4. Return on Net Worth Ratio
5. Earning Per Share

Formula used for calculations

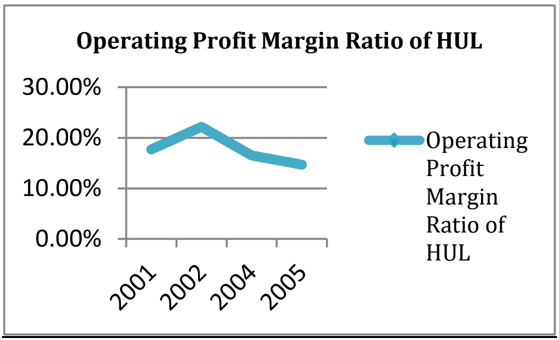
1. Operating Profit Margin Ratio
   $= \frac{\text{Earning Before Interest \& } taxes}{\text{Net Sales}} \times 100$
2. Net Profit Margin Ratio
   $= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$
3. Return on Capital Employed Ratio
   $= \frac{\text{Profit Before Taxes}}{\text{Capital Employed}} \times 100$
4. Return on Net worth Ratio
   $= \frac{\text{Net Profit After Tax} - \text{Preference Share Dividend}}{\text{Net Worth}} \times 100$
5. Earning Per Share
   $= \frac{\text{Net Profit Available to Equity Holder}}{\text{Number of Ordinary Share Outstanding}}$

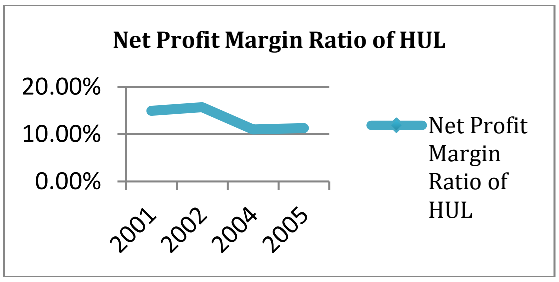
Table showing ratios:-

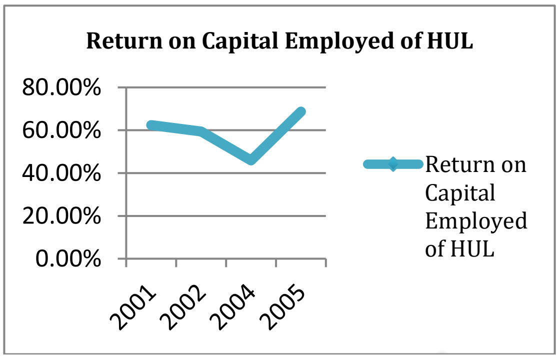
Hindustan Unilever Limited

	2001	2002	2004	2005
Operating Profit Margin Ratio	17.78%	22.16%	16.47%	14.68%
Net Profit Margin Ratio	14.96%	15.70%	11.00%	11.30%
Return on Capital Employed	62.40%	59.40%	45.90%	68.70%
Return on Net Worth	53.93%	48.00%	57.20%	61.10%
Earning per share	7.46	8.04	5.44	6.40

Graphically representation of ratios

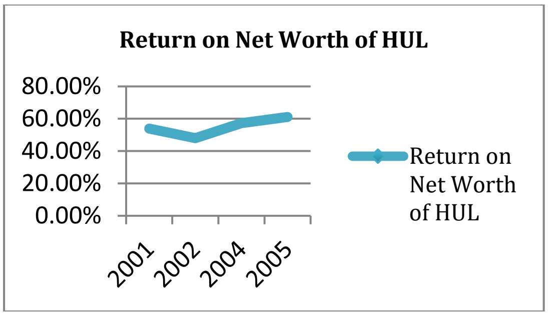


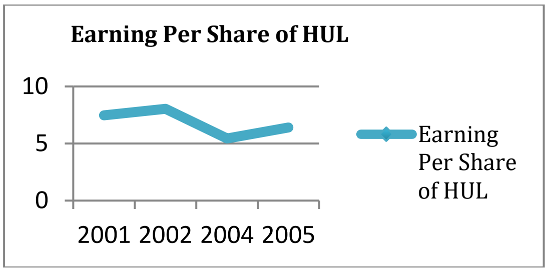




GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP iNTERDISCIPLINARITIES
A Global Journal of Interdisciplinary Studies
(ISSN – 2581-5628)
Impact Factor – 5.047

