# Realization of Post Merger Synergies of Select Indian Corporate

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**Abstract**

*Indian companies have been increasingly exposed to both domestic and international competition since liberalization of the economy. To face this competition Indian corporate had no choice but to transform and restructure by going in for Mergers and Acquisitions as an important strategic choice. This study focuses on analyzing and understanding the trends in Mergers and Acquisitions in India and the impact of this strategic activity on the post merger performance of a firm. The most important motive behind Merger and Acquisition in India is the growth and synergies which is expected in the post merger scenario. The study compares and evaluates the pre and post merger corporate performance of sample companies in the post liberalized period in India. It also tests the number of years it takes for a company to experience these synergies.*

***Keywords***

*Post merger, Synergy, Performance, Ratios*

## Introduction

Mergers & Acquisitions (M&A) are not new in the Indian scenario. The M&A activity in India happened in two phases Pre liberalization (up to 1990) and the Post liberalization phase (1990 onwards). During the Pre liberalized era / licensing period the objective behind the M&A activity was expansion as the industry capacity was restricted due to licensing controls which resulted in both friendly and unfriendly takeovers during this period. In the post liberalized era, lots of industries went in for consolidation to have a stronger foot hold in the market and to sustain the competition from globalized and liberalized Indian economy. The policies of the Government and the dynamism and optimism in Indian corporate have also added to it. The Indian corporate looked forward for a global foothold and went in for cross border mergers and acquisitions which were predominant in the period 2000-2006. Indian outbound deals, which were valued at US$ 0.7 billion in 2000-01, increased to US$ 4.3 billion in 2005, and crossed US$ 15 billion-mark in 2006 (http://ibef.org). In 2008, a total of 1,270 deals with Indian participation and the value of total M&A's in India was $50 million. Mergers & Acquisitions activity in India has slightly decreased in 2008 in terms of numbers (-6 percent).This decrease is smaller than the worldwide trend (-10 percent), but higher than the Asian one (-3.4 percent). The total value of Indian deals in 2008 has decreased by 18 percent, which is much smaller than the overall trend in the world which is 44 percent and in Asia it is 35 percent (www.researchandmarkets.com/research/ffafcf/mergers_and_acquis)

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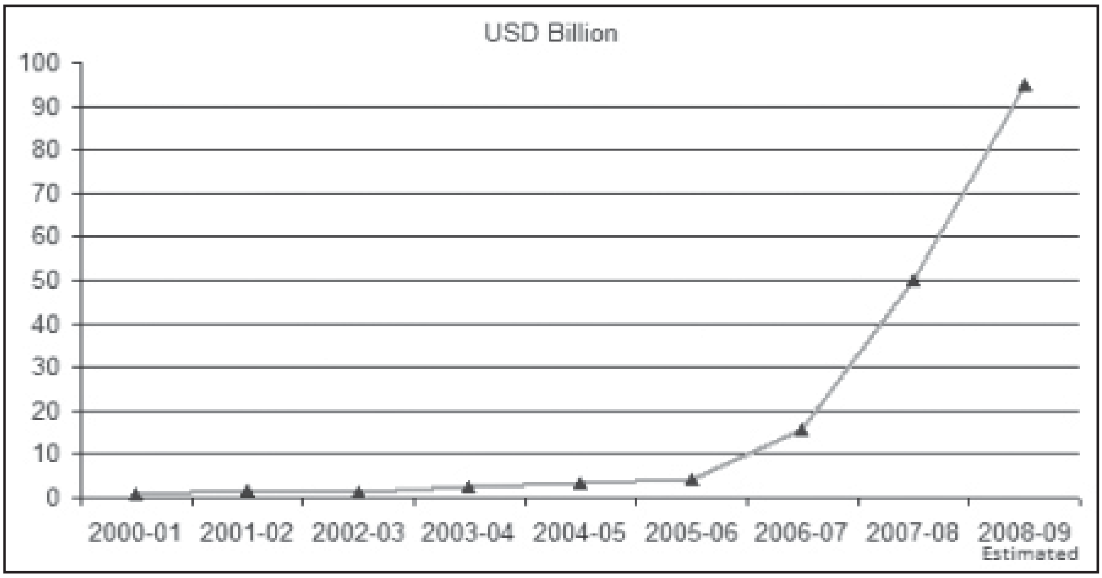
**Graph:1 Representing total value of outbound deals from 2000 – 2009 in US $**




**Source:** http://ibef.org

A survey was conducted by Grant Thornton (India) among Indian corporate managers in 2006 found that the three main objectives behind any M&A transaction are Improving Revenues and Profitability, Faster growth and Acquisition of new technology.

| Objective | Responses in (%) |
|---|---|
| To improve revenues & Profitability | 33% |
| Faster growth in scale and quicker time to market | 28% |
| Acquisition of new technology or competence | 22% |
| To eliminate competition & increase market share | 11% |
| Tax shields & Investment savings | 3% |

**Source: Grant Thornton (India), The M&A and Private Equity Scenario, 2006**

## Review of Literature

There are abundance of studies done in the past to compare and evaluate the performance of mergers & acquisitions using various tools & techniques. The objective of the present study is to evaluate the post performance of sample companies using ratio analysis and to understand whether the companies gain synergies and if yes in how early in the post merger & acquisition scenario do they realize it.

