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THE IMPACT OF MERGERS AND ACQUISITIONS ON PRE AND POST FINANCIAL PERFORMANCE: A CASE STUDY OF SELECTED PHARMACEUTICAL COMPANIES

Suruchi Satsangi*
Prof. Prem Das Saini**

ABSTRACT

The term Mergers and Acquisitions are commonly interchangeably used even though together and they include more than one form of transaction of acquiring possession in other companies. The Mergers mean when one company join with the other company and unites its identity to form a new company by transferring their business and undertaking including all other assets and liabilities to a new company. The Acquisition means the buying of a substantial part of the assets or the securities by one company to another company and it may be friendly or unfriendly (hostile) acquired. The pharmaceutical industry is a vital source of health care for billions of population worldwide and in India, which makes it highly regulated by various organizations and forums. The objectives of this paper are to know the significance of the Mergers and Acquisitions and to analyze the impact of mergers and acquisitions on the financial performance of pharmaceutical's companies. The researcher has done an analytical study related to the Mergers and Acquisitions (M&A) and this study is based on secondary data which is collected from the various magazines, websites, newspapers, etc. The duration of the study is considered one financial year for pre and one financial year from the post Mergers and Acquisitions. The base year when Mergers and Acquisitions were held is considered as zero. The appropriate tools like Mean, t-Test etc. will be used to finding the results of this study.

KEYWORDS: *M&A, Mergers & Acquisitions, Financial Performance, Pharmaceutical's Companies.*

Introduction

Mergers and acquisitions (M&A) are defined as a consolidation of corporations. Differentiating the two terms, Mergers are the mixture of two corporations to form one, while Acquisitions are one company taken over by the other. M&A is one of the fundamental elements of company finance world. The reasoning behind M&A is usually given is that two separate companies collectively create extra value compared to being on an individual stand. With the objective of wealth maximization, businesses keep appraised different opportunities through the path of merger or acquisition.

The Indian pharmaceutical industry has visible a strong boom in the last decade. Numerous enterprise reports advised that the pharmaceutical sector in India has been growing consistently at the rate of 13-14 % every year for the remaining five years. According to the consulting firm McKinsey &

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* Research Scholar, Department of Accountancy & Law, Faculty of Commerce, Dayalbagh Educational Institute (Deemed University), Dayalbagh, Agra, U.P., India.
** Department of Accountancy & Law, Faculty of Commerce, Dayalbagh Educational Institute (Deemed University), Dayalbagh, Agra, U.P., India.

Corporation, India's pharmaceutical sector will touch fifty five billion USD by way of 2020 and generics are expected to return to dominate the market while a patent-protected product are likely to constitute ten percent of the market until 2015. Globally as well as locally the pharmaceutical industry has advanced vastly on account of the improvement in the technology, which has made them much inexpensive and cost efficient. With the expected growth rate of 14% per annum, the Indian Pharmaceutical sector is predicted to create more jobs in India.

Sun Pharmaceuticals Industries Limited is an Indian multinational pharmaceutical organization established in Mumbai, Maharashtra that manufactures and sells pharmaceutical formulations and Active Pharmaceutical Substances (APIs) basically in India and the USA. The employer gives formulations in numerous healing regions, which include cardiology, psychiatry, neurology, gastroenterology and dialectology. It also offers APIs which includes warfarin, carbamazepine, etodolac, and clorazepate, in addition to anticancer, steroids, peptides, and managed substances.

Dr. Reddy's Laboratories is an Indian multinational pharmaceutical business enterprise based totally in Hyderabad, Telangana, India. The corporation became based by way of Anji Reddy, who previously worked within the mentor institute Indian tablets and pharmaceuticals restricted, of Hyderabad, India. Dr. Reddy's manufactures and markets a huge range of prescription drugs in India and overseas. The organization has over 190 medicines, 60 lively pharmaceutical components (APIs) for drug manufacture, diagnostic kits, vital care, and biotechnology products.

Review of Literature

- **Pankaj Sinha and Sushant Gupta (2016), Mergers and Acquisitions: A Pre-Post Analysis for the Indian Financial Services Sector**

From the study determined that the M&A activity in the Indian Financial Services Sector over a period of March 1993- Feb 2010 has had positive effects on the profitability in majority cases, but the liquidity position has declined during a period of three years after the merger. This points to the fact that though companies may have been able to influence the synergies arising out of the Merger or Acquisition, but they haven't been able to manage their capital structure to recover their liquidity.

