A STUDY ON IMPACT OF MERGER AND ACQUISITION ON THE FINANCIAL PERFORMANCE OF THE COMPANY WITH RESPECT TO PHARMACEUTICAL INDUSTRY

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ABSTRACT: *Mergers and Acquisitions (M&A) are considered as a significant tool for corporate restructuring and value creation in the present scenario. It enables the firms to expand their horizons, reducing the business risks, exploring new markets and geographical areas thereby increasing the profits and gaining through competitive advantage. The present study aims at assessing the profitability position of Pharmaceutical Industry in India.Ratio analysis techniques have been used to analysis and interpret general financial statements to assess the financial position.Secondary sources have been used for collection of various financial ratios for three years pre and three years'post-merger and acquisition of the sample companies. Findings of the study reveal that, there has a positive impact of merger and acquisition in pre-merger compared to post-merger and acquisition in terms of selected profitability variables. Pharmaceutical companies should have an effective management especially for controlling all the financial affairs and internal analysis.*

Key Words: *Mergers ,Acquisition, Financial ratios and Pharmaceutical industry.*

INTRODUCTION

Merger is a combination of two or more companies in which the assets and liabilities of the selling firms are absorbed by the buying firm. Although the buying firm may be a considerably different organization after the merger, it retains its original identity. In a merger one of the two existing companies merges its identity into another existing company or one or more existing companies may form a new company and merge their identities into a new company by transferring their businesses and undertakings including all other assets and liabilities to the new company. The shareholders of the company have substantial shareholding in the merged company. They will be allotted shares in the merged company in exchange for the shares held by them in the merging company or companies.

The Indian pharmaceuticals market is the third largest in terms of volume and thirteenth largest in terms of value, and it accounts for 20 per cent in the volume terms and 1.4 per cent in value terms of the Global Pharmaceutical Industry. India is the largest provider of generic drugs globally with the Indian generics accounting for 20 per cent of global exports in terms of volume. It enjoys an important position in the global pharmaceuticals sector. Indian pharmaceutical sector is estimated to account for 3.1 – 3.6 per cent of the global pharmaceutical industry in value terms and 10 per cent in volume terms. It is expected to grow to US$100 billion by 2025. The market is expected to grow to US$ 55 billion by 2020, thereby emerging as the sixth largest pharmaceutical market globally by absolute size. The sector is expected to generate 58,000 additional job opportunities by the year 2025.India's pharmaceutical exports stood at US$ 16.8 billion in 2016-17 and are expected to grow by 30 per cent over the next three years to reach US$ 20 billion by 2020, according to the Pharmaceuticals Export Promotion Council of India (PHARMEXCIL). Pharmaceutical companies have become cautious with regard to mergers and acquisitions as the business environment remains challenging due to pricing pressure and regulatory interventions in key markets of US and India.

STATEMENT OF THE PROBLEM

In the global market, number of companies among Indian pharmaceuticals, have entered into merger and acquisition agreements. Growth is always the priority of all companies involving expansion of business activities. Companies go for merger and acquisition for achieving higher profit and capturing expand its market share. Merger and acquisition is the need for business enterprises for achieving economics of scale, growth, diversification, synergy, financial planning, Globalization of economy, and monopolistic approaches. These also create interest amongst companies for increasing their market power. Through a careful

analysis of its financial performance, the organization can identify its opportunities to improve performance of the various department, unit or organisational level. In this context an attempt has been made an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth. Therefore an analysis has to be made to compare the pre and post-merger of pharmaceutical companies to gain some insights into the factors that might have possibly induced the merger to find the wealth of shareholders

OBJECTIVES OF THE STUDY

- To compare the pre and post-merger and acquisition financial performance of pharma industry.

SCOPE OF THE STUDY

The present study aims at assessing the profitability position of Pharmaceutical Industry in India. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out its financial problems at present and the specific areas in the business, which might need some effort for more effective and efficient utilization of its resources.

