

Impact of Merger & Acquisition on Financial Performance of Selected Companies: Pre & Post Merger Analysis of RIL & Network 18 Merger

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ABSTRACT

In today's competitive world, Media and Entertainment industry is very crucial & hours of daylight with reference to Indian Economy which gives a strong pace. Growth and expansion can be achieved by fulfilling consumer demand and earning adequate revenue which is arise from advertising activities. This paper helps in examine the financial performance as well as impact of RIL-Network 18 merge and is taken as sample and 3 years pre & post-merger data were analyzed by ration analysis and t-test in this study. This result shows that there is significant difference in net worth in pre and post-merger time.

Keywords: Merger, financial performance, Mass media industry, advertising market & Digitalisation

Introduction to Merger and Acquisition

Merger and acquisition is very prominent strategy for the purpose of attaining long term business interest by amalgamating or acquiring other small entity which in state of financial unsound or loss making concern and for a new company with new name for the purpose of reducing the level of risk and Enjoy the derived benefits, future expansion of business process and diversification in other business format can be attained with help of M & A deals. Indian Media and Entertainment sector showed a massive growth rate all because of Merger and acquisition. It has been a common pattern of large Indian Media and Entertainment which is a part of this merger and acquisition deal with small and potentially competing firm in many cases that are go through, the Indian Government has maintained Media and Entertainment industry's growth by providing various plan like Digitalising the distribution of cable network to draw attention on institutional funding, rise in limit of Foreign direct investment from 74% to 100% in case of DTH & cable platform & sanctioning finance to Media and Entertainment industry in an easy manner.

Introduction to Indian Media and Entertainment (M&E) industry

The Indian Media and Entertainment (M&E) industry is just like the sunup or day break sector for the Indian economy and is getting high as well as fast pace. India is the second emerging advertising market in the Asia region just after the china. This industry mainly depends on advancement of digital technology and high usage percentage of internet user in India for last few decades. Strong level of growth can be attained by rising and meeting out the consumer demand and enhancing the amount of revenue earned through advertising and marketing activities. In present scenario, internet is the best source of media for entertaining most of people who are the loyal user of it. Indian media and entertainment industry contributes around 0.38 % in the gross domestic product (G.D.P) of the country.

This industry raised at the compound annual growth rate of 12.25 % in the period from 2011-2017. Expected compound annual growth rate of 11.6 % which around US \$ 31.53 billion (around 2,032 billion Indian Rupees) in the year 2020 but ₹ 1308 billion (US \$ billion) was generated by this industry in 2016. This industry was generated employment opportunity to 4 Million people which consist of both direct and indirect employment in the year 2017. In India, number of newspaper reader has increased significantly by 38 % in between 2014-2017. There were around 407 million users of newspaper. India is the one of the fastest growing market as well as highest pending on this market.

According to a report published by Department of Industrial Policy and Promotion, US \$ 6.86 billion was generated as Foreign Direct Investment (FDI) inflows in information and broadcasting sector from 2000 to 2017

- Number of Mergers and Acquisition deals increased to 63 in FY 17 from 58 in FY 16.
- India is one of the top five markets for the media, content and technology agency Wavemaker where it services clients like Hero MotoCorp, Paytm, IPL and Myntra among others Te Indian digital advertising industry is expected to grow at a Compound Annual Growth Rate (CAGR) of 32 per cent to reach Rs 18,986 crore (US\$ 2.93 billion) by 2020, backed by affordable data and rising smartphone penetration.
- After bagging media rights of Indian Premier League (IPL), Star India has also won broadcast and digital rights for New Zealand Cricket upto April 2020

International Review of Literature

Armando R. Gomes, Wilfredo Maldonado (2019) This study proposed a dynamic model for the process of industry consolidation by sequences of mergers and acquisitions that create synergy gains to merging firms and may impose positive or negative externalities on the remaining firms in the industry. our main findings, we described that the equilibrium is unique in industries with three firms, and we derive the closed-form solution for the equilibrium value and the merger dynamics.

Anastasia Step nova, Vladislav Savelyev, Malika Shaikhutdinova (2018) the study examines the presence of the reference price effect in mergers and acquisitions in Russia. The findings confirm the presence of the anchoring bias in evaluating the effect of a merger or acquisition announcement by Russian investors.

