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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
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COMPARATIVE ANALYSIS OF PRE AND POST-MERGER FINANCIAL PERFORMANCE WITH REFERENCE TO IT SECTOR IN INDIA

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ABSTRACT

Firms can adopt organic and/or inorganic approach as its growth vector to create value to the shareholders. Using organic growth as a means to growth is time bound and it is a long journey, whereas inorganic growth is a quick fix to reap growth. The pursuit of instantaneous growth has led the corporates to use Mergers and Acquisitions as a tool to propel growth. This research intends to study the movement in M&A (merger and acquisition) predominantly with reference to Information and Technology companies. While merger and acquisition is considered as a strategy for growth, the firms are anticipated to perform post-merger and acquisition so that those are proved successful. From the previous studies review, it has been found that there is no definite support about the impact of merger and acquisition on corporate performance in IT sector. Furthermore, in recent period merger and acquisition deals have gone up drastically and set of laws relevant for merger and acquisition have also undergone alteration. Hence there is a need to look into the trend of merger and acquisition and the post- merger and acquisition performance of companies. This study is to find out the difference in post-merger performance compared with pre-merger in terms of profitability, liquidity and solvency. The scope of the study is limited to IT sector companies in India. The statistical tools used are descriptive statistics, paired sample t-test. On analyzing it has been found that there is no significant change in the financial performances of companies in the post-merger period in case of both domestic merger and overseas merger and also it has been found that improvement in post-merger financial performance of domestic merger companies are better than the companies gone for overseas mergers.

KEYWORDS
merger and acquisition, financial performance, profitability, liquidity and solvency.

1. INTRODUCTION

The business today has become so dynamic and the companies need to handle with this dynamic environment to consistent growth. The corporate sector all over the world is restructuring its operations through different types of consolidation strategies like mergers and acquisitions in order to face challenges posed by the new pattern of globalization, which has led to the greater integration of national and international markets. In India, Merger and Acquisition has been increased in the last decade or so. Earlier than also the firms were widely using consolidation strategies, but one of the striking features of the present wave of mergers and acquisitions is the presence of a large number of cross-border deals.

Another reason for Merger & Acquisition activity in IT that we have seen is the objective of a company to service their multinational customers better in more countries. Post-acquisition integration is important to ensure the newly acquired unit functions well. While Merger & Acquisition is considered as one of the strategies for growth, the companies are expected to perform post-Merger & Acquisition so that those are proved successful.

Trends in mergers and acquisitions in India have changed over the years. M & A activities have also become increasingly global due to increasing global competition among many other reasons.

1.1. MERGER AND ACQUISITION TREND IN INDIA

The total number of acquisitions from 1 April 1999 to 30 November 2010 is 9228, the highest being 1160 in 2007. The total number of mergers is 3454, the highest being 415 in 2006. The lowest amount is 15925.28 crores consideration and the highest is 209,247.97 crores, the total amount is 9, 58,147.28 crores. M & A is prevalent in all sectors, but compared to other sectors of the manufacturing industry has the largest number of mergers and acquisitions. Manufacturing accounted for more M & A in these years with a 40% share of total.

2. LITERATURE REVIEW

Merger in Indian Industry - Performance and Impacting factor" a study by K. Ramakrishanan uses secondary data from CMIE database taking total of 414 mergers and acquisition cases for study and concludes that mergers have enhanced the long-term performance of firms in India. The study also reveals that business wealth of the acquired company seem to have direct bearing on the post-merger performance of firms in the Indian context. Changes in corporate performance associated with bank acquisitions" a study by Hassan Tehranian and Marcia Millen in the year 1991, examines the post-acquisition performance of large bank mergers between 1982 and 1987. It has been found that merged banks outperformed the banking industry. Their performances have resulted from improvement in employee productivity and profitability from assets. They used networking capital/sales and operating cash flows/market value of assets for evaluating the performance. Also, they used liquidity rations for determining the performance of firms. The result suggested that large bank showed superior performance in liquidity and return on assets. "Impact of HMO Merger and Acquisitions on Financial Performance", by Robert Weech-Maldonado examined the effect of Health Maintenance Organization (HMO) mergers and acquisition on financial performance, as indicated by cash flow returns and Profitability ratios. The study analyzed pre and post-acquisition financial performance for a period of 3 years. Change score for the financial performance were calculated and then evaluated using t- tests. The study shows positive effect on financial performances and efficiency. The paper uses Net profit margin, ROA, Medical expense ratio and years in operations for finding the profitability of the firms. "Long term post-merger performance of firms in India" by K Ramakrishnan, shows that there is an improvement in operating margin of the firm, though not efficient utilization of asset to generate higher sales. The study indicates that in the long run, mergers appear to have been financially beneficial for the firms in the Indian industry. It was also found significant change long term turn over performances like RONW and ROCE and sales turnover performances.

