# STUDY ON IMPACT OF MERGERS AND ACQUISITION ON PERFORMANCE OF FINANCIAL FIRMS IN INDIA

## DISSERTATION PROJECT REPORT


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# CERTIFICATE FROM THE INSTITUTE

This is to certify that the Project Report titled **" Study on impact of mergers and acquisition on performance of financial firms in india"**, is a bonafide work carried out by Mr. Pramod Juyal of MBA 2012-14 and submitted to Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 in partial fulfilment of the requirement for the award of the Degree of Masters of Business Administration.

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# DECLARATION

I **Pramod Juyal**, student of MBA 2012-14 of Delhi School of Management, Delhi Technological University, Bawana Road, Delhi-42 declare that Dissertation report on **"Study on impact of mergers and acquisition on performance of financial firms in india"** submitted in partial fulfilment of Degree of Masters of Business Administration is the original work conducted by me.

The information and data given in the report is authentic to the best of my knowledge.
This Report is not being submitted to any other University for award of any other Degree, Diploma and Fellowship

Pramod Juyal

Place:

Date:

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# 1 INTRODUCTION

## 1.1 Background

Strategic alliances and Mergers and Acquisitions (M&A) are the dominant corporate strategies followed by organizations looking for enhanced value creation. The growing tendency towards mergers and acquisitions (M&As) world-wide, has been driven by intensifying competition. There is a need to reduce costs, reach global size, take benefit of economies of scale, increase investment in technology for strategic gains, desire to expand business into new areas and improve shareholder value. During the first wave (i.e., 1990-95), the Indian corporate houses seem to have been bracing up to face foreign competition while the second wave (i.e., 1995-2000) experienced a large presence of multinational firms . The third wave of M&As in India (2000-till date) is evident of Indian companies venturing abroad and making acquisitions in developed and developing countries and gaining entry abroad. The relative size of target and acquiring firm has also increased. The size differences between the bidder and target firms influence acquisition performance and large acquisitions would have a greater combination potential . M&As also determined, to a large extent, the nature of foreign investment in the country during this period. M&A comes in all shapes and sizes, and investors need to consider the complex issues involved in M&A. The most beneficial form of equity structure involves a complete analysis of the costs and benefits associated with the deals. Corporate restructuring including M&As have given rise to a host of important issues for business decisions, for public policy formulation and economic regulations. While business firms can grow both internally and externally, with increased global competition, it has become imperative for the business firms to grow inorganically that is externally. A look at the sectoral trends reflects that Indian financial sector is adopting inorganic strategies to grow its businesses. The Indian financial system comprises an impressive network of commercial banks, co-operative banks (CPBs), development finance institutions (DFIs) and non-banking financial companies (NBFCs). Researchers and economists have observed that due to smaller size, the Indian commercial banks may find it very difficult to compete with international banks in various facets of banking and financial services in the post 2009 scenerio. The entry of foreign banks was restricted earlier, but since 1991 a number of foreign banks have been allowed to operate in India. To enhance competition, foreign direct investment up to 74 per cent of ownership has been allowed in private banks and up to 20 per cent in nationalized banks. The banks have also been allowed to enter into insurance business either as + joint venture participants or to take up

strategic investment for providing infrastructure and services. Consequently, the number of foreign and private banks operating in India increased from 21 and 23 in 1991 to 33 and 30, respectively, in 2004.

For the Indian financial sector organizations, one of the strategies to face the intense compe tition could be, to consolidate through the process of mergers and acquisitions. India is slowly but surely moving from a regime of 'large number of small banks' to 'small number of large banks' and 'larger the bank, higher its competitiveness and better prospects of survival appears to be the mantra for success. However, there is little published empirical literature on the impact of M&As in India. This study is an initial attempt to fill this void.

**The aim of this study is to find out the impact of mergers and acquisitions on corporate performance in Indian context particularly in relation to companies of financial sector.**

Perhaps one of the most common words used by upper management today is growth. Growth can either be of an organic type where focus lays on productivity enhancement and cost reduction or of an inorganic type where focus lays on acquiring new businesses through mergers, acquisitions and take-overs in order to increase the company's reach and financial output.

During the last decades society has seen more and more inorganic growth through mergers and acquisitions at large multinational companies (Statistics on Mergers & Acquisitions, 2012). One might ask oneself; what are the incentives behind these actions? The dominant explanation is that M&A activities seek to improve financial performance, higher customer value, satisfaction and a broader offer .

However, is this really the result? Do these investment decisions result in a better long run profit than what would have been possible if the companies carried out their businesses independently? If not, as the inorganic growth trend seems to favour the creation of large multinational companies with a broad variety of products or services it seems reasonable to also question whether old such companies, not necessarily created through mergers and acquisitions, should be split up in order to increase long run profit? The relevance of our chosen topic is that even when most of the M&A fail the transactions between companies still increase. This underlying behavior gave rise to our research question later on

Some of the reasons for why organizations undertake M&As are: getting into new markets, achieve economies of scale, and create value through synergy between the two businesses

When an M&A transaction takes place the management are the one most positive about it. Why is that? A very simple explanation is that they are the initiative and decision takers and therefore expect M&A to fulfill the desired incentives.

## 1.2 History of M&A

To better understand the incentives behind M&A activities, the motives, the corporate/enterprise values, the strategies and for whom this kind of activity benefits we have to begin by study their history and their economical output. In finance there is very little attention paid to the history of the field . It is generally known that M&A has always coincided historically with

Thr existence of companies as late as 17th century but most stories of M&A with trackes/ statistical records begin in late 19th century.

Most of the material available about M&A is Anglo-American and this is due to that they are the most transaction intensive with the most deals. M&A have happened during the last 100 years in waves and the first movement is known as the great merger movement between the years 1897-1905 which is also a horizontal consolidation

Since then we have seen an increase in M&A activity Figure 1, (Number & Value of Announced Transactions) worldwide and therefore it is interesting for us as well as relevant to answer questions like; do mergers and acquisitions add or destroy shareholder value?

