

Critical Analysis of Synergy behind Merger and Acquisition

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Abstract- Merger and Acquisition (M&A) aim to increase the wealth of shareholders of the acquiring company. 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 world. Driven by a philosophy of shareholder value they not only form a new economic, social and cultural environment, but also enable strong companies grow faster than competitors and provide entrepreneurs rewards for their efforts, ensuring weaker companies are more quickly swallowed, or worse, made irrelevant through exclusion. The study uses both financial tools and statistical tools. The sample size of the study is 2 years. Secondary data used for data analysis was obtained from the company financial statements for a period of two years.

Index Terms- Merger & Acquisition, Shareholder, Competitors

1. INTRODUCTION

M&A operations regularly make the headlines in the media. The size of the amounts involved, the concerns for social issues (synergy or rationalization are often synonyms for job cuts (Lehto, Bockerman, 2008)), and governments involvement due to fear of social plans or loss of control of strategic enterprises make them major events. M&A is perceived as CEOs preferred strategy (Ferreira et al., 2014). According to Katz, Simanek, Townsend (1997, p.32) "Mergers and acquisitions are the primary means of rapid external growth." Ultimately, it is opened to question whether these operations are positive for the enterprises, shareholders, employees and consumers (Healy, Palepu, Ruback, 1990).

2. CONCEPTUAL BACKGROUND

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, Mergers is the combination of two companies to form one, while Acquisitions is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Mergers & Acquisitions can take place:

- By purchasing assets
- By purchasing common shares
- By exchange of shares for assets
- By exchanging shares for shares

Types of Mergers and Acquisitions:

Merger or amalgamation may take two forms: merger through absorption or merger through consolidation. Mergers can also be classified into three types from an economic perspective depending on the business combinations, whether in the same industry or not, into horizontal (two firms are in the same industry), vertical (at different production stages or value chain) and conglomerate (unrelated industries). From a legal perspective, there are different types of mergers like short form merger, statutory merger, subsidiary merger and merger of equals. There are several reasons where mergers and acquisitions were results failure

- Financial synergy for lower cost of capital
- Improving company's performance and accelerate growth

- Economies of scale
- Diversification for higher growth products or markets
- To increase market share and positioning giving broader market access
- Strategic realignment and technological change
- Tax considerations
- Undervaluation of target
- Diversification of risk

Principle behind any M&A is $2+2=5$

There is always synergy value created by the joining or merger of two companies. The synergy value can be seen either through the Revenues (higher revenues), Expenses (lowering of expenses) or the cost of capital (lowering of overall cost of capital).

Three important considerations should be taken into account:

- The company must be willing to take the risk and vigilantly make investments to benefit fully from the merger as the competitors and the industry take heed quickly
- To reduce and diversify risk, multiple bets must be made, in order to narrow down to the one that will prove fruitful
- The management of the acquiring firm must learn to be resilient, patient and be able to adapt to the change owing to ever-changing business dynamics in the industry.

Stages involved in any M&A:

Phase 1: Pre-acquisition review: this would include selfassessment of the acquiring company with regards to the need for M&A, ascertain the valuation (undervalued is the key) and chalk out the growth plan through the target.

Phase 2: Search and screen targets: This would include searching for the possible apt takeover candidates. This process is mainly to scan for a good strategic fit for the acquiring company.

Phase 3: Investigate and valuation of the target: Once the appropriate company is shortlisted through primary screening, detailed analysis of the target company has to be done. This is also referred to as due diligence.

Phase 4: Acquire the target through negotiations: Once the target company is selected, the next step is

to start negotiations to come to consensus for a negotiated merger or a bear hug. This brings both the companies to agree mutually to the deal for the long term working of the M&A.

Phase 5: Post merger integration: If all the above steps fall in place, there is a formal announcement of the agreement of merger by both the participating companies.

Reasons for the failure of M&A – Analyzed during the stages of M&A:

Poor strategic fit: Wide difference in objectives and strategies of the company

Poorly managed Integration: Integration is often poorly managed without planning and design. This leads to failure of implementation

Incomplete due diligence: Inadequate due diligence can lead to failure of M&A as it is the crux of the entire strategy

Overly optimistic: Too optimistic projections about the target company leads to bad decisions and failure of the M&A

Example: Breakdown in merger discussions between IBM and Sun Microsystems happened due to disagreement over price and other terms.