- **Aastha Mehta (2013) Merger Control in Pharmaceutical Sector: Overview, Trends and Eu Law**

This paper determined that the trend in pharmaceutical sector towards Mergers and Acquisitions is value seeing in the future, with the expansion of science. Business, Science and Pharmaceuticals have become an combined whole, and not only R&D, or science can help companies attain profits, it is the new innovative business approaches and rearrangement like Mergers, Acquisitions, arrangements which are being taken for keeping the companies a profit making venture. In the paper, the author gives the readers a primary idea on different types of mergers in the pharmaceutical sector, and how competition law plays avital role for successes of these Mergers. The finding of the study is that the pharmaceutical industry is an innovation focused industry with countless reasons for entering into arrangements, and a sector definite approach has been used.

Research Gap

As above the past studies which are related to the Manufacturing Industries, Financial Sectors, control and determinants on the Pharmaceuticals Industries etc. but no such studies which are based on the pre and post financial performance of selected Pharmaceuticals Companies.

Need of the Study

Mergers and Acquisitions play a vital role in different sectors to expand the businesses, reduce the risk and as well as capture the market. There are lots of sectors which involved in the activity of M&A and as the increasing the growth of health care industry was also involved in the activity of M&A. So, the researcher has chosen the pharmaceutical sector to know the pre and post financial performance of Mergers and Acquisitions of the selected Pharmaceutical Companies which is helpful for the further study.

Objectives of the Study

- To know the significance of the Mergers and Acquisitions.
- To analyze the impact of Mergers and Acquisitions on financial performance of selected pharmaceutical's companies.

Research Methodology

- The researcher has done an explanatory as well as analytical research which is focusing on the pre and post financial performance of the selected companies.
- The data is collected from the secondary sources such as various websites, journal etc.
- For the analysis purpose, data are taken two year from pre and two year from post of mergers and acquisitions of the selected banks. The merged year have been taken as base year and considered as zero. The followings companies are taken into study:

S.No.	Parent Companies	Target Companies	Year
1.	Sun Pharma	Ocular Technologies Sarl	2016
2.	Dr. Reddy's Laboratories	UCB Company	2016

- Ratios and t-test are used to measure the pre and post financial performance of SUN PHARMA and DR. REDDY'S LABORATORIES.

Hypothesis of the Study

H_0 There is no significant difference between pre and post Mergers & Acquisitions on the financial performance of Sun Pharma and DR. Reddy's Laboratories.

Analysis of the Study

- **To know the significance of the Mergers and Acquisitions**

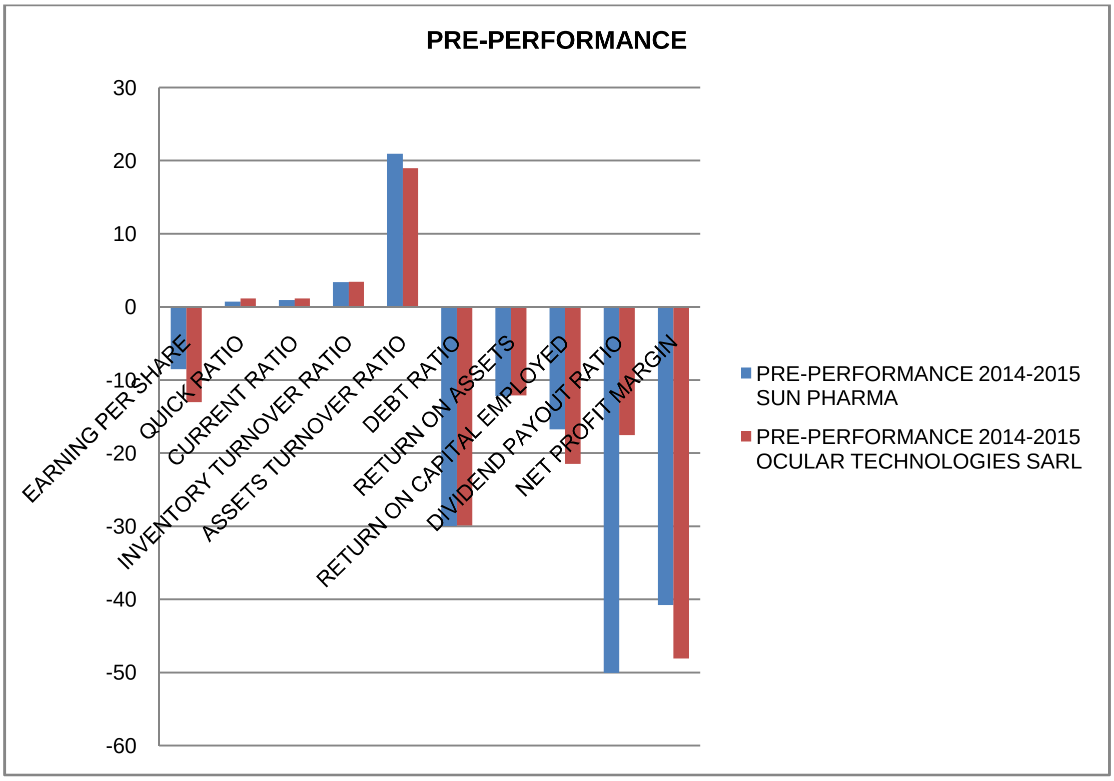
  The followings are the significance role of Mergers and Acquisitions in the scenario:

