The Impacts of Cross Border Merger and Acquisitions on the Financial Performance of TATA Motors Ltd

OPEN ACCESS

Volume: 6

Special Issue: 1

Month: January

Year: 2019

ISSN: 2320-4168

Impact Factor: 4.118

Citation:
C, Kalaivani, and Indhumathi G. "The Impacts of Cross Border Merger and Acquisitions on the Financial Performance of TATA Motors Ltd." *Shanlax International Journal of Commerce*, vol. 6, no. S1, 2019, pp. 34–39.

DOI:
https://doi.org/10.5281/zenodo.2529648

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Abstract

The trend of increasing Cross Border Merger and Acquisition has increased with the globalization of the world economy. Indeed, the 1990s were a "golden decade" for cross border M&A with a nearly 200 percent jump in the volume of such deals in the Asia Pacific territory. In the present scenario most companies wants to develop their business and increase the shareholders' wealth. Hence companies are undergoing restructuring activities. Cross border Merger and Acquisition is one of the preferred ways to revamp and expand the business. Emerging market firms have become strong contenders in the Cross Border Acquisition Market. This paper has focused on the effects of cross border merger and acquisitions on the financial performance of Tata Motors Ltd (India) after acquiring Jaguar Cars and Land Rover (United Kingdom). The main objective of this paper is to analyze financial performance of Tata Motors Ltd during cross border pre and post-merger period. Financial performance has been evaluated with the help of ratios specifically in the areas of profitability, Liquidity and Leverage. Data has been collected from Annual Reports of Tata Motors Ltd for pre and post-merger period.

Keywords: Financial Performance, Tata Motors Ltd, Liquidity & Profitability Ratios, Cross border Merger & Acquisitions.

Introduction

The trend of increasing Cross Border Merger and Acquisition has accelerated with the globalization of the world economy. Indeed, the 1990s were a "golden decade" for cross border M&A with a nearly 200 percent jump in the volume of such deals in the Asia Pacific region. In the present scenario most companies wants to improve their business and increase the shareholders' wealth. Hence companies are undergoing reconstructing activities. Cross border merger and acquisitions are a reconstructing of industrial assets and production structures on a worldwide basis. It promotes the global transfer of technology, capital, goods and services and integrates for universal networking. Cross border M&A's leads to economies of scale and scope which helps in gaining efficiency. Apart from this it also benefits the economy such as increased yield of the host country, increase in economic growth and development particularly if the policies used by the government are favorable. According to World Investment the Cross Border M&As is increased in the early 1990 till 2005. While in 2008 it was decreasing both in terms of quantity and value, which is caused by the global economy crisis in the years 2007-2008. However, based on the conspectus World Investment Report 2009, Cross Border M&A is in some regions by 2010 tend to be continuously rising, especially in Asia (less impact by the crisis) and this condition also in line with the increasing of global economy. Mergers and acquisitions are used as a means to achieve crucial growth and are becoming more and more accepted as a tool for implementing business strategy, whether they involve Indian companies wanting to expand or foreign companies wishing to acquire market share in India. This paper has mainly focused on the effects of cross border merger and acquisitions on the financial performance of Tata Motors Ltd (India) after acquiring Jaguar Cars and Land Rover (United Kingdom).

Cross-Border Merger and Acquisitions

A company in one country can be acquired by an subsistence (another company) from other countries. The local company can be private, public, or state-owned company. In the event of the merger or acquisition by foreign investors referred to as cross-border merger and acquisitions will result in the transfer of control and authority in operating the merged or acquired company. Assets and liabilities of the two companies from two different countries are combined into a new legal substance in terms of the merger, while in terms of acquisition, there is revolution process of assets and liabilities of local company to foreign company (foreign investor), and automatically, the local company will be affiliated.

Company Profile

Tata Motors Limited

Tata Motors is the country's market leader in commercial vehicles and among the top three in passenger vehicles. It is also the world's fifth-largest truck and fourth-largest bus manufacturer. Tata Motors commercial and passenger vehicles are being marketed in several countries in Europe, Africa, the Middle East, South Asia, South East Asia, South America, CIS and Russia. The company, heretofore known as Tata Engineering and Locomotive Company, began manufacturing commercial vehicles in 1954 with a 15-year collaboration agreement with Daimler Benz of Germany. Now Tata motors had over three million customers across the country. Tata Motors is listed on the (BSE) Bombay Stock Exchange, where it is a division of the BSE SENSEX index, the National Stock Exchange of India, and the New York Stock Exchange. The company is ranked 226th on the Fortune Global 500 list of the world's biggest corporations as of 2016.