Evidence from management surveys confirms with a large sample of statistical studies and surveys that the majority of M&A fail to deliver according to their incentives. M&A more often destroy rather than enhance value for the acquirer shareholders. It is also important to notice that the answer to such a question is ambiguous since it depends over what period of time. Since most of the M&A seems to end in disappointment it is interesting to evaluate why there is an increase in activity and optimism around M&A. The market seems to have a short memory regarding the flawed M&A reoccurrence. It is for this reason that we need to be aware of the history surrounding M&A. The field of M&A is nevertheless one of the most frequently studied areas in business strategy

Six periods of high merger activity, often called merger waves, have taken place for example in U.S. history. The waves occurred between

- 1897 and 1904 (Horizontal mergers),
- 1916 and 1929 (Vertical mergers),
- 1965 and 1969 (Diversified conglomerate mergers), and
- 1984 and 1989 (Congeneric mergers; Hostile takeovers),
- 1992 and 2000 (Cross-border/mega mergers),
- 2003 and 2008

Each merger movement occurred when the economy experienced sustained high rates of growth and coincided with specific developments in the economy such as rising stock market, low interest rates and technological development/breakthrough. Shortly it could be said that M&A is a faster form of expansion than internal, organic growth.Now let's take a short overview look over the history of M&A waves in U.S

**The first merger wave:** It occurred after the depression of 1883, peaked between 1898 and 1902, and ended in 1904.Mergers du ring this period were largely horizontal and resulted in increased concentration in primary metals, transportation and mining (Table 1), due to a spurred drive for efficiency and of lax enforcement of the Sherman Anti-trust Act. It is during this period large companies absorbed small ones. For example in 1901 J.P Morgan created America's first billion-dollar corporation, U.S Steel. It was a combination of 785 separate companies the largest of which was Carnegie Steel.

**Table 1 Type of Merger**

| Type of Merger | Percentage (%) |
|---|---|
| Horizontal | 78.3 |
| Vertical | 12 |
| Horizontal and Vertical | 9.7 |
| Total | 100 |

**The second wave:** It occurred between years 1916-1929 .The consolidation pattern established in the first merger period continued in to the second period. Under this period the U.S economy still continued to evolve which was a result of the entry of U.S into World War I which provided investment capital for eagerly waiting securities markets.

This era ended with the stock crash of 1929 and the passage of the Clayton Act which was first established in 1914 under the Woodrow Wilson administration. With more stringent antitrust environment, the second merger wave produced fewer monopolies but more oligopolies and many vertical mergers. During the 1940 there weren't any increase in M&A activity, probably due to the Second World War, nonetheless the Celler-Kefauver Act in 1950 was passed which just strengthened Section 7 of the Clayton Act.

**The third wave:** This wave is also known as the conglomerate merger period and featured a historically high level of merger activity. It has the longest period of uninterrupted growth in the U.S nation's history with records in price-to-earnings (P/E) ratios. The price-earnings ratio (P/E) is the ratio of the market price of a firm's stock divided by the earnings available to

common stockholders on a per-share basis. Companies with high P/E ratios given by investors learned how to grow earnings per share (EPS) through acquisition rather than through reinvestment . Companies with high PIE would buy other companies with low P/E and increase in EPS of the combined companies.

This EPS raise boosted the share price as long as the PIE applied to the stock price of the combined companies did not fall below PIE of the acquiring company before the transaction. It is important to mention that this type of behavior causes a pyramid effect which often ends up in a collapse. High PIE ratios indicate investor optimism. Before the fourth wave in the 1970 the number of M&A announcements in the 1970s fell dramatically. By 1984 the M&A has taken momentum and started to go up again in frequency deals as shown in Table 2.

**Table 2 Frequency of deals year 1986-1988**

| Year | Buyer | Target | Price ($ Billions) |
|---|---|---|---|
| 1988 | Kohlberg Kravis | RJR Nabisco | 25.1 |
| 1984 | Chevron | Gulf Oil | 13.3 |
| 1988 | Philip Morris | Kraft | 13.1 |
| 1989 | Bristol Myers | Squibb | 12.5 |
| 1984 | Texaco | Getty Oil | 10.1 |
| 1981 | DuPont | Conoco | 8 |
| 1987 | British Petroleum | Standard Oil of Ohio | 7.8 |
| 1981 | U.S. Steel | Marathon Oil | 6.6 |
| 1988 | Campeau | Federated Stores | 6.5 |
| 1986 | Kohlberg Kravis | Beatrice | 6.2 |

**The fourth wave**: This wave saw the rise of corporate raider and hostile mergers. Hostile mergers had simply become an acceptable form of corporate expansion within the 1980s and high speculative profitable activity gained status.

Whether takeovers are considered friendly or not depends on the reaction from the board of directors from the targeted company.

**The fifth wave:** This wave was the wave of mega-mergers with M&A of billion-dollars, as shown in Figure 5 and it ended in 1989 as it entered into the mild recession of 1990.

In 1992, the number of M&A; s once again began to increase, except now there were more strategic deals than hostile . These deals were financed through the increased use of equity and not as the debt-financed bust-up transactions of the fourth merger . Once again by a

combination of the information technology revolution, deregulations, open "free" market policies and global trend towards privatizations of stated-owned enterprises powered the longest economic expansion and stock market boom in U.S history. According to Financial Times Services the volume of dollars in global M&A in year 2000 reached a new record of 3.48 trillion dollars.

The fifth wave ended in 2001 **a**s the economic shock of 9/11 took place.

**The Sixth wave:** It began in 2002 with the low interest rates set by Alan Greenspan Federal Reserve Chairman. These low rates provided the fuel for a speculative bubble in real estate's which later became an international "bubble" . The low interest rates also gave a major boost to the private equity business. Private equity firms found it easy to raise equity capital and equally easy to borrow money at extremely attractive rates. This fueled the demand for M&A targets which reflect the increase in the P/Es paid for targets. This wave ended with recent economic crisis in year 2008.

### 1.3 The Present status of M&A in India

During the last decade, there has been a sharp increase in the number of mergers and acquisitions in India. The largest M&A transactions involving an Indian company until now are depicted in Table 1**.** India has experienced upward trend in outbound deals (Figure 1)**.** It is expected that **i**n next decade (2010-2019), global M&A deals by Indian industries is likely to more than treble and the domestic consumption oriented businesses like telecommunication and healthcare will throw up global scale Indian companies.

Even as the economic slowdown has impacted overall merger and acquisition (M&A) activity in Asia Pacific, India along with Japan and China is among the top five countries in the region with the highest number of M&A deals in the first three months of 2009. India is among the top countries in the region in terms of M&A activity in the first quarter of 2009 even as deals saw a 72 percent decline from the same period a year ago. Pricewaterhouse Coopers lists India amongst the top three emerging markets to watch out for over the next 18 months, in terms of attractiveness for deals. According to global consultancy firm Grant Thornton, the total number of M&A deals announced in January 2009 stood at 18 with a total announced value of USD 970.85 million against 63 deals amounting to USD 1.66 billion in January 2008. Indian Industries announced more billion dollar M&A deals in 2008 compared to the previous year when the markets were on a bull run. Although involving the mega $10 billion plus deals of last year, Tata Corus and Vodafone-Hutch were missing in 2008, there were however other large size transactions which kept the Indian -bankers busy. HDFC bank's

acquisition of Centurion Bank of Punjab was the lone large domestic M&A deal in 2008. Marking the largest-ever deal in the Indian pharmaceutical industry, Japanese drug firm Daiichi Sankyo in June 2008 acquired the majority stake of more than 50 per cent in domestic major Ranbaxy for over Rs 15,000 crore ($4.5 billion). The deal created the 15th biggest pharmaceutical company globally, and is India's 4th largest M&A deal to date.

