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A Study of Profitability after Financial Restructuring of Selected FMCG Companies in India

Abstract

The main objective of the study is to investigate the change in the profitability due to financial restructuring of the selected Fast Moving Consumer Goods (FMCG) companies in India. The period covered for study is from 2004 - 05 to 2014-15 and Involves two cases of financial restructuring which were gone during 2009-10 by merger and acquisition. To make comparative analysis, financial ratios and their means have been calculated for pre merger period acquirer and target company and post merger period acquiring company that after acquire target company. The paired sample t-test at 95% confidence level had been used to test hypothesis. The result of study reveals that gross profit ratio, return on shareholder's fund ratio and return on assets ratio were decreased after restructuring activity but this decrease is statistically insignificant while return on capital employed ratio shows mixed result of restructuring activity but statistically it is insignificant. Finally, it concludes that financial restructuring did not increase profitability of sample companies.

Keywords: Financial Restructuring, FMCG, Cases, Acquirer, Target, Ratio Analysis

Introduction

Today's economic climate is challenging for any corporation. These challenges are global competition, regulatory changes, Technological changes, Expansion of international trade etc. It is very difficult for any company to maintain profitable growth with these challenges. Profitable growth can possible if any company has less competition, proper evaluation of foreign market, adequate utilize resources and identify market opportunities. There are several interactive ways to meet these challenges and maintain profitable growth. Corporate financial restructuring is one of the preferred approaches with the change of economic condition. Indian major companies have used financial restructuring for face these challenges. R. Kishor stated in his book that financial restructuring transaction includes merger, acquisition, tender offer, joint ventures, strategic alliance, demerger etc.

Review of Literature

Review of literature has been carried out in order to better understanding in the area of corporate financial restructuring through mergers

Jin, Dehuan, and Zhigang (2004) was examined the impact of restructuring had on the operational aspects of the publicly traded firms in China. To determine whether restructuring resulted in significant changes, they used ratio analysis for investigates the impact of restructuring. Their study result revealed that there were significant improvements in total revenue, profit margin, and return on assets due to restructurings event but there was no evidence of any significant impact on asset turnover ratio. His finding also shows significant market anticipation and over reaction to the restructuring announcements.

Mishra and **Chandra (2010)** have studied the impact of merger and acquisition on the financial performance of Indian pharmaceutical firms. The sample for the study consisted of a set of 52 listed drugs and pharmaceutical firms in Indian stock exchange over the period from 2000-01 to 2007-08.

The study result shows that the profitability of a firm depended directly on its size, selling efforts, and exports and imports intensities but inversely on their market share and demand for the products. However, merger and acquisition did not have any significant impact on profitability of the firms in the long-run.

Nalwaya and vyas (2012) The researcher has made an attempt to study the impact of merger on financial performance of the selected company by using Ratio analysis and t- test. To make comparative analysis, Financial ratios and their means have been calculated for pre merger acquire and target firm and post merger acquiring firm to the period 2006-07 to 2010-11. The study concluded that profitability, earning growth and substantial dividend growth was observed positive result in post merger.

K. B. Singh (2013) was examined the profitability of merged companies by comparing key financial ratios during pre and post merging year. The final sample size for the study was 20 public listed companies from a total of 58 companies which were undergone merger and acquisition during year 2005**.** Ratio analysis is used for analysis. The Paired sample t- test was employed for testing of hypothesis**.** The study found that there was an increase in both the profitability ratios and returns on net worth and invested capital after mergers. Finally concluded that operating financial performance of all the sample firms had increased after mergers.

Objective of The Study

The purpose of this study is to investigate the change in the profitability due to financial restructuring of the selected Indian FMCG companies.

Research Methodology

Sample Selection

The two cases of financial restructuring companies have been randomly taken as sample which were undergone through merger and acquisition from financial year 2009- 2010. The sample companies are public limited company.

Period of the Study

The study period has been from financial year 2004 - 05 to 2014 - 15 excluding event years 2009 - 10.

Data collection

The study based on secondary data and focused on the FMCG industry. For accomplishing the study objective require data has been collected from Ace Equity and company's website. The additional information has also collected from articles in journals and magazines, Reference books, newspapers and related websites.

Data Analysis;

The two cases of financial restructuring have been randomly taken as samples which were undergone through merger and acquisition from financial year 2009- 2010. Ratio analysis and statistical tools have been used to for analysis purpose. The combined ratios of acquirer and target companies are considered for the pre merger (5 years before) and in the post merger (after 5 years) the ratios of acquiring company that after acquire target company are considered for investigate the change in the profitability due to financial restructuring of the selected Indian FMCG companies. The selected financial ratios mean are compared for the pre merger and post merger period of sample. The paired sample t-test at 95% confidence level has been used for testing of hypothesis whether it is significant or not.

