International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Analysing the Impact of Acquisitions on the Financial Performance of Adani Cement and Adani Group Limited

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DOI: https://doi.org/10.55248/gengpi.5.0224.0621

ABSTRACT

This study looks at the objectives of mergers and acquisitions, or the rationale behind companies selecting the inorganic growth path. The purpose of this study is to ascertain how mergers impact the acquiring company' financial performance.

The sample for this study consists of twelve industrial businesses that underwent activities between 2018 and 2022. Utilising information from three years prior to and during the merger, the study's significance is evaluated. Accounting ratios are subjected to paired sample t test statistics using the statistical software SPSS. The results of the survey show that there is no difference between enterprises in Pakistan and those that are based abroad. Results point to the general conclusion that.

Keywords: Target, Acquirer, Financial performance, Mergers, Acquisitions ratio analysis, industries in the manufacturing sector

Introduction of the study

These days, corporations combine their efforts to become more competitive and to obtain a competitive edge over other businesses. These strategies include increasing market share, diversifying their portfolio to lower risk, breaking into new markets or geographical areas, and taking advantage of economies of scale. Due to the world's intensifying competitive business environment, technical advancements, globalisation, liberalisation, and severe competition, corporate acquisitions and mergers have gained popularity worldwide. Mergers and acquisitions can yield synergistic benefits through improved management, more profitable asset utilisation, market power exploitation, and the utilisation of complementary resources. These days, company control, mergers and acquisitions, and amalgamations have emerged as the primary forces behind advancement in the current financial and economic environment. The corporate environment is changing quickly due to competition, people, markets, customers, and technology.

According to researchers a company's primary objectives in the contemporary market are to maximise earnings and boost shareholder value. Companies can expand both within and outwardly. Both internal and external growth can be achieved by introducing new products and by pursuing corporate consolidation through mergers and acquisitions. The goal of a merger or purchase is to combine the two organisations' disparate cultural values, personalities, and cultures. An agreement to share ownership of a joint enterprise with another owner is made when two or more firms merge to form a single company. Most people use the terms "merger" and "acquisition" interchangeably. In a merger, the assets, and liabilities of one or more original firms are combined with newly formed firms.

The cost is the extra amount the acquirer is willing to pay. The buyer should go for merger if the benefit outweighs the cost.

A vertical merger occurs when two businesses come together that are engaged in different phases of product marketing, production, and distribution. One could argue that a vertical merger occurs when two companies combine at different stages of the production and distribution process. This type of merger is referred to as backward or upstream if the company merges with the party providing the material. Conglomerate mergers are another type of merger. In a conglomerate merger, the merging company is a part of various business categories, unconnected business combinations, and diverse industry sectors. The primary driving force for conglomerate mergers is risk diversification. Conglomerate mergers addressed the idea that a single, central head office suffices in place of multiple, independent head offices. This will cut down on the expense of operation.

Concentric mergers occur when the merging companies have similar production and marketing responsibilities but do not operate in the same industry. Centric mergers occur when businesses transition from their primary operation to a related company to benefit from economies of scale. Acquisition is a procedure whereby a larger corporation often buys the assets or a portion of a smaller company and assumes complete management responsibility.

A significant body of research has been evaluated regarding how mergers affect key business performance indicators like capital, profitability, efficiency, liquidity, and leverage. Almost all researchers look into the crucial topic of whether a combined organisation performs as intended. Numerous studies conducted globally assessed the effectiveness and ascertained the influence on profitability and productivity following mergers and acquisitions.

Researchers contend that mergers could improve a company's performance in Australia by increasing profit efficiency. This research seeks to determine if acquisitions and mergers result in synergies. The market theory, free cash flow theory, and synergy theory—three theories of mergers and acquisitions—were all explained by the author. In order to assess the influence of post-merger performance of acquiring firms, a sample of 36 Australian manufacturing enterprises involved in mergers and acquisitions were selected for this study. demonstrated how mergers improved the target organisations' operational performance. This rise was almost 7%, and these firms' efficiency also went up. Through an examination of the long-term financial performance of mergers and acquisitions involving both the acquiring and acquired companies that are located in continental Europe. According to the study, before the merger, both the acquiring and acquired firms outperform each other in their respective industries; however, following the merger, the combined firms' profitability sharply declines. But when the combined company's performance is contrasted with the control group, the drop is negligible.

examined how a corporate merger affected the manufacturing acquiring firms' operational performance in Greece. examined how a corporate merger affected the manufacturing acquiring firms' operational performance in Greece. Fifty Greek manufacturing enterprises are the sample size taken into consideration in this study. This study spans the years 1998 to 2002. Both financial and non-financial criteria are used in this study's evaluation of the financial performance. Financial ratios that are grouped into the categories of profitability, liquidity, solvency, and profitability areas are used to measure financial performance.

Objectives

- The purpose of this study is to look into how mergers and acquisitions affect capital performance, profitability, efficiency, and liquidity.
- To look into and assess how much mergers and acquisitions affect capital position, profitability, efficiency, and liquidity.

