Pre and Post Acquisition Comparison of Financial Performance of Acquiring Companies in Manufacturing Sector in India (2000-2006)

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Abstract

Acquisitions are used to gain competitive advantage over other firms through gaining greater market share for improving competitiveness of companies and entering new markets and geographies, by capitalizing on economies of scale and broadening the portfolio to reduce business risk, etc. India has emerged as one of the top countries with respect to merger and acquisition deals as Indian companies have been actively involved in acquisitions domestically as well as internationally. The desire is to grow quickly through acquisitions rather than through slow and steady path of normal expansion in business. Acquisitions seem to lead to financial and strategic growth. A number of studies have been carried out abroad especially in the developed capital markets of Australia, Europe and United States, which have largely focused on the impact of acquisition on company performance. In India, few studies have been conducted for evaluating the performance of acquiring companies in manufacturing sector. So the present paper is aimed to study the pre and post acquisition comparison of financial performance of acquiring companies (with special reference to manufacturing sector in India for a period of 2000 to 2006) by examining some pre and post acquisition financial ratios of these firms. Selected accounting ratios have been used to measure the financial performance and t-test has been used to make the comparison of pre and post-acquisition financial performance for three years before and after acquisition, while the year of acquisition event is omitted from comparisons. The results suggest that acquisitions did not experience any significant increase in the profitability of the firms in the post acquisition period. This study proves that acquisitions have failed to contribute positively in the overall performance of the companies, especially for the sample under consideration.