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IMPACT OF MERGER AND ACQUISITION ON FINANCIAL PERFORMANCE OF TCS AND CMC

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Abstract

Corporate restructuring is redesigning of business. It can be done through expansion techniques, divestment techniques and many other techniques. Expansion techniques includes Merger and acquisition, takeovers, strategic alliances, joint ventures while divestment techniques includes methods such as demergers, hive off, slump sale, leverage buyout, management buyout or liquidation. Merger means consolidation of two or more companies into one company, whereas in acquisition one company acquires another one. The motive behind mergers and acquisition is to create synergies. Here the focus is on IT companies. IT is always a booming sector. Information technology is used in all sectors nowadays, that's why it is considered as backbone of all sectors. The main aim of present paper is to analyze the impact of merger and acquisition on financial performance of the IT companies in India. The paper presents the case of merger and acquisition of TCS and CMC. The data is collected from secondary sources. These have been collected from companies official website, Bombay stock exchange, journals, articles and online available sources. Financial ratios were employed for data analysis. The finding indicates that there is no significant improvement is observed.

Keywords: *Merger and acquisition, It companies, financial ratios*

INTRODUCTION

whenever a organization wants to grow, expand or survive in competitive market, it needs to redesign itself and concentrate on the competitive advantages. Corporate restructuring means restructure the business of organization for increasing its profitability, by improving efficiency. Nowadays restructuring is not only an option but a conscious choice made by organizations. Every corporate restructuring aims is to eliminates hurdles and to combine advantages & to gain synergy through well planned restructuring in the market. Merger and acquisition is one type of corporate restructuring. In today world, it become trend. Through merger and acquisition companies can get advantages of tax benefits, economies of scale, diversification, domination, reduce competition, new technologies, expansion of market shares, focus on core competence etc. (2021)

LITERATURE REVIEW

Verma N & Sharma R (2012) studied impact of mergers and acquisitions on financial performance of Tata group. The researcher have used 24 companies of Tata Group merger as sample study. For the study, they have taken 3 years for pre and 3 years for post. They have applied financial ratios such as current ratio, working capital, Debt- equity ratio, Return on Net worth, Return on investment. The result of the study discloses that no significant increase or decrease observed in Tata group merger. (sharma, 2012)
Mashkour S. C et.al (2021) evaluated the effect of merger and acquisition on financial performance of companies in Iraq. They have used purposive sampling method. The study selected 10 companies of merger as a sample for the study purpose. Accounting ratios such ROE, ROA, EPS, NPM were used. paired sampled test is also employed for final conclusion. The results shows that all ratios have shown significant improvement except NPM ratio. they concluded that synergies were obtained through mergers and acquisitions. (saoud chayed mashkour, 2021)
Gupta B & Banerjee P (2017) analyzed the impact of merger and acquisitions on financial performance of selected companies in India. 7 cases of mergers and acquisition have been studied. Ratio such as gross profit, net profit, operating ratio, ROCE, EPS, current ratio, quick ratio and debt-equity were used. paired sample t test

were applied with the help of SPSS. The researcher conducted that no improvement is observed in after merger period. (banerjee, 2017)

RESEARCH METHODOLOGY

Research objective :-

1. To study the impact of merger and acquisition on profitability indicator ratio.
2. To study the impact of merger and acquisition on liquidity indicator ratio.
3. To study the impact of merger and acquisition on efficiency indicator ratio.
4. To study the impact of merger and acquisition on leverage indicator ratio.
5. To study the impact of merger and acquisition on market prospect indicator ratio.

Data collection :- The research objectives of the present study is studi29ed on the basis of secondary data collection. The data collected for evaluation of the selected companies financial performance is adopted from companies official websites, research papers, journals, articles and online sources.

Method of Sampling :- Non- probability sampling method is used, in which convenience sampling technique is employed for the study purpose of the selected sample companies.

Tools and techniques :- Financial ratios have been used for the study.

Sample companies of the study :-

Merger year	Acquirer company	Target company
2015	**TCS (Tata consultancy services)**	**CMC (computer maintainance corporation)**

Study period of the sample:- For data analysis, 4 years for pre-stage merger and 4 years for post-stage merger were considered. The year of selected companies merger and acquisition is base year, it is excluded from the evaluation period.

Research hypothesis :-
H0-1 =There is no significant difference in profitability indicator ratios between pre-merger period and post-merger period.
H0-2 =There is no significant difference in liquidity indicator ratios between pre-merger period and post-merger period.
H0-3 =There is no significant difference in efficiency indicator ratios between pre-merger period and post-merger period.
H0-4 =There is no significant difference in leverage indicator ratios between pre-merger period and post-merger period.
H0-5 =There is no significant difference in market prospect ratio between pre-merger period and post-merger period.

