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THE PERFORMANCE OF MERGED TATA GROUP COMPANIES IN INDIA – A CASE STUDY OF TATA MOTORS COMPANY LIMITED

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ABSTRACT

In Indian industry, the pace for mergers and acquisitions activity picked up in response to various economic reforms introduced by the Government of India since 1991, in its move towards liberalization and globalization. Over the last decade, mergers and acquisitions in the Indian industry have continuously increased in terms of number of deals and deal value. Recent merger and acquisition is indicating the competitiveness, potentialities and capabilities within an industry.

The study is tried to explore the potentialities and capabilities of the firm by looking pre and post merger and acquisition performance. The present study is mainly based on secondary data. In order to evaluate financial performance, Ratio analysis, Standard deviation,'t' test and paired't' test have been used as tool of analysis. Mergers and Acquisitions of the selected firms have resulted in no significant relation between pre and post merger in the financial performance of these firms.

Introduction

The mergers and acquisitions in India have changed dramatically after the liberalization of Indian economy. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. Low cost products, with good quality have become essential for a company to survive in the competitive market. Factors like low interest rates, cheap labour, and liberal government policy, have helped the Indian corporate sector to reduce their cost. It is in this context that corporate sectors view mergers for further cost reduction through technology advancement or to make their presence felt in the market. The liberalization policy of Government of India has witnessed an unprecedented number of mergers and acquisitions in the country. In terms of the growth rate in mergers and acquisitions deals, India occupies the second position in the world. In today's globalized economy, competitiveness and competitive advantage have become the buzzwords for corporate around the world. Corporate worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and to grow profitably. The world is in a state of flux, being influenced by the forces of globalization and fast technological changes and as a consequence firms are facing intense competition. To face the challenges and explore the opportunities, firms are going for inorganic growth through various strategic alternatives like mergers and acquisitions (M&A), strategic alliances, joint ventures etc. In early 1990's mergers, acquisitions, takeovers and other strategic alliances in the corporate sector geared up for a large scale restructuring in the face of cut throat competition from multinational corporations as well as exploiting new opportunities. The phenomenon recorded an upsurge in the wake of liberalization measures resulting into lessening the Government controls, regulations and restrictions. Mergers and acquisitions becomes the major force in the changing environment. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. It is true that there is little scope for companies to learn from their past experience. Therefore, to determine the success of a merger, it is to be ascertained if there is financial gain from mergers.

A merger is combination of two companies where one corporation is completely absorbed by another corporation.

The Tata group's core purpose is to improve the quality of life of the communities it serves globally, through long-term stakeholder value creation based on leadership with trust. Founded by Jamsetji Tata in 1868, the Tata group is a global enterprise headquartered in India, and comprises over 100 operating companies, with operations in more than 100 countries across six continents, exporting products and services to over 150 countries.

Review of Literature

The following are the few existing studies reviewed which were conducted by researchers in the view of analyzing the financial performance during merger activity in different time periods.

Anup Agraval Jeffrey F. Jaffe (1999) "The Post-merger Performance Puzzle", they examines the literature on long-run abnormal returns following mergers. The paper also examines explanations for any findings of underperformance following mergers. We conclude that the evidence does not support the conjecture that underperformance is specifically due to a slow adjustment to merger news. We convincingly reject the EPS myopia hypothesis, i.e. the hypothesis that the market initially overvalues acquirers if the acquisition increases EPS, ultimately leading to long-run under-performance.

Canagavally R.(2000) "An Analysis of Mergers and Acquisitions" they measures the performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigates the share prices of sample companies in response to the announcement of merger.

Beena P.L (2000) 'An analysis of merger in the private corporate sector in India' she attempts to analyze the significance of merge and their characteristics. The paper establishes that acceleration of the merger movement in the early 1990s was accompanied by the dominance of merger between firms belonging to the same business group of houses with similar product line.

Vardhana Pawaskar (2001) "Effect of Mergers on Corporate Performance in India", he studied the impact of mergers on corporate performance. It compared the pre- and post- merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The study identified the profile of the profits. The regression analysis explained that there was no increase in the post- merger profits. The study of a sample of firms, restructured through mergers, showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry. The merged firms performed better than industry in terms of profitability.

