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Financial Performance Analysis of Mahindra and Mahindra Company - A Pre & Post Merger Perspective

Sneh Lata[1], Dr. Robin Anand[2]

[1]Research Scholar, Department of Commerce, JJT University, Jhunjhunu, (Rajasthan) India
[2]Assistant Professor,Department of Commerce,Manohar Memorial (P.G.) College Fatehabad, Haryana

ABSTRACT

Mergers and acquisitions in automobile sector have become familiar in the majority of all the countries in the world. With the help of mergers and acquisitions in the automobile sector, the Companies can achieve significant growth in their productivity, become more efficient for new innovation and technology and minimize their expenses to a considerable extent.In this research paper, I have selected merger of Mahindra and Mahindra Company and Ssang Yong as sample size to analyze merger and acquisition in this sector. My objective of this research paper is to analyze financial performance of merged companies pre-merger and post-mergerwith the help of financial parameters like, Gross Profitmargin, Net Profit margin, operating Profit margin, Return on Capital Employed, Return onEquity, and Debt Equity Ratio etc. The collection of data covers financial performance of selected company from 2007 to 2017. The statistical tools are arithmetic mean, standard deviation, t-test and p-value etc. Finallythe study indicates that there is no improvement in financial performance of acquirer company after merger.

Keywords: Mergers, Acquisitions, Financial Performance, Ratios.

I. INTRODUCTION

The automobile sector is one of the most important instrument of the national development, occupies a unique place in a nation's economy. Deregulation in the financial market,market liberalization, economic reforms have witnessed astounding changes in car industry leading to incredible competitiveness and advanced technology leading to a new era of automobile sector. Companies' growth is possible in two ways internal and external. Internal growth occurs when the company grows from its own business activity using funds from one year to expand the company the following year. External growth occurs when company grows by merger or acquisition of anotherbusiness. The main motive behind the Merger is to create synergy that is one plus one ismore than two (1+1=3). Merger and Acquisitions help the companies in getting the benefits like [1]

- Achieving cost efficiency
- Engage new market area
- Help in new innovation and technology advancement
- Economies of scale
- Industry consolidation
- Divesting non-core assets
- Geographical benefits
- Elimination or reduction in completion and risk etc.

II.COMPANY PROFILE

Mahindra & Mahindra was set up as a steel trading company in 1945 in Ludhiana as Mahindra & Mohammed by brothers K.C. Mahindra and J.C. Mahindra and Malik Ghulam Mohammed. After India gained independence and Pakistan was formed, Mohammed immigrated to Pakistan where he became that country's first finance minister. The company changed its name to Mahindra & Mahindra in 1948. It is one of the largest vehicle manufacturers by production in India and the largest manufacturer of tractors in the world. It is a part of Mahindra Group, an Indian conglomerate.It was ranked 21st on a list of top companies in India by Fortune India 500 in 2011. [2]

SsangYong Motor Company (meaning Double Dragons Motor Vehicles) is the fourth largest South Korean-based automobile manufacturer. It is a subsidiary of Indian multinational Mahindra & Mahindra. A 70% share of SsangYong was acquired by Mahindra & Mahindra Limited in February 2011, after being named the preferred bidder in 2010 to acquire the bankruptcy-protected company. Mahindra's acquisition was approved by South Korea's Free Trade Commission. [3]

Mahindra Group & SsangYong Company

On November 23, 2010, SsangYong Motor Company Limited (SYMC) and India's Mahindra & Mahindra Ltd. (M&M) its preferred bidder announced the signing of a definitive agreement in Seoul. The agreement which was signed by Mr. Yooil Lee and Mr. Youngtae Park, Joint Receivers of SYMC and Dr. PawanGoenka, President, Automotive & Farm Equipment Sectors, M&M, in the presence of key staff and advisors to both groups .The securing of a solid partner who has both financial capability and is engaged in diverse markets will allow SsangYong to emerge as a global SUV player through the strengthening of R&D, investments in product development, better business competitiveness and global sales expansion. The labour union of SYMC, M&M and SYMC has also signed a Tripartite Agreement which contains provisions for employment protection, long-term investment and commitment for no labor dispute.