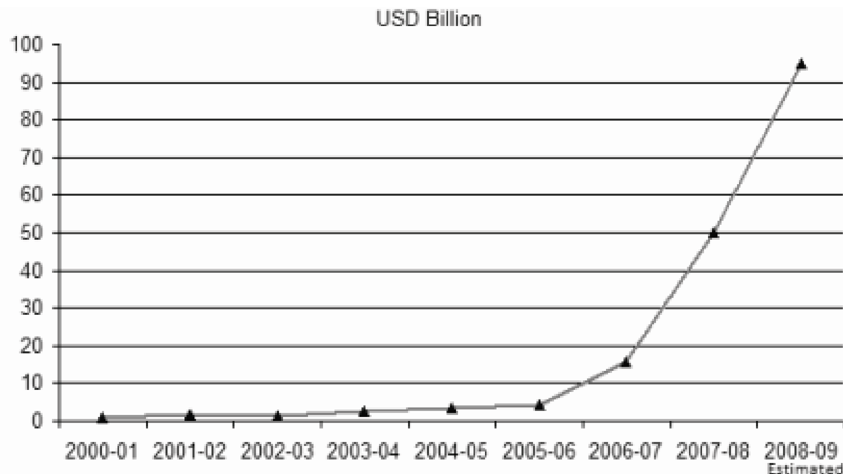


Figure A. Indian outbound deals since 2000

**Table 3. Top Transactions made by Indian companies as on May 29, 2009**

| Acquirer | Target Company | Deal value | Industry |
|---|---|---|---|
| Tata Steel | Corus Group plc | $12.2 billion | Steel |
| Vodafone | Hutchison Essar | $11.1 billion | Telecom |
| Hindalco | Novelis | $6 billion | Steel |
| Ranbaxy | Daiichi Sankyo | $4.5 billion | Pharmaceutical |
| ONGC | Imperial Energy | $2.8 billion | Oil and Natural Gas |
| NTT DoCoMo | Tata Teleservices | $2.7 billion | Telecom |
| HDFC Bank | Centurion Bank of Punjab | $2.4 billion | Financial Institution |
| Tata Motors | Jaguar Land Rover | $2.3 billion | Automobile |
| Suzlon | RePower | $1.7 billion | Power |

M&A research has also peaked during the last decades and the research material on different aspects of M&As is extensive. In our paper, we have reviewed literature covering motives of M&A and specifically the impact of M&A on financial viability of the companies. Despite the empirical evidence on M&A in general, very little is known on how they have performed in financial-based industries. Therefore, our paper attempts to fill the void by evaluating the financial performance of M&As particularly of financial sector companies in India , before and after merger and to assess its impact in terms of value creation for the merged or acquiring firms.

## 1.4 Review literature

The present paper examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages. Firstly, by using the ratio analysis approach, we calculate the change in the position of the companies during the period 2000-2008. Secondly, we examine changes in the efficiency of the companies during the pre and post-merger periods by using nonparametric Wilcoxon signed rank test. While we found a significant change in the earnings of the shareholders, there is no significant change in liquidity position of the firms. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value. This study is an initial attempt to fill this void. The aim of this study is to find out the impact of mergers and acquisitions on corporate performance in Indian context particularly in relation to companies of financial sector. This study further discusses the related literature , describes the data and methodology used. Further the impact of value creation for the merged or acquiring firms before and after merger is discussed and finally it concludes with avenues for future research.

In this study we find out the impact of mergers and acquisitions on corporate performance in Indian context particularly in relation to companies of financial sector. Studies by *Surjit, 2002; Swaminathan, 2002; Arora, 2003* have guided the methodology employed in the paper.

*Surjit, 2002* carried out an analysis of 20 merging firms to compare the pre and post takeover performance, applying a set of eight financial ratios. He found that profitability and efficiency of merging companies declined in the post takeover period.

*Swaminathan, 2002* studied the sample of five companies and found that four of the five acquiring firms improved operating and financial synergies (measured through financial ratios).

In a recent survey article, *Bruner (2002)* summarizes the findings of 130 studies conducted during 1971-2001. The results of the studies that focused on short-term returns suggest that target shareholders earn significantly positive abnormal returns and that bidders earn zero risk-adjusted returns. The combined returns of bidders and targets are positive. *Arora, 2003* examined the post merger performance of merged companies using the value added metrics of corporate performance such as EVA, MVA and RONW.

## 1.5 Research objectives and Hypothesis

As a result of Indian economic liberalization, and rapidly changing business environment, there has been a spurt in the M&As in India. This gives rise to certain issues in the sphere of mergers and acquisitions which need to be investigated.

- Is there a sudden spurt in M&A activities in India in the 990s?
- Is it the process of deregulation which has hastened M&A activities or there are some other reasons?
- Has the M&A strategies resorted by Indian enterprises affected their performances?
- Is it being used as a survival strategy by Indian enterprises in view of the growing presence of foreign enterprises in the post 1991 period?
- Do the shareholders benefit from M&As?

Out of the above listed research issues, the following specific objectives have been taken for empirical investigation.

**1**. To examine the impact of mergers and acquisitions on corporate performance in Indian context particularly in relation to companies of financial sector.

**2.** To examine whether shareholders benefit from M&As..

## 1.6 Hypothesis

Drawing on the existing evidence we thus state our two hypotheses as:

**Ho:** There is no significant difference between the financial performance of the companies before and after the merger that is **Ho: $\mu = 0$.**

**Ha:** There is a significant difference between the financial performance of the companies before and after the merger that is **Ha: $\mu \neq 0$.**

# 2. THEORITICAL FRAMEWORK

## 2.1 Terms & Concepts

M&A stand for merger and acquisition and it is a corporate strategy dealing with buying, selling, dividing and combining different companies  There is a slight difference between merger and acquisition. In the case of a merger two companies form a new entity. Financially this means that the stocks of both companies are surrendered and new stocks in the name of new company are issued.