Jaguar Cars and Land Rover

Jaguar Land Rover Automotive PLC is the holding company of Jaguar Land Rover Limited, a British multinational automotive company with its headquarters in Whitley, Coventry, United Kingdom, and a subsidiary of Indian automotive company Tata Motors. The principal activity of Jaguar Land Rover Limited is the design, development, manufacture and sale of vehicles. Jaguar Land Rover has been a supplementary of Tata Motors since they founded it for the acquisition of Jaguar Cars Limited and Land Rover from Ford in 2008. On 1 January 2013 the operations of Jaguar Cars Limited and Land Rover were merged as Jaguar Land Rover Limited and the parent was renamed to Jaguar Land Rover Automotive PLC.

Cross Border Merger and Acquisitions Made By Tata Motors Limited

Acquirer	Target company	Year	Deal Value ($ in Billion)	Country
Tata Motors Ltd	Jaguar Cars and Land Rover	2008	$2.3 billion	United kingdom

In the year 2008 Tata Motors completes acquisition of Jaguar Land Rover. Tata Motors introduces new Super Milo range of buses. Tata Motors is Official Vehicle Provider to Youth Baton Relay for The III Commonwealth Youth Games Pune 2008. Indica Vista the second generation Indica, is launched. Tata Motors launches passenger cars and the new pick–up in D.R. Congo.

Review of Literature

Francoeur (2007) in their working paper entitled, long term financial performance of acquiring firms in overseas merger and acquisition and tries to identify the factors which influence their long term success. Researcher has used the "event time approach" and "buy and hold abnormal returns" over a period of five years. Evidence suggests that cross border merger and acquisition do not generate any abnormal return for the Canadian firms. Findings also indicate that there is no improvement in the firms' performance after the cross border merger and acquisition. Cross border merger and acquisition could generate value only when the bidder posses high level of research and development and a strong combination of intangible assets.

Selcuk (2008) This paper examines the impact of acquisition on the financial performance of Turkish firms. The sample consists of 30 companies. Empirical study was conducted by parametric t test, regression and financial ratios. The conclusive result shows that there is no improvement in the financial performance of the company after the cross border acquisition. It was also noticed that the overseas deals have failed to create synergy.

Raja Rajeswari, M. (2010), she conducted a study to find out the trend in growth of current profitability and turnover position of the selected transport industry in India and compare the overall financial performance of the sample companies, by using ratio analysis techniques. She concluded that Air Traffic Enquiry Committee (established by government of India, in 1950) found no justification for nationalization of airlines, it favored their voluntary merger.

A paper on "Globalization and profitability of cross-border mergers and acquisitions" done by **Pehr-Johan Norbäck and Lars Persson (2007)** investigated how the surplus generated by the globalization process is divided between MNEs and owners of domestic assets. For tested the globalization process used by oligopoly model where the equilibrium acquisition pattern, the acquisition price and firms' Greenfield investments are endogenously determined. They concluded that in markets where MNEs enter Greenfield or where there is seller competition, they will capture most of the surplus created and, in this case the domestic owner's wealth decreases when foreign entry takes place.

Objectives

The present study is carried out with the following objectives.

- To explore the Post Merger effect on liquidity position of the acquired company.
- To explore the Post Merger effect on leverage standards of the acquired company.
- To explore the Post Merger effect on profitability standards of the acquired company.

Research Hypothesis

H(0): There is no significant change in liquidity position of the acquired company.
H(0): There is no significant change in leverage position of the acquired company.
H(0): There is no significant change in profitability position of the acquired company.

Scope of Study

The focus of this research paper is on cross border merger and acquisition of Tata motors Ltd which acquires Jaguar Cars and Land Rover. Financial performance has been analyzed by the Comparison of cross border Pre and Post merger details provided in the annual report.

Research Methodology

Sample Selection

In this research paper, we have selected cross border merger of Tata Motors Ltd from Automobile Industry. The acquired company Tata Motors Ltd has been selected and data calculated for pre and post-merger period.

Data Collection

In order to evaluate the financial performance of Tata motors Ltd on a comparative basis, two years before merger and two years after merger will be considered.