Deal in Monitory Terms [4]

- Total cost of the acquisition of US$ 463 million with US$ 378 million in new stocks and US$ 85 million in the corporate bonds
- Exchange Rate Used in merger : US $ I = KRW 1129
- Mahindra will acquire 70% stake
- Deal expected to be concluded by March 2011

III. REVIEW OF LITERATURE

ShubhraJohri (2014)

In this paper author has tried to study the effect of five specific mergers in automobile industry on the shareholders wealth that taken place during year 2011-12. An empirical study is conducted to examine pre to post merger stock performance and also deals with the synergies that the merging companies have achieved post integration.

Wei Zheng&Zhijun Sheng (2015)

In this paper researcher examinedthe impact of merger and acquisitions of Chinese automobile enterprises. Main objective of the study is to understand problems such as political barriers, legal barriers and cultural conflicts etc. in implementation in M&A and countermeasures that make ideal results when they implement the M&A.

Bijoy Gupta &Parimalendu Banerjee (2017)

Examined the impact of merger and acquisitions on financial performance of selected acquirer firms across India by selecting seven different units merged during 2006-12. Various financial ratios applied to assess the profitability and liquidity position of the selected firms. The analysis is conducted with the help of statistical tool paired t test used on accounting ratios by SPSS to test the significance of the study. The study revealed insignificant improvement of acquiring firms after merger. Authors foundthe efficiency of acquiring firms' deteriorated in post-merger period.

IV. OBJECTIVES OF THE STUDY

The study has been undertaken to make a comparative analysis of the impact of merger on financial performance of Mahindra and Mahindra Company.

V. RESEARCH METHODOLOGY

Hypothesis

Mergers and Acquisition improves the financial performance of Mahindra and Mahindra Company and hypothesis for the study are:

- **H_0**= There is no significance difference between the pre-merger and post- merger performanceof Mahindra and Mahindra Company

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- **H_1**= There is significance difference between the pre-merger and post- merger performance ofMahindra and Mahindra Company

Sample, Data Sources and Period of the Study

The current study chooses one company as Sample to assess the impact of mergers and acquisitions on the financial performance of selected company. The financial data has been compiled for the financial year 2007 to 2017 on an annual basis. The pre-merger (four years prior) and post-merger (after six years) of the financial ratios have being compared. The year of merger is considered as base year and denoted as 0 and it is excluded from the evaluation.The present study is based on secondary data. The data is collected from the website www.moneycontrol.com and annual reports of companies.

Tools and Techniques for Analysis

- Ratio Analysis
- Arithmetic mean
- Standard deviation
- T test

VI. DATA ANALYSIS AND INTERPRETATION

In this study merger of Mahindra company (acquirer) and SsangYong (Target Company) in 2010.

The **table 1** presents the data of various financial ratios of Mahindra and Mahindra Company. Inthe pre-merger scenario for the considered 4 years, the following financial ratios PBDIT margin, Debt equity ratio and current ratio initially increases or remain constant and later on decreased. Whereas the Net profit margin, Return on capital employed, return on assets, quick ratio and Return on equity exhibit the mixed trend throughout the period. In the post-merger scenariofor the considered 6 years, it was observed that PBDIT margin, Net profit margin, return on capital employed, return on assets, Return on equity and current ratio showed increasing trend for the two or three years later on show decreasing trend but quick ratio and interest on coverage ratio show decreasing trend whereas earning yield remains constant in first three years and after that it decreased.

