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Journal of Modern Accounting and Auditing

ISSN: 1548-6583 (Print) 1935-9683 (Online)
Website: http://www.davidpublisher.org/Home/Journal/JMAA
Frequency: Monthly
Volume 12, Number 3, March 2016 (Serial Number 130)

Submission
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2009

Impact of mergers on the corporate performance of acquirer and target companies in India

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Abstract: Mergers and acquisitions become the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. It is true that there is little scope for companies to learn from their past experience. Therefore, to determine the success of a merger, it is to be ascertained if there is financial gain from mergers. It is very important to study the liquidity performance of those companies to test whether those companies have sufficient liquid assets to meet its current obligations. The present study is limited to a sample of companies which underwent merger in the same industry during the period of 2002-2005 listed in one of the Indian stock exchange namely Bombay Stock Exchange. It is proposed to compare the liquidity performance of the thirteen sample acquirer and target companies before and after the period of mergers by using ratio analysis and t-test during the study period of three years. The study found that the shareholders of the acquirer companies increased their liquidity performance after the merger event.

Key words: merger; acquirer; target; financial performance

1. Introduction

Mergers, acquisitions and corporate control have emerged as major forces in the modern financial and economic environment. Mergers, a source of corporate growth, have been the subject of careful examination by scholars. The mergers and acquisitions in India have changed dramatically after the liberalization of Indian economy. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. Low cost products, with good quality have become essential for a company to survive in the competitive market. Factors like low interest rates, cheap labor, and liberal government policy, have helped the Indian corporate sector to reduce their cost. It is in this context that corporate sectors view mergers for further cost reduction through technology advancement or to make their presence felt in the market. The liberalization policy of Government of India has witnessed an unprecedented number of mergers and acquisitions in the country. In terms of the growth rate in mergers and acquisitions deals, India occupies the second position in the world.

2. Review of literature

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The following are the few existing studies reviewed which were conducted by researchers in the view of analyzing the financial performance during merger activity in different time periods.

The study entitled *Effect of mergers on corporate performance in India*, written by Vardhana Pawaskar (2001), studied the impact of mergers on corporate performance. It compared the pre- and post- merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post- merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

Mansur.A.Mulla (2003) in his case study *Forecasting the viability and operational efficiency by use of ratio analysis: A case study*, assessed the financial performance of a textile unit by using ratio analysis. The study found that the financial health was never in the healthy zone during the entire study period and ratio analysis highlighted that managerial incompetence accounted for most of the problems. It also suggested toning up efficiency and effectiveness of all facets of management and put the company on a profitable footing.

Pramod Mantravadi and Vidyadhar Reddy (2007) in their research study *Mergers and operating performance: Indian experience*, attempted to study the impact of mergers on the operating performance of acquiring corporate in different periods in India, after the announcement of industrial reforms, by examining some pre- and post-merger financial ratios, with chosen sample firms, and all mergers involving public limited and traded companies of nation between 1991 and 2003. The study results suggested that there are minor variations in terms of impact on operating performance following mergers in different intervals of time in India. It also indicated that for mergers between the same groups of companies in India, there has been deterioration in performance and returns on investment.

A book entitled *Mergers & acquisitions in the banking sector- The Indian scenario*, written by Selvam. M (2007) has analyzed the implications of stock price reactions to mergers and acquisitions activities taken place in banking industry with special reference to private and public sector banks. The author has found from the analysis that the share prices are market sensitive. From the financial analysis it was observed that majority of the banks went for branch expansion and this has affected profitability to some extent and it resulted in unhealthy competition among the players.

To sum up the review of literature, many contributions have offered different perspectives of merger in different industries worldwide and explained the valuation techniques followed by merging companies, and shareholders wealth effect due to merger. From the review of many excellent research papers analyzing the pre and post merger performance of merged companies, it is inferred that majority of the studies strongly support the concept of enhanced post merger performance due to merger and it is beneficial to the acquirer companies.

