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MERGERS AND ACQUISITIONS AND THE POST-MERGER IMPACT ON PROFITS AND SALES

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ABSTRACT

Corporate acquisitions and performance have to be analyzed and it's a common research topic. When a company finds a benefit in combining business operations with another company in a way that will contribute to increased shareholder value a merger happens. Mergers include re-inventing of a company, increasing the market share acquisition of new products and services. A merger increases the profitability, capture a greater proportion of a market share, and it is a type of restructuring of the company. When two separate entities combine together merger happens where as an acquisition happens takeover of one entity by other or purchase a portion of a corporate asset or target company. The process of merger involves combining of two companies as a single company. In merger, both the companies mutually agree to merge themselves. Shareholders are paid for their stake in the company and then actual merging happens. The research paper focuses on how the sales of products the research paper focuses on how the sales of products. It has been observed that with mergers and acquisitions happening the customers are benefited for the products offered by the company as it increases efficiency, reduce the production costs and in turn reduce the price. After mergers the management should give more importance to sales and marketing to get more profits. Employees will also be affected, since they are an integral part of the companies. At times, during a merger or acquisition employees have to be laid off.

KEYWORDS

acquisitions, corporate, merger, profitability, production.

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INTRODUCTION**MEANING OF MERGER AND ACQUISITIONS**

A merger occurs when two companies combine together to form a new company or an entity. A merger can be done through amalgamation or absorption. Both the terms are used interchangeably which is different; acquiring a company is acquisition and merger refers to combining. Acquisition refers to one company taking over another company.

Merger is done to expand a business and takeover or acquiring is done to increase the market share of the business. It is believed that with mergers and acquisition the company's profit and sales will have growth. Mergers are becoming more important due to globalization, liberalization, technological improvement. Losing of the existing customers and the difference culture after merging is a major risk. Mergers are an inorganic growth strategy of a company in order to expand the business very fast. Through mergers companies are able to concentrate on the key constraints of an organization like efficient utilisation of resources. With merger happening in an organization it increases the efficiency and competitiveness of the employee's.

REVIEW OF THE LITERATURE

- (David J Ravens craft and F.M Scherer) The stock prices of the firm have increased enormously due to the mergers of the organisations. It had diverse motivation on merger such as monopoly, tax savings, and undervalued assets. Mergers increase the efficiency of resource allocation and use.
- Ahmed (2000) views mergers as a unification of previously separate companies into a single corporation. Mergers and acquisition is usually a scheme that carefully planned to achieve a synergistic effect (Oye, 2008). According to Olutola (1999:58) mergers and acquisition transaction are often driven by regulatory economic and financial consideration. As in most business decision, one or all parties to the amalgamation can perceive value in the linkage of the business being combined or targeted. Moreover, according to the Companies and Allied Matters Act (CAMA) 2004, states that merger means any amalgamation of the undertakings or any part of undertaking or interest of two or more companies (Ahmed, 2000).
- Another set of studies evaluate the impact of M&A in various measures of profitability before and after M&As. This type of industrial organization studies normally considers longer time horizons than the share price studies. Most of the firms do not show significant improvement in long term profitability after acquisition (Scherer, 1988). There are some studies which have concluded that conglomerate M&As provide more favorable results than horizontal and vertical M&As (Reid, 1968; Mueller, 1980).

NEED/IMPORTANCE OF THE STUDY

- With this research study it is evident enough to know about the synergy effect of an organization after Merger.
- The study is even focused to know about how well the economies of scale like spreading of fixed costs, depreciation affects the companies.
- The shareholders' value has a direct impact after mergers so how far its effected and boosted can be known through mergers.
- Mergers and acquisition accelerates the company's growth and performance.
- Mergers and acquisition have greater benefit on Tax.
- The risk associated with a firm can be diversified through merger.

