

A STUDY OF MERGER AND ACQUISITIONS OF SELECTED RUBBER COMPANIES

Charmy Thakkar

Visiting Faculty

S.L.U. Arts College

H.&P. Thakore Commerce College For Women

Sheth Damodardas School Of Commerce

Charmy.Thakkar@Yahoo.Co.In

Dhaval Nakum

Junior Research fellow

S.D. School of Commerce, Gujarat University

Abstract

This paper examines the Merger and Acquisition scenario of selected Tire Companies. The purpose of the study is to analyse the profitability in tyre companies after the merger and acquisitions. The financial ratios have been considered for analyzing the profitability of the firm. The Pre and Post Scenario of Stake Acquisition have studied on the basis of limited time period. All the cases have been analysed individually and collectively to determine the profitability. The Limitation of the study is that, that it is limited to tyre companies only under Rubber Industry. The overall results of the study are profitable for the acquiring companies.

Key words: Merger, Acquisition, Tyre Industry, Stake Acquisition, Performance, Profitability

INTRODUCTION

To avail the benefit of different combinations and restructure the firm, the terms like merger and acquisition or takeover and amalgamation are frequently used.

A merger is an agreement that unites two existing companies into one new company. There are several types of mergers and also several reasons why companies complete mergers.

An acquisition is a situation whereby one company purchases most or all of another company's shares in order to take control. An acquisition occurs when a buying company obtains more than 50% ownership in a target company. As part of the exchange, the acquiring company often purchases the target company's stock and other assets, which allows the acquiring company to make decisions regarding the newly acquired assets without the approval of the target company's shareholders.

Amalgamation is the combination of one or more companies into a new entity. An amalgamation is distinct from a merger because neither of the combining companies survives as a legal entity; a completely new entity is formed to house the combined assets and liabilities of both companies. This sense of the term amalgamation has generally fallen out of popular use, and the terms "merger" or "consolidation" are often used instead.

There are two basic types of rubber used in the rubber industry: natural rubber and synthetic rubber.

Natural rubber is commonly used in producing tyre, shock mounts, seals, couplings, bridge and building bearings, footwear, etc.

Natural rubber is a processed plant product that can be isolated from several hundred species of trees and plants in many areas of the world.

LITERATURE REVIEW

Arora & Kumar (2012) studied about the impact of merger and acquisitions on management and employees. To find out the major issue associated with pre and post merging situation with special emphasis on the human aspects. Analyze has been done by the present training methods to cope up with environment and selected 50 companies for the purpose of research. It is based on secondary data qualitative study and. And out of 50 companies, companies are again selected for macro study. Consideration of quantitative study had not been done.

Malik et al (2014) researched about A Conceptual Review of Merger and Acquisitions, to examine whether the deal of merger and acquisitions is beneficial or harmful for the organizational study. The methods like Economic Value Added, Residual Income Approach, Data Envelopment Analysis, and Questionnaire Method had been analyzed. The study is limited to perspective of history, waves, motives & methods only.

Soni (2016) studied the impact of merger and acquisitions in India on Shareholder wealth. This study has analyzed shareholder wealth for short-term investment, for measuring the wealth of shareholders for short term view with statistical methods. The objective is to compare the market return and script return and to understand the short term effect of the deal. The research has been done by selecting top 10 deals (value vice)

of Merger and Acquisitions in India. They analysis has been done with the help of regression line. Long term investment strategies have not been considered for the research purpose.

Bhalla(2014) studied a sectoral analysis of Merger and Acquisitions in India. The analysis have been done to identify the trends and patterns of Merger and Acquisitions in various sectors in India. The study has given more focus on financial service sector which considers the role of factors such as deregulation, technology and globalization in determining merger and acquisitions activities. Research is done on the basis of secondary data.

Bedi(2010, February) researched analytical study of Merger and Acquisitions in India. And to examine the presence of trends and progress of merger and acquisitions in Indian corporation and to analyse year wise and industry wise variance in number and amount of M&A deals. The research is based on paired t-Test, two way ANOVA. Qualitative data was not taken into consideration.

Ito, K., & Rose, E. L. (2002) studied Foreign Direct Investment Location Strategies in the Tire Industry. The motive was to analyse the nature of international competition among multinational firms in the tire industry. The application of the theories of oligopolistic reaction was made. This study also indicates that the identities of competing firms matter in FDI decisions. Considerations of multimarket contacts at the firm level rather than the industry level.

