Impact of Make in India Campaign on Merger and Acquisition

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ABSTRACT
In present scenario, "Make in India" is a very lucrative initiative taken by the government of India. The main aim behind this initiative is just to attract global investors in India and becoming India as manufacturing hub in across the world. This only happens by less legal formalities, rules and regulation and law applicable in case of attracting foreign investment. With the help of Make in India campaign, the manufacturing sector will show a positive trend in respect to performance, profitability and many other aspects and this only possible by utilization of foreign technology that comes in India for raising the facilities' in manufacturing and other sector. Various mergers and acquisition has been taking place in various sectors of the Indian economy, which are promoted as well as funded government such as defence, power sector and many more. This paper points out the merger and acquisition have been taken place under Make in India initiative.

Keywords: Make in India, mergers, acquisition, FDI, defense, renewable energy, manufacturing

I INTRODUCTION

Make in India is a scheme introduced by the Indian government for the purpose of attracting Multinationals (M.N.C's) as well as domestic business to procure or obtain their products in Indian environment. Our present prime minister Narendra Modi has introduced this scheme to make India as manufacturing hub as well as most favored nation in reference to foreign direct investment across the globe. Creation of job, skill enhancement, raising standard of living, minimizing the impact of problem in the economy are the objectives of this initiative launched by our honorable prime minister The campaign was designed by Wieden Kennedy. In initiative, a presentation of 25 sector were made as well as web telecast were also launched.. Almost 25 key sectors (such as aviation, chemicals, IT, automobiles, textiles, ports, pharmaceuticals, leather, hospitality, tourism, wellness, railways, etc) have been identified by the government to work for the investors and become a world leader. Before launch of the initiative, foreign equity investor in different sectors had been liberalized. The application for licenses was made available online and the validity of licenses was increased to three years. Various other norms and procedures were also relaxed. "Invest India " is a special unit in the ministry of commerce which provide direction for all global investor in respect to legal and policy related issues and provide support in getting legal clearances The government of India is making a huge effort in order to reduce any type of burden on the investors. Answer of all queries that are raised by business units are resolve with the help of a team of this make in India initiative through web portal and also there is a back end support within 72 hours of submit the query.

II MERGER AND ACQUISITION

In Asian Region, India is treated as the most suitable market for merger and acquisition deals which is wholly depends by some positive economic as well as demographic situation and a positive regulatory framework. M&A's is very common strategic tool for the purpose of attaining interest in long term business by combining or acquiring other entity and formed a new entity to minimize the risk and share the financial benefits, expansion of business operation as well as diversification can be achieved only through merger and acquisition . Trend of merger and acquisition in India showed a significant growth in the first half of the year 2016 and the momentum is likely to remain continue at the end of year 2016 is treated as the "big" year for deal making Of M&A's transactions. Ease of doing business and acceleration in M&A's transactions are improved by proper follow up of provision of companies act, 2013, new startups, and unblocking stalled project. 82 %, Indian companies are major player in M&A's transaction which shows a significant increase of 82% in first half of financial year 2016, this is the highest in respect to the No of M.&A's transaction since 2011.Our honorable prime minister has committed to made some changes in legal and regulatory framework of India, merger and acquisition are largely influence from land acquisition, license and permit , retrospective tax and many more legal issues are there which affect the M&A deals.

As per joint report gave by the global risk mitigation firm, i.e., kroll and deal tracking firm in case of merger market, in the first half of 2016, 82 deals worth close to $9 billion were announced, "putting India on track for another banner year" of inbound investment. So far in 2016, India has continued to attract US interest, with $3.1 billion through 27 deals compared to similar US investment in China at $1.3 billion and 13 deals.

III NEED OF THE STUDY

M&A's is very common strategic tool for the purpose of attaining interest in long term business by combining or acquiring other entity and formed a new entity to minimize the risk and share the financial benefits, expansion of business operation as well as diversification can be achieved only through merger and acquisition. This paper emphasizes on pre and post merger performance of selected companies as well as impact of Make in India initiative on merger and acquisition.