3. OBJECTIVES OF THE STUDY

1. To analyze the performance of Indian IT companies post-merger and pre-merger.
2. To know the difference between pre and post-merger financial performances in Indian IT companies with domestic merger.
3. To know the difference between pre and post-merger financial performances in Indian IT companies with overseas merger.
4. To find whether overseas merger is better or domestic merger is better among Indian IT with respect to financial performance.

4. HYPOTHESIS

Based on the research gap areas from the literature survey, the following research hypothesis is tested:

HYPOTHESIS 1

H0: There is no significant difference in the financial performances in IT companies with domestic merger in India.

H1: There is significant difference in financial performances in the post-merger period in IT companies with domestic merger in India.

HYPOTHESIS 2

H0: There is no difference in the financial performances in IT companies with overseas merger in India.

H1: There is significant difference in financial performances in the post-merger period in IT companies with overseas merger in India

HYPOTHESIS 3

H0: There is no difference in the post-merger financial performances in IT companies between overseas and domestic merger companies in India.

H1: There is difference in the post-merger financial performance in IT companies between overseas and domestic merger companies in India.

5. RESEARCH METHODOLOGY

RESEARCH DESIGN

The study has been carried on by using Accounting Based Approach with different financial parameters.

- **Profitability parameters are**

Return on Capital Employed (ROCE): EBIT/Capital Employed; Return on Net Worth (RONW): Profit after Tax /Net Worth. DuPont ROE

- **Liquidity parameters are**

Current Ratio: Current Assets/Current Liabilities;
Networking Capital/Sales: (Current Assets minus Current Liabilities) by Sales.

- **Leverage parameters are**

Total Debt Ratio: Total Debt to Total Assets;
Interest Coverage Ratio: Earnings before interest and taxes (EBIT)/Interest.

HYPOTHESIS TESTING

Average pre-merger and post-merger financial performance ratios is compared to know if there is any significant change in financial performance due to mergers and acquisition, using "paired two sample t-tests"

$$t = \frac{\bar{x} - \mu_0}{\frac{s}{\sqrt{n}}}$$

Where,
S is the standard deviation of the sample and n is the sample size.
The degrees of freedom used in this test is n – 1.

DATA COLLECTION

Secondary Data are used for the purpose of analyzing financial information like annual reports of respective company. Also the data bases are used for data collection such as

- Capitaline Database.
- Bombay Stock Exchange and National Stock Exchange Publications.
- Business Beacon, CMIE Prowess, EMIS Database.
- Securities Exchange Board of India (SEBI) Reports.

SAMPLING TECHNIQUE

The Acquirer and Target Company are public limited companies and are listed on the stock exchange. A total of 18 companies were obtained who have undertaken domestic and cross border mergers or acquisitions during the period from January 2007 to August 2010. Out of these 10 companies have made a total 12 overseas mergers and acquisitions and 10 companies were involved in domestic merger or acquisition. From this for analyses the companies gone for merger during the period 2008 has been considered for analysis, over which 6 companies gone for overseas merger and 4 has gone for domestic merger. So that it will be easy for data collection for 3 years pre-merger and 3 years post-merger.

6. DATA ANALYSIS

For conducting this study, the data are obtained from CMIE Prowess database and BSE Merger and Acquisition database.

INDIAN IT COMPANIES GONE FOR OVERSEAS MERGERS

List of companies considered for study which has gone for overseas merger in the year 2008:

TABLE 1: LIST OF COMPANIES GONE FOR OVERSEAS MERGER

Acquirer Company	Target Company
GSS America Infotech Ltd	System Dynamix Corporation
HCL Technologies Ltd	Capital Stream Inc-USA
Mascon Global Ltd	Ebusinessware Inc USA
Mindteck (India)Ltd	Prime Tech Solutions USA
Rolta India Ltd	Whittman Hart USA
Silverline Technologies Ltd	OMDR Inc Canada

- **GSS America Infotech Ltd**

In 2008, GSS Infotech acquired 100% stake in System Dynamix Corporation, an IT consulting and software Development Company based in Connecticut, USA with effect from January 01, 2008. Out of this merger GSS Infotech expected it to contribute to revenues for full year basis in the year 2008-09. They have planned a few of initiatives, particularly in IT Infrastructure division to rapidly take advantage of emerging opportunities in these areas.

The study is performed for each Merger individually and then by combining the financial performance of the overall Mergers in IT companies. The following tables show the results of the various tests, followed by comments on the differences in financial performance between pre-and post-merger periods.

