

A STUDY ON MERGERS AND ACQUISITIONS

A. Veeraviswanath¹, S. Nagendra²

¹Assistant Professor, Dept. of MBA, Santhiram Engineering College(A), Nandyal, A.P., India.

²Student, Dept. of MBA, Santhiram Engineering College(A), Nandyal, A.P., India.

ABSTRACT

Mergers & Acquisition are regarded as one of the most complex business transaction that rely heavily on proper management and strategization. The research paper aims to create a framework and become a one-stop read for understanding and developing a plan for Mergers & Acquisition. The paper uses the acquisition of by Welspun Corp as a case study example. In each of the sections, relevant examples are given to help readers get an in-depth understanding of the strategy/ concept provided. The scope of the study includes: identification of targets, due diligence, integration planning process, post-merger evaluation tactics, impact of postmerger integration, different M&A strategies, art of a successful M&A, key challenges faced and techniques to optimize an M&A. The paper also focuses on the role of IBC in the process.

Index terms: Mergers, Acquisitions, M&A, Merger, data analysis & interpretation

1. INTRODUCTION

1.1. Merger

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. Merger is also defined as amalgamation. Merger is the fusion of two or more existing companies[1]. All assets, liabilities and the stock of one company stand transferred to transferee Company in consideration of payment in the form of:

- Equity shares in the transferee company,
- Debentures in the transferee company,
- Cash, or
- A mix of the above modes.

1.2. Acquisition

Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company[2].

1.3. Methods of Acquisition:

An acquisition may be affected by

- agreement with the persons holding majority interest in the company management like members of the board or major shareholders commanding majority of voting power;
- purchase of shares in open market;
- to make takeover offer to the general body of shareholders;
- purchase of new shares by private treaty;
- Acquisition of share capital through the following forms of considerations viz. means of cash, issuance of loan capital, or insurance of share capital.

1.4. Takeover:

A 'takeover' is acquisition and both the terms are used interchangeably. Takeover differs from merger in approach to business combinations i.e. the process of takeover, transaction involved in takeover, determination of share exchange or cash price and the fulfillment of goals of combination all are different in takeovers than in mergers[3]. For example, process of takeover is unilateral and the offeror company decides about the maximum price. Time taken in completion of transaction is less in takeover than in mergers, top management of the offeree company being more co-operative.

1.5. Assess target quality:

To say that a company should be worth the price a buyer pays is to state the obvious. But assessing companies in Asia can be fraught with problems, and several deals have gone badly wrong because buyers failed to dig deeply

enough[4]. The attraction of knockdown price tag may tempt companies to skip crucial checks. Concealed high debt levels and deferred contingent liabilities have resulted in large deals destroying value. But in other cases, where buyers have undertaken detailed due diligence, they have been able to negotiate prices as low as half of the initial figure. Due diligence can be difficult because disclosure practices are poor and companies often lack the information buyer need. Moreover, most Asian conglomerates still do not present consolidated financial statements, leaving the possibilities that the sales and the profit figures might be bloated by transactions between affiliated companies. The financial records that are available are often unreliable, with different projections made by different departments within the same company, and different projections made for different audiences. Banks and investors, naturally, are likely to be shown optimistic forecasts.

2. TYPES OF MERGERS

Merger or acquisition depends upon the purpose of the offeror company it wants to achieve. Based on the offerors' objectives profile, combinations could be vertical, horizontal, circular and conglomeratic as precisely described below with reference to the purpose in view of the offeror company[5].

2.1. Vertical combination:

A company would like to takeover another company or seek its merger with that company to expand espousing backward integration to assimilate the resources of supply and forward integration towards market outlets. The acquiring company through merger of another unit attempts on reduction of inventories of raw material and finished goods, implements its production plans as per the objectives and economizes on working capital investments. In other words, in vertical combinations, the merging undertaking would be either a supplier or a buyer using its product as intermediary material for final production[6].

The following main benefits accrue from the vertical combination to the acquirer company i.e.

- It gains a strong position because of imperfect market of the intermediary products, scarcity of resources and purchased products;
- Has control over products specifications.

