A STUDY OF RECENT MERGERS AND ACQUISITIONS IN INDIA AND THEIR IMPACT ON THE OPERATING PERFORMANCE AND SHARHOLDER WEALTH

ABSTRACT

This dissertation is a study on the objectives of mergers and acquisitions, as to why organisations undertake the inorganic mode of expansion. However the main focus is on studying the operating performance and shareholder value of acquiring companies and comparing their performance before and after the merger. To conduct a uniform research and arrive at an accurate conclusion, we restrict our research to only Indian companies. To get a broader perspective on India, we study 4 sectors namely aviation, banking, steel and oil and gas.

We test a hypothesis that mergers improve operating performance of acquiring companies. However on studying the cases on the 4 sectors, we conclude that as in various previous studies, mergers do not improve financial performance at least in the immediate short term.

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Chapter One

Introduction

This is the first section of the dissertation which would be on Introduction and would contain brief elements about the dissertation which is carried out. The focus of the section would be to highlight about the focus of the dissertation along with its aims and objectives.

1.1 Introduction

In today's market the main objective of the firm is to make profits and create shareholder wealth. Growth can be achieved by introducing new products and services or by expanding with its present operations on its existing products. Internal growth can be achieved by introducing new products however external growth can be achieved by entering into mergers and acquisitions (Ghosh and Das, 2003). Mergers and acquisitions as an external growth strategy has gained spurt because of increased deregulation, privatization, globalization and liberalization adopted by several countries the world over. Mergers and acquisitions have become an important medium to expand product portfolios, enter new markets, and acquire technology, gain access to research and development and gain access to resources which would enable the company to compete on a global scale (Yadav and Kumar, 2005). However there have been instances where mergers and acquisitions are been entered into for non value maximizing reasons i.e. to just build the company's profile and prestige (Malatesta, 1983; Roll, 1986).

Consolidation in the form of mergers and acquisitions has been witnessed around the world in almost all the industries ranging from automobile, banking, aviation, oil and gas to telecom. Some of the biggest mergers in automobile like Daimler-Benz and Chrysler, airlines Air France and KLM and telecom SBC and AT&T are the ones which the world can never forget. Lot of research and investigation has gone both in the field of economics and strategic management on the kind of benefits which are derived out of mergers to both the acquiring and target company, the customers and the society at large. However one of the most widely used investigations has been into the shareholder wealth maximization out of mergers and acquisitions. The news of mergers is so sensitive that it can immediately impact the price of the share months before the actual merger takes place for both the involved companies. The information and news which can flow can bring in positive or negative sentiments which would lead to a rise or fall in share price and ultimately shareholders wealth. The perception of information about merger is such that it tries to project the future increase or decrease in the cash flow derived out of the combination (Hitt, Ireland and Hoskisson, 2005). The following table would depict the change in share price of the acquiring company on the day when the merger and acquisition announcement was made.

Acquiring Company	**Target Company**	**Movement in Price of the Stock**
Daimler-Benz	Chrysler	+8%
Time Warner	AOL	+9%
Vodafone	Mannesmann	+6%
Air France	KLM	+4%

Table 1: Acquiring Company's Change in Stock Price

Source: Yahoo Finance website

However it is important to note that mergers and acquisitions do not regularly create value for shareholders. Many mergers and acquisitions fail as well. Failure occurs and it deteriorates the wealth of the shareholders when the integration process for mergers and acquisitions does not work in a proper flow. Consulting firms also estimate that almost two thirds of the firms who enter into mergers and acquisitions result into failure which leads to divestures at a later stage (Schweiger, 2003).

1.2 Large Mergers and Acquisitions in the World

Mergers and acquisitions have been taking place since last 100 years. Between 1895 and 1905 over 1800 mergers took place in US alone. This phase was names as the 'The Great Merger Movement' (Lamoreaux, 1989). However large sized billion dollar merger deals have seen spurt in the last two decades. Between 1991 and 2000 some of the top mergers and acquisitions have been Vodafone Airtouch PLC and Mannesmann valuing $183 billion (CNN, 2000). In the pharmaceutical sector merger between Pfizer and Warner-Lambert was valued at $90 billion (Pfizer, 2000). In 1998 Exxon combined its business with Mobil and the deal was valued at $77 billion (CNN, 1998). Other such large sized mergers took place between Citicorp and Travelers Group, Worldcom and MCI Communications, BP and Amoco. The year 2000 also saw some of the biggest deals like America Online Inc (AOL) with Time Warner valued at $164 billion (CNN, 2000) and in the same year Glaxo Wellcome Plc merged with SmithKline Beecham Plc valuing at 75 billion. The year 2004 saw one of the largest mergers between Royal Dutch Petroleum and Shell Transport. In the same year JP Morgan Chase and Company took over Bank One Corp (CNN, 2004). The year 2008 saw the merger of Inbev Inc and Anheuser-Busch Companies Inc valued at $52 billion.

1.2.1 Large Mergers and Acquisitions of Indian Companies

The news about Indian companies acquiring foreign based companies was new few years back but the present times have changed. The situation about Indian companies venturing abroad and taking foreign companies has become very frequent. Some of the well known deals which have made India famous the world over have been the merger of Tata Steel and Corus Group. Second biggest merger was between the metal giant Hindalco and Novelis. Videocon and Daewoo Electronics Corporation from Korea was the third largest overseas deal. In the pharmaceutical sector, Doctor Reddys Laboratories acquired Betapharm from Germany. The top mergers and acquisitions originating from India itself value to be close to USD 21,500 million. In the year 2001 the value of mergers and acquisitions abroad was only USD 0.7 billion which by 2005 had risen to USD 4.3 billion (Prabhudesai, 2008).

One of the biggest mergers of all times is in talks from the telecommunication sector. The Indian telecom giant Bharti Airtel is in talks for a merger with South African MTN. This merger would create waves in the global telecommunication market. So far in the first 6 months of 2009, Indian bound mergers and acquisitions abroad have only been Rs 20 billion (Live Mint, 2009).

1.3 Merger and Acquisition Strategy

1.3.1 Firm Diversification

Generally firms enter into mergers and acquisition with firms which normally are in the same connected line of business than to diversify it and enter into businesses in which the firm lacks experience (Hitt, Ireland and Hokisson, 2005). Companies which enter into mergers with diversified firms can explore various advantages which are not available with undiversified firms. Diversification is a process of operating into different industries and to diversify in such a way which helps to influence the value of the firm and enhance shareholders value (Jose, Nichols and Stevens, 1986). The reason for firms to opt for diversification as a strategy is so that the risk can be spread across industries in which it operates. Secondly the capital markets would welcome the multilevel activities which the firm carried on through the diversification route which would result in growth and profitability of the firm. However danger lies in mergers and acquisitions as it has to conduct its own test on strength and weaknesses before exploring its wings in other industries and markets.

1.3.2 Cross-Border Merger and Acquisitions

Internationalization is also one of the important strategies which firms are adopting in today's market to spread its operations in foreign countries. Cross border acquisitions refer to acquisitions done by parent company with headquarters in one country and merger in different countries. Domestic mergers are easier to execute because of the familiarization of both the involved companies, the laws, procedures and other such factors however in case of international mergers there are various complexities involved (Ireland and Hokisson, 2005). The reason for firms opting for cross border mergers and acquisitions is because it is a time consuming option to enter and set up operations in a foreign country. A lot of time and cost is saved in building up its own infrastructure and supply chain. Various studies have shown that cross border acquisitions have resulted into positive gains for the shareholders. Eun et al (1996) conducted a study in US which shows that cross border acquisitions have created immense wealth for acquiring shareholders.

1.4 Aims and Objectives of the Research

1.4.1 Aim of the Research

'The main aim of the research is to analyze the impact of mergers and acquisitions on the operating performance of the firm'.

1.4.2 Objectives of the Research

- To critically analyze the impact of mergers and acquisitions on the operating performance of the firm in India
- To strategically evaluate the impact on shareholders wealth post merger and acquisition.

1.5 Hypothesis of the Research

HI: Mergers improves the operating performance and shareholder wealth of the acquiring firm.

1.6 Motivation of the Research

The researcher in his entire career has focused towards learning something about finance. In this entire journey in studying about finance and the markets, as a student I have learnt about many companies merging and get acquired in India through the medium of news channels and newspapers. In India, the media gives due attention to mergers and acquisitions which increases the curiosity to know more about such happenings. Over the years I have seen many mergers happening in India across varied industries. Because of this reason mergers and acquisitions as a subject has been very close to my heart. At this point in my career I am motivated to study about mergers and an acquisition happening in India and the impact it has on the operating performance and shareholders of the acquiring firm. I have noticed that not all mergers have been successful and the shareholders wealth in most of the mergers have also not been maximised. My main motivational factor for doing this research comes here where I want to understand what impact does post merger and acquisitions hold on the shareholders and operating performance of the firm.

1.7 Structure of the Dissertation

The structure of the thesis would be spread across five chapters which have been described below.

1. Introduction
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2. Literature Review
↓
3. Research Methodology
↓
4. Research Findings
↓
5. Conclusion
↓
6. References
↓
7. Appendix

Chapter 1

Chapter one would be on Introduction which would cover the brief aspects about mergers and acquisition. The main theme of this chapter would include the aims and objectives of the research, the hypothesis which has been framed, purpose of the research and future area of the research.

Chapter 2

Chapter Two would be on Literature Review which would draw theoretical underpinnings on the subject area of research. This section would start with the basic concepts on mergers and acquisitions and empirical evidence on the impact which mergers and acquisitions have on the wealth of the shareholders.

Chapter 3

Chapter Three would be on Research Methodology and Process which would cover the process which is adopted by the researcher for conducting the research. The entire research process along with choosing of the appropriate research design and sampling procedure would be specified in detail. The main purpose of the section would also be to specify about the various research tools and techniques which are used by the researcher in completing the research. Proper justification for the use of particular research techniques would be provided as a part of the section. Lastly limitations faced by the researcher while conducting the research would also be included.

Chapter 4

Chapter Four would be on Data Findings and Analysis which would cover broadly about the sectors which are involved in the mergers and acquisitions. The four sectors would be broadly specified along with the highlights about them. Main mergers which have happened within the sector would also be focused upon. This section would study the financial and operating numbers of the acquiring company so as to come to a conclusion as to whether mergers and acquisitions have an impact on the operating performance of the acquiring company.

Chapter 5

Chapter Five would be on Conclusion which would specify about the way the entire research was conducted and the end result of the same. The section would provide inputs with justification for reaching the aims and objectives. The hypothesis which has been framed earlier would be tested as positive or negative. The conclusion of this section would be as to whether mergers and acquisitions have a positive impact on the operating performance of the acquiring firm and shareholders wealth or not.

1.8 Further Research

The researcher would be focusing on the research carried out with respect to the field of mergers and acquisitions. However since particular periods and scenarios would prevail at different point in times, it would be necessary for the research to be further enhanced. This research topic of analyzing the impact of mergers and acquisitions on the operating performance and shareholders wealth of the acquiring firm holds immense scope for further analysis. This topic can be further studied by conducting research using different variables or different set of sectors or companies.

Chapter Two

Literature Review

2.1 Definition:-

There are various strategic and financial objectives that influence mergers and acquisitions. Two organisations with often different corporate personalities, cultures and value systems are bought together (Sudarsanam, 2003). The terms 'mergers' and 'acquisitions' are often used interchangeably. In lay parlance, both are viewed as the same. However, academics have pointed out a few differences that help determine whether a particular activity is a merger or an acquisition.

A particular activity is called a merger when corporations come together to combine and share their resources to achieve common objectives. In a merger, both firms combine to form a third entity and the owners of both the combining firms remain as joint owners of the new entity (Sudarsanam, 1995).

An acquisition could be explained as event where a company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm. This may involve the purchase of another firm's assets or stock **(**Donald M. DePamphilis, 2008). Acquiring all the assets of the selling firm will avoid the potential problem of having minority shareholders as opposed to acquisition of stock. However the costs involved in transferring the assets are generally very high (Ross, Westerfield, Jaffe, 2004).

There is another term, 'takeover' which is often used to describe different activities. Gaughan (2007) says that this term is very vague. It is a broad term that sometimes refers to hostile transactions and sometimes to both friendly and unfriendly mergers (Gaughan 2007). Takeover is slightly different than acquisition however the meaning of the later remaining the same. When the acquisition is forced in nature and without the will of the target company's management it is known as a takeover. Takeover normally undergoes the process whereby the acquiring company directly approaches the minority shareholders through an open tender offer to purchase their shares without the consent of the target company's management. In mergers and acquisitions scenario the terms mergers, acquisitions, takeover, consolidation and amalgamation are used interchangeably (Chandra, 2001).

2.2 Types of Mergers & Acquisitions:-

Mergers are generally classified as either horizontal vertical or conglomerate mergers. These types differ in their characteristics and their effects on the corporate performances.

2.2.1 Horizontal Mergers

Mergers of corporations in similar or related product lines are termed as horizontal mergers. These mergers lead to elimination of a competitor, leading to an increase in the market share of the acquirer and degree of concentration of the industry (M&A, Milford Green, 1990). However there are strict laws and rules being enforced to ensure that there is fair competition in the market and to limit concentration and misuse of power by monopolies and oligopolies.