TABLE 2: PAIRED SAMPLE t TEST RESULTS OF GSS INFOTECH AND SYSTEM DYNAMIX CORP. MERGER DEALS

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	254.000	1.581	0.255	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.115	-0.288	0.801	4.303
Pre-merger RONW – Post Merger RONW	267.580	1.539	0.264	4.303
Pre-merger current ratio-post merger current ratio	-13.680	-7.491	0.017	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	-3.016	-1.375	0.303	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	-3.960	-5.476	0.032	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.023	1.000	0.423	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	19.567	0.101	0.929	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	1.343	1.640	0.243	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio, and net working capital/sales ratio improved after merger, Current ratio and networking capital/sales ratio is statistically significant. Quick ratio is not statistically significant.

In case of the leverage ratios, the debt ratio declined in the post-merger period. But it is not statistically significant. Interest coverage ratio has also decreased, but it is not statistically significant too.

The bad sign is that the profitability ratios have decreased too much during the post-merger period. But net margin has increased post-merger period, however it is not statistically significant.

- **HCL Technologies Ltd**

HCL Technologies has acquired CapitalStream US company, in a cash transaction of about Rs 160 crores ($ 40 million). Capital Stream, Inc., a U.S. leader in providing complete end-to-end lending and straight through processing solutions for commercial banks and finance companies in North America, including prospecting and sales credit analysis, due diligence, documentation and portfolio monitoring. This strategic acquisition of Capital Stream strengthens the ability of HCL to provide end to end solutions with the ability to deliver products and multi-services for companies and individuals with financial institutions. Finance Center flagship product CapitalStream is a multi-tier web application and is a leading solution on the market today for the automation of business and commercial lending institutions. Finance Center can be customized and delivered to different segments of the financial industry of major banks for mid-level credit unions. The product is currently used by more than 20% of the largest banks in North America and has transformed several large banks and midrange.

The HCL acquisition of CapitalStream provides a number of synergies, benefits and opportunities, including:

The addition of a focused product portfolio to HCL's multi-service capability will enable the company to provide commercial banks and other financial institutions comprehensive end-to-end solutions globally, with significantly reduced implementation time.

The offering from Capital Stream complements HCL's lending technology capabilities in financial services.

TABLE 3: PAIRED SAMPLE t TEST RESULTS OF HCL TECHNOLOGIES AND CAPITAL STREAM INC. MERGER DEALS

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	-1.703	-0.149	0.895	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.115	0.807	0.505	4.303
Pre-merger RONW – Post Merger RONW	-2.273	-0.248	0.827	4.303
Pre-merger current ratio-post merger current ratio	-0.677	-11.586	0.007	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	0.007	0.219	0.847	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	-0.130	-1.811	0.212	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	-0.157	-2.682	0.115	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	43.307	2.407	0.138	4.303
Pre-merger DuPont ROE – Post merger Du Pont ROE	-0.003	-0.071	0.950	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio, and net working capital/sales ratio improved after merger but Current ratio is statistically significant. But, Quick ratio and Networking capital/sales ratio are not statistically significant.

In case of the leverage ratios, the debt ratio has increased in the post-merger period. But it is not statistically significant. But, Interest coverage ratio has decreased, but it is not statistically significant too.

The Good sign is that the profitability ratios have increased during the post-merger period and net margin have increased post-merger period, however it is not statistically significant.

Return on Equity have also increased but it to not statistically significant.

- **Mascon Global Ltd., acquired ebusinessware, Inc.**

Mascon Global Ltd provides business technology and information technology (IT) consulting services to businesses and government agencies. Mascon develops custom software provides network and systems integration and conducts research and development.

Ebusinessware is a global technology company that provides technology solutions and services in areas such as the management of credit risk, market risk, credit derivatives, business process management and management of reference data.

Mascon Global (MGL) has acquired New York-based Ebusinessware Inc., which provides software solutions and consulting services to financial services companies, for about $ 35 million.

"The main objective is to build the company into an innovation by companies, focusing on solutions providers. Some are internal and others through acquisitions, "said Mascon Global CEO Sandy K Chandra.

TABLE 4: PAIRED SAMPLE t TEST RESULTS OF MASCON GLOBAL LIMITED AND EBUSINESS WARE INC. US MERGER DEALS

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	1.320	0.255	0.823	4.303
Pre-Merger Net Margin – Post Merger Net Margin	0.062	0.287	0.801	4.303
Pre-merger RONW – Post Merger RONW	1.293	0.265	0.816	4.303
Pre-merger current ratio-post merger current ratio	0.763	0.272	0.811	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	2.715	1.865	0.203	4.303
Pre-merger Networking Capital/Sales - Post merger NetworkingCapital/Sales	-0.237	-0.931	0.450	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.000	0.000	1.000	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-0.253	-0.079	0.944	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	0.046	0.474	0.682	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre – merger period***

The liquidity ratios like current ratio, quick ratio, and net working capital/sales ratio decreased after merger but it is statistically insignificant. In case of the leverage ratios, the debt-equity ratio has been unchanged in the post-merger period. But it is not statistically significant. Interest coverage ratio has increased but it is not statistically insignificant too.

