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Mergers and Acquisitions in the Indian Pharmaceutical Sector: Trends, Sample Study, and Financial Analysis of Pre and Post Merge

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Abstract: To maximize the wealth of Shareholders, companies opt for either organic or inorganic expansion strategy. Prior to 1991, strict control regime compelled Indian companies to choose internal (or organic) growth strategy. However, with the onset of LPG (Liberalization, Privatization, And Globalization) policies, and amendments in MRTP(the Monopolies and Restrictive Trade Practices) Act, Income Tax Act, and Takeover Code, a paradigm shift was witnessed in external (or inorganic) growth strategies like Mergers and Acquisitions. This paper aims to identify the principal functioning of the waves of Mergers and Acquisitions in India post 1991 reforms. The primary focus is to review the trends of M&As in the light of pharmaceutical industry as it demonstrate innumerable Mergers and Acquisitions during the aforementioned period. Further, M&As in Pharmaceutical Sectors are classified on the basis of Ownership Pattern of Merged and Merging entity, Size of Acquirer and target firms, and Type of merger. Moreover, this paper also presents Case Studies of two renowned pharmaceutical Mergers, Sun Pharma-Ranbaxy and Lupin-Gavis, to discern synergy arising out of merger activity. By virtue of Merger, benefits like Tax Considerations, increased market penetration or diverse product portfolio, gained by acquiring and Target Firms, have also been enumerated. Lastly, a comprehensive Pre and Post merger Ratio analysis of the above mentioned companies have been conducted to identify the impact on the overall financial performance of the merged entity. Tools like mean, standard deviation and p-value have been used to conclude whether there is a significant or massive change in financial performance of a merged company due to merger.

Key Words — **Mergers and Acquisitions, Pharmaceutical Companies, Ratio Analysis.**

I. INTRODUCTION

In order to cope up with the constantly changing environment and increasing competition, constant growth of companies has become imperative. Companies can adopt two different (but complementary) expansion strategies: internal (or organic) and external (or inorganic). When the inherent growth of firms slows down, they may resort to external restructurings like Mergers and Acquisitions. Companies Act 2013 explains the word 'Merger'- "A 'merger' is a combination of two or more entities into one; the desired effect being not just the accumulation of assets and liabilities of the distinct entities, but organization of such entity into one business." Acquisition occurs when a company buys most of the assets or stocks of another firm i.e. more than 50% ownership of Target Firm to assume control of it.

A. Waves of Mergers and Acquisitions

Since Second World War, there has been series of Mergers and Acquisitions in India due to economic and political conditions. Due to Inflation during the war period, businessmen were able to amass high profits and eventually there was a hike in stock prices. Hence, Businesses started using Mergers and Acquisitions for expansion purpose. Also, British managing agency houses gradually liquidated their holdings to Indian Business community as India was to gain independence, leading to increase in Mergers and Acquisitions.

The anti-big government policies and regulations of the 1960s and 1970s seriously deterred M&As, particularly that of Horizontal3 combinations. Industrial Licensing Policy required licensing in almost all Industries .Section 23 of the Monopolies and Restrictive Trade Practices Act (MRTP) of 1969 required companies with asset valuing Rs. 200 million or more to seek approval from the central government for a merger. Import Control Order, Industries Development and Regulation Act, and Foreign Exchange Regulation Act (FERA) 1973 also discouraged M&A. However, Nationalization of Indian insurance business in 1956 and banking in 1969, granting of tax relief in the Finance Bill of 1967 with respect to exemption from capital gains tax on shares transferred to amalgamating companies and encouraging merger of sick units with profitable entities, led to increase in Conglomerate mergers4 during the same period. In 1985, an amendment was brought in MRTP Act which required only those companies whose assets valued Rs. 1 billion or more to get premerger approval. Thus partially liberalized measure was carried out in 1985.

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Widespread Economic Reforms and significant policy shift post-1990 led to a boom in Mergers and Acquisitions. Detailed discussion of the same is done later in the paper.

B. Rationale for Mergers and Acquisitions:

Motives of Mergers and Acquisitions are Synergy, Growth, Increasing market power, Acquiring unique capabilities and resources, Diversification, Bootstrapping Earnings, Tax Considerations etc.

C. Regulations Governing Mergers and Acquisitions in India:

1.The Companies Act 2013:

The Companies Act 2013 replaced Companies Act 1956 with some prominent changes to simplify the overall process of acquisitions, mergers and restructuring, facilitate domestic and cross-border mergers and acquisitions, and thereby, making Indian firms relatively more attractive to PE investors. It also protects investors and minorities, among other factors, thereby making M&A smooth and efficient. This Act basically talks about Merger, Amalgamation, Demerger, Reconstruction, and Arrangement- Eligibility and process of the same.

2.The Competition Act 2002

The Competition Commission of India regulates combinations by providing threshold limits on assets and turnover and prohibits Mergers or Acquisitions if it is likely to cause an appreciable adverse effect on Competition in the relevant market.

3. The Foreign Exchange Management Act, 1999 (FEMA)

FEMA contains general provisions for inbound and outbound cross-border Mergers and Acquisitions in India.

