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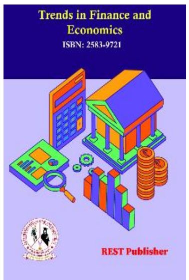

A Study on Mergers and Acquisitions with Reference to India Infoline Limited

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Abstract. One plus one makes three: this equation is the special alchemy of a merger or an acquisition. The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. Two companies together are more valuable than two separate companies - at least, that's the reason behind M&A. This rationale is particularly alluring to companies when times are tough. Strong companies will act to buy other companies to create a more competitive, cost-efficient company. The companies will come together hoping to gain a greater market share or to achieve greater efficiency. Because of these potential benefits, target companies will often agree to be purchased when they know they cannot survive alone.

Keywords: M&A, Shareholder value, market value, efficient company

1. INTRODUCTION

A merger is defined as a combination of two or more companies into a single company where one survives, and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Generally, the surviving company is the buyer, which retains its identity, and the extinguished company is the seller. A merger is also defined as amalgamation. A merger is the fusion of two or more existing companies. Acquisition in the general sense is acquiring ownership of the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.

2. SCOPE OF THE STUDY

1. The scope of the study is restricted to IIFL is confined to PSU's.
2. The scope of the project is also restricted to a limited period.
3. Mergers & Acquisition have gained popularity throughout the world in the recent times. They have become popular due to globalization, liberalization, technological developments & intensely competitive business environment.
4. Mergers and acquisitions are a big part of the corporate finance world. This process is extensively used for restructuring the business organization.

3. OBJECTIVES OF THE STUDY

1. To know the pre-merger financial performance of IIFL
2. To analyze the post-merger financial position of the merged firms.
3. To understand the merging and acquisition process of the selected companies and firm.
4. To evaluate the changes in the market price of the merged firm.

5. To analyze mergers by industries, financial advisors and legal advisors.
6. To study the financial performance in the growth of individual companies before & after the merger.

4. METHODOLOGY

Research design: This is a systematic way to solve research problems and it is an important component for the study without which research may not be able to obtain the format. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine collection and analysis of data relevance to the research purpose with economy in procedure.

Meaning of research design: The formidable problem that follows the task of defining the research problem is the preparation of design of the research project, popularly known as the research design, decision regarding what, where, when, how much, by what means concerning an inquiry of a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manager that aims to combine collection and analysis of data relevance to the research purpose with economy in procedure. Research in common pursuance refers to a search for knowledge in a scientific and systematic way for pursuant information on a specified topic. Once the objective is identified that next step is to collect the data which is relevance to the problem identified and analyze the collected data to find out the hidden reasons for the problem. There are two types of data namely.

- Primary Data
- Secondary Data

Primary data collection: Most of the data about ''MERGERS AND ACQUISITIONS'' has been provided by the ''IIFL.''
Secondary data collection: The data has been collected from various sources.
Books, Magazines, Internet, Newspapers and Financial reports of the company.

Methodology used:

1. **Types of financial statements adopted:** Following two types of financial statements are adopted in analyzing the firm financial position.
   a. BALANCE SHEET.
   b. Profit and Loss statements.
2. **Tools Of Financial Statement Analysis Used:** The following financial analysis tools are used to interpret the financial position of the firm.

Techniques:

1. P/E ratio.
2. Book value.
3. Market value.

5. LIMITATIONS OF THE STUDY

1. It is limited to only two companies i.e., IIFL & BPRL.
2. The project duration time is limited to 45 days.
3. The study is limited to only secondary data.
4. The study is carried basing on the information and documents provided by the Organization and based on the interaction with the various employees.
5. The analysis is based on the balance sheets and profit and loss accounts, which is secondary data. Hence it suffers from being very reliable.
6. An increase in costs might result if the right management of modification and the implementation of the merger and acquisition dealing are delayed.
7. The uncertainty with respect to the approval of the merger by proper assurances.