IV OBJECTIVES OF STUDY

(a) To analyze the financial performance of Novartis and GlaxoSmithKline
(b) To know the impact of merger on Novartis and GlaxoSmithKline

Hypothesis

H0: There is no significant difference Between the Net worth of Novartis and GlaxoSmithKline in pre and post-merger time.

H0: There is no significant difference between Net Profit Margin Novartis and GlaxoSmithKline in pre and post-merger time

V RESEARCH METHODOLOGY

(a) Sample size-Recent merger in Indian bank has been taken into consideration (2014-2015) i.e. Novartis and GlaxoSmithKline

(b) Type of data- The study has been based on secondary data which is collected from annual reports and journals, websites of selected bank and R.B.I.

(c) Tool for analyzing data
(i) Ratio analysis
(ii) t-test

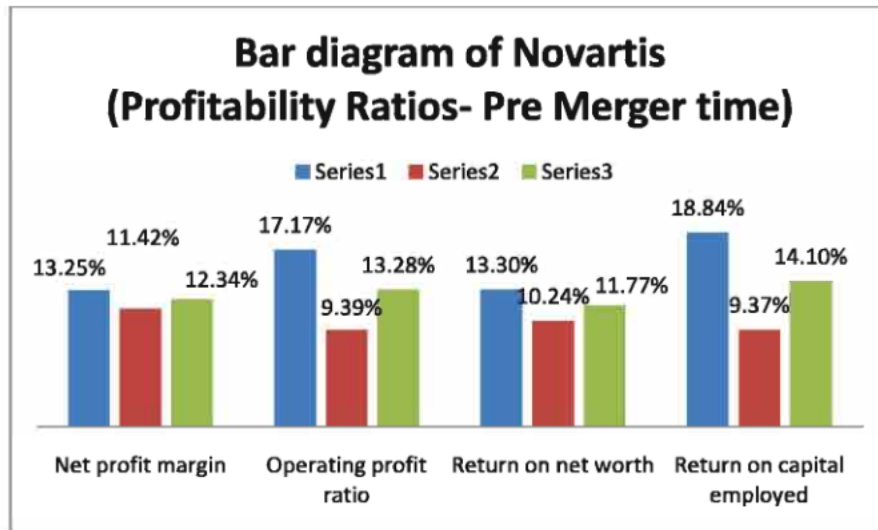
(d) Duration of study- For the purpose of analysis of data, period of three years has been taken into consideration. For Pre-merger – 2010 -2011 & 2011-2012 For post-merger-2013-2014&2014-2015