3. Statement of the problem

Many studies have been conducted to analyze corporate events like mergers, takeovers, restructuring and corporate controls. The researchers have generally focused on public and corporate policy issues, financial implications and method of valuation. However, most of the studies have deeply concentrated only on the analysis of financial performance of both acquirer and target companies in the pre-merger period and specifically compared the performance of acquirer companies during pre and post merger period. There has been no comprehensive analysis attempted from the view point of the acquirer and target companies in the pre- and post-merger periods. Hence, in order to fill this gap in research, the present study attempts to analyze the financial performance of both acquirer and target companies in the pre- and post-merger period.

3.1 Need for the study

Merger is a routine event in the changed economic environment. Post-merger financial gain will be generated only when the two companies are worth more together than apart. Therefore, there is a need to study the wealth enhancement with respect to mergers, which can be helpful in assessing the success of merger. Many studies have been conducted to analyze both acquiring and target companies in the pre-merger period and more specifically, acquirer companies in the pre- and post-merger periods. It is equally important to analyze from the view point of the acquirer and target companies in the pre-and post-merger periods also. Hence an attempt has been made to study the wealth of both acquirer and target companies in the pre- and post-merger period.

3.2 Objectives of the study

The main objective of the study is to evaluate the pre and post merger Liquidity performance of the acquirer and target companies. The supporting objective is to offer the findings, suggestions and conclusion.

3.3 Hypothesis of the study

The following null hypothesis has been developed for testing the objectives of the study.

H01: The post merger liquidity performance of the combined firm is not significantly different from the aggregate performance of the acquirer and target companies prior to the merger.

Table 1 List of sample companies

Sl. No.	Acquirer	Merger date	Target
I	MANUFACTURING		
A	Chemicals		
1	J K Tyre & Inds. Ltd.	2002.10.07	Vikrant Tyres
2	Tata Chemicals Ltd.	2003.01.22	Hind Lever Chemicals
3	Supreme Industries Ltd.	2003.02.05	Siltap Chemicals
4	Glaxosmithkline Pharmaceuticals Ltd.	2004.03.10	Burroughs Wellcome (India)
5	Matrix Laboratories Ltd.	2004.03.29	Fine Drugs & Chemicals
B	Transport equipment		
6	T V S Motor Co. Ltd.	2003.10.03	Lakshmi Auto Components
7	Sundram Fasteners Ltd.	2003.10.29	T V S Autolec
C	Non-metallic mineral products		
8	Asahi India Glass Ltd.	2003.01.21	Floatglass India
D	Food & Beverage		
9	Gujarat Ambuja Exports Ltd.	2003.07.25	Jupiter Biotech
E	Textiles		
10	Eastern Silk Inds. Ltd.	2004.07.19	Sstella Silks
II	SERVICE		
A	Banking services		
11	Oriental Bank Of Commerce	2004.07.26	Global Trust Bank
B	Trading		
12	Ricoh India Ltd.	2004.07.29	Gestetner (India)
C	Information technology		
13	Silicon Valley Infotech Ltd.	2005.01.17	Pentasoft Technologies Ltd.

Source: Prowess data base.

3.4 Methodology of the study

3.4.1 Sample selection

There are 93 companies which underwent mergers within and across industry during the study period from 01.04.2002 to 31.03.2005. For the purpose of corporate analysis, it was decided to select all companies which merged with other companies in the same industry during the study period. 18 companies merged in the same industry during the study period. But only for 13 companies, all the required data for analysis were available in the PROWESS (Corporate Data Base). Hence, the sample size of this study is confined to 13. Besides, while selecting the sample, following points were taken into account.

- Acquirer and target companies should belong to the same industry.
- Availability of merger date and industry information.
- The companies should be listed in BSE.

The details of sample companies, (Acquirer and Target), along with the date of merger and name of the Industry concerned are given in Table 1.

3.4.2 Period of the study

For the purpose of selecting sample companies, the present study covers a period of three years from April 1, 2002 to March 31, 2005. But in order to evaluate the financial performance of sample companies on a comparative basis, three years before merger and three years after merger were considered.