Mantravadi and Reddy (2008) studied the impact of mergers on the operating performance of acquiring corporate in different industries, by examining some pre-merger and post-merger financial ratios, with the sample of firms chosen as all mergers involving public limited and traded companies in India between 1991 and 2003.

Huang and Kleiner (2004) identified the major challenges in mergers & acquisition. The major obstacles identified for failure of M&A are Time and Cultural differences. The role of the management plays an important role and increases the chances of success in the post merger integration

Shanmugam (2003) studied the cause and effect relationship of mergers & acquisitions of banks in Malaysia and the future implications on the Banking system. The major causes behind mergers & acquisitions identified by the author are synergies improving profitability and efficiency of the bank, to avoid disruption of banking services and minimize costs and increase in size.

Mohan and Suganthi (2001) studied the existence of synergy in the financial services industry in post M&A scenario. Their study revealed that only 17 percent of the financial services firms merged in the past globally could get good returns.

Rao and Sanker (1997) selected a sample of sick units which went in for M&A. The authors in their study had evaluated the performance of sick units after takeover. In their study they found out that there were significant improvements in the liquidity, leverage and profitability and five out of eight sample companies revived. It was found out that the total assets were always less than the debt plus equity for pre acquisition period, but after acquisition, it turned out to be positive.

Renganathan (1995) has studied the post merger performance of a sample of companies. Ratio analysis was used to evaluate the performance. Earning to equity ratio, liquidity ratio and size ratio were positive for acquired firms and the profitability ratio (pre-tax) like selling, administrative and operating expenses came down and was negative at 2 percent level of significance. It is also found out that the return on capital employed, return on total assets and return on equity increased at a marginal rate.

## Objective of the study

The increasing number of mergers in the Indian scenario made the researcher to study the M&A activity in India during the post liberalization period, in general and to test the usefulness of select financial ratios to evaluate the post merger corporate performance of sample companies and to test the number of years it takes for a company to experience synergies.

## Methodology

The study focuses on post merger corporate performance. The study is based on secondary data to a large extent where the annual reports of sample companies like HUL, RIL, BASF, Glaxo SmithKline & ITC were used to get financial data and the scheme of the merger were taken. A sample of companies targeted has been selected for examining the post-takeover performance. The criteria used for selecting the sample was that necessary financial information for three years preceding and five years succeeding the merger was collected from companies' websites. The time period considered was 1999 to 2008.

The ratios used to evaluate the post merger performance of corporate are Modified Net Profit Margin or Operating Margin (EBIT/ Sales), Return on Capital Employed (ROCE) to measure Profitability, Current Ratio to measure Liquidity, Debt Equity Ratio and Interest Coverage Ratio to measure Solvency, Fixed Assets Turnover, Inventory and Debtors Turnover Ratio, Profit before Interest Depreciation and Taxes and Profit After Tax to measure Efficiency, Market Capitalization / Sales, Price Earnings and Price to Book value to measure Market conditions in the post merger scenario. The corporate performance is reflected in the financial results of the company and ratio analysis was considered representative to reflect all the five major parameters viz. Profitability, Liquidity, Solvency, Efficiency and Market Conditions. The mean values of these ratios based on a period of three years each immediately preceding and succeeding the event were calculated and compared to evaluate the post merger corporate performance.

## Hypothesis

The hypothesis of the study is that it takes a minimum of 5 years for a company to experience synergies post-merger.

## Analysis and Findings

"Synergy" is defined as the additional value created by joining or merging two business entities. It can be gained in the form of generating higher revenues for the combined entity, lower expenses than if the two entities operate separately or lower overall cost of capital. Synergy can be realized only when there is a "strategic fit" between the two entities. "Strategic fit" is defined as the effective matching of the strategic organizational capabilities. The synergy which results from strategic fit might result from integration of functional activities, R&D, Marketing, Management process, cultures, systems and structures and managerial actions. This synergy needs to be measured and quantified for which the researcher used ratio analysis to measure and compare five important parameters pre and post M& A like Profitability, Liquidity, Solvency, Efficiency and Market conditions. A sample of companies which went to aggressive M& A activity were selected which fulfilled the criteria of three years immediately preceding and five years immediately succeeding M&A to evaluate their performance in terms of synergy and the number of years it has taken to realize it.

## Indian Tobacco Corporation Ltd

Indian Tobacco Corporation Ltd is an associate of British American Tobacco with a 37 per cent stake. In 1910, the company's operations were restricted to trading in imported cigarettes. The company changed its name to ITC Limited in the mid seventies when it diversified into other businesses. ITC is one of India’s foremost private sector companies with a turnover of US$ 2.6 billion.

