GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP GYAN
A GLOBAL JOURNAL OF SOCIAL SCIENCES
(ISSN – 2581-5830)
Impact Factor – 4.998

GRAND ACADEMIC PORTAL (GAP) 2017
ज्ञान: अध्ययन: परम्परा

A STUDY ON MERGERS AND ACQUISITIONS OF SELECTED PHARMACEUTICAL COMPANIES OF INDIA

Shivani Shah
Visiting Faculty
S.D.School Of Commerce, Gujarat University
School Of Law, Gujarat University
L.J. School Of Law, Sarkhej Campus
Shivani.Shah2896@Gmail.Com

Dhaval Nakum
Junior Research Fellow
S.D.School Of Commerce, Gujarat University

Abstract

In today's globalized economy, mergers and acquisitions have increased over the world, by capturing greater market share, broadening the portfolio to reduce business risk, improving competitiveness of companies, entering new market and geographies and capitalizing on economies of scale. This research study is aimed to study the impact of Merger and Acquisitions (M&A) on shareholders' profitability and wealth and also on overall wealth of the organization. The results suggests that there is negligible impact of M&Aon shareholders' profitability and wealth in case of SUNPHARMA and RANBAXY LABORATORIES whereas in case of TORRENT PHARMA and ELDER PHARMA there is significant impact on shareholders' profitability and overall wealth of the organization.

Key word: *Mergers and Acquisitions (M&A), Competitiveness, Business Risk, Economies of Scale, Financial Performance.*

INTRODUCTION

The most discussed topic nowadays in Corporate Field is Mergers &Acquisitions (M&A). In developed economies like United States, Europe and Japan,M&A is a regular feature. In India, too, Mergers and Acquisition have become a part of corporate strategy.

The terms 'mergers', 'acquisitions' and 'takeovers' are often used interchangeably in colloquial language. However, there are differences. Merger means fusion of two entities into one, Acquisition involves one entity buying out another and absorbing the same. In legal sense merger is known as 'Amalgamation', in India.

In nutshell, Merger is when the shareholders of more than one company, usually two, decide to pool the resources of the companies under a common entity. As a result of a merger, if a new company comes into existence, it is a process of 'Amalgamation'. If as a result of a merger, one company survives and others loose its independent identity, it is the case of 'Absorption'. If one company acquires the controlling interest in another company, it is the case of 'Acquisition or Takeover'.

Background of the industry

Pharmaceutical word is derived from the Greek word 'Pharmakeia'. The modern transliteration of Pharmakeia is Pharmacia. The pharmaceutical industry develops, produces and markets drugs or pharmaceuticals licensed for use as medications. Worldwide, the pharmaceutical industry operates in two categories - innovative and generic**. Innovative companies** are those that create knowledge and spend a lot of money on Research and Development to develop new medicines**. Generic companies** are adoptive in name and permit copying of medicines only after the expiry of the patented drugs.

In India, the pharmaceutical products are generally categorized as branded medicines, branded-generics and generic medicines. The branded medicine, branded-generics and generic medicines' categorization is done as follows:

Branded medicines: The medicines which have a name given to them by a company for the purpose of advertising. They may be originally developed by a company or several companies. These are normally promoted to doctors.

Branded-generics: It is exclusively used in Indian terminology and is referred to branded products but not promoted to the medical professionals but marketed to retail chemiststhrough heavy incentives.

Generic medicines: It contains the same chemical substance as a drug that was originally protected by patents. They are allowed for sale after the patents on the original drugs expire. They are usually marketed under their chemical/salt names.

India based pharmaceutical companies are not only catering to the domestic market but also exporting it to other countries and fulfilling their demands. They are exporting high quality, low cost drugs to countries such as the Russia, US, South Africa, Singapore, Kenya, Malaysia, Nigeria, Ukraine, Vietnam, and more.

Overview of merger and acquisition trend in india

Mergers and Acquisitions (M&A) have become frequent phenomenon in the Indian pharmaceutical industry. Size and end-to-end connectivity are major detriments in the global markets, to achieve them - Western MNC's have to look to Indian companies. India's changing therapeutic requirements and patent laws will provide new opportunities for big pharmaceutical companies to launch their patented molecules. India's strong manufacturing base and low-cost development will stand in good stead for global generic companies.
Besides consolidation in the domestic industry and investments by the US and European firms, the spate of mergers and acquisitions by Indian companies has steered an era of the "Indian Pharmaceutical MNC". After making partnerships and alliances with international pharmaceutical firms, Indian pharmaceutical companies have now moved up a step in the value chain and are looking at inorganic route to growth through acquisitions. Also, by the easy access to global finance the Indian companies are finding it easier to fund their acquisitions.

