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# A Study On Mergers And Acquisitions In India And Its Impact On Operating Efficiency Of Indian Acquiring Company

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## ABSTRACT

Mergers and acquisitions (M&A) have repeatedly emerged as a favored strategy for organizations seeking to expand beyond their organic capacities. In contrast to internal growth, which can be slow and limited by resource availability, mergers and acquisitions provide companies with a more rapid and significant means of expansion. Through these strategic agreements, corporations might penetrate new markets, expand their product offerings, gain technological competencies, or remove competition. M&A serves as a potent instrument for corporate restructuring, enabling firms to reorganize activities, optimize processes, and enhance overall efficiency.

The incentives for mergers and acquisitions are primarily economic, typically based on the desire for enhanced profitability, expanded market share, and enduring sustainability. Companies may opt to merge with or purchase others in reaction to evolving industry dynamics, new consumer needs, or macroeconomic concerns. Every transaction is distinct, shaped by a confluence of strategic foresight, fiscal preparedness, and regulatory structures.

This research seeks to examine the financial ramifications of M&A activities, specifically analyzing the impact on the financial performance of acquiring corporations before and after the merger or acquisition. The paper examines a series of chosen M&A deals in India throughout two notable periods to accomplish this objective.

The research employs a series of essential financial ratios—namely profitability, liquidity, leverage, and efficiency ratios—to assess the performance of acquiring firms during these intervals. These financial indicators provide a thorough overview of the companies' operational and financial well-being. Additionally, the paired t-test at a 5% significance level is utilized to evaluate the statistical significance of the variations in financial performance pre- and post-merger. This meticulous methodology guarantees

that the results are both sound and dependable, enhancing the comprehension of the actual financial implications of M&A selections inside the Indian business environment.

## KEYWORDS

Mergers and Acquisitions (M&A), Inorganic Growth, Financial Performance, Strategic Restructuring, Acquirer Company, Pre-Merger Analysis, Post-Merger Analysis, Financial Ratios, Statistical Analysis, Indian Corporate Sector, Profitability, Liquidity, Leverage

## INTRODUCTION

Mergers and Acquisitions (M&A) denote the process of consolidating companies, either through the amalgamation of two entities (a merger) or through one entity assuming control of another (an acquisition). The two expressions, though sometimes used interchangeably, possess distinct meanings: a merger signifies a mutual agreement in which two companies combine to create a new organization, whereas an acquisition typically entails one corporation absorbing another.[1]

Mergers and acquisitions are crucial in the realm of corporate finance. Businesses utilize mergers and acquisitions as strategic instruments not only for expansion but also for restructuring, market entry, or the acquisition of competencies that would require years to cultivate organically. The primary objective is usually wealth maximization—companies consistently seek chances to increase shareholder value.[2]

A primary impetus for mergers and acquisitions is the notion of synergy—the belief that two organizations may generate greater value collectively than they could alone. This supplementary value may be attained by increased aggregate revenues, diminished operational expenses, or a reduced capital cost. When synergy functions as intended, it serves as a compelling rationale for the agreement.[3]

Nonetheless, achieving an agreement entails divergent perspectives. The seller will inherently strive to obtain the most price for their company, whilst the buyer would endeavor to bargain the minimum. Consequently, appraising a target firm is both an art and a science. Various established methodologies for valuation exist, each illustrating distinct facets of a company's potential and performance.

Presented below are many frequently employed techniques:[4]

**Comparative Ratios:** This strategy entails juxtaposing the financial indicators of the target company with those of its industry peers.

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[1] Adam Hayes, "What Are Mergers And Acquisitions (M&A)?", *available at:* Https://Www.Investopedia.Com/Terms/M/Mergersandacquisitions.Asp (Last Visited On April 16, 2025).
[2] Kison Patel, "13 Reasons for Mergers & Acquisitions: Exploring M&A Motives" *available at:* https://firmroom.com/blog/reasons-for-mergers-acquisitions (Last Visited On April 16, 2025).
[3] Emilie R. Feldman, *"Synergy in Mergers and Acquisitions: Typology, Lifecycles, and Value"*, 2021.
[4] Jason Fernando, Price-to-Earnings (P/E) Ratio: Definition, Formula, and Examples", *available at:* https://www.investopedia.com/terms/p/price-earningsratio.asp (Last Visited On April 16, 2025).

**Price-Earnings (P/E) Ratio:** This approach assesses the company's valuation by juxtaposing its earnings with those of comparable entities. A purchaser may propose a multiple of the target's earnings grounded in industry norms.

**Enterprise Value to Sales (EV/Sales) Ratio:** The emphasis is now on revenue. The acquirer presents an offer contingent upon the target's revenue relative to its industry peers.

**Replacement Cost:** In exceptional instances, the purchaser estimates the expense of establishing a comparable enterprise from the ground up encompassing asset acquisition, people recruitment, and infrastructure development and employs that valuation to inform discussions. Although this approach is more theoretical, it offers a valuable insight.

