

Post Position With Respect To Leverage Position – A Case Study on Mergers and Acquisition of Suzlon- Repower

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Abstract- The concept of Merger and acquisition are common in today's world. The topic is selected to know the changes in leverage position in post-acquisition of the company Suzlon-Repower. This study used descriptive statistics (mean, standard deviation, kurtosis and skewness) and T-test as the statistical tools and ratios as financial tools. The study consisting the period of 5 years from 2013 to 2017 and used secondary sources to determine the position of the company. The most of the ratios are positively increased in all the descriptive. There is a changes in leverage position of the company in post-acquisition of Repower by Suzlon.

Index Terms- Leverage, mergers and acquisitions, ratios, statistical tools, financial tools, T-test, ratios.

1. INTRODUCTION

Mergers and acquisitions are among the most effective ways to expedite the implementation of a plan to grow rapidly. Companies in all industries have grown at lightning speed, in part because of an aggressive merger and acquisition strategy. The impact of technology and the Internet has only further increased the pace and size of deals. Buyers of all shapes and sizes have many of the same strategic objectives—to build long-term shareholder value and take advantage of the synergies that the combined firms will create—but each industry has its own specific objectives.

Merger and acquisition frenzy has created intense competition for the same target companies, where a premium is placed on price and speed. The fear in many boardrooms is that the company will be left out or left behind if it doesn't move quickly to acquire other businesses. Deals that used to take months to get done now close in a matter of days, especially if

no regulatory approvals need to be obtained and no shareholder and battles will take place as a condition for getting the deal completed. In this environment, acquisitions are moving so fast and are being bid up so high that the likelihood of problems and errors has increased dramatically. You need to be armed with as much knowledge and as many tools as possible to be an effective entrepreneur in this market place.

The terms “merger” and “acquisition” are often confused and used interchangeably by business and financial executives. On the face of it, the difference may not really matter since the net result is often the same: two companies (or more) that had separate ownership are now operating under the same roof, usually do obtain some strategic or financial objectives. However, the strategic, financial, tax and even cultural impact of the deal may be very different, depending on how the transaction is structured. Merger refers to two companies joining (usually through the shares) to become one. Acquisition occurs when one company, the buyer, purchase the assets or shares of another company, the seller, paying in cash, stock or other assets of value to the seller.

2. BACKGROUND OF THE CASE

In June 2007, German wind turbine manufacturer REpower was acquired by Suzlon, giving the Indian-owned company an increasingly firm foothold in Europe - and new expertise in offshore wind technology.

On 21 June 2007, Tulsi R. Tanti, Managing Director of Indian wind energy company Suzlon Energy, was elected Chairman of the board at REpower Systems

AG. Earlier, on 24 May, after a five-month takeover battle with the huge French state-owned nuclear company Areva, Suzlon took a controlling stake in REpower with 87% of the German wind company's voting rights. Areva decided to pull out of the race during the last days of the Chirac presidency, handing victory to its much smaller Indian rival, but at a high cost

The second half of 2005 saw Arriva acquire 21% of REpower's share capital; this had risen to 30% before the start of the takeover battle in January 2007. This stock may be sold to Suzlon at a later date. The takeover process was triggered by Areva CEO Anne Lauvergeon with an opening offer of €105 per share. It was followed, on 28 February, by Suzlon's €126 counter bid. As part of its takeover strategy, Suzlon had partnered with the Portuguese Martifer group, which owns 23.2% of REpower. Areva made a final offer of €140 per share on 15 March, but this was topped by a further Suzlon bid of €150. At the time of the takeover in May REpower's share price stood at €166, 10% above Suzlon's last offer and over four times more than REpower's stock rating of €40 last summer.

Wind turbine maker Suzlon Energy is all set to acquire the residual stake in German company REpower, to get 100 per cent control of the company. Since 2007, Suzlon increased its stake in the company by buying out other shareholders like Martifer and Areva. Its shareholding stood at 92 per cent in 2009.

The management board of REpower must take steps regarding the squeeze-out procedure. This will result in REpower being a wholly-owned subsidiary of the company. Raising the stake will give Suzlon control over REpower's cash and technology.