Sinha & Gupta (2011) researched pre-post merger and acquisitions for the Indian financial services sector. The effect of pre and post merger has been analysed in this paper. The application of secondary data & ratio analysis has been done for research purpose. Application of F-test was made. At the end the result was indicating a positive effect on PAT & PBDITA. Only single sector has been taken into consideration.

Maji (2015) studied the merger and acquisition in the information technology industry and to take strategic decisions for maximising company's growth by enhancing its production and marketing operations. The contribution to country's GDP and the challenges face during the process has been broadly elaborate in this paper.

Jallow et al(2017) , studied the effect of merger and acquisition on financial performance of UK companies. Application of financial ratios like ROE, ROA and EPS has been done and paired T test was used. Few financial ratios have only been use. Small sample size was chosen due to unavailability information from certain companies.

Cartwright, S., & Schoenberg, R. (2006) studied about recent advances and future opportunities for 30 years of mergers and acquisitions research .The motive is to focus on the issue of strategic fit, organisational fit and the acquisition process itself. In parallel to these research advances, the failure rates of M&A have remain consistently high

Netter et al (2011) analysed the implication of data screens on Merger and Acquisition. The consideration of SDC data was made. Large sample size had been selected for the purpose of research. Some of the result differs from extant literature

Rajan et al (2000) researched on the eclipse of the US Tire industry. The analysis of the forces had led to 2 major factors. First, The US tire companies were last to radials. Second, the internationalisation of the market for cars triggered the need for tire producers to follow their customers.

RESEARCH GAP

The profitability analysis for the selected tyre companies of Stake Acquisitions is not studied earlier.

RESEARCH METHODOLOGY

OBJECTIVE OF THE STUDY

The objective of the research is to compare profitability of pre and post stake acquisitions of the selected tyre companies.

DATA COLLECTION

The study is based on secondary data such as annual reports and official website of the selected companies. The Stake Acquisitions of 5 selected tyre companies are as under;

1. Yokohama Rubber acquires Alliance Tire Group (2016)
2. Apollo Tyres acquires Cooper Tire & Rubber Co. (2013)
3. Continental acquires Modi Tyres (2011)
4. Apollo tyres acquires Reifencor GmbH tyre distributors (2015)
5. Continental Corp. acquires Hoosier Tire & Rubber (2016)

The profitability analysis has been checked on the basis of financial ratios like EPS, Net Profit Ratio, Return on Equity, Return on Capital Employed, Debt-Equity Ratio and Asset Turnover ratio.

Yokohama Rubber acquires Alliance Tire Group (2016)

| Ratios | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------|------|------|------|------|------|------|
|--------|------|------|------|------|------|------|

| | | | | | | |
|----------------------|--------|--------|--------|--------|--------|--------|
| EPS | 108.32 | 125.34 | 266.07 | 117.17 | 249.32 | 108.32 |
| Net profit ratio | 5.82% | 6.48% | 5.76% | 3.15% | 6.32% | 5.82% |
| ROE | 14.7 | 13.6 | 11 | 2.8 | 11.1 | 14.7 |
| Debt-equity ratio | 0.6 | 0.6 | 0.6 | 1 | 0.83 | 0.6 |
| ROCE | 0.091 | 0.092 | 0.075 | 0.027 | 0.057 | 0.091 |
| Asset turnover ratio | 1.0049 | 0.9009 | 0.872 | 0.739 | 0.714 | 1.0049 |

Apollo Tyres acquires Cooper Tire & Rubber Co. (2013)

| | | | | | | |
|----------------------|-------|-------|-------|-------|--------|-------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| EPS | 8.23 | 3.93 | 3.6 | 12.15 | 19.94 | 12.7 |
| Net profit ratio | 6.50% | 4.40% | 4.10% | 6.10% | 10.05% | 9.78% |
| ROE | 12.96 | 8.73 | 8.13 | 19.7 | 25.2 | 20.3 |
| Debt-equity ratio | 0.9 | 1 | 1 | 0.78 | 0.35 | 0.22 |
| ROCE | 32.4 | 16 | 15 | 18.5 | 23.6 | 23.9 |
| Asset turnover ratio | 2.82 | 2.65 | 2.21 | 2.2 | 1.51 | 2.08 |

Continental acquires Modi Tyres (2011)

| | | | | | | |
|----------------------|--------|--------|--------|---------|--------|--------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| EPS | -6.84 | -9.76 | 2.88 | 6.21 | 9.53 | 9.62 |
| Net profit ratio | 0 | 0 | 2.21% | 4.07% | 5.82% | 5.77% |
| ROE | 0 | 0 | 0.0929 | 0.01647 | 0.2336 | 0.2063 |
| Debt-equity ratio | 204.53 | 194.43 | 156.87 | 107.86 | 90.82 | 84.43 |
| ROCE | 0 | 0 | 0.0362 | 0.0792 | 0.1224 | 0.1119 |
| Asset turnover ratio | 0.9205 | 0.8419 | 1.0981 | 1.2098 | 1.2266 | 1.2283 |

