

Performance Evaluation in Post-Acquisition- A Case of Ranbaxy and Sun Pharma

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Abstract- Undoubtedly today we live in a time of significant economic change. Mergers and acquisitions have become common business tools, implemented by thousands of companies in the world. The paper focus on impact of merger and acquisition compare to post merger activity (2014-2017). The present study includes the descriptive information about the merger and acquisition. The study has undergone the various Stastical and financial tools to find the different between samples collected the required result. Therefore, the study explain about the financial performance of the companies for the implementing the strategy as merger and acquisition.

Index Terms- Ratios, Profitability, merger and acquisition and T-test.

1. INTRODUCTION

Merger and acquisition are increasingly becoming strategic choice for organizational growth and achievement of business goals including profit, Empire building, market dominance and long term survival. The ultimate goal of his strategic choice of inorganic growth is, however, maximization of shareholder value. The phenomenon of rising M&A activity is observed world over across various continents, although, it has commenced much earlier in developed countries (as early as 1895 in US and 1920s in Europe), and is relatively recent in developing countries. In India, the real impetus for growth in M&A activity had been the ushering of economic reforms introduced in the year 1991, following the financial crisis and subsequent implementation of structural adjustment programme under the aegis of International Monetary Fund (IMF). In recent times, though the pace of M&A has increased significantly in India too and varied forms of this inorganic growth strategy are visible across various economic sectors.

2. BACKGROUND OF THE CASE

The boards of India's two leading pharmaceutical companies, Sun Pharmaceuticals and Ranbaxy Laboratories, announced their merger in April 2014. In what is touted to be one of the biggest M&A deals in the Indian market, estimated at US\$4 billion, Sun Pharmaceuticals will acquire all outstanding shares of Ranbaxy in an all-stock transaction. The shareholders of Ranbaxy will receive 0.8 shares of Sun Pharma for each Ranbaxy share. While at the time of the announcement the deal was expected to close by December 2014, delays in regulatory approvals pushed it to the next year. Both Ranbaxy and Sun Pharma are established names in the pharma industry worldwide and have operations in a number of countries. They also complement each other in their areas of expertise and efficiency, both functionally and geographically. While Sun Pharma is a major global specialty pharmaceutical company with expertise in complex and niche therapy areas and a proven record of turning around its acquisitions, Ranbaxy has a strong global footprint and presence in the generics segment. According to Sun Pharma's annual report of 2013-14, the pro-forma revenues of the merged entity are estimated at US\$ 4.2 billion for the CY (calendar year) 2013. The transaction will also make Sun Pharma the fifth-largest pharmaceutical company globally in terms of revenues, with operations in over 55 markets and 40 manufacturing facilities worldwide.

3. LITERATURE REVIEW

Derek K. Oler, Jeffrey S. Harrison, Mathew R. Allen (2008) Kevin C. Farmer, , Spyros Arvanitis, Tobias Stucki (2014). In this study the author says about how the M&A has increasing in from the two decades. It has occupied a large attention from the

corporate world, and public as well. Phd1, Ashok K. Gumbhir (1992), Martin Bugeja (2011) Many companies adopt these strategies to realize cost synergies against the competition, pricing, asset concentration etc. , Nir N. Brueller, Abraham Carmeli, ,Krishnan Maheswaran, Soon Chin Yeoh (2005),Jing Zhou, Shung J. Shin, Albert A. Cannella, Jr (2008)M&A considered as an external growth strategy because of LPG adopted by the many countries. Many reasons are there for the companies to go for M&A but the main intention was to create a shareholder’s value.), Isabel Feito-Ruiz, Susana Menéndez-Requejo (2009), n (2005), The booms in Mergers and Acquisitions suggests that the organizations are spending a significant Warren.D.Kissin, Julio Herrera, (1990),amount of time and money either searching for companies to acquire or worrying about whether some other company will acquire them. Linda Canina, Jin-Young Kim, Qingzhong Ma (2010), Jing Yang, Woo Gon Kim, Hailin Qu (2010), David R. King, Svante Schriber (2016), The study about how the activities of M&A take place for the betterment of the business entities and long run.