**Discounted Cash Flow (DCF) Analysis:** This is a more technical yet profoundly informative approach. It assesses the current worth of a firm by analyzing its anticipated future cash flows. The cash flows are modified with the company's Weighted Average Cost of Capital (WACC) to account for the time value of money and investment risk.

Each of these strategies provides a distinct perspective for assessing a company's intrinsic value. In practice, dealmakers frequently employ a combination of these instruments to guarantee that they are making informed and strategic investment decisions.

## THE PREMIUM FOR POTENTIAL SUCCESS

When companies engage in mergers and acquisitions (M&A), the acquiring firm almost always pays more than the market value of the target company. This extra cost—often called a "premium"—is usually justified by the expectation of *synergy*. In simple terms, synergy means the merged entity will be worth more together than the two companies were separately. If the potential benefits of the merger are real, the combined company’s stock price should reflect that added value.[5]

Sellers wouldn’t part with their business if they believed they could earn more by holding on to it. So, for a buyer to convince them, they need to offer a premium that accounts for the seller’s expectations about the future. For the seller, that premium reflects the company’s growth potential. For the buyer, it represents the value of the synergies they believe the merger will bring—like cost savings, revenue boosts, or increased efficiency.

Companies pursue M&A for a variety of strategic, often economically driven, reasons. One major goal is to tap into economies of scale—saving costs across production, research and development, or marketing—commonly seen in horizontal mergers where businesses in the same industry combine. Others seek to broaden their market reach, access new customer bases, or diversify their product and service offerings.

[5] *Supra* note 3.

Smaller firms may agree to be acquired for the chance to benefit from more professional management, better resources, or simply to survive in tough economic conditions.[6]

In vertical mergers, where a company acquires a player within its own supply chain, the goal may be pricing efficiency, smoother logistics, or even cutting out future competitors. M&A has also increasingly become a tool for international growth. Especially after the 2008 Global Financial Crisis, many companies from emerging economies, including India, began acquiring overseas firms at attractive prices. Indian firms have been particularly active in sectors like Information Technology, Pharmaceuticals, Automobiles, and Metals—buying companies in the West to boost global presence and improve operational efficiency.[7]

Ultimately, the main driver behind most M&A activity is the desire to increase shareholder value. This can be achieved by growing profits—often through cost efficiencies, enhanced market access, improved R&D capabilities, and financial advantages such as better access to capital or tax benefits. Mergers can also help companies streamline operations, negotiate better supplier terms, and strengthen internal financial stability.[8]

In recent years, especially post-2015, M&A has also become a survival strategy for heavily indebted companies. With banks becoming stricter about lending, many over-leveraged firms have looked to M&A as a way to shed assets and reduce debt—marking a shift from past trends where expansion and growth were the primary motives.

## DATA AND METHODOLOGY

This study examines cross-border mergers and acquisitions (M&A) in which Indian corporations served as acquirers. The chosen timeframes—2007–08 and 2012–13—signify two separate economic eras. The years 2007–08 coincided with the worldwide financial crisis, characterized by economic instability and diminished commercial activity. Conversely, the period of 2012–13 witnessed numerous prominent foreign acquisitions by Indian companies. These divergent settings provide significant insight into the influence of economic cycles on post-merger performance.[9]

[6] Eglė Duksaitė, *"Why Companies Decide to Participate in Mergers and Acquisition Transactions",* 2011.
[7] Isha Gupta, *"The Impact of Merger and Acquisition on Value Creation: An Empirical Evidence",* 2021.
[8] Mohammed Sawkat Hossain, *"Merger & Acquisitions (M&As) as an important strategic vehicle in business: Thematic areas, research avenues & possible suggestions"*, 2021.
[9] Natika Poddar, *"A Study on Mergers and Acquisition in India and Its Impact on Operating Efficiency of Indian Acquiring Company,"* Vol.9 No.4, April 2019.

The selected M&A transactions for examination from 2007 to 2008 are as follows:[10]

**Dr. Reddy's Laboratories – Betapharm**

**Colgate – Palmolive**

**Tata Motors – Jaguar**

**Suzlon – REpower**

**ONGC – Imperial**

**Hindalco – Novelis**

**Tata Steel – Corus**

**HDFC – Centurion Bank of Punjab**

**Reliance Industries – IPCL Indian Oil**

**Corporation – IBP**

**JSW – SISCOL Company Profiles (Selected Highlights)**

**Dr. Reddy's Laboratories**, headquartered in Hyderabad, was established by Anji Reddy and is recognized for its international footprint in generic and proprietary pharmaceuticals.

**Colgate-Palmolive:** An American multinational corporation focused on consumer goods, especially personal care and household products.