Normally a merger takes place between to equally big companies. However, with acquisition, the company that takes over another and establishes its power as the single owner. The less powerful and smaller company loses its existence and the company taking over runs the whole business. Financially this means that stocks of the acquired firm are not surrendered, but bought by the public prior to the acquisition, which continue to be traded in the stock market. There are different types of M&A; these are vertical, horizontal, diversified conglomerate, hostile and friendly, which will be presented and explained in more detail below.

## 2.2 Types of Merger & acquisitions

**Horizontal mergers**: They are a transaction where a competitor buys another competitor with the purpose to obtain economies of scale in overlapping operations and to eliminate competition . This type of transaction occurs when companies offer the same or closely related products or services in the same geographical market . Example of horizontal acquisitions include Exxon and Mobile (1999), NationsBank and Bank of America, and for an example in Sweden we have the engineering consultancy companies Caran and Semcon.

**Vertical mergers**: They are best understood as a transaction where a customer buys a supplier or vice versa with the purpose to reduce transaction costs between the corporate value chains . The corporate value chain is defined as making something of value with raw resources, driven by different departments within a company where departments are for example, logistics, production, marketing, distribution, sales and customer support.

**Diversified conglomerate mergers**: They are transactions where the buyer company allocates a portfolio of multiple companies with different kinds of businesses without any clear collaborative synergies. A conglomerate merger represents a third classification, not strongly horizontal or vertical, and having few characteristics of either. An example would be U.S steel's acquisition of Marathon Oil to form USX. Conglomerate mergers are overall seen as an evil transaction according to Felton (1971) because they promote a dangerous concentration of economic power and also diminish the effectiveness of competition.

**Hostile and friendly M&A:** They reflects the people's attitude, i.e. in what way the transaction is perceived. A hostile transaction is when the targeted company board of directors opposes the bid from the buyer, or when the target was not seeking a merger at the time of the approach. A friendly takeover is when the targets management is receptive to the idea and recommends shareholder approval

## 2.3 Examples of Mergers & Acquisitions that failed

One reason for failure can be that people working in the merged organizations, who must implement the planned changes, are normally disregarded during the pre-deal stage. However, once the integration starts people begin to play crucial roles in the execution of the plan. Managers should not underestimate the people issues that might arise during this period and neither the cultural aspects.

Communication through the company can create either an effective or discouraging working environment. It is a difficult task to keep people motivated and engage people in the business particularly when those people are at risk of losing their jobs

Companies could grow organically, but if you are looking for a quick growth, then a merger is the fastest way to go. This approach is, however, not without its problems. A merged company might look good on paper but not in reality during implementation. Key to this is staff. The people working for the taken-over company might not take too well to new management and leave. In the technology industry, especially within consultancy firms with hardly any value except the staff, which means a lot of talent, could be wasted to competitors.

In business one should look forward, but learn from the past. lists the ten top worst mergers in US during 1998 to present time. It is stated that there doesn't seem to be a single issue to why some corporate mergers fail or why others succeed. Mergers are always a risk and without the proper strategy, intuition, and knowledge, mergers might go either way.

**The merger between AOL and Time Warner on the Jan. 10, 2000**:

The takeover of Time Warner by AOL was considered at first to have a very good potential. The new company, AOL Time Warner combined the two businesses of online services and media assets to create one of the biggest media company up to that time. However, during its evolvement it was surrounded by internal conflicts between employees due to different business cultures.

**"Of course the merger was a success. Neither company could have lost that much money on its own"**

*Steve Case, Former Chairman of the board, AOLTime Warner*

It seems that the biggest mistake that a company can make in an acquisition is to buy a company because it is successful right now. If the company is already big, you have waited too long to get involved and you are taking a huge risk. This was definitely the case with AOL Time Warner. Apparently nobody did look into the long-term outlook and emerging technologies according to Thomson & Nichols (2010) and they continue. AOL based its business on a dial-up internet. However that was getting old fashioned and local cable firms picked up on how easy it was to transmit digital information over their current connections. AOL started to decline from its lead position in technology and service.

**Oracle Acquired Sun in January 27, 2010**: Sun is a Silicon Valley company that in the end lost its technology top position and pace, which is one reason it is being bought out .

**Daimler Benz Acquired Chrysler in 1998:** A good example of culture difference as one of the major issues to the failure. Chrysler was not near the premium position as high-end Daimler Benz had. Many felt that Daimler went in and tried to tell the Chrysler side how things should be done.

**Sears and Kmart M&A in March 24, 2005**: Department store Sears found itself stuck in between the success of low-end box stores like Target and Walmart, and high-end department

stores. Sears was slowly failing. A hedge fund investor purchased both a failing Sears and Kmart in 2005 and merged them to become Sears Holdings.
However, Sears Holdings continued the downward spiral of both companies. Some blame their focus on "soft goods" (clothes and home goods) rather than hard goods. Others think Sears tried to compete with mega giant Walmart with a variety of stores.

**Quaker Snapple:** In 1994, grocery store Quaker Oats purchased the Snapple. Quaker Oats had the brand Gatorade. Quaker Oats wanted to also make Snapple drinks popular. Quaker Oats were criticised from the stock market regarding a too high purchase price for Snapper. On top of that Quaker Oats started a new marketing campaign to bring Snapple to every grocery store and chain restaurant. However, their efforts failed because Snapple had become successful just because they marketed to small independent stores since the brand The brand was not big enough to get their own space at large grocery stores. Also, Pepsi and Coca-Cola began releasing Snapple-like drinks and at this time people start to leave Snappers products.
Failure of mergers can be explained with that people working in the merged organisations who must implement the planned changes are normally disregarded during the pre-deal stage see Figure 11, but once the integration starts people begin to play crucial roles in the execution of the plan. Managers might underestimate the people issues that could arise during this period .

### 2.4 Examples of Successful Mergers & Acquisitions

Here is some US mergers that are considered to be good examples because there is a difference in culture, preparation and how well they did fit together as will be explained below. However we could learn more from those that failed than those that succeeded. What did the successful mergers do right and which are the most famous ones?

**Disney-Pixar**: The Disney-Pixar merger was launched in 2006 and considered to be the perfect match and happened when Disney put up a bid to buy out Pixar. The two companies have often worked together and the merger became as a natural continuation of their businesses (Disneys distribution chain with Pixars innovative culture) and the two companies have continued well after the merger. Pixar has now plans for two films per year after the merger which was not economically possible before the merger. Disney brings expert advice into the equation when it

comes to advertising and marketing and especially marketing to children where Disney is outstanding.

**Chase Manhattan and JP Morgan**: The merger between these two major financial service houses took place in ear 2000 and they became one of the biggest financial service companies in the world. In the financial market big is important and by performing this merger the customer base increased and hence gave a positive input to the cost structure for financial transactions.