METHODOLOGY

The study has based on the Secondary data and the data has been collected from the annual reports of selected Pharmaceutical companies. The required data for the study has collected and compiled from the website www.moneycontrol.com.The study covers a period of 6 months from Sep 2017-Mar 2018.Ratio analysis techniques have been used to analysis and interpret general financial statements to assess the financial position .To measure the abnormal returns in the stock price reaction to mergers and acquisitions. Secondary sources have been used for collection of various financial ratios for three years pre and three years'post-merger and acquisition of the sample companies. The announce dates and years of merger and acquisition of the sample firms has also verified from the BSE website.

LIST OF THE COMPANIES USED

S.NO	Type	Acquirer company	Target Company	Year
1.	Merger	Sun Pharmaceutical	Ranbaxy Laboratories	2014
2.	Acquisition	Torrent Pharmaceutical	Elder Pharmaceutical	2014

LIMITATION OF THE STUDY

1. The study covers only two pharmaceutical companies.
2. The study has limited to three years pre-merger and post-merger only.
3. The present study is based on Ratio analysis and it has its own limitation that applied to this study.

REVIEW OF LITERATURE

A review of the important studies and different concepts relating to the financial performance has been presented.

AtulSheel and AmitNagpal (2000) has investigates "The Post-Merger Equity Value Performance of Acquiring firms in the Hospitality Industry", is to explore the long run equity value performance of acquiring firms in the hospitality industry. The purpose of the study is to test the long-term effect of acquisition on the equity value of acquiring firms in the hospitality industry. The performance analysis has been done using the Jen- sen Measure Model and the Market Model. The study shows that there has a significant negative equity value performance of the acquiring hospitality firms at least for the period 1980-2000. Further, the impact of mergers and acquisitions on equity value of acquiring firms in the hospitality industry is better understood. The significant negative Cumulative Abnormal Residuals (CARS) for the acquiring hospitality firms suggest significant negative post-acquisition equity returns for these firms in the long run, and further corroborates the results of the Jensen Measure analysis.

Beena (2006)determine the "Mergers and Acquisitions in the Indian Pharmaceutical Industry: Nature, Structure and Performance" of corporate sector all over the world. The objective is to find out the performance using a different methodology which gives importance to each merger/ acquisition event as well as the year of merger/ acquisition for the period 1992-1993 to 2003-2004. A merging firm arises only after making the first merger/ acquisition and until that it would be a non-merging firm. They constraint analysis to a sample of 23 merging firm. The profitability and CV (Co-efficient of variation) are measure to both merging and non-merging firms to analyse the R&D intensity. The study concluded that the industry able to transfer a part of their improved performance due to consolidation to the consumers in the form of a

price reduction and a better quality of drugs. The study suggested that it would be a welcome sign and on the other hand if it lead to increased market power and consequent price rise, then it would deserves special attention.

Pulak Mishra, Tamal Chandra (2010) in their study on "Mergers, Acquisitions and Firms' Performance: Experience of Indian Pharmaceutical Industry", is to examine the impact of MA on financial performance of Indian pharmaceutical companies. The data estimation techniques for a set of 52 listed drugs and pharmaceutical companies over the period from 2001 to 2007-08. It is found that the profitability of a firm depends directly on its size, selling efforts and exports and imports intensities but inversely on their market share and demand for the products. However, MA does not have any significant impact on profitability of the firms in the long run possibly due to the resultant X-inefficiency and entry of new firms into the market. The empirical results presented a suggestion that profitability of a firm depends inversely on its market share. Firms with larger market share experience lower profitability in the long run. The study suggested that in-house R&D and foreign technology purchase also do not have any significant impact on profitability of the firms.

DATA ANALYSIS

For the purpose of measuring the financial and operating performance of the merger and acquisition following ratios have been considered to evaluate the impact of merger and acquisition.