2.2. Horizontal combination:

It is a merger of two competing firms which are at the same stage of industrial process. The acquiring firm belongs to the same industry as the target company. The main purpose of such mergers is to obtain economies of scale in production by eliminating duplication of facilities and the operations and broadening the product line, reduction in investment in working capital, elimination in competition concentration in product, reduction in advertising costs, increase in market segments and exercise better control on market.

2.3. Circular combination:

Companies producing distinct products seek amalgamation to share common distribution and research facilities to obtain economies by elimination of cost on duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification.

2.4. Conglomerate combination:

It is amalgamation of two companies engaged in unrelated industries like DCM and Modi Industries. The basic purpose of such amalgamations remains utilization of financial resources and enlarges debt capacity through re-organizing their financial structure so as to service the shareholders by increased leveraging and EPS, lowering average cost of capital and thereby raising present worth of the outstanding shares. Merger enhances the overall stability of the acquirer company and creates balance in the company's total portfolio of diverse products and production processes.

3. MINORITY SHAREHOLDERS RIGHTS

SEBI regulations do not provide insight in the event of minority shareholders not agreeing to the takeover offer. However section 395 of the Companies Act, 1956 provides for the acquisition of shares of the shareholders. According to section 395 of the Companies Act, if the offerer has acquired at least 90% in value of those shares may give notice to the non-accepting shareholders of the intention of buying their shares[7]. The 90% acceptance level shall not include the share held by the offerer or its associates. The procedure laid down in this section is briefly noted below.

- In order to buy the shares of non-accepting shareholders the offerer must have reached the 90% acceptance level within 4 months of the date of the offer, and notice must have been served on those shareholders within 2 months of reaching the 90% level.

- The notice to the non-accepting shareholders must be in a prescribed manner. A copy of a notice and a statutory declaration by the offerer (or, if the offerer is a company, by a director) in the prescribed form confirming that the conditions for giving the notice have been satisfied must be sent to the target.
- Once the notice has been given, the offerer is entitled and bound to acquire the outstanding shares on the terms of the offer.
- If the terms of the offer give the shareholders a choice of consideration, the notice must give particulars of options available and inform the shareholders that he has six weeks from the date of the notice to indicate his choice of consideration in writing.

4. PROCEDURE FOR TAKEOVER AND ACQUISITION

Public Announcement:

To make a public announcement an acquirer shall follow the following procedure:

Appointment of merchant banker:

The acquirer shall appoint a merchant banker registered as category – I with SEBI to advise him on the acquisition and to make a public announcement of offer on his behalf.

Use of media for announcement:

Public announcement shall be made at least in one national English daily one Hindi daily and one regional language daily newspaper of that place where the shares of that company are listed and traded.

Timings of announcement:

Public announcement should be made within four days of finalization of negotiations or entering into any agreement or memorandum of understanding to acquire the shares or the voting rights.

5. OBJECTIVES OF THE STUDY

1. To know the pre-merger financial performance of IIFL
2. To analyze the post-merger financial position of the merged firms.
3. To understand the merging and acquisition process of the selected company's and firm.
4. To evaluate the changes in the market price of the merged firm.
5. To analyze the mergers by industries, financial advisors and legal advisors.
6. To study the financial performance in the growth of individual company before & after the merger[8].

6. DATA ANALYSIS & INTERPRETATION

Profit & Loss Account of IIFL from (2019-2023) (Rs. in Crores)

TABLE NO 1

Particulars	Mar2023	Mar2022	Mar2021	Mar2020	Mar 2019
Sales Turnover	6645.00	6425.96	6290.35	4994.44	3196.68
Other Income	84.75	45.03	37.17	27.51	22.37
Stock Adjustments	209.96	32.17	50.27	49.18	97.56
Total Income	6889.71	6503.16	6377.69	5171.18	3319.61
Raw Materials	5290.75	4950.52	4873.79	3471.66	2262.88
Excise Duty	619.33	644.26	655.51	445.73	281.28
Power & Fuel Cost	3.21	2.62	2.36	2.02	1.97
Other Manufacturing Expenses	219.19	221.21	240.58	201.23	77.99
Employee Cost	193.20	191.45	167.95	203.98	99.53
Selling and Administration	167.84	203.26	200.64	205.39	99.82