Incentives for Mergers and Acquisitions by Indian companies

- Build critical mass of highly trained personnel in field of marketing, manufacturing and research infrastructure.
- Establish front - end presence.
- Diversification into new areas: Tap other geographies/ related segments/customers to enhance product life cycle and build synergies for new products.
- Enhance product, technology and intellectual property portfolio
- Capturing market share.

LITERATURE REVIEW

Sr.No.	Topic Name (Published Year)	Author/Author's Name	Outline of Paper
1	Merger and Acquisitions In India and its Impact on Shareholder's Wealth (2016)	Amish Soni	Measuring wealth of shareholders for short term view using statistical methods such as Paired t-test, Regression Line, ANNOVA Table limiting time period from 2004 to 2014 of top 10 M&A in India.
2	Merger and Acquisition and Firm's Performance: Experience of Indian Pharmaceutical Industry. (2010)	Pulak Mishra and Tamal Chandra	M&A do not have significant impact on profitability of the firms in the long run but however then it was found out that profitability of firm directly depends on its size, selling efforts, exports andimports intensities but inversely on their market share and demand for the products
3	Post-Merger and Acquisition Financial Performance Analysis: A Case Study of Select Indian Airline Companies. (2012)	Mahesh R. and Daddikar Prasad	Airline Companies in India does not bring significant difference on the financial performance after merger by not only rejecting the null hypothesis but also rejecting the alternative hypothesis which considered that there is significant improvement in surviving company's performance post-merger and acquisition activity for the sample under consideration.

4	Mergers and Acquisitions: Analysis on Indian Merger and Acquisition in India with Reference from 2005-2015 (2018)	Krishna Prasad and MridulaSahay	Secondary Study on why companies are going for mergers and acquisitions. Providing casual loop structure which gives us clear idea about the benefits of M&A process. The only limitation is that it is purely based on qualitative data and it can be extended to further research by conducting analysis on quantitative data. The time period is limited to 10 years i.e. 2005-2015 and most mergers have failed due to cultural differences in different organizations. Comparison between stock price and growth rate is done to identify the success rate.
5	Comparison of Post-Merger Performance of Acquiring firms (India) involved in Domestic and Cross-Border Acquisitions.(2009)	SidharthSaboo and Sunil Gopi	Study was undertaken to test whether acquisition (domestic or cross-border) has different impact on operating performance of acquiring firm by examining some pre and post-merger financial ratios. It has been found out that there is positive impact on key ratios in case of Domestic Firms whereas negative impact in case of Cross-Border Firms. Period of study was 2002-2007 which has witnessed two bubble bursts (dot com bubble and real estate bubble) which might haveaffected the analysis.
6	Impact of Mergers and Acquisitions Across Industries In India.(2013)	Dr.(Mrs.) S.Poornima and S.Subhashini	Financial performance of acquiring firm during pre and post-merger period specifically in the areas of profitability, leverage, liquidity and managerial efficiency of the company. Paired t-test is used as a statistical method to determine the significant difference and it shows that there is no improvement in the financial performance of the firm due to acquisition.
7	Mergers and Acquisitions In Telecom Industry: An Analysis of Financial Performance of Vodafone Plc and Hutchison Essar(2010)	NidhiNalwaya and Rahul Vyas	To measure the financial performance, they have used ratio analysis and paired t-test.The study is limited to a specific case of telecom industry only. They have analyzed that earnings and dividend both grew after merger which can be due to rapid changes in economic environment and technology.