Robert Anderson and Jeffrey Manns (2017) this study is to highlight the evolution of merger and acquisition agreements over time and to provide evidence of drafting Inefficiency. M&A agreements, instead of converging on standard textual forms, rapidly drift away from their ancestors and from one another, potentially undermining the benefits of standardization in market terms.

Gordon M. Phillips & Alexei Zhdanov (2017) studied examined the relation between venture capital (VC) investments and mergers and acquisitions (M&A) activity around the world. VC activity intensifies after enactment of country-level takeover friendly legislation and decreases following passage of state antitakeover laws in the U.S

Godfred Yaw Koi-Akrofi (2016) this study helps in examined various strategies that are employed at this stage of the merger and acquisition process. it was concluded that no one strategy stands tall, and that the appropriate strategy depends on a number of factors such as type of the deal, cultural differences & etc.

Xavier Auguets-Pratsobrerroca, Monica Martinez-Blasco (2015) study investigated short-term market reaction, including stock returns, volatility & trading volumes of bidder firms, during sixth wave. Our results indicate that M&A announcements convey relevant information to investors.

National reviews

Mohammad Fuad, Ajai Gaur(2019) studied the impact of deal announcement and entry-timing within a cross-border acquisition (CBA) wave on the likelihood of acquisition completion. Drawing upon the frictional lens perspective, Our findings suggest that acquisition announcement within a merger wave as compared to outside of a wave is negatively related to the likelihood of deal completion.

N. M. Leepsa & B. P. Bijay Sankar (2018) in this study research found out various determinants of the payment methods of M&As that affects the decision of payment methods in M&As. The study revealed that positive as well as negative results in relation to company performance relating to cash, stock and mixed payment method.

Sachin Sharma & Dr. Priyanka Verma (2017) study explored the possibilities and risks for different key players such as Users, Telecom Service Providers (TSP) & Govt Regulatory body. It can conclude that there is the possibility of large number of M&A in Indian Telecom Market and if it happens only 3 or 4 Telecom Company will survive.

Harpreet Singh Bedi(2016) (i) To examine the presence of trends and progress of M&As in Indian corporation. (ii) To analyze year-wise and industry-wise variance in number and amount of M&A deals. A study revealed that mergers and acquisitions in India are favorable government policies, buoyancy in economy, and dynamic attitudes of the Indian entrepreneurs are the key factors behind the changing trends of mergers and acquisitions in India.

Dr. D. Seethanaik(2015) examined the trend of telecom industry. This study shows highly significant positive changes in favor of both target and acquiring companies which is supported by the fact that above selected company is very close to being global leader in its segment presently.

Need Of The Study

Indian media and entertainment industry are adopting various strategy that will help in sustain as well as survive in today digitalized era. The media and entertainment industry is a broad umbrella term for any business or company involved in fields such as live entertainment, broadcasting, filmed entertainment, journalism. Digitalization is mandatory factor not for marketing related activities and film promotions. Digitalization plays an important role for producer and organizers to live in this type of era. This industry generally offers wide range of opportunities for organizers to influence digital and social media to organize branding and marketing campaigns for live events.

Objectives of Study

1. To analyze the financial performance of Reliance industries Ltd and Network 18
2. To know the impact of merger on Reliance industries Ltd and Network 18

Hypothesis

H₀: There is no significant difference between Net Profit Margin of Reliance industries Ltd and Network 18 in pre and post-merger time.

H0: There is no significant difference between the return on capital employed of Reliance industries Ltd and Network 18 in pre and post-merger time.

Research Design

1. Sample

A merger case of RIL and Network 18 has been taken as sample

2. Source of Data

The study has been based on secondary data which is collected from annual reports and journals, websites of selected companies and R.B.I.

3. Statistical Tools for data analysis

(a) Ratio analysis

(b) t-test

4. Time period

For the purpose of analysis of data, period of three years has been taken into consideration.