4. Securities and Exchange Board of India Act,1992 (SEBI)

SEBI regulates entities that are listed on Stock Exchanges in India. The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (the "Takeover Code") restricts and regulates the acquisition of shares, voting rights and control in listed companies. It entitles the acquirer to exercise 25% or more of the voting rights in the target company and obligates the acquirer to make an offer to the remaining shareholders of the target company to further acquire at least 26% of the voting capital of the company. However, Takeover Code provides some exemptions to this obligation.

5. The Income Tax Act,1991

As per section 2(1B) of the Income Tax Act, if following conditions are satisfied then the deal would be considered as an amalgamation:

All the property of the amalgamating company or companies becomes the property of the amalgamated company by virtue of the amalgamation.

By virtue of an Amalgamation, all the liabilities of the amalgamating company or companies should become the liabilities of the amalgamated companies.

Shareholders holding at least three-fourths in value of the shares in the amalgamating company or companies become the shareholders of the amalgamated company by virtue of the amalgamation

Tax Benefits:

If an amalgamation takes place within the meaning of Section 2(1B) of the Act, the following tax concession shall be available:

Tax Benefits for Amalgamating company:

As per section 47(vi) of Income-tax Act 1961, any transfer of a capital asset by the amalgamating company to the amalgamated company would not be treated as a transfer if following conditions are satisfied:

If the transfer has been done in the scheme of amalgamation and

Amalgamated company is an Indian company

It means, if above conditions are satisfied, then amalgamating company is not liable for capital gain on transfer of its Capital Assets to amalgamated company. Tax Benefits to Shareholders of Amalgamating Company:

As per section 47(vii) of Income Tax Act, any transfer by a shareholder, of shares held by him in an amalgamating company, would not be treated as a transfer if following conditions are satisfied:

If the transfer has been done in the scheme of Amalgamation and The transfer is made in the consideration of the allotment to him of any share(s) in the amalgamated company and The amalgamated company is an Indian company

Tax Benefits to Amalgamated Company:

As per section 72A, if certain conditions are satisfied, then amalgamated company would get benefit by set-off and carry forward of losses and depreciation of amalgamating company.

D. Pharmaceutical Sectors:

The Indian pharmaceuticals market is the third largest in terms of volume (Accounting for 20%) and thirteenth largest in terms of value (accounting for 1.4%) in the Global Pharmaceutical Industry as per a report by Equity Master. India is the largest global supplier of generic drugs. The

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Indian Market is projected to witness a surmountable growth of US$ 55 billion by the year 2020, making it incipient of sixth largest upcoming pharmaceutical hub globally, in context of absolute size. The sector is expected to generate 58,000 additional job opportunities by the year 2025.
Reasons for the increase in Mergers and Acquisitions by Indian Pharma Companies:
Expansion of product range
Gaining access to approved facilities outside India
Access to distribution channel and gaining market presence
To reduce cost of benefits
To gain advantage of Tax concessions

II. LITERATURE REVIEW

Manish Agarwal and Aditya Bhattacharjea (2006)- He mentioned main Industrial and regulatory policy regimes and accordingly divided merger activity into three phases- Policies Regimes: Control regime (1950 to 1985), A Partially Liberalized Regime (1985 To 1991) and A Liberalized Regime (1991 Onwards). He further classified Merger Activity into low and stagnant (1973- 74 to 1987-88); moderate (1988-89 to 1994-95) and high merger activity (1995- 96 to 2001-03).The study doesn't take into consideration acquisitions. Also, the study doesn't consider all the factors responsible for an increase in mergers or acquisitions post-1991 reforms.
Mergers And Acquisitions In India: A Strategic Impact analysis for the corporate enterprises in the post-liberalization period by Rabi Narayan Kar- A total of 1386 M&As post-1991 reforms were found from a various database, the same was classified into sixteen broad industrial groupings. Few companies were considered for the financial analysis through Bivariate OLS regression analysis and other statistical tools.
Mergers and Acquisitions in the Indian Pharmaceutical Industry: Nature, Structure, and Performance By S Beena (2006)- This study caters into Mergers, Acquisitions, Alliances and sale of assets in Indian Pharmaceutical industry. According to his research, 64 Mergers and 63 acquisitions occurred in post-liberalization period. While mergers were dominated by domestic firms, there were more cross-border acquisitions and alliances. Cross-border alliances were higher compared to mergers. Alliances contributed mostly to facilitating marketing purpose rather than manufacturing or technological base purpose. Pre and Post merger analysis was carried out which showed that post-merger performance was enhanced in a majority of firms.

Das (2000) compared the pre-merger and post-merger operating profit margin for a sample of 14 acquiring companies and found a decline in profitability in 8 of those companies after the merger.

Ong et al. (2011) analyzed the financial performance of Malaysian banking sector using Pre and Post merger accounting and financial data. Following three methods were used to compare Pre and Post merger performance: Firstly Ratio analysis was used, then t–Test were used to measure the significant difference between Pre and Post M&A performance, and finally, DEA approach was used to measure the bank's efficiency

David C. Cheng, et.al (1989) in their paper, 'Financial Determinants of Bank Takeovers' found that the purchase price is a negative function of the target's capital- to- asset ratio. The only variable used in their model is the ratio of acquirer- to- target assets. This study is different from earlier studies of bank mergers pricing in the sense that it provided greater consideration of bidder related variables and used multiple proxies for certain theoretical determinants of merger pricing. Analysis of Pre and Post Merger and Acquisition Financial Performance of Banks in Pakistan by Qamar Abbas: Pre and Post merger analysis of 10 banks was carried out through 15 financial ratios and paired sample T-Test. It was concluded that no significant changes were witnessed in post-merger performance.