Limitations:-
1. The collected data is from secondary source.
2. Only one sample is selected for the study, as few merger and acquisition occurred in IT sector, which is inbounded.

DATA ANALYSIS

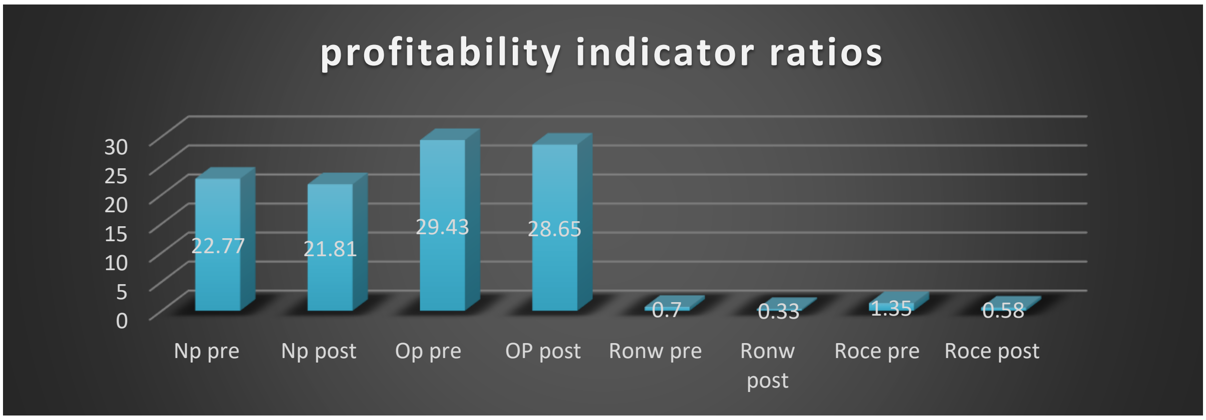
1. Profitability indicator ratios

The below table indicates the Pre merger performance of TCS and CMC :-

particulars	TCS				CMC			
Year	NP	OP	RONW	ROCE	NP	OP	RONW	ROCE
2011	24.29	29.52	0.46	2.49	16.57	19.53	0.27	0.55
2012	21.29	28.47	0.35	1.09	10.30	15.00	0.19	0.59
2013	22.09	28.71	0.36	0.91	11.94	15.88	0.24	0.66
2014	23.42	31.04	1.66	0.93	12.55	17.35	0.24	0.66
total	91.09	117.79	2.83	5.42	51.36	67.76	0.94	2.46
average	22.77	29.43	0.70	1.35	12.84	16.94	0.23	0.615

The below table indicates the post merger performance of TCS

Year	NP	OP	RONW	ROCE
2016	22.35	29.30	0.37	0.66
2017	22.34	29.25	0.30	0.52
2018	21..02	27.69	0.30	0.53
2019	21.54	28.37	0.35	0.59
Total	87.25	114.61	1.32	2.32
average	21.81	28.65	0.33	0.58