8. In many events, the return of the share of the company that caused buyouts of other companies was less than the return of the sector.

6. DATA ANALYSIS & INTERPRETATION

TABLE 1. Profit & Loss Account of IIFL from March (2021-2023) (Rs. in Crores)

Particulars	Mar-23	Mar-22	Mar-21
Sales Turnover	291701.1	329792.31	270323.25
Other Income	6623.67	4781.97	4626.45
Stock Adjustments	5044.25	-1974.56	1958.19
Total Income	302869.02	332899.72	276917.79
Raw Materials	239629.93	273292.89	222405.44
Excise Duty	21834.76	22773.5	23582.49
Power & Fuel Cost	525.20	598.02	498.75
Other Manufacturing Expenses	9323.77	8497.53	7516.73
Employee Cost	5736.17	5692.67	2917.26
Selling and Administration Expenses	5039.19	3984.85	3919.45
Miscellaneous Expenses	1874.52	6828.98	1997.85
Less: Preoperative Expenditure Capitalized	0	0	0
Profit before Interest, Depreciation & Tax	18905.58	16431.28	19379.82
Interest & Financial Charges	2072.	4020.9	2089.72
Profit before Depreciation & Tax	20333.23	7220.3	17790.1
Depreciation	3227.19	2881.71	2719.7
Profit Before Tax	19206.19	4328.59	20180.4
Tax	3885.54	1879.04	3167.82
Profit After Tax	20220.55	2949.55	6962.58
Adjustment below Net Profit	0	0	0
P & L Balance brought forward	5305.18	5305.18	0
Appropriations	20525.63	2949.55	1957.5
P & L Bal. carried down	0	5305.18	5305.18
Equity Dividend	3206.34	920.48	655.81
Preference Dividend	0	0	0
Corporate Dividend Tax	518.83	204.74	76.48
Equity Dividend (%)	180	75	55
Earnings Per Share (Rs.)	40	23.44	57.75
Equity shares	255.51	175.83	170.56
Book Value	218.21	368.82	344.58
Extraordinary Items	-351.16	-605.41	-231.41

TABLE 2. Balance sheet of iifl from (2019-2023) (rs. In crores)

Particulars	Mar2023	Mar2022	Mar2021	Mar 2020	Mar 2019
Sources of Funds:					
Share Capital	1692.37	1692.37	1668.01	1668.01	1668.01
Reserves & Surplus	39893.88	33664.92	28184.66	24819.35	21879.40
Total Shareholders' Funds	42086.25	34857.29	29302.67	25984.36	23047.41
Secured Loans	6420.78	5671.42	7793.54	2491.23	3205.21
Unsecured Loans	29207.39	21916.27	18620.77	19829.01	9003.35
Total Debt	35523.20	27182.69	26404.31	20320.24	17208.56
Total Liabilities	76619.42	61939.98	55716.98	43304.60	35225.97
Application of Funds:					
Gross Block	56832.26	54836.96	43694.96	39869.26	36388.30
Less: Accum. Depreciation	24160.44	21966.74	18671.54	19488.47	19341.69
Net Block	32771.82	33370.22	25023.42	23380.79	22046.61

Capital Work in Progress	9200.22	4394.30	9645.83	8733.91	5286.57
Investments	22046.28	19997.86	19526.39	5704.93	5595.93
Current Assets, Loans & Advances:					
Inventories	31941.48	24702.69	24277.79	19504.82	19951.18
Sundry Debtors	6819.23	6739.27	6698.03	5689.87	3973.17
Cash and Bank Balance	824.43	925.97	744.20	446.32	698.17
Loans and Advances	22416.02	16794.54	20700.58	16639.20	16620.29
Total Current Assets	61991.19	43962.47	42420.57	37280.18	32032.56
Current Liabilities	39326.17	32318.73	28377.36	24565.62	21928.19
Provisions	8668.58	7633.41	7589.38	7262.68	7880.85
Total Current Liabilities	47994.65	39942.19	35966.74	31828.30	28818.99
Net Current Assets	17996.51	4020.33	6453.83	5451.88	2223.57
Miscellaneous Expenses not w/o	174.59	207.27	57.51	33.19	73.29
Total Assets	76619.42	61939.98	55716.98	43304.60	35225.97
Contingent Liabilities	8232.87	7351.38	4998.70	4959.53	4200.75

