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A STUDY ON MERGER AND ACQUISITION OF SELECTED IT COMPANIES OF INDIA

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Abstract

IT sector is booming nowadays, thus who have an information have the great power and advantages. Here this research paper is based on some selected Merger and Acquisition in IT companies. The study analyzes the impact of Merger&Acquisition on acquire company after such Merger & Acquisition. Data are collected from the audited balancesheet, profit and loss account of selectedcompanies, CMEdatabase, Bombay stock exchange and National stock exchange, moneycontrol.com, internet. The limitation of this research paper is unavailability of data, limited time and source, accuracy and correctness of financialdataofcompany.

***Key words**: Merger and Acquisition, IT (Information Technology), Financial Ratio, T- Test.*

INTRODUCTION

To use any Information in future first we have to gather the information and then we have to store that information as data. In past to store information book are used but nowadays most of the information are stored in computer and big data house storage. Computer are used to store, receive, transmit, and manipulate data. Because of computer and mobiles data sharing and using become easy.
Mergers and acquisitions give an opportunity to a firm to join the other firm and become new strong and effective firm. There are different way for merger and acquisition but they all have common goal of optimizing profit, resources, diversification etc.
There are many merger happen in IT Industry too some of them are world biggest merger, which have global level effects. It also have drastic change in IT industry.

LITERATURE REVIEW

Zahid and Shah (2011) stated that Merger and acquisition adopted by corporate entities for survival strategy and to improve competitiveness and synergy over other corporate. Due to LPG policy, merger and acquisition becomes popular for restructuring. Merger and acquisition plays a vital role and it has been found that countries like India, China, Brazil, etc. engaged in this consolidation to achieve greater market share and enhance its complete operatingsynergy during post-merger and acquisitionperiod.
Choi, J., & Russell, J. S. (2004) stated that very few studies argue that the timing of transaction have a no significant effect on post-merger performance.
Chen, C., & Findlay, C. (2003) Stated thatwhen two companies merged in same industry, and most probable are competitors for creating monopoly in the market; it's known Horizontal merger.
Selvam, M., Babu, M., Indhumathi, G., & Ebenezer, B. (2009) Selected 13 companies that were engaged in the merger period 2002-2005 for the study of impact of merger and acquisition is on the liquidity, efficiency and profitability of the firms that participated in the restructuring mechanism of India. The result is an improvement in the liquidity position during post-merger.
Coyle, B. (2000) Stated thatthe main purpose of conglomerate merger is risk diversification as the successful performances balance the badly performing subsidiaries of the group.
Salter, M. S., &Weinhold, W. A. (1979) Stated thatcorporate merger and acquisition are the principal vehicles with the help of this the firms enter into new market and expand the size of operations.
Gourlay, A. R., Ravishankar, G., &Weyman-Jones, T. G. (2006) Stated that the efficiency gain from mergers among India banks during 1991 to 2005 and concluded that the merger led to improvement of efficiency for merging.
Henry, et.al. (1992) study of the 50 largest U.S. acquisition during the period 1979-1984. In that, the post-merger operating performance improves significantly after merger; however the study has been criticized for using industry median as bench mark.

Datta, D. K., Pinches, G. E., & Narayanan, V. K. (1992) Stated that merger and acquisition research are analysis that merger and acquisition wealth creation of the company as measured in the company observation across various studies.

RESEARCH GAP

A very few merger happened in IT Industry in India special inbounded. Very few research are taken for that merger and acquisition of Indian IT Industry. Many time only those firm are considered which have good effect.

OBJECTIVE

For corporate restructuring, the merger and acquisition have acquire a great place in recent time. In this paper our objective is to find why is it prepared to tool of growth? Even the risk are involved in it.
The study is based on the following objective;

1. To analyze the impact of acquisition on TCS (Tata Consultancy Services) and Tech Mahindra.
2. To study the impact of the acquisition on profitability of TCS and Tech Mahindra.
3. Study on impact of EPS (Earning Per Share) after the acquisition.

LIMITATION

This study is based on the financial performance, it was ignore the impact of overall position of the firm. It also ignore the impact of possible difference in the lacing method adopted by different companies in sample. Limited data available for research and also time limitation of research.

RESEARCH METHODOLOGY

1. Data Collection:

This study is based on secondary data. Data are collected from audited Profit and Loss Accounts, Balance Sheet, Reported Financial Ratio of the concerned companies websites and Financial Sites like Bombay Stock Exchange, National Stock Exchange and Money-control, Economic Times, Internet, Google.

