Chapter 3

AN ADOPTION OF RESEARCH METHODOLOGY

3.1 – Defining Statement of the Problem

Since 1991, Indian Economy has gone through major structural changes, transformation of economic policy with liberalization, Globalization and Privatization. In this era, Indian companies have transferred their focus on its business size and core competencies. To achieve this, they have adopted expansion strategy to grow. So, corporate entities have created immense pressure for corporate restructuring and pursuance towards core area of interest. Merger and acquisition is most accepted and widely in use method of corporate restructuring. It makes merger and acquisition strategy as an integral part of long term business strategy. Corporate entities follow this strategy to make its presence in foreign market and penetrate the same in less time. The less interference and approval of government compare to prior period, companies are motivated and encouraged to do merger and acquisition. Companies are adopting merger and acquisition as an expansion strategy, in order to achieve, synergy gain, economies of scale in production, to increase size of the organization, new technology etc., in post-acquisition period. Many times acquisition companies are failed to justify their acquisition with reference to performance of pre and post-acquisition period. Therefore, the findings, suggestions and conclusion will be add-on to the corporate entities and corporate executives for adopting the widely used corporate restructuring strategy named Merger and Acquisition.

3.2 – Identify Need for the Study

In current scenario, business market is very competitive and demanding, it often changes with the advanced technological developments. In order to survive and enjoy, the benefits of business, Indian companies have understood that, they have to adopt the merger and acquisition strategy to expand the business size and make them comparable with the around the globe. It will help Indian corporate entities to compete effectively with the global companies. In nineties, Mergers and acquisitions are taken places to enjoy tax benefits only of the merged entities, which are sick companies and under Board for Industrial and Financial Reconstruction (BIFR) arrangement. The reasons for boom merger and acquisition in India are Attainable economies of scale of production, lower valuation of firm and average price earnings ratio. The whole strategy is focused on getting benefits from consolidation. The motto can be observed 'Together We can'. This is relevant for any industries and any companies, in this highly competitive and frequent changing era. Therefore, this merger and acquisition boom needs to analysis of performance of acquiring entities for both pre and post-acquisition periods.

3.3 – Scope of the Study

This study is an analysis of the performance of the acquiring entity for the pre and post-acquisition period along with performance analysis of the acquired entities. The financial data available for the companies entered into merger and acquisitions in 2013-2015. The finding of this study is based on collection, analysis and interpretation of the financial data available for the study.

3.4 – Importance of the Study

As we have seen earlier, Government of India imposed number of restriction on corporate entities namely Monopolies and Restrictive Trade Practices (MRTP) Act 1969, Foreign Exchange Regulation Act (FERA) 1973 and industrial licensing policy. These policies made restricted scope of restructuring for business entities. It was hard to expand the business, establishment of new entity, division and consolidation of entities and acquisition of entities by shares. Only option available was, to enjoy tax benefit from acquisition of sick companies.

After the economic reforms, Indian government adopted broad and liberal view, in order to boost economy. The government policies were amended and regulations were eliminated on large scale. The less approval is required for merger and acquisition. It opened the doors for corporate restructuring through merger and acquisition, to achieve benefit of new trend of expansion, elimination of competition and monopoly, consolidation and diversification and quick entry to new market. Amended Foreign Exchange Management Act (FEMA) encouraged cross border merger and acquisition for earning Foreign Direct Investment (FDI). Domestic Merger and acquisition are increased for removing competition from the market. In the present study, researcher has made an attempt to analyze performance of acquiring entity for the before and after merger and acquisition period along with acquired entity's performance before merger and acquisition. This study is of great interest for the stakeholders of acquirer and acquired entities, Government, Corporate executives, regulating authorities and general public as well as commerce and management students and faculties. This study also determines that whether the merger and acquisition achieved expected results. This study is also of great interest of consulting agencies, specifically working in the area of merger and acquisition and does the process on behalf of the acquiring entity.

3.5 – Objectives of the Study

This study is having following objectives based on various parameters from the view point of both acquiree and acquirer entities;

- ✓ To examine **Profitability** of the acquirer entity before and after merger and acquisition along with **Profitability** trend of acquired entity before merger and acquisition.
- ✓ To examine **Turnover** of the acquirer entity before and after merger and acquisition along with **Turnover** trend of acquired entity before merger and acquisition.
- ✓ To examine **Asset Utilization** of the acquirer entity before and after merger and acquisition along with **Asset Utilization** trend of acquired entity before merger and acquisition.
- ✓ To examine **Debt Utilization** of the acquirer entity before and after merger and acquisition along with **Debt Utilization** trend of acquired entity before merger and acquisition.
- ✓ To examine **Capital Structure** of the acquirer entity before and after merger and acquisition along with **Capital Structure** trend of acquired entity before merger and acquisition.
- ✓ To examine **Shareholders' Earnings** of the acquirer entity before and after merger and acquisition along with **Shareholders' Earnings** trend of acquired entity before merger and acquisition.