3. REVIEW OF LITERATURE

A de Graaf and A J Pienarr (2013): Research shows that mergers and purchases (like M & E) have been assured by commercial sources that "contracts $2 + 2 = 5$ Igor Ansoff" can be created, though. In successful situations, contracts often show that the only company that shares the target company is primarily to join the M & P buyer as a result of an extra-large payout. These factors, together with a gap in literature and raise the critical need for complete explanation of synergy mergers and acquisitions before assessing mergers and acquisitions using a significant amount of capital. Synergy sources explored in this study: the rate of economics; Range economies; Managerial efficiencies; Capital market economics; Economics in innovative activities; And other controversial sources, including tax savings and market power. Raggaele Fiorentino and Stefano Garzella (2013) - This document aims to examine the use and effectiveness of synergy evaluation models in merger and acquisitions (M & A). This document brings current discussion on synergy and evaluation

models into accounting and financial studies. In particular, it responds to a detailed investigation of the failure rates of mergers and acquisitions, which remains consistent. Related literature is reviewed and critically evaluated. This is the first comprehensive investigation of Synergy Evaluation Models at M & A. Synergy evaluation processes Based on accounting knowledge and experience, research may recommend based on other topics such as finance and management. Mehroz Nida Dilshad (2013) - The purpose of this research is to examine market efficiency for ads. Mergers and acquisitions using the event study method. Specifically, this study. Analyzed their announcement on the effects of the bank's mergers and share prices Europe We have studied 18 contracts that include banks in merger and acquisitions since 2001 2010 to investigate the shareholders and acquisition income. It is here that the significant cumulative abnormal yield is short-lived for acquirers. At the end of the event window, accrued abnormal yields 0. Highly testimony The return flight was also observed after the merger's announcement Information that led to stock prices rise a few days before publication. Merger or acquisition. At the same time, the results of abnormal income collected were shown. The targeted banks earned abnormal income on the day of the merger's announcement.

Dr. Manoj Kumara N V & Dr. Satyanarayana (2013) - Over time, these studies examine major drivers and estimate the effect of mergers and acquisitions on steel. Business in the survey of events survey. The study's event focuses on Tata Steel - the acquisition of the chorus in the year. The 2007 study used the published financial statement that includes secondary data. Financial statements They are analyzed and tested using correlation coefficient and T test. The outcome of the analysis was revealed There is a significant difference between merger and acquisition before and after the capital base and return levels. There is a significant difference between merger and EPS acquisition before the announcement. Search for this study. This synergy evolve, with more capitalization, profit based on proving changes in yields. Results of the investigation. Organizational integration can be summed up as the company has increased.

N V Manoj Kumara & Dr. Satyanarayana (2013) - Investment-Generating Investment Plans, by decision-making, mergers and acquisitions. The combination of the value of the two companies in the formation of the debt provides the option of evaluating the debt reduction and operational ability by reflecting taxes, leadership and delay for refinancing and bankruptcy costs. This study will help to assess changes in the capital structure of mergers and acquisitions. The document explains the complete integration of the document merger and the acquisition of Tata-chorus pre and synchronizing the structure of the capital and the dividend policy of the two companies. This document provides useful information to better understand the strategies and important driving factors and helps analyze the positive synergistic change of capital structure based on experimental evidence.

Sonia Sharma (2013) - In today's globalized economy, mergers and acquisitions have gained prominence due to the liberalization of competition and globalization, the intensification of the national and international markets. The document aims to study the merger's effect on the financial performance of merging companies by checking some financial ratios before and after this merger. The model was created in 2009-10 by 9 companies of the Metallurgical Industry involved in EEB consisting of mergers. The Model T test is attached to evaluate the performance difference between subsequent merger and pre-merger periods. The findings did not show slight but significant improvements in relation to liquidity and possession, but profit results showed a significant decline in RONW and ROAs against our idea. During the merger and acquisition, the results of this study suggest that synergy can be created in a longer period of time with the use of resources carefully. M & A operations success depends on the process of integration, timely action and control of the costs of integration.