In addition to increasing the market power, horizontal mergers often tend to be used to protect the dominance of an existing firm. Horizontal mergers also improve the efficiency and economies of scale of the acquiring firm (Lipczynski, Wilson, 2004).

Recent examples of horizontal mergers in the international market are those of the European airlines. The Lufthansa-Swiss International link up and the Air France-KLM merger are cases of horizontal mergers **(**Lucey, Smart and Megginson, 2008).

Horizontal mergers have been the most important and prevalent form of merger in India. Various studies like those of Beena, 1998 and Das, 2000 have revealed that post 1991 or post liberalisation more than 60% of mergers have been of the horizontal type as cited in Mehta, 2006. Recently there have been many big mergers of this type in India like Birla – L&T merger in the cement sector. The aviation sector has also witnessed quite a few such mergers like the Kingfisher airline – Air Deccan merger and the Jet Airways – Air Sahara merger. The Tata Cellular – Birla AT&T Communications merger was one big horizontal merger in the telecommunication space.

2.2.2 Vertical Mergers

A vertical merger is the coming together of companies at different stages or levels of the same product or service. Generally the main objective of such mergers is to ensure the sources of supply (Babu, 2005).

In vertical mergers, the manufacturer and distributor form a partnership. This makes it difficult for competing companies to survive due to the advantages of the merger. The distributor need not pay additional costs to the supplier as they both are now part of the same entity (learnmergers.com). Such increased synergies make the business extremely profitable and drive out competition.

Purchase of automobile dealers by manufacturers like Ford and Vauxhall are examples of vertical mergers. Ford's acquisition of Hertz is an example of a vertical merger (Geddes, 2006). The acquisition of Flag Telecom by Indian telecom company Reliance Communications Ltd was a very significant vertical merger.

2.2.3 Conglomerate Mergers

Conglomerate mergers occur between firms that are unrelated by value chain or peer competition. Conglomerates are formed with the belief that one central office would have the know-how or knowledge and expertise to allocate capital and run the businesses better than how they would be run independently (Robert Bruner, 2004).

The main motive behind the formation of a conglomerate is risk diversification as the successful performers balance the badly performing subsidiaries of the group **(**Brian Coyle, 2000).

Conglomerate mergers can also be explained as a merger between companies which are not competitors and also do not have a buyer seller relationship. The general observation has been that such conglomerate mergers are not very successful. Where only a few conglomerates like General Electronics (GE) have been successful, most others have failed (Patrick Gaughan, 2007).

2.2.4 Financial Acquisitions

Such acquisitions are not very commonly discussed while classifying mergers and acquisitions. Such acquisitions are driven by the financial logic of transactions. They generally fall under either Management Buyouts (MBOs) or Leveraged Buyouts (LBOs) (H. Ross Geddes, 2006).

2.3 Motives for Mergers

Factor affecting mergers change with the changing legal, political, economic and social environments (Kaushal, 1995). Business Organization literature has identified two common reasons which are derived out of mergers and acquisitions i.e. efficiency gain and strategic rationale (Neary, 2004). Efficiency gain means the merger would result into benefits in the form of economies of scale and economies of scope. Economies of scale and scope are achieved because of the integration of the volumes and efficiencies of both the companies put together. Secondly the strategic rationale is derived from the point that mergers and acquisition activity would lead to change in the structure of the combined entity which would have a positive impact on the profits of the firm.

However, we shall discuss these and various other factors that lead to mergers and acquisitions. These factors are discussd below.

2.3.1 Synergy

Synergy has been described as 2+2=5 (Pearson, 1999). In other words, the whole would be greater than the sum of its parts (Sherman, 1998). It implies that the combined handling of different activities in a single combined organisation is better, larger or greater than what it would be in two distinct entities (Bakker, Helmink, 2004).

The word synergy comes from a Greek word that means to co-operate or work together (Bruner, 2004). Mergers theoretically revolve around the same concept where two corporations with come together and pool in their expertise and resources to perform better. Estimating synergies and its effect is an important decision in the merger process, primarily for four reasons. Firstly, mergers are meant for value creation and hence assessing the value that would be created by the synergies is important. Secondly, assessing how investors would react to the merger deal is another important consideration. Thirdly, managers need to disclose these strategies and benefits of such deals to investors and hence their perfect estimation and knowledge is important. Lastly, valuing synergies is important for developing post merger integration strategies (Bruner, 2004). However important valuing synergies may be, practically very few companies actually develop a transactional team, draw up a joint statement regarding the objectives of the deal or solve the post closing operating and financial problems timely.

Synergies can be further discussed as being financial, operating or managerial synergies.

2.3.1.1 Operational Synergy

Operational synergies refer to those classes of resources that lead to production and/or administrative efficiencies (Peck, Temple, 2002). Product related diversification or mergers are often carried out keeping operational synergies in mind. These synergies help firms bring down unit costs due to product relatedness. Common technology, marketing techniques like common brands and manufacturing facilities like common logistics are essentially the components of operational synergy (Peng, 2009).

Operational synergy can be explained as a combination of economies of scale, which would reduce average costs as a result of more efficient use of resources and economies of scope, which would help a company deliver more from the same amount of inputs (Bakker, Helmink, 2004).

2.3.1.2 Financial Synergy

Financial synergy refers to the impact of mergers and acquisitions on lowering the cost of capital of the merged or newly formed entity (DePamphilis, 2005). Financial synergies lead to reduced cost of capital and / or increased borrowing power (Hankin, Seidner and Zietlow, 1998).

Conglomerate mergers generally focus on financial synergies that increase the competitiveness for each individual unit controlled by one centralised parent company beyond what could have been achieved by each unit competing individually (Peng, 2009). Along with a lower cost of capital, financial synergies also bring about a larger capital base which helps funding of larger investments. In case of conglomerate mergers, financial diversification can bring about various other advantages like more stable cash flows, lower performance variations, insurance gains and other tax advantages (Bakker, Helmink, 2004).

Financial synergies are possible between related and unrelated firms unlike operational synergies that take place only between related firms (Peck, Temple, 2002).

Type of synergy	Type of merger		
	Related		Unrelated
	*Horizontal**	*Non-horizontal*	
Collusive	Possible	Unlikely	Unlikely
Operational	Possible	Possible	Unlikely
Financial	Possible	Possible	Possible

(Peck, Temple, 2002).

2.3.1.3 Managerial Synergy

Managerial synergy refers to the increased efficiency as a result of management teams of two firms coming together. Often management teams have different strengths and their coming together could result in improved managerial expertise (Ross, Westerfield, Jaffe, 2004).

These synergies occur when competitively relevant skills possessed by managers of previously independent companies can be successfully transferred to the merged entity (Hitt, Harrison, Ireland, 2001).

2.3.2 Growth

Growth is imperative for any firm to succeed. This growth can be achieved either through organic or inorganic means. However, mergers (inorganic) are considered a quicker and a better means of achieving growth as compared to internal expansions (organic). Along with additional capacity, mergers bring with them additional consumer demand as well (Sloman, 2006). Mergers also brings with them access to facilities, brands, trademarks, technology and employees (Cameron, Green, 2004).

Although mergers sound relatively easier and convenient compared to internal growth, there are risks in actually realising the intended benefits. The convenience associated with growth needs to be seen along with risks of running a larger corporation as well (Cameron, Green, 2004).

2.3.3 Diversification and Risk Management

One argument often presented in favour of mergers is that they help in diversifying the group's lines' of businesses and hence helps reduce risk. Risk could be interpreted as risk from the point of view of shareholders, lenders i.e. insolvency risk, business risk, etc.

(Levy and Sarnat,1970) point out that the probability of a financial failure of two individual corporations is more than that in case of a conglomerate merger of the two. From the point of view of a shareholder, the combination of the financial resources of two firms reduces lenders risk as compared to the risk from combining the shares of individual corporations (Levy and Sarnat, 1970).

Diversification often leads to possession of the necessary management and technical and marketing expertise which leads to an increase in market share (Pearson, 1999).

Different types of mergers can help reduce business risk in their ways. Vertical integration reduces risk by controlling the production process. Horizontal mergers reduce competition and hence reduce uncertainties. Conglomerate mergers put a corporation's eggs in several baskets and help it diversify. However it is claimed that conglomerate mergers are often done in the interest of managers since shareholders can diversify their portfolios themselves (Goldberg, 1986).

2.3.4 Tax Advantages

Mergers can benefit the corporations and individuals in their own way by helping them reduce the tax bill. However, with stricter laws, undue advantage taken by corporations of tax reduction can be managed. Often large profitable corporations merge with certain loss making ones to help them take advantage of reduced expenditure on taxation. However, small shareholders of acquired companies tend to receive substantial tax benefits on merger with large corporations.

Loss making corporations can combine with fully taxable firms and can increase the value of their own tax benefits. This happens because as per law, taxable firms could offset losses and credits of an acquired firm with its current and future incomes. However, this could not happen in a visa versa situations. So acquiring corporations could benefit by means of a reduced tax bill. On the other hand, shareholders of small acquired corporations also tend to have tax benefits. However, these benefits are restricted to situations where they receive shares as the mode of payment. They receive shares in a more stable, large and profit making company and also do not land up paying capital gains tax as their old share are not sold but swapped as part of organisational restructuring (Auerbach, 1988).

Various other benefits also accrue as part of the merger activity. Assets can be transferred within the group without giving rise to stamp duty. Capital assets can be transferred on a no profit, no loss basis. Interest could be paid within group companies so as to use it as a tax shield (Defriez, 2000). Some nations also give tax reliefs to corporations that acquire sick units (Kaushal, 1995).

2.3.5 Managerial Hubris

As cited in Moeller et al, 2004, Roll (1986) in his study concluded that managers of acquiring firms often suffer from hubris and hence tend to overpay. This term refers to the overconfidence in managers in terms of evaluating potential takeover targets. Managers often fail due to negligence and overconfidence of managers because of which they often make mistakes in selecting the right corporations.

Managerial hubris results in takeovers even in the absence of any synergy. Although managers are equally likely to underestimate the synergies, more often they overestimate them and are likely to overpay. While synergies lead to a positive correlation between target and acquirer gains, hubris is likely to result in a negative correlation (Berkovitch and Narayanan, 1993).

While hubris should ideally depend on every individual, managers of larger firms are generally more prone to suffer from it. This probably happens because they are probably socially more important as managers or large firms who have probably succeeded in growing the firm. This is also likely because large firms tend to have more funds at their disposal and hence mergers are easier for such firms (Moeller et al, 2004).

2.3.6 Increased Managerial Compensation and rewards.

There is a tendency among managers, especially those of corporations where ownership and control are distinct, to enter into mergers for the lure of a higher pay packet and more rewards. This tends to happen in corporations where reward is related to performances of employees. Such motives are often destructive in nature and result in failed mergers.

Managers often prioritise personal gains over the benefits for the corporation. They often enter into mergers and seek growth of the corporation only for the power and prestige that is associated with corporate size. Leisure, staff and other forms of on-the-job are other motives behind the growth policies of many managers (Dennis C Mueller, 2003).

It is seen that bidders and acquirers are rewarded handsomely in the form of high managerial compensation and management dividends. Shareholders of the acquiring company often tend to be losers in such cases. Managers tend to benefit at the expense of shareholders. Hence only successful mergers that create true value must be rewarded. Other issues that need to be addressed in mergers are the differences between CEOs of merging companies on issues like control, authority and power (Gaughan, 2005).

2.3.7 Improved market standing

Mergers are often carried out to achieve a better standing in the market by means of an increased market share and by becoming a leading player in the concerned sector. Reducing competition is another key concern when contemplating mergers. Often it is necessary to protect a key source of supply from a competitor which can be done through mergers (Pearson, 1999).

Market power is the ability of a corporation in a market to profitably charge prices above the competitive level for a sustained period of time (American Bar Association, 2005).

Mergers are regarded as being successful if they can result in an increase in market power or can eliminate a threat of increased competition. Mergers are also used to protect dominant positions (George, Joll, Lynk, 2005). However, it has also been seen that the actual merger does not provide much evidence that market control leads to an increase in profitability (Griffiths, Wall, 2007).

2.3.8 Empire Building

The term empire building could be quite closely related to the previous points about increasing market power and diversification. An empire would comprise of a cross section of businesses which would boost the ego and the personal satisfaction of the managers and at the same time also spread business risk. Controllers of large organisations carry out mergers and acquisitions out of their personal whims and fancies of building an empire (Kaushal, 1995).

Managers are often motivated by their egotistical need to exercise power who, like to flex their muscles by engaging in empire-building (Cartwright, Cooper, 1992). Often managers state diversification as the motive while fulfilling their empire building ambitions (George, Joll, Lynk, 2005).