**Exxon-Mobil**: In 1999 Exxon and Mobil merged and form Exxon Mobil and became the largest company in the world. The merger was too big to be accepted without the sale of many of Exxon & Mobil's gas stations, in order to avoid monopolization and it remains the strongest leader in the oil market with a very large earning. In 2008, ExxonMobil occupied all ten spots in the "Top Ten Corporate Quarterly Earnings".

### 2.6 M&A as motives

The motives behind M&A transactions can be many and shift over time. Many of the motives given by companies are similar in nature, but as with any transaction different aspects are emphasized and strategic goals mentioned every time (Sevenius, 2003; Oberndorfer, 2004). According to worldwide consultant companies such as KPMG, ERNST& YOUNG, PWC, and many empirical studies across various industry sectors a high rate of failure from M&A activity are shown.

The companies employees are its asset and some may decide to leave the company and start a new company if the integration process is not carried out properly .

Corporate cultures may for example not be compatible and expected synergy effects do not materialize etc. Academic literature in M&A suggests that there are several motives behind a deal. It goes without saying that the most common motive behind M&A transactions occur at generation shifts or changes within the company's owner's part which often occurs during the

owner's lifetime or in cases of death. In some cases M&A are a part of a company's business development strategy.It is important to mention that all of the motives elements behind an M&A deal are impossible to grasp.

The normal preference is that M&A should cater some specific operations motives such as increased marketing shares and reduced costs. It can be said that it is for increasing growth either through expansion or concentration consolidation. When it comes to owner motive the targeted company is seen as an entity of income. The buying company is seen as portfolio with separate business ideas and risk where its goal is to get its hand on the targets material or intellectual assets and rights. The actual motive is to come over a unique asset such as a brand or some kind of other special asset which is specially valued in that sector.

In the media we mostly hear about the operating designs motives and not the other ones. The management motives can for example be to spread the company's risk by having multiple businesses areas. Management tries sometimes to create different changes in a certain sector through new marketing demands or business logic, the actual transaction then becomes a way of exporting their new business methods offer.

It is important to mention that there is often a conflict of interest with the owner and management motive.

In the survey investigation "Survey of critical valuation issues in mergers and acquisitions" done by Coopers & Lybrand in 1994 as can be seen in Table 4 from they presented the most common motives behind an M&A activity in different countries. The motive of increased market shares is the top goal in all the countries. The second motive that all (nine in total) the countries mentioned was sales and distribution area besides Sweden. (All the countries are not presented in the table). The survey question was: "What where you looking for when planning to make the acquisition?"

**Table 4 Hierarchy of motives for acquisitions**

| Motive | Total | Sweden | England | US |
|---|---|---|---|---|
| Market shares | 1 | 1 | 1 | 1 |
| Sales and distribution area | 2 | 3 | 2 | 2 |
| Cost reduction | 3 | 2 | 3 | 5 |
| Technology | 4 | 4 | 4 | 4 |
| Production facilities | 5 | 5 | 5 | 3 |

There is also a psychological side to acquisition which shouldn't be ignored or neglected. These motives are often called illegitimate, where only the economic and juridical perspectives are taken into account instead of having a more holistic approach. For example it is

more important for the company itself to have an involved management team throughout the integration process with a strong director leader for reaching long sustained success (positive financial, customer satisfaction, employee development) than a year after shortly concrete (EBITA) Earnings before interest} taxes and amortization result. Other motives which trigger leaders in management position to M&A activity is that these types of actions show decisiveness and power to others, especially media.

There are even negative factors that trigger leaders into M&A activity, for example when their own company has stagnated economically, the fear of being left behind when competitors are merging into bigger and bigger companies.

## 3. DATA AND METHODOLOGY

### 3.1 A Sample Description

This empirical study analyses the financial data of selected merging firms in the period 2001-2009. In order to evaluate the financial performance of the merging firms in the long run, at least three years financial data is required. Therefore, 2004, 2005 and 2006 are considered as the event years to identify the M&A deals in India and to compare the financial performance of the cases pre-merger and post-merger during 2001-2009. The pre-merger years taken for comparison are from 1st April, 2001 to 31st March, 2004 and years 1st April, 2006 to 31st March, 2009 are taken as post-merger years (**figure B**). The data is collected from various sources; CMIE database PROWESS, newspapers, magazines and journals.

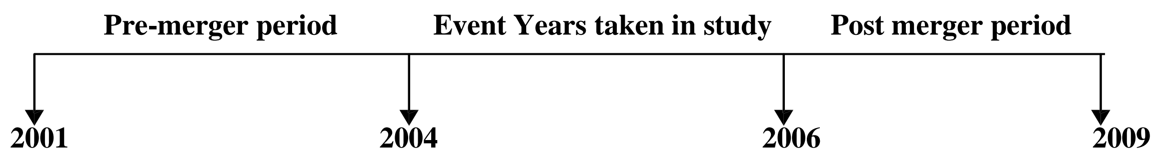


Figure B. Period taken in study

In all 491 (all industries) mergers took place during the event period. Our study concentrated on the financial sector companies. The sample under study includes 17 companies in financial sector (**Table 5).** The financial data for these 17 companies is collected for six years i.e. for three years pre-merger and three years post-merger period (average of three years) using Prowess database of Centre for Monitoring Indian Economy (CMIE). In order to test the hypothesis Wilcoxon Signed Rank Test is used for four parameters. These are:

- **a)** Overall profitability parameters from Return to Equity Shareholders point of view, return on Net worth and earning per share are calculated.
- **b)** Liquidity parameters- current ratio is measured
- **c)** Solvency parameters - debt to equity is calculated
- **d)** Overall efficiency parameters- profit before tax and profit before tax to total income

**Table 5. List of financial sector companies merged between 1st April, 2004 and 31st March, 2006**

| S. no. | Name of sector | Sample merged |
|---|---|---|
| 1. | Banking | 10 |
| 2. | Financial institutes | 2 |
| 3. | Non-banking financial companies | 5 |
| Total | | 17 |

**Source**: *Prowess database of CMIE*

### 3.2. Wilcoxon Signed Rank Test Methodology

Wilcoxon Signed Rank Test is a non-parametric statistical hypothesis test for the case of two related samples on a single sample. This test is similar to a matched (repeated measures) t-test. However, the dependent variable is measured on an ordinal scale (ranked data). This test is used to test for significant differences between two conditions of an independent variable in an experiment where the same (or matched) participants are responding in both conditions of the study. The dependent variable involves ranked (ordinal) data.