Dr. Manoj Kumara N V (2018) - Over the years, the Indian banking sector has undergone a series of reforms Has expanded the expansion of assets to support the growth of the national economy. To achieve this purpose, there Extensive evidence that the RBI is heavily dependent on the bank's capital reforms for the worst issues in the sector. This study examines the Bank of First and Later Acquisitions and Mergers. Performance dividend indices are

implemented as proxies for bank performance. The study has been appointed

The study used convenient sample and two years before and after two years of 2017 considering study period. Data on the variables were tested using pairs samples tests. There is no significant difference to the previous and subsequent merger and financial performance Takeover period. Therefore, the study concludes that mergers and acquisitions have a significant impact Banking performance is considered within 2 years before and after the watch period and Short-term viewing. The analysis does not completely lead to the exposure of the success rates of mergers and acquisitions. Study Please recommend engaging in partnership identification and selection of matching partners to achieve the desired synergy.

Inder K Khurana & Wei Wang (2018) - By exploiting step-by-step legislation on mergers and acquisitions (M & A) legislation at a national level as a outlawed increase in the threat of corporate acquisition, this paper examines how discipline affects disciplinary marketing auditing conservation for corporate control. After adopting the law on mergers and acquisitions, we have found more accounting conservatives, and we have found high acceleration effects in the countries where shareholders are experiencing less protection and greater growth in acquisition activities. A more comprehensive analysis suggests that higher acquisition threats can increase conservatism by making changes in investment planning and investment decisions, and improvements in board supervision. Our findings highlight market importance for corporate control in the configuration of financial information outcomes.

Pulak Mishra & Neha Jaiwal (2017) - This article attempts to test the impact of mergers and acquisitions (M & A) on the competitiveness of export companies in the Indian pharmaceutical industry. He finds that the waves of mergers and acquisitions have a positive impact on both coverage and export competitiveness. In addition, the amount of exports is positively affected by market share and efforts to create complementary assets related to market and distribution. On the other hand, the extent of export intensity is high for most market share, high marketing and distribution efforts, companies with foreign technology innovation and purchase. However, advertising and financial performance will

not have any significant impact on the competitiveness of exports. Therefore, the policies and regulations regarding mergers and acquisitions, innovation and foreign technology supplies are suggested to require a new element that has more flexibility in the industry. FDI, intellectual property, etc. are required to integrate different policies and regulations.

Momodou Sailou Jallow, Massirah Masazing & Abdul Basit (2017) - The purpose of this research is to examine the effect of mergers and acquisitions on the management of United Kingdom companies. Research Economic fusion rates have been recorded at the London Stock Exchange (LSE) after 2011 comparisons have been consolidated and before acquiring 5 years and 5 years between 40 companies and acquisitions. The study is the return and return on asset on each income of independent variables and acquisitions and the meanwhile dependent differences of equity and share net profit. Study explanatory statistics and pairs of samples (T-test) were used and resulted in the variable positive mergers and acquisitions of the acquisition. Earnings return to shares and per share, even though it is evident that mergers and acquisitions have a significant impact on the performance of the assets. In addition, this study uses a convenient pattern as a model method. In addition, it is advisable to use other economic relationships that can not be used in a long period of time and large sample size to show a clear picture of the subject. Finally, the investigation provides benefits for communities, shareholders and directors to benefit from other companies. The result shows that net profit margins are not affected by mergers, but returns to return on assets of equity and earnings on each share are affected by mergers and acquisitions.

Neha Verma & Dr.Rahul Sharma (2014) - Merger and acquisitions are major forms of organizational restructuring. In recent years, India has shown incredible growth in mergers and acquisitions (M & A) agreements. They are actively playing in all industrial areas. Merger and acquisitions The company facilitates implementation of diversification or vertical integration technique, where vertical integration and diversification have strategic options at the corporate level; M & A is a vehicle or access method. Merger and acquisition activity is a way to achieve a company's strategy of development. The

research mission is aimed at studying the impact of mergers and acquisitions on the Indian telecommunications industry's performance by checking some financial and operational variables before and after merging. For study purposes, companies that merged or acquired during 2001-02 to 2007-08 were selected. From the literary criticism, there is no conclusive evidence of the merger and acquisition of the company's performance. The current study is an attempt to find the effect of mergers and acquisitions on merger-after performance compared to pre-merger performance.

