Financial Performance Evaluation in Post-Acquisition – A Case Study of Free Charge and Axis Bank

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1. INTRODUCTION

The merger and acquisition performance measures are diverse owing to heterogeneous views on what constitute merger and acquisition performance and organisation performance. Performance of merger and acquisition is a topic that has been with extensively in merger and acquisition research since the 160s.In this descriptive analysis we search peer-reviewed journals in the areas strategy, finance and accounting and applied economics and identify 730 papers published the received papers cover a wider range of time segments, approximately 30 years and include both domestic mergers and acquisitions and cross- border merger and acquisitions.Merger and acquisition turned out to be significant from of corporate restructuring in put globalization period in Indian industries.

2. BACKGROUND OF THE STUDY

Acquisition talks between Axis Bank and Snapdeal-owned Free Charge have reached the final stages. The Jasper Infotech Board has agreed to sell the digital wallet business Free Charge to Axis Bank for $60 Mn, a mere 15% of Free Charge's $400 Mn sale to Snapdeal in 2015.
This development comes two weeks after reports of Axis Bank holding talks with Jasper Infotech first surfaced. Back then, the acquisition was expected to fetch $100Mn (INR 625 Cr).
In the past two weeks, Axis Bank has been conducting due diligence on the e-wallet platform. With the FreeCharge acquisition, Axis Bank looks to strengthen its presence in the country's burgeoning digital payments space.
Founded in 2010 by Sandeep Tandon and Kunal Shah, FreeCharge, once valued at $5 Bn, was acquired by Snapdeal as part of a $400 Mn-$500 Mn deal. In May 2017, parent company Jasper Infotech infused $3.38 Mn (INR 22 Cr) in Free Charge. Prior to this, in March, Snapdeal made an investment of $20 Mn in the online payment platform.
Speculations about Free Charge's acquisition have been doing the rounds for more than six months now. In December 2016, it was reported that PayPal was gearing up to acquire a majority stake in Free Charge.

3. LITERATURE REVIEW

Literature Survey There have been numerous studies on merger and acquisitions (M&As) in India and abroad in the last few decades, and several theories have been proposed and tested for empirical validation by researchers. Researchers have studied the economic impact of M&As on industry consolidation, returns to shareholders following M&As, and the post-merger performance of firms. Whether or not a merged firm achieves the expected performance is the critical question that has been examined by most of the researchers, resulting in the proposal of several measures for analysing the impact and success of mergers. Such measures have included both short-run, as well as long-run impacts of merger announcements, effects on shareholders' wealth (SW) and more.

1. Maheshweri, S. (2002).Analyzed 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.
2. Carried out an analysis on "Tests of the Efficiency Performance of Conglomerate Firms" and studied the pre- and post-merger

performance of conglomerate firms, and found that their earning rates significantly underperformed in those control sample group, but after 10 years, there were no significant differences observed in performance between the two groups. Griffith, J.M., &Caroll,C.(2001). in a 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. Richardson, S. (2006)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.

3. Ghugham (2002),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. Appelbaum, 2007, in an article "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.Swami, Prasad(2007), in a work "Towards Understanding the Merger Wave in the Indian Corporate Sector – A Comparative

Perspective" analysed the pre-and post-merger performance. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-merger period for the acquiring firms.

4. SadafAmbreen (2016),in their study "Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period?" assessed the effect of M&As activity on the performance of USA firms. The study findings indicated that the managerial efficiency of a majority (82%) of sample firms had improved in the post-merger period.DimitriosMaditinos,in a study entitled "Exploring the Improvement of Corporate Performance after Mergers. The study used financial and non-financial characteristics, and the post-merger performance of 50 Greek firms, listed at the Athens Stock Exchange that executed at least one merger or acquisition from 1998 to 2002.

5. Ghosh ,A;(2008), in their study "The Impact of Merger and Acquisitions on Corporate Performance in India" attempted to analyse whether the claims made by the corporate sector while going for M&As to generate synergy are being achieved or not in the Indian context.

6. Pradeep Kumar Gupta, (2009), in a research study "Comparison of Post-merger Performance of Acquiring Firms (India) Involved in Domestic and Cross-border Acquisitions" attempted to study the impact of M&As on the OP of acquiring firms by examining some pre-and post-merger financial ratios. The study proved that there are variations in terms of impact on performance following M&As, depending on the type of firm acquired-domestic or cross-border. Wang J, (2007),proved that the post-acquisition performance of the acquiring firms' profitability, assets utilization, debt utilization, cost utilization, liquidity, and capital structure had not uniformly changed in all the sample industries.

4. OBJECTIVES OF THE STUDY

To compare efficiency under market value in Pre and Post.

5. RESEARCH METHODOLOGY

5.1Type 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.

a.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

Sl no	acquiring	Acquired	Type of activity	Deal of value	Year of occurrence	Reasons
1	AXIS BANK	FREE CHARGE	Acquisition	CASH ($60MN)	2015	To strengthen its presence in the countries present digital payment space

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 Tools for the study:

(a) Statistical tools :

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.

