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Evaluate the Financial Performance of Pre and Post Mergers and Acquisitions during the Covid

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Abstract
Mergers and Acquisitions have become one of the most widely adopted strategies for the reorganization of companies, particularly during uncertain times. It is a game-changing event that creates a more positive impact in terms of growth and structural changes in the business. This study evaluates the financial performance of selected companies before and after mergers and acquisitions during the COVID-19 pandemic. Data has been collected for 5 selected companies that underwent M&A during 2020 and analysed for the period from 2016-17 to 2023-24. The primary objective of M&A is to expand businesses and achieve growth during a period that proved to be critical for sustainability. M&A deals declined as companies prioritized survival amid economic uncertainty.
However, a few companies pursued M&A and were successful in meeting strategic needs and achieving post-pandemic growth. This study aims to analyze and compare the financial performance of companies involved in M&A during 2020 and to assess how successful they became post their strategic alliance. Key financial variables are analyzed to capture the changes before and after M&A and tested using the Paired t-test. The statistical results show that the Current Ratio and Quick Ratio demonstrated significant improvement, with p-values of 0.02 and 0.01, respectively, post-M&A. In addition, the Debt-Equity Ratio and Return on Assets also showed statistically significant changes with p-values of 0.000 and 0.02, respectively, post-M&A. The overall findings of this study reflect that there is consistent improvement and stability in financial performance post-M&A; however, profitability and market valuation outcomes did not show significant changes.
Keywords: Mergers and Acquisitions, Strategic Alliance, Financial Performance, Covid,

Introduction

In a rapidly evolving corporate sector, where change is persistent and competition is extreme, Companies are forced to look beyond the growth of an organization. One of the important strategies acquired by the companies is Mergers and Acquisitions. The rise of Mergers and Acquisitions drastically increased to expand the business and improve competitiveness.

Mergers and acquisitions are strategically adopted by the companies to improve their Market position. "A merger refers to the combination of two companies into a one single company with the agreement between companies of similar size". "An acquisition means one company taking over another company either through purchasing shares, assets or taking over management control".

The main objectives of M&A are improving operational efficiency, entering into new markets, improving the market position and also the shareholders' value.

M&A during Covid-19 Pandemic

The COVID-19 has led to an unexpected level of uncertainty to global markets. Companies across all industries were forced to re-evaluate their business models and adapt quickly to the changes in demand, supply and financial instability. In the early stages of the pandemic, there was a drop down in the M&A activities due to uncertainty. But in the latter half of 2020 and 2021 the M&A gradually increased.

In India many prominent M&A deals took place during the covid -19 period not just for the expansion but also for the survival of companies. For example, Zomato's acquisition of Uber Eats India was a tactical step to reinforce its market dominance. HUL's merger with GSK Consumer health helped to improve their portfolio in the nutrition and health care. Similarly, Reliance acquisition of Future groups aimed at being a market leader in the retail industry.

The pandemic was both a Catalyst and a facilitator for M&A deals. Even though it was throwing challenges to the companies financially and operationally it also opened doors for new opportunities for transformation and a better change.

In the post pandemic era, M&A has been rebounded with remarkable dynamism, transforming from crisis mode to strategic, opportunity-based deals. The post-pandemic M&A was most likely to deal with uncertainty and risk. It made the companies more conscious to be ready to accept the changes and keep a track on assessing financial and operational efficiency of the companies. The importance of environment and sustainability consideration by the companies increased. Private firms pursued acquisitions which will accelerate digital transformation and also to boost the supply chain efficiency. Cross border deals also improved, especially between the Asian and Western markets to strengthen their positions in a dynamic market. In essence, the COVID-19 M&A has been defined not just a matter of scale but a strategic move, long-term value creation for the companies and rapidly evolving corporate sector.

In recent times, Mergers and Acquisitions of companies is growing, this research work analyses the rise or fall of companies post M&A.

Literature Review

Mehwish Aziz Khan et al. analysed the relationship of mergers and acquisitions with regards to interest spread of banks by HHI technique. It proved that due to mergers and acquisition the profitability and interest spread of banks reduced. And concentration of banks boosted mergers and Acquisition.

Poornima and Subhashini assessed the financial performance of acquirer company in India by mainly focusing on pre and post M&A. The study contains the sample of 33 companies belongs to different industries, by using paired t-test analysis it has been said that there is no much improvement, but some variables show a raise while others are declining.