Expenses					
Miscellaneous Expenses	17.29	65.02	7.64	7.84	7.19
Less: Preoperative Expenditure Capitalized	0.20	0.00	0.00	0.00	0.00
Profit before Interest, Depreciation & Tax	489.20	324.72	319.22	718.23	485.98
Interest & Financial Charges	20.45	18.19	20.20	4.19	20.99
Profit before Depreciation & Tax	478.70	316.58	301.17	719.04	469.99
Depreciation	30.51	36.38	33.80	31.86	30.16
Profit Before Tax	448.19	275.20	267.27	677.18	439.88
Tax	203.89	90.22	92.51	198.88	186.18
Profit After Tax	294.30	184.98	204.76	478.30	303.75
Adjustment below Net Profit	0.00	0.00	0.00	0.00	0.00
P & L Balance brought forward	0.00	0.00	0.00	0.00	0.00
Appropriations	294.30	184.98	204.76	478.30	303.75
P & L Bal. carried down	0.00	0.00	0.00	0.00	0.00
Equity Dividend	99.91	69.94	53.95	239.78	203.86
Preference Dividend	0.00	0.00	0.00	0.00	0.00
Corporate Dividend Tax	19.98	16.89	7.57	32.74	19.71
Equity Dividend (%)	50.00	35.00	27.00	170.00	77.00
Earning Per Share (Rs.)	18.88	8.66	8.37	22.30	19.21
Book Value	57.66	48.78	43.62	37.95	27.67
Extraordinary Items	-1.28	-28.54	0.00	0.00	0.00

Balance sheet of IIFL from (2019-2023)

(Rs. in Crores)

TABLE NO 2

Particulars	Mar2023	Mar2022	Mar2021	Mar2020	Mar 2019
Sources of Funds :					
Share Capital	199.82	199.82	199.82	199.82	199.82
Reserves & Surplus	952.39	774.97	671.82	558.58	353.17
Total Shareholders Funds	1672.21	974.79	871.64	758.40	552.94

Secured Loans	318.20	204.67	87.29	62.46	25.96
Unsecured Loans	0.00	0.00	0.00	0.00	44.85
Total Debt	318.20	204.67	87.29	62.46	70.81
Total Liabilities	1960.36	2079.46	958.93	820.86	623.75
Application of Funds :					
Gross Block	2033.43	2019.57	962.61	940.65	927.49
Less: Accum. Depreciation	701.46	681.48	590.58	558.20	525.90
Net Block	331.97	333.19	372.03	382.55	401.59
Capital Work in Progress	420.20	195.39	61.39	37.34	17.29
Investments	77.02	78.57	78.49	66.83	66.19
Current Assets, Loans & Advances :					
Inventories	1620.31	719.29	722.82	724.37	471.26
Sundry Debtors	387.25	229.79	247.66	204.29	90.19
Cash and Bank Balance	2.23	1.19	3.20	53.40	2.79
Loans and Advances	587.35	683.41	560.90	473.33	266.53
Total Current Assets	2194.19	1933.65	2034.55	1925.39	830.72
Current Liabilities	919.73	553.02	586.37	598.26	427.62
Provisions	538.19	558.22	501.41	493.49	262.26
Total Current Liabilities	1957.87	1616.24	2087.78	2091.75	689.88
Net Current Assets	636.27	522.41	446.77	333.64	190.84
Miscellaneous Expenses not w/o	0.00	0.00	0.25	0.50	2.87
Total Assets	1960.36	2079.46	958.93	820.86	623.75
Contingent Liabilities	181.50	161.81	172.95	205.39	198.67

Analysis:

The swap ratio was 4:37 i.e 37 shares of IIFL gets 4 shares of IIFL on March 25th

Market Price :

The price of IIFL: Rs.45

The price of IIFL: Rs.430

45*37 Shares = Rs.1965

430*4 Shares = Rs.2020

As we can analyses from the above calculation that the shareholders are profited of

Rs55/- per share {2020-1965=55}.which would mean post the Merger of both the companies of IIFL, it was a beneficial aspect the shareholders of both the companies as it derived profits[9].

At no point of time, would the shareholders be attributed to lessened share value in terms of share capital, which is an important aspect to be looked at while merging two companies always.

Face Value:

The face value of IIFL shares are Rs.20/- each.