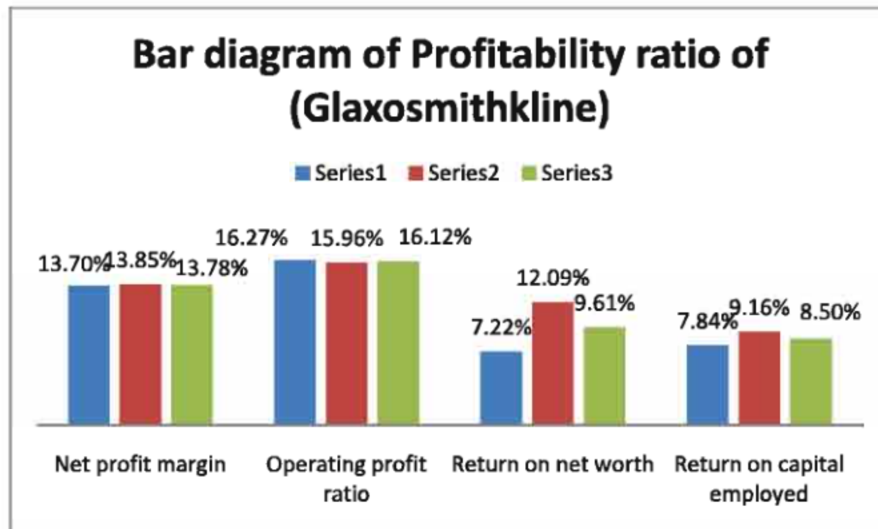
Table -1

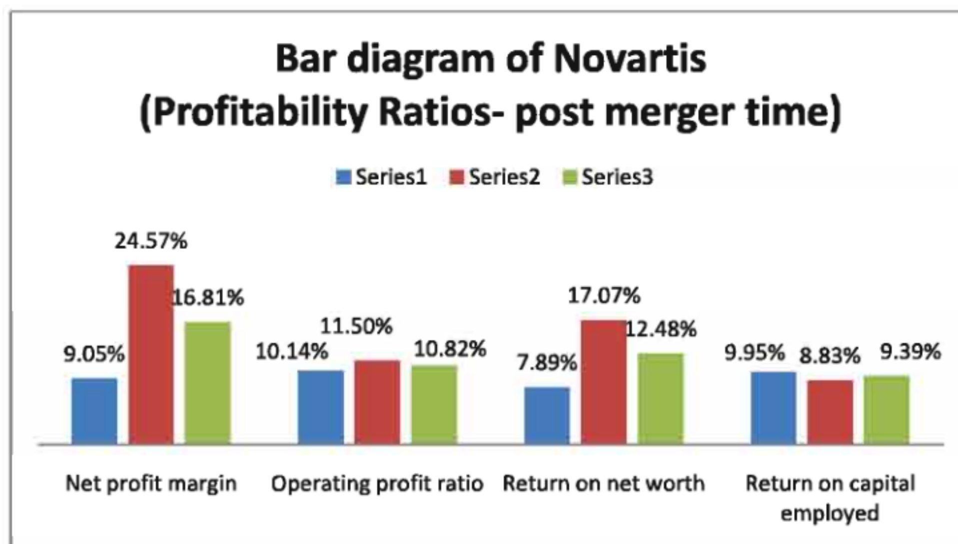
Showing the Profitability and Efficiency ratios of Novartis and GlaxoSmithKline

Bar Diagram Representation of Profitability Ratios

Ratios	Pre Merger Period						Post Merger Period		
	Novartis			Glaxosmithkline			Novartis		
Profitability Ratios	**Mar 2011**	**Mar 2012**	**Avg.**	**Mar 2011**	**Mar 2012**	**Avg.**	**Mar 2014**	**Mar 2015**	**Avg**
Net Profit Margin	13.25%	11.42%	12.34%	13.70%	13.85%	13.78%	9.05%	24.57%	16.81%
Operating Profit Ratio	17.17%	9.39%	13.28%	16.27%	15.96%	16.12%	10.14%	11.50%	10.82%
Return On Net Worth	13.30%	10.24%	11.77%	7.22%	12.09%	9.61%	7.89%	17.07%	12.48%
Return On Capital Employed	18.84%	9.37%	14.10%	7.84%	9.16%	8.5%	9.95%	8.83%	9.39%
Efficiency Ratios	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Avg**
Stock Turnover Ratio	8.20	8.35	8.28	9.11	12.63	10.87	8.75	11.17	9.96
Debtor Turnover Ratio	11.86	10.79	11.32	30.10	23.60	26.85	10.90	12.18	11.54
Investment Turnover Ratio	8.20	8.35	8.28	9.11	12.63	10.87	8.75	11.17	9.96
Liquidity Ratios	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Avg**
Current Ratio	4.69	4.97	4.83	1.80	1.90	1.85	5.14	5.16	5.15
Quick Ratio	4.17	4.47	4.32	1.45	1.55	1.50	4.63	4.82	4.72
Market Test Ratio	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2013**	**Mar 2014**	**Avg**	**Mar 2015**	**Mar 2016**	**Avg**
Dividend Per Share	26.70	36.44	31.55	45.00	45.00	45.00	40.40	16.10	28.25


Bar diagram of Novartis
(Profitability Ratios- Pre Merger time)
Series1
Series2
Series3
13.25%
11.42%
12.34%
17.17%
9.39%
13.28%
13.30%
10.24%
11.77%
18.84%
9.37%
14.10%
Net profit margin
Operating profit ratio
Return on net worth
Return on capital employed