  - **Synergy:** The maximum used word in M&A is synergy, which is the idea that through combining commercial enterprise activities, overall performance will rise and expenses will decrease. Essentially, a corporate will effort to merge with other business that has complementary strengths and weaknesses.
  - **Growth:** Mergers can provide the obtaining business an opportunity to grow market share without having to really earn it by doing the work themselves - instead, they buy a competitor's business for a value. Usually, these are called horizontal mergers.
  - **Eliminate Competition:** Many M&A deals allow the acquirer to remove upcoming competition and gain a larger market share in its product's market. The downside of this is that a large premium is usually required to inspire the target company's shareholders to accept the offer. It is not uncommon for the acquiring company's shareholders to sell their shares and push the price lower in response to the company paying too much for the target business.
  - **Replacing leadership:** In a private company, the company may vital to merge or be achieved if the current owners can't identify someone within the company to prosper them. The owners may also wish to cash out to invest their money in something else, such as retirement.
- **To analyze the impact of Mergers and Acquisitions on financial performance of pharmaceutical's companies**

Table 1

		Sun Pharma			Ocular Technologies Sarl		
Pre-Performance							
S.No.	Ratios	2014	2015	Average	2014	2015	Average
1.	Earning Per Share	-13.16	-3.93	-8.54	-14.15	-11.87	-13.01
2.	Quick Ratio	1.15	0.30	0.72	1.30	1.05	1.17
3.	Current Ratio	1.40	0.49	0.94	1.50	0.78	1.14
4.	Inventory Turnover Ratio	3.08	3.66	3.37	3.99	2.90	3.44
5.	Assets Turnover Ratio	20.44	21.41	20.92	18.90	19.08	18.99
6.	Debt Ratio	-10.98	-48.97	-29.97	3.09	-62.88	-29.89
7.	Return on Assets	-20.44	-3.93	-12.18	-22.09	-2.09	-12.09
8.	Return on Capital Employed	-27.91	-5.58	-16.74	-26.89	-16.09	-21.49
9.	Dividend Payout Ratio	-11.39	-88.75	-50.07	-22.99	-12.07	-17.53
10.	Net Profit Margin	-99.99	18.38	-40.80	-88.09	-8.09	-48.09