The profitability ratios have decreased during the post-merger period and net margin have decreased post-merger period, however it is not statistically significant. Returns on Equity have also decreased, but it too not statistically significant.

- **Mindteck (India) Ltd Acquires Prime Tech Solutions USA**

Mindteck (India) Limited, a global Technology and IT services company, acquires Primetech with revenues of US$ 8.7 million. Primetech provides integrated business and IT consulting services to a large client base in the US.

TABLE 5: PAIRED SAMPLE t TEST RESULTS OF MINDTECK (INDIA) LTD AND PRIME TECH SOLUTIONS US MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	6.250	2.374	0.141	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.039	-0.612	0.603	4.303
Pre-merger RONW – Post Merger RONW	5.697	2.427	0.136	4.303
Pre-merger current ratio-post merger current ratio	1.120	2.844	0.105	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	1.619	1.572	0.257	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	0.409	1.140	0.373	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.123	2.199	0.159	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-14.413	-1.037	0.409	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	0.020	1.051	0.403	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio, and net working capital/sales ratio decreased after merger but it is statistically insignificant. In case of the leverage ratios, the debt-equity ratio has been decreased in the post-merger period. But it is not statistically significant. Interest coverage ratio has increased, but it is not statistically significant too.

The profitability ratios have decreased during the post-merger period, but net margin have increased post-merger period, however it is not statistically significant. Returns on Equity have also decreased, but it too not statistically significant.

- **Rolta India Ltd acquire of WhittmanHart Consulting, US**

Rolta India Limited (Rolta) is an Indian multinational organization in IT-based geospatial solutions, and caters to industries as diverse as infrastructure, telecom, electric, airports, defense, homeland security, urban development, town planning and environmental protection.

Rolta has acquired WhittmanHart Council, the consulting division of WhittmanHart Inc., a Chicago-based company providing solutions in digital communications, process improvement and enabling technologies for over 20 years. Provide consulting services in business intelligence (BI) arena, WhittmanHart Consulting (WHC) is particularly focused on the Hyperion software technology acquired by Oracle Corporation in 2007.

The motives of the acquisition to keep with their declared clients get greater returns from the investments in enterprise solutions and services from Rolta. This acquisition helps Rolta to add business intelligence solutions to their portfolio and deliver higher values to their clients.

TABLE 6: PAIRED SAMPLE t TEST RESULTS OF ROLTA INDIA LTD AND WHITTEMAN HART CONSULTANT MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
	0.610	0.324	0.777	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.015	-0.401	0.727	4.303
Pre-merger RONW – Post Merger RONW	-4.217	-4.584	0.044	4.303
Pre-merger current ratio-post merger current ratio	-0.277	-1.078	0.394	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	1.073	1.914	0.196	4.303
Pre-merger Networking Capital/Sales - Post merger	0.035	0.084	0.941	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	-0.250	-1.916	0.195	4.303
Pre-merger Interest Coverage Ratio-Post merger	-24.573	-1.541	0.263	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	-0.029	-2.011	0.182	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio has increased post-merger but the remaining other liquidity ratios have decreased post-merger period, but it is statistically insignificant.

In case of the leverage ratios, the debt-equity ratio has been increased in the post-merger period. But it is not statistically significant. Interest coverage ratio has also increased, but it is not statistically significant too.

The profitability ratios have decreased during the post-merger period, but net margin have increased post-merger period, however it is not statistically significant. The good sight is that the RONW have increased post-merger period and it is statistically significant. Returns on Equity have also increased, but it not statistically significant.

- **Silverline Technologies Ltd acquires OMDR Inc., Canada**

Silverline Technologies, an IT and BPO services company, has acquired Canadian-firm, Omega Direct Response, a global provider of customer interaction and management services. OMDR, formerly known as Omega Direct Responses, specializes in inbound, outbound and multilingual customer service. OMDR Inc. is a global provider of outsourced call center services.