Naeem Zafar, Victoria Chan (2012), The author also explains about all types of mergers like vertical, horizontal & conglomerate etc. Rikard Larsson, Michael Lubatkin (2001), how the companies adopt these kinds which suits their operations and also about Pre and Post acquisition which is Katty Marmenout (2010), Yaakov Weber (1996), impacted more on the firms., but some authors describes that M&A has not affect the business entity. Raymond Da Silva Rosa, Philip Lee, Michael Skott, Terry Walter (2004), There has been extensive research on M&A both from domestic as well as international standpoint. Israel Drori(2014)The companies goes to the decision of mergers and acquisition for reasons like to enter the economy and to build a competitive advantage and to expand their business activities, many companies goes for these activities with a deal for cash or stock exchange Hence, David M. Schweiger, Philip K. Goulet (2005), Jisun Yu, Rhonda M. Engelmann, Andrew H. Van De Ve this study aims at understanding the Jerayr Haleblian, Cynthia E. Devers, Gerry McNamara, Mason A. Carpenter, Robert B. Davison (2009)strategies which is best fit for the betterment of the respect of M&A as a main strategic objectives

and impact of it on different kinds of firms in different countries.

4. OBJECTIVE OF THE CASE

To compare the financial performance of the firm in post-merger.

5. RESEARCH METHODOLOGY

Methodology is the system, theoretical analysis of the methods applied to a field of study. It comprises the theoretical analysis of the body of methods and principles associated with a branch of knowledge. Typically, it encompasses concepts such as paradigm, theoretical model, phases and quantitative and qualitative techniques.

A methodology does not set out to provide solutions- it is therefore, not the same as a method. Instead, a methodology offers the theoretical underpinning for understanding which method, set of methods can be applied to a specific case, for example a calculating a specific result.

5.1 TYPES OF RESEARCH: Descriptive research is used to describe characteristics of a population phenomenon being studied. It does not answer questions about how/when/why the characteristics occurred.

5.2 SAMPLE DESIGN

Sample

SL no.	Acquired	Acquirer	Type of activity	Year of occurrence	Deal value	Strategic motives
1	Ranbaxy	Sun pharma	Merger	2014	\$ 4.2 Billion	Acquire the market share

5.3 SOURCES OF DATA: secondary data refers to data that was collected by someone census, information collected by government department organisational records and data that was originally collected for other research purpose.

5.4 STATISTICAL TOOL

Descriptive statistics:

Mean: In Statistical, that single value is called the central tendency and median and mode are all always to describe it. To find mean add up the values in the data set and divide by the number of values that you added.

Standard deviation: A quantity expressing by how much the member of a group differ from the mean value for the group.

Kurtosis: Kurtosis is a statistical measure that is used to describe the distribution. Whereas skewness differentiates extreme values in one versus the other tail, kurtosis measures extreme values in either tail. Distribution with large kurtosis exhibit tail data excess the tails of the normal distribution (e.g., five or more standard deviations from the mean). Distribution with low kurtosis exhibit tail data that is generally less extreme than the tails of the normal distribution.

Skewness: skewness is symmetry in a statistical distribution, in which the curve appears distorted or skewed either to the left or to the right. Skewness can be quantified to define the extent to which a distribution differs from a normal distribution. This situation is also called negative skewness.

T-TEST

A T-test is an analysis of two populations means through the use of statistical examinations; a T-test with two sample is commonly used with small sample sizes, testing the differences between the sample when the variance of two normal distributions are not known.

5.5 HYPOTHESIS OF STUDY

H₀: there is no significant change in the financial performance of Ranbaxy and sun pharma in post-merger

6. DATA ANALYSIS AND INTERPRETATION

Table – 6.1Ratio analysis

Years	2014	2015	2016	2017
Gross profit	-3	-15.2	-11.8	-4.19
Net profit	-99.99	-18.38	-14.09	-0.45
Return on capital employed	0.94	-3.57	-1.72	0.74
Return on net worth	-38.18	-6.84	-4.99	-0.16
Return on assets including revaluations	35.77	109.78	89.27	86.99
Return on long term funds	1.25	-4.21	-1.99	0.88

Sources: Authors calculation: Annual report database

In 2014 the gross profit was -3 where as in 2017 the gross profit was increased to -4.19.In 2014 the net

profit was -99.99 where as in the 2017 the gross profit was decreased to -0.45.In 2014 the return on capital employed was 0.94 where as in the 2017 it was decreased to 0.74.In 2014 return on assets including revaluations was 35.77 where as in the 2017 it was increased to 86.99.In 2014 return on long term funds was 1.25 where as in the 2017 it was decreased to 0.88.