Financial Performance Analysis of Pre and Post merger in the banking sector: a study with reference to ICICI bank ltd by Dr. Veena K.P – Ratios like profitability ratio, liquidity ratio, leverage ratio and growth ratio, and T-test was used to compare the financial performance of pre and post ICICI Bank merger. Here, a comparison was made between absolute data (not mean) of three years of a pre-merger period and seven years of the post-merger period.

Impact of Mergers and Acquisitions on Shareholders' Wealth in Short-Run: An Empirical Study of Indian Pharmaceutical Industry by Neelam Rani- This study analyses Short-term abnormal returns to shareholders of target company through merger and acquisition in the pharmaceutical industry in India. Null hypotheses and tests were carried out to find an effect of mergers and acquisitions on shareholder's wealth. Firth (1980) finds an insignificant abnormal return of 0.01 percent over the 36 month following the bid announcement by examining 434 successful bids and 129 unsuccessful bids in the UK over the period 1965-1975 using the market model with a moving average method for beta estimation. Financial Performance of Indian Manufacturing Companies during Pre and Post Merger by S. Vanitha: Financial performance of 17 merged manufacturing companies out of 58 merged manufacturing companies, for the time period 2000-2002, is evaluated through ratio analysis, mean, standard deviation and 't' test. The conclusion drawn was that merged

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manufacturing companies did not achieve better profitability, solvency, and liquidity after the merger.

OBJECTIVES

The present paper's objectives are to examine:

Trends in mergers and acquisitions in India post-1991 LPG reforms, focus being on Pharmaceutical sector. Further, classifying no. of mergers in Pharmaceutical Industry based on Ownership Pattern of Merged and Merging entity, Size of firms and Type of merger.

Case Study of two Pharmaceutical mergers: Sun Pharma-Ranbaxy and Lupin-Gavis

Brief detail of their merger and Benefits like Increased Market Penetration, Diversified Product Portfolio, and Tax Concessions, gained by both Acquirer and Target Firms.

Pre and Post Merger Ratio Analysis to determine whether there was a significant change in Merged Entity due to the merger.

RESEARCH METHODOLOGY:

1.SAMPLE SELECTION:

A. All mergers and acquisitions have been founded for the period 1991-2017. Further, Pharmaceutical Sector is discussed in detail as it demonstrates the highest number of Mergers and Acquisitions.

B. Within Pharmaceutical Sector, two top mergers namely Sun Pharma- Ranbaxy and Lupin- Gavis has been chosen for in-depth Financial Analysis.

2. SOURCE:

The main source of information is based on secondary data, collected from Annual Reports, published Research Reports by various industries and research organization, national and international journals, books, articles, dissertation work, and websites of money control, IMAA, CMIE, MCA, SEBI etc

3. PERIOD OF STUDY:

A. Total no. of Mergers and Acquisition is found for the years 1991-2017.

B. Classification of no. of mergers in Pharmaceutical Industry based on Ownership Pattern of the Merged and Merging entity, Size of firms and Type of merger is done for the period 1991-2005.

C. Pre and Post Merger Ratio analysis of merged entities is done for two years before and after the merger.

4. BASIS OF ANALYSIS:

To analyze the performance of Merged entities, financial indicators like mean, standard deviation and P-value of Pre and Post Merger ratios are used.

DATA REPRESENTATION AND ANALYSIS:

1. WAVES OF MERGERS AND ACQUISITIONS POST 1991, PARTICULARLY IN PHARMACEUTICAL SECTOR:

A. Number And Value of Mergers And Acquisitions from 1991 to 2017

Year	Number	Value (in billion USD)
1991	1	N/A
1992	0	N/A
1993	4	N/A
1994	16	N/A
1995	55	N/A
1996	115	1.60707
1997	127	1.60585
1998	156	1.49434
1999	395	4.52
2000	892	11.67
2001	709	5.04
2002	582	7.95
2003	706	6.32
2004	763	7.92
2005	1,254	36.24
2006	1,449	34.33
2007	1,510	56.25
2008	1,402	48.63
2009	1,294	41.10
2010	1,328	59.52
2011	1,045	35.40
2012	1,070	36.63
2013	955	31.79
2014	1,085	31.45
2015	1,250	51.33
2016	1,302	51.13
2017	1,451	57

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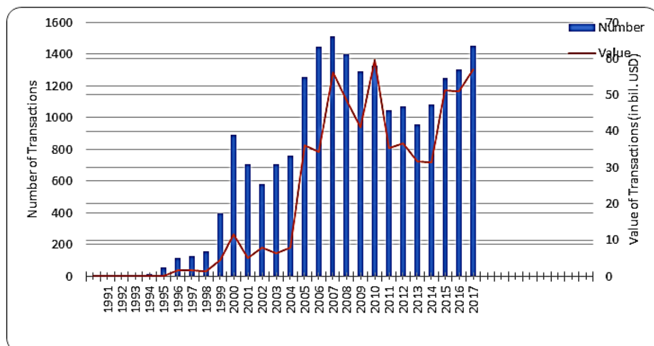