TABLE 7: PAIRED SAMPLE t TEST RESULTS OF SILVERLINE TECHNOLOGIES LTD AND OMDR INC. MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	-1.560	-0.311	0.785	4.303
Pre-Merger Net Margin – Post Merger Net Margin	7.137	1.408	0.295	4.303
Pre-merger RONW – Post Merger RONW	-0.957	-0.213	0.851	4.303
Pre-merger current ratio-post merger current ratio	0.123	1.066	0.398	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	0.459	1.741	0.224	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	5.273	1.750	0.222	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.680	5.987	0.027	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	301.840	0.874	0.474	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	0.118	0.276	0.809	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio and Net Margin/ Sales ratio has decreased post-merger but, it is statistically insignificant. In case of the leverage ratios, the debt-equity ratio has decreased in the post-merger period, and it is statistically significant. Interest coverage ratio has decreased, but it is not statistically significant.

The profitability ratios have increased with respect to ROWN and ROCE during the post-merger period, but net margin have decreased post-merger period, however it is not statistically significant. Returns on Equity have also decreased, but it not statistically significant.

INDIAN IT COMPANIES GONE FOR DOMESTIC MERGERS

List of companies considered for study which has gone for overseas merger in the year 2008:

TABLE 8: LIST OF COMPANIES GONE FOR DOMESTIC MERGER

Acquirer Company	Target Company
3i Infotech Ltd	AOK In-house BPO Service Ltd.
Allied Digital Service Ltd.	En Pointe Technologies India Pvt. Ltd.
Mindtree Ltd.	Aztechsoft Ltd.
Tech Mahindra Ltd.	I-Policy Networks Ltd.

- **3i Infotech Ltd Acquires AOK in-house BPO Service Ltd.**

3i Infotech Ltd. is a global information technology that provides technology solutions to over 1500 customers in more than 50 countries on 5 continents, spanning a range of vertical markets. The company provides software products, IT services and Business Process Outsourcing (BPO) for a variety of vertical markets, including insurance, banking, capital markets, mutual funds and asset management, wealth management, government, manufacturing and retail.

Aok In-house BPO Services Limited provides business process outsourcing in India; it has service and back support. The application that provides image processing, forms processing, services, data processing and analysis in bulk, OCR and ICR-based data conversion. The company also provides processing credit card, insurance and policy processing to provide support on-site and off - the management of site resources, archiving electronic research, factoring, human resources support and counseling, telecommunications, loan processing and mortgage, software development, processing and verification services and private discussions, data supply, confidential testing as well as temporary solutions. It serves a variety of organizations, including insurance and banks companies.

3i Infotech has acquired AOK In-house BPO service for their delivery capability in the area of auto loans and credit card processing for claims and proposal processing in Insurance sector and banking sector. In 2007, 3i Infotech acquired 50.5% stake in AOK In-house BPO and acquired the remaining 48.5% in 2008.

TABLE 9: PAIRED SAMPLE t TEST RESULTS OF 3I INFOTECH LTD. AND AOK IN-HOUSE BPO MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	-0.727	-1.758	0.221	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.134	-0.851	0.485	4.303
Pre-merger RONW – Post Merger RONW	-11.750	-0.712	0.550	4.303
Pre-merger current ratio-post merger current ratio	0.110	0.282	0.804	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	0.073	0.092	0.935	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	-0.711	-2.328	0.145	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	-1.193	-5.571	0.031	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	1.157	1.011	0.418	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	0.010	0.157	0.890	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio have decreased and Net Margin/ Sales ratio has increased post-merger but, it is statistically insignificant. In case of the leverage ratios, the debt-equity ratio has increased in the post-merger period, and it is statistically significant. Interest coverage ratio has decreased, but it is not statistically significant.

The profitability ratios have increased with respect to ROWN, Net Margin and ROCE during the post-merger period, however it is not statistically significant. Returns on Equity have also decreased, but it not statistically significant.

- **Allied Digital Service Ltd acquires En Pointe Technologies India Pvt. Ltd.**

Allied Digital Services Ltd. is a global company Services and Solutions, which supplies a range of services and infrastructure solutions including the managed services and physical security solutions and information to major Indian companies and worldwide.

En Pointe Technologies India Pvt. Ltd offers a pool of trained and certified SAP consultants with rich experience of geography multi, multi-country consultancy and SAP support services.

This acquisition will support the management of the Allied Digital Infrastructure and Application Remote Support Services portfolio. Allied Digital has leveraged its state of Network Operation Center (NOC) installation and widens proven remote support for many critical applications for instance SAP ERP. The acquisition further helped the Allies digital to complete its vision of a complete end to end support services in remote data center, together with enterprise applications.