Suzlon's Vision:

- To be the technology leader in the wind industry
- To be among the top three wind energy companies in the world
- To be the most respected brand and preferred company for all stake holders
- To be the best team and best place to work
- To be the fastest growing and most profitable company in the sector

Key Strengths:

- Vertically integrated global wind player offering comprehensive solutions covering R&D and manufacturing to EPC project delivery and operations & maintenance services
- Strategically structured global supply chain to serve high growth markets; leveraging low-cost economies for manufacturing and sourcing
- In-house manufacturing of critical components such as rotor blades, towers and control systems with control over the design and technology of gearboxes (Hansen) and generators (Elin)
- Strong track record in EPC delivery across the world; constructed some of the world's largest wind farms with capacities ranging from 200 MW to over 600 MW
- Strong balance sheet and the highest recurring end-year EBITDA margin in the wind industry (20%)
- Defined strategic focus

Strategic Focus:

- Vertical Integration
- Focus on Key High Growth Markets
- Growth through M&A
- Cost Efficiency
- R&D and Innovation
- Focus on Customer Satisfaction

Rationale behind the Acquisition:

The partnership will create a combination poised for technological leadership in Wind Power solutions. Looking forward into the future the following benefits can be reaped from this strategic acquisition.

- REpower and Suzlon will together form the best team in the global wind energy industry
- The combination brings together strong R&D, excellent technology teams and access to European markets with a vertically integrated supply chain, global market reach, strong technology and manufacturing base and financial muscle
- The combination promises to be a technology powerhouse capable of delivering and sustaining high growth with high margins
- The REpower –Suzlon combination has the potential to become the world leader in wind power solutions

- The partnership will create the most reliable product with the best life cycle cost.

3.LITERATURE REVIEW

Mergers and acquisition have become common phenomenon in recent times. Mergers & Acquisitions (M&A) are the strategic growth devices in the hands of more and more Companies not only to stay in the competition but also to extend their margins, market share and dominance globally (Andreea Nicoleta, 2014). The development of mergers & acquisitions (M&A) is not an invention of recent times. The first appearance of M&A in a high frequency evolved at the end of the 19th century. Since then, cyclic waves are observed with different waves emerging due to radical different strategic motivations (Pradeep Kumar Gupta, 2012). To keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story ((Dr. K.A.Goyal and Vijay Joshi, 2012)). When considering the impact of mergers and acquisitions on the market value of shares, the authors study how the performance of the bidder institution or/and the target bank grows or remains the same (Rima Tamosiuniene and Egle Duksaite.). M&A's have many potential benefits, which mainly focus boosting profits and shareholder value through the economies of scale produced by increasing market share, the expended use of an existing distribution network by the acquisition of new products capabilities, the extension of a strong product capabilities into new markets and the diversification of products and market risks (Mehroz Nida Dilshad, 2012). Reasons behind decision to participate in M & A dealers Growth, Synergy and Access to intangible assets (Halen Anderson, 2003). The extensive literature on the implications of M&A produces mixed results regarding the merits of M&A on outcomes for specific stakeholder groups, with most attention going to shareholders (Sandra A. Waddock and Samuel B. Graves, 2006). Analysed on cost efficiency, economies of scale, and the scope of the Taiwanese banking industry, specifically focusing on how bank mergers affect cost efficiency, and concluded that bank merger activity is positively related to cost efficiency (Harari 1997). Acquiring-firm shareholders may suffer from overpayment,

while target-firm shareholders may benefit in the short term, although some claim that the question remains unsettled. Some of the Reasons of Failure the mergers and acquisitions are Cultural differences, Lack of Experience and Knowledge, External Environment and Over-optimism (Deepak Khazanchi, 2016).“Productivity and Operating Performance of Japanese Merging Firms: Keiretsu-related and Independent Mergers” examined the effects of M&As on the firms' OP using a sample of 86 Japanese corporate mergers between 1970 and 1994. The success of M&As was tested based on their effects on efficiency, profitability, and growth. The results reveal insignificant negative change in productivity, significant downward trend in profitability, significant negative effect on the sales growth rate, and downsize in the workforce after M&As (Ming and Hoshino 2002). In this study “The Performance of Merging Firms in Japanese Manufacturing Industry during 1964 – 1975” examined the financial performance of 49 merging corporate firms in the Japanese manufacturing industries over the period from 1964 to 1975. The study performance was tested on parameters, such as, profitability, efficiency, firm growth, and research and development Ikeda and Do (1983). Made an empirical study entitled “Takeovers as a Strategy of Turnaround” and analysed the implications of M&As from the financial point of view with the help of certain parameters like liquidity, leverage, profitability and more. They observed that if a sick firm is taken over by a good management and makes serious attempts, it is possible to turn it around successfully Sankar and Rao (1998). Carried out an analysis entitled “Operating Performance and the Method of Payment in Takeovers” wherein they investigated the relation between the method of payment, earnings management, and OP. The study depended on a sample of 959 M&As (mergers and tender offers) announced and completed between January 1985 and December 1997, where current and long-term accumulations have been separately used to detect any earnings management Heron and Lie (2002).