Objectives of the study

1. To know the performance of merged Tata motors company.
2. To evaluate the pre and post merger of Profitability and Liquidity performance of the acquirer company.
3. To offer the suggestions in the light of findings.

Hypothesis of the study

The following hypothesis have been formulated and tested to draw the conclusions.

H0: There is no significant relation between pre and post merger of the Profitability ratios.

H0: There is no significant relation between pre and post merger of the Liquidity ratios.

Methodology

Sample for the study

I have one selected Tata group companies in India which have acquired.

- Tata motors acquired with Tata finance April 2005
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Period of the study

For the purpose of selecting sample companies, the present study covers a period of ten years in order to evaluate the profitability and liquidity performance of sample companies on a comparative basis, five years before merger and five years after merger were considered.

Sources of data

The present study basically depends on secondary data. The required data on Profitability and Liquidity performance before and after merger were collected for the ten year period and they were obtained from annual report, www.moneycontrol.com. The data were also collected from books, articles in various journals, magazines and newspapers.

Tools used

In order to study the profitability and liquidity performance of acquirer companies, ratios Operating Profit Margin, Gross Profit Margin, Net Profit Margin, Current Ratio, Quick Ratio and Paired sample test were used.

Data Analysis and Interpretation

Tata finance company limited merged with Tata Motors Company in the year 2005.

In June 2005, Tata Finance Limited ("TFL") was merged with us. TFL was established in 1981 as a finance company to conduct hire purchasing, leasing and other finance related activities. In line with international practice and with the objective of building an extensive captive financing arm to support the our vehicle sales business and to hedge the revenue stream risks associated with the cyclicality of the vehicle sales business, it was deemed prudent to merge TFL with us. The merger is expected to result in efficiencies for Tata Motors Financing Business through complementary customer sourcing models, access to low cost funds, flexibility to offer competitive products/services, the bundling of financing options with our other products/services and other operational benefits. The merger was approved by our shareholders and has since received the sanction of the Hon'ble High Court of Judicature at Bombay on June 24, 2005. The merger will be accounted for under the purchase method from June 29, 2005, i.e. the date the transaction was approved by the regulatory agencies.

Profitability ratios

Profitability ratios consisting of Operating profit margin, Gross profit margin and Net profit margin these three variables covered for this ratio. Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. The formulas you are about to learn can be used to judge a company's performance and to compare its performance against other similarly-situated companies.

Operating Profit Margin

The operating profit margin (operating margin) compares a company's operating income (earnings before interest and taxes, or EBIT) to sales. The calculation is as follows:

Operating income

Sales

Gross Profit Margin

The gross profit margin (gross margin) measures the profit a company makes from its cost of goods sold (cost of sales). It is calculated as follows:

Gross income

Sales

Net Profit Margin

Net profit margin is profit that is generated from all phases of the business, including interest and taxes. This is the "bottom line" that garners most of the attention in discussions of a company's profitability. It is calculated as follows:

Net income

Sales

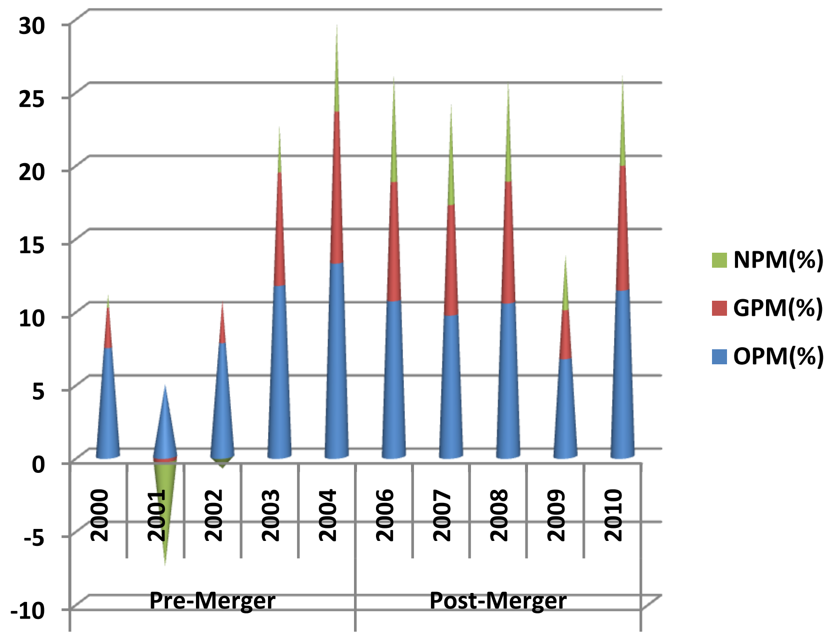
Table 1. Profitability Ratios of the Tata Motors company (Pre and Post Merger period)