8	Post-Merger Financial Performance: A Study with Reference to Select Manufacturing Companies In India. (2012)	N.M.Leepsa and Chandra Sekhar Mishra	The paper has concluded that profitability position of companies has increased in terms of return on capital employed and decreased in terms of return on net worth. The increase has been statistically significant and vice versa. The future scope ofstudy is to compare the performance of companies taking the firms involved in merger activities as well as can also be extended to the cases of acquisitions
9	Effect of Cross Border Mergers and Acquisitions on the Company Value Creation: Case of Selected Indian Companies of Metal and Metal Product Sector (2014)	PurviDipeDerashri and Dr.HiteshShukla	Analyzing and Comparing the pre-merger and post-merger acquisition value creation using financial ratios collected through secondary sources of data like BSE, NSE, Annual Reports of five firms. Null hypothesis stating there is no significant difference between the mean of pre and post-merger is accepted.
10	Impact of Acquisition on Operating Performance in Indian Pharmaceutical Industry(2013)	K.Jayakumar	It demonstrates the effectiveness of strategies for realizing the desired objectives. The impact is checked on the basis of financial ratios with respect to the pre-acquisition and post-acquisition financial ratios. It was found out from the results that there is no significant effect on the operating of the firms following acquisitions.

RESEARCH METHODOLOGY

Objective of study

- To gain perspective on Mergers and Acquisitions in Indian Pharmaceutical Industry.
- To make a comparative analysis of the impact of mergers on financial performance of the selected pharmaceutical companies in India.

Data collection

- The present study is based on data collected from secondary sources like the data obtained from the annual reports relating to the various financial performances of Pharmaceutical sector firms, the data has also been augmented from websites, various books and journals
- The data of just preceding years of the year in which merger/acquisition took place has been considered as Pre-Merger Study and the data after the year of merger/acquisition is considered as Post-Merger Study.

Period of study

- The present study covers a period of six years, spread over three years 2014-15 before the date of M&A and three years after the date of M&A subsequently.

Sample design

- As the complete source list of all Pharmaceutical companies is not readily available, the data have been selected based on convenience sampling method. Following table shows the list of firms selected for the study.

List of companies used in study

Sr.no	Acquirer company	Target company	Year
1	SUNPHARMA LTD	RANBAXY LABORATORIES	2015
2	TORRENT PHARMA	ELDER PHARMA	2014

Tools and techiques

To analyze the available financial information of the companies various techniques of applied research and accounting tools like comparative ratios have been employed. The following are financial ratios and their means were calculated for analyzing the financial performance of the companies:

- **Earnings Per Share (EPS)**

This is considered as market based ratio. Since, one of the objectives of financial management is wealth maximization, this ratio helps to calculate it easily. It shows the profit or earnings available to each and every equity share. Here, profit available to real owners i.e. equity shares is considered.

EPS = Profit available for equity shareholders/Number of equity shares.

- **Return on equity (ROE)**

ROE is considered a measure of how effectively management is using a company's assets to create profits. ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers.

ROE = Net Income / Average Shareholders' Equity

where,

Net Income = Profit after tax less preference dividend

Average shareholders' Equity = Equity at the beginning of the period to the equity at the end of the period divided by two.

- **Return on Capital Employed (ROCE)**

It shows profitability but in the form of long term investment made by the firm. It is highly considered ratio in financial management because it calculates the proportion of profit available in consideration of investment. In this way EBIT is selected, because it suggests the profit available before payment of financial charges like interest and dividends etc. and for investments in capital employed only long term sources of finance is considered including both owners' fundsand borrowed funds. If this ratio is higher it shows better financial condition of the firm.

*ROCE = EBIT / Capital Employed *100*

where,

Capital Employed = Equity Share Capital + Preference Share Capital + Reserves and Surplus + Long Term Debts – Fictitious Assets.

IMPACT OF MERGER AND ACQUISITION ON PHARMACEUTICAL INDUSTRY

The healthcare sector in India has experienced a paradigm a shift due to globalization, industry dynamics and increasing regulatory and competitive pressures.

Companies across the world are reaching out to their counterparts to take mutual advantage of the other's core competencies in R&D, Manufacturing, Marketing and the niche opportunities offered by the changing global pharmaceutical environment.

The pharmaceutical sector offers wide range of opportunities for growth. This sector has always been dynamic in nature and the pace of change has become rapid nowadays. To adapt to these changing trends, the Indian pharmaceutical companies have evolved distinctive business models to take advantage of their inherent strengths and the "Borderless" nature of this sector. These differentiated business models provide competitive edge for consolidation and growth to the pharmaceutical companies.

The study is undertaken of selected pharmaceutical companies of India which are as follows.