3.4.3 Sources of data

The present study basically depends on secondary data. The required data on financial performance before and after merger were collected for the three year period and they were obtained from CMIE-PROWESS and www.bse-india.com. The data were also collected from books, journals, magazines and newspapers.

3.4.4 Tools used

In order to study the liquidity performance of acquirer and target companies, ratios Current Ratio, Quick Ratio and Net Working Capital and t-test were used.

(1) Analysis of financial performance

Empirical tests were carried out on the collected financial data with the help of ratio analysis, t-test and standard deviation. The pre-merger average performance of the acquirer and target companies were compared with the post- merger performance of the combined firm. The present study attempts to measure and analyze the pre and post merger performance of acquirer and target companies by using liquidity ratios, namely, Current Ratio, Quick Ratio and Net Working Capital in order to ascertain whether mergers resulted in shareholders wealth or not. Accordingly, the following null hypothesis has been tested:

H0: The post merger liquidity performance of the combined firm is not significantly different from the aggregate performance of the acquirer and target companies prior to the merger.

(2) Liquidity ratios

Liquidity ratios measure the ability of the firm to meet its current obligations (liabilities). A combined firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity.

① Current ratio

Table 2 shows the current ratio of sample acquirer and target companies' pre merger average performance and post merger combined performance. The standard current ratio is 2:1 that is 2/3 of current assets and 1/3 of current liabilities. It is understood from the Table that the calculated current ratio (average of three years) of acquirer and target companies like Asahi India Glass Ltd-Floatglass India, Tata Chemicals Ltd-Hind Lever

Chemicals, T V S Motor Co. Ltd-Lakshmi Auto Components, Sundram Fasteners Ltd-T V S Autolec, Matrix Laboratories Ltd-Fine Drugs & Chemicals, Eastern Silk Inds Ltd-Sstella Silks, Ricoh India Ltd-Gestetner (India) and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd were high during the post merger period when compared to the pre merger period. Further, it is evident that above eight companies improved their current ratio after merger and the other sample companies failed to perform well. The calculated current ratio of combined average performance of the acquirer and target companies, namely, Oriental Bank of Commerce-Global Trust Bank (4.65833), Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) (2.94833) in pre merger period and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd (32.25000) in post merger, was higher than the standard ratio of 2:1. This clearly brings out the fact that all sample merged companies, except Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) (2.94833), before merger was much higher than the standard ratio. The result of standard deviation clearly shows the fact that the variation in current ratio of all merged companies, except Asahi India Glass Ltd-Floatglass India, Supreme Industries Ltd-Siltap Chemicals, Oriental Bank of Commerce-Global Trust Bank and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd, were higher than that of pre merger period. As revealed by the Table, few sample merged companies were significantly different in the pre- and post-merger period at 5% level of significance. The t-values of sample merged companies, namely, Asahi India Glass Ltd-Floatglass India and Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), showed significant difference between pre-merger and post-merger performance at 5% level of significance. Only Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd has registered significant difference in its pre- and post-merger values at 10% level of significance. Hence, the average premerger current ratio of companies like Asahi India Glass Ltd-Floatglass India, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd increased significantly after merger.