Hypothesis

♦ Null Hypothesis (H0)

Ho: There is no significant difference in profitability position in terms of gross profit, net profit, return on shareholder fund, return on assets ratios of selected Indian FMCG companies between pre and post merger period.

♦ Alternate Hypothesis (H1)

H1: There is significant difference in profitability position in terms of gross profit, net profit, return on shareholder fund, return on assets ratios of selected Indian FMCG industry companies between pre and post merger period.

Table 1: list of sample cases

	Buyer(Acquirer) company	Target company	Merger date
Case 1	Dhunseri Petrochem and tea Ltd (DPL) *	South Asian Petrochem Ltd.(SPL)	Dec. 15, 2009
Case 2	Virat Crane Industries Ltd (VIL)	Durga Dairy Ltd. (DDL)	March 12, 2010

Source : -Ace Equity and BSE-India website

* change name from Dhunseri Petrochem and tea Ltd to Dhunseri Petrochem Ltd , effective date 12/nov /2014. Source : www.bseindia.com > company name change page no. 17

Analysis Of Financial Information

Table -2 Gross Profit Ratio of Selected Indian FMCG Companies during the Study Period

GPR		PRE MERGER PERIOD							POST MERGER PERIOD					
Type of cases	Name of companies	2004-05	2005-06	2006-07	2007-08	2008-09	MEAN	Combind Mean	2010-11	2011-12	2012-13	2013-14	2014-15	MEAN
case 1	DPL	72.53	75.46	73.51	80.19	81.84	76.70	49.20	28.65	21.72	17.29	18.96	16.35	20.59
	SPL	18.64	22.26	23.46	21.77	22.40	21.70							
case 2	VIL	-22.62	38.90	46.67	52.65	36.73	30.47	28.68	20.40	12.63	26.27	16.51	23.31	19.82
	DDL	N.A	N.A	29.39	27.20	24.06	26.89							

Table no 2 shows a data regarding gross profit ratio of sample companies during pre and post merger period. It is clear from the table that Case 1, the mean of gross profit ratio of the acquirer and target companies for pre merger is 49.20 % whereas it is decreased to 20.59 % in post merger period. The Case 2 shows the mean of this ratio is 28.68 % in pre merger, when it is decreased to 19.82 % in post merger. it seems that companies had negative effect on sales due to restructuring.

It can lead to conclusion that the gross profit ratio is not increased after restructuring.

Table - 3 Net Profit Ratio of Selected Indian FMCG Companies during the Study Period

NPR		PRE MERGER PERIOD							POST MERGER PERIOD					
Type of case	Name of companies	2004-05	2005-06	2006-07	2007-08	2008-09	MEAN	Combind Mean	2010-11	2011-12	2012-13	2013-14	2014-15	MEAN
case 1	DPL	7.69	6.14	10.72	14.76	15.74	11.01	7.09	7.99	2.50	2.68	1.52	1.36	3.21
	SPL	2.31	2.19	4.39	5.53	1.42	3.17							
case 2	VIL	23.34	32.99	-62.02	58.20	-139.23	-17.34	-2.60	5.58	1.62	4.11	3.10	8.54	4.59
	DDL	N.A	N.A	23.62	6.99	5.83	12.15							

Table no 3shows a Net profit ratio of sample companies during pre and post merger period. It is clear from the table that case 1, the mean of net profit ratio of the acquirer and target companies for pre merger is 7.09 % whereas it is decreased to 3.21 % in post merger period due to increase in expenses. The Case 2 shows the mean of this ratio is - 2.60 % in pre merger, when it is increased to 4.49 % in post merger.

It can lead to conclusion that the net profit ratio has mixed result after restructuring.

Table -4 Return on Shareholder fund Ratio of Selected Indian FMCG Companies during the Study Period

RSF		PRE MERGER PERIOD							POST MERGER PERIOD					
Type of case	Name of companies	2004-05	2005-06	2006-07	2007-08	2008-09	MEAN	Combind Mean	2010-11	2011-12	2012-13	2013-14	2014-15	MEAN
case 1	DPL	7.21	5.33	9.99	10.46	11.66	8.93	9.73	17.79	6.63	7.64	7.30	6.57	9.19
	SPL	8.98	8.90	16.35	14.40	4.02	10.53							
case 2	VIL	4.31	3.41	-1.18	1.08	-2.04	1.12	16.28	8.26	2.67	6.39	6.04	19.65	8.60
	DDL	N.A	N.A	59.36	19.19	15.77	31.44							

Table no 4 shows return on shareholder's fund ratio of sample companies during pre and post merger period. It is clear from the table that after merger, the return on shareholder's fund ratio of Case 1 and Case 2 has decreased from 9.73% and 16.28% respectively in pre merger period to 9.19 %, and 8.60 % respectively in post merger period. It seems improper utilization of share holders fund after restructuring.