Source: IMAA Institue, Registration and Liquidation of Joint Stock Companies in India (RLGC), and Publications of CMIE

Total of 20,916 Mergers and Acquisitions are identified during the period 1991-2017. A maximum number of Mergers and Acquisitions i.e. 1510 is found in the year 2007 and the lowest is found in the year 1992. The momentum of M&A built up from 1995. It slowed down from 2001 and again increased from 2005.

Reasons for the increase in M&A post-1991:

i) Through Liberalization, Privatization, and Globalization (LPG) Policies introduced by the government in 1991, there was a relaxation of controls and regulations on production, trade, and investment, leading to increases in both domestic and international competition. Restructuring and Re-engineering were therefore required to become efficient and cope up with the competition. Thus, companies started using inorganic method i.e. Mergers and Acquisitions.

ii) The New Industrial Policy (NIP) announced in July 1991 abolished licensing in all but eighteen industries, most of which were subsequently delicensed. This opened up ways for Mergers and Acquisitions.

iii) Section 23 of MRTP Act was deleted from the statute, resulting in no premerger scrutiny from Central Government being required for Mergers and Acquisitions.

iv) Takeover code in 1994 and the issue of simplified takeover regulations by the securities exchange board of India (SEBI) in 1997 further brought improvement in Mergers and Acquisitions.

v) Industrial slowdown since 1996 reduced profit margins of Indian companies and forced them to restructure their business through Mergers and Acquisition.

vi) The union budget for 1999-2000 defined the tax treatment in respect of amalgamations, de-mergers, and slump sales- it reduced conditions required to be fulfilled by an amalgamated company to avail the benefits of set off and carry forward of accumulated losses and unabsorbed depreciation. Thus more firms started engaging in M&As to avail Tax Benefits.

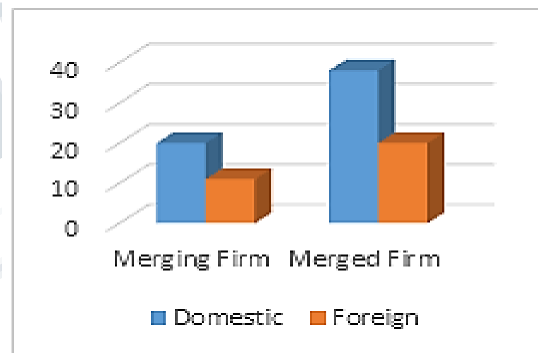
B. Pharmaceutical Sector

Pharmaceutical Sector is chosen for in-depth study because this industry seemed to be using M&A more aggressively to accelerate internationalization, was undergoing a paradigm shift in policies and was well known for its social sensitiveness. Social Sensitiveness means that Industries' demand is inelastic due to the existence of a third party (that is the doctor) in deciding the demand for a particular drug. A total of 64 mergers and 63 acquisitions were witnessed from 1991 to 2005.

i) Classifying no. of mergers based on Ownership Pattern of the Merged and Merging entity, Size of firms and Types of a merger:

a. Ownership Pattern of Merging and Merged Firms from 1991-2005:

Ownership	Merging Firm		Merged Firm	
	No.	Percent	No.	Percent
Domestic	20	64.52	38	65.52
Foreign	11	35.48	20	34.48
Total	31	100	58	100



Source: Research paper by S Beena (2006) & CMIE

By classifying mergers and acquisitions into ownership-wise, a clear domination of domestic firms over foreign firms is seen. Also, many firms engaged in multiple mergers

b. Size-wise classification of merger from 1991 to 2005

Size	Merging		Merged	
	No.	Percent	No.	Percent
Large (> 1000 Million)	28	59. 57	1	3.57
Medium (10-1000 Million)	18	38.3	27	96.43
Small (< 10 Million)	1	2.13	0	0
Total available	47	100	28	100

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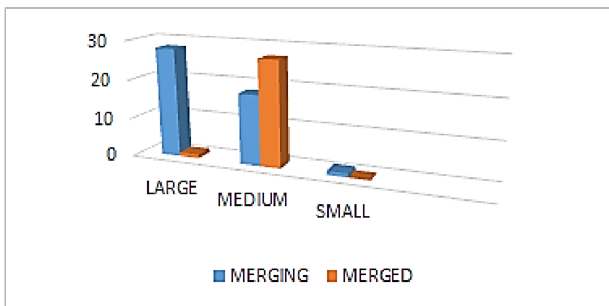
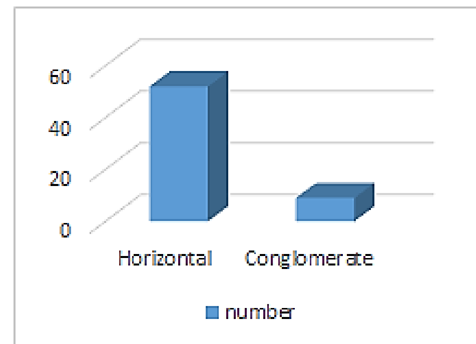