Face Value * No of shares

BPRL=20*37= Rs.370

IIFL=20*4= Rs.40

Loss [370-40] = Rs.330

By calculation of the price the IIFL share holders will get no loss. How ever this company merged with big company the share holders of IIFL will get profits only.

Also an important aspect to be noted while calculating the Face Value of the company of the shares that are going to be merged is , the positive re-inforcement of the shareholders holding a lower price value in terms of no of shares held . In this scenario, IIFL stocks valued at Rs 4 and IIFL valued at Rs 37 , ensuring there is no loss actually happening when the merger happened.

Benefits to Shareholders of IIFL

The share holders of IIFL are benefited as they were given bonus shares on September 16th 2021 i.e. 1 : 1.

The price of the IIFL shares on September 16th is 230, By this we can know that the share holders are benefited.

Calculation of EPS:

$$\text{EPS} = (\text{Earnings after tax} / \text{Equity shares outstanding})$$

On 31st mar 2022

EPS=2949.55/175.83

EPS=23.44

On 31st mar 2023

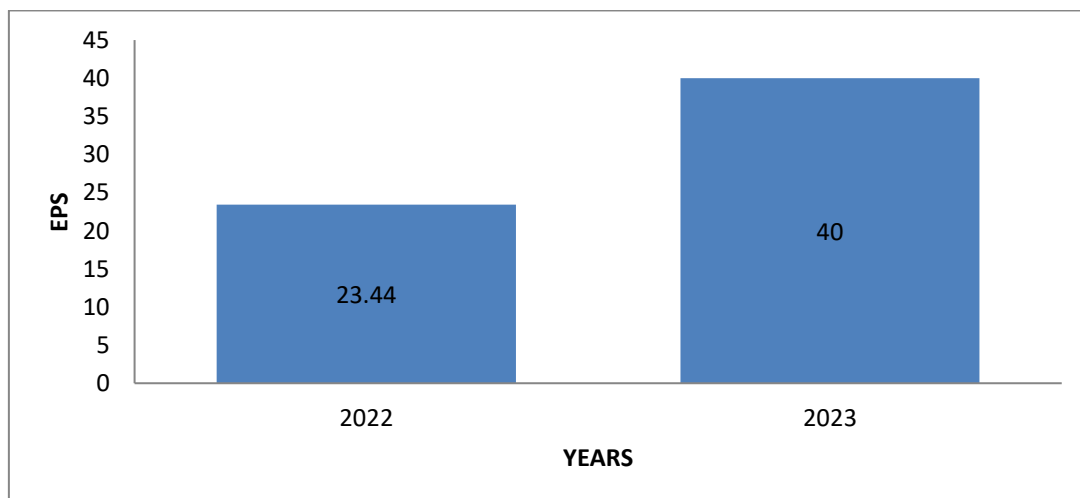
EPS =20220.55/255.51

EPS=40

Calculation of EPS in percentage:

= Base year-current year / Base year* 200

= 23.44 - 40.00 / 23.44 * 200 =71%



GRAPH NO 1

Interpretation :

The EPS increased from 23.44 to 40 i.e 71 % rise in the value of EPS. Which is the biggest driving factor to the Merger as the Earnings per share which is an important aspect to be looked upon while considering a Merger? The rise of 71 % in EPS indicates the positive aspects of the merger of how the Earnings of current shareholders of both the companies increased at a rate of 71%.

Calculations of Sales Turn over:

31 st March 2022	270346.01
31 st March 2023	291701.20

Difference in sales turn over = Post merger sales – Pre merger sales

= 291701.20 – 270346.0

= 21855.