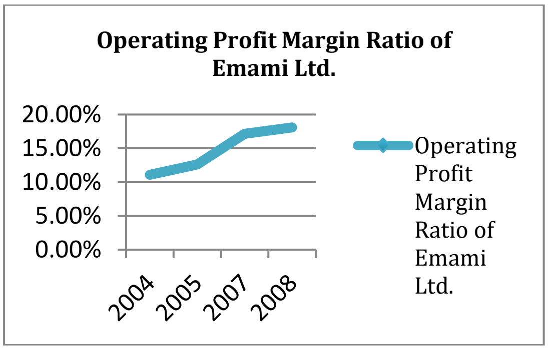


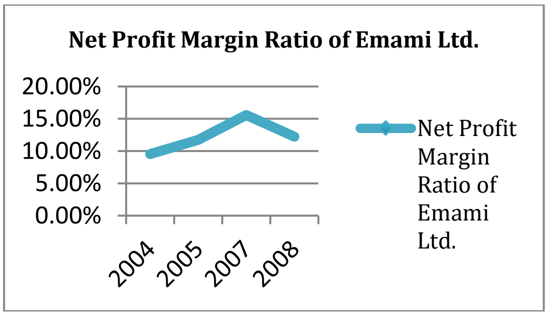


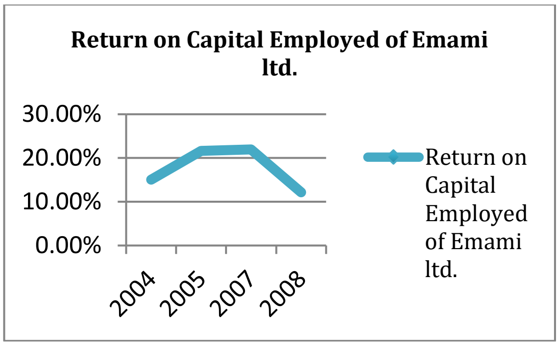
Emami Limited

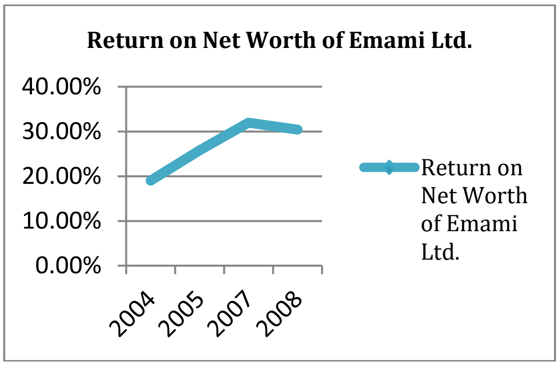
	2004	2005	2007	2008
Operating Profit Margin Ratio	11.08%	12.61%	17.13%	18.09%
Net Profit Margin Ratio	9.54%	11.75%	15.58%	12.24%
Return on Capital Employed	15.04%	21.66%	21.96%	12.16%
Return on Net Worth	19.01%	28.79%	31.96%	30.38%
Earning per share	5.23	8.06	14.51	14.45