② Quick ratio

The quick ratio of sample acquirer and target companies' during pre merger and post merger period is given in Table 3. The calculated quick ratio (average of three years) of merged sample companies like J K Tyre & Inds Ltd -Vikrant Tyres, Asahi India Glass Ltd-Floatglass India, Tata Chemicals Ltd -Hind Lever Chemicals, Gujarat Ambuja Exports Ltd-Jupiter Biotech, Matrix Laboratories Ltd-Fine Drugs & Chemicals, Eastern Silk Inds Ltd-Sstella Silks and Ricoh India Ltd-Gestetner (India) was better during the post merger period when compared to the pre merger period. Further, it is evident that pre merger average performance of seven acquirer and target companies (J K Tyre & Inds. Ltd-Vikrant Tyres, Asahi India Glass Ltd-Floatglass India, Tata Chemicals Ltd-Hind Lever Chemicals, Gujarat Ambuja Exports Ltd-Jupiter Biotech, Matrix Laboratories Ltd-Fine Drugs & Chemicals, Eastern Silk Inds. Ltd-Sstella Silks and Ricoh India Ltd-Gestetner (India)) was higher than the combined performance of the same acquirer and target companies during the post merger period and the other companies (Supreme Industries Ltd-Siltap Chemicals, T V S Motor Co. Ltd-Lakshmi Auto Components, Sundram Fasteners Ltd-T V S Autolec, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), Oriental Bank of Commerce-Global Trust Bank and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd) failed to perform better. The calculated quick ratio of Oriental Bank of Commerce-Global Trust Bank (3.53833), Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) (1.53500), Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd (1.52500) in the pre merger period, was higher than the standard ratio (1:1). This clearly brings out the fact that all sample companies after merger was lower than the standard ratio. Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd alone earned the negative ratio of -1.37333 in the post merger period and it depicts that the company failed to maintain sufficient cash to meet its current requirements. The result of standard deviation of merged companies clearly shows that the variation in the quick ratio during the post merger period was higher than the pre merger period in the case of Asahi India Glass Ltd-Floatglass India, Tata Chemicals Ltd-Hind Lever Chemicals, Gujarat Ambuja Exports Ltd-Jupiter Biotech, Matrix Laboratories Ltd-Fine Drugs & Chemicals, Oriental Bank of Commerce-Global Trust Bank, Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd. The application of t-test revealed that few sample merged companies like Asahi India Glass Ltd-Floatglass India was significant at 5% level and Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) and Matrix Laboratories Ltd-Fine Drugs & Chemicals were significant at 10% level in their quick ratio. This leads to the conclusion that the average quick ratio of sample companies like Asahi India Glass Ltd-Floatglass India, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) and Matrix Laboratories Ltd-Fine Drugs & Chemicals was statistically significant after merger.

Table 2 Current ratio of acquirer and target companies during pre and post merger period

Sl. No.	Acquirer	Target	Current ratio		T-value
			Pre-Merger Avg.	Post-Merger	
1	J K Tyre & Inds. Ltd.	Vikrant Tyres	1.01667 (0.65108)	0.93333 (0.01155)	0.30584
2	Asahi India Glass Ltd.	Floatglass India	0.53167 (0.25701)	1.15667 (0.37501)	1.94438**
3	Tata Chemicals Ltd.	Hind Lever Chemicals	1.68667 (0.29098)	1.73333 (0.24194)	0.18055
4	Supreme Industries Ltd.	Siltap Chemicals	1.30000 (0.33853)	1.11333 (0.35346)	0.54537
5	Gujarat Ambuja Exports Ltd.	Jupiter Biotech	1.55667 (0.30526)	1.42000 (0.07937)	0.80180
6	T V S Motor Co. Ltd.	Lakshmi Auto Components	0.92333 (0.21741)	1.08000 (0.10536)	1.04735
7	Sundram Fasteners Ltd.	T V S Autolec	1.12333 (0.17851)	1.26667 (0.15822)	0.87278
8	Glaxosmithkline Pharmaceuticals Ltd.	Burroughs Wellcome (India)	2.94833 (1.76241)	1.36000 (0.05196)	2.11919**
9	Matrix Laboratories Ltd.	Fine Drugs & Chemicals	0.83667 (0.70554)	1.39000 (0.39837)	1.06814
10	Eastern Silk Inds. Ltd.	Sstella Silks	1.50833 (0.44960)	1.75333 (0.16289)	0.88259
11	Oriental Bank Of Commerce	Global Trust Bank	4.65833 (1.25118)	3.84333 (1.56721)	0.57572
12	Ricoh India Ltd.	Gestetner (India)	1.33000 (0.49457)	1.66000 (0.39850)	0.76392
13	Silicon Valley Infotech Ltd.	Pentasoft Technologies Ltd.	10.87167 (9.35350)	32.25000 (14.58908)	1.74637***

Source: Computed from PROWESS.