GRAPH 1



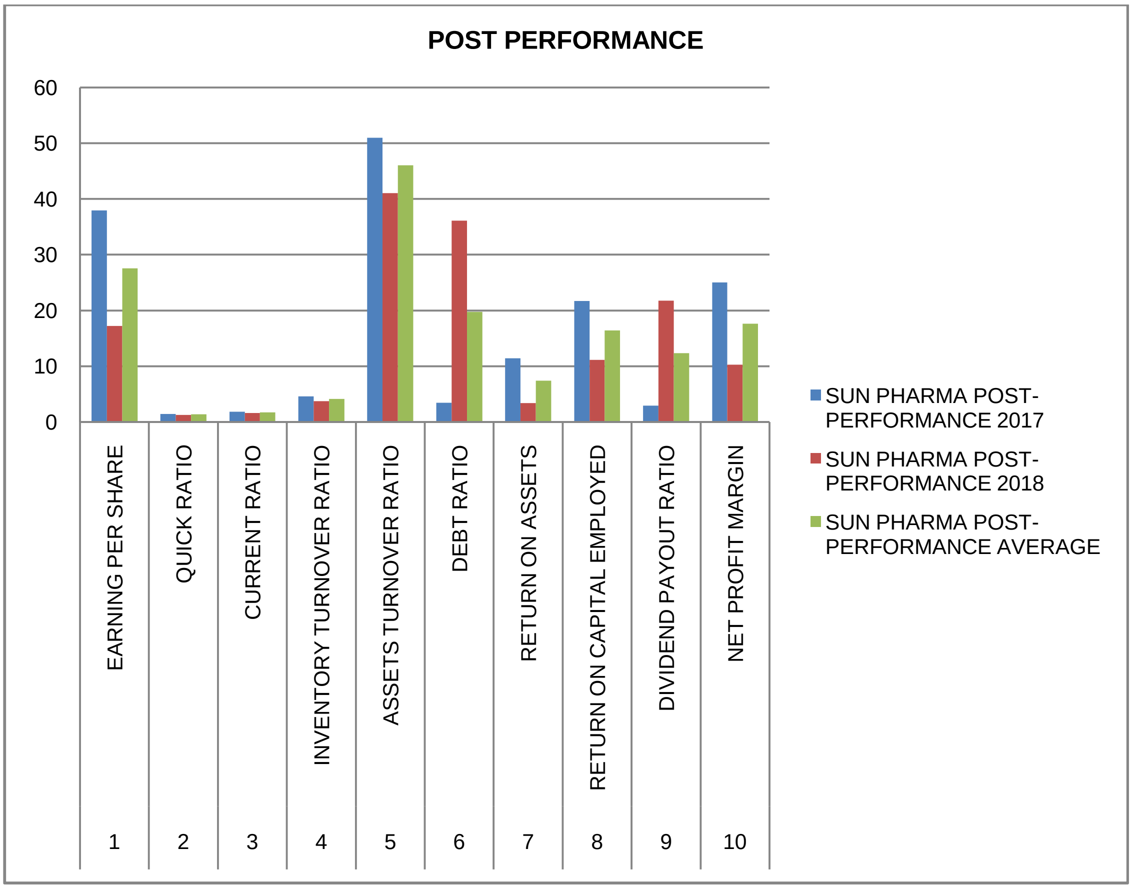
Interpretation of Pre Performance of Sun Pharma and Ocular Technologies Sarl

The pre performance of Sun Pharma and Ocular Technologies Sarl in which Earning Per Share is negative in both the companies that showed the share of the companies going down. The Quick Ratio of Sun Pharma was decreased in 2015 as 1.15 to 0.30 and Ocular Technologies Sarl had decreased as 1.30 to 1.05 that showed companies had low capacity to convert the receivables into cash. The Current Ratio of Ocular Technologies Sarlwas increasing as comparable to the Sun Pharma that showed company has ability to pay all the debt. Inventory turnover ratio and Assets Turnover Ratio of Sun Pharma were higher than the Ocular Technologies Sarl that showed the company had better sales as well as the capacity to generate sales from assets. The Debt to equity, Return on Assets, Return on Capital Employed, Dividend Payout Ratio and Net Profit Margin of both the companies are in negative that showed companies pay higher interest on debt than return, companies net profit may be negative, unable to pay dividends to their shareholders and may be companies spend more than its earnings in the year of 2014 and 2015.