TABLE 3. Profit & Loss Account of IIFL from (2019-2023) (Rs. in Crores)

Particulars	**Mar2023**	**Mar2022**	**Mar2021**	**Mar 2020**	**Mar 2019**
Sales Turnover	6645.00	6425.96	6290.35	4994.44	3196.68
Other Income	84.75	45.03	37.17	27.51	22.37
Stock Adjustments	209.96	32.17	50.27	49.18	97.56
Total Income	6889.71	6503.16	6377.69	5171.18	3319.61
Raw Materials	5290.75	4950.52	4873.79	3471.66	2262.88
Excise Duty	619.33	644.26	655.51	445.73	281.28
Power & Fuel Cost	3.21	2.62	2.36	2.02	1.97
Other Manufacturing Expenses	219.19	221.21	240.58	201.23	77.99
Employee Cost	193.20	191.45	167.95	203.98	99.53
Selling and Administration Expenses	167.84	203.26	200.64	205.39	99.82
Miscellaneous Expenses	17.29	65.02	7.64	7.84	7.19
Less: Preoperative Expenditure Capitalized	0.20	0.00	0.00	0.00	0.00
Profit before Interest, Depreciation & Tax	489.20	324.72	319.22	718.23	485.98
Interest & Financial Charges	20.45	18.19	20.20	4.19	20.99
Profit before Depreciation & Tax	478.70	316.58	301.17	719.04	469.99
Depreciation	30.51	36.38	33.80	31.86	30.16
Profit Before Tax	448.19	275.20	267.27	677.18	439.88
Tax	203.89	90.22	92.51	198.88	186.18
Profit After Tax	294.30	184.98	204.76	478.30	303.75
Adjustment below Net Profit	0.00	0.00	0.00	0.00	0.00
P & L Balance brought forward	0.00	0.00	0.00	0.00	0.00
Appropriations	294.30	184.98	204.76	478.30	303.75

P & L Bal. carried down	0.00	0.00	0.00	0.00	0.00
Equity Dividend	99.91	69.94	53.95	239.78	203.86
Preference Dividend	0.00	0.00	0.00	0.00	0.00
Corporate Dividend Tax	19.98	16.89	7.57	32.74	19.71
Equity Dividend (%)	50.00	35.00	27.00	170.00	77.00
Earnings Per Share (Rs.)	18.88	8.66	8.37	22.30	19.21
Book Value	57.66	48.78	43.62	37.95	27.67
Extraordinary Items	-1.28	-28.54	0.00	0.00	0.00

TABLE 4. Balance sheet of IIFL from (2019-2023) (Rs. in Crores)