Mean – Simple or arithmetic average of a range of values or quantities, computed by dividing the total of all values, also called Arithmetic mean.

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.

Kurtosis &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. Kurtosis is a measure of whether the data are heavy-tailed or light-tailed relative centre point.

Correlation – It is a statistical technique that can show whether and how strongly pairs of variables are related.

T test – A t-test is an analysis of two populations means through the use of statistical examination; s 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.

Table 6.1PROFITABLITY RATIOS

Ratios	2013	2014	2015	2016	2017
II/TF	7.08	7.91	8.3	8.4	8.47
NII	2.88	3.21	3.41	3.37	3.3
Non II	1.7	2.07	1.9	1.98	2.05
IE	4.2	4.69	4.89	5.03	5.16
OE	2.08	2.07	1.96	2.08	2.08
PBP	2.41	3.12	3.26	3.17	3.17
NP	0.04	0.65	1.67	1.74	1.72

TABLE: 6.2 Descriptive Statistics

Descriptive Statistics						
Ratios	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
IITF	7.08	8.47	8.032	0.575	-1.563	2.119
NII	2.88	3.41	3.234	0.212	-1.580	2.542
NONII	1.7	2.07	1.94	0.150	-1.275	1.313
IE	4.2	5.16	4.794	0.375	-1.167	1.212
OE	1.96	2.08	2.054	0.053	-2.200	4.860
PBP	2.41	3.26	3.026	0.348	-2.116	4.602
NP	0.04	1.74	1.164	0.779	-0.939	-1.409
Valid N (listwise)						

In IITF the mean is 8.032 and standard deviation is 0.574, skewness is -1.563, kurtosis is 2.119. In NII mean is 3.234, SD is 0.212, skewness is -1.580, kurtosis is 2.542. In NONII mean is 1.94, SD 0.150, skewness is -1.275, kurtosis is 1.313. In IE mean is 4.794, SD is 0.375, skewness is -1.167. kurtosis is 1.212. In OE mean is 2.054, SD is 0.053, skewness -2.200, kurtosis 4.860. In PBP the mean is 3.206 SD is 0.348, skewness is -2.166. kurtosis is 4.602. In NP mean is 1.164, SD is 0.779, skewness is -0.939, kurtosis is -1.409.

Table: 6.3 One-Sample Test

	Test Value = 0					
				Mean Differenc e	95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)		Lower	Upper
IITF	31.261	4	.000	8.03200	7.3186	8.7454
NII	34.116	4	.000	3.23400	2.9708	3.4972
NON II	28.952	4	.000	1.94000	1.7540	2.1260
IE	28.585	4	.000	4.79400	4.3284	5.2596
OE	87.109	4	.000	2.05400	1.9885	2.1195
PBP	19.441	4	.000	3.02600	2.5939	3.4581
NP	3.343	4	.029	1.16400	.1973	2.1307

from the above table represent the calculation of one sample t-test considering the study period of 5 years.

Using profitability variables of the firms. The study found, all, the profitability variables t-test resulting positive as well as negative with the degree of freedom at 4. The study find that IITF, NII, NON, II, IE OE, PBP and NP resulted less than 0.05 significance level therefore it proven that there is no significance changes in the efficiency of all the ratios. Further, it observed that, the remaining ratios resulted P- value less than 0.05 significance level. Therefore H0 is rejected. Henceforth, it's proven that there is a significance impact of M&A on firm's efficiency under market value in pre and post.

7. FINDINGS & SUGGESTION

- IITF the mean is 8.032 and standard deviation is 0.574, skewness is -1.563, kurtosis is 2.119.
- NII nean is 3.234, SD is 0.212, skewness is -1.580, kurtosis is 2.542. In NONII mean is 1.94, SD 0.150, skewness is -1.275, kurtosis is 1.313. In IE mean is 4.794, SD is 0.375, skewness is -1.167. kurtosis is 1.212.
- OE mean is 2.054, SD is 0.053, skewness -2.200, kurtosis 4.860. In PBP the mean is 3.206 SD is 0.348, skewness is -2.166. kurtosis is 4.602.
- NP mean is 1.164, SD is 0.779, skewness is -0.939, kurtosis is -1.409.
- The degree of freedom is taken as 4.
- P- value less than 0.05 significance level. Therefore H0 is rejected

8. CONCLUSION

In a study "FINANCIAL PERFORMANCE EVALUATION IN POST-ACQUISITION –A CASE STUDY OF FREE CHARGE AND AXIS BANK. The study performance was tested on parameters, such as, profitability, efficiency, firm growth, and research and development. Performance Measurement in Corporate Governance: Do Mergers Improve Managerial Performance in the Post-Merger Period. The study findings indicated that the managerial efficiency of a majority (82%) of sample firms had improved in the post-merger period.

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