Statistical Tools

To analyze the data financial ratios has been calculated and mean and standard deviation were used for Pre and Post merger period. Paired sample t-test (2 tailed with 95% significance level) has been used for the testing of hypotheses. MS-Excel is the only statistical application used for the study.

Data Description

Current study analyzes the effect of merger and acquisition on pre and post financial performance of Tata Motors Ltd for the period of 2 years. Data for the years from 2006-2007 and 2007-2008 have been taken to analyze pre merger financial performance and data from 2008-2009 and 2009-2010 has been taken to analyze post merger financial performance. For this study relevant ratios have been identified and calculated for the said period.

Analysis

To test the hypotheses pre and post merger financial ratios have been calculated and compared to see if there are any significant statistical changes in financial performance by using paired sample t-test at a confidence level 0.05 or 95% (2 tailed). The results are shown in the following table for the merged company.

Table Paired Sample T-Test For Financial Ratios

Ratios	Mean		Mean Difference	Standard Deviation		t-Value	p-value (Two Tailed)
	Pre	Post		Pre	Post		
Liquidity Ratios							
Current ratio	1.175	0.67	0.505	0.106	0.159	0.069	0.333
Liquid ratio	1.04	0.515	0.525	0.297	1.887	0.069	0.270
Leverage Ratios							
Debt equity	0.56	1.905	-1.345	5.264	0.566	0.334	0.068
Interest coverage	10.54	2.61	7.93	1.365	3.592	0.142	0.231

Profitability Ratios							
Return on capital employed	18.47	10.225	8.245	1.004	7.446	0.399	0.085
Return on assets	9.65	5.195	4.455	10.508	3.613	0.364	0.076
Return on equity	27.845	17.085	10.76	0.148	12.551	0.443	0.070

Testing of Hypotheses
Liquidity Ratios

- Post-merger current ratio has been decreased by 57% showing that the company is not able to pay off its short term liabilities in a year.
- Falling of Liquid ratio shows the deteriorate position of the company as the mean difference between pre and post-merger ratio is 0525. This indicates that company is not able to meet its immediate current liabilities and dependents highly upon inventory.

Based on the results of t-test (95% significance level), the null hypotheses H (0) = there is no Indicative progress in Liquidity Ratios of the merged company, is accepted. Data reveals that there is no statistically significance changes between pre and post values because p value > 0.05 for all the selected liquidity ratios under study.

Leverage Ratios

- Post-merger Debt – Equity ratio increased by 29% showing the higher leveraged policy adopting by the merged company and they are able to explore the debt funds of the market.
- Interest coverage ratio is decreased by 25% showing a negative trend and reveal the inability of the company to pay off its debt charges due to inadequate profits.

Based on the results of t-test (95% significance level), the null hypotheses H(0)= there is no significant change in Leverage Ratios of the merged company, is accepted. Data indicates that there is no statistically significance difference between pre post values because p value > 0.05 for all the selected liquidity ratios under study.

Profitability Ratios

- All the profitability ratios are showing the decreased trend which indicate the decrease in the performance of the company and yield as well.
- All Return on capital employed, Return On Assets and Return On Equity ratios are decreased which reveal the decrease in the operating profits of the company.

Based on the results of t-test (95% significance level), the null hypotheses H(0)= there is no Significant progress in Profitability Ratios of the merged company, is accepted. Data reveals that there is no statistically significance difference between pre post values because p value > 0.05 for all the selected profitability ratios under study.

Conclusion

Results showed that there is no significant improvement in the various ratios of the company in pre and post-merger period. The null hypothesis of the study has not been rejected which stated that there is no significant progress or growth in the financial position of the company in pre and post period. For this a comparison between pre and post-merger performance examined in terms of current ratio, liquid ratio, Interest coverage, Return on Capital employed, Return on Equity and Debt equity ratio. In the present case study the return on equity , debt –equity ratio and return on capital employed has shows there no improvement after the merger and for the purpose and objective of the study, investigator apply t-test for analyzing the pre and post-merger performance of Tata

Motors Ltd and result suggested that after the cross border merger the financial performance of the Tata Motors Ltd has not increased due to various competitors of Automobile companies in the market. Finally it concludes that there is no significant change in the financial performance of the Tata Motors Ltd after the cross border merger and acquisition.

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