Particulars	**Mar2023**	**Mar2022**	**Mar2021**	**Mar 2020**	**Mar 2019**
Sources of Funds:					
Share Capital	199.82	199.82	199.82	199.82	199.82
Reserves & Surplus	952.39	774.97	671.82	558.58	353.17
Total Shareholders' Funds	1672.21	974.79	871.64	758.40	552.94
Secured Loans	318.20	204.67	87.29	62.46	25.96
Unsecured Loans	0.00	0.00	0.00	0.00	44.85
Total Debt	318.20	204.67	87.29	62.46	70.81
Total Liabilities	1960.36	2079.46	958.93	820.86	623.75
Application of Funds:					
Gross Block	2033.43	2019.57	962.61	940.65	927.49
Less: Accum. Depreciation	701.46	681.48	590.58	558.20	525.90
Net Block	331.97	333.19	372.03	382.55	401.59
Capital Work in Progress	420.20	195.39	61.39	37.34	17.29
Investments	77.02	78.57	78.49	66.83	66.19
Current Assets, Loans & Advances:					
Inventories	1620.31	719.29	722.82	724.37	471.26
Sundry Debtors	387.25	229.79	247.66	204.29	90.19
Cash and Bank Balance	2.23	1.19	3.20	53.40	2.79
Loans and Advances	587.35	683.41	560.90	473.33	266.53
Total Current Assets	2194.19	1933.65	2034.55	1925.39	830.72
Current Liabilities	919.73	553.02	586.37	598.26	427.62
Provisions	538.19	558.22	501.41	493.49	262.26
Total Current Liabilities	1957.87	1616.24	2087.78	2091.75	689.88
Net Current Assets	636.27	522.41	446.77	333.64	190.84
Miscellaneous Expenses not w/o	0.00	0.00	0.25	0.50	2.87
Total Assets	1960.36	2079.46	958.93	820.86	623.75
Contingent Liabilities	181.50	161.81	172.95	205.39	198.67

Analysis: The swap ratio was 4:37 i.e 37 shares of IIFL gets 4 shares of IIFL on March 25th.

Market Price:

- The price of IIFL: Rs.45
- The price of IIFL: Rs.430
- 45*37 Shares = Rs.1965
- 430*4 Shares = Rs.2020

As we can analyses from the above calculation that the shareholders are profited of Rs55/- per share {2020-1965=55}. which would mean post the Merger of both the companies of IIFL, it was a beneficial aspect the shareholders of both the companies as it derived profits. At no point of time, would the shareholders be attributed to lessened share value in terms of share capital, which is an important aspect to be looked at while merging two companies always.

Face Value:

- The face value of IIFL shares is Rs.20/- each.
- Face Value * No of shares
- BPRL=20*37= Rs.370
- IIFL=20*4= Rs.40
- Loss [370-40] = Rs.330

By calculation of the price the IIFL shareholders will get no loss. How ever this company merged with big company the shareholders of IIFL will get profits only.

Also, an important aspect to be noted while calculating the Face Value of the company of the shares that are going to be merged is the positive re-enforcement of the shareholders holding a lower price value in terms of no of shares held. In this scenario, IIFL stocks are valued at Rs 4 and IIFL valued at Rs 37, ensuring there is no loss happening when the merger happens.

Benefits to Shareholders of IIFL

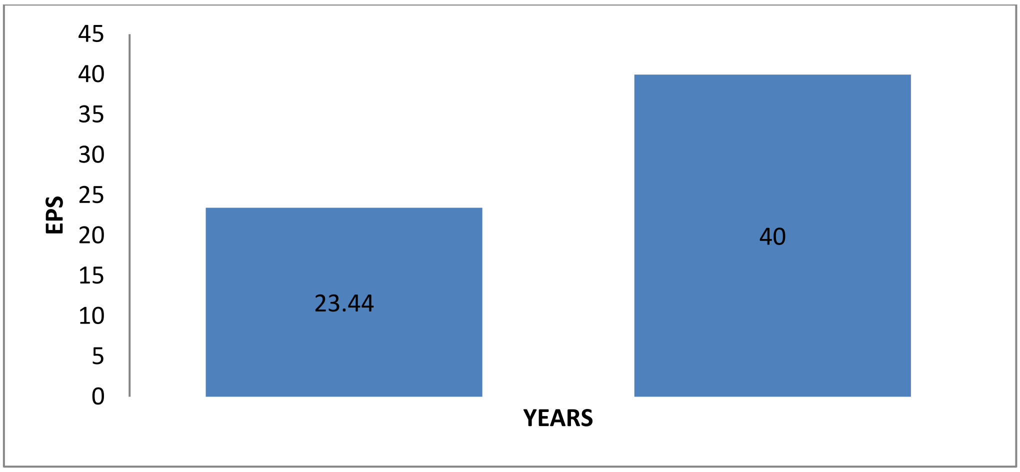
The shareholders of IIFL are benefited as they were given bonus shares on September. 16th 2021 i.e. 1: 1. The price of the IIFL shares on September 16th is 230, By this we can know that the shareholders are benefited.