Bar diagram of Profitability ratio of (Glaxosmithkline)
Series1
Series2
Series3
13.70%
13.85%
13.78%
16.27%
15.96%
16.12%
7.22%
12.09%
9.61%
7.84%
9.16%
8.50%
Net profit margin
Operating profit ratio
Return on net worth
Return on capital employed


Bar diagram of Novartis
(Profitability Ratios- post merger time)
Series1
Series2
Series3
9.05%
24.57%
16.81%
10.14%
11.50%
10.82%
7.89%
17.07%
12.48%
9.95%
8.83%
9.39%
Net profit margin
Operating profit ratio
Return on net worth
Return on capital employed

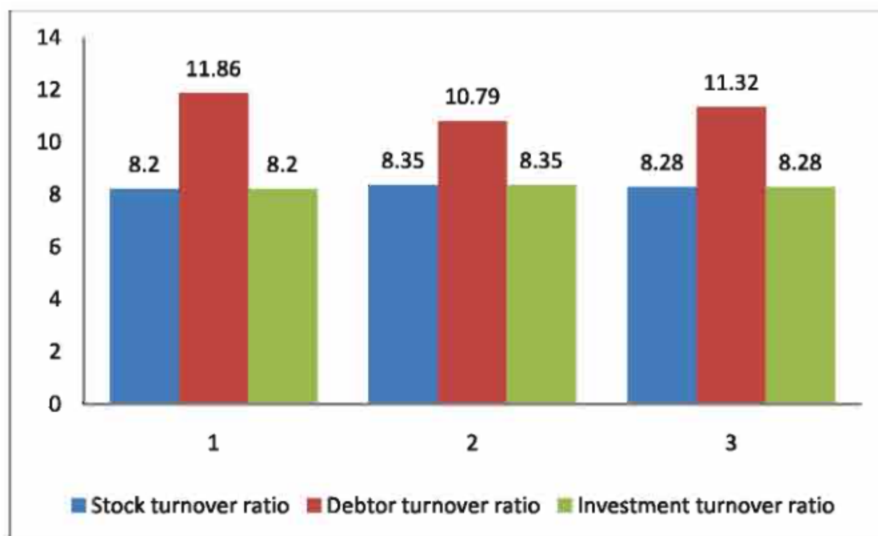
(a) Net profit ratio which is 12.34% since the Novartis pre merger whereas it is 13.78% in case of GlaxoSmithKline. Post merger net profit ratio is 16.81%, which clearly indicates that the company is in a profitable position because of rise in level of sufficient earnings in the merger period.

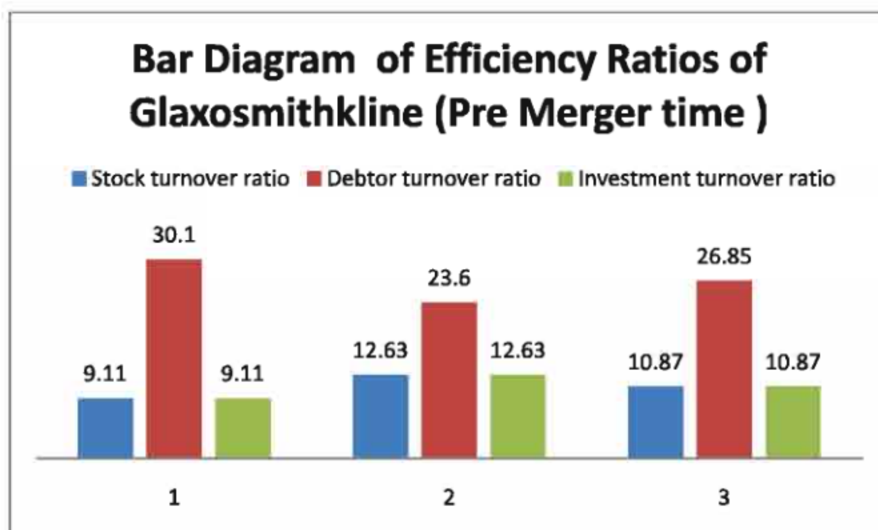
(b) The operating profit ratio is 13.28 % for Novartispre merger whereas it is 16.12% in case of the GlaxoSmithKline Post merger ratio is 10.82%%, which depicts that company has paid some which might be incurred during the merger period.