Apollo tyres acquires Reifencom GmbH tyre distributors (2015)

| | | | | | | |
|----------------------|-------|-------|--------|-------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| EPS | 3.6 | 12.15 | 19.94 | 12.7 | 16.75 | 15.77 |
| Net profit ratio | 4.10% | 6.10% | 10.05% | 9.78% | 11.23% | 10.99% |
| ROE | 8.13 | 19.7 | 25.2 | 20.3 | 18.7 | 15.8 |
| Debt-equity ratio | 1 | 0.78 | 0.35 | 0.22 | 0.24 | 0.31 |
| ROCE | 15 | 18.5 | 23.6 | 23.9 | 21.8 | 15.75 |
| Asset turnover ratio | 2.21 | 2.2 | 1.51 | 2.08 | 1.66 | 1.5 |

Continental Corp. acquires Hoosier Tire & Rubber (2016)

| | | | | | | |
|----------------------|--------|--------|--------|--------|--------|--------|
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| EPS | 9.53 | 9.62 | 11.88 | 13.64 | 14.01 | 14.92 |
| Net profit ratio | 5.82% | 5.77% | 6.88% | 6.95% | 6.91% | 6.78% |
| ROE | 0.2336 | 0.2063 | 0.2155 | 0.2064 | 0.1902 | 0.1832 |
| Debt-equity ratio | 90.82 | 84.43 | 82.91 | 56.92 | 53.52 | 42.73 |
| ROCE | 0.1224 | 0.1119 | 0.1178 | 0.1315 | 0.1239 | 0.1284 |
| Asset turnover ratio | 1.2266 | 1.2283 | 1.2094 | 1.2439 | 1.1752 | 1.2 |

PERIOD OF THE STUDY

The period for the study is selected for 6 years, 3 years for pre analysis and 3 years for post analysis.

ANALYSIS

Yokohama Rubber acquires Alliance Tire Group (2016)

| Ratios | Average of Pre Stake Acquisition (2013-2015) | Average of Post Stake Acquisition (2016-2017) |
|--------|---|--|
|--------|---|--|

| | | |
|----------------------|----------|---------|
| EPS | 166.5767 | 183.245 |
| Net profit ratio | 6.02% | 4.74% |
| ROE | 13.1 | 6.95 |
| Debt-equity ratio | 0.6 | 0.915 |
| ROCE | 0.086 | 0.042 |
| Asset turnover ratio | 0.925933 | 0.7265 |

On the basis of above table, we have analysed that EPS and Debt-Equity Ratio had increased whereas, Net Profit Ratio, ROE, ROCE and Asset Turnover Ratio had decreased which is not good for the company's financial position.

Apollo Tyres acquires Cooper Tire & Rubber Co. (2013)

| Ratios | Average of Pre Stake Acquisition (2012-2014) | Average of Post Stake Acquisition (2013-2015) |
|----------------------|--|---|
| EPS | 5.253333 | 14.93 |
| Net profit ratio | 5.00% | 8.64% |
| ROE | 9.94 | 21.733333 |
| Debt-equity ratio | 0.966667 | 0.45 |
| ROCE | 21.13333 | 22 |
| Asset turnover ratio | 2.56 | 1.93 |

Under this analysis, EPS, Net Profit Ratio, ROE, ROCE, had increased whereas; Debt-Equity Ratio and Asset Turnover ratio had decreased. Hence, it shows profitable position for company.

Continental acquires Modi Tyres (2011)

| Ratios | Average of Pre Stake Acquisition (2008-2010) | Average of Post Stake Acquisition (2011-2013) |
|----------------------|--|---|
| EPS | -4.57333 | 8.4533333 |
| Net profit ratio | 0.74 | 5.22% |
| ROE | 0.03 | 0.1521233 |
| Debt-equity ratio | 185.2767 | 94.37 |
| ROCE | 0.012 | 0.1045 |
| Asset turnover ratio | 0.9535 | 1.2215667 |

In this Stake Acquisition, EPS, Net Profit Ratio, ROE, ROCE and Asset Turnover Ratio had increased whereas; Debt-equity Ratio had decreased which is good for the company. Therefore, this stake acquisition is profitable for the company.