Table 1: Ratios of Selected firms

	Merger (Mean values)			Acquisition (Mean Values)		
	Ranbaxy Laboratories	Sun Pharmaceuticals		Elder Pharmaceutical	Torrent Pharmaceuticals	
Liquidity Ratios	Pre-merger	Pre-merger	Post-merger	Pre-acquisition	Pre-acquisition	Post-acquisition
Current ratio	1.00	3.99	1.98	1.19	1.43	1.19
Liquid ratio	0.68	3.17	1.57	2.48	0.90	0.74
Absolute liquid ratio	0.39	1.67	0.98	0.32	0.48	0.23
Profitability Ratios						
Gross Profit ratio	10.73	36.88	30.35	13.42	15.07	26.75
Operating ratio	35.09	64.87	75.56	71.55	84.99	78.96
Net Profit ratio	(9.45)	33.97	21.88	5.66	12.14	19.28
Operating Profit ratio	12.08	38.58	31.07	16.40	19.90	32.41
Return on Capital Employed	(18.23)	17.68	13.80	5.52	18.76	19.41
Return on Equity Capital	7.54	20.25	17.25	10.40	26.88	34.14
Earnings per share	(23.72)	27.10	27.79	33.41	39.05	67.10
Return on assets	(20.59)	16.81	11.56	3.53	19.35	20.65

LIQUIDITY RATIOS -MERGER

The current ratio of Ranbaxy has mean value of 1.00 in pre-merger and Sun pharmaceutical has mean score of 3.99 in pre-merger and 1.98 in post-merger. The quick ratio of the Ranbaxy has average mean of 0.68 in pre-merger. Sun pharmaceutical has average mean of 3.17 in pre-merger and 1.57 in post-merger. The Absolute liquid ratio of Ranbaxy has mean of 0.39 in pre-merger. Sun Pharmaceuticals has average mean of 1.67 in pre-merger and 0.98 in post-merger. The mean value of ratios showsan increase in pre-mergerwhich starts declining in post-merger.

ACQUISITION

The current ratio of Elder pharmaceuticals has mean of 1.19 in pre-acquisition. Torrent Pharmaceuticals has average mean of 1.43 in pre-acquisition and 1.19 in post-acquisition. The Liquid ratio of Elder Pharma has mean of 2.48 in pre-acquisition. Torrent Pharmaceuticals have average mean of 0.90 in pre-acquisition and 0.74 in post-acquisition. The Absolute Liquid ratio of Elder Pharma have a mean of 0.32 in pre-acquisition. Torrent Pharmaceuticals has the average value of 0.48 in pre-acquisition and 0.23 in post-acquisition. Thus, Elder Pharma has low liquid cash in pre-acquisition. Torrent Pharma has a stable liquidity in cash and bank balance in pre and post-acquisition.

PROFITABILITY RATIO -MERGER

The Gross profit ratio of Ranbaxy has average mean of 10.73 per cent in pre-merger. Sun Pharmaceuticals have a mean of 36.88 per cent and 30.35 per cent in post- merger. Operating ratio of Ranbaxy has a average mean of 35.09 per cent in pre-merger and Sun Pharmaceuticals has mean of 64.87 per cent in pre-merger and 75.56 per cent in post- merger. The Net profit of Ranbaxy has mean of (9.45) per cent in pre-merger. Sun Pharmaceuticals has average mean of 33.97 per cent in pre-merger and 21.88 per

cent in post- merger.The Operating profit ratio of Ranbaxy has mean of 12.08 per cent in pre-acquisition and Sun Pharmaceuticals has average mean of 38.58 per cent in pre-merger and 31.07 per cent in post- merger. Return on capital employed ratio shows the mean of (18.23) per cent of Ranbaxy and Sun Pharmaceuticals has mean of 17.68 per cent in pre-merger and 13.80 per cent in post- merger. Return on Equity capital ratio of Ranbaxy shows mean value of 7.54 per cent in pre-merger and Sun Pharmaceuticals has mean of 20.25 per cent in pre-merger and 17.25 per cent in post- merger. Earnings per share of Ranbaxy indicates the mean of (23.72) in pre-merger. Sun Pharmaceuticals has the mean of 27.10 in pre-merger and 27.79 per cent in post- merger. Return on assets ratio of Ranbaxy mean score of (20.59) per cent in pre-merger. Sun Pharmaceuticals has average mean of 16.81 per cent in pre-merger and 11.56 percent in post- merger. The mean values of Ranbaxy is critical in investment and Sun Pharma shows high return in pre-merger compare to post- merger because of merging process.