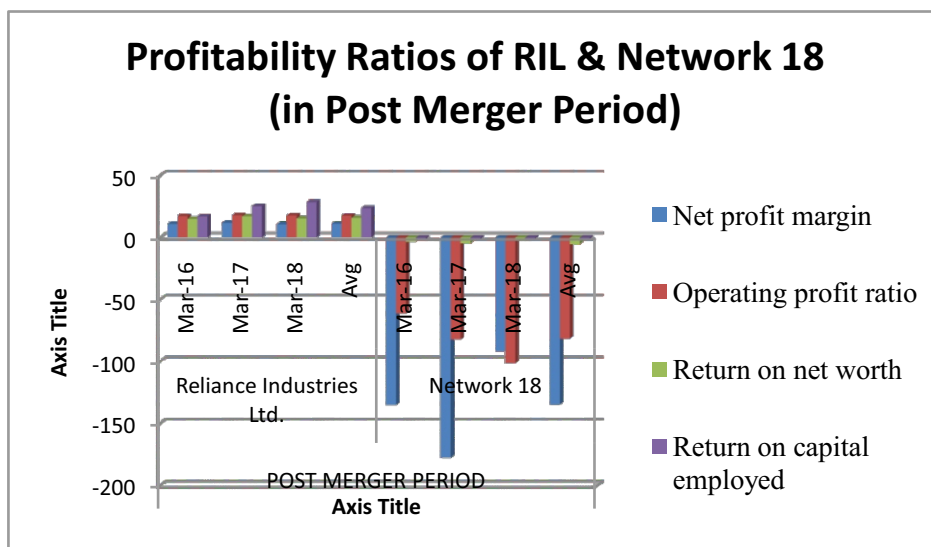
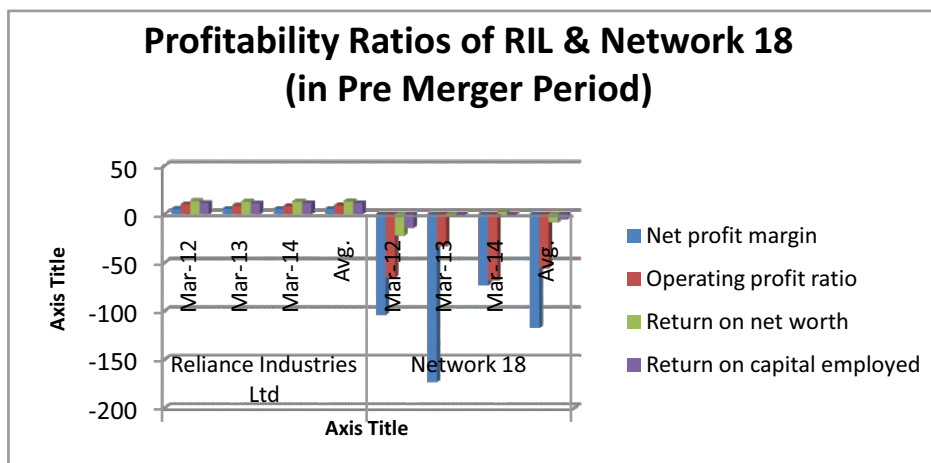
For Pre-merger – 2011-2012, 2012 -2013 & 2013-2014