4.OBJECTIVES OF THE STUDY

- To ascertain the changes in leverage position in post-acquisition.

5.RESEARCH METHODOLOGY

5.1 Type of research: Descriptive research – Descriptive research study is used to describe the characteristics of a population or phenomenon being studied. It does not answer questions about how/when/where/why the characteristics occurred.

5.2 Sources of data: Secondary data - Secondary data are data which are already collected and published by others, and they are journals, articles, company records, books, websites, etc.

5.3 Sampling design: It is a part of the target population, which can be an individual element or group from within a statistical resident to estimation the characteristics of the entire population.

Sample:

Acquiring	Acquired	Type of activity	Deal value	Year of occurrence	Strategic motive
Suzlon (India)	REpower (German)	Acquisition	\$1.6 billions	January 2007	Suzlon hoped to secure superior technology, talented management and access to lucrative international markets, thereby turning into global company.

5.4 Tools for the study:

I) Statistical tools –

- (i) Descriptive statistics – These are used to describe the basis features of the data in a study. They provide simple summaries about the sample and the measures.
 - (a) Mean – Simple or arithmetic average of a range of values or quantities, computed by dividing the total of all values, also called Arithmetic mean.
 - (b) Standard deviation – It is a measure of the dispersion of a set of data from its mean. It is calculated as the square root of variance by determining the variation between each data point relative to the mean.
 - (c) Kurtosis - Kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative to a normal distribution.
 - (d) Skewness - Skewness is a measure of symmetry, or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the same to the left and right of the centre point.

- (ii) T test – A t-test is an analysis of two populations means through the use of statistical examination; t-test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variance of two normal distributions are not known.

II) Financial tools –

Ratios – A ratio is a relationship between two numbers indicating how many times the first number contains the second. It is a quantitative analysis of information contained in a company’s financial statements. Ratio analysis is used to evaluate various aspects of a company’s operating and financial performance such as its efficiency, liquidity, profitability and solvency.

- (a) Debt-Equity ratio: Debt-Equity ratio is calculated by dividing a company total liabilities by its stockholder’s equity, is a debt ratio is used to measure a company’s financial leverages. Debt-equity ratio indicated how much debt is company is using to finance its assets relative to the value of shareholder’s equity.
- (b) Long Term Debt Equity Ratio: The ratio is calculated by taking the company’s long term debt and dividing it by the book value of common equity. The greater a company leverage, the higher the ratio. Generally, company with higher ratio are through to be more risky.
- (c) Interest cover: The interest cover ratio is also known as times interest earned, is a measured of how well a company can meet its interest payment obligation.
- (d) Financial charges coverage ratio: It is the ratio that indicates a firm’s ability to satisfy fixed financial expense such as interest and leases. This means the fixed charges that a firm is obligated to meet are meet by the firm.
- (e) Financial charges coverage ratio post tax: Financial charges coverage ratio post tax is a ratio that indicates the fixed charge of interest is obligated by the firm after the merging activities to its shareholders.

5.5 Hypothesis of the study:

There is no significant change in leverage position in post-acquisition.

6. ANALYSIS AND INTERPRETATION

The following study ascertain to analyse the changes in leverage position of Suzlon-repower in pre and post-merger acquisition. The study consisting the period of 2013 to 2017. The study using both statistical and financial tools.

Table 6.1 Financial Ratios

Particulars	2013	2014	2015	2016	2017
Debt Equity Ratio	3.39	3.13	--	9.05	5.88
Long Term Debt Equity Ratio	2.71	2.3	--	6.78	3.95
Interest Cover	-1.9	-0.52	-0.61	3.7	1.96
Financial Charges Coverage Ratio	-1.62	-0.35	-0.43	4.58	2.4
Financial Charges Coverage Ratio Post Tax	-2.54	0.24	-5.63	2.14	1.83

Sources: Authors calculation: Annual Report Databases

From the above table, it shows that the debt equity ratio of the company is frequently increasing from the year 2014 to 2016 and in 2017, it little bit decreased and for every year it shows the above standard rate of 0.5 and the company is need to follow the better borrowed system. The long term debt equity ratio of the company shows that more than the standard ratio of the company, so it shows increase every year and the company didn't able to pay debt of the customers. The company is not able to pay the interest to the debenture holders, because of the table shows that negative values. The financial charges ratio of the company is also shows negative values and the company insures more expenses and the company is unable to meet the expenses which incurred before.