TABLE 10: PAIRED SAMPLE t TEST RESULTS OF ALLIED DIGITAL SERVICE LTD. AND EN POINTE TECHNOLOGIES LTD. MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	38.070	2.659	0.117	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.065	-1.051	0.403	4.303
Pre-merger RONW – Post Merger RONW	42.913	4.342	0.049	4.303
Pre-merger current ratio-post merger current ratio	4.303	-0.877	-1.167	0.364
Pre-merger Quick Ratio – Post merger Quick Ratio	4.303	-3.867	-2.541	0.126
Pre-merger Networking Capital/Sales – Networking Capital/Sales Post merger	-0.118	-0.511	0.660	4.303
Pre-merger Debt/Equity –Post Merger Interest Coverage ratio Debt/Equity	-8.107	-0.548	0.639	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	4.303	0.219	2.229	0.156

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The liquidity ratios like current ratio, quick ratio, Net Margin/ Sales ratio has increased post-merger but, it is statistically insignificant. In case of the leverage ratios, the debt-equity ratio has decreased in the post-merger period, and it is statistically insignificant. Interest coverage ratio has increased, but it is not statistically significant too.

The profitability ratios have decreased with respect to ROWN decreased post-merger period and ROCE also decreased during the post-merger period, however it is statistically significant. The Net margin has increased, but statistically insignificant. Returns on Equity have also decreased, but it not statistically significant.

➢ **Mindtree Ltd. Acquires Aztecsoft Ltd.**

Mindtree is a worldwide IT solutions company with revenues of over USD 400 million. Its 11,000 expert engineer's significant technology solutions to help societies and businesses flourish. It has two units operation: Information Technologies Services and Product Engineering Services.

Aztecsoft is a leader in Testing and OPD (Outsourced Product Development) market as a 2,100 more people strong software engineering Services Company. It provides independent testing, professional services, full-lifecycle product engineering and sustenance engineering to application and infrastructure software vendors, as well as to New Media and Internet-based companies.

Mindtree acquired Aztecsoft in 2008 for an equity valuation of $90 million. Acquiring Aztecsoft has enhanced the expertise of Mindtree in IT and R&D services. Aztecsoft software solutions and products knowledge has given Mindtree and its IT service customers, a unique edge in architecting, deploying, managing and integrating the right solutions.

TABLE 11: PAIRED SAMPLE t TEST RESULTS OF MINDTREE LTD. AND AZTECSOFT LTD. MERGER DEAL

Financial Ratios	Mean Diff*	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	2.913	0.862	0.480	4.303
Pre-Merger Net Margin – Post Merger Net Margin	0.015	0.371	0.746	4.303
Pre-merger RONW – Post Merger RONW	0.083	2.657	0.117	4.303
Pre-merger current ratio-post merger current ratio	0.370	1.254	0.336	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	0.462	2.351	0.143	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	0.409	1.140	0.373	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.277	3.336	0.079	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-139.207	-1.267	0.333	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	0.085	10.790	0.008	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

From the above table on paired sample t test result we find no significant change in the financial performance of Mindtree on post period of acquiring Aztecsoft Ltd. except for the increase to a greater extend in interest coverage ratio in post-merger period. And all other financial ratios have decreased post-merger period. There has been significant change noted on DuPont ROE, it has decreased in the post-merger period.

➢ **Tech Mahindra acquires i-Policy Networks Ltd.**

Tech Mahindra is a leading global systems business transformation and integrator consulting organization, which focused mainly on the telecommunications sector. Tech Mahindra extended its IT portfolio in 2009 by acquiring one of the leading global business and information technology services company, Mahindra Satyam**.**

iPolicy Networks is one of the leading integrated network security product company. The company delivers a high-performance, carrier-grade integrated security application with an exceedingly scalable security management system.

Tech Mahindra acquires iPolicy for its security appliances provide by them. These helped Tech Mahindra to get ipolicy's solutions in Intrusion prevention firewall and real time protection and MSSP (Managed security service provider) solution delivered by iPolicy.

TABLE 12: PAIRED SAMPLE t TEST RESULTS OF TECH MAHINDRA AND I-POLICY NETWORKS LTD. MERGER DEAL

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail
Pre-Merger ROCE-Post Merger ROCE	14.780	0.481	0.678	4.303
Pre-Merger Net Margin – Post Merger Net Margin	-0.067	-1.253	0.337	4.303
Pre-merger RONW – Post Merger RONW	6.900	0.270	0.812	4.303
Pre-merger current ratio-post merger current ratio	-0.067	-0.191	0.866	4.303
Pre-merger Quick Ratio – Post merger Quick Ratio	-0.527	-1.709	0.230	4.303
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	-0.058	-1.270	0.332	4.303
Pre-merger Debt/Equity –Post Merger Debt/Equity	-0.330	-2.185	0.160	4.303
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-118.873	-0.736	0.538	4.303
Pre-merger DuPont ROE – Post merger DuPont ROE	-0.100	-0.764	0.525	4.303

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

From the above table on paired sample t test result we find no significant change in the financial performance of Tech Mahindra on post period of acquiring i-Policy Networks Ltd. But there is increase in the liquidity ratio like Current ratio, Quick ratio and networking capital/sales ratio. Also found that there is increase in leverage ratios like debt/equity ratio and interest coverage ratio in the post-merger period. There is increase in DuPont ROE during the post-merger period. But it is not statistically significant too. There is decrease in RONW and ROCE during post-merger period of Tech Mahindra. But increase in Net profit margin during post-merger period.

