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A STUDY ON IMPACT OF MERGER AND ACQUISITION IN FMCG INDUSTRIES IN CONTEXT OF INDIAN ECONOMY

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Abstract

In present financial situation Merger and Acquisition is broadly accepted as corporate restructuring. Industries admits this system is needed for their quick development and improvement for the nation like India. FMGC has major market share in India. An attempt has been made to identify the impact of M&A in FMGC industry in India. Hypothetically it's been accepted the M&A improves the performance of organization as a result of extended market control, more benefits with huge expansion. This research center around somewhere in the range of 2000 and 2010 of M&A action on FMGC industry. Similar financial information of Hindustan Unilever limited and Emami Limited has been provided with the assistance of multi-year Ratio Analysis for before and after the M&A which directs that merger has been proved beneficial or not. Secondary data is used from the different yearly reports. The data is collected for multi-years prior and multiyear post to the Merger and Acquisition. Study found the M&A has positive impact on productivity of acquiring firm of FMGC industry in India. In addition, M&A action has provided beneficial outcome on Net Worth and Capital Employed of chosen

FMGC organizations. It is found in the study that the measure used for examination shows considerable improvement in presentation of chosen firms.

Keywords: Merger and Acquisition, Corporate Restructuring, FMGC, Ratio Analysis.

Introduction

GDP of India has significant support of quick moving purchaser products (FMCG) part. It is considered as fourth largest sector of Indian economy. This sector is divided in to three segments- first food and beverages that includes 19 percent of the sector, healthcare sector which includes 31percent and third household and personal care that includes 50 percent for the remaining of the sectors. The growth rate of FMGC sector was US$ 31.6 billion in 2011 now increased to US$ 52.75 billion in 2017-18. The sector has able to achieve growth between June to September 2018 up to 16.5 percent in value terms which is supported by moderate inflation and increase rural income and in private consumption. It was increased 12-13 percent between September- December 2018. Urban segment of FMCG has recorded a steady revenue growth at 8 per cent in FY19. Even post GST and demonetization, share of modern trade has grown 10 percent of the overall FMGC revenue, as of August 2018.

Current name of quick moving customer merchandise is referred as buyer bundled products. Since British Rule FMCG is being popular in India, so its not a new concept. This category includes the commodity which is purchased at regular intervals by all consumables people. FMGC companies has enjoyed immense potential market for its business because of large population of country. FMCG has offered pitching items to the lower and center salary gathering and effectively working in India. However net revenue earned by FMGC item is relatively little, but these items are commonly sold in tremendous amounts and the aggregate benefits on such items can be bigger. FMCG items has big influence in the economy because inelastic nature of items that touch all aspects of buyer’s life somehow. Throughout the world the corporate division is trying to restructure its task by different sorts of solidification as to overcome the difficulties encountered by the new example of globalization, which require noteworthy coordination of national and worldwide markets. Merger and Acquisition are mostly preferred to have economic gain rather than social and political objectives. By Merger and Acquisitions process firms can enjoy the benefits of economics of scale, combined efficient resources, tax benefits and big market to explore. In the modern era Merger and acquisition has become integral part of the Indian economy. Now each industry is trying to merge in order to gain more profit. For the merger of two companies, board of directors approve the combination and seek the approval of shareholders of respected companies. After the merger acquired company stops to exist and becomes the part of the securing company. In acquisition process, majority stake of acquired company is taken by acquiring company but does not change the name and legal structure.

Review of Literature

Kumar & Bansal (2008)[1] found that in different cases of M&A, the acquiring firms has been successfully working in long run, they are now earning higher cash flow, more business, low cost and diversification in their products by using different accounting methods like ratio analysis and correlation.

Kumar (2009)[2] found and mentioned that procuring company may have low improvement in productivity, resource turnover after merger by large demonstrate. So, it seems that as opposed to basic conviction and desire of merger.

Rani et al. (2015)[3] found the companies involved in merger and acquisition have significant improvement in profitability. The outcome in the form of gainfulness, effectiveness, cost and liquidity proportions shows that there is an improvement in performance of the procuring company after M&A period. As per investigation of Du Pont which demonstrates improvement in long haul working revenue of the procuring firms. This shows higher benefit is created on per unit net deals by securing firms after merger and acquisitions.

Srivastava & Prakash (2014)[4] investigated and observed that there in no statically significant difference in the mean value of all the measures such as percentage of operating expenses for the acquired firms except R&D expenses even before and after merger.

Reddy et al. (2013)[5] they used t-stat and earn management approach for their study and recorded superior performance both manufacturing and services sectors during the post-merger time period.

Lakhwani et al. (2017)[6] found that in long run M&A can be useful, but it is entirely dependent on the company who select this path and how they take in the way by using Du-Pnt analysis with sample size of 24 in 2005-2006.