2.3.9 Free Cash Flow Theory

Cash flows available to suppliers or lenders of money after all operating expenses and necessary investments in working capital and fixed capital are termed as free cash flow (Stowe et al, 2007). This cash flow is 'free' and available for managers to either reinvest or distribute as dividends (DePamphilis, 2008)

(Jensen 1986) pointed out that often when a firm has sufficient free cash flows at its disposal, managers tend to enter into mergers and acquisitions as a means to use these funds since other investments and buyback options do not prove to be that lucrative. Managers tend to use this free cash flow for acquisitions as it increases their empire and hence market power even though such acquisitions may not create shareholder value. On the other hand, any distribution of cash flows as dividends would lead to reduced resources at their disposal and loss of power (Wubben, 2007)

2.4 Previous Empirical Studies Regarding Post Merger Performances

Several researchers have tried to study the performances of acquiring firms post the merger. However, there has been no concrete conclusion or consensus regarding the same. The most popular forms of empirical studies are event studies, accounting studies, clinical studies and executive surveys.

From most of the studies conducted till date, it only appears that mergers do not improve the financial performance of the acquirers. Event studies and accounting studies as such point to the fact that these gains are either small or non existent (Kumar,2009). However, it must also be noted that there have been studies conducted that show that post merger performance also largely depends on the industry or sector and cannot be generalised (Mantravadi & Reddy, 2008).

2.4.1 Event Studies

Event studies measure the abnormal returns to the shareholders during the period surrounding the announcement of the merger. This abnormal return is essentially the difference between the raw returns which is simply the change in share prices and a benchmark index like the one calculated by CAPM or S&P 500, etc. (Krishanmurti and Vishwanath, 2008.)

It has been seen that often the stock market performances of acquiring firms have been below expectations or negative. These returns tend to vary by the time horizon being studied. Studies of one year returns post merger by Jensen & Ruback (1983) showed that returns averaged -5.5%. Longer time frame studies by Magenheim & Mueller (1987) concluded that 3 year post merger studies showed a -16% return (Peck, Temple, 2002).

The share returns of acquiring companies tend to be fairly positive prior to the announcement of mergers. However, on the announcement the returns are mixed. In general, it can be safely said that on announcement of the merger, the acquiring firms' shares decline and this process may sometimes continue for a few years together (Mussati, 1995).

Studies on short term performance reveal that the target shareholders are clear winners. On surveying the performance of acquiring and target shareholders, it is seen that over a period of three days spanning from one day prior to one day post the announcement, the share performance of the target companies tend to show positive returns consistently across decades as compared to the acquiring companies (Andrade, Mitchell, Stafford, 2001).

These results may also vary by the characteristics of the acquiring company and the mode of financing the transaction. Loughran and Vijh (1997) show that cash financed mergers do better than stock financed ones. Rau and Vermaelen (1998) show that value acquirers outperform the glamour ones.

2.4.2 Accounting Studies

This method involves the study of financial statements and ratios to compare the pre merger and post merger financial performance of the acquiring company. It is also used to study whether the acquirers out performed the non acquirers (Gaughan, 2007). Various ratios like return on equity or assets, EPS, liquidity, etc are studied.

Whether a merger actually improves the operating performance of the acquiring company is uncertain, but mostly leads to a conclusion that mergers do not really benefit in improving operating performances. Meeks (1977) studied the impact of mergers on UK companies and concluded that in the long run the profitability reduces drastically below the pre merger levels, sometimes to the extent of 50%. Similarly, a study conducted by Ravenscraft and Scherer (1987) on US companies also pointed at the same result, wherein the profitability post merger declined or at best showed marginal improvements. Dickerson et al, in their research on a cross section of UK companies, led to a conclusion that acquisitions have a detrimental effect on company performance and lead to additional and permanent reduction in profitability (Dickerson, Gibson, Tsakalotos, 1997). Similarly, a research conducted on Indian companies from 1999-2002 also showed no real signs of better post merger operating performance of the acquiring company. (Kumar,2009).

2.4.3 Executive surveys

This method is primary source of information collection whereby the managers are asked about the success or otherwise of the merger. Standardised questionnaires are presented and managers are asked to respond to them and views are generalised from these interviews (Bruner, 2004). Often the views of the management and executives are not given the due importance. However, it must be noted that views of practitioners are equally important to supplement the large sample scientific studies (Bruner, 2001).

In a survey of 50 executives regarding the success of mergers, on an average respondents said that only 37% of deals created value for the buyers and only 21% achieved the buyer's strategic goals (Bruner, 2001).

On the other hand, a study conducted by Ingham, Kran and Lovestam (1992) said that 77% of the 146 CEOs surveyed believed that there was increase in the short term profitability after the merger and 68% believed that the profitability increased in the long run.

This shows that one's frame of reference has a major impact on the responses. Either due to better information or just ego, executive opinions are much more positive in case of mergers where the particular executive is involved (Bruner, 2001).

2.4.4 Clinical Studies

One case or a small sample is studied in great depth and insights are derived from field interviews with executives and knowledgeable observers. This is an inductive form of research whereby researchers often induce new insights (Bruner, 2004). The purpose of these clinical studies is to fill in the gaps left by the study of the stock returns and accounting performances (Jensen, 1986).

Various clinical studies conducted over the years have led to uncovering of the truths behind the success or failures of mergers. A study of ATT/NCR merger revealed that the failure was a result of 3 factors. One that management objectives were not consistent with maximising shareholders wealth, second was managerial overconfidence or hubris and thirdly, ignorance of available information. The attempted merger of Renault with Volvo failed because of disbelief in merger synergies and transfer of control to Renault (Bruner, 2001). These were only a few examples of how clinical studies often help in unmasking the truths behind the failure of mergers.

2.5 Causes of Failures

There could be many causes of failed mergers and acquisitions. It is most likely that a failed merger would be a result of poor management decisions and overconfidence. There could be personal reasons considering which managers tend to enter into such activities and hence tend to ignore the primary motive of mergers, creating shareholder value. Sometimes however, good decisions may also backfire due to pure business reasons. These factors can be summarised by the following points.

2.5.1 Overpayment

A very common cause of failed mergers is overpayment. This situation arises essentially due to overconfidence or the urge for expansion. Overpayment often has disastrous consequences. Overpayment leads to expectations of higher profitability which is often not possible. Excessive goodwill as a result of overpaying needs to be written off which reduces the profitability of the firm (DePamphilis, 2005).

2.5.2 Integration issues

It is rightly said that “Few business marriages are made in heaven” (Sadler, 2003). Both merging companies need to be compatible with each other. Business cultures, traditions, work ethics, etc. need to be flexible and adaptable. Inefficiencies or administrative problems are a very common occurrence in a merger which often nullifies the advantages of the merger (Straub, 2007). Often it is necessary to identify the people needed in the future to see the merger through. There must be some urgency between the parties and good communication between them. Due to lack of these qualities, mergers often do not produce the desired results (Sadler, 2003).

2.5.3 Personal Motives of Executives

Managers often enter into mergers to satisfy their own personal motives like empire building, fame, higher managerial compensation, etc. As a result, they often lose focus on the fact that they need to look at the strategic benefits of the merger. As a result, mergers that do not necessarily benefit the organisation are entered into. These executives enter into these mergers for the purpose of seeking glory and satisfying their 'executive ego', leading to failure of mergers (http://finance.mapsofworld.com/merger-acquisition/failure.html)

2.5.4 Selecting the target

Selecting the appropriate target firm is an extremely important stage in the merger process. Executives must be able to select the target that suits the organisations strategic and financial motives and needs. Often the incapability or lack of motivation and interest on the part of executives leads to incorrect target selection. Lubatkin (1983) very appropriately said that selecting a merger candidate may be more of an art than a science (Straub, 2007).

2.5.5 Strategic Issues

Strategic benefits should ideally be the primary motive of any merger activity. However, managers sometimes tend to overlook this aspect. Faulty strategic planning and unskilled execution often leads to problems. Over expectation of strategic benefits is another area of concern surrounding mergers. (Schuler, Jackson, Luo, 2004). These issues which form the core of all merger activities are not addressed adequately leading to failures of mergers.

Chapter 3

Research Methodology

This section would display the entire research process adopted by the research in approaching towards the aims and objectives. Use of specific tools put to use has been justified in the section step by step. The chapter would clearly showcase the approach used in completing the research activity.

3.1 Research

Before discussing the research structure it is important to know what research is. Research is derived from a Latin word which means 'to know'. In other words research means to re-search (Sekaran, 2006). Searching for information and presenting it is the job of a researcher. I will conduct this entire research in the area of mergers and acquisitions. This work will be guided by the five basic attributes of any research.

- Firstly my research will be problem solving and systematic.
- Secondly it will have a logic and flow so that others can easily understand the main theme of the research.
- It will be based on facts, so that decision making and conclusions can be derived from the information collected.
- It will be reductive so that the smaller sample area can be investigated and can be generalized to a larger set of population.
- Lastly it will be replicable so that others test it or carry out further analysis.

To summarize research is the organized and systematic procedure of finding solution(s) to problem(s) (Sekaran, 2006).

3.2 Research Problem

In any research it becomes very important to know the problem area. Determining problem area helps in chalking out plans to conduct the research in the appropriate manner. It is said that a problem which is well defined is half solved. The main problem area which the research is testing related to the subject of mergers and acquisitions. In this the researcher wants to investigate whether mergers and acquisitions have an impact on the operating performance of the acquiring firm and does it create wealth for the shareholders. This problem stems from the fact that there have been mergers and acquisitions which have created wealth only for the acquiring firms and few have created wealth for only the target firms. Likewise mergers and acquisitions have sometimes benefitted the shareholders of only the target company and vice versa. The researcher by way of this thesis is trying to find out whether mergers and acquisitions impacts the operating performance of the acquiring firm and enhances shareholder wealth.

3.3 Research Design

Personally for the researcher, research design is a very useful step in the entire research process. I would be choosing the research design as an entire framework by which I would decide the way in which the research would be conducted and the tools and techniques which would be employed. There are three types of research design which have been listed below:

1. Exploratory Research Design
2. Descriptive Research Design
3. Causal Research Design

Research Objective	Appropriate Design
The objective is to extract the background information and story behind it, to have clarification on the problem area and to establish detailed analysis	Exploratory Research Design
To investigate and describe and measure phenomena at a particular point in time	Descriptive Research Design
To determine causality, to make if-then decisions and define experimental relationships	Causal Research Design

Table 1: The Basic Research Objective and Research Design

3.3.1 Justification for Using Research Design

The researcher would be conducting two research designs for carrying out this research. Firstly the researcher would be using Descriptive style of research design. The main purpose of choosing descriptive style of research design is so that the data collected is very concise and structured which makes analysis factual and simple. The researcher would be collecting data pertaining to mergers and acquisitions in the Indian scenario. Four sectors will be covered with 2 companies per sector which sums to 8 companies. This means that 8 mergers will be studied involving 8 acquiring companies and 8 target companies thus making a total sample set of 16 companies. Since 16 companies would form a part of the investigation, analyzing the same with exploratory research is difficult and hence descriptive research design will be used. The research will examine the impact that these mergers in four sectors have had on the operating performance and shareholder wealth of the acquiring firm.

Secondly the researcher would be using exploratory research design in a limited format. The researcher would try and conduct an in-depth interview with some of the top executives in the sample companies involved. The main context of covering in-depth interview is so that the researcher can understand the way the entire merger and acquisition process was conducted, the synergies which were involved in it and the strategy in mind by the acquiring firm. However the main limitation is only as to in-depth interviews would not be conducted for all the sample companies involved. Secondly companies where top executive appointment can be sought would be considered for the analysis.

3.4 Data Collection

Two form of data collection and information gathering techniques prevail in the research environment. Both the collection techniques are listed below:

1. Primary Data Collection

2. Secondary Data Collection

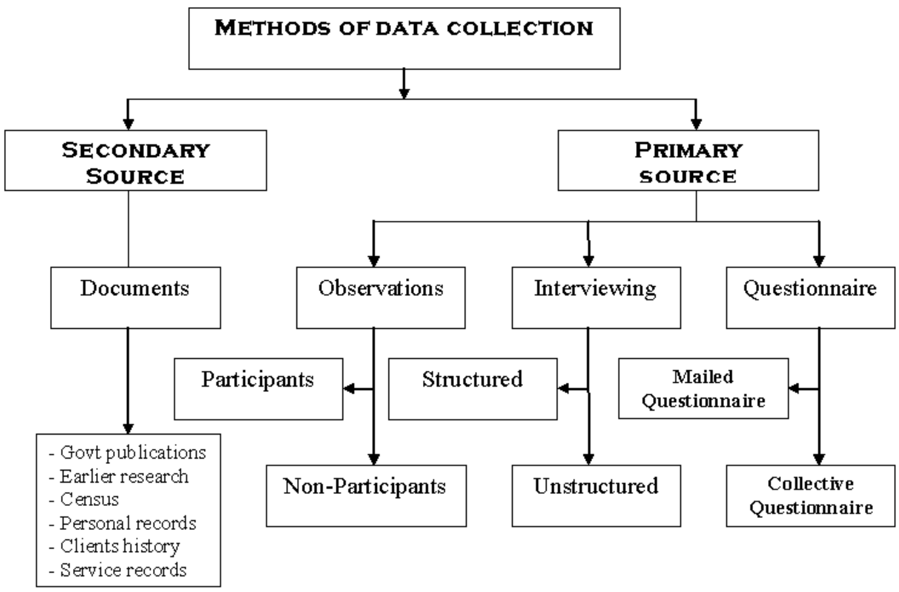


Figure : Methods of Data Collection (Kumar, 2005)

3.4.1 Primary Data Collection

Primary data is that type of data which is collected for the first time and for the specific purpose of the research. In simple words this data does not prevail to be collected unless the need is desired for it. This type of information is the first hand information collected exclusively for the purpose of the research (Kumar, 2005).