For post-merger- 2015-2016, 2016-2017 & 2017-2018

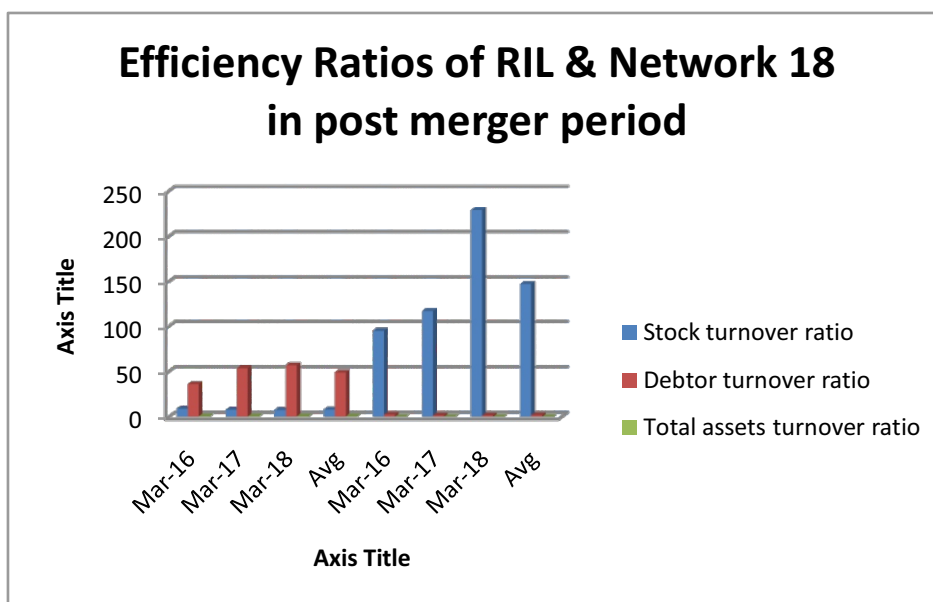
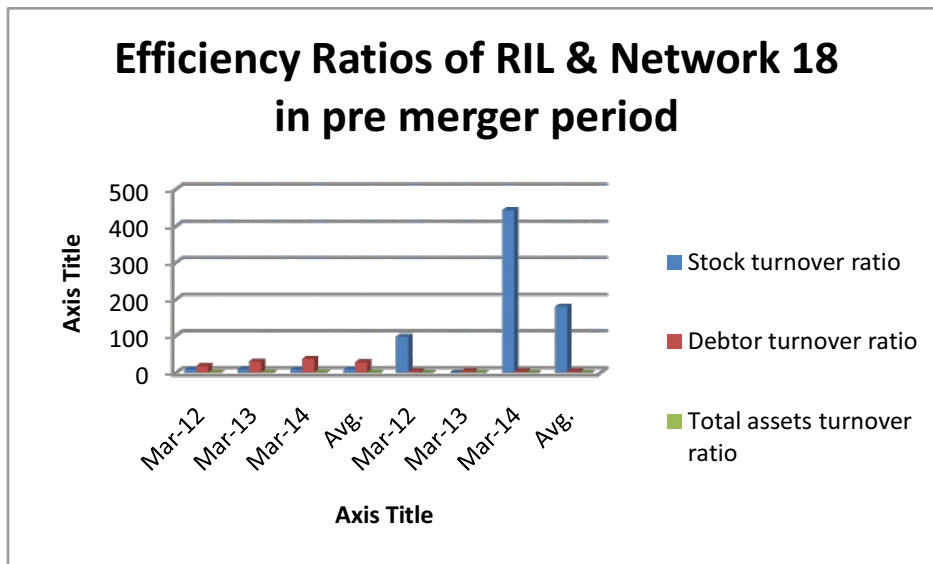
Ratios	PRE MERGER PERIOD												POST MERGER PERIOD								
	Reliance Industries Ltd						Network 18						Reliance Industries Ltd.						Network 18		
	Mar 2012	Mar 2013	Mar 2014	Avg.	Mar 2012	Mar 2013	Mar 2014	Avg.	Mar 2016	Mar 2017	Mar 2018	Avg.	Mar 2016	Mar 2017	Mar 2018	Avg.	Mar 2016	Mar 2017	Mar 2018	Avg.	
Profitability Ratios (in %)																					
Net profit margin	5.65	5.60	5.50	5.58	(104.)	(173)	(117.1)	10.90	11.9	10.60	11.13	(135.1)	(177.5)	(91.64)	(134.7)						
Operating profit ratio	10.2	8.54	7.91	8.88	(65.44)	(32.9)	(55.6)	17.21	17.87	17.83	17.63	(61.36)	(82.17)	(101.36)	(81.63)						
Return on net worth	13.4	12.80	12.75	12.9	(21.83)	(.85)	(8.29)	15.00	17.00	15.40	15.8	(3.46)	(4.66)	(2.60)	(5.36)						
Return on capital employed	11.5	11.10	11.40	11.3	(14.04)	(.75)	(5.16)	17.10	25.30	28.60	23.6	(1.32)	(1.30)	(1.15)	(1.26)						
Efficiency Ratios (in times)																					
Stock turnover ratio	9.45	10.09	9.34	9.62	97.97	-	(180.5)	8.9	7.8	7.57	8.09	95.49	117.30	229.30	147.36						
Debtor turnover ratio	18.4	30.32	37.63	28.8	3.85	4.53	4.15	36.41	53.98	57.15	49.18	2.46	1.66	1.53	1.88						
Total assets turnover ratio	1.15	1.17	1.09	1.14	0.03	0.06	0.05	.53	.48	0.51	.51	0.02	0.02	.03	0.02						
Liquidity Ratios																					
Current ratio	1.42	1.31	1.11	1.28	.14	1.36	.78	.31	.27	.26	.31	.46	.35	.41	.40						
Quick ratio	1.39	1.28	1.03	1.23	.12	1.34	1.12	.26	.22	.31	.26	.31	.21	.25	.25						
Market Test Ratio																					
Earnings per share	61.2	64.8	68.0	64.6	(12.8)	(.52)	(4.68)	84.6	97.0	53.0	78.2	.9	1.12	.61	.91						