Table 2

Sun Pharma				
Post-Performance				
S. No.	**Ratios**	**2017**	**2018**	**Average**
1.	Earning Per Share	37.93	17.23	27.58
2.	Quick Ratio	1.46	1.25	1.35
3.	Current Ratio	1.84	1.59	1.71
4.	Inventory Turnover Ratio	4.58	3.73	4.15
5.	Assets Turnover Ratio	50.98	41.07	46.02
6.	Debt Ratio	3.45	36.09	19.77
7.	Return on Assets	11.43	3.36	7.39
8.	Return on Capital Employed	21.70	11.13	16.41
9.	Dividend Payout Ratio	2.92	21.78	12.35
10.	Net Profit Margin	25.02	10.27	17.64

Graph 2



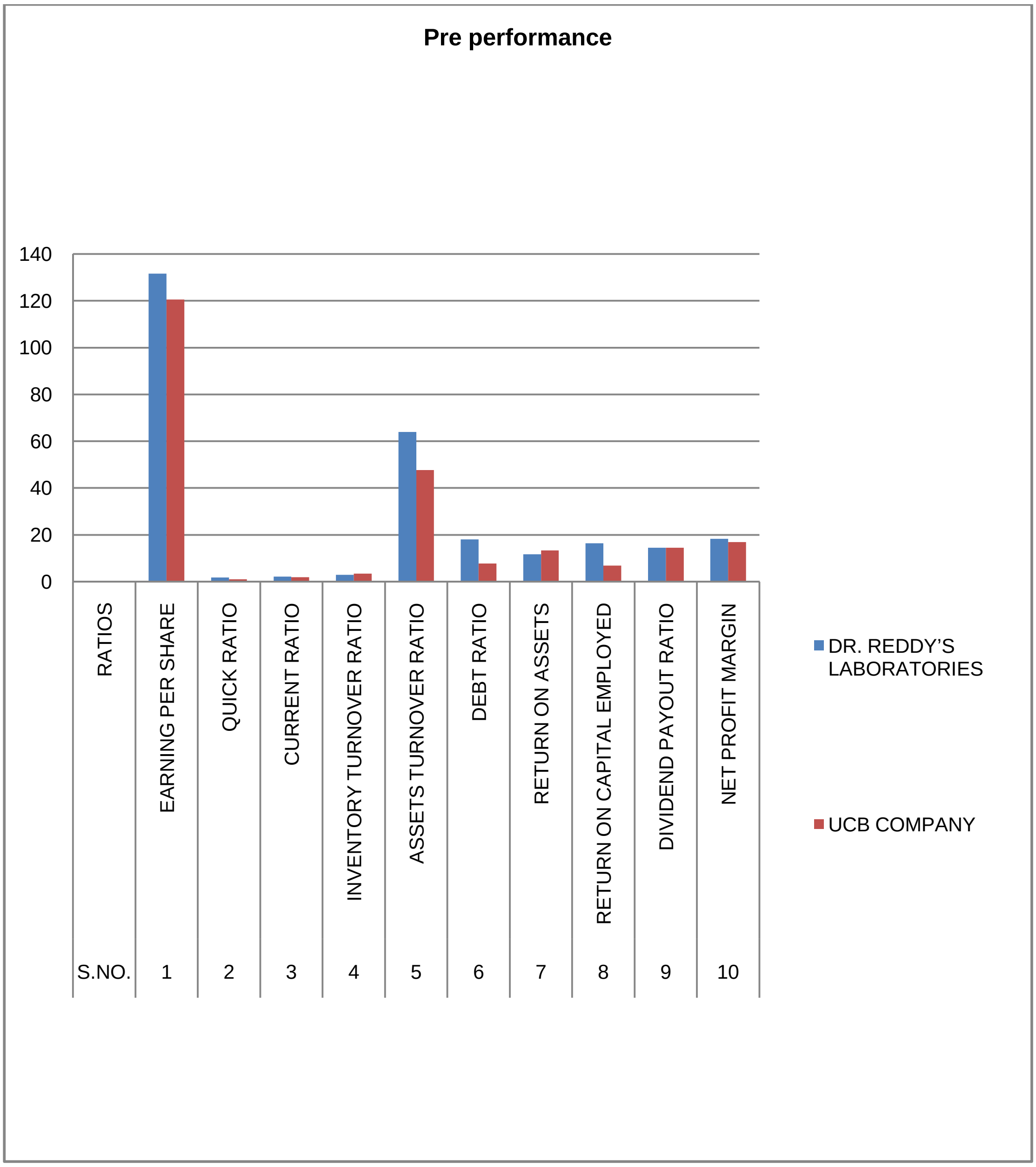
Interpretation of Post Performance of Sun Pharma