2. Sampling:

Convenience sampling techniques is applied in the present study of selecting the sample companies. The list of all companies in India is not available so convince sampling method is applied in present study. The study includes two companies.
TCS with CMC
Tech Mahindra with Satyam Computer

3. Method:

This research based on study on the impact of financial performance the sample company by using available information for the particular time period.
For analyzing financial performance various research and accounting tools and techniques are applied.
For this purpose various stastical tools have been used, which are as under.

1) Operating Profit Ratio
2) Net Profit Ratio
3) Debt-Equity Ratio
4) EPS (Earning Per Share)
5) T-test

HYPOTHESIS OF STUDY

1. Ho: there is no significant difference in the post-acquisition performance of the acquiring firms compere to pre-acquisition operating performance.
2. Ho: there is no significant difference in the post-acquisition Net Profit of the acquiring firms compere to pre-acquisition Net Profit.
3. Ho: there is no significant difference in the post-acquisition Debt-Equity Ratio of the acquiring firms compere to pre-acquisition Debt-Equity Ratio.
4. Ho: there is no significant difference in the post-acquisition EPS of the acquiring firms compere to pre-acquisition EPS.

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ANALYSIS

We can see thedirection of changes by the Ratio and Trend Analysis as below. The analysis is depends on the Profit and Loss Account. Here, the research is based on the financial performance of before and after Acquisition and Merger

Trend Analysis

A) CMC Acquisition with TCS

TCS

Pre-Acquisition				Post-Acquisition			
Year	Debt fund	Net worth	Total	Year	Debt fund	Net worth	Total
2013	163.12	32562.25	32725.37	2016	163	65103	65176
2014	89.69	25856.63	25946.32	2017	244	78022	78266
2015	250.27	32562.25	32812.25	2018	220	75675	75895
Total	503.08	90981.13	91484.21	-	627	218800	219337
Average	167.69	30327.04	30494.74	-	207	72933.33	73112.33

Interpretation

We can see that the debt. Proportion is increased after the acquisition as per average but as in year 2015 the debt. fund is 250.27 crores which is decrease in 2016 at 163 crores but in the year 2018 it was 220 crores. It has increasing trend in the net worth equity party highly increase due to acquisition. The Merger and Acquisition give the deepest effect on net worth. The overall fund have increasing trend.

B) Satyam Computer Acquisition with Tech Mahindra

Tech Mahindra

Pre-Acquisition				Post-Acquisition			
Year	Debt fund	Net worth	Total	Year	Debt fund	Net worth	Total
2011	1182.70	3384.00	4566.7	2014	5	9820.50	9825.5
2012	1126.60	3443.20	4569.8	2015	0.00	12486.50	12486.50
2013	1104.50	4182.80	5287.3	2016	170.90	14784	14954.9
Total	3413.8	11010	14423.8		175.9	37091	37266.9
Average	1137.93	3670	4807.93		58.63	12363.67	12422.3

Interpretation

The debt proposition have decreasing trend and the net worth have increasing trend before the acquisition the debt is average Rs. 1137.93 crores which is decrease to Rs. 58.63 crores. In the year 2015 the debt fund of the company is nil but at net worth haven in graphically increases. There is a significant effect on a company after the post-Acquisition in respect of net worth.

Ratio Analysis

TCS

Pre-Acquisition					Post-Acquisition				
Year	Operating Profit Ratio	Net Profit Ratio	Debt Equity Ratio	EPS	Year	Operating Profit Ratio	Net Profit Ratio	Debt Equity Ratio	EPS
2013	29.54	26.4	.01	65.23	2016	31.5	26.87	-	117.11
2014	33.29	28.56	-	94.17	2017	29.22	25.51	-	120.04
2015	28.57	26.17	.01	98.31	2018	28.56	25.92	-	131.86
Total	91.4	81.13	.02	257.71		89.28	78.3	-	369.01

Tech Mahindra

Pre-Acquisition					Post-Acquisition				
Year	Operating Profit Ratio	Net Profit Ratio	Debt Equity Ratio	EPS	Year	Operating Profit Ratio	Net Profit Ratio	Debt Equity Ratio	EPS
2011	18.71	14.03	.35	55.31	2014	21.85	16.48	-	115.02