OBJECTIVES OF THE STUDY

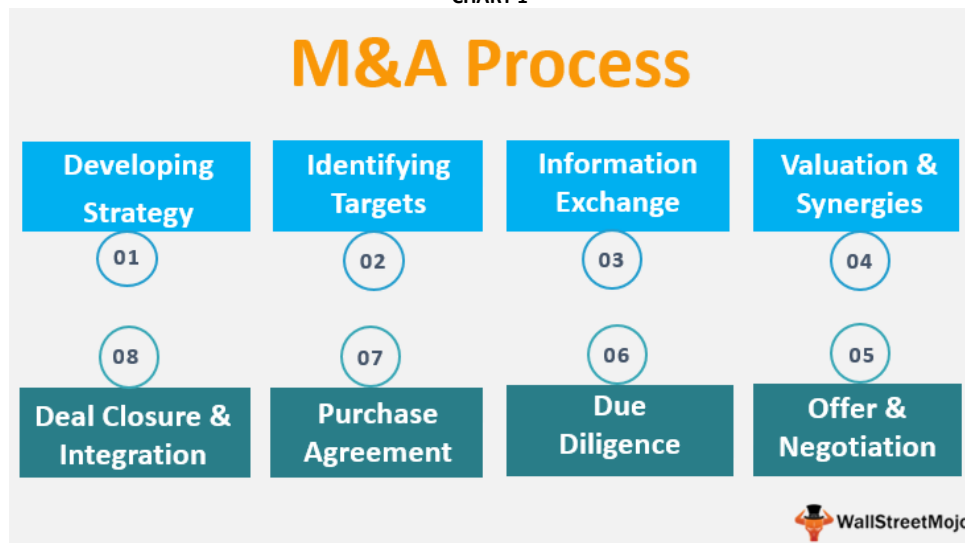
- It is assumed that the merger's enhances the shareholders' value and the profitability to study the progress of the company is the one of the objective of the study.
- The merger impact on market power has to be analyzed; since the main object of merger is to increase market share.
- The main objective of the paper is to find out the recent trends in mergers and how it affects the profits and sales in current Business Environment.

THE MAIN PROCESSES IN MERGER DEAL

1. Shortlisting the target.
2. Determination of key criteria.
3. Search for potential targets.
4. Zeroing in on the target.
5. Set the mergers acquisition criteria.
6. Perform value analysis.

7. Negotiations.
8. Financing strategy for the acquisition.
9. Closing and integration of the acquisition.

CHART 1



Sources: walStreet

RESEARCH METHODOLOGY

The study is done through secondary data (published data). The data which is published earlier has been used to analyze the objective and to have an insight to the study.

RESULT /DISCUSSION

Analyzing and valuing acquisition’s is one of the biggest steps in mergers and acquisitions. Both the synergies the hard core and soft core synergies are to be analyzed. Hard core synergies or operational synergies are benefits that are virtually used to arise from mergers or acquisitions such as payroll savings. Soft synergies which are also known as financial synergies are revenue increases that the acquirer hopes to realize after the deal closes.

Few current mergers in brief used for research study:

1. Birla Corp to acquire Lafarge’s two Indian Units for RS 5,000 crore.

The Lafarge disinvested these two units in order to fulfill the directions given by competition commission of India (CCI) as a part to conclude its mega global merger with Swiss based Holcim Ltd and its operation in Indian, the merger took place on 15th July 2015.

As per the acquisition deal Birla Corp will acquire these cements units along its brands ‘Concrete’ and PSC and also its management team. After the merger it’s found that the cement capacity increased and came around 68 million tones in India.

2. Amazon/Whole Foods Market – \$13.7bn.

In perhaps the most visible deal of the past year, the e-commerce behemoth Amazon stepped out into the real world last August with a major acquisition of the brick-and-mortar food retail company Whole Foods Market. On paper, Amazon and Whole Foods don’t seem like a natural match: Amazon is known for its absurdly quick turnover of inventory and its logistical mastery. Whole Foods, on the other hand, gives off the vibe of a local artisanal food shop where time and effort goes into everything. The effects on the food retailer have been quick, with lower prices and Amazon lockers in stores within the first few months. The changes are likely to attract a new customer base that has avoided Whole Foods because of its niche reputation and relatively high prices.

3. Lakshmi Villas Bank, India Bulls Housing to merge in all share deal.

After the takeover its observed that the shareholders of Lakshmi Villas Bank will get 14 shares of India Bulls Housing Finance (IBHF) for every 100 equity shares held in the bank.

The merged entity, to be called India bulls Lakshmi Vilas Bank, will be among the top eight private banks in India by size and profitability. It’s believed that after the merger the LVB will unlock significant value through synergies and will create a diverse outlook. The merger will even increase the geographic presence of the merged entity. For India bulls, the merger will mean access to low-cost deposits and an expanded distribution franchise. “Cross-sell opportunities created through the merger will help India bulls Housing Finance to grow loan book through a suite of consumer loan products, and give it access to new fee generation opportunities.

4. Infosys to acquire Fluidio, the largest sales force consulting partner in Nordics

Infosys a Global leader has announced a definitive agreement between Fluidov, the leading sales force consulting partner in Nordics and a recognized leader in cloud consulting, implementation and training services.

The acquisition of Fluidio - for up to \$65 mn (over Rs544cr) including earn-out, management incentives and bonuses - is expected to close during the third quarter of fiscal 2019, subject to customary closing conditions, as per BSE statement.