The raw figures were obtained for the above said parameters and signed rank test is carried out to assess the difference in the performance between pre-merger and post-merger. In our study

$X_A$ denotes pre-merger data

$X_B$ denotes post-merger data.

The Wilcoxon signed rank test computes $W\pm$ and the number of signed ranks is designated as $n_{s/r}$ that is equal to number of $X_A$ $X_B$ pairs (that is number of companies) minus the number of pairs for which $X_A - X_B = 0$. The test statistic z is computed and probabilities observed are compared with desired level of significance (0.05) to accept or reject null hypothesis.

# 4. EMPIRICAL RESULTS

## 4.1 Overall profitability parameters (Return to Equity Shareholders)

In the present study Return to Equity for shareholders is measured with the help of two ratios: Return on Net Worth and Earning Per Share. The use of both these ratios presents a broad picture of a company's efficiency, financial viability and its ability to earn returns on shareholders' funds and capital employed.

### 4.1.1. Return on Net Worth (RONW)

RONW measures the rate of return on the shareholders equity of the owners. It measures the company's efficiency of using the capital (shareholders' funds) entrusted to it and generating profits. The average amount of net worth of financial sector **(Table 6)** companies after merger was higher than that of pre-merger period.

**Observations in Table 6**

- Out of 17 merger cases of financial sector, 11 merging firms showed a positive sign, i.e. increase in RONW and 6 merging firms showed decline in net worth. Among the sample, 3 merging firms showed negative net worth during post-merger period.
- In the next step, we perform non-parametric (Wilcoxon) test to verify whether there is difference between the pre and post-merger efficiencies. The result seems to be consistent with our null hypothesis at 5% level of significance ($z = 1.05 < 1.64$) with p value $0.2937 > 0.05$ (2-tail test) and $0.1469 > 0.05$ (1-tail test). Therefore, for financial sector companies we accept the null hypothesis and observed the difference between pre and post-merger RONW to be not statistically significant.

**Table 6. Return on Net worth (RONW)**

| S.No | Company Name | $X_A$ | $X_B$ | Change in RONW | S/R of $\lvert X_A - X_B \rvert$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 13.8733 | 11.3767 | D | -4 |
| 2 | Bank Of India | 18.2400 | 19.8567 | I | +2 |
| 3 | Corporation Bank | 18.3367 | 12.7867 | D | -9 |
| 4 | Eicher Ltd. | -17.6967 | 28.5233 | I | +16 |
| 5 | I D B I Bank Ltd. | -4.5133 | -3.5133 | I | +1 |
| 6 | Indusind Bank Ltd. | 10.6900 | -1.0200 | D | -13 |
| 7 | Infrastructure Development Finance Co. | 11.6167 | 15.9000 | I | +8 |
| 8 | L & T Finance Ltd. | 4.8667 | 20.7233 | I | +14 |
| 9 | Laxminarayan Investment Ltd. | 3.6167 | 5.3833 | I | +3 |
| 10 | Oriental Bank Of Commerce | 19.4467 | 8.2333 | D | -11 |
| 11 | Pioneer Investcorp Ltd. | -4.6133 | 43.4933 | I | +17 |
| 12 | Punjab National Bank | 19.0933 | 15.3633 | D | -7 |
| 13 | Sundaram Finance Ltd. | 6.6733 | 18.1200 | I | +12 |
| 14 | Tulip Star Hotels Ltd. | -2.9967 | 31.6367 | I | +15 |
| 15 | Union Bank Of India | 15.8533 | 19.5700 | I | +6 |
| 16 | Vijaya Bank | 19.9967 | 12.1033 | D | -10 |
| 17 | Walchand Peoplefirst Ltd. | -6.1500 | -2.9100 | I | +5 |
| W=+45 | | | | | |
| $n_{s/r}$=17 | | P(1-tail) | | P(2-tail) | |
| Z=\|-1.05\|=1.05 | | 0.1469 | | 0.2937 | |

u **Note:** 1. D=Decrease, I=Increase

2. Figures in percentage

### 4.1.2 Earning Per Share (EPS)

In order to get true idea of return on investment owner should evaluate his investment returns not on the basis of the dividend received, but on the basis of the EPS i.e. earnings per share. The more the EPS better are the performance and prospects of the company.

**Observations in Table 7**

The EPS of merged company during pre and post-merger periods given in **Table 7** can be interpreted as:

- It is interesting to note that among the sample of 17 merging cases, 15 merging firms indicate increase in EPS and only 2 merging firms showed decrease in average of three year of EPS during post-merger period when comparing with pre-merger performance of same cases.
- Also out of 17 merging cases, EPS of 9 firms increased more than fifty per cent during post-merger period as compared to pre-merger performance of the companies.
- 2 merging firms having negative value, showed an increase in EPS during post-merger period but it was observed that inspite of increase in amount of EPS the value was still negative.

We also find that the null hypothesis is rejected as $z=3.09>1.64$ at significance level of 5% and the difference is statistically significant at two tail test (p value=0.002) and one tail test (p value=0.001). Hence, we find that there is a significant correlation between financial performance and the M&A deal.

**Table 7. Earnings Per Share (EPS)**

| S.No. | Company Name | $X_A$ | $X_B$ | Change in EPS | S/R of $\lvert X_A - X_B \rvert$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 17.9433 | 30.0967 | I | +11 |
| 2 | Bank Of India | 10.5900 | 25.2300 | I | +12 |
| 3 | Corporation Bank | 24.1000 | 39.8700 | I | +15 |
| 4 | Eicher Ltd. | -13.6967 | 10.6233 | I | +16 |
| 5 | I D B I Bank Ltd. | 13.6767 | 8.8400 | D | -7 |
| 6 | Indusind Bank Ltd. | 3.7700 | 1.8367 | D | -4 |
| 7 | Infrastructure Development Finance Co. Ltd. | 1.6533 | 4.2100 | I | +5 |
| 8 | L & T Finance Ltd. | 0.5500 | 7.1467 | I | +8 |
| 9 | Laxminarayan Investment Ltd. | 0.4133 | 1.0500 | I | +2 |
| 10 | Oriental Bank Of Commerce | 16.9733 | 32.3033 | I | +14 |
| 11 | Pioneer Investcorp Ltd. | 0.0667 | 14.7100 | I | +13 |
| 12 | Punjab National Bank | 24.9267 | 53.1567 | I | +17 |
| 13 | Sundaram Finance Ltd. | 41.3900 | 50.5533 | I | +9 |
| 14 | Tulip Star Hotels Ltd. | -1.2367 | -0.7200 | I | +1 |
| 15 | Union Bank Of India | 8.6333 | 19.1900 | I | +10 |
| 16 | Vijaya Bank | 3.9300 | 5.6633 | I | +3 |
| 17 | Walchand Peoplefirst Ltd. | -6.6667 | -1.9867 | I | +6 |

| W=131 | | |
|---|---|---|
| ns/r=17 | P(1-tail) | P(2-tail) |
| Z=l-3.09l=3.09 | 0.001 | 0.002 |

**Note:** 1. D=Decrease, I=Increase

2. Figures in Rupees crores

## 4.2 Liquidity parameters

Liquidity ratios measure the short term solvency i.e. the firm's ability to pay off current dues. In the present study current ratio is used to check the liquidity of the firm.