Table 1: DATA OF SUNPHARMA LTD AND RANBAXY LABORATORIES

Sr. No.		SUNPHARMA LTD			RANBAXY LABORATORIES		
		EPS (Rs)	ROE (%)	ROCE (%)	EPS (Rs)	ROE (%)	ROCE (%)
Pre-Merger	2012	16.40	21.54	20.92	-3.85	0	-3.12
	2014	-13.70	-38.18	-27.91	-20.79	0	-21.58
	MEAN	**1.35**	**-8.32**	**-3.495**	**-12.32**	**0**	**-12.35**
Post-Merger	2016	-4.5	-4.99	-4.23			

	2017	-0.1	-0.1	0.9			
	MEAN	**-2.3**	**-2.545**	**-1.665**			

GRAPHICAL REPRESENTATION

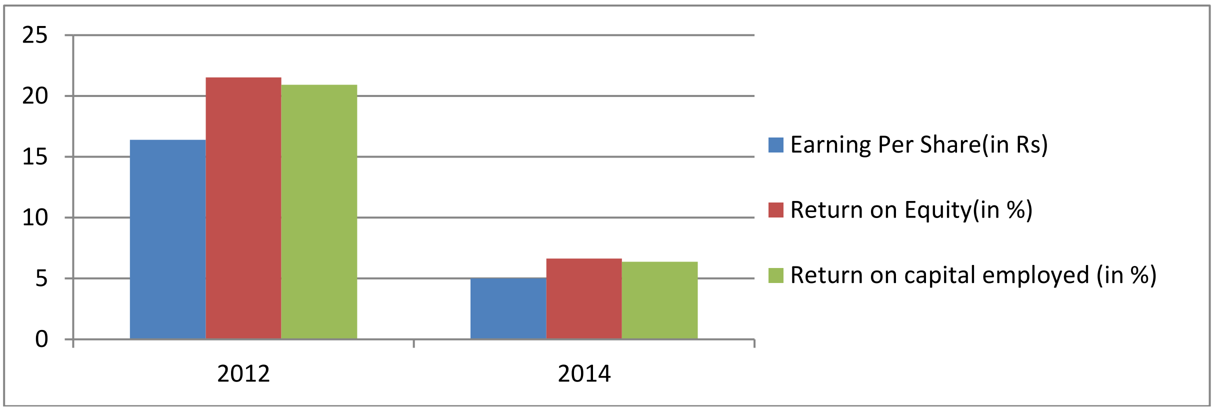

Figure 1.0 RATIO OF SUNPHARMA (PRE-MERGER)