**Tata Motors**, a significant entity in the worldwide automobile industry, is a subsidiary of the Tata Group and is based in Mumbai.

**Suzlon Energy:** A Pune-based wind energy firm, formerly recognized as one of the top five global suppliers of wind turbines.

**ONGC:** A prominent public sector oil and gas enterprise operating under the Ministry of Petroleum and Natural Gas.

**Hindalco:** A premier metals corporation under the Aditya Birla Group, specializing in the manufacture of aluminium and copper.

**HDFC Bank:** A prominent private sector bank in India with a substantial global footprint.

**Reliance Industries:** A prominent conglomerate engaged in fields such as energy, petrochemicals, and telecommunications.

[10] *Ibid.*

**Indian Oil Corporation:** The largest state-owned commercial oil firm in India.

**JSW Group:** A multifaceted corporation directed by Sajjan Jindal, engaged in steel, energy, and infrastructure sectors.

**Data Acquisition and Examination Procedure**

Data pertaining to the M&A transactions was sourced from CMIE Prowess, which offers comprehensive details on mergers and acquisitions, and Moneycontrol.com, utilized for the collection of financial ratios for the purchasing entities. Due to the absence of financial ratio computations in CMIE Prowess, Money control was selected for ratio-based analysis.[11]

Financial data for each company was analyzed over a six-year period—three years prior to and three years subsequent to the merger. The study especially examines efficiency ratios to evaluate the companies' resource management prior to and following the purchase.

**Chosen Financial Ratios**

The subsequent essential efficiency ratios were utilized:

**Total Asset Turnover:** Demonstrates the efficiency with which a corporation utilizes its total assets to produce sales.

**Fixed Asset Turnover:** Emphasizes the efficacy of fixed assets, such as plant and machinery, in generating revenue.

**Inventory Turnover:** Assesses a company's efficiency in managing inventory by comparing the cost of items sold to the average inventory.

**Debtors Turnover:** Assesses a company's efficiency in collecting payments from consumers by comparing credit sales to average accounts receivable.

**Creditors Turnover:** Indicates the speed at which a corporation settles its obligations to suppliers by comparing net credit purchases to average accounts payable.

**Working Capital Turnover:** Evaluates the efficiency with which a corporation utilizes its working capital (current assets less current liabilities) to generate revenues.

[11] Delnaz Dinyar Dastoor, *"A Study on Analysing Indian Mergers & Acquisitions and its Impact on Financial Performance of Selected Corporates in India",* 2019.

**Statistical Analysis: Paired t-Test**

A paired sample t-test was employed to assess the mergers' significant effect on the companies' efficiency. This statistical technique analyzes the means of two correlated datasets—in this instance, pre- and post-merger performance data[12].

The null hypothesis ($H_0$) posits that there is no substantial disparity in mean performance prior to and after to the merger.

The alternative hypothesis ($H_1$) posits that a major difference exists between the two periods. A 5% significance threshold was employed for the analysis, indicating that the results would be deemed statistically valid if the likelihood of occurrence by chance is below 5%.

## CONCLUSION

After doing an analysis of the chosen time period, it has been determined that the mergers and acquisitions (M&A) that were carried out during this period did not result in the amount of value addition for the Indian companies that were purchasing the other companies that may have been anticipated. It is possible that this result was caused by a number of different reasons. Among the most important factors are the larger macroeconomic conditions, in particular the timing of these acquisitions, the majority of which took place during or in the aftermath of the global financial crisis. There is a possibility that the post-merger performance of these enterprises was considerably impacted by the fragile economic environment that existed previously.[13]

Furthermore, from the standpoint of the acquirer, the rationale behind these acquisitions may not always have been strategically aligned for the purpose of achieving long-term efficiency advantages. The pursuit of worldwide expansion, market supremacy, or the acquisition of technology capabilities may have been the driving force behind some of these motives; yet, it is possible that these motivations have not resulted in real gains to operational efficiency, at least in the near term.

In addition, the structural and management hurdles that frequently follow mergers and acquisitions (M&A) deals, like as integration problems, cultural mismatches, and unexpected financial constraints, could be another element that could be constraining. As a result of these issues, the efficiency and profitability of the Indian companies who acquired the company may have been further hampered.

Moreover, it is essential to take into consideration that the current study is only concerned with a limited time frame, specifically one year prior to and one year following the merger. It is possible that this short-term perspective may not adequately convey the long-term consequences of these strategic choices,

[12] Deep Ajabani, "Pre & Post Merger & Acquisitions (M&A) Performance Of Selected Companies", 2023.
[13] Manisha Paliwal, "Mergers and Acquisitions in India: A Trend Analysis and Future Forecasting", 2016.

despite the fact that it provides first insights. It is possible that a more extended period of observation could provide a more accurate and thorough understanding of the genuine effects that these mergers have had on the overall worth of the firm as well as the operational performance of the organization.

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