Analysis

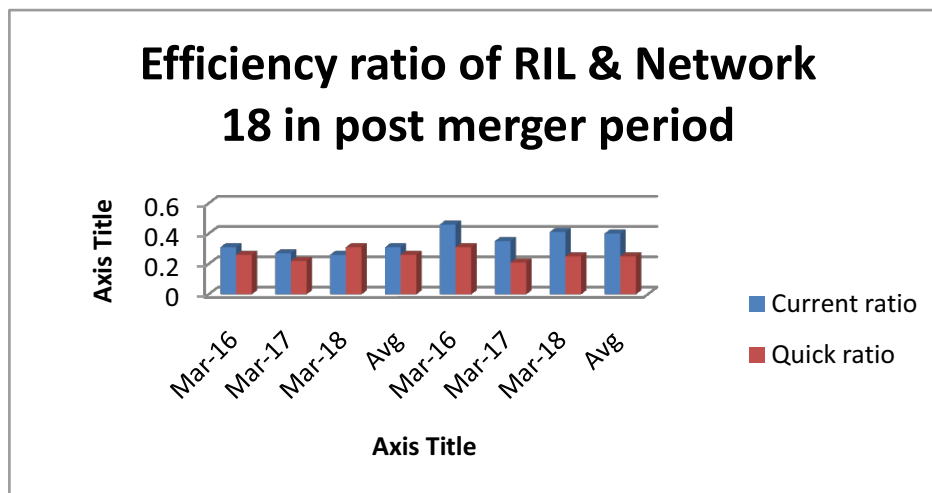
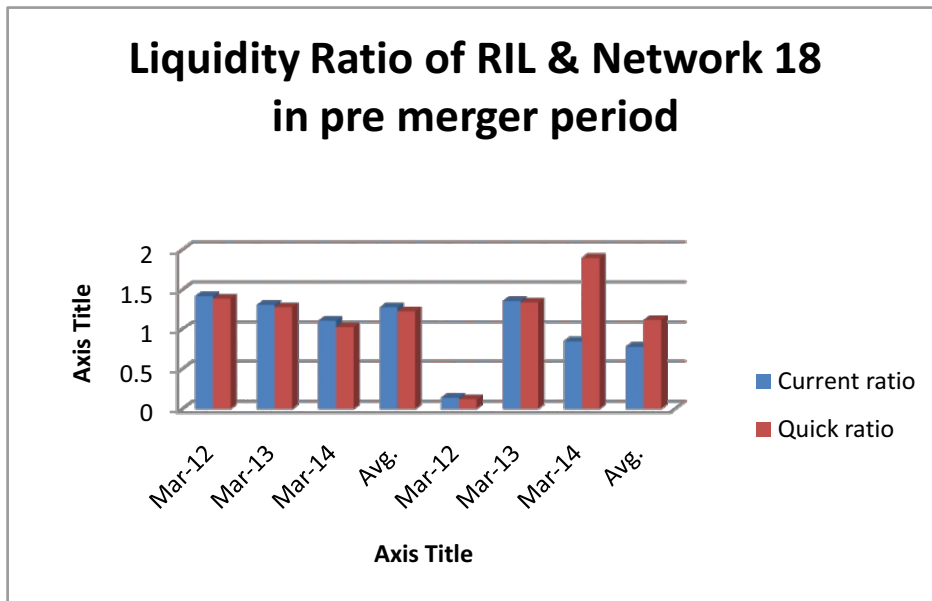
1. Net profit ratio which is 5.58 % for Reliance Industries Ltd. in pre-merger where as it is (117.1%) in case of Network 18. In case of Post-merger net profit ratio is 11.13 % for RIL and (134.7 %) for Network 18 which clearly indicates decline in level of earnings because paid high integration cost in the merger period.
2. Operating profit ratio is 8.88 % for Reliance Industries Ltd.in pre-merger where as it is 55.46 % in case of Network 18. In case of Post-merger is 17.63 % for RIL and 81.63 % for Network 18, which depicts that company has paid some expenses which might be incurred during the merger period.
3. Return on net worth is 12.9 % for Reliance Industries Ltd in pre-merger where as it is 8.29 % in case of Network 18. In case of Post-merger is 15.8 % for RIL and 6.63 % for Network 18, which states that when there is rise in the risk of bankruptcy, then the chances to pay back the debt is next to impossible.
4. Return on capital employed is 11.3 % for reliance industries ltd. in pre-merger where as it is 5.16 % in case of Network 18. In case of Post-merger is 23.6 % for RIL and 1.26 % for Network 18 which shows how effectively assets are performing while taking into consideration long-term financing.



