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AN EVALUATION OF FINANCIAL PERFORMANCE OF SELECTED FIRMS BEFORE & AFTER M&A WITH SPECIAL REFERENCE TO INDIAN PHARMACEUTICAL SECTOR

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ABSTRACT

This paper studies the financial performance of Indian pharmaceutical firms which have used M&A as a tool for inorganic growth for corporate restructuring. The study is based on five years prior to merger and five years immediately after merger covering a period from 2008 to 2010. This study has used two hypotheses to test significant improvements in the financial performance of Indian pharmaceutical firms, using a parametric statistical t-test. To measure financial performance, ratios such as liquidity ratios, leverage ratios, efficiency ratios and profitability ratios are used. The study shows that Indian pharmaceutical corporate firms involved in merger & acquisition (M&A) have no significant impact in the liquidity, efficiency and profitability ratios. However, the firms did show a statistically significant change in terms of Inventory turnover ratio.

Keywords: Merger, Acquisition, inorganic, corporate restructuring, Liquidity, Leverage, Efficiency, Profitability.

1. Introduction

Every business may grow either organically or inorganically in a course of time. Organic growth occurs gradually over time during normal course of business that is, through acquiring new assets, replacing obsolete tools with the latest technology. But in case of inorganic growth a firm expands its business through acquisition, merger, joint ventures, takeovers, collaborations. Merger and acquisition has become a new strategy in the corporate world. Companies are using M&A mainly for exploring new markets, reap high market share, gaining competency and to become more competitive in the global market. This activity can take place by acquisition, merger, joint ventures, takeovers, collaborations, and diversification. The post globalization period has led firms from emerging markets to become more aggressive in pursuit of merger and acquisition in order to fight the competitive battle.

2. Literature Review

Beena [1] evaluated the pre and post merger performance of a sample of 115 acquiring firms in the manufacturing sector in India between 1995 – 2000 using various key accounting drivers and t-test. The research consisted of 84 domestically owned acquiring firms and 31 foreign-owned acquiring firms involved in M&As. The performance has been measured in terms of price-cost margin, ROR, shareholder's profit, dividend per equity and debt-equity ratio, etc. She concluded that the study could not find any conclusive evidence of improvement in the financial ratios during the post merger period as compared to the pre merger period for the acquiring firms.