Ramakrishnan (2010)[7] concluded in his study the merger is beneficial for the Indian corporate,s performance in long run. He took the sample of 87 firms from January 1996 to March 2002 of merger deals and determined the three years pre-tax operating cash flow before and after the merger.

Agnihotri(2013)[8] researched to find the determinants at firm level that play decisive role in taking decision whether to go with merger and acquisitions or not. She took the sample of 360 companies with restricted areas of three sectors- FMCG, Automobile and Pharmaceutical from the time frame 2004-2010. It was found that business group affiliation and earning volatility are the two crucial elements to decide to opt M&A or not.

Panda & Sriram (2013)[9] stated that M&A helps to improve the speed of innovation and profitability of firms. He took samples of four companies from Indian pharmaceutical sector who done acquisition overseas. For arriving at result, he took eight years data of financial, and patent filing data and measured the profitability with respect to gross profit and operating margin.

Objectives of the Study

The main objective of study is to know the effect of M&A in FMCG company in India. To know the impact of M&A in FMCG on Indian economy.

Research Methodology

Secondary source of data has been taken for the study from the annual reports of selected firms. FMCG companies data has been used for the study for two years of pre-merger and two years of post-merger.

Population for the study - 645 FMCG companies can be used for the population of study. FMCG companies are selected for study reason being very less research has been carried with reference of Indian context, anyhow globally various research has been conducted of FMCG.

Selection of Samples - two companies Hindustan lever Limited (who acquired the Cooked Shrimp and Pasteurized Crabmeat business of the Amalgam Group of Companies) and Emami Limited (who acquired Zandu Pharmaceuticals Works Limited) have been selected as a sample for the study, which are M&A in FMCG industry during 2000 to 2010.

About Hindustan Unilever Limited - Hindustan Uniliver Limited is 80 years old company. HUL is a large fast moving consumer goods company. The products which are made by HUL is used by each and every individual in India. HUL attempts to make better future and enable consumer feels better, looks great and get increasingly out of existence with brand. With more than 35 brands across 20 distinct categories, including cleansers, cleansers, shampoos, healthy skin, toothpastes, antiperspirants, beautifying agents, tea, espresso, packaged foods, frozen yoghurt, and water purifiers, the Company is a part of the ordinary day-to-day existence of many consumers throughout India. Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair and Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Ax, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's, and Pureit are just a few of the leading family unit brands that are included in its portfolio. About 18,000 people work for the company. HUL is a auxiliary of Unilever, one of the world's driving providers of Food, Home Consideration, Individual Consideration and Reward items with deals in more than 190 nations and a yearly deals turnover of €53.7 billion of every 2017. Unilever has more than 67% shareholding in HUL.

About Emami

Emami Restricted is one of the primary and fastest creating individual and restorative administrations associations in India, with a fortunate plan of nuclear family brand names, for instance, BoroPlus, Navratna, Fair and Attractive, Zandu Medicine, Mentho In addition to Medicine, Quick Alleviation and Kesh Ruler. Setup in 1974, we have a game-plan of in overabundance of 300 things dependent on ayurvedic plans. Our present exercises contain more than 60 countries counting GCC, Europe, Africa, CIS countries and the SAARC. In excess of 121 Emami things are sold each second some spot the world over. Emami Restricted, the pioneer association of the Gathering, recorded a turnover of Rs. 2541crore, 2017-18. Emami acquired the heritage brand Zandu in 2008 in light of massive business cooperation between the two brand portfolios. Emami in like manner acquired Ayurvedic Hair what's more, scalp business of "Kesh Ruler" as a business method in 2015.We use around 3300 people, associate with 40 lakh notwithstanding retails outlets through an arrangement of 3150 wholesalers and have placed assets into Eight plants, Four common working environments, 1 abroad unit, Nine abroad reinforcements and 31 course centers also, 1 Partner transversely over India.

Accounting Tool and Analysis

The primary object of all the business concerns is to procure benefit. Benefit is the estimation of the effectiveness of the business. Value investors of the organization are primarily keen on the benefit of the organization. Benefit proportions incorporate the accompanying.