Source: Research paper by S Beena (2006) & CMIE

The highest number of large-sized firms got engaged in Mergers and Acquisition, constituting 60% of total Mergers and Acquisition. Whereas, medium-sized firms got engaged in 18 mergers or acquisitions (i.e. 38% of total Mergers and Acquisitions). On a closer look, we find that most medium-sized firms got merged to large sized firms as merged medium entities are 27 whereas merging medium entities are just 18. Also, merged large entity is only one and merged small entity is nil. Large sized firms preferred medium firms to get well-established marketing networks and add new products to their portfolio.

c. Types of Merger: Horizontal/ Conglomerate Classification from 1991 to 2005

Type	No.	Percent
Horizontal	52	85.25
Conglomerate	9	14.75
Total	61	100



Source: Research paper by S Beena (2006) & CMIE

Majority of mergers were Horizontal, which marked more than 85%. While just 15% of firms merged with firms having a different business. Horizontal Merger is further classified into Horizontal and Vertical to find out vertical integration within the pharmaceutical industry as the sector consists of different therapeutic categories. It is found that 17 mergers out of Horizontal mergers can be further classified as vertical.

ii) Statistics of India Based Acquirers acquiring Foreign companies from 2005-2007

SR NO	*ACQUIRER*	*TARGET*	*TARGET COUNTRY*	*ANNOUNCEMENT YEAR*	*VALUE* (In million $)
1	Dr. Reddy's Laboratory	Beltapharma Arzneimittel GmbH	Germany	2006	582
2	Ranbaxy	Terapia	South Africa	2006	324
3	Matrix Laboratory	Docpharma, NV	Belgium	2005	263
4	Dr. Reddy's Laboratory	Roche's API Facility	Mexico	2005	59

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5	Jubilant Organosys Ltd	Target Research Associates	USA	2005	33.5
6	Torrent Pharmaceutical	Heumann Pharma GmbH and Co generica KG	Germany	2005	30
7	Wockhardt	Negma Laboratories	France	2007	265
8	Ranbaxy	Betabs Pharma	South Africa	2007	70
9	Wanbury	Industrial FC	Spain	2006	42
10	Sun Pharma	Taro Pharma	Israel	2007	454
11	Jubilant Organosys Ltd.	Hollister Laboratory	USA	2007	122.5

Source: Different articles from Economic Times, Hindu Business Line, Times Of India etc

III. CASE STUDY OF SUN PHARMA- RANBAXY & LUPIN-GAVIS:

A. BRIEF DETAIL OF THEIR MERGER/ACQUISITION & BENEFITS GAINED BY THE ACQUIRER AND TARGET FIRM

i) SUN PHARMA- RANBAXY:

Sun Pharma acquired 100 % shares in Ranbaxy Laboratories Limited on 6th April 2014 (Legal proceedings were completed on 25th March 2015) to penetrate into new markets and increase the product portfolio of the company as both complimented each other in areas of expertise- Sun Pharma was a major global specialty pharmaceutical company with expertise in complex and niche therapy areas while Ranbaxy was known for its global presence in the generic segment. It was claimed to be one of the biggest Merger and Acquisition deal, valued at the US $ 4 billion. The transaction was framed as merger and not an acquisition for a variety of commercial, legal and tax reasons (Direct acquisition requires enough cash reserves or access to leverage for purchasing the target firm but they had an all-stock deal. It was difficult to get loan for an Indian merger and Interest expense been incurred against exempt income, would not be a deductible expense for calculating Income Tax) In terms of the Scheme of Arrangement, it was an all-stock merger in which the shareholders of Ranbaxy received 0.8 shares of Sun Pharma of face value of Rs. 1 for each Ranbaxy share of face value of Rs 5. Daiichi, which owned 63.41 percent of the shares of Ranbaxy prior to the deal, became 2nd largest shareholder in Sun Pharma with a stake of 9%. Share Holding after the merger was: Daiichi-9%, Public Shareholders of Ranbaxy- 14%, Public Shareholders of Sun Pharma-22 % and Promoters-55%. The Ranbaxy's shares were valued at Rs 457 per share, a premium of 18 percent to the 30-day volume-weighted average share price.

Regulatory approvals:

a. Sun Pharma and Ranbaxy obtained clearances from stock exchanges in India (NSE and BSE) by August 2014.

b. The Approval from CCI (Competition Commission of India) was received on December 5, 2014, but on a precondition that seven brands, which constituted less than 1% of total revenues of the combined entity, be divested to prevent the merger from negatively impacting competition in India. The condition was fulfilled in March 2015 when Ranbaxy's seven brands were sold to Pune-based Emcure Pharmaceuticals.

c. After Sun Pharma and Ranbaxy complied with certain rules, U.S. FTC (Federal Trade Commission) granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976(HSR Act) to both companies in February 2015 with the precondition that Ranbaxy's interests in generic minocycline tablets and capsules be divested to an external third party. To fulfill the precondition, Ranbaxy's generic minocycline assets were sold to Torrent Pharmaceuticals, which markets generic drugs in the U.S.