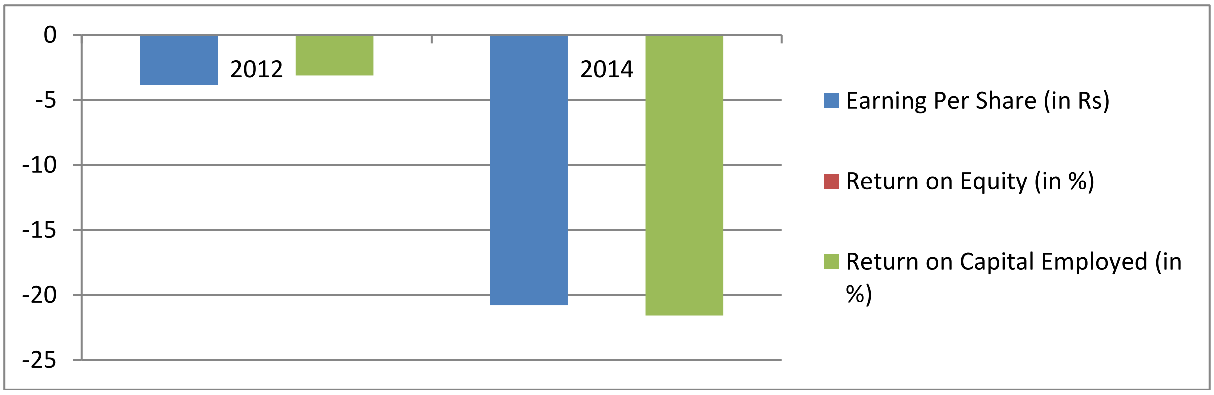

Figure 1.1 RATIO OF RANBAXY (PRE-MERGER

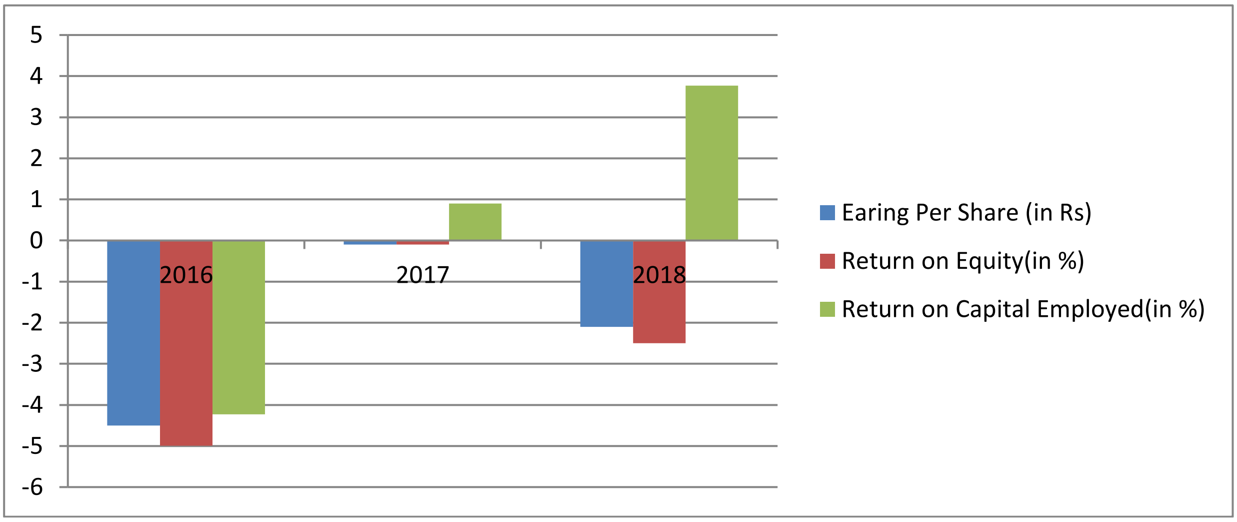

Figure 1.2 RATIO OF SUNPHARMA (POST-MERGER)

ANALYSIS

- The mean of EPS of SunPharma before merger was Rs 1.35 whereas that of acquire company Ranbaxy's EPS was Rs -12.32 and post-merger EPS of parent company is Rs -2.3 which depicts that the Ranbaxy merging with SunPharma has reduced the negative earnings by approximately 10%
- The mean of pre-merger return on equity of parent company was -8.32% and target company had zero returns on equity and post-merger returns has reduced the negative impact on equity by 6%
- The ROCE is used for long term profitability where mean of parent company is -3.495% whereas that of target company was -12.35% and after merger the results are -1.66% which shows that the negative impact has reduced to some extent on overall profitability of the firm.

GRAND ACADEMIC PORTAL
RESEARCH JOURNALS

GAP GYAN
A GLOBAL JOURNAL OF SOCIAL SCIENCES
(ISSN – 2581-5830)
Impact Factor – 4.998

ज्ञान: अध्ययन: परम्परा

Table 2: DATA OF TORRENT PHARMA AND ELDER PHARMA

Sr. No.		TORRENT PHARMA			ELDER PHARMA		
		EPS (Rs)	ROE (%)	ROCE (%)	EPS (Rs)	ROE (%)	ROCE (%)
Pre-Merger	2011	34.38	26.61	19.08	35.88	11.58	7.04
	2012	36.79	23.85	17.78	40.94	12.15	7.42
	2013	64.58	33.09	24.35	45.64	12.05	6.85
	MEAN	**45.25**	**27.85**	**20.40**	**40.82**	**11.93**	**7.10**
Post-Merger	2015	36.83	23.03	12.02			
	2016	102.99	47.01	30.12			
	2017	50.48	19.17	12.38			
	MEAN	**63.43**	**29.74**	**18.17**			