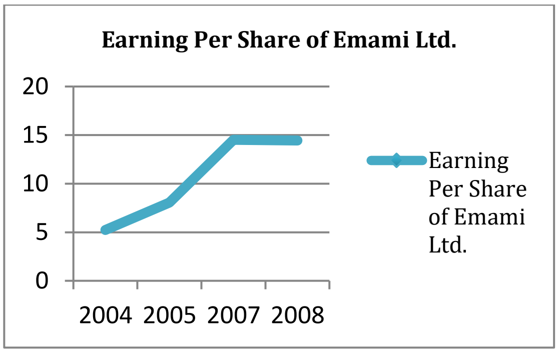
Graphically representation of ratios











5. FINDINGS & CONCLUSION

The study found that the effects of M&A in FMCG sector in India for a period of 2-year prior merger and 2-year post merger between years 2000 to 2010. The analysis of Hindustan Unilever Limited gives different results, which indicate that 2 ratios are improving but 3 are declining. The analysis of Emami Limited indicates that 3ratios are improving but 2 are declining.

The study gives a very clear view that Net Profit Margin Ratios are not improving after M&As. The study also found that Return on Net Worth improved after restructuring strategy which indicates that a business will be able to earn adequate profit in relation to capital invested in it.

The researcher also found that Earning Per Share indicate a different perspective in both cases, in the first case EPS decline slightly but in the second case EPS is improved a very considerably. On the performance measures that are unique to the FMCG Industry in India and which focus on profitability of the acquiring firms, the study concluded that have overall positive effects on performance of FMCG companies in long run with reference to the Indian context.

6. LIMITATIONS OF STUDY

The coin has always two sides in the same manner everything has some benefits & limitations. The same rule applies to this research work. The major limitations of this study are as under:

- This study is mainly based on secondary data selected from the annual reports of companies, so the reliability and the finding are contingent upon the data published in annual report.
- There is different perspective for evaluation of Profitability and Solvency. There are no common views among experts.
- The period taken for study is too short which will not give a clear view for the long run.
- Accounting ratios have its own limitation, which also applied to the study
- This study is related with only two cases. Therefore it is not considerable for any decision-making process regarding M&As

7. SUGGESTIONS FOR FURTHER STUDY

Further research should be carried out on the effects of M&As in Indian FMCG industry for longer period in order to gain more clear perspective on Merger & Acquisition in Indian FMCG sector. As the study only analysis financial data of the acquiring company prior to merger & post to merger but it can also include other factors like effects on stock prices, inflation, and solvency of acquiring firm with reference of longer period. Another study can be carried out with two different perspectives one is for acquiring firms & second is for acquired firms.

8. REFERENCES

Kumar, S., & Bansal, L. K. (2008). The impact of mergers and acquisitions on corporate performance in India. Management Decision, 46(10), 1531-1543.

Kumar, R. (2009). Post-merger corporate performance: an Indian perspective. Management Research News, 32(2), 145-157.

Rani, N., Yadav, S. S., & Jain, P. K. (2015). Financial performance analysis of mergers and acquisitions: evidence from India. International Journal of Commerce and Management, 25(4), 402-423.

Srivastava, R., & Prakash, A. (2014). Value creation through cross-border mergers and acquisitions by the Indian pharmaceutical firms. Journal of Strategy and Management, 7(1), 49-63.

Srinivasa Reddy, K., Nangia, V. K., & Agrawal, R. (2013). Corporate mergers and financial performance: a new assessment of Indian cases. Nankai Business Review International, 4(2), 107-129.

Lakhwani, V. M., Tiwari, S., & Jauhari, S. (2017). Mergers and acquisitions's impact on financial performance: an evaluation with perspective of time. Journal of Fundamental and Applied Sciences, 9(5S), 945-957.

Ramakrishnan, K. (2010). Mergers in Indian industry: performance and impacting factors. Business Strategy Series, 11(4), 261-268.

Agnihotri, A. (2013). Determinants of acquisitions: An Indian perspective. Management Research Review, 36(9), 882-898.

Panda, T. K., & Sriram, S. (2013). Competitive advantage through mergers and acquisitions for Indian pharmaceutical companies. In Proceedings of International Conference on Business Management & IS (Vol. 2, No. 1).

Sheela, S. C., & Karthikeyan, K. (2012). Financial performance of pharmaceutical industry in India using dupont analysis. European Journal of Business and Management, 4(14), 84-91.