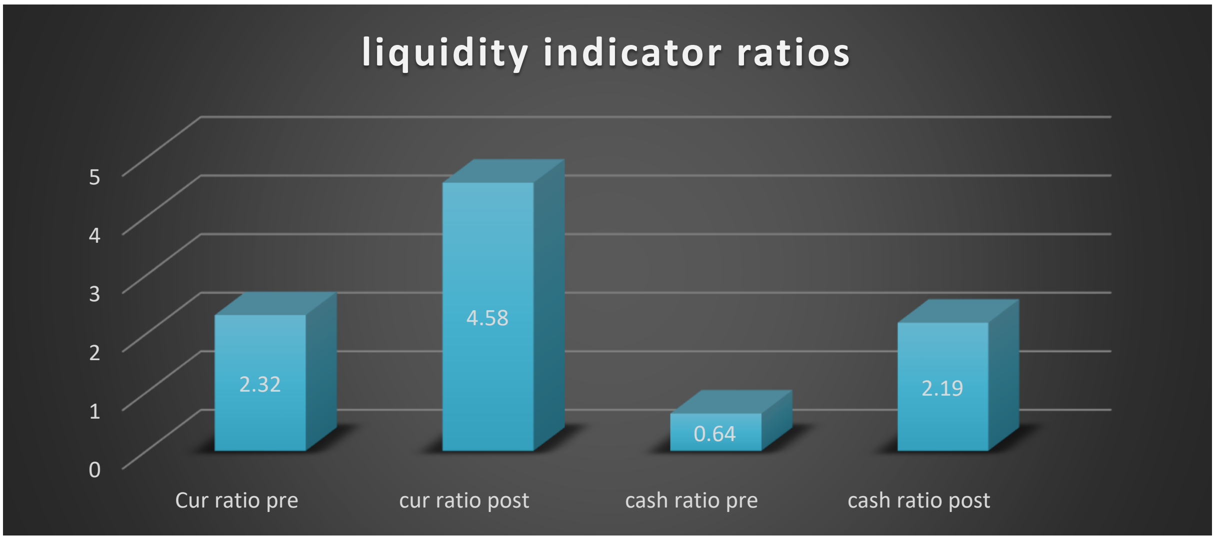


Interpretation:-

Net profit ratio of TCS has been decreasing with the average value of 21.81% in post merger period, before merger the average value of TCS is 22.77%. Before merger Operating profit of TCS is 29.43% but after merger period is 28.65% which is decreased. It was the same case, in RONW and ROCE. In pre merger period, the RONW of TCS is 0.70, it was decreased in after merger period i.e. 0.33 whereas in ROCE the pre merger value of TCS is 1.35, which was declined to 0.58. This merger does not have effect on financial strength of the company. Therefore, here the null hypothesis i.e. H0-1 is accepted.

2. Liquidity indicator ratios :-

Stage	Pre merger				Post merger	
particulars	TCS		CMC		TCS	
Year	Current ratio	Cash ratio	Current ratio	Cash ratio	Current ratio	Cash ratio
2011	1.71	0.48	0.59	0.38	4.06	3.07
2012	2.21	0.54	0.34	0.25	5.54	1.79
2013	2.66	0.49	0.65	0.24	4.55	2.27
2014	2.73	0.48	0.99	0.28	4.17	1.64
total	9.31	1.99	2.57	1.15	18.34	8.77
average	2.32	0.49	0.64	0.28	4.58	2.19



Interpretation:-

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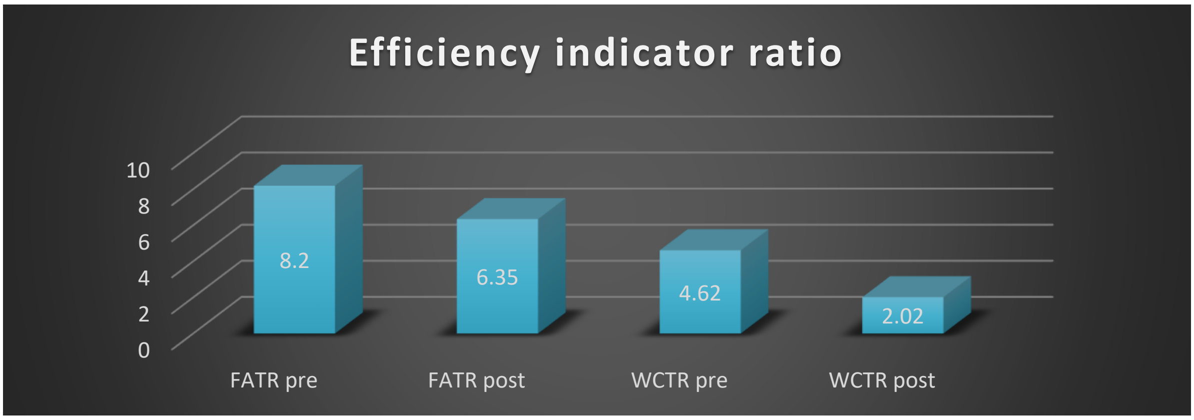
Current ratio of TCS has been increasing with the average value of 4.58 in post merger period, before merger the average value of TCS is 2.32. Before merger the cash ratio of TCS is 0.49 but after merger period it is 2.19. Here, the null hypothesis i.e. H0-2 is rejected.

3. Efficiency indicator ratio;-

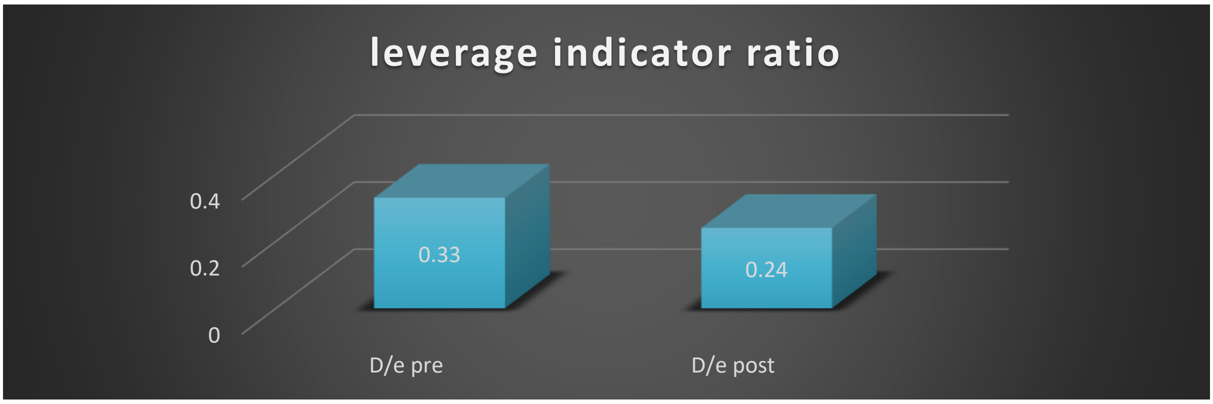
Stage	Pre merger				Post merger	
particulars	TCS		CMC		TCS	
year	FATR	WCTR	FATR	WCTR	FATR	WCTR
2011	8.30	8.44	5.32	2.86	8.76	2.28
2012	8.34	3.85	5.03	3.98	5.33	1.78
2013	7.73	3.19	5.21	4.20	4.91	1.94
2014	7.83	3.00	4.96	3.85	6.42	2.09
total	32.8	18.48	20.52	14.89	25.42	8.09
average	8.2	4.62	5.13	3.72	6.35	2.02