GRAPHICAL REPRESENTATION

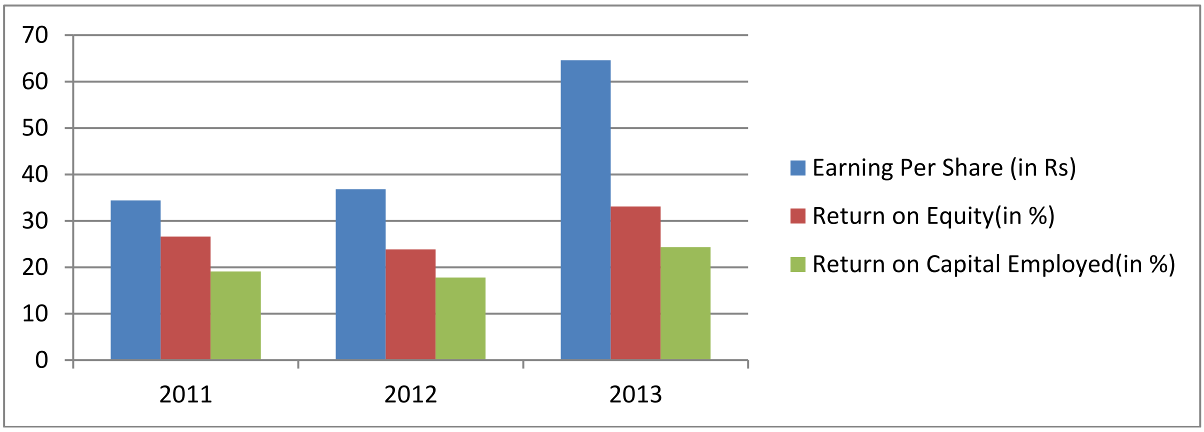

Figure 2.0 RATIO Of TORRENT PHARMA (PRE-MERGER)

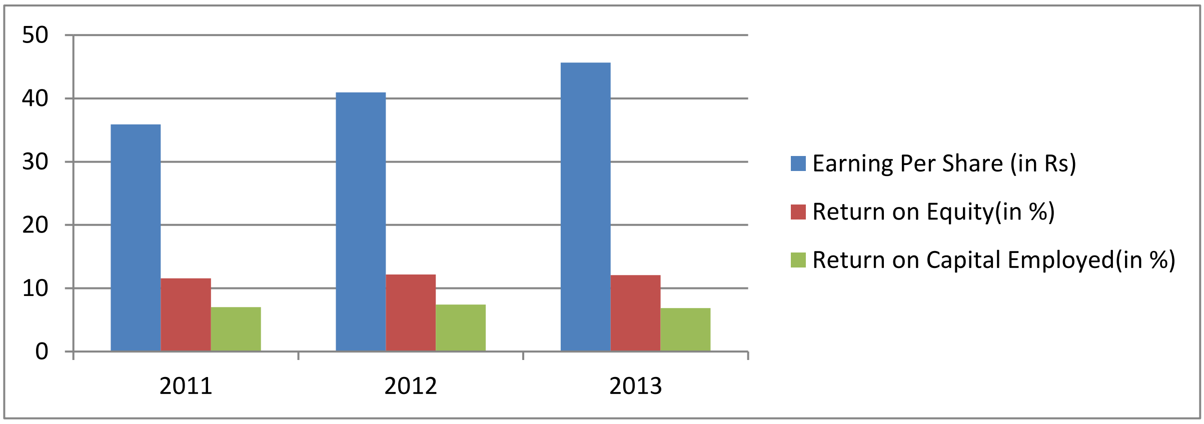

Figure 2.1 RATIO OF ELDER PHARMA (PRE-MERGER)

