A Study on Profitability Analysis in Post –Acquisition of TATA Steel and Corus Groups

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Abstract- **Mergers and Acquisition is a process of combing two or more entities into one entity and establish new one entity or exist entity acquiring a weaker company by the strong company. This research is analyzing of pre and post-merger and acquisition activity on Tata steel with Corus. This study focuses on investigation the operative effectiveness of the acquiring company and compare with results (profitability analysis) of pre and post-merger and acquisition activity. This research confined to 5 years from 2014 to 2018. The study followed by Hypothesis that state mergers improve operative effectiveness of the acquiring company. The study fall under descriptive research and for the analysis use both financial and statistical tools. Here, the research examined the correlation between operative effectiveness and company results after and before mergers and acquisition. The study expected to analyze the factors which increase the profit of the Tata steel company.**

Index Terms- mergers, acquisition, profitability analysis

1. INTRODUCTION

Merger and acquisition is an important to corporate to enhancement of the company. It helps to control competition in the market. Profitability analysis is an important component to every company, because the prime objective behind the establishment of entity is making profit. Profitability analysis is a process which use to determine the difference between cost incurred and revenue generate in the bank.

Profitability analysis will be made in companies while going to merger and acquisition activity in the company. Profitability analysis helps to forecast the profit proposals and optimizing the existing profit of the company. Profitability analysis forecast the future. The profitability analysis of Tata steel before and after merger is to determine the effectiveness and changes in the profit of the company.

2. CONCEPTUAL BACKGROUND

Profitability is a concept where the output is greater than inputs. Every establishment bear the cost for carrying their activities, while making cost the organization need to concentrate on revenue of they are earning. To reduce the cost and increase the revenue the entity need to adopt proper cost control technique. Based on the investment, cost, operation technique the profit will determine. The profit analysis is a tool which estimates the performance of the banks.

2.1 Background of the case

The Tata steel is formed in 1907, it is operating in 26 countries and commercially present in 50 countries. The Tata steel group turnover is 26.13 in 2011-12 with 81000 employees. Its vision is to be the world’s steel industry benchmark through the excellence of its people. Tata is the India’s 2nd largest steel producer after SAIL and Revenue is U$ 22 billion in 2005-06. The Corus was formed 1999 Corus is Europe’s second largest steel producer with annual revenues of over $9.2 billion and crude steel production of 18.2 million tons in 2005.

The Tata steel decided to acquire the Corus Company due to growth and globalization business establishment. Tata steel acquires Corus group in 2007 for 6.2billion. the acquisition allowed Tata steel entry into the European market. It is the deal combination of low cost upstream production in India with the high end downstream processing facilities of Corus. The final deal value Corus at 607 pence per common share which was 67% higher than the price of Corus before the deal was announced. It was an all in cash deal and financing was done by a mixture of debt and equity.

3. LITERATURE REVIEW

Mehroz nida dilshad (2012) is conduct study on efficiency of the market with respect to announcements of mergers and acquisitions using an event study Methology. The result cumulative abnormal return showed the target banks earned abnormal returns of the merger announcement day. Ritesh patel (2017) the study consist pre and post-merger position of long term profitability with respect to selected Indian banks for a period of 2013 to 2014. By applying comparative analysis assess the financial position, Bank of Baroda and oriented bank of commerce has found decrease yield on advance and yield pf investment is compare to post merger period. PANKAJ SINHA and SUSHANT GUPTA (2011) the paper examine the financial parameter in ten collected firms. Interest coverage is important factor to determinr the return on shareholder's funds both before and after the merger and looking at the diversification effects of merger, in two out of the three has been a reduction in total and systematic risk. Dr.Veena K.P and Prof N.S. Patti (2016) the paper evaluates the financial performance of ICICI bank such as profitability ratio, liquidity ratio, leverage ratio, growth ratio, net profit margins, ROA, ROE etc. this study finally conclude post- merger financial performance is better compare to pre-merger financial performance of ICICI bank ltd.

Mahesh R, & Daddikar Prasad (2012) this study focus on performance of Indian Airline companies after the consolidation of airline sector in year 2007-2008. The finding is to there is no improvement in surviving company's return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & acquisition. Shrabanti Pal (2018) this study conducted analysis corporate restructuring improves the performance of corporate entities is a database. This paper is critically analyzes the financial performance of the acquiring companies during pre and post-merger period along with the impact of acquisition on the acquiring companies. V Radha Naga Sai and Dr. Syed Tabassum Sultana (2013) this research based on banking two selected banks financial ratio and perspective of pre and post-merger. This study find out return on Equity and Debt equity ratio there is no significant difference in these ratios of before and after merger, but significant difference with respect to gross profit margins. Dr.V.R. NEDUNCHEZHIAN, MS.K. PREMALATHA (2013) the objective of this paper is to determine whether the banks have achieved performance efficiency during the post-merger period namely in the area of capital adequacy ratio, management efficiency ratio, earnings and profitability ratio. It determines the differences in financial performance before and after merger activity.