### 4.2.1 Current Ratio

In a sound business, a current ratio of 2:1 is considered an ideal one. A very high ratio will result in idleness of funds and therefore, is not a good sign. On the contrary, a low ratio would mean inadequacy of working capital.

**Observations in Table 8**

The results of the current ratio of sample merging firms before and after merger have been presented in **Table 8.**

- Among the 17 merging cases, 7 merging firms showed increase in current ratio and 10 merging firms showed decrease in current ratio.

- In the case of Laxminarayan Investment Ltd. current ratio increased from 1 times to 10 times (approx.), showing a huge increase in working capital, it can be interpreted that the firm may have idle funds available as current assets, which increased relatively with greater speed than current liabilities.

By running Wilcoxon test null hypothesis is proved for financial sector companies as $z=1.01<1.64$ at 5% level of significance and difference between pre and post merger current ratio position is not statistically significant as inferred by p value (2-tail)=0.3125 and p value (1-tail)=0.1562.

**Table 8. Current Ratio**

| S.No. | Company Name | $X_A$ | $X_B$ | Change in Current | SIR of $X_A$ - $X_B$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 3.2933 | 4.2567 | I | +6 |
| 2 | Bank Of India | 2.4333 | 3.5233 | I | +10 |
| 3 | Corporation Bank | 2.5900 | 2.6000 | I | +1 |
| 4 | Eicher Ltd. | 1.0333 | 0.2000 | D | -5 |
| 5 | I D B I Bank Ltd. | 1.1000 | 2.1667 | I | +9 |
| 6 | Indusind Bank Ltd. | 4.5567 | 3.9133 | D | -3 |
| 7 | Infrastructure Development Finance | 2.1533 | 0.6233 | D | -13 |
| 8 | L & T Finance Ltd. | 2.1333 | 0.5100 | D | -15 |
| 9 | Laxminarayan Investment Ltd. | 1.2333 | 10.1800 | I | +17 |
| 10 | Oriental Bank Of Commerce | 5.1767 | 3.5867 | D | -14 |
| 11 | Pioneer Investcorp Ltd. | 3.9100 | 2.0467 | D | -16 |
| 12 | Punjab National Bank | 2.6333 | 3.6833 | I | +8 |
| 13 | Sundaram Finance Ltd. | 1.4767 | 0.5067 | D | -7 |
| 14 | Tulip Star Hotels Ltd. | 1.9900 | 0.6700 | D | -11 |
| 15 | Union Bank Of India | 3.9733 | 2.6100 | D | -12 |
| 16 | Vijaya Bank | 3.8100 | 4.5700 | I | +4 |
| 17 | Walchand Peoplefirst Ltd. | 2.1667 | 1.9700 | D | -2 |

| W=-43 | | |
|---|---|---|
| $n_{s/r}$=17 | P(1-tail) | P(2-tail) |
| Z=1.01 | 0.1562 | 0.3125 |

**Note:** 1. D=Decrease, I=Increase

2. Figures in Times

### 4.3 Solvency parameters

Solvency parameters indicate the ability of an enterprise to meet its long term indebtedness (obligations). In this study debt-equity ratio is used to measure the solvency position.

#### 4.3.1 Debt-Equity ratio

The debt to equity ratio is worked out to ascertain soundness of the long term financial policies of the firm. A higher ratio indicates a risky financial position while a lower ratio indicates safer financial position. The debt to equity ratio of sample merged companies during pre and post-merger period of financial sector is exhibited in **Table 9.**

**Observations in Table 9**

- Out of 17 merging firms, there was increase in debt to equity ratio of 11 merging firms, which means that debt (leverage) in the firm increased. It is important to note that the average increase in the value of 4 firms over three year was small.
- 2 firms out of 17 merging cases showed decline in debt to equity ratio.

As per the results from the Wilcoxon test we reject the null hypothesis for financial sector companies with $z=2.46>1.64$ at 5% level of significance. The difference is statistically significant as p value = 0.0069 (1-tail test) and p value = 0.0139 (2-tail test).

**Table 9. Debt-Equity Ratio**

| S.No. | Company Name | $X_A$ | $X_B$ | Change in Debt equity | S/R of $X_A$ - $X_B$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 0.5967 | 0.7333 | I | +5 |
| 2 | Bank Of India | 1.7900 | 1.7500 | D | -1 |
| 3 | Corporation Bank | 0.4933 | 0.7167 | I | +7 |
| 4 | Eicher Ltd. | 2.1800 | - | - | - |
| 5 | I D B I Bank Ltd. | 7.3567 | 7.4233 | I | +3 |
| 6 | Indusind Bank Ltd. | 1.0967 | 1.5033 | I | +8 |
| 7 | Infrastructure Development Finance | 1.1767 | 4.3133 | I | +13 |
| 8 | L & T Finance Ltd. | 5.0933 | 5.8667 | I | +10 |
| 9 | Laxminarayan Investment Ltd. | - | 0.9200 | - | - |
| 10 | Oriental Bank Of Commerce | 0.4100 | 0.4533 | I | +2 |
| 11 | Pioneer Investcorp Ltd. | - | 0.6567 | - | - |
| 12 | Punjab National Bank | 0.6933 | 0.8633 | I | +6 |
| 13 | Sundaram Finance Ltd. | 3.9833 | 5.9600 | I | +12 |
| 14 | Tulip Star Hotels Ltd. | 1.0533 | 0.6433 | D | -9 |
| 15 | Union Bank Of India | 0.7867 | 1.5900 | I | +11 |
| 16 | Vijaya Bank | 0.8900 | 0.9733 | I | +4 |
| 17 | Walchand Peoplefirst Ltd. | - | 0.0067 | - | - |

| W=71 | | |
|---|---|---|
| $n_{s/r}$=13 | P(1-tail) | P(2-tail) |
| Z=l-2.46l=2.46 | 0.0069 | 0.0139 |

**Note:** 1. D=Decrease, I=Increase, - = data not available

2. Figures in Times

## 4.4 Overall efficiency parameters

The main objective of business is to earn profit. Therefore, efficiency in business is measured by profitability. Thus, a measure of profitability is the overall measure of efficiency. To check the overall efficiency of the merging cases, profit before tax, profit after tax and profit before tax to total income are calculated.