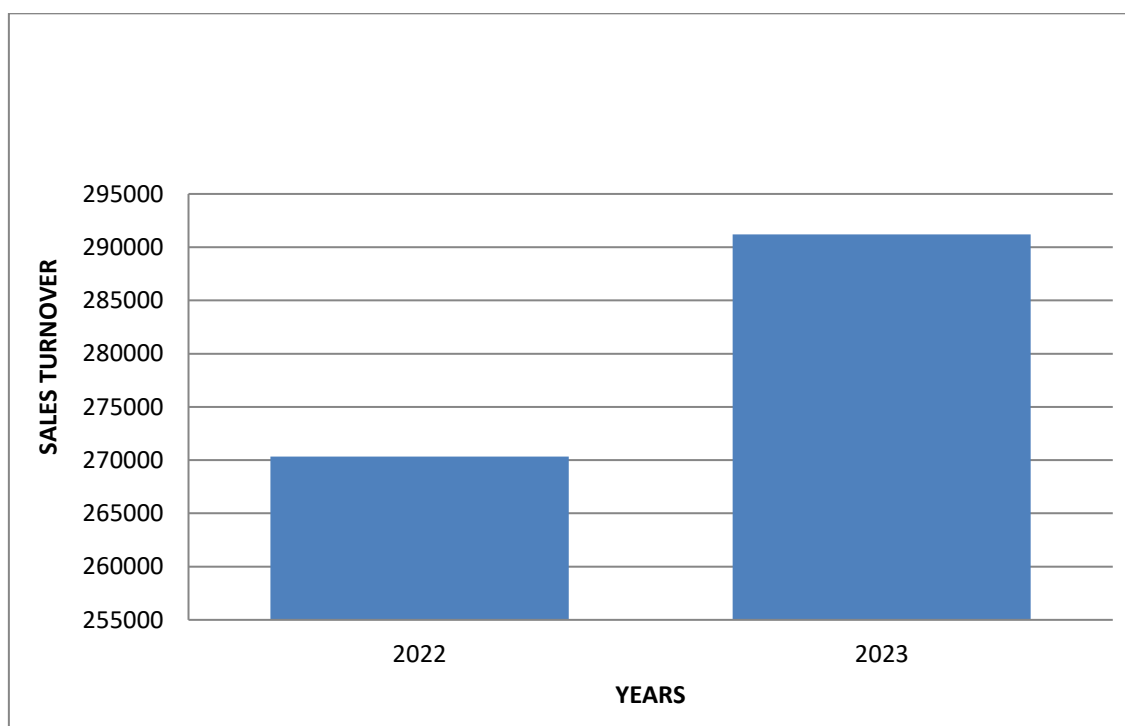
Calculation of Sales Turnover in percentage:

= (Base year – current year) / Base year * 200

= 270346.01 – 291701.20 / 270346.01 * 200

= 8 %

Comparatively to Sales Turn Over increasing post the Merger in the next financial year, there was an increase of 8 % in terms of percentage increase in the Sales Turnover across the two years indicating a strong reason for the Merger to be a successful one



GRAPH NO 2

Interpretation:

The sales turnover increased after the merger to 21855.19 i.e, 18 % rise in the value of sales turn over. Which indicates a positive performance indicator when analyzing the post factor effects of the Merger[10], it clearly shows the Sales Turn over increased from 2022 to 2023 during the financial year calculation.

Calculation of MPS:

31 st march 2022	MPS=Rs 387.80
31 st march 2023	MPS=Rs 295.75

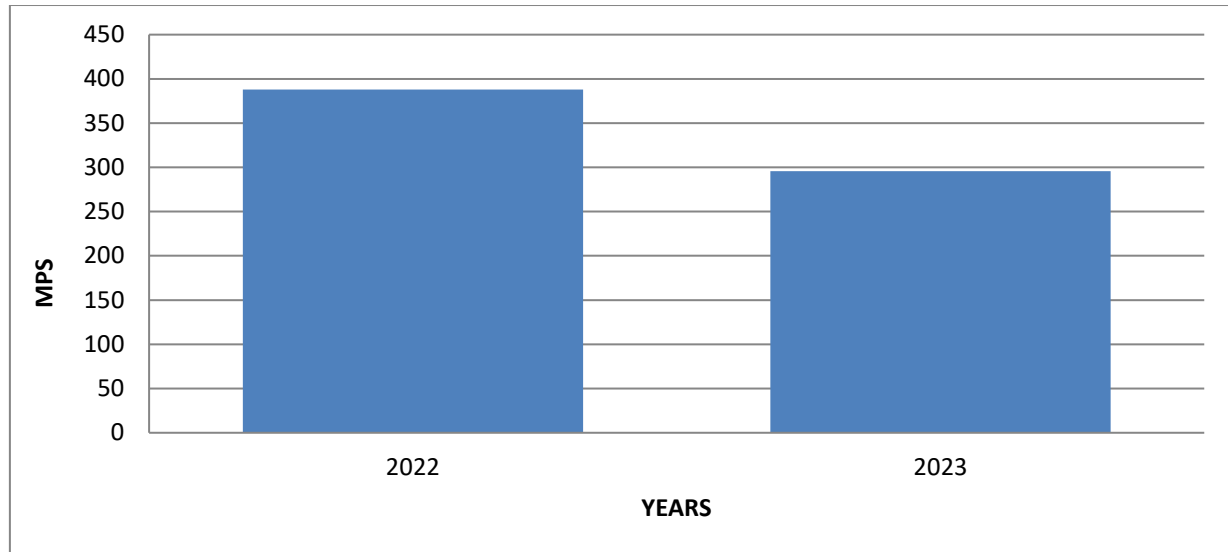
However when compared to Sales Turn over , MPS post-Merger had a significant fall of about Rs 92 when compared to pre-merger and post-merger analysis. This attributes to the fact that all macro-economic (global recession) indicators of a Merger cannot sustain the same levels of performance.