After the Mergers and Acquisition of Sun Pharma with Ocural Technologies Sarl, the Earning Per share, Quick Ratio, Current Ratio, Inventory Turnover Ratio, Assets Turnover Ratio, Return on Assets, Return on Capital Employed and Net Profit Margin is decreasing in the year of 2018 as compared to the year of 2017. The reasons may be company was generating low cash, doesn't have adequate current assets, exceeding in liabilities, inefficiently assets to generate sales, doesn't make money from its own assets and inefficient to control the cost of its company. The Debt Ratio and Dividend Payout Ratio are increasing as compared to the year of 2017 that showed Sun Pharma has taken the large amount of risk, i.e. highly leveraged and company can pay large amount of dividend to their shareholders.

Table 3

		Dr. Reddy's Laboratories			UCB Company		
		Pre-performance					
S. No.	**Ratios**	**2014**	**2015**	**Average**	**2014**	**2015**	**Average**
1.	Earning Per Share	135.92	127.32	131.62	128.09	112.90	120.49
2.	Quick Ratio	1.78	1.86	1.82	0.90	1.05	0.97
3.	Current Ratio	2.17	2.22	2.19	1.80	2.00	1.9
4.	Inventory Turnover Ratio	6.11	5.81	2.98	3.38	3.50	3.44
5.	Assets Turnover Ratio	67.05	60.83	63.94	50.30	45.07	47.68
6.	Debt Ratio	15.84	20.29	18.06	8.90	6.50	7.7
7.	Return on Assets	13.32	10.20	11.76	12.20	14.60	13.4
8.	Return on Capital Employed	18.59	14.25	16.42	6.50	7.30	6.9
9.	Dividend Payout Ratio	13.23	15.70	14.46	10.50	11.15	14.46
10.	Net Profit Margin	19.86	16.77	18.31	18.50	15.20	16.85

Graph 3



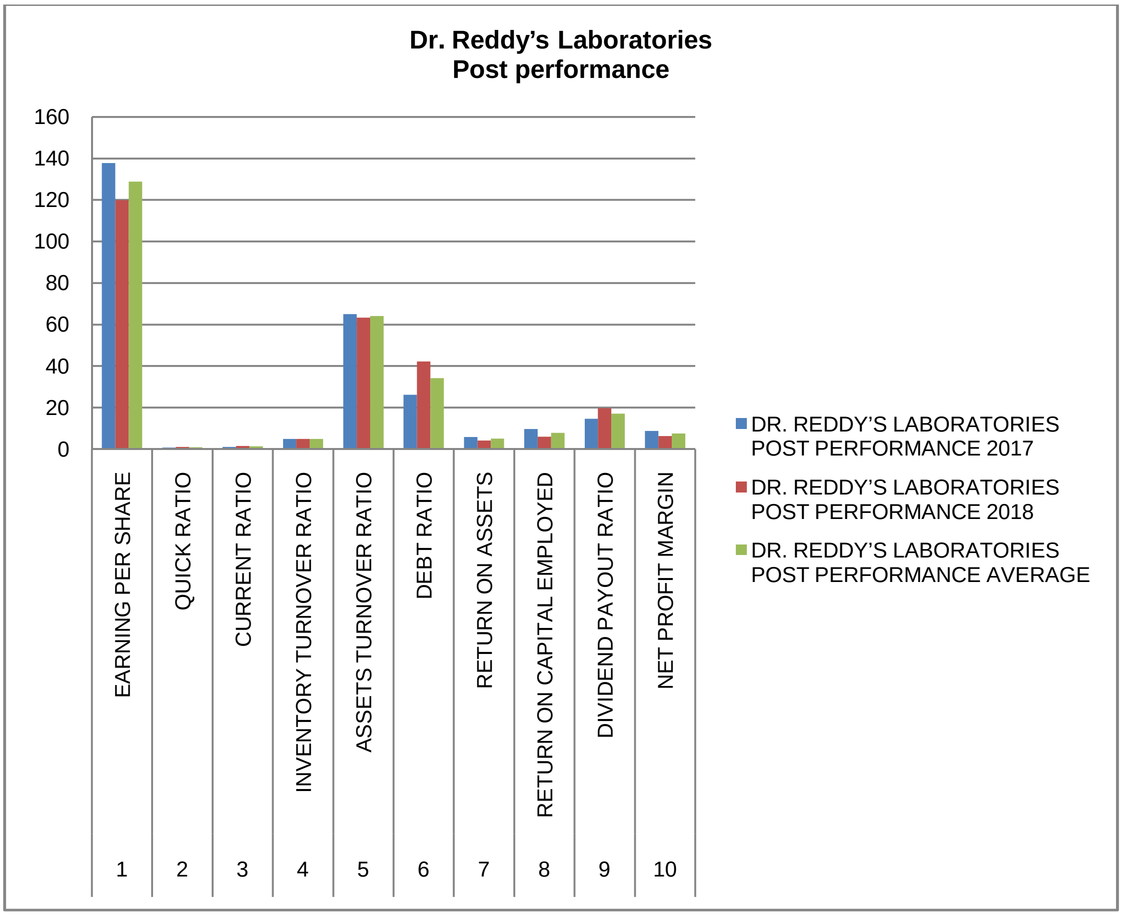
Interpretation of Pre performance of Dr. Reddy's Laboratories and UCB Company