Muhammad Usman Kemal (2011) this study used to analyze the financial performance of Royal bank of Scotland (RBS) in Pakistan after merger. Analyze 4 years financial statement from 2006-2009 by 20 vital ratios. It concludes merger deal fails to improve he financial performance of the bank. Dr. M. Ravichandran and P. Pandeswari (2016) this study conduct on financial performance and profitability of the banks after their merger. This study carried out centurion bank of panjab with HDFC bank. Dr. GURUSWAMY (2012) the profitability performance of SBI and its Associates has become a fascinating topic for conversion, comment and debate, five profitability ratios have been considered. On the basis analysis of profitability ratio it is printout that all the five ratios shows fluctuating trend the study period in all the banks. Tajalli Fatima Amir Shehzad (2014) this study analyze the impact of merger and acquisition of banks and provides insights about their role after mwerger on banks profitability. In SPSS paired sample T-test is applied for analysis and finding shows that only at 5% of level of significance only ROE is affected by the merger and acquisition and other ratios have no impact from this study.

Ahmed H. Al-dmour and Khaldoun M. Al-Qaisi, Ph.D (2016) this study conducts on influence of financial performance of the merged banks, using takeover of Halifax bank of scotland (HBOS) by Lioyds TSB in sep 2008 as an example. It says M&A activities are completely negative to bank. Dimitrios Maditinos, Nikolaos Theriou, Efstathios demetriades (2009) this research investigates merger effect in two banks in mid-1999 and effect of Alpha bank. Results shows beta risk value for the Alpha bank which is reconciliation of the beta risks coefficients of the two banks, and moreover, reveals that Alpha bank is not only profitable but also competitive within the industry. Mr. Abhijit Phukon, Ms. Mitali Konwar, Divya verma Gakhar (2019) the study based on aviation industry witnessed three such consecutive mergers and acquisition of airlines, the study find that improvement in financial performance of Jet Airways and Air India, the performance of kingfisher Airlines had deteriorated due to post-merger acute financial crisis caused by heavy debt resulted the company to close off its operation.

3.1 Research Gap:

There literature reviews related to the profitability analysis.

- The few studies are made in profitability analysis in Indian companies.
- The few studies focus on only secondary data and some of the study used both primary and secondary data
- The few studies are made on comparative analysis in hotels.
- The few studies show the negative results
- The few studies selected IT companies.

4. STATEMENT OF PROBLEM

Merger is an essential activity to every organization to expand their business and can reduce the competition in the economy. Merge with one bank to another bank will create consequences related to operation costs and business system. The performance of the bank will completely change with merger activity. So the profitability of the bank is influenced on the merger activity

4.1 Objectives

- To analysis of the bank financial position
- To evaluate the performance of bank pre-merger and post-merger
- To examine the impact of merger on banking performance
- To compare profit of the bank pre and post-merger

4.2 Research methodology

Descriptive research is used to determine characteristics of a phenomenon being studied. It does not answer question about why? How? What? It is to conduct a survey investigation.

4.3 Sample design

The Horizontal acquisition is made on Corus group by Tata Steel. The Tata steel was made long term financing pattern for the net acquisition consideration of Corus would be USD 12.11 billion means the deal value between Tata and Corus.

Table- 4.3

Name	TATA steel Europe Ltd
Date of acquisition	20th October 2006
Acquired 100%	4.3 billion
Share price	608
Employment	47300
Position in the global market Tata steel Corus	 56th position 9th position
Combination of TATA and CORUS	18.18MT and 4.4MT
Appointing advisors Tata: Corus:	ABN Amro (Deutsche bank), standard chartered J P Morgan (Cazenove), HSBC

After acquisition of Corus from Tata steel group come to 5th position from 56th position. The production capacity improved from 4 million tones to 28 million tones by 2011. Standard and poor's rating cut it credit rating to BB from BBB and removed them from the negative watch list. After acquisition was officially announced Tata steel fell by 10.7% on the Bombay stock market.

Data collection:

Secondary data:

Journals, publications financial reports of the bank

Period of study:

The study period consist of 5 years duration from 2013 to 2018.

Tools for the study:

I. Statistical Tools:

a) Descriptive statistics:

Descriptive statistics are aggregate statistics that quantitatively describe the characteristics of information gathering, while descriptive statistics in the sense of mass names are the process of using and analyzing these statistics.

b) Correlation: Relations in the finance and investment industry are statistics that measure the extent to which two securities move relative to each other. Correlation is used in advanced portfolio management calculated as a correlation coefficient whose value must be between -0.1 and +0.1.

c) T-test: T-test is a statistical hypothesis test in which the distribution test statistics for T students follow below the null hypothesis. The T-test is most commonly used when the results of test statistics follow a normal distribution when large scale term values in a statistical sample are known.