Ratio Analysis

Operating Profit Margin Ratio
2. Net Profit Margin Ratio
3. Return on Capital Employed Ratio
4. Return on Net Worth Ratio
5. Earning Per Share

Formula for calculations-

Operating Profit Margin Ratio

$$= \frac{\text{Earnings before Interest and Tax}}{\text{Net Sales}} \times 100$$

Net Profit Margin Ratio

$$= \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Return on Capital Employed

$$= \frac{\text{Profit Before Tax}}{\text{Capital Employed}} \times 100$$

Return on Net Worth

$$= \frac{\text{Net profit after Tax - Preference Share Dividend}}{\text{Net Worth}} \times 100$$

Earning on Per Share

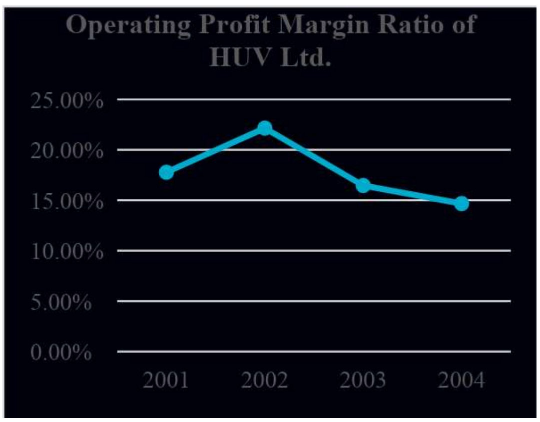
$$= \frac{\text{Net Profit Available to Equity Share Holder}}{\text{Number of Ordinary Share Outstanding}} \times 100$$

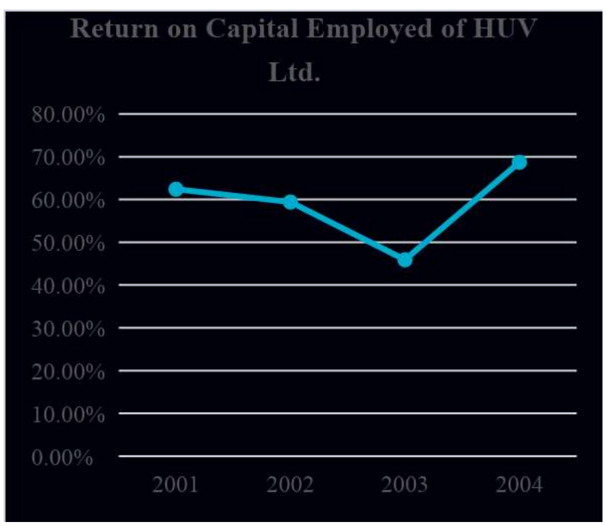
Hindustan Unilever Limited

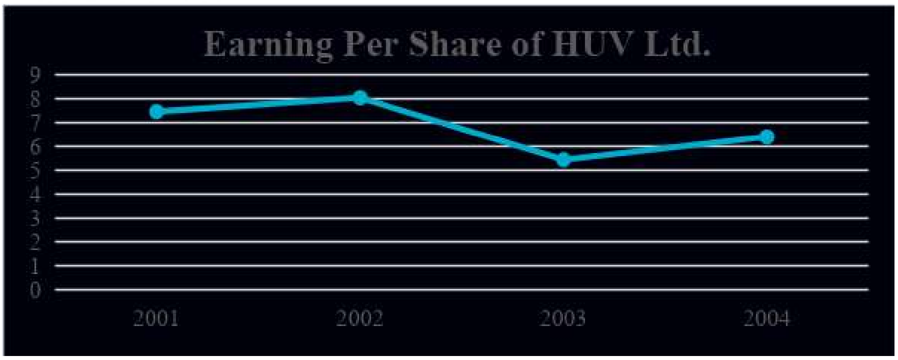
	2001	2002	2003	2004
Operating Profit Margin Ratio	17.78%	22.16%	16.47%	14.68%
Net Profit Margin Ratio	14.96%	15.70%	11.00%	11.30%

Return on Capital Employed	62.40%	59.40%	45.90%	68.70%
Return on Net Worth	53.93%	48.00%	57.20%	61.10%
Earning Per Share	7.46	8.04	5.44	6.4

Graphically Representation of Ratio

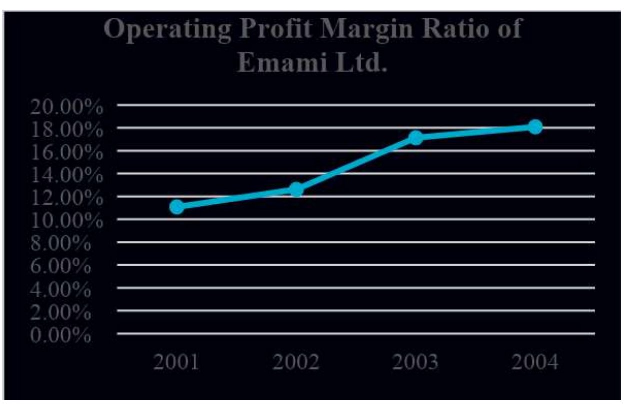






Emami Limited

	2001	2002	2003	2004
Operating Profit Margin Ratio	11.08%	12.61%	17.13%	18.09%
Net Profit Margin Ratio	9.54%	11.75%	15.58%	12.24%
Return on Capital Employed	15.04%	21.66%	21.96%	12.16%
Return on Net Worth	19.01%	28.79%	31.96%	30.38%
Earning Per Share	5.23	8.06	14.5	14.45