In April, 2004 the company went in for M&A of ITC Hotels Ltd and Ansal Hotels Ltd with ITC. The merger ratio was 3 shares of ITC for 25 shares of ITC Hotels and 1 share of ITC for every 10 shares of Ansal Hotels. The company went in for this acquisition to increase their presence in the hospitality industry.

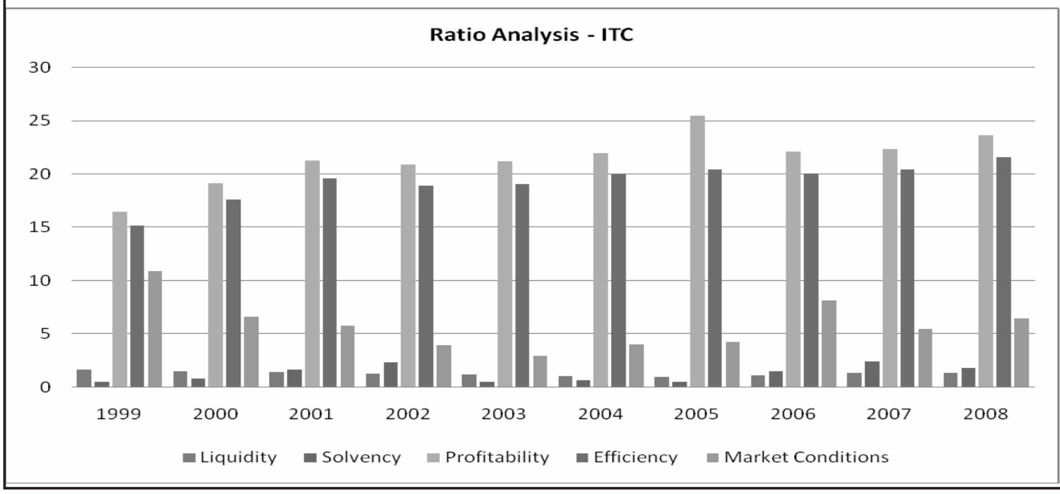
**Table: 2 Representing Key Ratios of ITC Ltd**

| Key Ratios | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Profitability** | | | | | | | | | | |
| EBIT /Sales | 16.48 | 19.11 | 21.21 | 20.9 | 21.17 | 21.96 | 25.4 | 22.05 | 22.31 | 23.58 |
| ROCE | 35.77 | 41.18 | 44.1 | 41.44 | 41.69 | 39.58 | 37.44 | 37.73 | 40.02 | 40.32 |
| **Liquidity** | | | | | | | | | | |
| Current Ratio | 1.69 | 1.55 | 1.41 | 1.32 | 1.24 | 1.06 | 0.97 | 1.15 | 1.35 | 1.38 |
| **Solvency** | | | | | | | | | | |
| Debt Equity Ratio | 0.66 | 0.39 | 0.24 | 0.15 | 0.04 | 0.02 | 0.03 | 0.02 | 0.02 | 0.02 |
| Interest Coverage Ratio | 5.49 | 8.12 | 16.79 | 23.91 | 52.09 | 68.85 | 53.63 | 153.8 | 245.81 | 186.77 |
| **Efficiency** | | | | | | | | | | |
| Fixed Assets Turnover | 5.38 | 4.76 | 4.07 | 3.23 | 2.82 | 2.66 | 2.58 | 2.74 | 2.91 | 2.67 |
| Inventory Turnover | 8.29 | 8.6 | 8.36 | 8.46 | 9.06 | 8.48 | 7.55 | 6.99 | 6.44 | 5.77 |
| Debtors Turnover | 24.95 | 34.85 | 77.8 | 65.56 | 53.35 | 51.28 | 34.24 | 29.59 | 31.98 | 30.57 |
| PBIDT % | 16.48 | 19.11 | 21.21 | 20.9 | 21.17 | 21.96 | 22.75 | 22.05 | 22.31 | 23.58 |
| PAT % | 15.13 | 17.62 | 19.6 | 18.88 | 19.02 | 19.92 | 20.41 | 20 | 20.43 | 21.52 |
| **Market Conditions** | | | | | | | | | | |
| Market Cap/Sales | 3.12 | 2.27 | 2.3 | 1.74 | 1.41 | 2.18 | 2.5 | 4.51 | 2.93 | 3.64 |
| Price Earnings (P/E) | 38.83 | 23.99 | 20.37 | 14.37 | 11.77 | 16.86 | 16.01 | 34.94 | 22.62 | 26.87 |
| Price / Book value | 10.9 | 6.59 | 5.76 | 3.93 | 2.94 | 4.06 | 4.26 | 8.13 | 5.45 | 6.48 |