II. Financial tool:

Ratios analysis: ratio analysis is a quantitative analysis of information contained in the company financial statement.

Hypothesis:

Ho: There is no Impact of merger on performance of banking activities.

Data Analysis:

5. RATIOS OF THE COMPANY

Table -5.1

Profitability Ratios	2014	2015	2016	2017	2018
PBDIT Margin (%)	25.34	29.05	25.6	27.74	32.52
PBIT Margin (%)	20.56	23.99	18.22	21.49	27.14
PBT Margin (%)	20.36	16.03	11.16	11.13	22.98
Net Profit Margin (%)	15.41	12.82	7.17	6.99	14.91
Return on Net worth / Equity (%)	9.65	6.95	6.93	6.77	14.48
Return on Capital Employed (%)	6.5	8.97	9.89	12.87	17.12
Return on Assets (%)	5.56	3.97	3.09	3.33	7.66
Total Debt/Equity(X)	0.36	0.41	0.56	0.41	0.37
Asset Turnover Ratio (%)	36.12	31.01	43.05	47.64	51.35

Interpretation:

The profitability Ratios of the Company is increased from year to year. compare to 2014 to 2018 all ratios like PBDIT, PBIT, PBT, Net Profit Margin, return on Network, return on Capital Employed, Return on Assets, Total Debt Equity, Asset Turnover ratio. All the ratios get improved in year to year except 2016. It shows the company have good profit margin after acquisition of Corus group by Tata steel company.

One Sample Statistics:

Table -5.2

	N	Mean	Std. Deviation	Std. Error Mean
PBDITM	5	28.050	2.934	1.312
PBITM	5	22.280	3.414	1.527
PBTM	5	16.332	5.346	2.391
NPM	5	11.460	4.115	1.840
ROE	5	8.956	3.313	1.482
ROCE	5	11.070	4.078	1.824
ROA	5	4.722	1.904	0.851
DER	5	0.422	0.080	0.036
ATOR	5	41.834	8.300	3.712

Interpretation:

The above table shows the descriptive statistics, it observed the mean and standard deviation of the company in different scenario. The study resulted that the standard deviation is high in ATOR means spread over a wider range and minimum in DER indicates data points tends to be close to mean. The mean is highest in ATOR and low in DER.

One sample test

Table 5.3 T-test value=0

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
PBDITM	21.38059	4	0.00	28.05	24.41	31.69
PBITM	14.59458	4	0.00	22.28	18.04	26.52
PBTM	6.831073	4	0.00	16.332	9.69	22.97
NPM	6.226992	4	0.00	11.46	6.35	16.57
ROE	6.044765	4	0.00	8.956	4.84	13.07
ROCE	6.069522	4	0.00	11.07	6.01	16.13
ROA	5.545578	4	0.01	4.722	2.36	7.09
DER	11.73128	4	0.00	0.422	0.32	0.52
ATOR	11.2705	4	0.00	41.834	31.53	52.14

Interpretation:

The T-TEST which indicates the significant of all the profitability ratios and return ratios and debt ratios shows significant. Here, the study explained the T-test values indicates positive in all the ratios. As per the test there is a significant impact on merger on banker's performance.

6. RESULTS

- The analysis indicates that asset turnover ratio is increased from 2014 to 2018 by 42.16%
- The analysis indicates that Return on capital employed increased by 163% by 2014 to 2018
- The research indicates that Net profit margin is decreased by 0.5% from 2014 to 2018
- The analysis shows that mean value is higher in asset turnover ratio compared to others ratios at 41.834

- The research found out that the debt equity ratio is lower in the company at 0.4222
- The analysis determined that the T-test there is significance difference in 0.00 in all the year
- Suggestions:
- Here I suggest company to improve the debt equity through Develop cost accounting system to improve the determination of exact costs you deliver in the business
- Make sell off idle assets which can decease the extra expenses in the company
- Company can improve profitability by minimizing the employees who never compete with the company standards.

7. CONCLUSION

With Corus in its fold, Tata steel can confidently target becoming one of the top-3 steel makers globally by 2015. The company would have an aggregate capacity of close to 56 million tones per annum. If all the planned greenfield capacities go on stream by then

It can concludes that if the acquisition if the acquisition well planned, executed and the necessary precautions taken for the deal a company can achieve its strategic objectives and thus ensure its growth through acquisition.

The study resulted that evidence of hypothesis, concluded that the merger and acquisition of Tata steel with Corus relating to the profitability, turnovers, performance, capacity and economic of scale enhanced and control. The research of acquisition resulted with there is a significant impact of merger on performance of banking activities. This is positive findings which help to develop and capture the market in future. There is lots of synergies which sharing best practices across the companies.

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