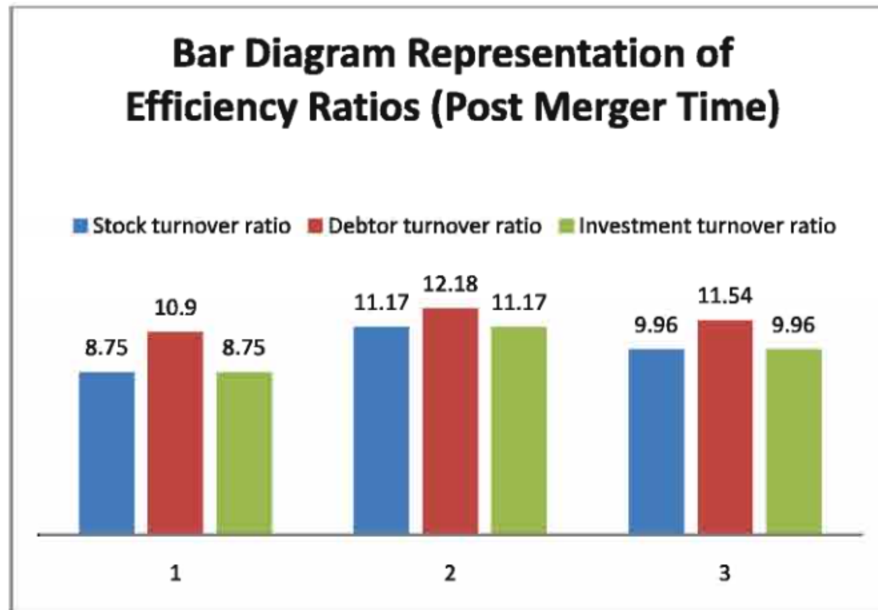
(c) Return on net worth is 11.77 % for Novartispre merger whereas it is 9.61% in case of the GlaxoSmithKline Post merger ratio is 12.48% which depicts that when there is an increase in the risk of bankruptcy, then the chances to pay back the debt reach to impossible.

(d) Return on capital employed (ROCE) is 11.77 % for Novartispre merger whereas it is 8.5% in case of GlaxoSmithKline. Post merger ratio is 12.48%, which shows how effectively assets are performing while taking into consideration long-term financing.

