

PRE – POST STRATEGIC RATIONALE WITH RESPECT TO PROFITABILITY: A CASE STUDY OF RIL-RPL

Sandhya S¹ Dr. Manoj Kumara N V²

Research student¹ Associate professor²

Department of management science, Maharaja Institution of technology-Mysore, Mandya , India

¹Ss9393245@gmail.com@gmail.com ²manojkumara_mba@mitmysore.in

Abstract: India's most valuable company (by market capitalized)- Mukesh Ambani-controlled reliance industries limited (RPL) has decided to absorb its reliance petroleum limited(RIL) unit through a share swap arrangement. The RPL refinery which was commissioned on December 25, 2008, has for earned \$00 million revenue through early product service. This study also explains the financial and statistical tool of both the company. Descriptive research method is used to prove the hypotheses. The focuses of our study is to measures the change in performance levels of the companies. Is any in the post-merger phased to the pre merge ones through selected HR and Financial parametric like Human capital return on investment

Keywords: Ratios, profitability, Merger and Acquisition and T-test

1. INTRODUCTION:

Mergers and acquisition are not the same terminologies but often it is used interchangeably. In acquisition one organization purchase a part or whole another organization. While in merger two or more than organization constitute one organization. The people are defined in different angel to the merger and acquisition. Merger is the legal activity in which two or more organization combine and only one firm survive as a legal activity (Georgios 2011) in a merger two or more firms approaches together and become a single firm while acquisition big and financially sound firm purchase the small firm.

Merger and Acquisition important tool for the expansion of business in different countries and the researchers from all over the world are taking interest to work in this field. For the last three decades, firms have been intensively used merger and acquisition as strategic tool for corporate restructuring.

In mergers, the boards of directors for two companies approve the combination and seek share holders approval. After the merger, the acquired company ceases to exist and becomes part of the acquiring company. In a simple acquisition , the acquiring company obtains the majority stake in the acquired firm, which does not change its name or legal structure.

2. BACKGROUND OF STUDY:

A. Reliance Industries Limited (RIL) is an Indian conglomerate holding company headquartered in Mumbai, Maharashtra, India. Reliance owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail, and telecommunications. Reliance is the most profitable company in India, the largest publicly traded company in India by market capitalization, and the second largest company in India as measured by revenue after the government-controlled Indian Oil Corporation. On 18 October 2007, Reliance Industries became the first Indian company to breach \$100 billion market capitalization. The company is ranked 203th on the Fortune Global 500 list of the world's biggest corporations as of 2017. It is ranked 8th among the Top 250 Global Energy Companies by Platts as of 2016. Reliance continues to be India's largest exporter accounting for 8% of India's total merchandise exports with a value of Rs 147,755 crore and access to markets in 108 countries. Reliance is responsible for almost 5% of The Government of India's total revenues from customs and excise duty and is also the highest Income tax payer in the private sector in India.

India's most valuable company (by market capitalization) .MukeshAmbani controlled reliance industries limited (RIL) has decided to absorb its reliance petroleum limited (RPL) unit through a share swap arrangement. RIL said it would issue one share for every 16 held in the unit, giving it direct control of the world's largest refinery complex.

The number of shares of RIL are approx. 3.1 billion. The promoter group, Ambani family, holds approx. 46.32% of the total shares whereas the remaining 53.68% shares are held by public shareholders, including FII and corporate bodies.¹ Life Insurance Corporation of India is the largest non-promoter investor in the company with 7.98% shareholding.

Buyback: In January 2012, the company announced a buyback programme to buy a maximum of 120 million shares

for ₹104 billion(US\$1.6 billion). By the end of January 2013, the company bought back 46.2 million shares for ₹33.66 billion (US\$520 million).

The number of shares of RIL are approx. 3.1 billion.^[33] The promoter group, Ambani family, holds approx. 46.32% of the total shares whereas the remaining 53.68% shares are held by public shareholders, including FII and corporate bodies. life insurance of corporation in India is the largest non-promoter investor in the company with 7.98% shareholding.

Buyback: In January 2012, the company announced a buyback programme to buy a maximum of 120 million shares for ₹104 billion(US\$1.6 billion). By the end of January 2013, the company bought back 46.2 million shares for ₹33.66 billion (US\$520 million)

B. Reliance Petroleum Limited was set up by Reliance Industries Limited (RIL), one of India's largest private sector companies based in Ahmedabad. Currently, RPL amalgamated with RIL, and has interests in the downstream oil business. RPL also benefits from a strategic alliance with Chevron India Holdings Private Limited (Singapore), a wholly owned subsidiary of Chevron Corporation USA (Chevron), which currently holds a 5% equity stake in the Company.