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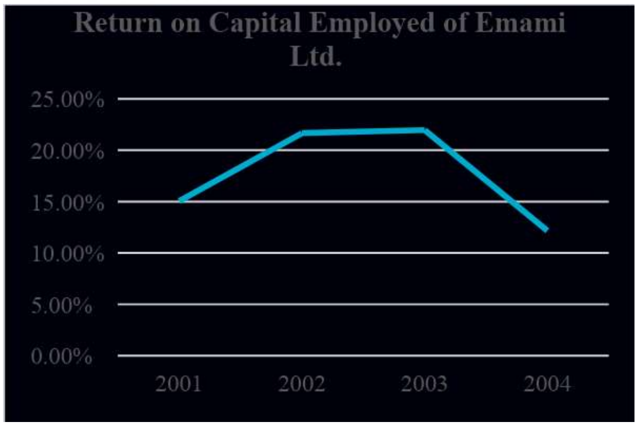

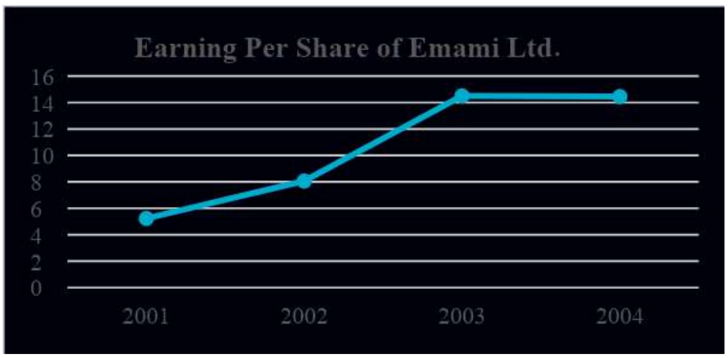

Impact of Merger & Acquisitions on Economy

An organization considers Merger and Acquisition for a plenty of reasons; Development of the business, Monetary insufficiency for greater tasks, cornering the market, obtaining protected advancement or innovation, or even tax avoidances and advantages. India has seen a blast of M & A these in the recent a very long time since states changed regulations with respect to syndications and prohibitive exchange rehearses. The years 2014, 2016 and 2018 especially hung out with regards to the worth of M&A exchanges across India. The absolute worth of the consolidations in 2018 even crossed the 100-billion-dollar mark. Aside from a situation where a M &A brings about an imposing business model, when two great players of the market blend, the intensity of the market consequently worries. This frequently brings about a drop in costs because of additional contest and, surprisingly, higher efficiency. Purchasers benefit profoundly because of such a circumstance. India is going through a period of unemployment has never seen.

M&A arrangements can help a partnership develop and set up different workplaces and tasks in all pieces of India and in this way help in making more talented workforce. These mergers happen between two organizations whose lines of business are totally unique. They maintain their business in totally various enterprises and M&A both of them to enhance their line of business for more benefit as well as security. Reliance Industries as well Tata is a prime example of diversification of business through acquiring several companies and growing their business as well assure profitability in some or the other industry. Such consolidations are likewise a gift to the economy as it helps elements develop and enhance their business in this way guaranteeing they don't run out of assets or experience because of dullness in their line of items.

Vertical mergers are great for the organizations converging as well as the economy. They give a feeling of dependability to an organization's quality, unrefined substance supply and circulation. Reliance and FLAG Telcom (a communication service organization) is an vertical merger where Reliance obtained the latter to get greater into the media communications business and hence gain a steady wellspring of organization transport.

Horizontal mergers happen between organizations working in a similar line of business as well as at a similar level in the chain. A new illustration of a merger of this kind is Lipton Tea India and Brooke Bond. An article by Harvard Business survey showed that even merger typically wind up the monopoly like market which has a greater number of disadvantages than benefits for the economy.

Finding and Conclusion

The investigation discovered that the impacts of M&A in FMCG area in India for a time of 2-year earlier merger what's more, 2-year post consolidation between years 2000 to 2010. The investigation of Hindustan Unilever Restricted gives various outcomes, which show that 2 proportions are working on however 3 are declining. The investigation of Emami Restricted shows that 3ratios are working on however 2 are declining.

The review gives an extremely clear view that Net Profit Margin Ratio are not working on after M&As. The investigation likewise discovered Return on Net Worth improved subsequent to restructuring that shows that a business will actually want to procure satisfactory benefit in relation to capital employed.

The research found that EPS has slight decline in first case yet in the second case EPS has increased. On performance measurement, FMCG Industry in India which focus on profitability of the acquiring firms, the study conclude in long run merger and acquisition will be profitable in Indian context.

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