Patrick A Gaughan in his book Merger, Acquisitions and Corporate Restructuring examines the practical aspects of how M&A operations are designed and executed. He highlights the importance of financial as well as strategic aspects when measuring the effectiveness of a Merger.

Patel investigated the pre and post M&A financial performance of Indian Banks for the period of 2003-04 to 2013-14. By using paired-t test it has been found that there ia mixed result, while some variables indicated positive results, most demonstrated negative impact post M&A.

Binto Benny examined the pre and post mergers financial performance of Indian companies, the operating efficiency of the acquirer company and impact on profitability. The sample size of this study is 10 Indian companies, it founded that there is a mixture of positive and negative impact on companies. It is said that some companies synergize the merger with good leadership while others were into huge losses.

Chauhan et al. studied the mergers and acquisitions on performance of a firm as evidence of Indian Companies from different industries. The sample size of this study is 6 companies, by using Shapiro Wilks Test for checking the normality of the data, Wilcoxon Paired Sign-Rank test and paired t test was used to know the positive and negative impact. They concluded that after the mergers the companies went into huge losses there is no improvement in the financial parameters after the merger.

Singh et al. analysed the comparative analysis of Pre and Post Merger financial performance of Microfinance Institution in Nepal. By taking the sample of 4 microfinance institutions and paired-t test, it has been proved that there is no much impact on the financial performance of Microfinance institutions. The financial ratios have also not made any changes except Debt-equity ratio as it is shown as increased after merger.

Chakraborty and Kattuman studied the effects of mergers and acquisitions on firm performance in Indian Pharmaceutical sector, including pre and post TRIPS (Trade related aspects of intellectual property rights). The sample size of this study is 203 which includes both merged as well as non-merged. By using Propensity score matching (PSM) and Difference-in-differences (DID) models they proved that firm performance improved after the merger.

Research Gap

In the period of COVID 19 pandemic, the Market underwent drastic changes, one being the rise in Mergers and Acquisitions of companies especially Indian context. While conducting the research about the mergers and acquisitions of companies and their growth, it is evident that not many research papers are examined on impact of COVID-19 in relation to M&A of companies.

This gap gave rise to this research to understand the performance of companies having mergers and acquisitions during 2020 and to reflect the impact of covid. It is necessary since M&A is extensively used for restructuring the business which in turn helps in economic growth.

Objectives

1. To analyse the financial performance and efficiency of companies post M&A of selected companies.
2. To draw the impact of covid-19 on M&A in Indian scenario.

Research Methodology

This study follows the Quantitative research method which focuses on evaluating the financial performance of the selected Indian Companies pre and post mergers and acquisitions that during Covid 19 period.

The period of study is from the financial year 2016-17 to 2023-24, which allows the access to both pre and post M&A financial performance analysis of selected companies.

This study is based on the secondary data comprising of annual reports, financial databases, journals and books.

The Sample is as Follows

Name of the Company	Merged/ acquired	Timeline of Merger or Acquisition
Reliance Industries Ltd	Future group	August 2020
ITC Ltd	Sunrise Foods Pvt Ltd	February 2020
Hindustan Unilever Ltd	GSK	April 2020
Infosys Ltd	Kaleidoscope Innovation	September 2020
Zomato Ltd	Uber Eats	January 2020

To examine the financial performance of companies, this study uses key financial ratios for the analysis. The statistics used are Descriptive statistics and Paired T-test to know the difference in financial performance pre and post M & A.

Name of the Ratio	Meaning of the ratio
Current Ratio	It measures the company's ability to meet short term liabilities with its short-term assets.
Quick Ratio	It assesses the liquidity by comparing liquid assets to current liabilities except inventory.
Debt-equity Ratio	It indicates the proportion of company financing debt versus equity.
EBITDA	It shows Earnings before interest, taxes, depreciation, and amortisation to know the operational profitability.
Net Profit Ratio	It shows the amount of revenue remained as net profit after all the expenses are deducted.

Return on Assets	It reveals how efficiently a company uses its assets to increase the profit.
Return on Equity	Measures how effectively shareholders funds are utilized to generate profit.
Earnings per share	It shows the portion of profit allocated per share.
Price Earnings Ratio	It shows how much the investors are willing to pay per share.

Hypothesis

1. Ho: There is no significant growth in the financial performance and efficiency post M&A.
2. H1: There is a significant growth in the financial performance and efficiency post M&A.