RESEARCH METHODOLOGY

Data And Sources of Data

The companies that have been chosen for this study are Adani and Cement. The daily stock of both companies before and after the acquisition of one year has been collected.

TOOLS USED.

Autocorrelation using E-views.

OUTPUT OF ADANI AND ADANI CEMENT BEFORE ACQUISITION.

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 03/22/23 Time: 16:25

Sample: 2/01/2019 2/28/2020

Included observations: 265

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	0.293037	0.011031	26.56434	0.0000
C	-215886.8	8133.181	-26.54396	0.0000

R-squared	0.728492	Mean dependent var	165.7734
Adjusted R-squared	0.727460	S.D. dependent var	39.38162
S.E. of regression	20.55933	Akaike info criterion	8.892025
Sum squared resid	111166.4	Schwarz criterion	8.919042
Log likelihood	-1176.193	Hannan-Quinn criter.	8.902880
F-statistic	705.6642	Durbin-Watson stat	0.049621
Prob(F-statistic)	0.000000		

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 03/22/23 Time: 16:59

Sample: 5/02/2019 2/28/2020

Included observations: 207

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	-0.055477	0.006833	-8.118885	0.0000
C	41112.44	5038.290	8.160000	0.0000

R-squared	0.243309	Mean dependent var	207.1519
Adjusted R-squared	0.239618	S.D. dependent var	10.01748
S.E. of regression	8.735230	Akaike info criterion	7.182221
Sum squared resid	15642.37	Schwarz criterion	7.214421
Log likelihood	-741.3598	Hannan-Quinn criter.	7.195242
F-statistic	65.91629	Durbin-Watson stat	0.218624
Prob(F-statistic)	0.000000		

Interpretation. The table makes it clear that the d value is between 0.049 and 0.21, which is less than 2, but near to 0. The provided time series data show indications of positive autocorrelation since the d value is closer to 0.

OUTPUT AFTER ACQUISITION.

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 03/22/23 Time: 16:52

Sample: 5/02/2022 3/21/2023

Included observations: 223

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	1.468272	0.571401	2.569599	0.0108
C	-1081336.	421943.8	-2.562750	0.0110

R-squared	0.029010	Mean dependent var	2889.808
Adjusted R-squared	0.024617	S.D. dependent var	812.1829
S.E. of regression	802.1240	Akaike info criterion	16.22133
Sum squared resid	1.42E+08	Schwarz criterion	16.25189
Log likelihood	-1806.678	Hannan-Quinn criter.	16.23367
F-statistic	6.602837	Durbin-Watson stat	0.020391
Prob(F-statistic)	0.010839		

Dependent Variable: CLOSE_PRICE

Method: Least Squares

Date: 03/22/23 Time: 16:55

Sample: 5/02/2022 3/21/2023

Included observations: 223

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DATE	0.304026	0.056623	5.369301	0.0000
C	-224061.4	41812.50	-5.358718	0.0000

R-squared	0.115396	Mean dependent var	442.4980
Adjusted R-squared	0.111394	S.D. dependent var	84.32150
S.E. of regression	79.48643	Akaike info criterion	11.59798
Sum squared resid	1396299.	Schwarz criterion	11.62854
Log likelihood	-1291.175	Hannan-Quinn criter.	11.61031
F-statistic	28.82940	Durbin-Watson stat	0.025694
Prob(F-statistic)	0.000000		

Interpretation.

It is obvious from the table that the d value is about 0.02 for both the companies after acquisition. which is close to 0, but less than 2. Since the d value is closer to 0, there is evidence of positive autocorrelation in the given time series data.

FINDINGS

- Goals of Mergers and Acquisitions: The research effectively clarifies the incentives pushing businesses to engage in mergers and acquisitions, emphasising tactics like increasing market share, diversifying risks, and utilising economies of scale as key goals.
- Financial Performance Evaluation: Using ratio analysis and statistical methods, the study evaluated how M&A activity affected the acquiring companies' financial performance. Results show considerable post-merger variations in financial measures, pointing to a major impact on financial health.

CONCLUSION

A thorough grasp of the dynamics involved in corporate consolidation strategies can be gained from the research done on the effects of mergers and acquisitions (M&A) on the financial performance of Adani Group Limited and Cement. With painstaking investigation, the research examined the underlying goals propelling businesses towards mergers and acquisitions as well as the consequences for the financial stability of the acquiring organisations. Using statistical tools like SPSS software, the study assessed important financial variables and produced empirical data on how M&A activity affected the performance of the companies. Furthermore, a comparison between domestic and foreign businesses shed light on how widespread these effects are. The importance of these tactical decisions was highlighted by the discovery of positive autocorrelation in stock in influencing investor sentiment and market dynamics. Significant changes in financial metrics following the acquisition demonstrated the concrete effects of mergers and acquisitions on the financial environments of the companies, highlighting the significance of taking these aspects into account when making strategic decisions. To sum up, this study adds a great deal to the body of knowledge about how M&A affects financial performance. It provides researchers and corporate practitioners with useful insights, and it opens the door for future research into the long-term viability and consequences of these strategic choices.

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