d. Based on a petition alleging insider trading in the shares of Ranbaxy, Andhra Pradesh High Court issued notices to the Securities and Exchange Board of India ("SEBI"), BSE, NSE, Sun Pharma, Ranbaxy and Silver Street Developers LLP on 30th April 2014 to maintain status quo. On 13th May 2014, Sun Pharma moved the Supreme Court against the status quo order of the Andhra Pradesh High Court. The Punjab and Haryana high court approved the merger on 9th March 2015

Benefits of Merger To Both The Companies:

a. Turnaround For Ranbaxy:

Ranbaxy's manufacturing facilities in Paonta Sahib, Dewas and Mohali lapsed in quality control and adherence to procedure as per the United States Food and Drug Administration ("USFDA"). As a result, the USFDA had prohibited Ranbaxy from distributing drugs manufactured using active pharmaceutical ingredients ("APIs") from these facilities, in the United States. This caused the multi-billion dollar Indian generic pharmaceutical industry incur a loss in international markets. The acquisition by Sun Pharma resulted in a turnaround for the beleaguered Ranbaxy.

b. Increased Market Penetration:

The combined entity was the fifth-largest specialty generics company in the world and the largest pharmaceutical company in India. Sun Pharma, which was number three in generic dermatology space in the USA, became number one in this space. Operations spanned across 65 countries and 47 manufacturing facilities across 5 continents. The combined entity contributed 47 percent, 31 percent and 22 percent of sales respectively to the US, the rest of the world and India.

c. Diverse Product Portfolio:

A combined Firm has a diverse, highly complementary portfolio of specialty and generic products marketed globally, including 445 ANDAs. It is one of the leading dermatology platforms in the United States. Sun Pharma got access to Ranbaxy's new product pipeline including a generic version of AstraZeneca's heartburn drug Nexium.

d. Tax Benefits

As per Section 2 (1B) of the Income Tax Act,1961, This deal was considered to be an amalgamation as it fulfilled all the conditions. Hence, following tax concessions were available:

- **To Ranbaxy i.e. Amalgamating Company**:

By virtue of section 47(vi) of Income-tax Act 1961, transfer of a capital asset by Ranbaxy (amalgamating company) to Sun Pharma (amalgamated company) was not treated as a transfer as all the conditions were satisfied:

i)This deal was treated as amalgamation as per section 2(1B) and

ii) Sun Pharma (Amalgamated company) is an Indian Company

Therefore, Ranbaxy was not liable for Capital Gain Tax on the transfer of its assets to Sun Pharma.

- **To Shareholders of Ranbaxy:**

By virtue of section 47(vii) of Income Tax Act, transfer of shares by a shareholder of Ranbaxy (amalgamating company) to Sun Pharma (an amalgamated company is not treated as a transfer as following conditions are satisfied:

i)The transfer was done in the scheme of Amalgamation and

ii)The transfer was made in the consideration of the allotment of share(s) in the Sun Pharma (amalgamated company) and

iii)Sun Pharma (amalgamated company) is an Indian company.

Hence, shareholders of Ranbaxy didn't attract Capital Gain Tax by transferring shares to Sun Pharma.

- **To Sun Pharma:**

Out of Minimum Alternative Tax(MAT) credit of Rs. 8222.7 million which was written down by Ranbaxy during the quarter ended 2014, an amount of Rs. 7517 million has been recognized by the company, on a reassessment by the management at the year-end, based on the convincing evidence that the combined entity would pay normal income tax during the specified period and would be able to utilize the MAT credit so recognized.

ii) LUPIN LTD- GAVIS

Lupin, a transnational Indian pharmaceutical company, manufactured biotechnology products, branded & generic formulations, and APIs globally. A renowned pharmaceutical company, GAVIS, based in New Jersey, was particularly focused in manufacturing, formulation, development, marketing, sales and packaging, and distribution of Pharmaceutical products. Lupin Ltd acquired US-based GAVIS Pharmaceuticals LLC and Novel Laboratories Inc. (GAVIS) on 9th March 2016 for $880 million to boost its presence in the US. This is the largest acquisition by any Indian pharmaceuticals company in the US. This acquisition was funded by cash reserves of $100 million and a bridge loan. The acquisition was expensive as Lupin paid 9.2 times the annual revenue for the acquisition.

Benefits of Merger to Both the Companies:

a. Increased Market Penetration:

Lupin's biggest market was the US and through the acquisition of the US-based firm, it enhanced its presence in the US. Gavis had a highly skilled New Jersey based manufacturing facility which after the acquisition, became Lupin's first manufacturing site in the US, complementing Lupin's Coral Springs, Florida, inhalation R and D center.

b. Diversified Product Portfolio:

As a result of the takeover, Lupin's pipeline in dermatology controlled substance product and other high-value and niche generics enhanced. The merged entity had a portfolio of about 120

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in-market products, over 185 cumulative filings pending approval and a series of products under development for the US. This takeoever formed the 5th largest pipeline of ANDA filings with the US FDA, addressing a USD 63.8 billion market.