Notes: * = Significant at 1% level; ** = Significant at 5% level; *** = Significant at 10% level.

③ Net working capital

The average Net Working Capital of sample acquirer and target companies and combined average performance during pre and post periods is provided in Table 4. The amount of working capital required depends upon the length of operating cycle. The operating cycle for a manufacturing company is the time taken for conversion of raw material into cash and vice-versa and for trading firm, converting inventories into cash and vice-versa. During pre merger, the average performance of the acquirer and target companies like J K Tyre & Inds Ltd-Vikrant Tyres, Supreme Industries Ltd-Siltap Chemicals and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd was high when compared to the post merger period. Further, it is evident that 10 sample companies (Asahi India Glass Ltd-Floatglass India, Tata Chemicals Ltd-Hind Lever Chemicals, Gujarat Ambuja

Exports Ltd-Jupiter Biotech, T V S Motor Co. Ltd-Lakshmi Auto Components, Sundram Fasteners Ltd-T V S Autolec, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), Matrix Laboratories Ltd-Fine Drugs & Chemicals, Eastern Silk Inds. Ltd-Sstella Silks, Oriental Bank of Commerce-Global Trust Bank and Ricoh India Ltd-Gestetner (India)) improved their Working Capital after merger. This means that these companies enjoyed sufficient current assets to meet current liabilities. The result of standard deviation clearly establishes the fact that the variation of Working Capital of all merged companies except Tata Chemicals Ltd-Hind Lever Chemicals, Supreme Industries Ltd-Siltap Chemicals, T V S Motor Co. Ltd-Lakshmi Auto Components, Sundram Fasteners Ltd-T V S Autolec, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), Matrix Laboratories Ltd-Fine Drugs & Chemicals, Oriental Bank Of Commerce-Global Trust Bank and Ricoh India Ltd-Gestetner (India) were higher than that of pre merger period. It is understood from the t-test that Gujarat Ambuja Exports Ltd-Jupiter Biotech and Sundram Fasteners Ltd-T V S Autolec were significant at 1% level, while Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), Eastern Silk Inds Ltd-Sstella Silks and Ricoh India Ltd-Gestetner (India) were significant at 5% level and Matrix Laboratories Ltd-Fine Drugs&Chemicals and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd were significant at 10% level. It reveals the fact that few sample merged companies (Gujarat Ambuja Exports Ltd-Jupiter Biotech, Sundram Fasteners Ltd-T V S Autolec, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India), Eastern Silk Inds Ltd-Sstella Silks, Ricoh India Ltd-Gestetner (India), Matrix Laboratories Ltd-Fine Drugs & Chemicals and Silicon Valley Infotech Ltd-Pentasoft Technologies Ltd) achieved significant growth with respect to Working Capital.

Table 3 Quick ratio of acquirer and target companies during pre and post merger period

Sl. No.	Acquirer	Target	Quick ratio		T-value
			Pre-Merger Avg.	Post-Merger	
1	J K Tyre & Inds. Ltd.	Vikrant Tyres	0.48167 (0.34085)	0.51333 (0.06110)	0.18155
2	Asahi India Glass Ltd.	Floatglass India	0.12000 (0.06000)	0.39333 (0.14048)	2.58842**
3	Tata Chemicals Ltd.	Hind Lever Chemicals	0.64167 (0.18346)	0.77667 (0.44117)	0.40958
4	Supreme Industries Ltd.	Siltap Chemicals	0.59833 (0.25686)	0.50000 (0.15716)	0.50273
5	Gujarat Ambuja Exports Ltd.	Jupiter Biotech	0.41167 (0.11652)	0.48333 (0.21572)	0.41639
6	T V S Motor Co. Ltd.	Lakshmi Auto Components	0.36833 (0.13106)	0.29000 (0.06557)	0.85737
7	Sundram Fasteners Ltd.	T V S Autolec	0.63667 (0.12323)	0.62000 (0.09644)	0.15725
8	Glaxosmithkline Pharmaceuticals Ltd.	Burroughs Wellcome (India)	1.53500 (1.39434)	0.42667 (0.12014)	1.73557***
9	Matrix Laboratories Ltd.	Fine Drugs & Chemicals	0.23167 (0.24991)	0.59667 (0.26652)	1.42632***
10	Eastern Silk Inds. Ltd.	Sstella Silks	0.28500 (0.46899)	0.59333 (0.14503)	1.12041
11	Oriental Bank Of Commerce	Global Trust Bank	3.53833 (0.92506)	3.02000 (1.15182)	0.49713
12	Ricoh India Ltd.	Gestetner (India)	0.56833 (0.28527)	0.82333 (0.26502)	0.94632
13	Silicon Valley Infotech Ltd.	Pentasoft Technologies Ltd.	1.52500 (1.50177)	-1.37333 (2.50001)	1.40937