Apollo tyres acquires Reifencor GmbH tyre distributors (2015)

| Ratios | Average of Pre Stake Acquisition (2012-2014) | Average of Post Stake Acquisition (2015-2017) |
|----------------------|--|---|
| EPS | 11.89667 | 15.073333 |
| Net profit ratio | 6.75% | 10.67% |
| ROE | 17.67667 | 18.266667 |
| Debt-equity ratio | 0.71 | 0.2566667 |
| ROCE | 19.03333 | 20.483333 |
| Asset turnover ratio | 1.9733330 | 1.7466667 |

In this study, EPS, Net Profit Ratio, ROE, ROCE, had increased whereas; Debt-Equity Ratio and Asset Turnover ratio had decreased. ROE has increased which is profitable for shareholders. And increase in Net profit shows profitable position for company.

Continental Corp. acquires Hoosier Tire & Rubber (2016)

| Ratios | Average of Pre Stake Acquisition (2013-2015) | Average of Post Stake Acquisition (2016-2017) |
|-------------------|--|---|
| EPS | 11.71333 | 14.465 |
| Net profit ratio | 6.53% | 6.85% |
| ROE | 0.2094 | 0.1867 |
| Debt-equity ratio | 74.75333 | 48.125 |
| ROCE | 0.1204 | 0.12615 |
| Asset turnover | 1.2272 | 1.1876 |

| | | |
|-------|--|--|
| ratio | | |
|-------|--|--|

On the basis of above calculations of Pre – Post stake Acquisition scenario, EPS, Net Profit and ROCE had increased whereas; Debt-Equity Ratio, Asset Turnover Ratio and ROE had decreased during this period. Overall it is good for the company

LIMITATIONS OF THE STUDY

1. The study is restricted to the case of stake acquisition of the selected companies.
2. The study is restricted to Limited time period.
3. The study is based on public disclosure undertaken by the selected companies.
4. The scope is limited to selected tyre companies.

FINDINGS & CONCLUSION

From the study, we have found that net profit ratio, ROE, EPS and ROCE had increased therefore it is a good sign for the company for profitable scenario. Under certain cases, debt-equity ratio had increased which adversely affects the company's financial position. Overall result from the stake acquisition of the selected tyre companies shows a profitable position.

REFERENCES

- <https://www.investopedia.com/terms/m/merger.asp>
<https://www.investopedia.com/terms/a/acquisition.asp>
<https://www.investopedia.com/terms/a/amalgamation.asp>
 Arora, M., & Kumar, A. (2012). A study on mergers and acquisitions-its impact on management and employees. *Research Journal of Economics and Business Studies*, 1(5), 30-34.
 Malik, M. F., Anuar, M. A., Khan, S., & Khan, F. (2014). Mergers and acquisitions: A conceptual review. *International Journal of Accounting and Financial Reporting*, 4(2), 520-533.
 Soni, A. B. (2016). Mergers and acquisitions in india and its iMpact on shareholders wealth. *International Journal of Management, IT and Engineering*, 6(8), 255-270.
 Bhalla, P. (2014). Mergers & Acquisitions in India: A sectoral analysis. *International Journal of Business and Economic Development (IJBED)*, 2(2).
 Bedi, H. S. (2010, February). Merger & Acquisition in India: An Analytical Study. In *National Conference on Business Innovation conducted by Apeejay Institute of Management, Jalandhar-144001, Punjab*.
 Ito, K., & Rose, E. L. (2002). Foreign direct investment location strategies in the tire industry. *Journal of International Business Studies*, 33(3), 593-602.
 Sinha, P., & Gupta, S. (2011). Mergers and Acquisitions: A pre-post analysis for the Indian financial services sector MPRA Paper No. 31253.
 Maji, M. (2015). Merger and acquisition in information technology sector. *Available at SSRN 2553840*.
 Jallow, M. S., Masazing, M., & Basit, A. THE EFFECTS OF MERGERS & ACQUISITIONS ON FINANCIAL PERFORMANCE: CASE STUDY OF UK COMPANIES.
 Cartwright, S., & Schoenberg, R. (2006). Thirty years of mergers and acquisitions research: Recent advances and future opportunities. *British journal of management*, 17(S1), S1-S5.
 Netter, J., Stegemoller, M., & Wintoki, M. B. (2011). Implications of data screens on merger and acquisition analysis: A large sample study of mergers and acquisitions from 1992 to 2009. *The Review of Financial Studies*, 24(7), 2316-2357.
 Rajan, R., Volpin, P., & Zingales, L. (2000). The eclipse of the US tire industry. In *Mergers and Productivity* (pp. 51-92). University of Chicago Press.
<http://www.ilocis.org/documents/chpt80e.htm>