Bar Diagram Representation of Efficiency Ratios
Efficiency Ratio of Novartis



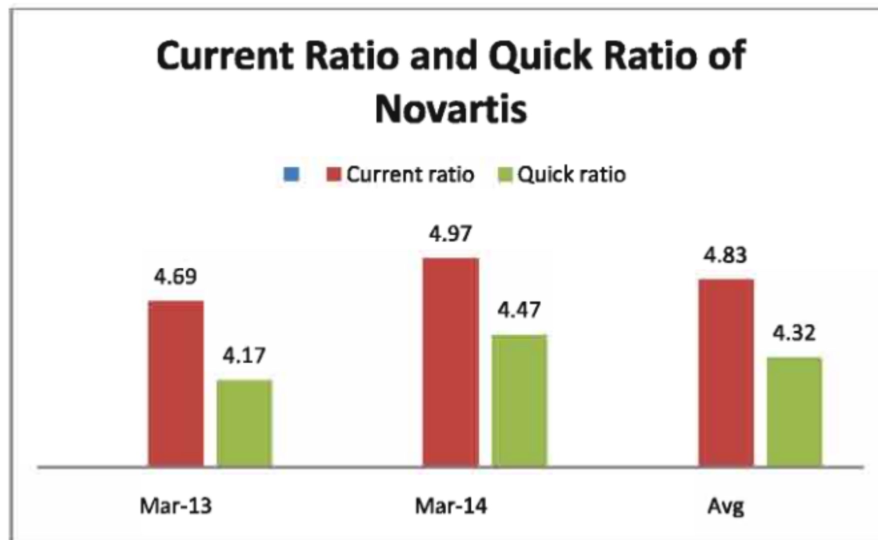


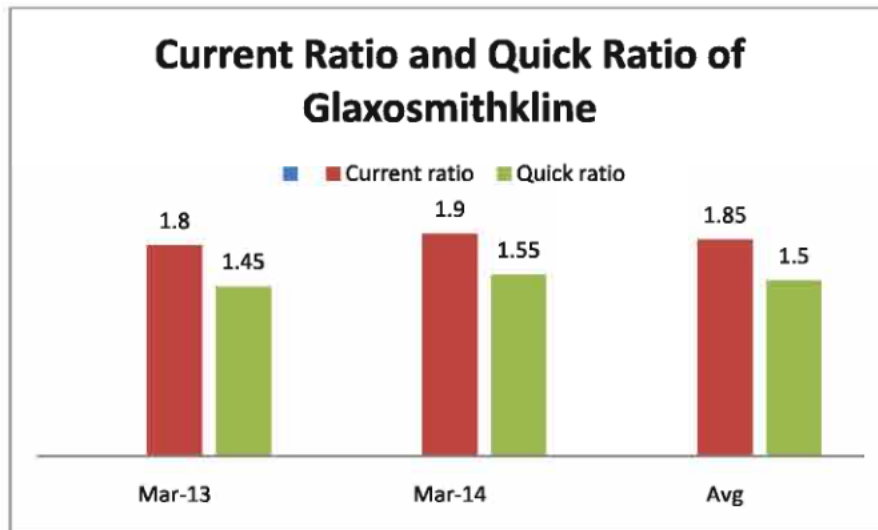


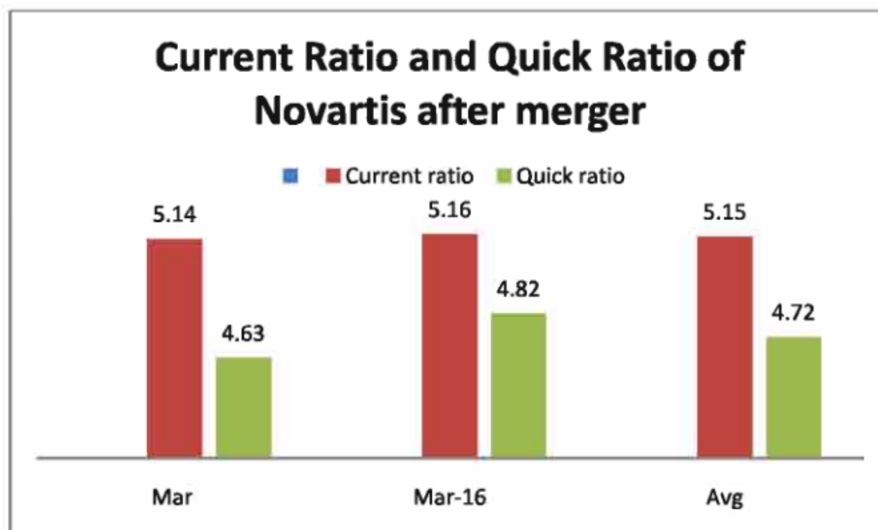
(e) Inventory turnover ratio is 8.28 times for Novartis pre merger where as it is 10. in case of GlaxoSmithKline. Post merger ratio is 9.96 times which shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period.

(f) Debtor turnover ratio is 11.32 times for Novartis pre merger where as it is 26.85 times in case of GlaxoSmithKline Post merger ratio is 11.54 times which clearly indicates that number of times on the average receivable are turnover in each year. High ratio shows efficient management of debtors or vice versa.

(g) Investment turnover ratio is 8.28 times for Novartis pre merger where as it is 10.87 times in case of GlaxoSmithKline Post merger ratio is 9.96 times which shows how many times a company "turns over" the money invested in the company. As the ratio increases, so does a company's ability to generate revenues or vice versa.