Table-6.2 Descriptive Statistics

DESCRIPTIVE	GP	NP	ROC	RON	ROAR	ROL
Mean	-8.54	33.22	-0.90	-12.45	80.45	-1.01
Standard Deviation	5.90	45.16	2.15	17.36	31.50	2.57
Kurtosis	-4.23	3.49	-2.61	3.56	2.52	-2.55
Skewness	-0.24	-1.82	-0.59	-1.85	-1.34	-0.58
Minimum	-15.2	99.99	-3.57	-38.18	35.77	-4.21
Maximum	-3	-0.45	0.94	-0.16	109.78	1.25

Source: Authors calculation: Annual report database

- From the above analysis table the GP resulted with mean value of -8.54, SD value of 5.90,kurtosis value of -4.23, and skewness value of -0.24,minimum value of -15.2 and maximum value of -3.
- From the above analysis table the NP resulted with mean value of -33.2, SD value of 45.16,kurtosis value of 3.49,skewness value of -1.82,minimum value of -99.99 and maximum value of -0.45.
- From the above analysis table the ROC resulted with mean value of -0.90,SD value of 2.15,kurtosis value of -2.61,skewness value of -0.59,minimum value of -3.57 and maximum value of 0.94.
- From the above analysis table the RON resulted with mean value of -12.45, SD value of 17.36,kurtosis value of 3.56,skewness value of -1.85,minimum value of -38.18, and maximum value of -0.16.
- From the above analysis table ROAR resulted with mean value of 80.45, SD value of 31.50, kurtosis value of 2.52,skewness value of -1.34,minimum value of 35.77 and maximum value of 109.78.
- From the above analysis table ROL resulted with mean value of -1.01, SD value of 2.57,kurtosis value of -2.55,skewness value of -0.58, minimum value of -4.21 and maximum value of 1.25.

6.3 One-Sample Test

Test Value = 0						
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
GPM	-2.895	3	0.063	-8.55	-17.94	0.85
NPM	-1.472	3	0.238	-33.23	-105.09	38.63
ROCE	-0.839	3	0.463	-0.90	-4.32	2.52
RONW	-1.434	3	0.247	-12.45	-40.08	15.18
ROA	5.108	3	0.015	80.45	30.33	130.58
ROLTF	-0.791	3	0.487	-1.02	-5.11	3.08

Sources: Authors Calculation: SPSS Database

Interpretation: From the above table represent the calculation of one sample t-test considering the study period of 4 years. Using probability variables of the firms. The study found all the profitability variables t-test resulted positive as well as negative with the degree of freedom at 3. The study find that GPM, NPM, ROCE, RONW, & ROLTF resulted with more than 0.05 significance level therefore it proven that there is a significant changes in the profitability ratio with respect to GPM, NPM, ROCE, RONW & ROLTF. Further it is observe that the remaining ratio resulted P- value less than 0.05 significant level. Therefore H_0 is rejected (in case of ROA). Henceforth, it's proven there is no significant impact of M&A on firm's performance in Post-Acquisition.

7. FINDINGS AND SUGGESTIONS

- Before the acquiring the targeted company the acquired company should analyse the financial position and the market value of targeted company.
- After the acquisition of Ranbaxy company by Sun pharma there is a financial loss in the acquirer.
- In the table no 6.1 there is decrease in the value of GPM from 2014 to 2017.
- ROCE is decreased by 0.74 in 2017.
- In the financial year skewness value is -0.58.
- The firm should need to increase in the value GPM.

8. CONCLUSION

This is the case of Ranbaxy and Sun pharma pharmaceutical was have crisis in the business they decided to merge with the business at that time Sun pharma had merged with the Ranbaxy in the year

April 2014 with the amount of US\$4 billion. Sun pharma have motto that to acquire the market shares. The transaction will also make Sun pharma the fifth-largest pharmaceutical company globally in terms of revenues, with operations in over 55 markets and 40 manufacturing facilities worldwide.

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