The main advantage of using primary data is because it can be easily relied upon as the data is fresh and without any contamination and adulteration. Secondly primary data is collected as this data is not available anywhere. However the main disadvantage of collecting primary data is that it takes lot of time to conduct the data. Secondly it requires lot of effort and cost in conducting the research. Some of the common tools of conducting primary data are by way of surveys, interview, focus group discussion, in-depth interview, observation techniques and other form of discussion forums and panels (Kumar, 2005).

3.4.2 Justification – Primary Data

The researcher would be using primary form of data collection to collect data required for the research. To collect the required data the researcher would be conducting an in-depth interview from a top executive from an acquiring company. The main aim of the researcher here is to collect first hand information as to why the acquiring company entered into the merger, what are the synergies which are derived from the merger, the way in which the entire merger was conducted and the way stock markets reacted to this merger. The researcher would be preparing a list of basic guideline questions which would drive the way for conducting the in-depth interview. The basic questions would help the researcher to collect the primary data in a desired manner which would not lead the interview to go in a different direction.

3.4.3 Secondary Data Collection

Secondary data is the form of data which is already present in the market and was collected by some other person for some different purpose. Any form of data which is collected and used immediately becomes secondary data for others. For example many researchers carry out research which is primary but for students and academicians this later becomes secondary which we then refer in journals and magazines. This type of data has more to do with past rather than the present since it is historical in nature. In simple words secondary form of data is any form of data which is present in the universe and collected by someone else for some other purpose (Kumar, 2005).

The main advantage of using secondary form of data is that it is easy to collect. Secondly the time involved is relatively less than the primary data. Similarly the efforts in collecting the secondary data are less than primary data collection. Secondary data can be available to the researcher from multiple modes and source vis-a-vis primary data collection. However there are a few disadvantages which secondary data has. Firstly the data which is available might not purely satisfy the needs of the researcher since this data was collected by someone else for some other purpose. Secondly if there is any error in that secondary data it would carry the same for the researcher as well. Thus trusting the authenticity of the data is very important before using it (Kumar, 2005).

Some of the common sources of collecting secondary data are with the help of journals, magazines, newspaper articles, books, periodicals, annual reports, company circulars, government publications, government websites, industry association, libraries, e-libraries, university database and search engines.

3.4.4 Justification – Secondary Data

The researcher would be purely using secondary form of data for this research. The researcher would be collecting financial information from the respective acquiring companies. Financial information over a period of time would be studied which would involve collection of financials for certain years before the merger and after the merger. Financials would be collected through secondary medium like annual reports, press releases, Securities and Exchange Board of India (SEBI), Analyst reports from research companies, search engines and websites like www.moneycontrol.com, ICICI Securities and so on.

3.5 Sampling

The main decision which the researcher has to decide is to whether go for census or sample research. Census means each and every element which forms the part of the research will be investigated and sample means few elements which represent the entire research area would be investigated. Practically it is not possible to conduct a census since it is time consuming and by the time each and every element is investigated the time might be lost which helps to reach to the conclusion. Sample is where certain elements are studied which form a representative of all the other elements (Kothari, 2007).

The process of sampling means to identify and select certain elements which would represent the entire population under study. The main rationale behind choosing samples is so that they would represent the similar characteristics of the entire population set. The main advantage of using sampling is so that it can save lot of time and efforts on the part of the research and yet help to generalize the findings for the entire set (Kothari, 2007).

3.6 Steps in Sampling Process

3.6.1 Defining the Target Population

Target Population: For this research on mergers and acquisitions, the target population is all those public limited listed Indian companies which have entered into mergers and acquisitions after liberalization in India i.e. 1991.

3.6.2 Defining the Sampling Frame

Sampling Frame: For this research the sampling frame would be Securities and Exchange Board of India where details about all the mergers and acquisitions in India would be captured across industries.

3.6.3 Techniques of Sampling

There are two important techniques of Sampling i.e. Probability sampling technique and Non Probability sampling technique.

3.6.3.1 Probability Sampling Technique

The researcher would not be using probability sampling technique since the number of mergers happened in the Indian context over the years is very high. Secondly it would be very time consuming to list down each and every merger which has taken place in India.

3.6.3.2 Non Probability Sampling Technique - Justification

The researcher would be using non probability sampling technique for this research wherein the sample would be chosen purely on the basis of convenience rather than any form of statistical tool involved in it. Convenience sampling would be used by choosing the mergers and acquisitions from four different sectors based on ease of availability. The main advantage of convenience sampling is that the researcher can use different mergers and acquisitions basis his requirement which can represent the entire population.

3.6.4 Sample Size

The researcher would be drawing out sample size from 4 sectors in India. The four sectors which would be involved in this research would be Aviation, Banking, Steel and Oil and Gas. Two mergers per sector would be studied for ascertaining the impact on the operating performance of the acquiring firm. The total sample companies which would be involved for this research would be 16 i.e. 8 companies which would be acquiring companies and another 8 companies which would be target companies. The sample size is chosen simple based on the convenience and not my any means of statistical analysis.

Within Aviation industry the researcher would be studying two known mergers in the aviation industry in India i.e. the merger between Kingfisher Airlines and Air Deccan and secondly the merger between Jet Airways and Air Sahara. In the banking industry the researcher would study the merger between HDFC Bank (Housing Development and Finance Corporation) and CBOP (Centurion Bank of Punjab) and the second merger would be that of OBC (Oriental Bank of Commerce) and Global Trust Bank (GTB). Within Steel industry, the researcher would study the merger between JSW Steel and SISCOL and second merger would be between SAIL and IISCO. The researcher lastly would be studying two mergers in the oil and gas industry and the merger under study would be Bharat Petroleum Corporation Limited (BPCL) and Kochi Refineries and secondly Reliance Industries Limited (RIL) and Indian Petroleum Corporation Limited (IPCL).

3.7 Data Analysis

Once the data is collected it needs to be analyzed. Data Analysis is a very important step in the entire research process. The entire research activity can be a failure if the data analysis is not done properly so as to reach the objectives framed for the research. The process for analyzing the data starts with data editing, coding and data entry and lastly data analysis (Cooper and Schindler, 2006).

The researcher would collect all secondary information regarding mergers of the companies involved in the research and edit the data. Only those financial information and details which are important to lead the objectives would be picked up. Secondly the researcher would input all the relevant data in the Excel sheet. Data entry would be done on all the parameters which are chosen to be analyzed for the acquiring firm. The main place of data entry would be an Excel Spreadsheet where the data would be entered, stored and analyzed for further use. This data can be analyzed at the user's convenience by various forms like charts, bars and diagrams.

Chapter 4

Data Findings and Analysis

This section would cover the analysis for the sample companies under the research. Each and every sector would be analyzed with its synergy and financial operations post merger and pre merger. The section would be able to generate the analysis and impact of mergers and acquisitions on the shareholders wealth.

4.1 Aviation Industry – Overview

The Indian airline industry underwent liberalization in the year 1990 when private sector companies were allowed to start its business. Many companies like Damania, East-West, Air Sahara and NEPC entered the market but after nearly a decade none of them survived. However in today's scenario there have been number of private airline companies operating in this sector with players like Air Deccan, Kingfisher, Jet Air, Go Air, Spice Jet and many other players. The Indian aviation has only 2 state controlled airline companies i.e. Air India and Indian Airlines. Sahara Airlines is one of the oldest private sector airline companies in India which commenced business in 1991 and then was rebranded as Air Sahara in 2000. Similarly the state owned domestic airline company Indian Airlines was rebranded as 'Indian' under its plan to revamp the position in the airline industry. Later the government announced the merger of Air India and Indian which would build an airline giant in India. Jet Airways is one private player which operated both on domestic and international routes in India and holds a major share in the aviation industry in India. Spice Jet, Go Air and Air Deccan are the low cost no frill airline companies in India. Kingfisher Airlines is the closes competitor to private players and it operates in both domestic and international routes (CFA, 2005).

Strategic alliance and mergers have been one of the buzz words in the airline industry. According to Oum, Park and Zhang (2000) for the airline industry *"strategic alliances refer to a long term commitment and partnership with two or more* *companies who attempt to gain competitive advantage collectively by fighting their competitors by sharing resources, cutting costs and improving profitability"*

The following is the market share of different airline companies in India in the year 2008.

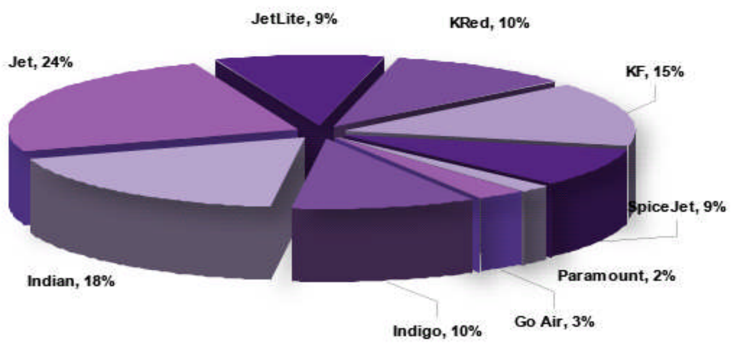


Figure: Market Share % of Airline companies in July (2008)

During the year 2006-07 overall the passenger traffic grew by more than 27% cargo traffic grew by a modest 11%. However the growth in the last four years has been on an average of 30%. Similarly aircraft movement has also grown by almost 27% in 2006-07. The passenger growth in the domestic airline industry has been very strong in India with over 19 million passengers flying in 2008 itself when compared to 2007 which was 17 million (IBEF, 2009).

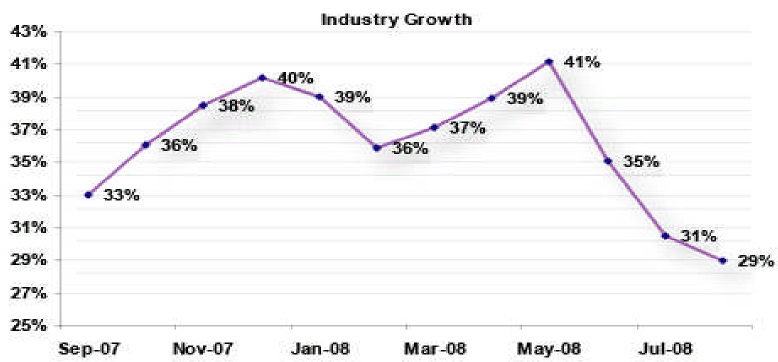


Figure: Industry Growth (July 2008)

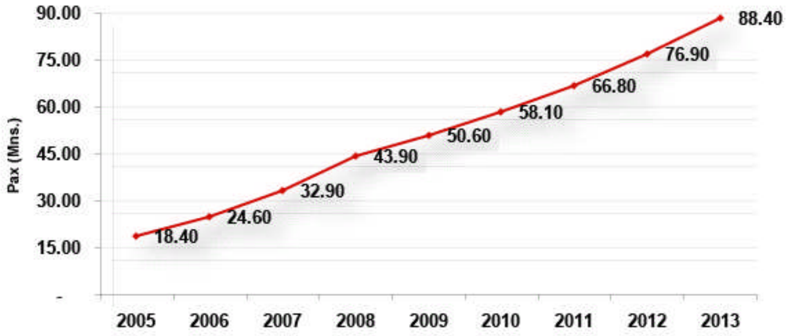


Figure: Passenger Growth

4.1.1 Kingfisher Airlines and Air Deccan Merger

One of the significant moves in the airline industry was the merger between Air Deccan the first low cost carrier in India and Kingfisher Airline. Air Deccan has created waves in the airline industry by offering people the lowest cost flying experience and shifted rail travellers to airline travellers.

However Air Deccan and Kingfisher Airlines have now merged and known as Kingfisher Aviation. The merger started when Kingfisher Airlines owner Dr. Vijay Mallya bought 26% controlling stake in Air Deccan (Indian Express, 2007).

Synergy

The combined entity now has a fleet size of 71 aircrafts covering 70 destinations and more than 550 flights in a single day. The merger would benefit the entity by offering operational synergies like inventory management, maintenance, engineering and overhaul which would reduce the overall cost by 4% to 5% i.e. around Rs 300 million (Financial Express, 2007a). Further the company would be able to rationalize its routes in a better way by changing its fair structure which will attract more passengers (Business Standard, 2007). The merged entity would also have clear business model with reaching wider domestic base with Air Deccan capabilities and Kingfisher Airlines would reach international destinations.