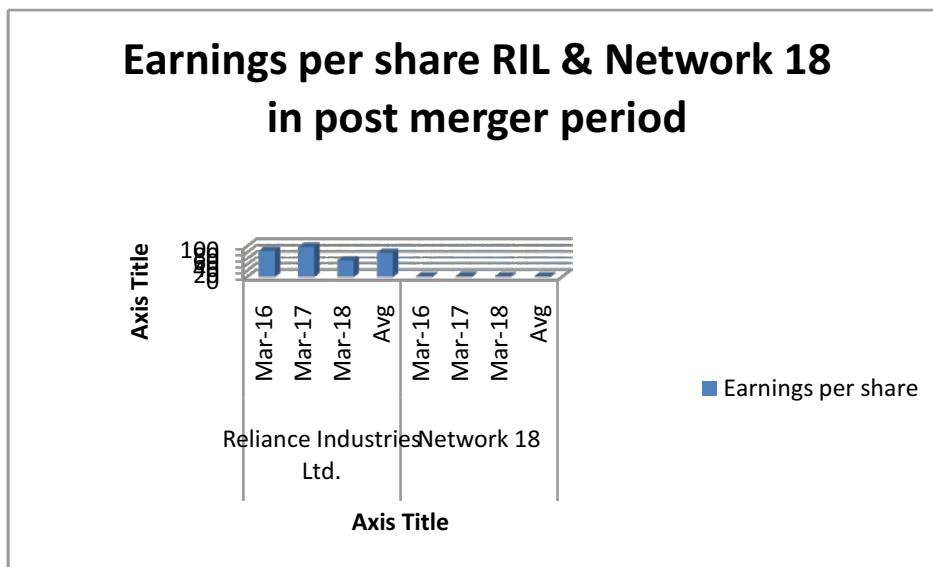
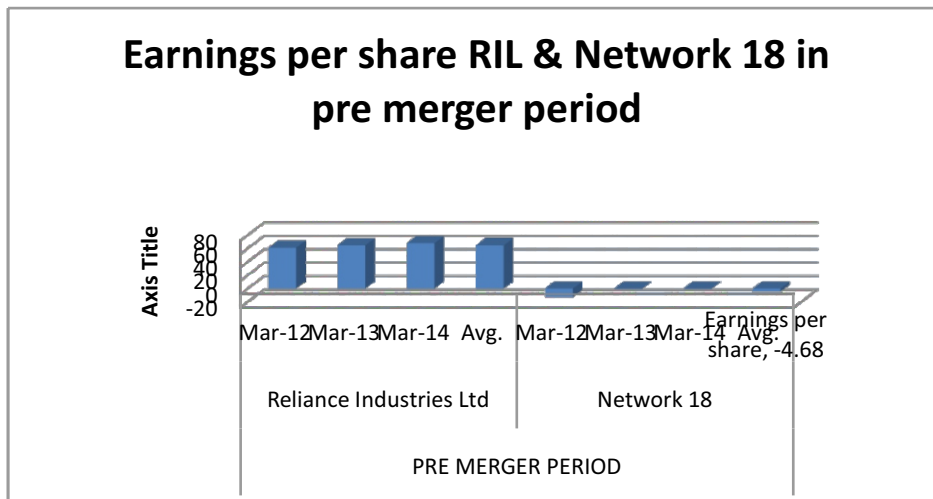
5. Inventory turnover ratio is 9.62 times for Reliance Industries Ltd. pre-merger where as it is (180.5) times in case of Network 18. In case of Post-merger is 17.63 % for RIL and 81.63 % for Network 18, which shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period.
6. Debtor turnover ratio is 28.8 times for Reliance Industries Ltd. pre-merger where as it is 4.15 times in case of Network 18. In case of Post-merger is 49.18 times for RIL and 1.88 times for Network 18, which clearly indicates that numbers of times on the average receivable are turnover in each year. High ratio shows efficient management of debtors or vice versa.
7. Assets turnover ratio is 1.14 times for Reliance Industries Ltd. pre-merger where as it is 0.5 times in case of Network 18. In case of Post-merger is .51 times for RIL and .02 times% for Network 18, which clearly indicates that how company can use assets of firm in respective to generate sales.