B. PRE AND POST MERGER: RATIO ANALYSIS

17 Financial Ratios, bifurcated into Profitability, Liquidity, Leverage, Growth, and Valuation Ratios, have been calculated for Merged Entities for two years before and after merger. Further, its Mean, Standard Deviation and P-value is calculated to witness changes in financial performance due to the merger.

Following hypothesis is made for p-value:-

Null Hypothesis: There is no significant difference in Financial Ratios before and after the merger.

If p-value>0.05, then Hypothesis stands true i.e. there is no significant difference in Ratios due to the merger. The difference can be due to any other factor but a merger.

If p-value<0.05, then hypotheses stands false i.e. there is a significant difference between ratios due to the merger.

i) Merged Sun Pharma

SR NO	PARTICULARS	FORMULA	BEFORE MERGER (2012-13& 2013-14)		AFTER MERGER (2014-15 & 2015-16)		P-VALUE
			MEAN	SD	MEAN	SD	
	PROFITABILIY	**RATIOS**					
1	Net Profit Ratio	Net Profit/ Turnover	(39.38)	85.72	(16.24)	3.03	0.78
2	Return on Equity	Net Income/Shareholder's Equity	(15.78)	31.69	(5.74)	1.05	0.74
3	Return on Capital Employed	Earnings Before Interest and Tax (EBIT) / Capital Employed	(10.77)	24.25	(4.91)	0.95	0.80
4	Return on assets	Net profit after tax / Total Assets	(7.43)	18.40	(3.53)	0.57	0.82
5	Total Debt/ Equity	Total Debt/ Equity	0.17	0.23	0.25	0.01	0.69
6	Asset Turnover Ratio	Total Asset/ Turnover	23.37	4.14	21.84	0.61	0.73
	LIQUIDITY	**RATIOS**					
7	Current Ratio	Current Asset/ Current Liability	2.39	1.39	0.55	0.08	0.33
8	Quick Ratio	Quick Assets/ Current Liability	1.88	1.03	0.33	0.04	0.29
9	Inventory Turnover Ratio	Cost of Goods Sold/ Average Inventory	2.94	0.20	3.62	0.06	0.17
	LEVERAGE RATIOS						

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10	Debt Ratio	Total Debt/ Total Assets	0.31	0.22	0.38	0.01	0.74
11	Capital Ratio	Total Equity/ Total Aseets	0.69	0.22	0.62	0.01	0.74
	GROWTH	**RATIOS**					
12	Basic Earning per share	Profit After Tax/No. of Equity Shareholders	(4.35)	13.22	(5.30)	1.13	0.94
13	Dividend per share	Dividend/ No. of Equity Shareholders	3.25	2.47	2.00	1.41	0.34
	VALUATION RATIOS						
14	MarketCap/Net Operating Revenue	Market Capital/ Net Operating Revenue	38.42	5.04	26.16	0.36	0.19
15	Retention Ratios	1-Dividend/ Net Income	55.37	78.64	135.70	18.77	0.45
16	Price/BV	Market Price/ Book Value	13.46	3.64	9.25	0.09	0.36
17	Earnings Yield	Earnings Per Share/ Market Price	(0.01)	0.02	(0.01)	-	0.80

SOURCE: Data collected from Standalone financials of Sun Pharmaceuticals.

Analysis:

a) Profitability Ratios:

-Net Profit ratio increased after merger as net loss decreased, indicating that overall efficiency of all departments namely production, administration, selling, financing, tax management etc had increased.

- Return on Equity increased showing that comparatively less loss had incurred with shareholder's Funds. It reflects that productivity of Shareholder's Funds was increased.
- Return on Capital Employed increased as loss had decreased.
- Return on Assets increased indicating that less loss had incurred out of all Assets invested.
- Debt Equity Ratio increased showing that Debt portion used in merged entity was more than Equity.
- Asset Turnover Ratio reduced as less revenue was generated out of Assets invested

b) Liquidity Ratios:

- Current Ratio: Ideal Current Ratio is 2:1. It reduced from 2.39 to 0.55 which means that fewer currents assets were available to cover current liabilities after the merger.
- Quick Ratio: Ideal ratio is 1:1. It reduced from 1.88 to 0.33. Hence, less Quick Assets, which are either cash or cash equivalents or can easily be converted into cash, were available to cover current liabilities.
- Inventory Turnover Ratio increased from 2.94 to 3.62, indicating that merged entity could efficiently control its inventory.

c) Leverage Ratios:

- Debt Ratio increased from 0.31 to 0.38, implying greater combined entity's leverage. Thus more of combined firm's Assets were financed by debt.
- Capital Ratio decreased as fewer Assets were financed through Equity.

d) Growth Ratios:

-Basic Earnings Per Share and Dividend Per Share decreased showing that less of earnings and dividends were available for Shareholders.

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Vol 3, Issue 2, February 2018

e) Valuation Ratios:
Valuation Ratios indicate how the company and its Equity are assessed in the Capital market

- Market Capital/ Net Operating Revenue reduced as value of the firm decreased as compared to the Revenue generated.
- Retention Ratio increased showing that more of Revenue was transferred to Retained Earnings.
- Price/BV Ratio decreased indicating that Market Price of share was less as compared to its book value.
- Earnings yield remained same as proportion of change in Earnings per share was equal to change in Market price per share.