Pre-Merger				Post-Merger			
Year	**OPM (%)**	**GPM (%)**	**NPM (%)**	**Year**	**OPM (%)**	**GPM (%)**	**NPM (%)**
2000	7.43	2.71	0.96	2006	10.68	8.09	7.35
2001	4.94	-0.25	-7.28	2007	9.7	7.5	6.94
2002	7.76	2.92	-0.84	2008	10.53	8.26	6.96
2003	11.71	7.7	3.29	2009	6.71	3.3	3.77
2004	13.25	10.32	6.1	2010	11.4	8.47	6.26
Avg.	**9.01**	**4.68**	**0.44**	**Avg.**	**9.80**	**7.12**	**6.25**

Source: Annual reports of the company, Moneycontrol.com, BSE.com

OPM = Operating profit margin GPM = Gross profit margin NPM = Net profit margin

Fig. 1. Graphical presentation of Profitability ratios



From the above table 1. Reveals that the Profitability ratios of the Tata motors company during pre and post merger of the period. Profitability ratios clear that during pre merger OPM and GPM have shown decreased trend for the first two years and thereafter that exhibited increased trend, whereas NPM as experience decreased and increased (Mixed) trend, a higher margin percentage is a favorable profit indicator. During post merger OPM, GPM and NPM have shown declining trend for the first two years thereafter that exhibited fluctuated (mixed) trend a higher ratio indicates better managerial efficiency and profitability.

Table 1. Analysis of Profitability ratios of Tata motors company Ltd. during pre and post merger period

Variables	Type	Mean	Std. Deviation	T-value	P-value	Null hypothesis
Profitability Ratios						
Operating profit margin	Pre	9.0180	3.38715	-.432	.688	**Accept**
	Post	9.8040	1.83203			
Gross profit margin	Pre	4.6800	4.24892	-1.040	.357	**Accept**
	Post	7.1240	2.16793			
Net profit margin	Pre	.4460	5.04146	-2.233	.089	**Accept**
	Post	6.2560	1.44400			

Source: Based on table no.1, SPSS 20version 5% Level of Significance

***Accept** denotes not statistically significant relationship

***Reject** denotes statistically significant relationship

Result and Discussion:

The above table 1. result analyse that the merger of the Tata motors company comparison between pre and post merger of Operating profit margin, Gross profit margin and Net profit margin we seen that increased in the mean of parameters that indicates that there is no change in the performance of the companies after merger and result shows there is no significance with mean value of OPM (9.0180% Vs 9.8040%) has increased with t-value -.432, GPM (4.6800% Vs 7.1240%) has increased with t-value -1.040 and NPM (.4460% Vs 6.2560%) has increased with t-value -2.233. We conclude that all the profitability ratios indicates that negative effect and decreased the performance of the companies merger announcement and there is no improvement of the company after merger so that the null hypothesis is accepted and alternative hypothesis rejected in the form of merger.

Liquidity ratios

Liquidity ratios consisting of Current ratio and Quick ratio these two variables covered for this ratio. Liquidity ratios are the ratios that measure the ability of a company to meet its short term debt obligations. The liquidity ratios attempt to measure this ability of a company.

Current ratio

The current ratio indicates a company's ability to meet short-term debt obligations. The current ratio is also known as the working capital ratio**.** The higher the ratio, the more liquid the company is. Commonly acceptable current ratio is 2; it's a comfortable financial position for most enterprises. Acceptable current ratios vary from industry to industry. For most industrial companies, 1.5 may be an acceptable current ratio.

$$\frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

Quick ratio

The quick ratio is a measure of a company's ability to meet its short-term obligations using its most liquid assets (near cash or quick assets). Quick assets include those current assets that presumably can be quickly converted to cash at close to their book values. A company with a quick ratio of less than 1 cannot currently pay back its current liabilities; it's the bad sign for investors and partners.