3.6 – Hypothesis

Null Hypothesis has been framed to examine difference of the performance for the before and after merger and acquisition period of acquirer entity.

H0 Hypothesis:

- ✓ There is no significant effect of merger and acquisition on **Profitability** of the acquiring entity before and after merger and acquisition.
- ✓ There is no significant effect of merger and acquisition on **Turnover** of the acquiring entity before and after merger and acquisition.
- ✓ There is no significant effect of merger and acquisition on **Asset Utilization** of the acquiring entity before and after merger and acquisition.
- ✓ There is no significant effect of merger and acquisition on **Debt Utilization** of the acquiring entity before and after merger and acquisition.
- ✓ There is no significant effect of merger and acquisition on **Capital Structure** of the acquiring entity before and after merger and acquisition.
- ✓ There is no significant effect of merger and acquisition on **Shareholder's Earnings** of the acquiring entity before and after merger and acquisition.

H1 Hypothesis:

- ✓ There is significant effect of merger and acquisition on **Profitability** of the acquiring entity before and after merger and acquisition.
- ✓ There is significant effect of merger and acquisition on **Turnover** of the acquiring entity before and after merger and acquisition.
- ✓ There is significant effect of merger and acquisition on **Asset Utilization** of the acquiring entity before and after merger and acquisition.

- ✓ There is significant effect of merger and acquisition on **Debt Utilization** of the acquiring entity before and after merger and acquisition.
- ✓ There is significant effect of merger and acquisition on **Capital Structure** of the acquiring entity before and after merger and acquisition.
- ✓ There is significant effect of merger and acquisition on **Shareholder's Earnings** of the acquiring entity before and after merger and acquisition.

3.7 – Sampling Technique

According to National Industries Classification (NIC) 2008 (revised), Indian Business entities are divided into 21 Section (A to U) and 99 Divisions. Out of this sample of 5 industries were taken on the simple random sampling basis. The selected sample industries are;

- ✓ Traveling and Hospitality,
- ✓ Information Technology,
- ✓ E- Commerce
- ✓ Pharmaceuticals,
- ✓ Real Estate,

3.8 – Sample Size

From the selected sample industries, Two Merger and acquisition deals happened in between 2014-2015 has been selected for the purpose of the study. The study is only of domestic deals for the examination of performance of Indian entities within the country. The following table shows the names of the companies are selected for the study;

No.	Buyer	Seller	Year	Sector
1	Thomas Cook India Limited	Sterling Holiday Resort India Limited	2014	Travel and Hospitality
2	ANI Technologies Private Limited	Serendipity Infolabs Private Limited	2015	
3	Tata Consultancy Services Limited	Computer Management Corporation Private Limited	2014	Technology
4	Sterlite Technologies Limited	Elitecore Technologies Private Limited	2015	
5	Flipkart Private Limited	Myntra Designs Private Limited	2014	E-Commerce
6	Snapdeal Private Limited	Unicommerce Esolution Private Limited	2015	
7	Sun Pharmaceutical Industries Limited	Ranbaxy Laboratories Limited	2014	Pharmaceutical
8	Strides pharma science Limited	Bafna pharmacuetical Limited	2014	
9	Prestige exora business parks Limited	Prestige estate Limited	2015	Real Estate
10	Delhi Land & Finance Limited	Delhi Land & Finance Asset Limited	2015	

(Table 3.1 – Table showing selected companies for Merger and Acquisition.)

3.9 – Period of the Study

This study is based on secondary data of before and after merger and acquisition of the acquirer company and only before merger and acquisition of acquired company. The data collected and analyze for the **four (4) years' time period before and four (4) years' time period after the merger and acquisition** taken place. This study comprises total ten years of study for the Acquirer Company and five years of study for the acquired company.

The following table shows period of the study for each company;

No.	Name of the Company	Period of the Study	
		Before M&A	After M&A
		Year -1 to 4	Year -5 To 8
1	Thomas Cook India Limited	2011-2014	2015-2018
2	Sterling Holidays Resort India Limited	2011-2014	NA
3	ANI Technologies Private Limited	2012-2015	2016-2019
4	Serendipity Infolab Private Limited	2012-2015	NA
5	Tata Consultancy Services Limited	2012-2015	2016-2019
6	Computer Management Corporation Limited	2012-2015	NA
7	Sterlite Technologies Limited	2012-2015	2016-2019
8	Elitecore Technologies Private Limited	2012-2015	NA
9	Flipkart Private Limited	2012-2015	2016-2019
10	Myntra Designs Private Limited	2012-2015	NA
11	Snapdeal Private Limited	2013-2016	2017-2020
12	Unicommerce Esolutions Private Limited	2013-2016	NA
13	Sun Pharmaceutical Industries Limited	2011-2014	2015-2018
14	Ranbaxy Laboratories Limited	2011-2014	NA
15	Strides Pharma Science Limited	2012-2015	2016-2019
16	Bafna Pharmaceutical Limited	2012-2015	NA
17	Prestige Estate Projects Limited	2013-2016	2017-2020
18	Prestige Exora Business Park Limited	2013-2016	NA
19	Delhi Land and Finance Limited	2013-2016	2017-2020
20	Delhi Land and Finance Asset Limited	2013-2016	NA