Muninarayanappa & Augustin Amaladas (2013) - Collaborations, strategic alliances, and strong organizations strengthen the economy. The promotion of government through legislation and financial concessions strengthens further mergers and acquisitions. This study focuses on factors such as the failure of mergers and acquisitions around the world, and particularly in India, to review the mantra of success for effective implementation of mergers and acquisitions. This research work is conceptualized in nature. People guided by the studies and engaged in understanding the causes of failures before and after the merger. Mergers are successfully merged with administrative training, communication with partners, creation of goals, new culture development, leadership leadership, alert planning and implementation at each stage of development, to develop culture awareness, change agents.

Shree Prakash (2017) - The current study analyzes the shareholder's value by reviewing the short-term aboriginal income of shareholders of the target and conglomerate components, combined with the announcement of Mergers and Acquisitions (Mergers and Acquisitions) during the year 2000. Use the model set for the 2010 Market Popular Trends Study Methodology. The study used the acquisition and acquisition of 29 pairs of mergers and acquisitions from April 1, 2000 to March 31, 2010 and using the model of targeted organizations. This study developed four theories. Mergers and acquisitions in the shareholders' value of acquisition, purpose and affiliate companies. The study reported some but significant positive abnormal benefits to shareholders of acquired companies, but found that shareholders of target companies experienced considerable losses over 41 days around the announcement of M & A. Contrary to the existing literature in Western

countries, it simply says that the objectives are creating value and that buyers are destructive in value. This is one of the major contributions to existing literature that theories in Western countries should not be valid in India and must be re-evaluated before implementing the Indian context. Another important finding of the study is that M & A is collectively destroying the shareholder value of a combined fictional entity.

Ayesha Alam, Sana Khan & Dr.FareehaZafar (2014) - In this document, we discuss what mergers and acquisitions are and what they are part of any organization's strategic planning policy. Organizations often "merge" with similar organizations or "acquire weak organizations", and the essence of why they do so is that the two values are more than one. Basically, they merge or acquire the capabilities of others and try to overcome others' weaknesses, which can lead to market share and profits. In addition to their types of vertical integration, horizontal integration and aggregation, we have discussed various basics such as merger and logical reasoning, speculative reasoning, logic of performance failure, etc. We make it clear that companies focus on merging and merging. With the help of real examples (analytics) the merger and acquisition life cycle gives these readers a clear understanding of the reader.

Meena Smita (2011) - This research is done to understand the impact of corporate sector mergers and purchases (M & A) in India. There are three research objectives: M & A's first trends in India, secondly, the impact of companies after M & A in the M & A, and the third, then the Corporate Zone of India, which examines the management of select institutions. Effect of financial performance has been studied in the following select areas of Banking, Aviation, Steel, Software, Pharmaceutical, FMCG, Oil, Electronics, Telecommunication and Engineer and Interest Companies. They are taken to analyze liquidity ratios, profit and melt various economic ratios. Analysis is carried out with the help of chi-square and T-test. It was decided that Mergers and Acquisitions would not be immediately available; A company may face liquidity problems for a few years. But these mergers and acquisitions certainly benefit from a longer period of time.

4. STATEMENT OF THE PROBLEM

Based on the above literature the researcher found that there is a contradictory in pre and post acquisition financial performance. Due to the change in time span in case resulted positive in long run and vice versa. Therefore the present study is focus on analyze the synergies in terms of financial performance in post acquisition period.

5. OBJECTIVE OF THE STUDY

To analyze the synergetic impact on financial performance in post acquisition period.