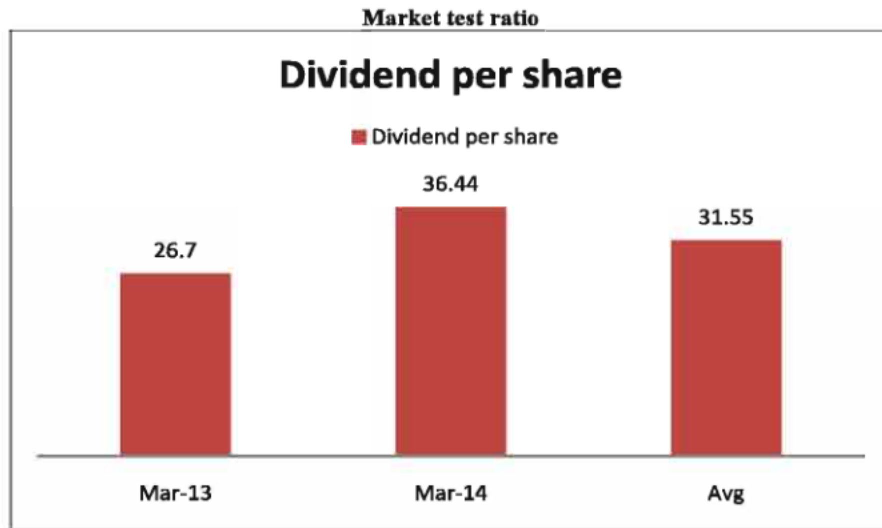


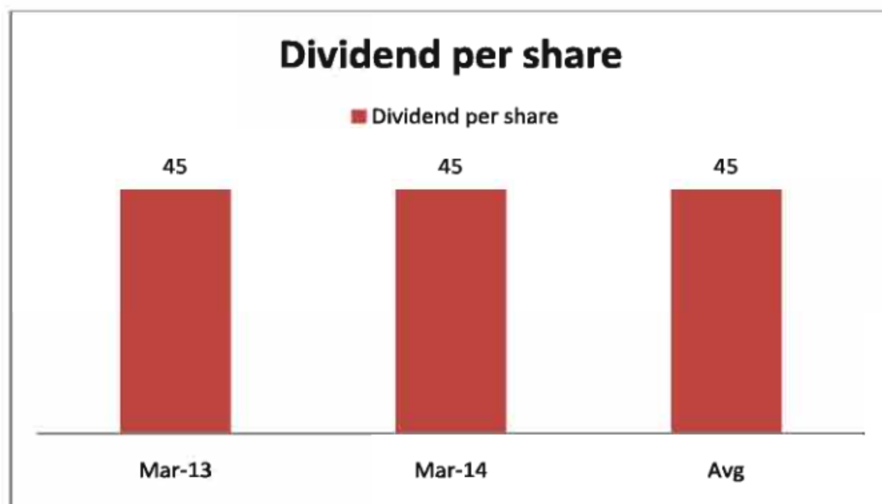


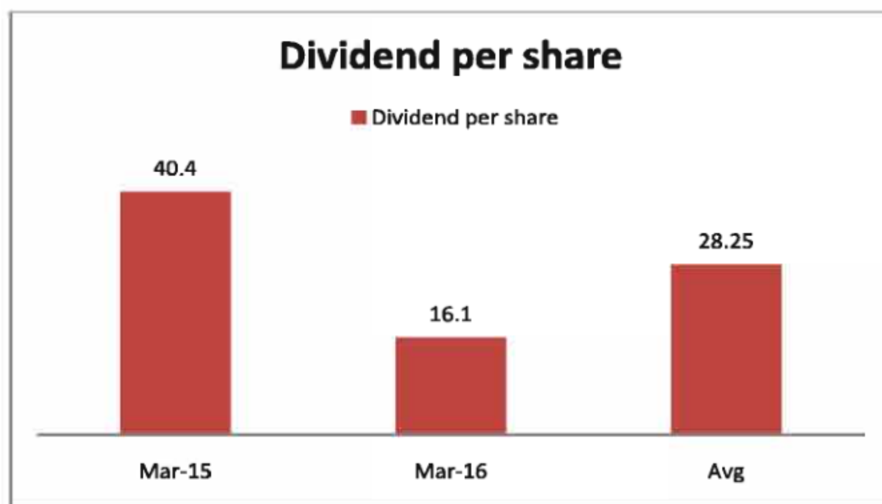
(h) Current ratio is 4.83:1 for Novartis pre merger where as it is 1.85:1 times in case of GlaxoSmithKline Post merger ratio is 5.15:1 which depicts that high current ratio may not always be able to pay its current liabilities as they become due if a large portion of its current assets consists of slow moving or obsolete inventories or vice versa.