Calculation of MPS Percentage:

$$\text{MPS} = (\text{Base year} - \text{current year}) / \text{Base year} * 200$$

= 387.80 – 295.75 / 387.80 * 200

= 24 %



GRAPH NO.3

Interpretation:

The MPS changed from 387.80 to 295.75 after merger. This decrease is because of the bonus issue which led to a 24 % fall in the value of MPS.

The MPS percentage had gone down by 24 % while comparing to the gross MPS numbers which came down below by Rs 92. This is also a significant factor which enables us to give a clear picture of the Merger.

Calculation P/E ratio:

$$\text{P/E ratio} = (\text{MPS/EPS})$$

On 31st, March 2022

$$= (387.80 / 23.44)$$

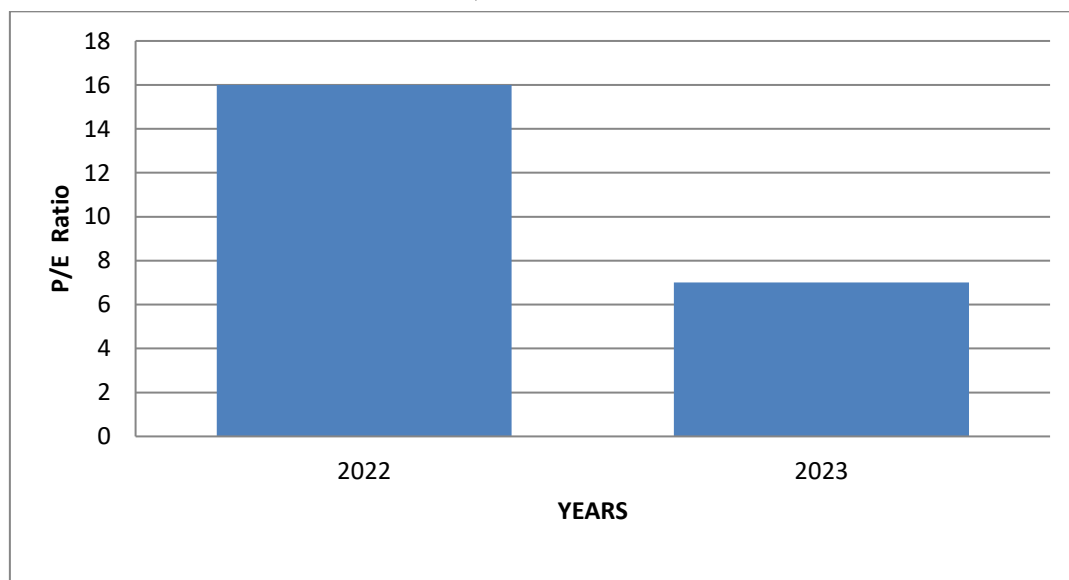
$$= 19 \text{ times}$$

On 31st mar 2023

$$= (295.75 / 40)$$

$$= 7 \text{ times}$$

P/E Ratio means Price to Earnings ratio of a company is a major focus for many managers. They are usually paid in company stock or options on their company's stock (a form of payment that is supposed to align the interests of management with the interests of other stock holders).