Interpretation:-
Fixed asset turnover ratio of TCS has been declining with the average value of 6.35 in post merger period while before merger the average value of TCS is 8.20. Whereas Before merger the cash ratio of TCS is 4.62 but after merger period it is decreases with the value of 2.02. Therefore, here the null hypothesis i.e. H0-3 is accepted.

4. Leverage indicator ratio:-

Stage	Pre merger		Post merger
Year / particulars	TCS	CMC	TCS
	D/E ratio	D/E ratio	D/E ratio
2011	0.33	0.58	0.27
2012	0.31	0.61	0.19
2013	0.33	0.52	0.24
2014	0.35	0.50	0.27
total	1.32	2.21	0.97
average	0.33	0.55	0.24



Interpretation:-
In pre merger period, the D/E ratio of TCS is 0.33 , it was decreased in after merger period i.e. 0.24, which is good sign for the company. Here, the null hypothesis i.e. H0-4 is rejected.

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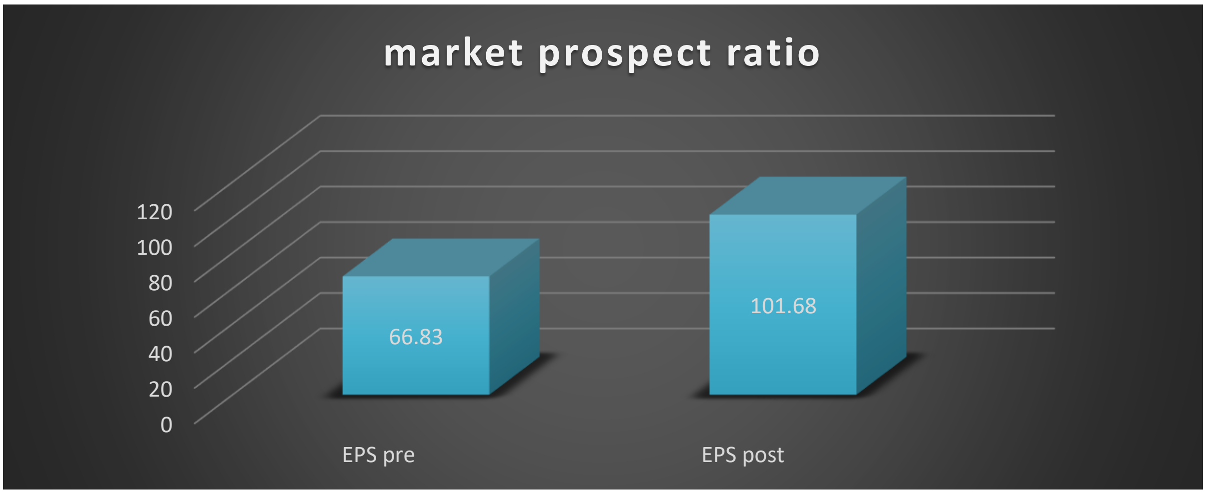
5. Market prospect ratio:-

Stage	Pre merger		Post merger
Year / particulars	TCS	CMC	TCS
	EPS	EPS	EPS
2011	46.27	59	123.18
2012	53.07	50	133.41
2013	70.99	76	67.10
2014	97	93	83.05
total	267.33	278	406.74
average	66.83	69.5	101.68



Interpretation:-
Market prospect ratio of TCS has been inclining with the average value of 101.68 in post merger period while before merger the average value of TCS is 66.83. This is a good sign for investors and company as well. Here the null hypothesis i.e. H-5 is rejected.

CONCLUSION

The highlights of the results indicates that liquidity, leverage and market prospect ratio of the companies have been improved in post merger and acquisition period. While other indicator ratios such as profitability indicator ratio & efficiency indicator ratio have shown deteriorating results in post merger stage . Therefore, the study concluded that no improvement is observed as only few ratios have shown positive impact in post merger stage.

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