**Table: 3 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of ITC Ltd**

| Year | Liquidity | Solvency | Profitability | Efficiency | Market Conditions |
|---|---|---|---|---|---|
| **1999** | 1.05 | 0.38 | 11.98 | 7.9 | 19.58 |
| **2000** | 1.04 | 0.62 | 14.12 | 9.81 | 23.50 |
| **2001** | 0.94 | 1.27 | 15.91 | 11.52 | 18.26 |
| **2002** | 0.96 | 2.55 | 18.02 | 13.96 | 16.18 |
| **2003** | 1.02 | 2.39 | 21.36 | 16.19 | 10.94 |
| **2004** | 0.94 | 0.33 | 21.29 | 15.99 | 21.08 |
| **2005** | 0.90 | 0.12 | 15.97 | 11.01 | 15.11 |
| **2006** | 0.82 | 0.85 | 14.77 | 11.77 | 18.84 |
| **2007** | 0.74 | 1.71 | 17.88 | 11.87 | 17.55 |
| **2008** | 0.71 | 0.82 | 16.90 | 11.69 | 32.36 |

**Graph:2 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of ITC Ltd**




The graph shows us that liquidity went down initially, reaching its low in the year of the merger. This was because lots of funds were used to finance the merger. The liquidity position improved after merger, stabilizing after about 5 years. Profitability also went on increasing substantially till 2005. What have drastically improved are the market conditions. This is not only because of the merger of ITC with ITC Hotels, but also because the company has diversified into various businesses from paper to agriculture to food and beverages. It is difficult to say exactly in how many years does synergy is realized but beyond doubt as it is seen in this case there is an improved performance in terms of Profitability and Efficiency.

### Glaxo Smithkline

The merger between Glaxo Wellcome and SmithKline both are the UK based world's leading research-based pharmaceutical and healthcare companies.In January 2000, the Boards of Glaxo Wellcome and SmithKline Beecham announced that they have unanimously agreed the terms of a proposed merger of equals to form Glaxo SmithKline, the world's leading research-based pharmaceutical company. The merger created history and Glaxo Wellcome had 59.5 percent in the combined entity and SmithKline Beecham had 40.5 percent in the new entity with a market capitalization of $110 billion.

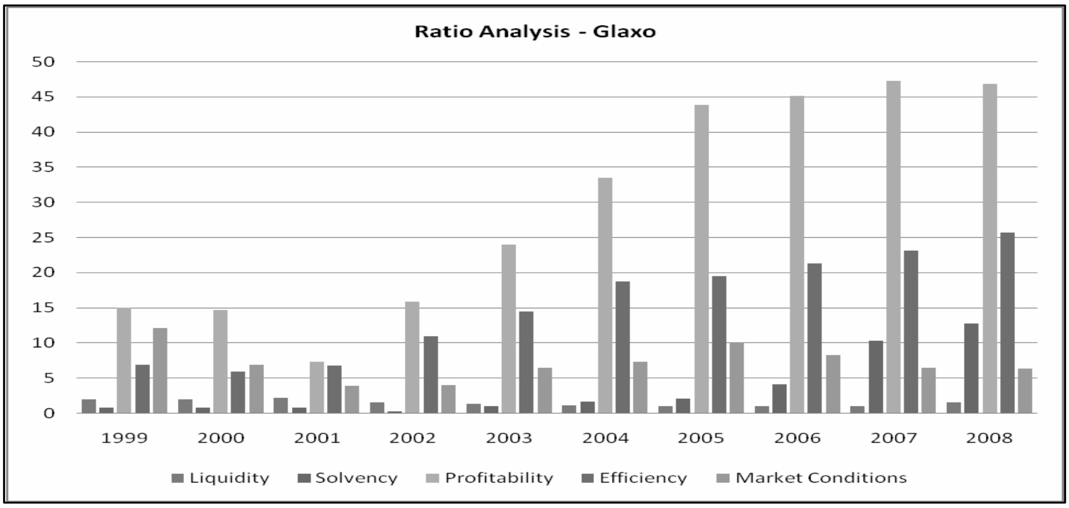
**Table: 4 Representing Key Ratios of Glaxo Smithklime**