Quick assets

Current liabilities

Table 2. Liquidity Ratios of the Tata Motors Company

(Pre and Post Merger period) (Ratio in times)

Pre-Merger			Post-Merger		
Year	**CR**	**QR**	**Year**	**CR**	**QR**
2000	0.61	0.45	2006	3.81	3.52
2001	0.73	0.43	2007	0.91	0.57
2002	0.66	0.39	2008	1.12	0.76
2003	0.69	0.33	2009	1.53	1.31
2004	0.71	0.3	2010	0.93	0.69
Avg.	**0.68**	**0.38**	**Avg.**	**1.66**	**0.83**

Source: Annual reports of the company, Moneycontrol.com, BSE.com

CR = Current ratio QR = Quick ratio

Fig. 2. Graphical presentation of Liquidity ratios

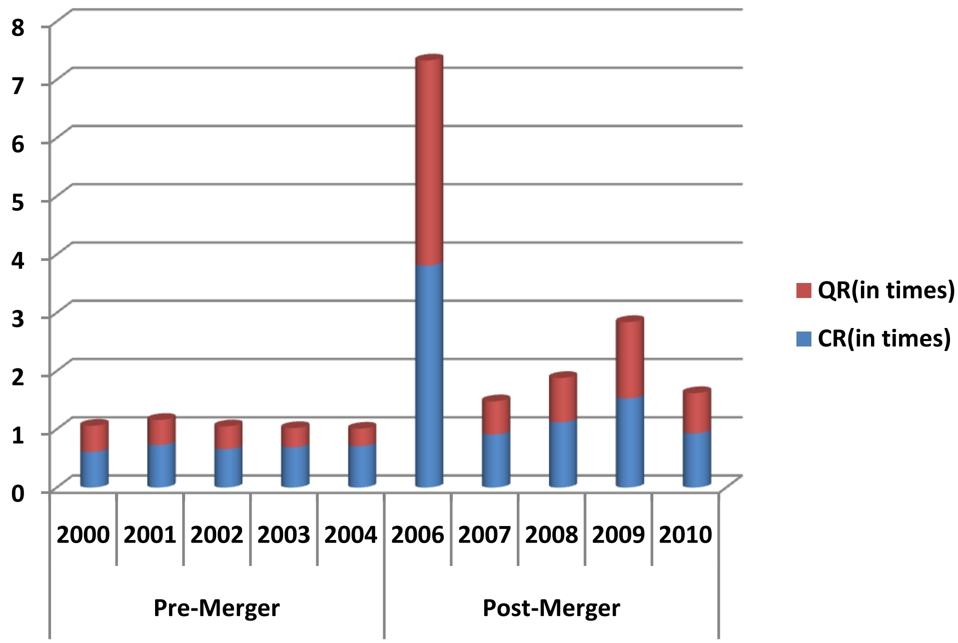


Table 2. the above table evident that the Liquidity ratios of the Tata motors company during pre and post merger period. During pre merger of Current ratio shows that fluctuating trend throughout the period of study, higher the current ratio is better to company. Whereas Quick ratio as experience declining trend for the period of the study. This ratio measures company's ability to generate cash to meet its immediate needs. During post merger of current ratio and Quick ratio shows that fluctuating trend during the study period. Liquidity Ratios are a good measure of whether a company will be able to comfortably continue as a going concern.

Table 2. Analysis of Liquidity ratios of Tata motors company Ltd. during pre and post merger period

Variables	Type	Mean	Std. Deviation	T-value	P-value	Null hypothesis
Liquidity Ratios						
Current ratio	Pre	.6800	.04690	-1.728	.159	**Accept**
	Post	1.6600	1.22744			
Quick ratio	Pre	.3800	.06403	-1.839	.140	**Accept**
	Post	1.3700	1.23497			

Source: Based on table 2, SPSS 20version 5% Level of Significance

***Accept** denotes not statistically significant relationship

***Reject** denotes statistically significant relationship

Result and Discussion:

Table 2. the above result analyse that the merger of the Tata motors company comparison between pre and post merger performance of Current ratio and Quick ratio we seen that the increased in the mean of parameters indicates that there is no change in the performance of the companies after merger and result shows there is no significance with mean (.6800 times & 1.6600 times) with t-value -1.728 and (.3800 times & 1.3700 times) with t-value -1.839. From above result we conclude that all the Liquidity ratios indicates that negative effect and decreased the performance of the companies after the merger. Hence, there is no improvement of the company so that the null hypothesis accepted and alternative hypothesis rejected in the form merger.