5. A global retail giant buys India’s largest e-commerce firm

Wal-Mart announced plans to acquire a 77% stake in Flip kart for around \$16 billion in May 2018. After the takeover. \$ 2 billion of fresh equity funding was done to support the extension plans. Wal-Mart, meanwhile, continues to expand its wholesale business.

MERGERS AND ACQUISITIONS IN INDIA

TABLE 1

Acquirer company	Target company	Country targeted	Deal value	Industry
TATA STEEL-CORUS	Corus	Europe	\$12.02 billion	Steel
VODAFONE-HUTCHISON ESSAR	Hutchisson-essat	Hong Kong	\$10 billion	Mobile
Ranbaxy Labs	Terapia SA	Romania 324	324 P	Pharmaceutical
TATA MOTORS-JAGUAR LAND ROVER	Jaguar Land Rover	United Kingdom	\$2.3 billion	Automaker
Hindalco	Novelis	Canada	5,982	Steel
MAHINDRA & MAHINDRA- SCHONEWEISS	Schoneweiss	Germany.	90%	Automobile
Suzlon Energy	Hansen Group	Belgium	565	Energy

Sources: blog.ipleaders.in

FINDINGS OF THE STUDY

1. It has seen that after Wal-Mart has acquired Flip kart there were around 54 million users for the brand. And around \$261 Billion was sold in the year.
2. Flip kart group maintains leading position in fast growth industries including fashion, mobile and electronics.
3. The acquisition of Infosys and Fluido made Infosys as leading sales force enterprise in in cloud service provider.
4. It helps in bringing a unique combination of market presence, agile delivery, which helps companies in reimagine and transform their businesses.
5. The Birla Corp company merger with Lafarge had an impact of the plants in Chattisgarh and Jharkhand were put up for sale, to meet the local competition rules.
6. On March 20, 2018, Amazon became the second most valuable company in the world. Amazon bought Whole Foods to learn about the grocery business so it could convert grocery consumers to online.
7. The main aim of merging Amazon with whole foods was not reducing price but to introduce Cross platform selling. Shoppers will be able to make purchases on line and pick them up at a Whole Foods Market.
8. With the merger of LVB and Indian Bulls the Capital Adequacy Ratio has increased and there was more fund infusion of about 190 Crore.
9. Acquisitions and mergers should be done to expand the ownership business by the companies.
10. More market power is given to the companies and to the Investors where the merging of the company has been done.
11. Theoretically it has been proved that merger and acquisitions give economies of scale, cost cutting, and expanded operations.

RECOMMENDATION/SUGGESTION

Mergers and acquisition come in all forms the investors have to see the complex issue involved in mergers and acquisitions. The investors benefit from the improved information flow from demerged companies. The merged companies will be in a better position to operate than the amalgamating companies' individually. The growth that has occurred through merger and acquisition is less risky and cheaper. From the research study amalgamation is the best way for diversification. After merger the accumulated losses can be set of against the profits with the merging company and hence it provides tax benefits. The value of the merged company is greater than the sum of the independent values of the merged companies.

Merging and Acquisitions' helps in reducing the advertisement expenses and helps in increasing the profits. The gestation period will be longer and profits will be more after merger and helps in financial planning.

CONCLUSION

Interestingly, acquisitions do not have any statistically significant influence on profitability of Indian manufacturing companies. Pitfalls of mergers and acquisitions challenge today's leaders to a new standard of managing change. The strategy is clear - accelerate, concentrate, adapt, and in the case of international mergers and acquisitions, consider cultural differences.

- The combined strategy of Flip kart and Wal-Mart will create India's largest platform.
- With the merger through Fluido, Infosys' could make a presence across the Nordics region with developed assets and deep client relationships, a great team and an effective local culture.
- The two units sold to Birla group are among the most profitable cement plants in India, which generates around 700 crore.
- Many of Whole Foods' in-store brands will soon be for sale through Amazon's various outlets.
- It also allows Amazon to capture more of the value in the supply chain through vertical integration as it now can capture some of the profit from the food processing step instead of being just a retailer.
- LVB and India Bulls: With merger there will be a spike in retail (real estate) loans initially.

LIMITATIONS

Mergers and acquisitions fail quite often and fail to create value or wealth for shareholders of the acquirers.

- The main limitations were that study was done with a short time period of time and limited companies were taken for comparison.
- An attempt has been made to investigate the impact of M&As on the performance of the companies from the secondary data available.
- Only selected companies have been analyzed and the findings and conclusion has been arrived from the secondary data which has been given in books and online.
- Acquisitions deals should be done keeping in mind Nations prestige and Nations pride.

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