Interview was conducted with Mr. Anish Naik of Kingfisher Airlines who is with the planning and advisory board. His views on synergies were as below:

Synergies can be seen in two directions financial and operational. On operational grounds this merger would help Kingfisher expand its international base as it finishes 5 year mandatory period to fly domestic before getting an international license. Secondly on financial grounds it would mean a lot to Kingfisher because of savings on operating cost. Mr Naik also pointed out that with the growth expected in the industry the combined entity would make better profits in the coming years. Other reasons for merger with Air Deccan was totally logistical like both the companies ahre the same maintenance contract with Lufthansa Tecknik, both the companies have Airbus fleet and same types of engines and brakes.

Financial Analysis

The merger between Kingfisher Airlines and Air Deccan took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

KINGFISHER AIRLINES	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Operating Profit Margin	10.2%	-1.3%	-21.9%	-51.5%	-26.5%
Gross Operating Margin	-4.0%	-24.6%	-21.0%	-47.8%	-33.9%
Net Profit Margin	-6.4%	-27.5%	-23.6%	-13.1%	-30.5%
Return on Capital Employed	15.4%	-9.8%	7.5%	-19.6%	-24.4%
Return on Net Worth	-143.0%	-347.5%	-287.4%	-129.8%	-809.0%
Debt-Equity Ratio	20.8	4.6	6.3	6.4	4.7
EPS	-63.0	-347.5	-31.0	-13.9	-118.5
PE	-1.9	-0.3	-4.6	-9.6	-0.4

(Appendix 1)

The results for Kingfisher Airlines shareholders have been very similar to the results of Jet Airways. Kingfisher airlines has seen operating margins fall to a negative 26.5% and gross operating margin fall to a negative 33.9. Similarly the net profit margin and return on capital employed has also bee negative for the firm post merger basis. The EPS for Kingfisher Airlines has fallen quite sharply since the number of shareholders has increased but with that the profit after tax has not increased an instead has fallen. Shareholders wealth of Kingfisher airlines has deteriorated significantly post merger with Air Deccan. The P/E ratio of the firm also states that the stock has been undervalued over the years and does not look that an immediate upward movement in share price or EPS basis which the P/E will go up.

4.1.2 Jet Airways and Air Sahara merger

Jet Airways started its business operations in 1993 and is now the largest company in the airline industry in terms of market share. The company has a fleet size of 88 aircraft and flies to over 60 destinations worldwide with over 360 flights scheduled for a single day.

Synergy

Fleet	Jet Airways	Air Sahara	Merged Entity
B737-300	-	2	2
B737-400	6	3	9
B737-700	13	7	20
B737-800	28	7	35
B737-900	2		2
CRJ-200		7	7
ATR-72	8	-	8
A330-200	2	-	2
A340-300	3	-	3
Total	62	26	88

Table: Fleet Size of Jet Airways and Air Sahara

Source: Centre for Asia Pacific Aviation, 2007

The major efficiency and synergy comes because both the companies use B737 as their domestic fleet efficiencies. Air Sahara has B737s which are more than 10 years old and CRJ-200 which were taken on lease for higher rentals. Jet Airways will have to rationalize the cost aspect of operating and maintaining the fleet size. Since Jet

Airways does not have a proper mix of aircrafts this would lead to higher maintenance cost for the merged entity (Centre for Asia Pacific Aviation, 2007).

Financial Analysis

The acquisition between Jet Airways and Air Sahara took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

JET AIRWAYS	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	33.2%	24.8%	14.7%	8.6%	5.2%
Gross Operating Margin	24.0%	19.8%	6.6%	4.1%	-6.4%
Net Profit Margin	9.0%	7.9%	0.4%	-2.9%	-3.5%
Return on Capital Employed	31.6%	21.2%	13.8%	6.3%	4.0%
Return on Net Worth	22.4%	21.1%	1.3%	-13.7%	-31.1%
Debt-Equity Ratio	1.7	2.3	2.9	6.5	12.6
EPS	45.4	52.4	3.2	-29.3	-46.6
PE	27.6	18.5	195.8	-17.7	-3.3

(Appendix 2)

On carefully looking at the above figures it can be seen that the operating margins of Jet Airways were very strong in the year 2004-05. Later the operating margins started slowing down in the coming years. Post merger the operating margins of Jet Airways had gone down to 5.2% from an earlier five year high of 33.2%. Gross Profit margin was at a very strong 24% in 2004-05 however post merger it has moved into a negative territory of (6.4%). Return on capital employed proves the efficiency with which the business is maintained. Looking at the post merger results the shareholders who act as owners would surely be disappointed with only 4% return compared to 31.6% in 2004-05. Similarly the Return on Net worth for the company has also gone negative and post merger it has not added any significant value for the shareholders. The debt equity ratio of the firm at current level is around 10 times higher than in the year 2004-05 which shows the level of leverage which the company wants to drive on. The EPS which is the crude factor for any shareholder has seen a dip of -46.6%. Looking at the P/E ratio clearly shows that the stock has been highly undervalued and shareholders wealth has been deteriorated.

Overall it can be seen that Jet Airways has been able to post positive operating margins post merger however Kingfisher Airlines have failed to do that. Kingfisher Airlines also has a negative return on capital employed compared to Jet Airways. But on the other parameters like Earnings per share, Return on Net Worth and Net Profit Margin have been negative for both the companies. It can thus be inferred that mergers and acquisitions have not created enough shareholder wealth post merger.

4.2 Banking Industry - Overview

Since 1991 when Indian banking sector went under liberalization the industry has been sound, strong and well regulated. On comparison with any other banking sector in the world the current position of Indian banking sector is robust. As of 2009, there were total 171 Scheduled Banks in the country out of which 86 were regional rural banks. Collectively till March, 2009 there were 56,640 branches of all the scheduled commercial banks put together and more than 27,000 ATMs. Indian banks have continued to make their presence felt in international markets. During 2008 and 2009, Indian banks started with 20 representative offices and subsidiaries in overseas markets. Till 2009, there were 32 foreign banks which were operating in India with over 290 branches. The largest bank in India is State Bank of India (SBI) (RBI Annual Report, 2009).

4.2.1 HDFC Bank and Centurion Bank of Punjab Merger

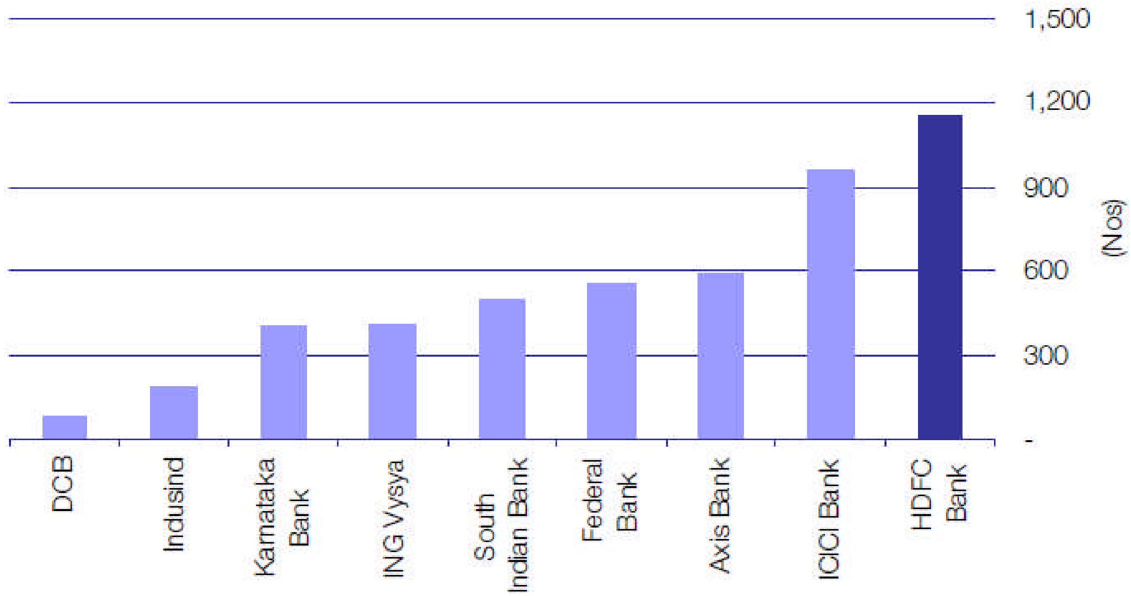
HDFC Bank (Housing Development Finance Corporation) was established in the year 1994 immediately when the government of Indian liberalized the sector. At present the bank has a network of 1412 branches across India and over 3,295 ATMs in more than 528 cities in India (www.hdfcbank.com)

HDFC Bank and Centurion Bank of Punjab underwent a merger in early 2008. The share swap ratio of the merger was 1:29 i.e. for every 29 share of Centurion Bank of Punjab shareholders would get 1 share of HDFC Bank (Business Standard, 2008).

According to Deepak Parekh (Chairman of HDFC), *"It is a win-win situation for all the stakeholders, shareholders, employees and customers of the bank"* (Financial Express, 2008).

Synergy

The combined bank would have a branch network of 1,148 branches since HDFC Bank while entering in the merger has 754 branches and Centurion Bank of Punjab had 394 branches. ICICI Bank which is the closes competitor to HDFC Bank had a branch network of 955 branches. This makes HDFC Bank the largest private sector bank in the country in terms of number of branches.



Secondly the merger would give HDFC Bank have a combined asset size of over Rs 1,10,000 crores. Similarly the deposits of HDFC Bank would go up to Rs.1,20,000 crores and advance would be up to Rs.85,000 crores. This would collectively make the balance sheet size of HDFC Bank grow to Rs.1,50,000 crores (Value Notes, 2008).

Interview was conducted with Mr Vishal Salecha (Head, Corporate Planning). Mr Salecha indicated that the merger will create history in the Indian banking industry and will induce other banks to look for consolidation and grow by size. According to him, both banks complement each other in the best way since both the banks have tremendous experience in both operating and in merger delivery. HDFC Bank has previous experience of acquiring Times Bank whereas Centurion Bank of Punjab had earlier experience of acquiring Lord Krishna Bank and merger of Centurion Bank with Bank of Punjab. The only challenge what Mr Salecha saw in the merger was handling of stress accounts and non performing assets in Centurion Bank of Punjab's portfolio. This would add pressure on HDFC Bank to do excess provisioning for NPAs which can hit the margins to a certain extent. However the effect would be mitigated since the merger brings branch network, asset size and cost savings for HDFC Bank. Overall there is geographical synergy which adds significant branch network to the bank ad every branch added adds lot of CASA growth for the bank. (CASA means Current Account and Savings Account which is a low cost deposit for the bank).

Positives from the merger are that HDFC Bank would have increased footprint and high metro presence. Secondly HDFC Bank would have a better cost to income ratio because of better cost efficiencies and cost management and lastly both the banks have a high profile and experienced top management who have headed foreign banks like Citigroup before.

Negatives from the merger are majorly due to high amount of nonperforming loans on the books of Centurion Bank of Punjab which would not be on the books of HDFC Bank. (Appendix 9)

Details of Branch Network	HDFC Bank	Centurion Bank of Punjab
Metro	287	127
Non Metro	467	267
Non Metro Proportion	62%	68%
Metro Proportion	38%	32%

Improved Utilization of Branches

Business (In Rs crores)	HDFC Bank	Centurion Bank of Punjab	Merged Entity
Business Per Branch	22,8	90	181
Business Per employee	0.8	0.6	0.7
Asset Per Branch	176	64	137
Asset Per Employee	0.6	0.45	0.58
Profit After Tax per Branch	0.24	0.5	0.17
Profit After Tax per Employee	00.8	0.03	0.07

Financial Analysis

The merger between HDFC Bank and Centurion Bank of Punjab took place in the year 2008. Hence below analysis has been done two years prior to the merger i.e. during 2005-06 and 2006-07 and one year after the merger i.e. 2008-09.

HDFC Bank	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	41.7%	36.8%	40.0%	37.6%	24.1%
Gross Operating Margin	30.8%	26.3%	30.5%	28.6%	18.0%
Net Profit Margin	27.6%	24.9%	20.1%	15.7%	13.7%
Return on Capital Employed	2.6%	2.3%	3.1%	2.9%	2.1%
Return on Net Worth	18.9%	21.1%	21.5%	13.8%	14.9%
Debt-Equity Ratio	9.21	11.39	11.05	9.15	9.67
EPS	27.63	35.65	43.34	44.92	52.82
PE	19.26	21.60	21.92	31.19	20.82

(Appendix 3)

HDFC Bank is one of the strongest banks in the Indian banking sector with a high capital adequacy ratio and good year on year results. However on testing the pre merger and post merger numbers it can be clearly seen that compared to pre merger ratio the post merger ratios have taken a beating on all parameters like operating margin, gross profit margin, net profit margin, return on capital employed and return on net worth. The only significant positive factor for the shareholders has been that the EPS has risen sharply thanks to a robust profit made by the company and a good integration process. The P/E ratio of the company has been at significant levels which is very similar to the pre merger levels. Overall HDFC Bank shareholders would not be happy on other parameters however the firm has been able to generate god earning per share even post merger and the valuation of the company is also stable at 20 times its earnings.