Calculation of EPS:

EPS = (Earnings after tax / Equity shares outstanding)

On 31st mar 2021
EPS=2949.55/175.83
EPS=23.44
On 31st mar 2022
EPS =20220.55/255.51
EPS=40

Calculation of EPS in percentage: = Base year-current year / Base year* 200



= 23.44 - 40.00 / 23.44 * 200 =71%

Interpretation: The EPS increased from 23.44 to 40 i.e 71 % rise in the value of EPS. Which is the biggest driving factor to the Merger as the Earnings per share which is an important aspect to be looked upon while considering a Merger? The rise of 71 % in EPS indicates the positive aspects of the merger of how the Earnings of current shareholders of both the companies increased at a rate of 71%.

Calculations of Sales Turn over:

31st March 2022	270346.01
31st March 2023	291701.20

Difference in sales turn over = Post merger sales – Premerger sales
= 291701.20 – 270346.0
= 21855.

Calculation of Sales Turnover in percentage:
= (Base year – current year) / Base year * 200
= 270346.01 – 291701.20 / 270346.01 * 200
= 8 %

Comparatively to Sales Turn Over increasing post the Merger in the next financial year, there was an increase of 8 % in terms of percentage increase in the Sales Turnover across the two years indicating a strong reason for the Merger to be a successful one.

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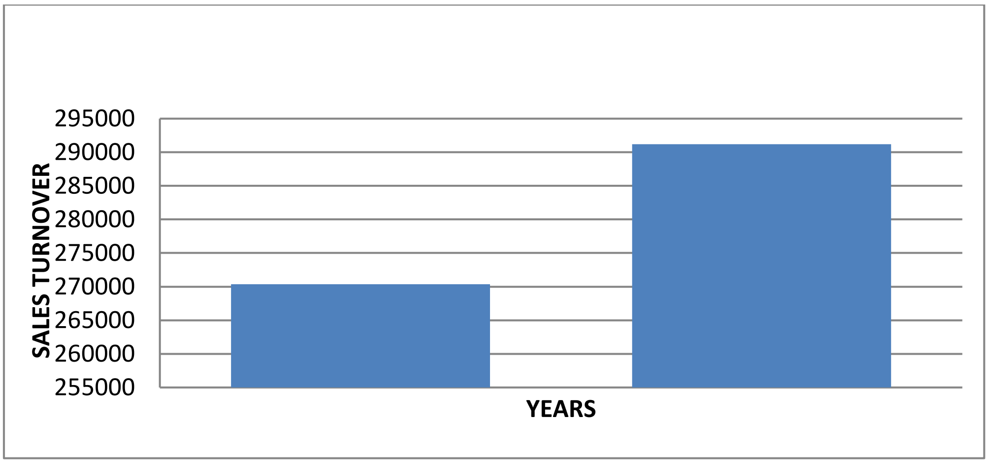


Interpretation: The sales turnover increased after the merger to 21855.19 i.e, an 18 % rise in the value of sales turnover. Which indicates a positive performance indicator when analyzing the post factor effects of the Merger, it clearly shows the Sales Turnover increased from 2022 to 2023 during the financial year calculation.