Table 6.2 Descriptive Statistics

Descriptive	DER	LTDER	ICOV	FCCOV	FCCOVT
Mean	4.29	3.15	0.53	0.92	-0.79
SD	3.38	2.48	2.26	2.52	3.28
Kurtosis	0.23	0.99	-1.12	-0.84	-0.65
Skewness	0.33	0.45	0.65	0.82	-0.88
Minimum	0	0	-1.9	-1.62	-5.63
Maximum	9.05	6.78	3.7	4.58	2.14

Sources: Authors calculation: SPSS Databases

The above table 6.2 shows that the mean is above the standard ratio, i.e. 4.29 and changes in percentage is 3.38 and kurtosis is positively high and skewness is positively skewed and the minimum is 0 and maximum is 9.05 in the debt equity ratio. The long term D/E ratio shows, mean is above the standard ratio, i.e.3.15, changes in percentage is positive, kurtosis is positively high, Skewness is positively skewed, and the minimum is 0 and the maximum is 6.78. In interest cover ratio, mean is less compared to previous ratios, standard deviation is 2.26, kurtosis is

negatively high, skewness is positively high, and the minimum is -1.19 and the maximum is 3.7. In financial charges coverage ratio, mean is little bit above the standard ratio, changes in percentage is 2.52, kurtosis is negatively high, skewness is negatively skewed, minimum is -1.62 and maximum is 4.58. In financial charges coverage ratio post tax, mean is very below the standard ratio, i.e. -0.79, changes in percentage is 3.28, kurtosis is negatively high, skewness is negatively skewed, and minimum is -5.63 and maximum is 2.14.

Ratios	T	df	Sig. (2-tailed)	Test Value = 0		
				Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
DER	2.837	4	.047	4.29000	.0910	8.4890
LTDER	2.835	4	.047	3.14800	.0653	6.2307
INCOV	.521	4	.630	.52600	-2.2781	3.3301
FCCOV	.812	4	.463	.91600	-2.2174	4.0494
FCCOVT	-.540	4	.618	-.79200	-4.8630	3.2790

The above table 6.3 that represents the calculation of one sample T-test considering the study period of 5 years. The study found that, all the variables of T-test have both positive and negative values with the degree of freedom at 4. This table shows the mean differences of the company is very high in the both DER and LTDER, and in remaining ratios it shows low percentage of values. In DER and LTDER, the hypothesis (H0) is rejected and for that there is a significant changes in leverage position I post-acquisition of this firm and there is a statistically significant and in INCOV, FCCOV and FCCOVT, hypothesis (H0) is accepted and then not statistically significant of this firm and there is no changes in leverage position in post-acquisition of the firm.

7. FINDINGS AND RECOMMENDATIONS

- Compared to 2013 to 2017, the company has increase its DER of 2.49
- In LTDER, the firm has increased its ratio of 1.24
- The mean of the firm has high positive values in the DER and LTDER
- The skewness of the firm is positively skewed in all the ratios except FCCOVT
- The company has the high maximum values in all the cases
- The degree of freedom is constant in all the cases
- There is a significant changes in leverage position in DER and LTDER in post-acquisition

- In T-Test, the DER and LTDER have the same values in both the cases
- The company should have the better capital structure to reduce its performance cost, because of the DER shows that cost incurred to the company.
- The firm should maintain an effective combination of debt-equity, to maintain a better leverage position.
- From the overall observations, the study found that high leverage position and it leads to negative profitability and the company need to get the profitability leverage position.

8. CONCLUSION

Mergers and acquisitions are played an important role in the modern days. From the above study, this concludes that there is a changes in leverage position in post-acquisition of the Suzlon-Repower in DER and LTDER. In all the descriptive variables, the mean, skewness, kurtosis are positively skewed and increased and there is a constant degree of freedom. Finally, this study concludes with the company has need to maintain an effective debt-equity and capital structure for the company to run their businesses smoothly and effectively.

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