4.2.2 Oriental Bank of Commerce and Global Trust Bank Merger

Oriental Bank of Commerce is a public sector bank which was established in the year 1943. Immediately after nationalization in 1980s the bank started gaining momentum and it increases its branch network across India. At present it has a branch network of 530 branches and 505 ATMs (www.obcindia.co.in)

Synergy

The synergy for Oriental Bank of Commerce comes from the good network of branches which Global Trust Bank earlier had. Secondly the merger offers operational convenience to Oriental Bank of Commerce since both the banks use the same operational software and technology based applications. Thirdly Oriental Bank of Commerce benefitted from the savings from Corporate Tax during the year 2008 and 2009 since it had taken over huge NPAs from the erstwhile Global Trust Bank. Oriental Bank of Commerce also expects to recover close to 30% from the existing NPAs which will add to its books. GTB in the year 2006 made a profit of 150 crores which was added to the books of Oriental Bank of Commerce. However during 2007 GTB made a loss of 812 crores which got accumulated on to the balance sheet and accounting statements of Oriental Bank of Commerce (Domain, 2004a; 2004b).

Cost synergies comes from the fact that OBC directly got access to 100 branches and 275 ATMs of GTB which would otherwise have cost Rs 2 billion for Oriental Bank of Commerce to open in the near future. Oriental Bank of Commerce would also get access to 1 million customers of Global Trust Bank. Global Trust Bank with its necessary infrastructure, strong client base and pan Indian network of branches would offer good benefits to Oriental Bank of Commerce (Domain, 2004a, 2004b).

Financial Analysis

The merger between Oriental Bank of Commerce and Global Trust Bank took place in the year 2005. Hence below analysis has been done two years prior to the merger i.e. during 2002-03 and 2003-04 and two years after the merger i.e. 2005-06 and 2006-07.

Oriental Bank of Commerce	2002-03	2003-04	2004-05	2005-06	2006-07
Operating Profit Margin	35.2%	46.4%	66.5%	71.0%	76.0%
Gross Operating Margin	38.4%	50.2%	34.5%	28.9%	25.1%
Net Profit Margin	13.9%	20.8%	20.3%	13.5%	11.2%
Return on Capital Employed	3.4%	3.7%	1.9%	1.7%	1.5%
Return on Net Worth	21.7%	25.6%	21.8%	10.8%	10.4%
Debt-Equity Ratio	14.50	13.59	14.60	9.88	11.54
EPS	23.74	35.64	37.72	22.24	23.19
PE	2.78	8.16	8.14	10.57	7.98

(Appendix 4)

Oriental Bank of Commerce is a public sector bank in India and is posting favourable numbers year on year. Post merger the operating profit margins of the company has raised sharply from 35% in 2002-03 to 76% in 2006-07. However the gross profit margin of the company has seen a dip since 2003-04. The return on capital employed and return on net worth for the shareholders has also dropped sharply, however it is still in the positive zone. The debt equity ratio of the company has been at an average of close to 12.5% over the five year period. Similarly the EPS of the firm has been maintained at Rs 23 pre and post merger. The valuation of the company measured by its P/E ratio has moved to close to 8 times its earnings. However the stock still remains undervalued compared to its other peers. Overall the shareholders have not gained significantly out of the merger and the pre merger and post merger performance has been maintained at the similar level.

4.3 Oil and Gas Sector Overview

Oil and gas is a industry of great importance for a developing country like India. The industry supports many industries together like transportation, aviation, manufacturing and other ancillary sectors which collectively account for 15% of the GDP. Domestic crude oil production fell marginally from 34 million tonnes in 2007-2008 to 33.5 million tonnes in 2008-2009. In the same time, production of natural gas went up from 32.4 billion cubic metres in 2007-08 to 32.8 billion cubic metres in 2008-09. India is slowly emerging as one of the hubs for refining oil products because of the cost advantage compared to other Asian countries. India is the fifth largest in the world with refining capacity and holds close to three percent of the global oil refining capacity. The government of India has taken several initiatives in this sector. It has allowed 100% foreign direct investment in all the private refineries and 26% in all the government owned refineries across the country through the automatic approval route.

4.3.1 Reliance Industries Limited and IPCL Merger

Reliance Industries Limited is one of the largest private sector companies in India and the second largest group in the world in terms of annual turnover. This company was found by one of the legends of Indian industry Mr Dhirubhai Ambani (www.ril.com) Reliance as a group has foray into oil and gas, retail, power, telecommunications, logistics, infrastructure and entertainment. However the businesses have now split between two brothers i.e. Mukesh Ambani and Anil Ambani.

IPCL was established in the year 1969 by government of India. IPCL was the second largest petrochemical industry in India just next to Reliance Industries. IPCL has a installed capacity of over 130,000 tonnes. It produces LDPE, PVC, PP, PBR, AF, DSAF, EG, LAB and benzene based products (Moneycontrol, 2009).

One of the biggest mergers in the Indian oil and gas sector was between Reliance Industries Limited and Indian Petroleum Corporation Limited (IPCL) in the year 2007. The swap ratio of the merger was fixed at 1:5. This means that for every five shares of IPCL the shareholders would get 1 share of RIL. This is a horizontal acquisition which would have positive impact the valuation and cash flows of the company post merger (Hindu, 2007).

Synergy

The merger would create synergies for both the companies' shareholders. RIL would benefit from a larger and a stronger balance sheet whereas IPCL shareholders will benefit from the new dynamism, experience and brand of RIL. The combined net worth of RIL will be Rs 50,000 crores and the overall balance sheet size would increase to Rs 78,000 crores. RIL will create one of the largest petrochemical complexes in the world because of this merger because IPCL has three petrochemical plants which include a naphtha based plant and gas based plant (Indian Express, 2007). The product synergy of both IPCL and RIL is given below:

Product	**Capacity in ‘000 tonnes**		**Merged Entity**	**Total Capacity in India**	**Merged entity % of Total Capacity**
	RIL	IPCL			
HDPE	400	380	780	1520	51%
LDPE	0	160	160	184	87%
PP	1000	190	1190	11415	84%
PVC	270	205	475	770	62%
MEG	360	170	530	580	91%
LAB	100	45	145	320	45%

Source: Fakih, 2006

Reliance has a naphtha based cracker plant where its feedstock comes from Oil and Natural Gas Corporation (ONGC). IPCL has naphtha based cracker plant where feedstock comes from IOCs plant which is just next door. RIL will be able to displace its future feedstock from ONGC and make contracts with IOC which will help in saving lot of freight and transportation costs. This in turn will help in gaining better sales realization and improve margins. Also other plants would have similar operational synergies (Fakih, 2006).

RIL will also save on significant overlap of costs by IPCL and RIL. RIL spends nearly Rs 532/tonne on external sales whereas IPCL spends around Rs 519/tonne of product. The duplicate channel infrastructure would be done away by RIL and IPCL which would help in saving lots of costs (Fakih, 2006).

Financial Analysis

The merger between Reliance Industries Limited and Indian Petroleum Corporation Limited took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

RIL	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	19.4%	17.6%	17.3%	17.5%	16.0%
Gross Operating Margin	21.6%	18.4%	17.5%	18.1%	17.4%
Net Profit Margin	11.5%	11.2%	10.4%	14.6%	10.4%
Return on Capital Employed	23.8%	21.0%	22.7%	19.7%	18.6%
Return on Net Worth	18.7%	18.2%	17.1%	23.9%	15.0%
Debt-Equity Ratio	0.46	0.44	0.44	0.45	0.47
EPS	54.5	65.2	78.5	134.2	105.4
PE	8.3	12.2	17.4	17.5	14.4

(Appendix 5)

RIL is one of the biggest companies in the oil and gas sector in India. Pre merger the company has a good operating margin ratio of 19.4% which was one of the best in the Indian oil industry however post merger the ratio has dropped down significantly. Similar pattern was seen with respect to gross profit margin and net profit margin. In the longer run RIL has always pleased its shareholders, however two years post merger both the return on net worth and return on capital employed saw a sharp drop of over 3%. The only positive point for the company has been that its shareholders would be pleased with the year on year growth in EPS. The company has always taken decisions which are in favour of its shareholders which can be seen the EPS being almost doubled in the frame of five years. The valuation of the company has increased based on the P/E multiple which is 14 times its net earnings. On all the other financial parameters, RIL has seen a tremendous drop post merger with only EPS being on the positive side.

4.3.2 Indian Oil Corporation Limited and IBP Merger

IOC (Indian Oil Corporation) came into being in the year 1959. IOC operates mainly in the downstream segment which involves refining and marketing of oil and petrol based products. It operates into aviation turbine fuel, petrol spirit, high speed diesel and liquefied petroleum gas. It also has three subsidiaries CPCL, BRPL and IOBL (www.iocl.com)

IBP is one of the oldest companies in the oil and gas sector in India which was established in the year 1909. The company is Indo-Burma Petroleum based company operating in India. IBP is mainly engaged into the storage, distribution and marketing of petrol based products in India. It is mainly engaged into industrial and cryogenic containers.

Indian Oil Corporation and IBP Merger took place in 2007 with a share swap ratio of 1.25: 1. This means that for every IOC shareholders would get 125 shares for every 100 IBP shares held (Hindu Business Line, 2007).

Synergy

IOC would get synergies in the form of tax savings to the tune of Rs 45 crores. IBP is an oil marketing company which has a very strong presence in marketing and distribution of oil products mainly in northern India. IBP also has close to 1,295 retail outlets which would add to the benefits for distribution of IOC. IBP also serves other segments like industrial explosives and cryogenics. IOC on the other hand is the largest downstream operator of oil and gas in India. IOC is also the largest refining company in the country. IOC has over 22,000 retail outlets across India. Stronger distribution would be one of the key for IOC from this merger. This would give better visibility and brand power to IOC (Venkiteswaran, 2008).

Secondly IBP has engineering expertise of manufacturing cryogenic containers and transporting gas. IOC would get the same expertise from this merger and as a result of this the company has now launched a branded gas in the market which has a leadership. Its gas based products are launched under the brand name 'Indane' (Financial Express, 2004).

IOCs share in the diesel segment would grow to 50% from the present 40%. IBP also has 2500 petrol pumps across the country and IOC has 8,200 petrol pumps across the country. The integration with petrol pumps would lead to rise in market share from petrol based products to 60% from 55%.

Interview was conducted with Mr Sunil Rode of IOC who is the head of Logistics and Transportation at IOC. According to him in a business like oil and gas where prices are regulated by the government it becomes very important to fight on costs and gain market share. The rationale and logic behind the merger was that both the businesses have identical storage, distribution and marketing infrastructure. Merger with IBP would lead to doing away with existing IBP and IOC overlap infrastructure which would help in saving of substantial costs. Several petrol pumps and outlets which are closely located to each other would be dismantled for better fuel station rationalization. However in the entire merger the main challenge would be with respect to the employee unions and associations which IBP has. Managing smooth integration of employees was the main challenge in the entire process.

Below is the Integration Model which was shared by Mr Sunil Rode

No	IBP Value Chain activities	Integration Pattern	Rationale point for Merger
1	Cryogenics Containers	Main Business	Benefit for IOC (Access to technology and expertise in business)
2	Explosives	Main Business	Benefit for IOC
3	Petrol Retail	High Integration possibility	High level of sunergies for IOC
4	Liquified Petroleum Gas	High Integration	High level of synergies for IOC
5	Lube	High Integration	IBP 'Red' is a weak brand compared to IOC's SERVO brand. However with existing infrastructure would help IOC build from current level
6	Finance	High Integration	Would add to the balance sheet and the size of the books for IOC

Financial Analysis

The acquisition between Indian Oil Corporation and IBP took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

IOCL	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	5.3%	4.5%	5.0%	4.6%	4.4%
Gross Operating Margin	5.8%	5.1%	5.2%	5.2%	2.3%
Net Profit Margin	3.5%	2.8%	3.5%	2.8%	1.0%
Return on Capital Employed	19.7%	16.6%	20.3%	17.9%	18.2%
Return on Net Worth	18.8%	16.8%	21.5%	16.9%	6.7%
Debt-Equity Ratio	0.67	0.90	0.78	0.86	1.02
EPS	42.17	42.37	64.65	58.51	24.79
PE	10.39	13.78	6.19	7.61	15.61

(Appendix 6)

Indian Oil Corporation with its merger with IBP has seen deterioration in the overall shareholder wealth for the company. The operating margin pre merger for the company was at 5.3% which dropped to 4.4% after the merger. Similarly gross profit margins for the company went down half from 5.8% in 2004-05 to 2.3% in 2008-09. Return on Capital employed and Return on net worth has also dropped significantly post merger. The net profit margin for the company has dropped from 3.5% to 1% in

2008-09 (post merger). EPS which is the indicator of shareholders wealth has also dropped from Rs 42 to Rs 24 in 2008-09. The valuations of the company had reduced in the first year post merger however the valuations started increasing on the P/E multiple and it is close to 16 times its net earnings. Overall the merger of IOCL and IBP has not been able to create enough wealth for its shareholders.