Findings, Suggestions and Conclusions

Findings

1. (A) It was found that the overall Profitability position of the company is not satisfactory to the present study. Operating profit margin was the highest figure 13.25% in the year 2004 and lowest figure 4.94% in 2001, compared to other years during the before merger. During after merger it was highest figure 11.40% in 2010 and lowest figure 6.71% in the

year 2009, after the merger of operating profit margin fluctuating trend for the ten years period of the study. The result shown by paired 't' test reveals that there is not significant at 5% level of significance in the company for the period of pre and post merger. After merger operating profit margin is not improved in the form of merger.

(B) Gross profit margin was the highest figure 10.32% in 2004, and lowest negative figure -0.25% in the year 2001, pre merger period. While after mergers it was the highest figure 8.47% in the year 2010 and the lowest figure 3.30% in 2009, compared to other years, after mergers the financial performance of the company was decreased trend. The result shown by paired 't' test clears that the difference in Gross profit margin was not significant at 5% level of significance and not improved in the company after the merger.

(C) It was found that Net profit margin was the highest negative figure -7.28% in the year 2001 and the lowest negative figure -0.84% in 2002. While after merger it was the highest figure 7.35% in 2006 and the lowest figure 3.77% in the year 2009, after mergers the financial performance of company was mixed (increase and decrease) trend. The result shown by paired 't' test observed that the difference in Net profit margin was not significant at 5% level of significance and not improved in the company after the merger.

2. (A) It was found that the above analysis of liquidity ratios fluctuating trend year-to-year and the overall liquidity position of the company was not satisfactory to the present study.

   (B) It was found that during the study period Current ratio of the company was highest 0.73 times in the year 2001 and the lowest 0.61 times in 2000, it is better compared to other years, before merger. After merger it was the highest figure 3.81 times in the year 2006, it shows that this is the acceptable current ratio and the lowest figure 0.91 times in 2007; it is less than acceptable ratio to the company after the merger. Post merger of current ratio was decreased trend during the period of the study. The result shown by paired 't' test depicts that the difference in Current ratio was not significant at 5% level of significance and not improved in the company after the merger.

   (C) Quick ratio was decreased trend during the pre merger period of the study, it was highest figure 0.45 times and the lowest figure 0.30 times, a company with a quick ratio of less than 1 cannot currently pay back its current liabilities. During the post merger of

Quick ratio was increased trend, it was the highest figure 3.52 times in the year 2006, higher the ratio is better to the company, and lowest figure 0.57 times in 2007. The result shown by paired 't' test depicts that the difference in Quick ratio was not significant at 5% level of significance and not improved in the company after the merger.

Suggestions

After concluding the results of this study, it is found appropriate to put the following suggestions:

- It is observed on the basis sample study that small and medium sized companies entities are working under threats from economic environment which full of problems like resources, outdated technology faltering marketing efforts and weak financial structure etc. It is therefore advised to re-organize such industries through mergers and acquisitions so that they could offer succor to re establish them in viable industries of optimal size with global presence.
- It is also suggested that corporate mergers and acquisitions should be bound to change drastically and rapidly the economic size and quality performance re-organized undertakings and united efforts of experienced executives and skilled work force.
- Profitability ratios are very essential for the company to make sufficient profits. The profitability of the company was very good after the merger, but before the merger it was fluctuated. So this company requires Increasing profits are the best indication that a company can pay dividends and that the share price will trend upward and concentrating on cost reduction system.
- Liquidity ratios are declining trend throughout the period of the study. So, it suggests that this company should try to improve liquidity position because liquid ratios like current ratio and Quick ratios are too low and the company required improving its Quick ratio.

Conclusions

It is evident from the above analysis the Null hypothesis fully accepted. The conclusion emerging from the point of view financial performance is that the merging companies with reputed and good management. Therefore, it was possible for the merged firms to turnaround successfully in due course. However it should be tested with bigger sample size before coming to a final conclusion.

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