GRAPH NO 4

Interpretation:

The P/E ratio has been decreased as the MPS is decreased. When we look at the below table of Ideally companies that have been historically measure to arrive at this juncture. The P/E ratio pre merger was 19 times which came down to 7 times post Merger in this regard. The below mention table has a detailed anlysis of Price to Earnings Ratio is looked upon by industries as a measure of growth of companies.

Calculation of value of the firm:

$$\text{Value of the firm} = (\text{MPS of the pre merger} - \text{MPS of post merger})$$

$$= 387.80 - 295.75$$

$$= 92.05.$$

Interpretation:

The value of the firm decreased because the MPS decreased by the issue of the bonus shares. There were Bonus shares given to IIFL company in lieu of the Merger , that resulted in the value of the firm decreasing as the Share prices of both the firms were not of equal range .

Calculation of pre and post merger cost:

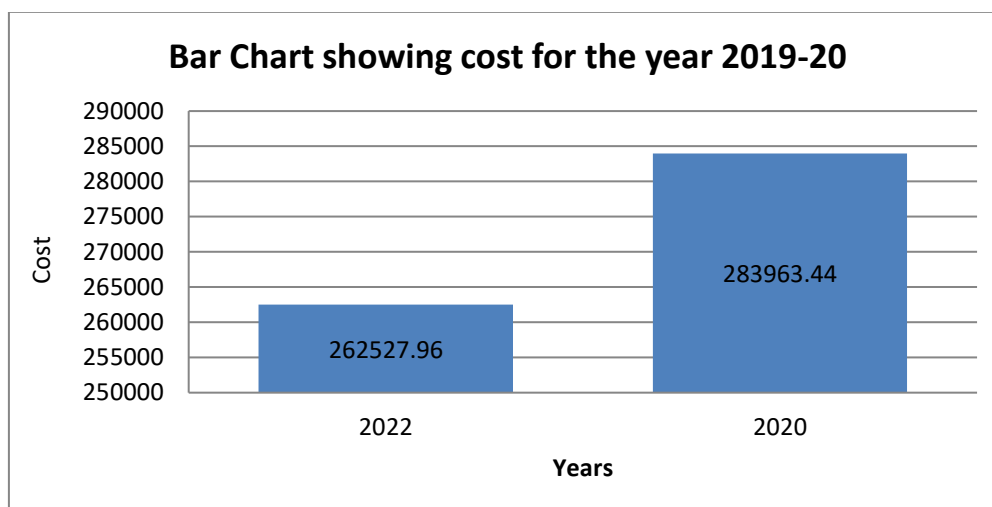
Particulars	Mar- 2022-23 (Rs. in Cr.)	Mar-2020-2022 (Rs. in Cr.)
Raw material	239629.93	222405.78
Excise duty	21834.76	23582.49
Power & Fuel Cost	525.20	498.76
Other manufacturing Expenses	9323.77	7516.67
Employee Cost	5736.17	2917.57
Selling and Administration Expenses	5039.19	3920.31
Miscellaneous Expenses	1874.52	1996.37
Total	283963.44	262527.96

Calculation of Cost in Percentage:

$$= [\text{Current year-Base year}] / \text{Base year} * 200$$

$$= [283963.44 - 262527.96] / 262527.96 * 200$$

$$= 8\%.$$



GRAPH NO.5

Interpretation:

The cost increased after the merger to 283963.44 – 262527.96 i.e. 18 % rise in the value of the cost. For any effective Merger to happen, it is empirical to study the Cost aspect of the Merger that involves both the companies. In this regard there was a increase in the cost of the Merger as the two companies had to be valued as per the base year and the calculating year taking into consideration all the other factors like Sales Turnover and MPS.

7. CONCLUSION

The financial performance of the firm is good after the merger. Steep fall in market price of the merged company due to the macro economic factor such as global recession. Synergy gain is achieved in terms of earnings and therefore we can conclude that, the performance of the firm is good.

The companies, in their petitions, further said that the amalgamation has enabled pooling of financial, managerial and technical resources, personnel capabilities, skills, expertise, technologies, etc., resulting in logistic advantages and cost reduction.

To end up, the word “**Merger**” may be taken as an abbreviation which means:

M---Mixing

E---Entities

R---Resources for

G---Growth

E---Enrichment

R---Renovation

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