ACQUISITION

The Gross Profit ratio of Elder Pharmaceuticals has a mean of 13.42 per cent in pre-acquisition. Torrent Pharmaceuticals has mean value of 15.07 per cent in pre-acquisition and 26.75 per cent in post-acquisition. Operating ratio of Elder Pharmaceuticals has mean of 71.55 per cent in pre-acquisition. Torrent Pharmaceuticals has mean of 84.99 per cent in pre-acquisition and 78.96 per cent in post-acquisition. The Net Profit ratio of Elder Pharmaceuticals has mean of 5.66 per cent in pre-acquisition and Torrent Pharmaceuticals has mean of 12.14 per cent in pre-acquisition and 19.28 per cent in post-acquisition. The Operating ratio of Elder Pharmaceuticals has mean of 16.40 per cent in pre-acquisition and Torrent Pharmaceuticals has mean score of 19.90 per cent in pre-acquisition and 32.41 per cent in post-acquisition. Return on Capital employed ratio of Elder Pharmaceuticals has mean of 5.52 per cent in pre-acquisition and Torrent Pharma has average mean of 18.76 per cent in pre-acquisition and 19.41 per cent in post-acquisition. Return on Equity capital of Elder Pharmaceuticals has average mean of 10.40 per cent in pre-acquisition. Torrent Pharmaceuticals has mean value of 26.88 per cent in pre-acquisition and 34.14 per cent in post-acquisition. Elder Pharma has low level of returns to shareholders. Torrent Pharma is able to pay dividend high in post compared to pre-acquisition.Earnings per Share of Elder Pharmaceuticals have average of 33.41 in pre-acquisition. Torrent Pharma has mean value of 39.05 in pre-acquisition and 67.10 in post-acquisition. Thus, Elder and Torrent Pharma earning per share is satisfactory and Torrent Pharma has gradual increase in earnings after acquisition.The Return on assets ratio of Elder Pharmaceuticals has average mean of 3.53 per cent in pre-acquisition. Torrent Pharmaceuticals has average mean of 19.35 per cent in pre-acquisition and 20.65 per cent in post-acquisition. The results show that Elder Pharma has low return due to non-available of funds. Torrent Pharma has high returns in post compared to pre-acquisition.

SUGGESTIONS

- After merger and acquisition, the acquired has to concentrate on liquidity position.
- Efforts can be taken to improve the company's share capital.
- The income of the acquired company can be regained by adopting new technologies for production.
- The acquired industry should increase their other income in order to gain more profit.
- The Pharmaceutical companies should have an effective management especially for controlling all the financial affairs and internal analysis has to be undergone by the management in order to know about its financial position year after year.

CONCLUSION

In the present-day situation, the competition rules are increased due to globalization of business, mergers and acquisitions are considered as powerful strategic tool in hands of management to face this competition. The pharmaceutical companies have been able to maintain their liquidity position in pre-merger and acquisition compare to post- merger and acquisition. Thus these companies must manage their receivables and accounts in advance so that they may not be running out of working capital and leading to poor solvency position. In stock price of shareholders, positive returns in terms of market price in post-merger and acquisition. Performance can be evaluated using short term returns as a result of announcements of merger and acquisition based on event studies. The study suggests that Pharmaceutical companies should have an effective management especially for controlling all the financial affairs and internal analysis. Hopefully, this study would attract attention among researchers for further research to extend this work.

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