4.4 Steel Industry Overview

Steel is one of the most widely used commodities in the world. The consumption of steel in an economy reflects the growth pattern of related industries like manufacturing, housing, automobile and infrastructure. The Indian steel industry is more than 100 years old and till 1990 the industry was operating in a regulated market. Deregulation in the industry took place in the year 1991-92. Since then India has now become the fifth largest producer of steel in the world. In 2009 the steel industry in India produced close to 53 million tonnes and accounts for close to seven percent of the total world steel production. The National Steel Policy of India has aimed to produce up to 110 million tonnes of steel by 2020. However the Ministry of Steel is projecting that with the current pace of production it should touch 124 million tonnes by 2012. Along the consumption side India accounts for close to 5% of the world steel production which is growing strongly at 16%. The greatest opportunity for India lies in the fact that the per capita consumption of steel is very less at 35 kg compared to 250 kg in China and an average of 150 kg in the world (IBEF, 2009).

4.4.1 Steel Authority of India Limited (SAIL) and IISCO Merger

Steel Authority of India Limited is one of the largest integrated iron and steel producer in India. It is mainly into hot rolled and cold rolled steel products. It has five integrated plants and three special steel plants which are strategically located in East India close to the iron ore and coal deposits. The company is a government owned public sector undertaking with 86% share (www.sail.co.in).

Steel Authority of India Limited (SAIL) and Indian Iron and Steel Company (IISCO) underwent a merger in the year 2006 (The Hindu, 2006).

Synergy

SAIL has lot of synergies out of the merger with the first being access to iron ore mines. IISCO has iron ore mines located in Chiria, Gua and Mandharpur which are one of the best quality iron ore grounds in India. IISCO has collective iron ore deposits of over 800 million tonnes. With the merger in place the iron ore deposits of SAIL has increased to over 3200 million tonnes. Other than this IISCO also has collieries in Chasnala, Jitpur and Ramnagar which has collective coaking oil reserves of 125 million tonnes. Overall the merger has synergies with high infrastructure facilities of IISCO and high level of quality iron ore deposits. Secondly the synergy would also arise from the product mix of IISCO. The company had product portfolio comprising of beams, channels, angels and special steel sections which are not produced by any other steel manufacturer in the world (PR Domain, 2006).

Operationally IISCOs mines are closely located to the production channels of SAIL which would reduce the overall cost of production for the company. With respect to employees IISCO immediately before the merger went for employee restructuring exercise wherein VRS (Voluntary Retirement Scheme) was offered to 3000 workers.

Mr Vasant Srivastava head of Production and Planning was interviewed from SAIL. According to Mr Srivastava, the biggest rationale behind the merger was the rich iron ore deposits which IISCO has. Secondly the strategic locations of the mines provide SAIL with operational and cost efficiencies. SAIL views IISCO as a very opportunistic company where IISCO has access to raw materials and SAIL has financial and managerial capabilities to gain more out of IISCO. Inter plant synergy and a good complementary product mix of both the company makes it a good fit for SAIL. With the financial strength of SAIL, the company would invest heavily in IIS CO for modernizing its plant which would lead to better cost efficiencies in future.

Financial Analysis

The merger between Steel Authority of India Limited and IISCO took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2003-04 and 2004-05 and two years after the merger i.e. 2006-07 and 2007-08 respectively.

SAIL	2003-04	2004-05	2005-06	2006-07	2007-08
Operating Profit Margin	20.7%	36.5%	23.2%	28.1%	28.2%
Gross Operating Margin	49.3%	36.5%	24.5%	31.0%	31.0%
Net Profit Margin	11.6%	23.7%	14.2%	18.1%	18.9%
Return on Capital Employed	36.5%	69.4%	44.3%	51.4%	49.7%
Return on Net Worth	49.9%	66.1%	31.8%	35.8%	32.7%
Debt-Equity Ratio	1.72	0.56	0.34	0.24	0.13
EPS	6.08	16.51	9.72	15.02	18.25
PE	5.43	3.76	8.54	7.59	10.80

(Appendix 7)

Steel Authority of India has seen mixed post merger results on different parameters. Some of the financial parameters where it has seen a drop has been Gross Operating Margin where the margins have dropped from 49% to 31% in 2007-08 (post merger). The return on net worth for the company has also dropped from 50% in 2003-04 to 32% in 2007-08. However the EPS for SAIL shareholders has increased significantly from Rs 6 in 2003-04 to Rs 18 in 2007-08. The P/E multiple has been in the range of

10 times its earnings in 2007-08. Overall the merger has been positive post merger on certain financial parameters however it has taken beating on other three indicators.

4.4.2 JSW and SISCOL Merger

JSW Steel is part of the O P Jindal Group which is one of the largest steel companies in India with a steel production capacity of 4 million tonnes per annum. JSW Steel has a strong presence in flat steel products and it is one of the largest galvanized steel exporters in the country. Currently the company is fulfilling its buying requirements from both open market and through its own mines. However it can only fulfil 30% requirements from its own mines (www.jsw.in).

JSW Steel went for merger with Southern Iron and Steel Company Ltd (SISCOL) in the year 2007. The share swap ratio of the merger was fixed at 1:22. This means that for every 22 shares held for SISCOL, shareholders would get 1 share of JSW. JSW is the 8th low cost steel producer in the world (DNA India, 2008).

Synergy

SISCOL also has a capacity to produce 0.3 million tonnes of steel and also a captive coke facility for 0.4 million tonnes. SISCOL also has access to iron ore deposits of 180 million tonnes. However the iron ore deposits are not completely of high quality and would need further processing and beneficiation. With the size and technology of SAIL, this would be easily done and better efficiencies could be gained out of it (ICICI Direct, 2008).

Financial Analysis

The merger between JSW Steel and SISCOL took place in the year 2008. Hence below analysis has been done two years prior to the merger i.e. during 2005-06 and 2006-07 and one year after the merger i.e. 2008-09.

JSW Steel	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	27.8%	32.8%	29.5%	20.4%
Gross Operating Margin	28.0%	28.1%	27.8%	16.4%
Net Profit Margin	14.2%	15.0%	15.2%	3.3%
Return on Capital Employed	24.3%	30.0%	24.1%	11.7%
Return on Net Worth	19.8%	23.1%	22.5%	5.8%
Debt-Equity Ratio	0.94	0.75	0.98	1.42
EPS	55.40	79.26	92.42	24.52
PE	5.60	6.22	8.86	8.69

(Appendix 8)

JSW Steel merger took place in the year 2007-08 and post merger the shareholders wealth has not increased. The operating margins for the company have shown a tremendous drop of 8% in the last four years. Similarly the gross operating margins have dipped over 12% from 28% in 2005-06 to 16% in 2008-09. The most significant impact was on Net profit margin. The shareholders of JSW who have witnessed 14% of net profit margin are now able to live with a margin of 3% post merger. Shareholders wealth got further deteriorated with sharp fall in return on net worth and return on capital employed. EPS of JSW steel has taken a serious beating with Rs 55.4

in 2005-06 to Rs 24.5 in 2008-09. The company is trading at a multiple of 8.6 times its earnings however compared to SAIL it seems undervalued because of its dip in net profit margin and EPS. The post merger scenario has not been financially healthy for the shareholders of JSW Steel.

All the four industries and the merger studied under that have shown the results which state that on most of the indicators shareholders have not been able to create wealth for themselves. On certain specific mergers the EPS parameter has been positive however overall the merger has not been in the favour of the shareholders as it has failed to create wealth for its shareholders. On this basis it can be inferred that post merger shareholders of the acquiring firm do not create any form of wealth for them.

Chapter Five

Conclusion

Mergers have been the prime reason by which companies around the world have been growing. The inorganic route has been adopted by companies forced by immense competition, need to enter new markets, saturation in domestic markets, thrust to grow big and maximize profits for shareholders. In the changing market scenario it has become very important for firms to maximise wealth for shareholders. Many researchers have shown significant findings out of their research. The Hubris hypothesis in fact states that the announcement of a merger or acquisition does not lead to return for shareholders since the acquisition would only lead to transfer of the wealth from the bidding shareholders to the target shareholders.

A number of studies have been done in various countries across the world to find out whether mergers and acquisitions create maximization of wealth for shareholders. Empirical studies were done by Surujit Kaur (2002) for a sample of 20 companies between the period 1997 and 2000 to study the financial performance of the acquiring firm 3 years before and after the merger. The study shows that the acquiring firm was not able to create enough wealth for shareholders post acquisition. Another study was conducted by Beena (2004) which studied 115 manufacturing companies in the period 1995 and 2000. The study found out that the acquiring firms were not able to create significant wealth for its shareholders post acquisition.

Research Study	Abnormal Return	Sample Size	Period Under Study
Langetieg (1978)	-1.6%	149	Between 1929-69
Dodd (1980)	-1.2%	66	Between 1970-77
Jennings, Mazzeo (1991)	-0.8%	350	Between 1979-85
Mulherin and Boone (2000)	-0.36%	280	Between 1990-1999
Ghosh (2002)	-0.95%	140	Between 1985-1999

From the above research done in the past it can be seen that post merger performance has been negative for the acquiring firm.

This research has been carried out in four sectors namely aviation, banking and finance, oil and gas and steel.

Within the airline space it was seen that the acquiring firms i.e. Jet Airways and Kingfisher Airlines were not able to create significant wealth for its shareholders. Jet Airways Operating Margin started dipping from a high of 33% pre merger in 2004-05 to 5.2% in 2008-09. Similarly gross operating margin, net profit margin, return on net worth, and EPS started going down significantly. This was also accompanies by a high debt to equity ratio for Jet Airways. A similar post performance analysis was also seen for Kingfisher Airlines who deteriorated the shareholders wealth considerably. All the financial parameters were going down post merger.

The banking sector in India is said to be one of the strongest sector at present in the global scenario. Both the acquiring firms i.e. HDFC Bank and Oriental Bank of Commerce saw positive financial ratios post acquisition however when compared to the pre merger figures it had gone down significantly. Return on net Worth for both the firms went down post merger. However only the EPS remained positive for both the companies and quite stagnant compared to pre merger. Overall the post merger performance was not able to create enough wealth for shareholders because of dip in net profit margins and net worth.

The steel sector was studied with mergers done by acquiring firms like JSW Steel and SAIL. It was found that EPS for SAIL had gone up post merger creating value for shareholders however the performance post merger from JSW Steel showed that EPS had fallen significantly. SAIL went positive post merger on parameters like Operating Profit Margin, Net Profit Margin and Return on Capital Employed. However the situation form JSW was the opposite.

Oil and Gas was another sector which was studied for the research. The merger of acquiring firms i.e. IOCL and RIL were studied. RIL was only able to create high level of EPS for the shareholders and failed to succeed on other parameters post acquisition. Its Return on Net Worth, Return on Capital Employed, Gross Margin, Net Margin had reduced significantly post merger. Similar results were also obtained for IOCL who was not able to prove its strength on the financial parameters chosen for the study. The EPS of IOCL went down by half post merger.

It can be clearly concluded that other than the steel sector on certain parameters, mergers have not been able to create enough shareholders wealth for the acquiring firm. The results are in line with the studies conducted by researchers like Surujit Kaur (2002) and Beena (2004).

Overall the study conducted by the researcher shows that financial performance and acquiring company’s shareholders wealth gets deteriorated post acquisition. However the aviation, banking, oil and gas and steel sector were further analyzed with the help of an interview. It was understood from the interview that operationally and financially the merger would prove successful in the long run as it offers great synergies to the shareholders of both the acquiring firm and the target firm.

The research had analyzed specific acquiring cases and the findings have been constant. It has been seen that synergistically the mergers have been very strong and looks very definite to drive value for the shareholders of the acquiring firm’s shareholders.

Mergers and Acquisitions are entered into for creating a win-win situation for all the concerned stakeholders of the company. The overall research has discussed the way mergers and acquisitions are created and their analysis of the pre and post financial performance has been studied. The study has shown that in the Indian context mergers and acquisitions haven’t been able to create enough shareholder wealth post acquisition for the combined entity. However the research has also examined factors beyond financial analysis which shows that there is a lot of synergy in the form of geographical spread, increased customer space, growth in size and scale, access to new markets, cutting costs in operational terms and reduction in areas where overlap was witnessed.

To conclude mergers and acquisitions do not create immediate shareholder wealth and margins for the acquiring firm in the immediate short term. However from a longer perspective a consolidated company would be able to better cope up with competition, increased pressure to cut costs and grow in the changing business environment.

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Appendix

1.