With an annual crude processing capacity of 1,240,000 barrels (197,000 m³) per stream day (BPSD), RPL is the largest refinery in the world. It will have a complexity of 14.0, using the Nelson Complexity Index, ranking it one of the highest in the sector. The polypropylene plant will have a capacity to produce 0.9 million metric tonnes per annum.[citation needed]

The refinery project is being implemented at a capital cost of Rs 270,000 million being funded through a mix of equity and debt. This represents a capital cost of less than US\$10,000 per barrel per day and compares very favourably with the average capital cost of new refineries announced in recent years.[citation needed] The International Energy Agency (IEA) estimates the average capital cost of new refinery in the OECD nations to be in the region of US\$15,000 to 20,000 per barrel per day.[citation needed] The low capital cost of RPL becomes even more attractive when adjusted for high complexity of the refinery.

2.1. ABOUT THE CASE

RIL will issue 69.2 million new shares to shareholders of RPL in order to buy back the company and will have 3.7 million shareholders after the merger. RILs equity capital will rise to 1643/- crore and the promoter's holdings will fall by 2 percent to 47 percent, the company said in a statement.

“This is about size, says RILs chief financial officer”.

- Alok Agarwal, RILs chief financial officer
- Adding the merger would give RIL the ability to take on project much larger than done before
- RIL has set April 1, 2008 for the date of the amalgamation. The takeover is subject to approvals by the high court's at Mumbai and Ahmadabad
- RIL also merge with IPCL in FY03 a part of the government disinvestment programme several other photochemical companies either promoted by RIL
- The merger would help source crude oil for the integrated refinery complex and aid marketing of fuels such as gasoline and diesel.
- RIL said the merger would result in RIL operating 2 of the world's largest, most complex refineries; emerging as the world's 5th largest producer of polypropylene; and becoming the world's largest producer of ultra clean fuels at a single location.
- Merger rations 1:16, 1 share of RIL for around 17 shares of RPL.

RIL which owns 70% of RPL will buy chevron corps 5% stake in RPL for 1350/- crore as part of the merger would unlock significant operational and financial synergies that existed between RIL AND RPL.

3. LITERATURE REVIEW:

A maximum study focuses to understand the importance of going into the deal of mergers and acquisition (M & A). Mergers and acquisition improve market efficiency by capacity synergies between firms **Gwaya Ondieki Joash (2015)**. These studies have mixed results these studies have some indicate negative impact on stock prices while others conclude that there is a positive effect **Vanitha Swaminathan (2013)**. This helps to carry out their domestic and international strategies and have been noted as a CEOs favourite strategy. The results provide a global perspective of the field, identify the works, the intellectual interconnects among companies or any industries **Stephen P. Ferris (2015)**.. For the instance of the organization that buys a related organization that acquire an unrelated one. Organization that buys a related organization will likely to have prospects in common with acquiring organization in order to integration relative to an unrelated acquisition where there are few synergies and opportunities **Dr. Neena**

Sinha (2010). This paper examines that the impact of merger and acquisition on the performance of Indian telecom industry they reaches the demographics growth opportunities keep India an attractive destination merger and acquisition **Stanley Foster Reed (2013)**. The reasoning behind mergers and acquisition (M & A) is that two companies together are more valuable than two separate companies, **Ferreira(2010)**. . Merger is the legal activity in which two or more organization combine and only one firm survive as a legal activity **Patrick A. Gaughan(2011)** The M & A have taken high lead in corporate strategy due to its perceived benefits M and A in the telecommunication sector is mostly horizontal merger(**Mark A. Filippell 2016**). They have to says had done shareholders wealth analysis for short term investment. It will find the market return and script return of the companies, **Donald Depamphills (2014)**. They using of the motives for the telecommunication in growth, diversification and risk management, empire building, improved market standing, managerial hubris, free cash flow theory they use the build a developing the different motives **Neelam Rani(2014)**