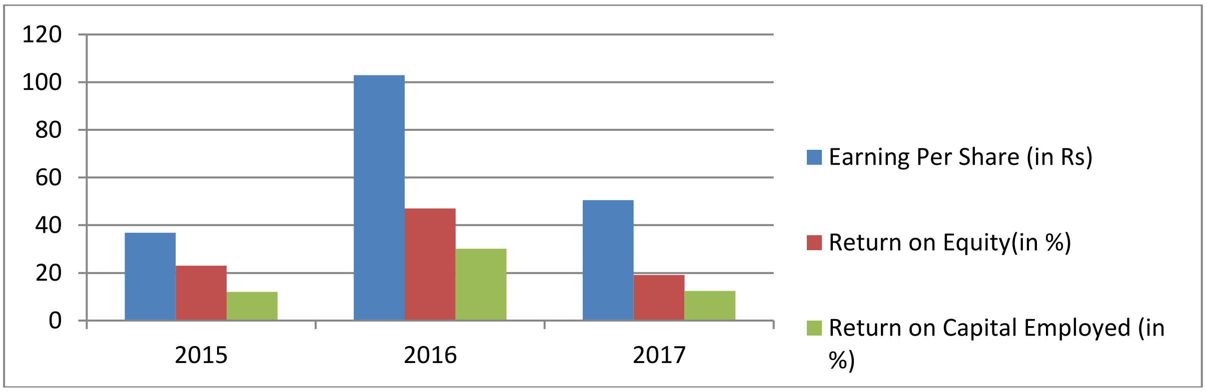

Figure 2.2 RATIO OF TORRENT PHARMA (POST-MERGER)

ANALYSIS

- The mean EPS of Acquiring company Torrent Pharma before merger was Rs 45.25 whereas that of target company , Elder Pharma was Rs 40.82 and post-merger the mean is Rs 63.43 which shows significant impact on profitability.
- The mean of pre-merger return on equity of acquiring company was 27.85% and that of target company was 11.93% and post-merger the mean is 29.74% which depicts significant impact on profitability.
- The mean of pre-merger return on capital employed was 20.40% and that of target company was 7.10% and post-merger the mean is 18.17% which shows significant impact on overall wealth of the firm.

LIMITATIONS OF STUDY

- As the complete source list of all Pharmaceutical companies is not readily available so the study is restricted to two pharmaceutical companies.
- The study is limited for the 2-3 years pre and post-merger and acquisition period.
- The profitability ratios are used to depict the financial performance of the selected companies and statistical aspect is ignored.

CONCLUSION AND FINDINGS

The results and analysis of the key financial ratios of the acquiring firms shows that there is negligible impact on the overall wealth and shareholders' profitability in case of SUNPHARMA and RANBAXY LABORATORIES. On the other hand, in case of TORRENT PHARMA and ELDER PHARMA there is significant impact on the overall wealth of the firm and on the profitability of shareholders'. This study considers only the fundamental aspects of analysis but this research can further be extended to statistical aspects also.

REFERENCES

https://www.academia.edu/10549999/Merger_and_Acquisitions_in_Pharma_sector_in_India. (2013 -2014). 35.

https://www.academia.edu/10549999/Merger_and_Acquisitions_in_Pharma_sector_in_India. (2013 -2014). 35.

Soni., A. B. (2016). Merger and Acquisitions In India and its Impact on Shareholder's Wealth . *IOSR Journal of Business and Management (IOSR-JBM)* , 8.

Chandra, P. M. (2010). Mergers, Acquisitions and Firms' Performance : Experience of Indian Pharmaceutical Industry. *Eurasian Journal of Business and Economics* , 17.

Prasad, M. R. (2012). Post Merger and Acquisition Financial Performance Analysis: A Case Study of Select Indian Airline Companies. 8.

Krishna Prasad, M. S. (2018). MERGERS AND ACQUISITIONS: Analysis on Indian merger and acquisition in India with reference from 2005-2015. *International Journal of Pure and Applied Mathematics* , 8.

Gopi, S. S. (2009). Comparison of Post-Merger Performance of Acquiring firms (India) involved in Domestic and Cross-Border. 10.

S.SUBHASHINI, D. (. (2013). IMPACT OF MERGERS AND ACQUISITIONS ACROSS INDUSTRIES. International Journal of Management Research and Development , 13.

Vyas, N. N. (2010). Mergers and Acquisitions In Telecom Industry: An Analysis of Financial Performance of Vodafone Plc and Hutchison Essar. 15.

Mishra, N. M. (2012). Post Merger Financial Performance: A Study with Reference to Select Manufacturing Companies in India. International Research Journal of Finance and Economics , 13.

Shukla, P. D. (2014). Effect of Cross Border Mergers and Acquisitions on Company Value Creation:Case of Selected Indian Companies of Metal and Metal Product Sector . Peer Reviewed International Journal , 22.

K.Jayakumar. (2013). Impact of Acquisition on Operating Performance in Indian Pharmaceutical Industry. Indian Journal of Economics and Development , 4.

https://www.academia.edu/10549999/Merger_and_Acquisitions_in_Pharma_sector_in_India. (2013 2014). 35.