Results and Analysis

Table 1 Results of paired t-test of Current Ratio Pre and Post M&A

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	QR_PRE & QR_POST	20	0.645	0.002

Source: Author's Computation using SPSS version 27

The above table 1 shows the computation of Current ratio Pre and Post M&A. The P value is 0.002 which is less than 0.05, it indicated that it is highly significant. Therefore, alternative hypothesis is accepted that is there is significant difference in current ratio post M&A.

Table 2 Results of Paired t-test of Quick Ratio Pre and Post M&A

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	CR_PRE & CR_POST	20	0.669	0.001

Source: Author's Computation using SPSS version 27

The above table 2 shows the computation of Paired t-test on Quick ratio Pre and Post M&A. It is observed that p value is 0.001 which is less than 0.05. Therefore, reject the null hypothesis which means that alternative hypothesis is accepted. It is strong evidence that there is a significant difference post M&A.

Table 3 Results of paired t-test of Debt-equity Ratio Pre and Post M&A

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	DER_PRE & DER_POST	20	0.966	0.000

Source: Author's Computation using SPSS version 27

The above table 3 shows the computation of Paired t-test on Debt-equity Ratio. The p value is 0.000 which is less than 0.05. It is exceptionally significant. We reject the null hypothesis. The increase and decrease of ratio are consistent across the firms. It is evident that Debt equity ratio increased significantly Post M&A and vice-versa.

Table 4 Results of Paired t-test of EBITDA Pre and Post M&A

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	EBITDA_PRE & EBITDA_POST	20	0.160	0.500

Source: Author's Computation using SPSS version 27

The above table 4 shows the computation of paired t-test on EBITDA Pre and Post M&A. The p value is 0.5 which is higher than 0.05. It means that it is not significant. We accept the null hypothesis as there is no increase and reject alternative hypothesis as there is no significant in the EBITDA Post M&A.

Table 5 Results of Paired t-test of Net Profit Ratio Pre and Post M&A

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	NPR_PRE & NPR_POST	20	0.189	0.424

Source: Author's Computation using SPSS

The above table 5 shows the computation of Paired t-test on Net Profit ratio Pre and Post M&A. The p value is 0.424 which is more than 0.05. We can conclude that it is not significant. Hence, we accept the null hypothesis. Net Profits of the companies did not increase post Mergers and Acquisitions.

Table 6 Results of Paired t-test of Return on Assets Ratio Pre and Post M&A

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	ROA_PRE & ROA_POST	20	0.646	0.002

Source: Author's Computation using SPSS version 27.

The above table 6 shows the computation of Return on Assets ratio Pre and Post M&A. The P value is 0.02 which is less than 0.05. It is evident that P value is highly significant. Hence, we reject the null hypothesis meaning that alternative hypothesis is accepted as there is a significant difference post M&A.

Table 7 Results of Paired t-test of Return on Equity Ratio Pre and Post M&A

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	ROE_PRE & ROE_POST	20	0.370	0.108

Source: Author's Computation using SPSS version 27

The above table 5.7 shows the computation of Paired t-test on Return on Equity. The P value is 0.108 which is greater than 0.05. That means it is not significant. So we reject alternative hypothesis. There is no uniform returns on the equity post Pergers and Acquisitions.

Table 8 Results of paired t-test of Earnings per share Pre and Post M&A

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	EPS_PRE & EPS_POST	20	0.116	0.627

Source: Author's Computation using SPSS version 27

The above table 8 shows the computation of Paired t-test on Earnings per Share. The P value is 0.627 which is greater than 0.05. That means it is not significant. Hence, we accept null hypothesis as there is no systematic changes post M&A which means that shareholders earnings are unpredictable. It also suggests that Earnings per share performance is highly diverse and not uniform.

Table 9 Results of paired t-test of Price Earnings Ratio Pre and Post M&A

Paired Samples Correlations				
		N	**Correlation**	**Sig.**
Pair 1	P/ER_PRE & P/ER_POST	20	-0.087	0.715

Source: Author's Computation using SPSS

The above table 9 shows the computation of Paired t-test on P/E ratio pre and post Mergers and Acquisitions. The p value is 0.715, from which we can conclude that it is not significant. Hence, we accept the null hypothesis. This proves that market valuation outcomes were highly diverse and no systematic increase in the P/E ratio Post M&A.