Source: Computed from PROWESS.

Notes: * = Significant at 1% level; ** = Significant at 5% level; *** = Significant at 10% level.

Table 4 Net working capital of acquirer and target companies during pre and post merger period

Sl. No.	Acquirer	Target	Net Working Capital		T-value
			Pre-Merger Avg.	Post- Merger	
1	J K Tyre & Inds. Ltd.	Vikrant Tyres	-6.52000 (79.71325)	-55.14333 (7.10895)	1.32680
2	Asahi India Glass Ltd.	Floatglass India	-105.86833 (97.87302)	8.26333 (72.23646)	1.39761
3	Tata Chemicals Ltd.	Hind Lever Chemicals	392.02833 (242.50902)	723.32333 (413.70653)	0.98058
4	Supreme Industries Ltd.	Siltap Chemicals	12.32000 (12.99930)	9.32667 (49.04935)	0.08902
5	Gujarat Ambuja Exports Ltd.	Jupiter Biotech	14.91333 (16.20839)	85.19333 (3.12468)	8.34572*
6	T V S Motor Co. Ltd.	Lakshmi Auto Components	8.64833 (27.90657)	49.11667 (62.98160)	0.84741
7	Sundram Fasteners Ltd.	T V S Autolec	9.99833 (14.36659)	75.24333 (18.09072)	4.00035*
8	Glaxosmithkline Pharmaceuticals Ltd.	Burroughs Wellcome (India)	174.95333 (73.92218)	487.28667 (185.25466)	2.27755**
9	Matrix Laboratories Ltd.	Fine Drugs & Chemicals	11.83000 (26.48213)	130.65667 (126.06576)	1.42145***
10	Eastern Silk Inds. Ltd.	Sstella Silks	41.80667 (43.16577)	140.04333 (39.74625)	2.42142**
11	Oriental Bank Of Commerce	Global Trust Bank	2029.56667 (860.38926)	5226.72333 (2653.20672)	1.69783
12	Ricoh India Ltd.	Gestetner (India)	5.30833 (13.16943)	40.11333 (16.97256)	2.29350**
13	Silicon Valley Infotech Ltd.	Pentasoft Technologies Ltd.	98.67167 (106.99226)	25.02667 (1.42360)	1.65489***

Source: Computed from PROWESS.

Notes: * = Significant at 1% level; ** = Significant at 5% level; *** = Significant at 10% level.

(3) "T"-value of different financial variables in connection with sample companies

Table 5 consolidates the t-values for different financial variables in connection with sample companies for the purpose of this study. As stated earlier, there are 3 variables (ratios) in liquidity parameter. J K Tyre & Inds Ltd-Vikrant Tyres, Tata Chemicals Ltd-Hind Lever Chemicals, Supreme Industries Ltd-Siltap Chemicals, T V S Motor Co. Ltd-Lakshmi Auto Components and Oriental Bank of Commerce-Global Trust Bank were earned insignificant values in all the three liquidity variables. In the case of Sundram Fasteners Ltd-T V S Autolec, variables like Current Ratio and Quick Ratio earned insignificant t-value. It is clear that seven sample companies earned significant values with respect to variables like Net Working Capital. For Current Ratio and Quick ratio, three companies earned significant t-values. The above analysis clearly indicates the fact that the performance of merged companies in respect of three variables taken for this study was not significantly different from the expectations. However, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) achieved significant value for all liquidity related variables. The conclusion emerging from the above analysis is that mergers cannot be successfully used to turn around from the point of view of financial evaluation. From the above analysis, it is evident that the hypothesis set for validation is not fully proved. Hence the null hypothesis namely, "The post merger liquidity performance of the combined firm is not significantly different from the aggregate performance of the acquirer and target companies prior to the merger" is partially accepted.