6. METHODOLOGY

Tools for the study

A. Statistical tools:

I. Descriptive statistics: Descriptive statistics are brief descriptive co – efficient that summarize a given data set, what can be either a representation of the entire or a sample of a population.

a) Mean: simple or arithmetic average of a range of values or quantities. Computed by dividing the total of all values by the number of values.

$$\bar{x} = \frac{\sum x}{n}$$

b) Standard Deviation: A standard deviation is a measure used to quantify variance or variance in a record.

$$SD = \frac{\sqrt{(\sum x - \bar{x})^2}}{n-1}$$

I. T – Test: T – test is used to determine variance between two different sample’s mean.

$$t = \frac{\bar{x} - \mu}{\frac{s}{\sqrt{n}}}$$

7. PERIOD OF THE STUDY

Sample Design	
Type of research	Descriptive research
Sample period	5 years
Statistical tool	Descriptive statistics, T – test.
Financial tool	Ratios.
Acquirer	Unilever
Target	Blueair
Type of activity	Acquisition

8. HYPOTHESIS OF THE STUDY

Ho: There is no significant impact of M&A on financial performance of post acquisition period.

9. DATA ANALYSIS AND INTERPRETATION

Table No: 01

Descriptive Statistics

Ratios	N	Mean	Std. Deviation	Std. Error Mean
PBDIT	5	21.378	2.140	0.957
PBIT	5	20.184	1.959	0.876
PBT	5	20.532	1.203	0.538
NPM	5	14.466	0.993	0.444
RONW	5	80.750	20.233	9.048
ROCE	5	81.298	14.150	6.328
ROA	5	31.220	1.591	0.711
CR	5	1.286	0.143	0.064
QR	5	0.974	0.125	0.056
EVOR	5	7.186	1.635	0.731
EVEBITDA	5	33.308	4.356	1.948
PRIBV	5	39.970	9.724	4.349
PRINOR	5	7.270	1.649	0.737

Source: SPSS data base – Author calculation

Table No: 02 T – Test

Ratios	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
PBDIT	22.339	4	0.00	21.38	18.72	24.03
PBIT	23.035	4	0.00	20.18	17.75	22.62
PBT	38.168	4	0.00	20.53	19.04	22.03
NPM	32.572	4	0.00	14.47	13.23	15.70
RONW	8.924	4	0.00	80.75	55.63	105.87
ROCE	12.847	4	0.00	81.30	63.73	98.87
ROA	43.892	4	0.00	31.22	29.25	33.19
CR	20.069	4	0.00	1.29	1.11	1.46
QR	17.365	4	0.00	0.97	0.82	1.13
EVOR	9.828	4	0.00	7.19	5.16	9.22
EVEBITDA	17.100	4	0.00	33.31	27.90	38.72
PRIBV	9.192	4	0.00	39.97	27.90	52.04
PRINOR	9.860	4	0.00	7.27	5.22	9.32

Source: SPSS data base – Author calculation

The study found that the all ratios are statistically significant. In the profitability ratio the higher the ratio found in PBDIT (24.03) and the least ratio found in NPM (13.23). In the Return ratio the higher the ratio found in RONW (105.87) and the least ratio found in ROA (29.25). In the liquidity ratio the higher the ratio found in CR (1.46) and the least ratio found in QR (0.82). In the market ratio the higher the ratio found in PRIBV (52.04) and the least ratio found in EVOR (5.16).

10. RESULTS AND DISCUSSION

- Overall profitability ratio resulted positive in the range from 14% to 21% respectively in post acquisition period.
- The return ratio resulted positive in the range from 31% to 80% respectively in post acquisition period.
- The liquidity ratio resulted positive in the range of 0% to 1% respectively in post acquisition period.
- The market ratio resulted positive in the range from 7% to 39% respectively in post acquisition period.
- The overall study found that all the ratios are statistically significant.

11. CONCLUSION

The study concluded from the above ratios that the performance of Hindustan Unilever Ltd in all ratios showed a very good performance. It can be concluded by one simple T – test founds the all ratios statistically significant hence the Ho is rejected and the study proven that there is a significant impact on M&A on financial performance of post acquisition period. The study concluded that in most of the M & A cases in the long run the acquiring company has succeeded in generate value, higher cash flows, cost cutting and greater market power.

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