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An Analysis of post evaluation performance of Tata Steel

Sushmitha H G[1], Dr.Manoj Kumara N V[2]
[1] *Research Study, Department of Management and Sciences, Maharaja Institute of Technology, mysore*
[2]*Associate professore, Department of Management and Sciences, Maharaja Institute of Technology*

***Abstract*- Merger and Acquisition have became exclusive trend in steel industry globally since the beginning of the 21st century. Corporate integration in the corporate world is accomplishing significance and concentration especially with an exciting undertaking of intense globalization. This is the clear evidence from the importance and increasing growth of deal values and resulted with more corporate integration in recent times. These studies examine the key motive drivers and evaluate the impact of mergers and acquisition in steel industry on event study approach. This event study focused on Tata steel Acquisition during the year 2007. The study used a published financial statement which consists of secondary data. The financial statements are analysed and tested by using correlation co-efficient and t- test. The outcome of the analysis disclosed that there is a significant difference between pre – post merger and acquisition in capital base and level of returns.**

1. INTRODUCTION

Tata being the winner. As driven by slow growth and substantial profits in the steel industry. Corus asset sale may lift the Tata steel earnings. Tata steel had acquired British largest steel maker Corus for 608 pence per share. It is one of the striking acquisition in 2006, to propose Tata steel from the 56th to the 6th – largest steel maker in the world. A long term gap between their delivered performance of the firm and the strategic plan projected gap was in terms of size, sales and Income. Acquisition could fill the gap (J Fred Weston and Samuel C. Weaver 2002). However, companies can seek for genuine synergies through financial engineering.

2. REVIEW OF LITERATURE

A deal that dies at the due diligence stage almost always dies for the right reason. In most of the merger and acquisition, the target has a choice, and negotiations may even be taking place in the context of structured action. Before deciding on tactics, therefore, acquires should assess their advantages and disadvantages relative to their potential bidder HBR (2001).Rao and Sankar (1997)examine that a positive effect on the liquidity, leverage, and profitability of the bidder firms. Other studies have also showed a positive impact on financial performance Hitt, Harrison and Best (1998)

In accordance with empire building theory (The Hubris Theory), managers may derive both financial and non financial benefits in proportion to the size of the business units they manage; this provides a strong intensive to increase firm size by merger and acquisition and places managers in conflicts with shareholders interest. Rau and Vermalen (1997) has investigated that the determinants of poor performance of the bidding firm after acquisition and concluding that firms having low boo to market ratio in general make poor decisions regarding merger and acquisition. However, higher profitability of the firm being acquired is found to be existing pre and post merger and acquisition Acharys (2000). Clear and factual communication among the employees of the acquiring and acquired firms is very crucial to increase their productivity which will resultantly have positive impact on performance of firms during or even after merger and acquisition Appelbaum etal (2000)

3. RESEARCH METHODOLOGY

The approach for examination of value creation of both bidder and target around the announcement of an offer and includes both successful and unsuccessful merger and acquisition. The three hypothesized statements tested using correlation co-efficient and T- test.

Hypothesis

Based on the research gap areas from literature review, the following hypothesis is tested.

H0: there is no significant difference between pre merger and acquisition equity capital base and Profit after Tax.
H0: there is no significant difference between post merger and acquisition equity capital base and Profit after Tax.
H0: there is no significant difference between pre and post merger and acquisition earning per share.

Mode Specifications

Correlation co-efficient = $r = \frac{N(\sum xy) - (\sum x)(\sum y)}{\sqrt{[N(\sum x^2) - (\sum x)^2][N(\sum y^2) - (\sum y)^2]}}$

The T- test is used to determine the prior and post-performance of an activity.

$$t = \frac{\sum d}{\frac{\sqrt{N(\sum d^2) - (\sum d)^2}}{N-1}}$$

4. DATA ANALYSIS

There is significant difference between pre merger and acquisition equity capital base and Profit after Tax.
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Table No-01
Pre-Merger and Acquisition

	Capital(X)	PAT(Y)	x2	y2	X y
1	3184.81	1012.31	10143014.73	10247714.54	3224015.01
2	4515.86	1746.22	20392991.53	3049284.29	7885685.05
3	7059.92	3474.16	49842470.4	12069787.7	24527291.66
4	9755.3	3506.38	95165878.09	12294700.7	34205788.81
5	13949.04	4222.15	194575716	17826550.62	58894939.24
	$\sum x$=38464	$\sum y$= 13961.22	$\sum x^2$= 128737719.77	$\sum y^2$=370120071.65	$\sum xy$=462650 94.85