In his study tried to analyze the interest factor spread of an employee relies on firm’s reward and compensation strategies. He has focused on the firm’s financial performance is influenced by the type of merger/acquisition **K. P. RAMASWAMY (2003)**, His objective of the study was about impact on shareholder’s value during merger/acquisition and to examine the influence of merger/acquisition on its profitability **Melanie Scheiwiller (1998)**, The results reveal a positive relationship between corporate governance standards and the performance of the acquiring firms in short-run as well as long-run **Saw-Imm Song (2011)**,

Mergers and acquisitions (M&As) are an accepted strategy for corporate growth. While they may create value, mitigate agency problems associated with a firm's free cash flow, enhance the firm's market power, or help utilise tax credits, the crucial question that academics have discussed for long is whether M&As create shareholder value **K Mishra and Rashmi Goel(September, 2005)**.

4. OBJECTIVE OF THE STUDY:

To analyse the financial performance in post-merger period

5. RESEARCH METHODOLOGY:

5.1 Type of Research:

This study is considered by Descriptive Research design because of the mergers and acquisition is existing nature problems faced by companies and it’s descriptive in nature.

5.2 Sampling Design:

Sample

acquiring	Acquired	Type of activity	Year of occurrence	Strategies motives
RPL	RIL	mergers	April 2008	Create one-fourth of the world’s total complex refining capacity. Becoming the world’s single largest refining hub .

5.3 Sources of data:

This study used to collect data regarding my study only used secondary data. It means where the data which is already existed. This is already available on hand. It’s collected through articles, journals and company profile.

5.4 Tools for the study:

I) Statistical Tools :

- a. **Descriptive statistics:** In this study using of the statistical tools for to identifying the companies mean, standard Deviation and the covariance of the study.
- i) Mean:** simple or arithmetic average of the range of values or quantities, computed by dividing the total of all values by the number of values
- 2. Standard deviation:** it is a measure of the dispersion of a set of dt from its men. It calculated as the square root of variance by determining the variation between each data point relative to the mean.
- 3. Kurtosis:** it is a statistical measure that is used to describe the distribution. it define the thickness or heaviness of the distribution fir the random variable along its tail.
- 4. Skewness:** it is a measure of the asymmetry of the probability distribution of a real-valued random variable about it mean.

b. **T Test:** it is the statistical hypothesis test in which the test statistic follows a student’s t-distribution under the null hypothesis.

II) Financial Tools:

a. **Ratios:** In this study to analyzing the ratio analysis using the companies consolidation balance sheet and income statement for both the companies.

b. **Current ratio:** current ratio is one of the most fundamental liquidity ratio. it measures the ability of a business to repay current liability with current assets.

c. **Quick ratio:** the quick ratio is a measure of how well company can meet its short term financial liabilities.

d. **Return on capital employed:** ROCE is a financial ratio that measures a company profitability and the efficiency with which its capital is employed.

e. **Return on equity:** ROE is the amount of net income returned s a percentage of shareholders equity.

f. **Net profit margin:** it is the percentage of revenue left after all expenses have been deducted from sales.

g. **PBIT margin:** these income is also referred as operating income, there significant differences between profitability of business , taking into account.

5.5 Hypothesis of the study:

- There is no significant changes in the financial performance in post-merger

6. DATA ANALYSIS AND INTERPRETATION:

The following study ascertain the to analyze impact of merger and acquisition compare to pre and post-merger of the RPL after merging the RIL considering in the year of April 2008.The study using both statistical and financial tools.

Table - 6.1 Financial Ratio

Years	CR	QR	ROCE	ROE	NPM	PBIT Margin
2013	1.67	1.05	7.84	11.57	5.26	7.47
2014	1.31	0.82	7.17	11.37	5.18	7.5
2015	0.99	0.62	6.43	10.82	6.29	9.17
2016	0.69	0.44	7.18	12.89	10.81	15.39
2017	0.62	0.4	6.34	11.37	9.8	14.4

Source: Authors Calculation: Annual Report Database

From the above table shows that the financial ratio from 2013 to 2017 the liquidity value s decline by comparing current ratio and quick ratio. by comparing ROCE and ROE return is decline from 2013 to 2017. Comparing NPM and PBIT margin profitability ratio s increased from 2013 to 2017.