PAIRED SAMPLE T TEST RESULTS FOR ALL OVERSEAS MERGER DEALS IN INDIA IN 2008

The paired sample T-test has been made for combined effect of all 6 overseas mergers taken for analysis purpose. The result is shown in the below table:

TABLE 13: PAIRED SAMPLE t TEST RESULTS FOR ALL OVERSEAS MERGER DEALS IN INDIA IN 2008

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail	Significant or not
Pre-Merger ROCE-Post Merger ROCE	43.153	1.886	0.200	4.303	Insignificant
Pre-Merger Net Margin – Post Merger Net Margin	1.187	1.423	0.291	4.303	Insignificant
Pre-merger RONW – Post Merger RONW	44.521	1.721	0.227	4.303	Insignificant
Pre-merger current ratio-post merger current ratio	-2.104	-3.478	0.074	4.303	Insignificant
Pre-merger Quick Ratio – Post merger Quick Ratio	0.476	1.404	0.295	4.303	Insignificant
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	0.231	0.506	0.663	4.303	Insignificant
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.070	0.842	0.489	4.303	Insignificant
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	54.246	0.635	0.590	4.303	Insignificant
Pre-merger DuPont ROE – Post merger DuPont ROE	-0.282	-0.328	0.774	4.303	Insignificant

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The above result shows that there is no significant change in the financial performance in post overseas merger period by Indian IT companies. But there is increase in the current ratio and DuPont ROE.

PAIRED SAMPLE T TEST RESULTS FOR OVERALL DOMESTIC MERGER DEALS IN INDIA IN 2008

The paired sample T-test has been made for combined effect of all 4 overseas mergers taken for analysis purpose. The result is shown in the below table:

TABLE 14: PAIRED SAMPLE t TEST RESULTS FOR ALL DOMESTIC MERGER DEALS IN INDIA IN 2008

Financial Ratios	Mean Diff *	T-Stat	P(T<=t) two-tail	t Critical two-tail	Significant or not
Pre-Merger ROCE-Post Merger ROCE	13.759	1.249	0.338	4.303	Insignificant
Pre-Merger Net Margin – Post Merger Net Margin	-0.063	-1.135	0.374	4.303	Insignificant
Pre-merger RONW – Post Merger RONW	18.075	2.257	0.153	4.303	Insignificant
Pre-merger current ratio-post merger current ratio	-0.116	-0.399	0.728	4.303	Insignificant
Pre-merger Quick Ratio – Post merger Quick Ratio	-0.965	-2.257	0.153	4.303	Insignificant
Pre-merger Networking Capital/Sales - Post merger Networking Capital/Sales	-0.201	-1.973	0.187	4.303	Insignificant
Pre-merger Debt/Equity –Post Merger Debt/Equity	-0.169	-2.245	0.154	4.303	Insignificant
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-66.258	-2.424	0.136	4.303	Insignificant
Pre-merger DuPont ROE – Post merger DuPont ROE	-0.046	-0.518	0.656	4.303	Insignificant

**** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The above result shows that there is no significant change in the financial performance in post-merger period by Indian IT companies gone for domestic merger. But on ignoring statistical significance, there is increase in the Liquidity ratios like current ratio, Quick ratio and networking capital/sales. And there is increase in leverage ratios like debt/equity and interest coverage ratio. Profitability ratios also have increase during post-merger period like ROCE, RONW and DuPont ROE.