| Key Ratios | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Profitability** | | | | | | | | | | |
| EBIT /Sales | 14.91 | 14.65 | 7.24 | 15.82 | 23.94 | 33.39 | 43.79 | 45.11 | 47.18 | 46.77 |
| ROCE | 25.92 | 23.73 | 16.92 | 33.06 | 42.72 | 52.61 | 50.82 | 51.16 | 50.57 | 46.3 |
| **Liquidity** | | | | | | | | | | |
| Current Ratio | 1.92 | 1.96 | 2.14 | 1.54 | 1.25 | 1.09 | 1 | 0.97 | 0.96 | 1.46 |
| **Solvency** | | | | | | | | | | |
| Debt Equity Ratio | 0.06 | 0.07 | 0.05 | 0.01 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Coverage Ratio | 8.61 | 7.91 | 8.06 | 24.91 | 101.64 | 164.9 | 202.5 | 408 | 1030.3 | 1272.5 |
| **Efficiency** | | | | | | | | | | |
| Fixed Assets Turnover | 3.89 | 3.78 | 3.91 | 3.99 | 4.52 | 5.81 | 6.23 | 6.62 | 6.58 | 6.38 |
| Inventory Turnover | 6.8 | 6.14 | 6.23 | 6.1 | 6.01 | 6.92 | 7.09 | 7.31 | 7.67 | 8.07 |
| Debtors Turnover | 10.19 | 8.33 | 9.37 | 12.02 | 15.99 | 20.67 | 21.97 | 26.24 | 34.88 | 36.6 |
| PBIDT % | 12.44 | 12.04 | 10.04 | 18.27 | 23.94 | 29.6 | 31.34 | 33.78 | 38.84 | 39.44 |
| PAT % | 6.89 | 5.85 | 6.75 | 10.91 | 14.45 | 18.7 | 19.43 | 21.29 | 23.08 | 25.59 |
| **Market Conditions** | | | | | | | | | | |
| Market Cap/Sales | 4.93 | 2.91 | 1.95 | 1.98 | 3.59 | 4.54 | 6.02 | 5.88 | 5.09 | 5.55 |
| Price Earnings (P/E) | 60 | 42.59 | 48.71 | 24.91 | 26.33 | 21.98 | 20.24 | 19.39 | 17.96 | 18.72 |
| Price / Book value | 12.12 | 6.89 | 3.82 | 3.93 | 6.42 | 7.27 | 10 | 8.26 | 6.41 | 6.3 |

**Table: 5 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of Glaxo Smithklime**

| Year | Liquidity | Solvency | Profitability | Efficiency | Market Conditions |
|---|---|---|---|---|---|
| **1999** | 1.92 | 0.8 | 14.91 | 6.89 | 12.12 |
| **2000** | 1.96 | 0.79 | 14.65 | 5.85 | 6.89 |
| **2001** | 2.14 | 0.8 | 7.24 | 6.75 | 3.82 |
| **2002** | 1.54 | 0.24 | 15.82 | 10.91 | 3.93 |
| **2003** | 1.25 | 1.01 | 23.94 | 14.45 | 6.42 |
| **2004** | 1.09 | 1.64 | 33.39 | 18.73 | 7.27 |
| **2005** | 1.00 | 2.02 | 43.79 | 19.43 | 10 |
| **2006** | 0.97 | 4.08 | 45.11 | 21.29 | 8.26 |
| **2007** | 0.96 | 10.30 | 47.18 | 23.08 | 6.41 |
| **2008** | 1.46 | 12.72 | 46.77 | 25.59 | 6.3 |

**Graph: 3 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of Glaxo Smithklime**



Ratio analysis was done from 1999 to 2008. The graph clearly depicts that Profitability, Efficiency, Solvency have all been increasing on a consistent basis. In the year 2007, it had reached the peak. Liquidity has been more or less stable around 1.5 times. It is also clearly visible in the above graph that all the ratios were low in year 2001 the year after merger depicting that it takes some time for the integration process and the synergies to be realized.

### Hindustan Unilever Ltd

Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods Company, with different and distinct categories in Home & Personal Care Products and Foods & Beverages. HUL has merged with and acquired many companies in the early nineties. To name a few Tata Oil Mills Company (TOMCO) merged with HUL in April, 1993. In 1994, Kimberly Clark Corporation had a 50:50 joint venture with HUL to form Kimberly Clark Lever Ltd. In 1995, Lakme another Tata company had a 50:50 joint venture with HUL and in 1998. Lakme sold its brands and divested its stake to HUL.

In 1992, Brooke Bond acquired Kothari General Foods, with significant interests in Instant Coffee. In 1993, it acquired the Kissan from the UB Group and the Dollops Ice cream business from Cadbury India. As a measure of backward integration, two plantation companies of Unilever, were merged with Brooke Bond. In 1993, Brooke Bond India and Lipton India merged to form Brooke Bond Lipton India Limited (BBLIL), to have greater focus in the traditional Beverages business. In 1996, BBLIL merged with HUL. In 2000, the government decided to 74% equity stake in Modern Foods to HUL, as a move towards divestment of government equity in public sector undertakings (PSU) to private sector partners. In 2002, HUL acquired the government's remaining stake in Modern Foods.