Calculation of MPS:

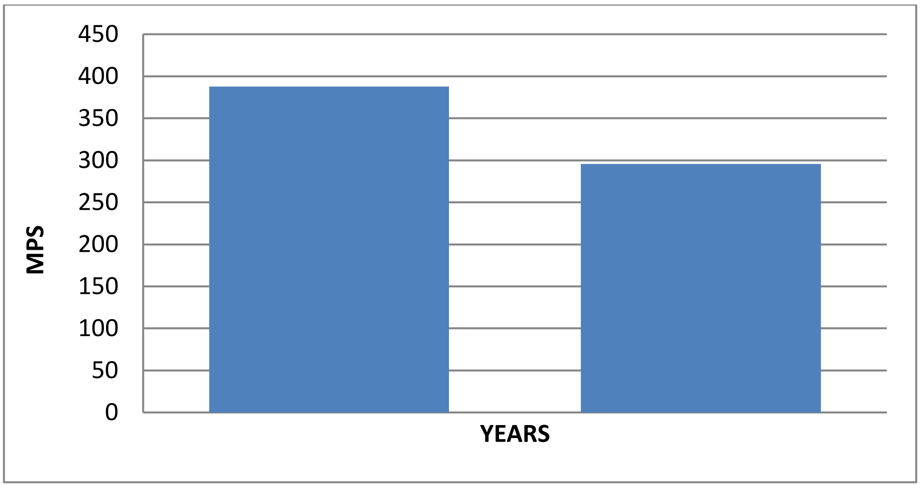
31st March 2022	MPS=Rs 387.80
31st March 2023	MPS=Rs 295.75

However, when compared to Sales Turnover, MPS post-Merger had a significant fall of about Rs 92 when compared to pre-merger and post-merger analysis. This attributes to the fact that all macro-economic (global recession) indicators of a Merger cannot sustain the same levels of performance.

Calculation of MPS Percentage:

MPS = (Base year – current year) / Base year * 200

= 387.80 – 295.75 / 387.80 * 200
= 24 %



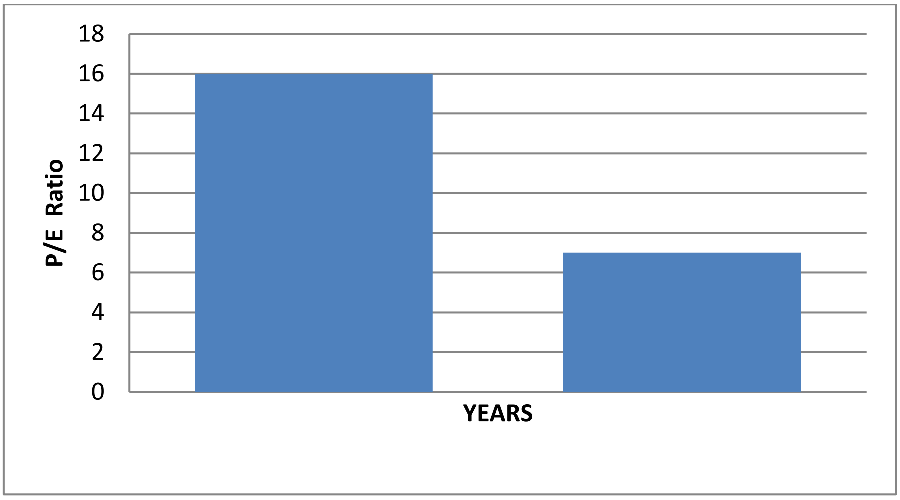
Interpretation: The MPS changed from 387.80 to 295.75 after the merger. This decrease is because of the bonus issue which led to a 24 % fall in the value of MPS. The MPS percentage had gone down by 24 % while comparing to the gross MPS numbers which came down below by Rs 92. This is also a significant factor which enables us to give a clear picture of the Merger.

Calculation P/E ratio:

P/E ratio = (MPS/EPS)

On 31st, March 2021
= (387.80 / 23.44)
= 19 times
On 31st mar 2022
= (295.75 / 40)
= 7 times

P/E Ratio means Price to Earnings ratio of a company is a major focus for many managers. They are usually paid in company stock or options on their company's stock (a form of payment that is supposed to align the interests of management with the interests of other stockholders).