Impact of Covid on M&A

1. The pandemic created uncertain situations deferred the M&A deals, especially in the first two quarters of 2020. The problem over economic stability during the lockdown affected M&A.
2. Financial performance during the COVID 19 was unpredictable due to market volatility which made it very difficult to get the accurate valuations for the companies. This also led to complicated negotiations and deal structuring.
3. Limited travel access and virtual work setup transformed traditional due diligence to virtual platforms which increased the need to rely more on digital data and delay the decision making.
4. The pandemic urged companies to re-evaluate their long-term goals and acquisition strategies. Instead of focusing on rapid growth, many focused on their core operations, improving operational efficiency and investing on technology driven targets to build digital agility and future readiness.
5. Amid economic uncertainty and national security concerns governments across the globe restricted cross-border M&A transactions. Regulatory bodies introduced strict screening mechanisms.

This kind of protectionism aimed to safeguard domestic industries over foreign countries.

6. The pandemic led to variable M&A trends across various industries. Sectors like travel, hospitality and retail saw a decline due to changes in operations and demand. While healthcare, technology and e-commerce experienced high deal activities for a long-term growth prospects.
7. Financial constraints and smaller businesses experienced undervaluation of assets due to changes in the market conditions.

Findings and Conclusion

This study evaluated the financial performance of companies pre and post mergers and acquisitions during the covid-19 pandemic. By using paired T-test on nine key financial ratios of the companies. The results disclosed that there is consistent improvement and stability in the financial performance.

The current ratio and quick ratio disclosed significant improvement post M&A. The liquidity of the companies improved due to merger. Leverage was consistent throughout the years. Return on assets also improved while no change is observed in equity returns. However, the profitability and market valuation outcomes did not show any changes after the M&A.

The study concludes that liquidity and balance sheet were the areas of persistent growth by Mergers and Acquisitions during the COVID era, highlighting the strategic and financial adaptability of the companies during tough times. But the Profitability and market valuation was not uniformly distributed over the years even after M&A.

Mergers during the pandemic were potentially transformative but required a careful post-merger integration to increase the shareholders value. This study highlights the need for the Companies to take a broader view of the deal and focus on the strategic consistency and execution to fully gain the benefits of M&A.

Suggestions and Recommendations

1. Researchers can expand the sample size to enhance the relevance and applicability to various industries.
2. Future research can include a study of cross border mergers.

Limitations of the study

The study is limited to only five companies and focuses exclusively on financial ratios and their impact during the post-COVID period.

Annexure

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis		
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
CR_PRE	20	0.00	9.32	2.4920	2.11619	1.761	0.512	4.759	0.992
CR_POST	20	1.07	10.60	2.9920	2.61558	2.018	0.512	3.379	0.992
QR_PRE	20	0.00	9.32	2.2020	2.11739	2.087	0.512	6.083	0.992
QR_POST	20	0.72	10.55	2.6490	2.71442	2.092	0.512	3.536	0.992
DER_PRE	20	0.00	0.70	0.1365	0.27205	1.627	0.512	0.757	0.992
DER_POST	20	0.00	0.44	0.0925	0.15193	1.524	0.512	0.807	0.992
EBITDA_PRE	20	0.00	0.42	0.2102	0.13176	-0.342	0.512	-0.607	0.992
EBITDA_POST	20	-0.79	1.77	0.2267	0.46112	1.391	0.512	7.610	0.992
NPR_PRE	20	-91.58	16.98	-6.3960	27.93845	-2.466	0.512	5.646	0.992
NPR_POST	20	-40.94	17.00	1.4029	12.07360	-2.036	0.512	8.159	0.992
ROA_PRE	20	-81.61	33.48	0.3710	24.46895	-1.837	0.512	6.428	0.992

ROA_ POST	20	-0.09	13.84	2.6354	5.22070	1.643	0.512	0.809	0.992
ROE_PRE	20	-517.54	82.00	-13.4333	123.14892	-3.925	0.512	16.821	0.992
ROE_ POST	20	-0.11	20.11	3.8690	7.66596	1.652	0.512	0.853	0.992
EPS_PRE	20	-3435.77	101.33	-137.9715	776.70627	-4.463	0.512	19.942	0.992
EPS_POST	20	10.70	102.90	48.0320	27.15029	0.674	0.512	-0.148	0.992
PER_PRE	20	0.00	60.32	11.1240	17.77746	1.903	0.512	2.512	0.992
PER_POST	20	-49.28	444.15	23.2495	100.44187	4.260	0.512	18.771	0.992

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