8. Current ratio is 1.28:1 for Reliance Industries Ltd. pre-merger where as it is .78:1 in case of Network 18. Post merger ratio is .31:1 for RIL &.40 for Network 18 which depicts that high current ratio may not always be able to pay its current liabilities as they become due if a large portion of its current assets consists of slow moving or obsolete inventories or vice versa.



9. Quick ratio is 1.23:1 for Reliance Industries Ltd. pre-merger where as it is 1.12 in case of Network 18. Post-merger ratio is .26:1 for RIL &.25: 1 for Network 18 which indicates that the company is investing too many resources in the working capital of the business which may more profitably be used elsewhere.



Market test ratio

Earnings per share are important for actual and potential stock holder for payment of dividend. High Earnings per share indicates that company is in strong financial position and best avenue for the investing decisions

H0: There is no significant difference between Net Profit Margin of Reliance industries Ltd and Network 18 in pre and post-merger time

t-Test: Paired Two Sample for Means		
	<i>Variable 1</i>	<i>Variable 2</i>
Mean	-55.76	-61.785
Variance	7525.1912	10633.19
Observations	2	2
Pearson Correlation	1	
Hypothesized Mean Difference	0	
Df	1	
t Stat	0.520518359	
P(T<=t) one-tail	0.347234417	
t Critical one-tail	6.313751514	
P(T<=t) two-tail	0.694468834	
t Critical two-tail	12.70620473	

Interpretation

From the above paired t- test table, the researcher analyzed that net profit has no significantly changed after merger and acquisition, p-value comes to .347 which is less than 0. 5, this depicts that Null hypothesis is accepted. It can be said that there is no modification in net profit which arises between pre and post-merger time.

H0: There is no significant difference between the return on capital employed of Reliance industries Ltd and Network 18 in pre and post-merger time.

t-Test: Paired Two Sample for Means		
	<i>Variable 1</i>	<i>Variable 2</i>
Mean	17.45	-3.21
Variance	75.645	7.605
Observations	2	2
Pearson Correlation	1	
Hypothesized Mean Difference	0	
Df	1	
t Stat	4.91904762	
P(T<=t) one-tail	0.0638397	
t Critical one-tail	6.31375151	
P(T<=t) two-tail	0.1276794	
t Critical two-tail	12.7062047	

Interpretation

From the above paired t- test table, the researcher analyzed that net worth has significantly changed after merger and acquisition, p-value comes to .06 which is less than 0.05 , this depicts that Null hypothesis is rejected . It can be said that there is modification in net worth which arises between pre and post-merger time.

Conclusion

Indian Media and Entertainment sector showed a massive growth rate all because of Merger and acquisition. The Government of India has supported Media and Entertainment industry's growth by taking various initiatives such as digitising the cable distribution sector to attract greater institutional funding, increasing FDI limit from 74 per cent to 100 per cent in cable and DTH satellite platforms, and granting industry status to the film industry for easy access to institutional finance. Therefore in this study two hypotheses were used to test the alteration in net profit ratio and net worth of both companies after this M& A deal. The finding shows that there is no alteration in net profit ratio but there is significant change in net worth of both companies in pre and post-merger time. Hence merger and acquisition is very competitive strategy for attaining high market share, synergy and etc.

Suggestion

1. Reduction in operating expenses so it will enhance the level of earnings.
2. Management of assets in an effective and efficient manner so return on capital employed is significantly in ideal condition.
3. Company is investing too many resources in the working capital of the business which may more profitably be used elsewhere.
4. Assets of both firm s are not efficient utilized by the management of RIL and network 18. Therefore, this is the effect of merger and acquisitio

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