### 4.4.1 Profit before tax (PBT)

Profit before tax, or PBT, measures the profits of the companies before paying corporate taxes. **Table 10** depicts PBT of the merging cases in financial sector and can be interpreted as follows:

**Observations in Table 10**

• It is interesting to know tha0t all 17 merging cases taken under study have shown increase in the profit before taxes.

• Among these 17 merging cases, 5 companies had negative profits before taxes during pre-merger period but it is observed that during post-merger period the average of three years profit before taxes was positive. It can be interpreted as good sign for the companies going for merger.

**Table 10. Profit Before Tax (PBT)**

| S.No. | Company Name | $X_A$ | $X_B$ | Change in PBT | S/R of $X_A - X_B$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 808.6433 | 1658.6700 | I | +13 |
| 2 | Bank Of India | 722.1600 | 1711.0767 | I | +15 |
| 3 | Corporation Bank | 494.4833 | 852.1667 | I | +11 |
| 4 | Eicher Ltd. | -24.5833 | 10.9867 | I | +6 |
| 5 | I D B I Bank Ltd. | -285.8700 | 711.2267 | I | +16 |
| 6 | Indusind Bank Ltd. | 72.4300 | 93.2867 | I | +4 |
| 7 | Infrastructure Development Finance | 187.6733 | 621.8533 | I | +12 |
| 8 | L & T Finance Ltd. | 3.8067 | 93.8033 | I | +7 |
| 9 | Laxminarayan Investment Ltd. | 0.6900 | 1.6700 | I | +1 |
| 10 | Oriental Bank Of Commerce | 528.8167 | 766.7300 | I | +10 |
| 11 | Pioneer Investcorp Ltd. | -0.9200 | 20.5667 | I | +5 |
| 12 | Punjab National Bank | 840.0300 | 2499.9567 | I | +17 |
| 13 | Sundaram Finance Ltd. | 85.4700 | 218.3767 | I | +8 |
| 14 | Tulip Star Hotels Ltd. | -0.1133 | 9.9500 | I | +3 |
| 15 | Union Bank Of India | 506.1967 | 1378.4733 | I | +14 |
| 16 | Vijaya Bank | 135.6500 | 292.5300 | I | +9 |
| 17 | Walchand Peoplefirst Ltd. | -1.3167 | 2.8567 | I | +2 |
| W=153 | | | | | |
| $n_{s/r}$=17 | | P(1-tail) | | P(2-tail) | |
| Z=\|-3.61\|=3.61 | | 0.0002 | | 0.0003 | |

**Note:** 1. D=Decrease, I=Increase

2. Figures in Rupees in Crores

#### 4.4.2 Profit before tax to Total income

Profit before tax (PBT) to total income is the relationship between profit before tax and total income incurred by the business. The results of PBT to total income of sample merging firms before and after merger of financial sector companies have been presented in **Table 11.**

**Observations in Table 11**

• It was observed that out of 17 merging cases in financial sector, 11 firms showed increase in PBT to total income and 6 firms showed decline in ratio.

• When we perform non-parametric Wilcoxon signed rank test, the results for PBT were found to be inconsistent with the null hypotheses and we reject the same as z = 3.61 at 5% significance level and p value =0.0002 (1-tail) and 0.0003 (2-tail). On the other hand the results of PBT to total income were found to be consistent with the null hypothesis at z = 1.43 at 5% significance level and p value = 0.0764 (1-tail) and 0.1527 (2-tail).

**Table 11. PBT/Total income**

| S.No. | Company Name | $X_A$ | $X_B$ | Change in PBT/Total income | S/R of $X_A - X_B$ |
|---|---|---|---|---|---|
| 1 | Bank Of Baroda | 11.4167 | 14.8667 | I | +5 |
| 2 | Bank Of India | 10.2233 | 14.7667 | I | +6 |
| 3 | Corporation Bank | 20.8200 | 20.3833 | D | -1 |
| 4 | Eicher Ltd. | -3.9367 | 44.9633 | I | +14 |
| 5 | I D B I Bank Ltd. | -4.1133 | 8.1267 | I | +11 |
| 6 | Indusind Bank Ltd. | 7.8433 | 5.0600 | D | -4 |
| 7 | Infrastructure Development Finance | 47.8000 | 37.4533 | D | -9 |
| 8 | L & T Finance Ltd. | 4.0800 | 27.6167 | I | +13 |
| 9 | Laxminarayan Investment Ltd. | 70.0033 | 55.0300 | D | -12 |
| 10 | Oriental Bank Of Commerce | 14.7133 | 12.9133 | D | -3 |
| 11 | Pioneer Investcorp Ltd. | -34.0767 | 70.1200 | I | +15 |
| 12 | Punjab National Bank | 10.5767 | 18.1467 | I | +8 |
| 13 | Sundaram Finance Ltd. | 15.9967 | 27.5833 | I | +10 |
| 14 | Tulip Star Hotels Ltd. | 0.4367 | -663.5600 | D | -17 |
| 15 | Union Bank Of India | 10.6633 | 15.3533 | I | +7 |
| 16 | Vijaya Bank | 7.4700 | 8.4833 | I | +2 |
| 17 | Walchand Peoplefirst Ltd. | -125.9233 | 19.8100 | I | +16 |

| W=61 | | |
|---|---|---|
| ns/r=17 | P(1-tail) | P(2-tail) |
| Z=\|-1.43\|=1.43 | 0.0764 | 0.1527 |

**Note:** 1. D=Decrease, I=Increase

2. Figures in times

## 5. Conclusion

With the series of M&A taking place in financial sector in India more than half of the merging firms showed improved financial performance in the post merger time period as compared to the pre-merger period. Our study produced following findings findings.

- First, earning available to shareholders (EPS) and debt to equity ratio showed a significant change in pre and post-merger financial position of the companies.
- Second, contrary to our expectations, we found the change in the return on net worth (RONW), liquidity position and profit before tax to total income of the companies to be not statistically significant.
- Overall, the result of the study indicate that in most of the M&A cases, in the long run the acquiring firms were able to generate value creation in one or the other form, that is
    - Higher cash flows,
    - Cost cutting
    - Greater market power,
- However in spite of improved financial performance sixty four per cent of cases showed increased debt to equity ratio.
- It is also significant to note that profit before tax in all the merging cases has shown a positive trend for both financial sector companies.

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