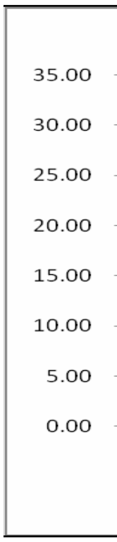
**Table : 6 Representing Key Ratios of Hindustan Unilever Ltd.**

| Key Ratios | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Profitability** | | | | | | | | | | |
| EBIT /Sales | 11.98 | 14.12 | 15.91 | 18.02 | 21.36 | 21.29 | 15.97 | 14.77 | 17.88 | 16.90 |
| ROCE | 65.87 | 66.59 | 68.80 | 68.95 | 64.31 | 59.13 | 43.62 | 55.46 | 71.32 | 97.55 |
| **Liquidity** | | | | | | | | | | |
| Current Ratio | 1.05 | 1.04 | 0.94 | 0.96 | 1.02 | 0.94 | 0.90 | 0.82 | 0.74 | 0.71 |
| **Solvency** | | | | | | | | | | |
| Debt Equity Ratio | 0.15 | 0.12 | 0.06 | 0.04 | 0.02 | 0.30 | 0.75 | 0.35 | 0.03 | 0.04 |
| Interest Coverage Ratio | 38.29 | 62.99 | 127.62 | 255.06 | 239.69 | 33.47 | 12.42 | 85.57 | 171.39 | 82.67 |
| **Efficiency** | | | | | | | | | | |
| Fixed Assets Turnover | 8.44 | 7.61 | 7.22 | 6.52 | 5.56 | 5.36 | 4.88 | 5.10 | 5.38 | 5.75 |
| Inventory Turnover | 9.32 | 8.88 | 9.13 | 9.71 | 8.68 | 8.27 | 7.54 | 8.54 | 9.08 | 8.42 |
| Debtors Turnover | 60.30 | 51.11 | 45.65 | 34.11 | 27.57 | 26.43 | 22.65 | 23.64 | 27.04 | 33.36 |
| PBIDT % | 11.98 | 14.12 | 15.91 | 18.02 | 21.36 | 21.29 | 15.97 | 14.77 | 15.12 | 15.24 |
| PAT % | 7.9 | 9.81 | 11.52 | 13.96 | 16.19 | 15.99 | 11.01 | 11.77 | 11.87 | 11.69 |
| **Market Conditions** | | | | | | | | | | |
| Market Cap/Sales | 3.25 | 4.53 | 3.99 | 4.19 | 3.66 | 4.07 | 2.91 | 3.63 | 3.67 | 3.16 |
| Price Earnings (P/E) | 43.74 | 49.55 | 39.91 | 31.11 | 22.61 | 32.24 | 30.02 | 28.61 | 28.61 | 29.67 |
| Price / Book value | 19.58 | 23.50 | 18.26 | 16.18 | 10.94 | 21.08 | 15.11 | 17.55 | 17.55 | 32.36 |

**Table: 7 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of Hindustan Unilever Ltd.**

| Year | Liquidity | Solvency | Profitability | Efficiency | Market Conditions |
|---|---|---|---|---|---|
| **1998** | 1.05 | 0.38 | 11.98 | 7.9 | 19.58 |
| **1999** | 1.04 | 0.62 | 14.12 | 9.81 | 23.50 |
| **2000** | 0.94 | 1.27 | 15.91 | 11.52 | 18.26 |
| **2001** | 0.96 | 2.55 | 18.02 | 13.96 | 16.18 |
| **2002** | 1.02 | 2.39 | 21.36 | 16.19 | 10.94 |
| **2003** | 0.94 | 0.33 | 21.29 | 15.99 | 21.08 |
| **2004** | 0.90 | 0.12 | 15.97 | 11.01 | 15.11 |
| **2005** | 0.82 | 0.85 | 14.77 | 11.77 | 18.84 |
| **2006** | 0.74 | 1.71 | 17.88 | 11.87 | 17.55 |
| **2007** | 0.71 | 0.82 | 16.90 | 11.69 | 32.36 |

**Graph**




Based on HUL aggressive M&A pattern an assumption can be made that HUL has been experiencing synergies on a consistent basis. The graph above represents the liquidity, solvency, profitability, and efficiency and market conditions of HUL for ten consecutive years. The liquidity and solvency of the company did not change to a great extent because the company went into lot of acquisitions during this period in an aggressive manner mentioned above. The ratios representing Profitability and Market conditions have increased year after year reaching the peak after 5 years i.e., till 2003. It is also understood from the numbers that it takes some time to realize synergies as the new entities need to get adjusted with each other. The hypothesis formulated is accepted in the first case that synergies do accrue and it takes at least five years to realize it.

## BASF

In the Global Agrochemical Industry, the pressure to improve R&D and falling farm prices initiated the mergers and acquisitions in this industry. In 2001, the merger between BASF India, a 51 per cent subsidiary of BASF AG, and Cynamid Agro, a 69 per cent subsidiary of Cyanamid Global (the crop protection business of American Home Products) was announced and one of its kinds in the Agro Chemical Industry.