6.2: DESCRIPTIVE STATISTICS

DESCRIPTIVE	CR	QR	ROCE	ROE	NPM	PBIT
Mean	1.06	0.67	6.99	11.60	7.46	10.78
Standard Deviation	0.44	0.27	0.27	0.34	1.18	1.71
Kurtosis	-1.24	-1.13	-1.14	3.02	-2.74	-2.97
Skewness	0.57	0.62	0.29	1.47	0.57	0.50
Minimum	0.62	0.40	6.34	10.82	5.18	7.47
Maximum	1.67	1.05	7.84	12.89	10.81	15.39

Source: Authors Calculation: SPSS Database

In the above table of descriptive statistics explain the mean, SD, kurtosis, skewness, minimum, and maximum values of RPL-RIL companies. Current ratio: Mean value is decreased by 1.06, standard deviation is less than the standard value is 0.44, kurtosis is declined by -1.24, skewness is positively skewed is 0.57, lest value is 0.62 and maximum value is 1.67.quick ratio: mean value is decreased to 0.67,SD is less than the standard, kurtosis value is decline, skewness positively skewed, minimum value is 0.40 and maximum value is 1.05.

One-Sample Test

Test Value = 0						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
CR	5.382	4	.006	1.05	.51	1.60

QR	5.483	4	.005	.66	.32	1.00
ROCE	25.304	4	.000	6.99	6.22	7.75
ROE	33.645	4	.000	11.60	10.64	12.56
NPM	6.300	4	.003	7.46	4.17	10.75
PBITM	6.298	4	.003	10.78	6.03	15.54

Source: Authors Calculation: SPSS Database

From the above table shows that one sample T-test considering study period of 5 years using profitability variables of the firm. The study found, all the profitability variables T-test resulted with positive with the degree of freedom 4. The study results, T calculated value re compare with P-value. The study found that profitability variables have resulted less than the 0.05 significance level. Therefore, the study proven that there is a significant change in the financial performance in post merger.

7.FINDINGS ND RECOMMANDATION:-

- In the context of above analysis it is clear that RPL has focused on increasing shareholders wealth rather other aspects.
- From the above all the ratios it is clear that pre and post-merger financial performance the significant levels is to be proportionate and it proven the is no significant changes in financial performance of the pre-merger.
- In the above observation the all the ratios it is clear the pre-merger acquisition is better thanes post-merger acquisition performance of the RPL
- Descriptive statistics explain the mean, SD, kurtosis, skewness, minimum, and maximum values of RPL-RIL companies.
- one sample T-test considering study period of 5 years using profitability variables of the firm
- The study found that profitability variables have resulted less than the 0.05 significance level.
- In the financial ratio the PBIT margin increased from 2013 to 2017 the value is 7.47-14.4

8. RECOMMANDATION:-

- The company will be should create related to M%A in internally training and retrying program for staff
- The management staff to improve management efficiency
- The firm should concentrate on liquidity management competencies after post-merger acquisition and blue pint out the proper strategies to maintain liquidity position of the training.
- The risk of improper management of receivable management constitute the great threat to existence of merging firm
- To improving the working efficiency of the workers as well as management
- To firm will be reducing the debt and increasing the assets values.

9. CONCLUSION:-

The study mainly revels the profitability condition in pre and post mergers activity. The mergers takes place between RPL-RIL companies, RPL said it could issue one share for every 16 held in the unit, giving it direct control of the world largest refinery complex. The main aim of this mergers activity is create one fourth of the worlds total complex refining city.

REFERENCES:

1. Gwaya Ondieki Joash (2015), "The Effect of Mergers and Acquisitions on Financial Performance of Banks (A Survey of Commercial Banks in Kenya)"
2. Melanie Scheiwiller (1998), "QA Challenges Following Mergers and Takeovers"
3. Neelam Rani(2014), "Impact of corporate governance score on abnormal returns and financial performance of mergers and acquisitions"
4. Saw-Imm Song (2011), "Wealth effects and financial performance of cross-border mergers and acquisitions in five East Asian countries"
5. K. P. RAMASWAMY (2003), "Firm Financial Performance Following Mergers"
6. Vanitha Swaminathan (2013), "How Achieving the Dual Goal of Customer Satisfaction and Efficiency in Mergers Affects a Firm's Long-Term Financial Performance"
7. Stephen P. Ferris (2015), "HOW DIFFERENT IS THE LONG-RUN PERFORMANCE OF MERGERS IN THE TELECOMMUNICATIONS INDUSTRY?"
8. Dr. Neena Sinha (2010), "Measuring Post Merger and Acquisition Performance: An Investigation of Select Financial Sector Organizations in India"