(i) Quick ratio is 4.32:1 for Novartis pre merger where as it is 1.50 times in case of GlaxoSmithKline Post merger ratio is 4.72:1whichindicates that the company is investing too many resources in the working capital of the business which may more profitably be used elsewhere.

Market test ratio







H0: There is no significant difference Between the Net worth Novartis and GlaxoSmithKline in pre and post-merger time

t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	0.091033	0.122733
Variance	0.002367	0.002085
Observations	2	2
Pearson Correlation	-0.73314	
Hypothesized Mean Difference	0	
Df	2	
t Stat	-0.62532	
P(T<=t) one-tail	0.2978	
t Critical one-tail	2.919986	
P(T<=t) two-tail	0.595599	

Interpretation

From the above paired t- test table, the researcher analyzed that net worth has no significantly changed after merger and acquisition, t-value comes to -0.62532which depicts that Null hypothesis is accepted . It can be said that there is no alteration in net worth which arises between pre and post merger time.

H0: There is no significant difference between Net Profit Margin of Novartis and GlaxoSmithKline in pre and post-merger time

t-Test: Paired Two Sample for Means		
	Variable 1	Variable 2
Mean	0.125133	0.1349
Variance	0.000141	0.001235
Observations	2	2
Pearson Correlation	-0.67353	
Hypothesized Mean Difference	0	
Df	2	
t Stat	-0.38414	
P(T<=t) one-tail	0.368935	
t Critical one-tail	2.919986	
P(T<=t) two-tail	0.73787	

Interpretation

After analysis the researcher finds that net profit changed significantly after the merger and acquisition, t- value reaches to -0.38414which means that Null hypothesis was rejected. It can be concluded that there is a change in net profit which occurs before pre and post merger and acquisition.

VI FINDINGS

(a) Net profit shows positive impact after the merger due to the increase in level of earnings.

(b) The operating profit ratio shows the negative impact due to payment of expenses after merger.

(c) Return on net worth depicts that when there is an increase in the risk of bankruptcy, then the chances to pay back the debt reach to impossible.

(d) Return on capital employed(ROCE)shows how effectively assets are performing while taking into consideration long-term financing

(e) Inventory turnover ratio shows how effective inventory is managed by comparing the cost of goods sold by average inventory for a period.

(f) Debtor turnover ratio indicates that number of times on the average receivable is turnover in each year. High ratio shows efficient management of debtors or vice versa.

(g) Investment turnover ratio shows how many times a company "turns over" the money invested in the company. As the ratio increases, so does a company's ability to generate revenues or vice versa.

(h) Current ratio depicts that high current ratio may not always be able to pay its current liabilities as they become due if a large portion of its current assets consists of slow moving or obsolete inventories or vice versa.

(i) Quick ratio indicates that the company is investing too many resources in the working capital of the business which may more profitably be used elsewhere.

(j) Dividend per share is a significant indicator of the current ability of a company to produce value for its shareholders,

VII SUGGESTION

(a) Quick ratio indicates that the company is investing too many resources in the working capital of the business which may more profitably be used somewhere else.

(b) Company tries to overcome its operating expense, so that level of earning can be increase effectively.
(c) Company tries to manage its assets in an effective manner so desire return on assets can be achieved easily.

VIII CONCLUSION

M&A's is very common strategic tool for the purpose of attaining interest in long term business by combining or acquiring other entity. A new entity is formal to minimize the risk and share the financial benefits. Expansion of business operation as well as diversification can be achieved only through merger and acquisition. In this case, this Acquisition could be taken place only because the GlaxoSmithKline has a new technology which helps cancer patent, but did not have adequate facilities to provide this to the customer.

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