The pre performance of Dr. Reddy's Laboratories and UCB Company in which Earning Per Share, Assets Turnover Ratio and Net Profit Margin were low in the year of 2018 as compared to the year 2017 due to the reasons like may be both the companies generate low cash, inefficiently using of assets and doesn't control the cost of the company. The Quick Ratio and Current Ratio were increased in the year of 2018 as compared to the year of 2017 because the better liquidity of the company as well as capacity of the company quickly converting receivables into cash. The Inventory Turnover Ratio showed that company can manage and sell their inventory but it was reduced from 6.11 to 5.81 in the 2018 of Dr. Reddy's Laboratories whereas it was increased from 3.38 to 3.50 in 2018 of UCB Company.

Table 4

Dr. Reddy's Laboratories				
Post Performance				
S. No.	**Ratios**	**2017**	**2018**	**Average**
1.	Earning Per Share	137.74	119.86	128.8
2.	Quick Ratio	0.81	1.10	0.95
3.	Current Ratio	1.15	1.52	1.33
4.	Inventory Turnover Ratio	4.98	4.91	4.94
5.	Assets Turnover Ratio	65.07	63.34	64.20
6.	Debt Ratio	26.23	42.16	34.19
7.	Return on Assets	5.92	4.19	5.05
8.	Return on Capital Employed	9.64	6.04	7.84
9.	Dividend Payout Ratio	14.62	19.72	17.17
10.	Net Profit Margin	8.85	6.38	7.61

Graph 4



Interpretation of Post Performance of Dr. Reddy's Laboratories

After the Mergers and Acquisitions of Dr. Reddy's Laboratories with UCB Company, the Earning Per Share, Inventory Turnover Ratio, Assets Turnover Ratio, Return on Assets, Return on Capital Employed and Net Profit Margin were reduced in 2018 due to the reasons of inefficient control over the cost, inefficient use of inventories, improper way of using the assets etc. The Quick Ratio, Current Ratio, Debt Ratio and Dividend Payout Ratio were increased in the year of 2018 because the companies has ability to convert the receivables into cash, allocating the dividend to their shareholders and to pay long term and short term debt on time.

The critical t-value at the p = 0.05 significance level for a two tailed test at the degree of freedom value is 3.9715 and calculated t-value was 0.25. The calculated t-value is in accepted area so, the null hypothesis is accepted. This showed that there is significance difference between pre and post-financial performance of Mergers and Acquisitions on the Ratios such as Earning per Share, Return on Assets, Fixed Assets Turnover, Dividend Payout Ratio, Quick Ratio etc. of Sun Pharma and Dr. Reddy's Laboratories but after the Mergers and Acquisitions, Dr. Reddy's Laboratories improved the performance as compared to the Sun Pharma.

Conclusion

The result of this paper is that Dr. Reddy's Laboratories Company improved its performance by increasing the Current Ratio, Quick Ratio, Fixed Assets Turnover and Return on Assets after the Mergers and Acquisitions with the UCB Company. But Sun Pharma doesn't as much improved the performance after Mergers and Acquisitions as compare with the Dr. Reddy's Laboratories.

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