Correlation co-efficient = $r = \frac{N(\sum xy) - (\sum x)(\sum y)}{\sqrt{[N(\sum x^2) - (\sum x)^2][N(\sum y^2) - (\sum y)^2]}}$

$$\frac{5(46265094.85) - (38464.93)(13961.22)}{\sqrt{[5(128737719.77) - (38464.93)^2][5(370120071.65) - (13961.22)^2]}}$$

$$\frac{643688598.85 - 537017350.014}{\sqrt{[1850600358.25 - 1479550839.9][231325474.25 - 194915663.88]}}$$

$$\frac{106671248.836}{\sqrt{[371049518.35][36409810.37]}}$$

$$\frac{106671248.836}{116231848.5}$$

$R2=0.918$
Table No-02
There is significant difference between post merger and acquisition equity capital base and Profit after Tax.
Post- Merger and Acquisition

	Capital(	PAT(Y)L	x2	y2	X y
1	27300.73	4687.03	745329858.53	21968250.22	127959340.53
2	29704.65	5201.74	882366231.62	27058099.03	154515866.09
3	37168.75	5046.80	1381515976.56	25470190.24	187583247.50
4	48266.43	6865.69	2329648264.94	47137699.18	331382345.79
5	52216.46	6696.42	2726558694.93	44842040.82	349663347.07
	$\sum x$=194657.02	$\sum y$= 28497.68	$\sum x^2$= 8065419026.58	$\sum y^2$=166476279.49	$\sum xy$=1151104146.98

Correlation co-efficient = $r = \frac{N(\sum xy) - (\sum x)(\sum y)}{\sqrt{[N(\sum x^2) - (\sum x)^2][N(\sum y^2) - (\sum y)^2]}}$

$$\frac{5(1151104146.98) - (194657.02)(28497.68)}{\sqrt{[5(8065419026.58) - (194657.02)^2][5(166476279.49) - (28497.68)^2]}}$$

$$\frac{5755520734.9 - 5547273465.71}{\sqrt{[40327095132.9 - 37591355435.2][832381397.45 - 812117765.38]}}$$

$$\frac{208247269.19}{\sqrt{[2435739697.7][20263632.07]}}$$

$$\frac{208247269.19}{222164202.9}$$

$R = 0.937$

HypothesisTable No-3
There is significant difference between pre and post merger and acquisition Earning perShare

T-Test

	PRE EPSES	POST EPS	D	D2
1	27.53	63.85	36.32	1319.14
2	47.48	69.70	22.22	493.73
3	62.77	56.37	-6.4	40.96
4	63.35	71.58	8.23	67.73
5	72.74	68.95	-3.79	14.36
			D=56.58	D^2=1935.92

$$\sum d = 56.58 / 5 = 11.32$$

$$t = \frac{\sum d}{\sqrt{\frac{N(\sum d^2) - (\sum d)^2}{N^2(N-1)}}}$$

$$t = \frac{11.32}{\sqrt{\frac{5(1935.92) - (11.32)^2}{5^2(5^2-1)}}}$$

$$t = \frac{11.32}{\sqrt{\frac{5(1935.92) - (11.32)^2}{25(24)}}}$$

$$t = \frac{11.32}{\sqrt{\frac{9679.6 - 128.14}{25(24)}}}$$

$$t = \frac{11.32}{\sqrt{\frac{9551.46}{600}}}$$

$$t = \frac{11.32}{\sqrt{15.9191}}$$

$$t = \frac{11.32}{3.99}$$

$$t = 2.84$$

5. FINDINGS AND SUGGESSTIONS

The study findings are reviewed as follows

1. Corporate integration of Tata and Corus has consequently increased the capital base.
2. Aggregate steel industry capacity of around 28.1 million tones.
3. In May 07 earning before interest tax and depreciation of 13%, 25 million tones of production also ranked 5th.
4. 2012 earning before interest tax and depreciation of 25%, 40 million tones of production and ranked 2nd.
5. Recapitalization was made possible as a result of corporate integration.
6. Mergers and acquisitions , has significantly affected 5the earning per share of investors

6. CONCLUSION

The results of the study shows that evident hypothesis, the research study conclude that merger and acquisition of Tata and Corus with respect of profitability, performance, turnover, capacity, economies of scale and enhanced control. This study of impact of merger and acquisition on value matters resulted with positive influenced in profitability, capital base, dividends and earnings for share holders. This is a positive characteristics for strong future. There will be a lot of potential synergies in terms of sharing of best practices across the companies

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