Interpretation: The P/E ratio has been decreased as the MPS is decreased. When we look at the below table of Ideally companies that have been historically measured to arrive at this juncture. The P/E ratio pre-merger was 19 times which came down to 7 times post-Merger in this regard. The below mention table has a detailed analysis of Price to Earnings Ratio is looked upon by industries as a measure of growth of companies.

Findings

1. The shareholders of both the firms are benefited as the sales turnover increased by 8% after the merger.
2. According to sources, while the Indian Oil group is making fast moves in improving crude availability in its refineries in Assam, higher crude processing would inflate IIFL's sales tax under-recoveries now amounting to approximately Rs 80 core a year generated out of double taxation during the inter-State transfer of products.
3. Unlike many other commodities, oil products do not enjoy Modvat (modified value-added tax) benefits.
4. The 2.35-million tonne refinery is currently processing 2 million tonnes of crude. Since Northeastern region has a much lower appetite for refined products compared to the existing refining capacity, larger part of the products is transferred to IIFL for marketing through the latter's Siliguri terminal in West Bengal, leading to double taxation of products of which only half is recovered from the customer.
5. The merger of IIFL & BPRL both are (PSC) upgrading the performance.
6. According to sources, though IIFL has already established logistics for supply of cheaper imported crude through Indian Oil-owned crude pipeline between Barauni in Bihar and Assam, IIFL is importing a mere 0.3 million tonnes of crude, primarily for replacing the use of Assam crude.
7. The imported crude supply logistics would improve with the commissioning of Paradip-Haldia crude pipeline connected to Barauni through the existing Haldia-Barauni pipeline.
8. While studies are underway for further improving the crude supply logistics in Assam, IIFL may be waiting for the merger to implement the proposals.
9. Since refining capacities in Assam avail 50 per cent excise duty exemption, leading to very high refining margin, better crude supply and product evacuation plans may also offer IIFL the opportunity of using Guwahati and Bongaigaon as refining hubs.
10. Meanwhile, IIFL ended the last fiscal with 58 per cent higher net profit of Rs 294 crore. The higher profits came on a mere 3.41 per cent increase in turnover to Rs 6,645 crore. Gross refining margin was $19.8 a barrel of which approximately $8 a barrel was generated due to duty exemption.
11. The profitability of the standalone refinery continues to be good in the current quarter of 2019-20 on the back of approximately $20-a-barrel refining margin posted during April and May.
12. The EPS has been increased by 71 % on 31st March 2022.
13. The MPS has been decreased by 24 % on 31st March 2022.
14. The BPRL Shareholders are benefited. PS increased to 71%.

15. The cost after merger increased by 18% which indicates that the Merger was a successful amalgamation of two entities which had a common business term.

Suggestions

1. The company must take measures to reduce the cost.
2. The market price after the merger is low due to recession in the global market & domestic market, hence investors are advised to hold the shares till the market recognizes the inherent value (actual value).
3. As the crude prices have gone up, it has had its impact on the profitability of the two companies involved. Both the companies had to reside on subsidies from the Government as they were Govt. Aided companies.
4. The acquirers need to identify appropriate targets that complimentary fit within the acquirers own organizational structure, product portfolio and work culture. Post-merger integration issues may be one significant reason for the failure of M&As to improve the long-term operating and financial performance of acquirer companies.
5. Acquirers need to find out if they are overpaying for their acquisitions as it is one of the most important reasons for the failure of mergers and acquisitions in creating shareholder value.

7. CONCLUSION

The financial performance of the firm is good after the merger. The steep fall in the market price of the merged company due to the macroeconomic factor such as global recession. Synergy gain is achieved in terms of earnings and therefore we can conclude that the performance of the firm is good. The companies, in their petitions, further said that the amalgamation has enabled pooling of financial, managerial and technical resources, personnel capabilities, skills, expertise, technologies, etc., resulting in logistic advantages and cost reduction. To end up, the word "**Merger**" may be taken as an abbreviation which means:
M---Mixing
E---Entities
R---Resources for
G---Growth
E---Enrichment
R---Renovation

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