TABLE 15: SUMMARY OF T TEST RESULT PRE AND POST MERGER PERFORMANCE

Summary of t test result pre and post merger performance												
Financial Ratios	Overseas merger companies						Overall Overseas merger	Domestic merger companies				Overall domestic merge
	Silverline tech	GSS Infotech	HCL	Mindteck	Mascon	Rolta		3i infotech	Allied digital	Mindtree	Tech Mahindra	
Pre Merger ROCE-Post Merger ROCE	+	-	+	-	-	-	-	+	-	-	-	-
Pre Merger Net Margin – Post Merger Net Margin	-	+	+	+	-	+	-	+	+	-	+	+
Pre merger RONW – Post Merger RONW	+	-	+	-	-	+	-	+	-	-	-	-
Pre merger current ratio-post merger current ratio	-	+	+	-	-	+	+	-	+	-	+	+
Pre merger Quick Ratio – Post merger Quick Ratio	-	+	-	-	-	-	-	-	+	-	+	+
Pre merger NetworkingCapital/Sales-Post merger NetworkingCapital/Sales	-	+	+	-	+	-	-	+	+	-	+	+
Pre merger Debt/Equity –Post Merger Debt/Equity	-	-	+	-	+	+	-	+	-	-	+	+
Pre merger Interest Coverage Ratio-Post merger Interest Coverage ratio	-	-	-	+	+	+	-	-	+	+	+	+
Pre merger DuPont ROE – Post merger DuPont ROE	-	-	+	-	-	+	+	-	-	+	+	+

Source: Evaluated from test undertaken

The sign + refers to increase in ratio
The sign - refers to decrease in ratio
The colored block refers to statistically significant

COMPARISON ON OVERSEAS MERGER AND DOMESTIC MERGER MEAN DIFFERENCES IN RATIOS

TABLE 16: AVERAGE MEAN DIFFERENCE OF OVERSEAS MERGER AND DOMESTIC MERGER

Financial Ratios	Overseas Mean Diff**	Domestic Mean Diff**
Pre-Merger ROCE-Post Merger ROCE	43.153	13.759
Pre-Merger Net Margin – Post Merger Net Margin	1.187	-0.063
Pre-merger RONW – Post Merger RONW	44.521	18.075
Pre-merger current ratio-post merger current ratio	-2.104	-0.116
Pre-merger Quick Ratio – Post merger Quick Ratio	0.476	-0.965
Pre-merger Networking Capital/Sales - Post merger NetworkingCapital/Sales	0.231	-0.201
Pre-merger Debt/Equity –Post Merger Debt/Equity	0.070	-0.169
Pre-merger Interest Coverage Ratio-Post merger Interest Coverage ratio	54.246	-66.258
Pre-merger DuPont ROE – Post merger DuPont ROE	-0.282	-0.046

***** The negative sign in the value indicate there is an overall increase in the particular performance parameter in post-merger period compared to pre-merger period.***

The above table shows that on an average there is increase in the current ratio on post-merger period of companies gone for overseas merger. But there is average decrease in quick ratio, this shows that sometimes mask hidden financial problems. For instance:

- An inventory backlog
- Slow collections on accounts receivable

Any of these conditions may reduce the productive capacity of the business or indicate financial trouble. It's important to look at why your quick ratio is low, as well as looking at the number itself.

All other ratios have decreased during the post-merger period on overseas merger. On the other side the ratios of companies gone for domestic merger have improved to a considerable amount except for ROCE and RONW. The liquidity position of companies on average has increased, and the interest coverage ratio also increased to a greater amount, this indicates that there is increase in EBIT by the companies during post-merger period or there may be decrease in interest expenses in post-merger period. On an overall the table shows that the financial position of companies gone for domestic merger have improved then the companies gone for overseas merger.

7. DISCUSSION

The study is an attempt to provide an analysis of overseas and domestic Mergers and Acquisitions in Indian Information Technology Industry from the perspective of acquiring company's financial performance.

The analysis shows that the mergers and acquisitions did not make any significant change in the financial performance of the acquirer company to its pre-merger performance. There is no significant change noticed in IT companies going for overseas merger even though there is an increase in current ratio. Hence with respect to Hypothesis-2 we accept null hypothesis (Ho).

In the same way on the conducted result there is no significant change found on the companies going for domestic merger too, hence with respect to hypothesis-1 we accept null hypothesis (H0).

Even though there is no significant difference in their financial performance during post-merger period to per merger period in domestic mergers, there is an improved in case of liquidity position like current ratio by 0.16, quick ratio by 0.96 and networking capital/sales ratios by 0.2, and even in leverage ratios and DuPont ROE by 0.046 have increased post-merger period. Whereas the on overseas merger the current ratio increases by 2.10, but other liquidity ratio like quick ratio and networking capital/sales ratio have decreased by 0.4 and 0.23 respectively. Also interest coverage ratio on post overseas merger decreased drastically by 54.24. Hence, on hypothesis-3 we conclude that IT companies going for domestic merger have considerable improvement in their financial position then going for overseas merger. Hence domestic merger is better than overseas merger for the companies in terms of financial performances.

Not so significant improvement in the financial performance of the companies has put a question mark over the motive behind mergers. Furthermore, financial performance may not be the only parameter for M & A success.

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Thanking you profoundly

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