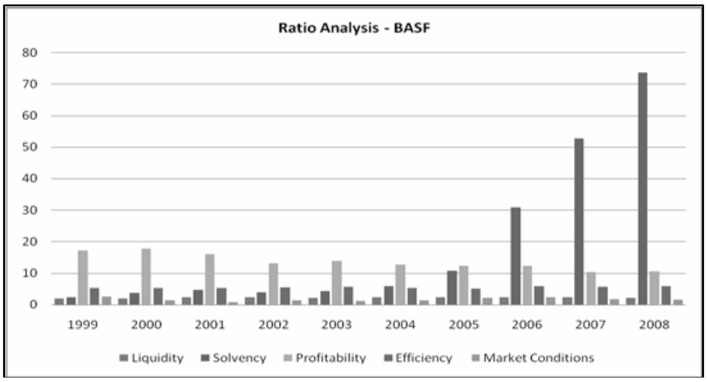
**Table: 8 Representing Key Ratios of BASF**

| Key Ratios | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Profitability** | | | | | | | | | | |
| EBIT /Sales | 17.18 | 17.74 | 15.94 | 12.99 | 13.8 | 12.68 | 12.21 | 12.28 | 10.32 | 10.45 |
| ROCE | 13.65 | 16.42 | 17.04 | 21.18 | 18.27 | 19.12 | 23.47 | 26.88 | 27.31 | 29.24 |
| **Liquidity** | | | | | | | | | | |
| Current Ratio | 1.9 | 2 | 2.37 | 2.29 | 2.13 | 2.41 | 2.34 | 2.32 | 2.39 | 2.13 |
| **Solvency** | | | | | | | | | | |
| Debt Equity Ratio | 0.59 | 0.5 | 0.38 | 0.43 | 0.57 | 0.44 | 0.16 | 0.02 | 0 | 0 |
| Interest Coverage Ratio | 2.28 | 3.65 | 4.6 | 3.9 | 4.31 | 5.86 | 10.8 | 30.82 | 52.59 | 73.5 |
| **Efficiency** | | | | | | | | | | |
| Fixed Assets Turnover | 1.42 | 1.59 | 1.73 | 2.28 | 2.18 | 2.38 | 2.7 | 2.78 | 2.88 | 3.09 |
| Inventory Turnover | 4.83 | 5.25 | 5.83 | 6.77 | 5.13 | 6.35 | 7.46 | 6.7 | 7.75 | 8.58 |
| Debtors Turnover | 4.3 | 3.91 | 3.81 | 4.06 | 3.45 | 3.69 | 4.16 | 4.74 | 5.89 | 6.79 |
| PBIDT % | 17.18 | 17.74 | 15.94 | 14.18 | 13.8 | 12.68 | 12.21 | 12.28 | 10.32 | 10.45 |
| PAT % | 5.27 | 5.26 | 5.35 | 5.55 | 5.66 | 5.22 | 5.13 | 5.88 | 5.72 | 5.76 |
| **Market Conditions** | | | | | | | | | | |
| Market Cap/Sales | 1.37 | 0.69 | 0.41 | 0.48 | 0.43 | 0.92 | 0.75 | 0.81 | 0.62 | 0.53 |
| Price Earnings (P/E) | 27.05 | 13.79 | 8.12 | 9.87 | 8.03 | 20.63 | 15.67 | 14.57 | 11.52 | 9.8 |
| Price / Book value | 2.56 | 1.36 | 0.86 | 1.39 | 1.15 | 1.44 | 2.2 | 2.25 | 1.78 | 1.62 |

**Table: 9 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of BASF**

| Year | Liquidity | Solvency | Profitability | Efficiency | Market Conditions |
|---|---|---|---|---|---|
| **1999** | 1.9 | 2.28 | 17.18 | 5.27 | 2.56 |
| **2000** | 2 | 3.65 | 17.74 | 5.26 | 1.36 |
| **2001** | 2.37 | 4.6 | 15.94 | 5.35 | 0.86 |
| **2002** | 2.29 | 3.9 | 12.99 | 5.55 | 1.39 |
| **2003** | 2.13 | 4.31 | 13.8 | 5.66 | 1.15 |
| **2004** | 2.41 | 5.86 | 12.68 | 5.22 | 1.44 |
| **2005** | 2.34 | 10.8 | 12.21 | 5.13 | 2.2 |
| **2006** | 2.32 | 30.82 | 12.28 | 5.88 | 2.25 |
| **2007** | 2.39 | 52.59 | 10.32 | 5.72 | 1.78 |
| **2008** | 2.13 | 73.5 | 10.45 | 5.76 | 1.62 |

**Graph: 5 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of BASF**




It is evident from the graph above that the Solvency has increased consistently and reached the peak in 2008. The profitability has also increased but not to a great extent. There is no change in the liquidity position and the market conditions.