KINGFISHER AIRLINES	IN crore	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	31.3	-16.3	-388.0	-742.4	-1396.5
	Net Sales	305.6	1236.4	1774.6	1441.4	5269.2
Gross Operating Margin	Gross Profit	-12.1	-304.5	-372.3	-688.8	-1784.5
	Net Sales	305.6	1236.4	1774.6	1441.4	5269.2
Net Profit Margin	Net Profit	-19.5	-340.6	-419.6	-188.1	-1608.8
	Net Sales	305.6	1236.4	1774.6	1441.4	5269.2
Return on Capital Employed	EBIT	46.0	-53.8	79.7	-211.6	-276.5
	Capital Employed	298.1	549.0	1062.0	1079.0	1133.3
Return on Net Worth	Net Profit	-19.5	-340.6	-419.6	-188.1	-1608.8
	Networth	13.7	98.0	146.0	145.0	198.9
Debt-Equity Ratio	Debt	284.5	451.0	916.0	934.0	934.4
	Equity	13.7	98.0	146.0	145.0	198.9
EPS	PAT	-19.5	-340.6	-419.6	-188.1	-1608.8
	No of Equity Shares	0.3	1.0	13.5	13.6	13.6
PE	MPS	120.0	114.0	141.0	133.0	50.0
	EPS	-63.0	-347.5	-31.0	-13.9	-118.5

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

2.

JET AIRWAYS	IN crore	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	1,440.1	1,412.2	1,035.1	753.9	598.5
	Net Sales	4,338.0	5,693.7	7,057.8	8,811.1	11,571.2
Gross Operating Margin	Gross Profit	1,039.1	1,128.7	465.5	365.2	-734.9
	Net Sales	4,338.0	5,693.7	7,057.8	8,811.1	11,571.2
Net Profit Margin	Net Profit	392.0	452.0	27.9	-253.1	-402.3
	Net Sales	4,338.0	5,693.7	7,057.8	8,811.1	11,571.2
Return on Capital Employed	EBIT	1,491.6	1,489.5	1,125.4	869.1	710.7
	Capital Employed	4,715.7	7,039.5	8,161.1	13,866.8	17,618.2
Return on Net Worth	Net Profit	392.0	452.0	27.9	-253.1	-402.3
	Networth	1,750.9	2,143.7	2,104.8	1,851.8	1,294.7
Debt-Equity Ratio	Debt	2,964.0	4,895.0	6,056.3	12,015.0	16,323.5
	Equity	1,750.9	2,143.7	2,104.8	1,851.8	1,294.7
EPS	PAT	392.0	452.0	27.9	-253.1	-402.3
	No of Equity Shares	8.6	8.6	8.6	8.6	8.6
PE	MPS	1,253.0	971.0	634.0	518.0	152.0
	EPS	45.4	52.4	3.2	-29.3	-46.6

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

3.

HDFC Bank	In CRORE	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	1,290.8	1,645.9	2,752.8	3,803.7	3,928.9
	Net Sales	3,093.5	4,475.3	6,889.0	10,115.0	16,332.3
Gross Operating Margin	Gross Profit	952.0	1,179.0	2,101.0	2,890.0	2,947.0
	Net Sales	3,093.5	4,475.3	6,889.0	10,115.0	16,332.3
Net Profit Margin	Net Profit	853.6	1,115.9	1,382.5	1,590.2	2,244.9
	Net Sales	3,093.5	4,475.3	6,889.0	10,115.0	16,332.3
Return on Capital Employed	EBIT	1,311.5	1,677.3	2,855.8	3,846.8	3,928.9
	Capital Employed	51,429.0	73,506.4	91,235.6	1,33,176.6	1,83,270.8
Return on Net Worth	Net Profit	853.6	1,115.9	1,382.5	1,590.2	2,244.9
	Networth	4,520.3	5,299.6	6,433.2	11,497.2	15,052.7
Debt-Equity Ratio	Debt	41,644.3	60,357.3	71,113.3	1,05,247.5	1,45,497.4
	Equity	4,520.3	5,299.6	6,433.2	11,497.2	15,052.7
EPS	PAT	853.6	1,115.9	1,382.5	1,590.2	2,244.9
	No of Equity Shares	30.9	31.3	31.9	35.4	42.5
PE	MPS	532.0	770.0	950.0	1,401.0	1,100.0
	EPS	27.6	35.7	43.3	44.9	52.8

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

4.

Oriental Bank of Commerce	In CRORE	2002-03	2003-04	2004-05	2005-06	2006-07
Operating Profit Margin	Operating Profit	1,160.0	1,531.0	2,376.0	2,926.0	3,923.4
	Net Sales	3,294.7	3,300.5	3,571.9	4,118.9	5,164.9
Gross Operating Margin	Gross Profit	1,265.0	1,657.0	1,233.2	1,192.0	1,296.7
	Net Sales	3,294.7	3,300.5	3,571.9	4,118.9	5,164.9
Net Profit Margin	Net Profit	457.0	686.1	726.1	557.2	580.8
	Net Sales	3,294.7	3,300.5	3,571.9	4,118.9	5,164.9
Return on Capital Employed	EBIT	1,163.0	1,533.0	1,012.7	1,030.6	1,103.5
	Capital Employed	33,987.6	41,006.6	54,069.5	58,937.4	73,936.3
Return on Net Worth	Net Profit	457.0	686.1	726.1	557.2	580.8
	Networth	2,109.3	2,676.8	3,327.0	5,170.8	5,600.3
Debt-Equity Ratio	Debt	30,575.1	36,374.0	48,578.4	51,073.9	64,618.6
	Equity	2,109.3	2,676.8	3,327.0	5,170.8	5,600.3
EPS	PAT	457.0	686.1	726.1	557.2	580.8
	No of Equity Share	19.3	19.3	19.3	25.1	25.1
PE	MPS	66.0	291.0	307.0	235.0	185.0
	EPS	23.7	35.6	37.7	22.2	23.2

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

5.

RIL	In CRORE	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	12,812.0	14,299.0	18,210.0	23,306.0	23,395.0
	Net Sales	66,051.0	81,211.0	1,05,363.0	1,33,443.0	1,46,291.0
Gross Operating Margin	Gross Profit	14,262.0	14,982.0	18,403.0	24,201.0	25,428.0
	Net Sales	66,051.0	81,211.0	1,05,363.0	1,33,443.0	1,46,291.0
Net Profit Margin	Net Profit	7,572.0	9,069.0	10,908.0	19,458.0	15,279.0
	Net Sales	66,051.0	81,211.0	1,05,363.0	1,33,443.0	1,46,291.0
Return on Capital Employed	EBIT	14,095.0	15,047.0	20,862.9	23,204.7	24,547.0
	Capital Employed	59,187.9	71,669.9	91,792.9	1,17,928.3	1,31,867.0
Return on Net Worth	Net Profit	7,572.0	9,069.0	10,908.0	19,458.0	15,279.0
	Networth	40,403.3	49,804.3	63,967.1	81,448.6	1,01,564.0
Debt-Equity Ratio	Debt	18,784.6	21,865.6	27,825.7	36,479.7	42,675.0
	Equity	40,403.3	49,804.3	63,967.1	81,448.6	90,532.0
EPS	PAT	7,572.0	9,069.0	10,908.0	19,458.0	15,279.0
	No of Equity Shares	139.0	139.0	139.0	145.0	145.0
PE	MPS	453.0	795.0	1,368.0	2,347.0	1,515.0
	EPS	54.5	65.2	78.5	134.2	105.4

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

6.

IOCL	In CRORE	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	7,436.9	7,825.2	10,814.8	11,326.4	13,582.8
	Net Sales	1,39,214.3	1,74,895.1	2,16,498.9	2,47,359.2	3,07,124.0
Gross Operating Margin	Gross Profit	8,138.6	8,909.3	11,195.4	12,790.1	7,210.3
	Net Sales	1,39,214.3	1,74,895.1	2,16,498.9	2,47,359.2	3,07,124.0
Net Profit Margin	Net Profit	4,891.4	4,915.1	7,499.5	6,962.6	2,949.6
	Net Sales	1,39,214.3	1,74,895.1	2,16,498.9	2,47,359.2	3,07,124.0
Return on Capital Employed	EBIT	8,534.3	9,236.2	12,598.9	13,718.6	16,233.9
	Capital Employed	43,304.6	55,707.0	61,940.0	76,609.4	88,975.3
Return on Net Worth	Net Profit	4,891.4	4,915.1	7,499.5	6,962.6	2,949.6
	Networth	25,984.4	29,302.7	34,857.3	41,086.3	44,003.3
Debt-Equity Ratio	Debt	17,320.2	26,404.3	27,082.7	35,523.2	44,972.1
	Equity	25,984.4	29,302.7	34,857.3	41,086.3	44,003.3
EPS	PAT	4,891.4	4,915.1	7,499.5	6,962.6	2,949.6
	No of Equity Shares	116.0	116.0	116.0	119.0	119.0
PE	MPS	438.0	584.0	400.0	445.0	387.0
	EPS	42.2	42.4	64.7	58.5	24.8

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

7.

SAIL	In CRORE	2003-04	2004-05	2005-06	2006-07	2007-08
Operating Profit Margin	Operating Profit	4,489.1	10,489.4	6,554.8	9,644.5	11,267.1
	Net Sales	21,669.5	28,714.3	28,200.5	34,328.8	39,958.7
Gross Operating Margin	Gross Profit	10,680.0	10,492.3	6,913.0	10,634.1	12,391.0
	Net Sales	21,669.5	28,714.3	28,200.5	34,328.8	39,958.7
Net Profit Margin	Net Profit	2,512.1	6,817.0	4,013.0	6,202.3	7,536.8
	Net Sales	21,669.5	28,714.3	28,200.5	34,328.8	39,958.7
Return on Capital Employed	EBIT	5,005.0	11,151.6	7,492.7	11,053.2	12,968.7
	Capital Employed	13,726.4	16,076.4	16,899.0	21,493.7	26,108.8
Return on Net Worth	Net Profit	2,512.1	6,817.0	4,013.0	6,202.3	7,536.8
	Networth	5,037.7	10,306.7	12,601.4	17,313.2	23,063.6
Debt-Equity Ratio	Debt	8,688.8	5,769.8	4,297.6	4,180.5	3,045.2
	Equity	5,037.7	10,306.7	12,601.4	17,313.2	23,063.6
EPS	PAT	2,512.1	6,817.0	4,013.0	6,202.3	7,536.8
	No of Equity Shares	413.0	413.0	413.0	413.0	413.0
PE	MPS	33.0	62.0	83.0	114.0	197.0
	EPS	6.1	16.5	9.7	15.0	18.2

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

8.

JSW Steel	In CRORE	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating Profit	1,693.1	2,818.6	3,356.2	2,861.2
	Net Sales	6,092.4	8,595.0	11,391.1	14,006.6
Gross Operating Margin	Gross Profit	1,707.7	2,413.4	3,171.3	2,295.4
	Net Sales	6,092.4	8,595.0	11,391.1	14,006.6
Net Profit Margin	Net Profit	864.3	1,292.0	1,728.2	458.5
	Net Sales	6,092.4	8,595.0	11,391.1	14,006.6
Return on Capital Employed	EBIT	2,053.2	2,929.2	3,666.1	2,252.7
	Capital Employed	8,452.3	9,767.1	15,223.8	19,231.9
Return on Net Worth	Net Profit	864.3	1,292.0	1,728.2	458.5
	Networth	4,356.2	5,594.1	7,677.3	7,959.3
Debt-Equity Ratio	Debt	4,096.1	4,173.0	7,546.5	11,272.6
	Equity	4,356.2	5,594.1	7,677.3	7,959.3
EPS	PAT	864.3	1,292.0	1,728.2	458.5
	No of Equity Shares	15.6	16.3	18.7	18.7
PE	MPS	310.0	493.0	819.0	213.0
	EPS	55.4	79.3	92.4	24.5

Source(www.myiris.com, www.icicidirect.com, www.moneycontrol.com, Company Annual Reports)

9.

Interview for HDFC and CBOP Merger

From:

Sent:

To:

Dear Rohit

With respect to the telecon pertaining to mergers and acquisition between HDFC Bank and CBOP. You can note a fact that this merger would create waves in the banking industry in India and will further spurt the M&A activity within the banking space. Both the banks share tremendous experience in the banking space and have previous merger experience as well. HDFC Bank took over Times Bank few years Bank and CBOP itself is a consolidation of Lord Krishna Bank and Centurion bank with Bank of Punjab to make it CBOP. The consolidation between HDFC Bank and CBOP will generate greater revenues, reduce operational cost due to closing few overlapping branches and service delivery points.
Further the branch expansion, increase in net interest income, increase in fee based income, increase in CASA growth, increase in customer portfolio will all lead to higher growth in the coming time.
The major challenge what I see from the merger is pertaining to the NPA classification of CBOP portfolio which will create stress on HDFC Bank's books.
Overall the merger of our Bank with CBOP is a value based merger which will increase size and scale of HDFC Bank and create shareholder value in longer term. Lastly just want to highlight the tremendous senior management potential which CBOP previously had and which is now inherited by us. This includes managers with previous experience with Citibank and other foreign banks.
In a broader view we have made a merger which will add value to our bank and all the stakeholders in the near future.

LIMITATION:

The interviews for the same companies were conducted from some of the top names in the industry. However to ensure that the data holds enough validity and reliability, the researcher asked for a written matter on the subject from the official email address of the company. Based on which HDFC Bank was the first to give such a letter for academic purpose. However the limitation pertaining to these interviews was that no company other than HDFC Bank was giving an official mail to put in records. The company officials explained that this did not comply with their confidentiality norms and company rules since the merger had taken place quite sometime back.