Table 5 T-value of different financial variables in connection with sample companies

Sl. No.	Acquirer	Target	Liquidity Ratios		
			CR	QR	NWC
1	J K Tyre & Inds. Ltd.	Vikrant Tyres	NS	NS	NS
2	Asahi India Glass Ltd.	Floatglass India	S	S	NS
3	Tata Chemicals Ltd.	Hind Lever Chemicals	NS	NS	NS
4	Supreme Industries Ltd.	Siltap Chemicals	NS	NS	NS
5	Gujarat Ambuja Exports Ltd.	Jupiter Biotech	NS	NS	S
6	T V S Motor Co. Ltd.	Lakshmi Auto Components	NS	NS	NS
7	Sundram Fasteners Ltd.	T V S Autolec	NS	NS	S
8	Glaxosmithkline Pharmaceuticals Ltd.	Burroughs Wellcome (India)	S	S	S
9	Matrix Laboratories Ltd.	Fine Drugs & Chemicals	NS	S	S
10	Eastern Silk Inds. Ltd.	Sstella Silks	NS	NS	S
11	Oriental Bank Of Commerce	Global Trust Bank	NS	NS	NS
12	Ricoh India Ltd.	Gestetner (India)	NS	NS	S
13	Silicon Valley Infotech Ltd.	Pentasoft Technologies Ltd.	S	NS	S

Source: Compiled from Table 2 to 4.

Notes: S-Significant; NS-Not Significant; CR-Current Ratio; QR-Quick Ratio; NWC-Net Working Capital.

4. Findings of the study

The following are the major findings of the present study.

(1) According to this study, Gujarat Ambuja Exports Ltd-Jupiter Biotech in respect of NWC, Matrix Laboratories Ltd-Fine Drugs & Chemicals in respect of QR, and NWC and Ricoh India Ltd-Gestetner (India) in respect of NWC earned significant values.

(2) Three sample companies, namely, Asahi India Glass Ltd-Floatglass India in respect of CR and QR.

(3) Seven sample companies earned significant values with respect to variables like Net Working Capital. It is understood that three companies under Current Ratio and Quick Ratio earned significant t-values during the study period.

(4) The overall findings in the financial performance of the acquirer and target companies, namely, Glaxosmithkline Pharmaceuticals Ltd-Burroughs Wellcome (India) achieved significant value for all liquidity-related variables (Current Ratio, Quick Ratio and Net Working Capital).

5. Suggestions of the study

The following are the major suggestions of the study.

(1) The companies, which underwent merger activity, must keep sufficient current assets to set off their current liabilities.

(2) The investors, before investing their money, are advised to analyze the liquidity position of the companies which underwent the merger.

(3) The regulators (SEBI) should take steps to detect the tax evasion by the acquirer companies.

(4) Adequate care should be taken to satisfy all conditions necessary for merger to be valid under the

provisions of Companies Act, Income Tax Act, Monopolies & Restrictive Trade Practices Act, etc.

6. Conclusion

The process of corporate restructuring through mergers and acquisitions is very relevant in the post-liberalization period. The financial characteristics of a firm play a critical role in the merger decision process. The present study measured the financial performance of sample companies from the viewpoint of liquidity. From the overall analysis, it is found that the shareholders of the acquirer companies, partially increased their wealth i.e. increased the returns for the investment after the merger event. The overall conclusion is that the analysis of this study supports the findings of existing research that the acquirer companies always benefited more than the target companies in the merger event.

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(Edited by Linda and Mary)