However, the p-value of all these ratios is more than 0.05, indicating that there wasn't a significant change in ratios due to the merger. Other Factors but the merger was responsible for these changes in Ratios.

ii) Merged Lupin:

SR NO	PARTICULARS	FORMULA	BEFORE MERGER (2013-14 & 2014-15)		AFTER MERGER (2015-16& 2016-17)		P-VALUE
			MEAN	SD	MEAN	SD	
	PROFITABILITY	**RATIOS**					
1	Net Profit Ratio	Net Profit/ Turnover	25.29	0.71	25.10	0.47	0.58
2	Return on Equity	Net Income/Shareholder's Equity	29.93	3.38	23.07	1.82	0.14
3	Return on Capital Employed	Earnings Before Interest and Tax (EBIT) / Capital Employed	28.66	3.02	22.37	1.82	0.12
4	Return on assets	Net profit after tax / Total Assets	24.09	2.32	18.95	1.35	0.12
5	Total Debt/ Equity	Total Debt/ Equity	0.01	0.01	0.04	0.01	0.34
6	Asset Turnover Ratio	Total Asset/ Turnover	95.09	6.50	75.40	3.95	0.08
	LIQUIDITY	**RATIOS**					
7	Current Ratio	Current Asset/ Current Liability	3.67	0.22	3.38	0.23	0.02
8	Quick Ratio	Quick Assets/ Current Liability	2.68	0.17	2.55	0.23	0.31
9	Inventory Turnover Ratio	Cost of Goods Sold/ Average Inventory	6.06	0.45	5.95	0.06	0.86
	LEVERAGE RATIOS						
10	Debt Ratio	Total Debt/ Total Assets	0.19	0.01	0.18	0.01	0.28
11	Capital Ratio	Total Equity/ Total Assets	0.81	0.01	0.82	0.01	0.28
	GROWTH RATIOS						

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12	Basic Earning per share	Profit After Tax/No. of Equity Shareholders	52.65	0.76	66.87	2.77	0.09
13	Dividend per share	Dividend/ No. of Equity Shareholders	6.75	0.75	7.50	-	0.50
	VALUATION RATIOS						
14	MarketCap/Net Operating Revenue	Market Capital/ Net Operating Revenue	6.97	2.28	5.52	0.40	0.68
15	Retention Ratios	1-Dividend/ Net Income	87.18	1.25	88.76	0.48	0.53
16	Price/BV	Market Price/ Book Value	8.00	1.99	5.08	0.67	0.47
17	Earnings Yield	Earnings Per Share/ Market Price	0.05	0.02	0.05	0.01	1.0

SOURCE: Data collected from Standalone financials of Lupin.

Analysis:

a) Profitability Ratios:

- There was a minor decrease in Net Profit Ratio from 25.29 to 25.10.
- Return on Equity, Return on Capital Employed and Return on assets decreased, indicating that combined entity generated comparatively fewer profits from shareholder's funds, capital employed and total assets respectively.
- Total Debt/ Equity Ratio increased, thereby more debt financing was used as compared to Equity financing.
- Asset turnover Ratio reduced showing that less revenue was generated through Assets by combined entity.

b) Liquidity Ratio:

- Current Ratio and Quick ratio reduced indicating that less of currents assets and Quick Assets respectively was available to cover current liabilities.
- Inventory Turnover Ratio reduced as inventory was not efficiently managed.

c) Leverage Ratios:

- Debt Ratio decreased showing fewer Assets being financed through Debt.
- Capital Ratio increased as more Assets were financed through Equity.

d) Growth Ratios:

- Basic Earnings Per Share and Dividend Per Share increased indicating that more of Earnings and Dividend were available for Shareholders.

e) Valuation Ratios:

- Market Capital/ Net Operating Revenue reduced as value of firm of combined entity decreased as compared to Operating Income.
- Retention Ratio increased showing that more of revenue was transferred to Retained Earnings.
- Market Price/ Book Value reduced indicating that Market price of share of merged entity decreased as compared to its Book Value.
- Earnings yield remained same as proportion of change in Earnings per share was equal to change in Market price per share.

However, P-value of all except Current Ratio is less than 0.05. Thus, there is a significant change in Current Ratio due to the merger. Changes in other Ratios might be because of other reasons.

IV. LIMITATIONS

This study is confined to findings of two major Pharmaceutical merged entities. However, this doesn't provide a holistic instance of changes occurring due to the advent of mergers and acquisitions.

V. CONCLUSION

The aforementioned paper gives an overview of radical changes in trends of mergers and acquisitions post 1990 reforms, specifically in pharmaceutical sector. These reforms are inclusive of Liberalization, Privatization and Globalization policies, changes in Monopolies and Restrictive Trade Practices Act (1969), Takeover Code and Income Tax Act (1961) and myriad others which impacted the existing structure of Mergers and Acquisitions.
It further establishes to examine two renowned pharmaceutical mergers, SunPharma-Ranbaxy and Lupin-Gavis. This paper

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concludes that so forth, there have been no massive or significant changes in the financial performance of the above mentioned merged entities.

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