2012	15.87	8.78	.33	36.13	2015	16.83	11.77	-	23.48
2013	19.63	10.87	.26	50.93	2016	16.27	15.35	.01	33.27
Total	54.21	33.68	.94	142.37		54.95	43.6	.01	171.77

Interpretation:

1) Operating Profit Ratio:

The operating ratio of TCS Ltd. has been decreasing, before the Acquisition the operating ratio was 91.4 % which is after acquisition 89.28 % it indicate operating efficiency in post-acquisition. In the case of Tech Mahindra there is no effect on operating ratio. Before acquisition its ratio is 54.28 % which is after the acquisition 54.59 %.

2) Net Profit Ratio:

Net profit ratio of TCS Ltd. Before acquisition is 18.13 % which is decreased and reach to 78.3 % it show the negative impact of merger on profitability but in case of Tech Mahindra they have positive effect on profitability. The net profit ratio of pre-acquisition period is 33.38 % which is increased in post-acquisition up to 43.6 %.

3) Debt-Equity Ratio:

In TCS Ltd. Debt-Equity Ratio have depth effect of merger and acquisition.

The debt of the company before acquisition is very less so ratio is near to zero and after acquisition debt is nil. In case of Tech Mahindra before acquisition Debt-Equity Ratio is 0.94 and after acquisition it is 0.01. As per financial burden this is a good effect because debt of company is decreasing but as per management point of view net worth is high so interference of shareholder it also have huge effect on decision making.

4) EPS:

After the merger and acquisition EPS is increasing because of owners fund is increased. EPS of TCS Company before merger is 257.71 and after merger is 369.01. in case of Tech Mahindra EPS before merger is 142.37 and after merger is 171.77.

T-test Analysis:
TCS

Paired Samples Test

		Paired Differences			T	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean			
Pair 1	Pre OPR – Post OPR	.70667	3.07477	1.77522	.398	2	.729
Pair 2	Pre NPR – Post NPR	.94333	1.85961	1.07364	.879	2	.472
Pair 3	Pre DER – Post DER	.00667	.00577	.00333	2.000	2	.184
Pair 4	Pre EPS – Post EPS	-37.10000	13.36345	7.71539	-4.809	2	.041

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Pre OPR – Post OPR	3	-.112	.929
Pair 2	Pre NPR – Post NPR	3	-.670	.532
Pair 3	Pre DER – Post DER	3	0.	0.
Pair 4	Pre EPS – Post EPS	3	.736	.473

Interpretation:

Hear we can see that there is negative correlation and no significance between Pre and Post Operating Ratio. There is negative correlation and no significance between Pre and Post Net Profit Ratio. There is no correlation and no significance between Pre and Post Debt Equity Ratio. There is positive correlation and significance between Pre and Post Earning Per Share. It means that only EPS have good effect of acquisition. So we can't say that acquisition have good effect on TCS.

Tech Mahindra
Paired Samples Test

	Paired Differences	T	Df	Sig. (2-tailed)

		Mean	Std. Deviation	Std. Error Mean			
Pair 1	Pre OPR – Post OPR	-.24667	3.30819	1.90999	-.129	2	.909
Pair 2	Pre NPR – Post NPR	-3.30667	1.05140	.60702	-5.447	2	.032
Pair 3	Pre DER – Post DER	.31000	.05292	.03055	10.147	2	.010
Pair 4	Pre EPS – Post EPS	-9.80000	43.29586	24.99687	-.392	2	.733

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Pre OPR – Post OPR	3	.194	.876
Pair 2	Pre NPR – Post NPR	3	.918	.260
Pair 3	Pre DER – Post DER	3	-.977	.136
Pair 4	Pre EPS – Post EPS	3	.745	.465

Interpretation

Hear we can see that there is positive correlation and no significance between Pre and Post Operating Ratio. There is positive correlation and significance between Pre and Post Net Profit Ratio. There is negative correlation and significance between Pre and Post Debt Equity Ratio. There is positive correlation and significance between Pre and Post Earning Per Share. It means that acquisition have good effect on Tech Mahindra.

CONCLUSION

After doing this tests and based on available information we can say that Merger and Acquisition may have favourable or unfavourable result there so many other factor effect like economic condition of country, businesscycle and trend market position of both company etc. Here, we can see that one company have good effect of merger and acquisition while the other one have an opposite effect.

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