(Table 3.2 – Table showing selected years of companies for Merger and Acquisition calculation)

3.10 – Source of the Data

The present Study is rely on secondary data. The major source of data is financial statements of the entities obtained from the Ministries of Corporate affairs (MCA), Available private database tools like Vcc Edge, Prowess, Ace Equity etc. The other sources are publications of Reserve Bank of India (RBI), ICFAI journal of mergers and acquisitions, ICFAI Journal of chartered financial analysts etc. further the details published in leading newspapers namely The Hindu, The Indian Express, The Times of India, Business Standards, Economic Times, etc., also taken into consideration. The following table reveals the source of collected data and used by researcher for completion of research;

No.	Name of the Company	Data Source	Researcher's Calculation
1	Thomas Cook India Limited	Vccedge +Ace KP	Yes
2	Sterling Holidays Resort India Limited	Vccedge +Ace KP	Yes
3	ANI Technologies Private Limited	Vccedge	Yes
4	Serendipity Infolab Private Limited	Vccedge	Yes
5	Tata Consultancy Services Limited	Ace KP	Yes
6	Computer Management Corporation Limited	Ace KP	Yes
7	Sterlite Technologies Limited	Vccedge	Yes
8	Elitecore Technologies Private Limited	Vccedge	Yes
9	Flipkart Private Limited	Vccedge +Ace KP	Yes
10	Myntra Designs Private Limited	Vccedge +Ace KP	Yes
11	Snapdeal Private Limited	Vccedge	Yes
12	Unicommerce Esolutions Private Limited	Vccedge	Yes
13	Sun Pharmaceutical Industries Limited	Ace KP	Yes
14	Ranbaxy Laboratories Limited	Ace KP	Yes
15	Strides Pharma Science Limited	Vccedge	Yes
16	Bafna Pharmaceutical Limited	Vccedge	Yes
17	Prestige Estate Projects Limited	Vccedge +Ace KP	Yes
18	Prestige Exora Business Park Limited	Vccedge +Ace KP	Yes
19	Delhi Land and Finance Limited	Vccedge	Yes
20	Delhi Land and Finance Asset Limited	Vccedge	Yes

(Table 3.3 – Table showing source of the data collection for the analysis)

Researcher has made further calculation on available data for getting values of the variables namely Gross Profit Ratio, Net Profit Ratio, Return on Total Asset, Total Asset Turnover ratio and Debt Asset Ratio by using appropriate data using financial ratios formula.

3.11 – Financial Tools

This study is focused on performance analysis of the companies attempted expansion through merger and acquisition. The base is financial performance. For this purpose the entire study is divided in six parts based on Financial Ratio and Turnover.

- Profitability;
    - ✓ Gross Profit Ratio
    - ✓ Net Profit Ratio

- Turnover;
    - ✓ Sales (Volume)

- Asset Utilization;
    - ✓ Return on Total Asset
    - ✓ Total Asset Turnover Ratio

- Debt Utilization;
    - ✓ Debt Asset Ratio
    - ✓ Return on Net worth

- Capital Structure;
    - ✓ Debt Equity Ratio
    - ✓ Return on Capital Employed

- Shareholder’s earnings;
    - ✓ Earnings Per Share

This ratios and values are analyzed for the before and after – merger and acquisition period for the acquiring company and for before merger and acquisition period only for the acquired company.

3.12 – Statistical Tools

To test hypothesis and to ascertain achievement of objectives, the statistical tool namely **Paired T – Test** is applied on the collected financial data. Required graphical presentation has been made, if any.

3.13 – Limitations of the Study

This study has following limitations;

- This study is limited to Merger and Acquisition of companies taken place in the year of 2014-15.
- This Study is limited to Merger and Acquisition of Domestic companies only.
- This Study has taken performance analysis of before and after the merger and acquisition from the acquirer company's perspective only.
- This study has limited sample of five industries out of numerous industries classified as per National Industrial Classification (NIC) 2008.
- This study has taken sample size limited to two merger and acquisition deals from each selected sample industry.
- This study is limited to examination of performance on Profitability, Debt Utilization, asset utilization, turnover, capital structure and shareholders earning only.
- This study considered only accounting ratios for the performance analysis of before and after merger and acquisition.
- This study concludes that changes (If any) in the accounting ratios are due to merger and acquisitions only.
- This study is limited to financial perspectives only. Non- Financial factors are not taken into consideration.

However, the researcher had put all the efforts for making this study qualitative and doesn't fall within the scope of any of these limitations.