So, the researcher can conclude that return on share holders fund ratio is not increased after restructuring.

Table -5 Returns on Assets Ratio of Selected Indian FMCG Companies during the Study Period

AR		PRE MERGER PERIOD							POST MERGER PERIOD					
Type of case	Name of companies	2004-05	2005-06	2006-07	2007-08	2008-09	MEAN	Combind Mean	2010-11	2011-12	2012-13	2013-14	2014-15	MEAN
case 1	DPL	4.53	2.94	5.25	5.76	6.79	5.06	4.29	7.99	2.28	2.15	2.09	1.66	3.24
	SPL	2.74	2.59	5.15	5.73	1.44	3.53							
case 2	VIL	1.95	1.60	-1.00	0.91	-1.67	0.36	9.42	6.16	1.96	4.62	4.15	14.23	6.22
	DDL	N.A	N.A	33.87	11.36	10.22	18.48							

Table no 5 shows return on assets ratio of sample companies during pre and post merger period. It is clear from the table that after restructuring, the return on assets ratio of Case 1 and Case 2 has decreased from 4.29 % and 3.24 % respectively in pre merger period to 9.42 %, and 6.22 % respectively in post merger period. It seems improper utilization of assets and may be wrong decision of investment in assets after restructuring.

Thus, the researcher can conclude that return on assets ratio is not increased after restructuring.

Table -6 Result of T- test Calculation

RATIO	Pre merger (A)		Post merger (B)		Paried Differences (A-B)		t cal.	sig. (2 tail) 95 % c.l.	Result
	Mean	Std. Dev.	mean	Std. Dev.	mean	S.D.			
GPR	38.940	14.509	20.210	0.544	18.735	13.965	1.897	0.309	H0
NPR	2.250	6.851	3.900	0.976	-1.660	7.830	-0.299	0.815	H0
ROSF	13.000	4.632	8.600	0.417	4.110	5.079	1.151	0.455	H0
ROA	6.860	3.687	4.730	2.107	2.125	1.520	1.977	0.298	H0

Table no. 6 showed calculation of t –test for profitability parameters. The statements of the hypothesis are as under.

H01: There is no significant difference in gross profit ratio of selected sample companies between pre and post merger period.

H02: There is no significant difference in net profit ratio of selected sample companies between pre and post merger period.

H03: There is no significant difference in return on Shareholder's fund of selected sample companies between pre and post merger period.

H04: There is no significant difference in return on assets of selected sample companies between pre and post merger period.

From above table we can observed following results.

- For gross profit ratio sig (2 tailed) value is 0.309 at 95 % level of confidence which is greater than specified α of 0.05 (0.309 > 0.05),Therefore null hypothesis is accepted for gross profit ratio.

- At 95 % level of confidence net profit ratio shows sig (2 tailed) value is 0.815 which is greater than specified α of 0.05 (0.815 > 0.05),Therefore null hypothesis is accepted for net profit ratio.
- For return on shareholder fund ratio sig (2 tailed) value is 0.455 at 95 % level of confidence greater than specified α of 0.05 (0.455 > 0.05),Therefore null hypothesis is accepted.
- Return on assets ratio shows sig (2 tailed) value is 0.298 at 95 % level of confidence which is greater than specified α of 0.05 (0.298 > 0.05),Therefore null hypothesis is accepted for return on assets ratio.

Limitation of The Study

The major limitations of this study are as under.

1. This study is mainly based on secondary data derived from Ace equity and company website .The reliability and the finding are contingent upon the data published in this sources.
2. This study is related with two cases hence Any generalization for universal application cannot be applied here.
3. Accounting ratios have its own limitation, which also applied to the study.
4. The study is limited to five years before merger and five years after merger only.

Conclusion

The present study examined the financial performance of two sample companies on the basis of selected financial ratio. This study is mainly focused on the Indian FMCG industry. The study result shows that gross profit ratio, return on shareholder fund ratio and return on assets ratio are increased in both cases after restructuring while net profit ratio shows mix result after restructuring. The paired sample t-test analysis at 95% confidence level shows that the all of the financial parameters are not statistically significant as per the t-test results in both cases, hence the null hypothesis (Ho) is accepted. That means, according to the present study the post merger profitability of the selected acquiring company is not significantly different from the pre merger performance of the acquirer and target companies. Finally it concludes that financial restructuring was not successfully increased profitability of sample companies. Similar type of studies with similar objectives could be initiated with reference to specific sectors.

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