### Reliance Industries Ltd (Post RIL-RPL Merger)

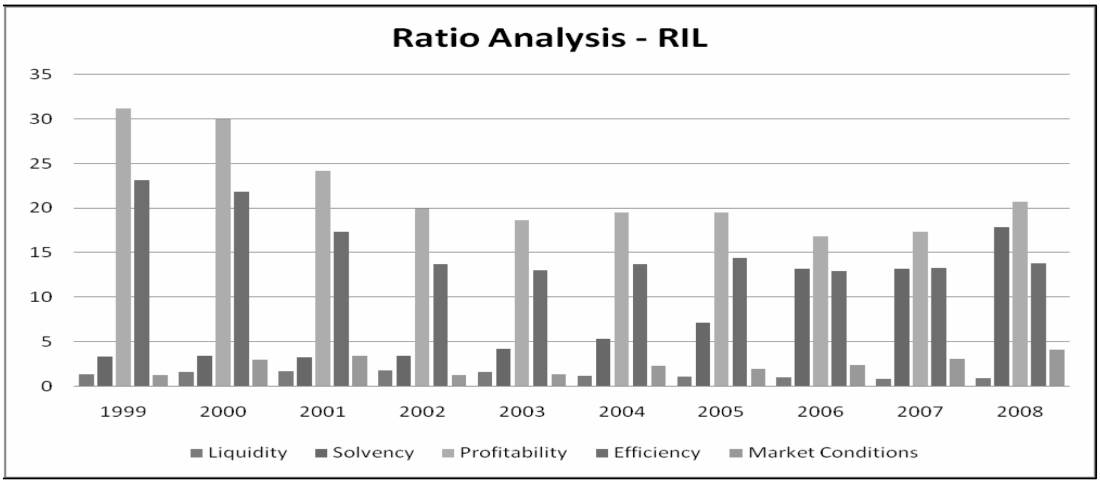
The Reliance Group, founded by Dhirubhai H. Ambani is India's largest private sector enterprise, with businesses in the energy and materials value chain. The merger of Reliance Industries Ltd (RIL) the number one polyester company in India and Reliance Petrochemicals Limited (RPL) the country's biggest Private Sector Refinery was announced in 2001 resulted in fully integrated Oil and Petrochemical Company. The greatest synergy expected was the tax saving of the combined entity which in turn will have an impact on Profitability.

| Key Ratios |
|---|
| **Profitabilit** |
| EBIT /Sales |
| ROCE |
| **Liquidity** |
| Current Ra |
| **Solvency** |
| Debt Equity |
| Interest Ratio |
| **Efficiency** |
| Fixed Asset |
| Inventory T |
| Debtors Tu |
| PBIDT % |
| PAT % |
| **Market Co** |
| Market Cap |
| Price Earni |
| Price / Boo |

**Table: 11 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of Reliance Industries Ltd**

| Year | Liquidity | Solvency | Profitability | Efficiency | Market Conditions |
|---|---|---|---|---|---|
| **1999** | 1.41 | 3.38 | 31.23 | 23.18 | 1.3 |
| **2000** | 1.64 | 3.44 | 29.95 | 21.89 | 3.03 |
| **2001** | 1.73 | 3.29 | 24.16 | 17.36 | 3.43 |
| **2002** | 1.8 | 3.43 | 19.98 | 13.77 | 1.28 |
| **2003** | 1.67 | 4.2 | 18.7 | 13.03 | 1.4 |
| **2004** | 1.25 | 5.39 | 19.53 | 13.75 | 2.37 |
| **2005** | 1.1 | 7.17 | 19.49 | 14.4 | 2.02 |
| **2006** | 1.03 | 13.2 | 16.81 | 12.99 | 2.46 |
| **2007** | 0.9 | 13.21 | 17.34 | 13.27 | 3.11 |
| **2008** | 0.96 | 17.86 | 20.78 | 13.81 | 4.17 |

**Graph: 6 Representing the Liquidity, Solvency, Profitability, Efficiency and Market conditions of Reliance Industries Ltd**




The two profitability ratios viz. EBIT/Sales and ROCE declined significantly in the Post merger period. With the assets turnover ratio also showing a decline, the study concluded that both profitability and efficiency of target companies decline in post M&A period. Though market response appear to be encouraging, the liquidity and solvency position of these companies as measured by current ratio, cash flow to sales and debt-equity ratio do not present an encouraging picture.

## Conclusion

The study was to understand the M&A scenario in the post liberalized period and to evaluate the pre and post performance of the sample companies which went for a merger using ratio analysis. The pre and the post scenario were compared to understand whether synergies have resulted and if yes the number of years it had taken for companies to realize it. The sample was selected which fulfilled the criteria of three years preceding and five years succeeding a merger. The findings are that the merged companies take at least a year to totally integrate their operations. The employees also need that time to get accustomed to a different culture and environment of work.

The parameters like efficiency and profitability start improving in years 2 and 3. The liquidity and solvency position takes a little longer and generally stabilizes in about 5 years. Market conditions which are dependent on external factors as well perform well when synergies start showing. The hypothesis is accepted and it takes at least five years to realize synergies but at the same time it is also observed that it varies on case to case basis.

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