Table 1: Financial Ratios of Mahindra and Mahindra Company

Ratios	Before Merger				After Merger					
	Mar 2007	Mar 2008	Mar 2009	Mar 2010	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017
PBDIT Margin (%)	17.96	18.16	15.63	18.49	13	13.82	14.35	12.95	13.05	13.68
Net Profit Margin (%)	9.76	8.18	6.63	9.23	4.67	5.3	5.84	3.6	3.04	3.76
Return on Net Worth /Equity (%)	31	25.62	19.49	26.93	18.73	20.55	20.03	12.14	11.22	12.43
Return on Capital Employed (%)	10.81	8.69	6.28	9.16	7.46	8.13	7.68	5.13	4.71	4.93
Return on Assets (%)	7.42	5.96	4.26	6.82	4.9	5.36	5.28	3.3	2.96	3.22
Total Debt/Equity (X)	1.69	1.69	1.75	1.4	1.13	1.16	1.21	1.14	1.17	1.35
Current Ratio (X)	2.22	2.05	1.82	2.11	1.32	1.3	1.44	1.18	1.16	1.23
Quick Ratio (X)	1.84	1.65	1.5	1.72	1	0.98	1.13	0.93	0.9	1
Interest Coverage Ratios (%)	9.2	5.04	3.79	4.45	3.29	3.23	2.86	2.28	2.26	2.37
Earnings Yield	0.08	0.09	0.13	0.08	0.08	0.08	0.08	0.04	0.04	0.05

Source: Financial statement of Mahindra and Mahindra Company, www.moneycontrol.com

Table 2 presents the descriptive statistics and analysis of the various ratios of Mahindra and Mahindra Company. It reveals the average values of mean of pre merged years are greater than post merged period in respect of all financial ratios that shown in table. Standard deviation shows the variation in pre and post-merger. PBDIT Margin, debt equity, quick ratio and interest on coverage ratio show high variation whereas rest of ratios show low variation.

To know whether there is significant difference in the financial ratios before and after merger, t-test is applied using MS- excel. Summary of analysis presented in table at 5% level of significance. As table reveals t- value of all ratios are greater than the p-value of the ratios at 5% level of significance. Null hypothesis is rejected whereas alternate hypothesis is accepted and concluded that there is significant difference in ratios before after merger of Mahindra and Mahindra Company.

Table 2: Summary Analysis of T-test

Ratios	Group	N	Mean	St. Deviation	t- value	p- value*
PBDIT Margin	Pre	4	17.56	1.305	6.905	0.0001
	Post	6	13.47	.0567		
Net Profit Margin	Pre	4	8.45	1.379	5.260	0.0007
	Post	6	4.37	1.081		
Return on Net worth /Equity	Pre	4	25.76	4.766	3.402	0.0093
	Post	6	15.85	4.353		
Return on Capital Employed	Pre	4	8.73	1.872	2.194	0.0595
	Post	6	6.34	1.572		
Return on Assets	Pre	4	6.11	1.374	2.463	0.0391
	Post	6	4.17	1.122		
Total Debt/Equity	Pre	4	1.63	0.157	5.860	0.0003
	Post	6	1.19	0.081		
Current Ratio	Pre	4	2.05	0.168	9.131	1.670
	Post	6	1.27	0.104		
Quick Ratio	Pre	4	1.68	0.141	9.927	8.9598
	Post	6	0.99	0.079		
Interest Coverage Ratios	Pre	4	5.62	2.440	2.920	0.0192
	Post	6	2.71	0.475		
Earnings Yield	Pre	4	0.09	0.023	2.374	2.3060
	Post	6	0.06	0.020		

Source: calculated using excel * show value 5% level of significance.

VII. LIMITATIONS OF THE STUDY

- The study was limited in terms of financial performance analysis and ratio analysis only.
- The study is depends only on secondary data no primary data has been taken so the fresh information is not available.

VIII. CONCLUSION AND SUGGESTIONS

Different companies shake hands with intention to create synergies, profit efficiency, to improve competitiveness, enter into new market areas, etc. But mergers and acquisitions may not be always fruitful for expansion and growth of acquirer companies. The result of present study reveals that financial performance of selected sample declines. The comparison of pre and post-merger financial ratios of the sample shows that there is decline in the mean value of acquirer company in respect of all the indicator ratios selected for the study. The reason behind decline of performance of company can be other mergers that take place in recent years.

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