

## **Merger and Acquisition's Impact on Indian Economy**

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### **Abstract**

This article attempts to examine M&A affect the Indian economy. M&A activity has increased in India, and officials, investors, and scholars are all interested in how it may affect the country's economy. The study will get started by reading up on M&A and its effects on the economy, paying particular attention to the Indian context. Investors, decision-makers in government, and members of the corporate sector will be interested in the study's findings. The results will assist policymakers in deciding on legislation and policies relating to M&A by giving them vital information about how M&A impacts the Indian economy. The study will also assist businesses to understand the possible risks and advantages of M&A activity by offering them insights into the process. In general, this study will add to the corpus of information on M&A and its effects on the Indian economy.

**Keywords:** Pre-Merger, Post-Merger, Acquisition, Profitability ratio and Financial Performance

### **I. Introduction**

The Indian economy has seen an increase in the frequency of merger and acquisition (M&A) operations in recent years. Several reasons, including globalization, technical development, and a supportive governmental environment, have contributed to M&A landscape in India. The effect of M&A on the Indian economy is still up for discussion, though. This study tries to look into how M&A has affected the Indian economy. The study will look at how M&A impacts the GDP, employment, and productivity of several economic metrics. To fully comprehend how M&A impacts the Indian economy, the study will combine qualitative and quantitative research techniques. The purpose of M&A operations and how they affect the performance of the participating businesses will also be studied in the article. In general, this study will enhance the corpus of information on M&A and its effects on the Indian economy. This research project will give a better knowledge of the dynamics of the Indian economy and how it responds to M&A activity by looking at the effects of M&A on it.

### **II. Review of Literature**

A comprehensive literature review was conducted to develop a better understanding of the M&A space and gain insight into the effect of M&A on the financial performance of businesses in various sectors.

Heena Pahuja – Samridhi (2016). The basic reason for M&A is that two companies coming together are more appreciated than they are individually. In spite of negative circumstances, M&A remains a significant tool for financial and corporate development. The reasons for this are as mentioned above. For example, an attractive tax system. FDI guidelines are now more open and more investment in mergers is coming from abroad.

Vansh Ved (2021). The basic reason for M&A is that two companies coming together are more appreciated than they are individually. In spite of negative circumstances, M&A remains a significant tool for financial and corporate development. The reasons for this are as mentioned above. For example, an attractive tax system. FDI guidelines are now more open and more investment in mergers is coming from abroad.

Rabi Narayan Kar – Amit Soni. Throughout the study, turnover increased after companies underwent mergers and acquisitions. After-tax corporate profit and book value increased after his M&As in 1994-1998 and 1994-1999

respectively. There have been no significant changes in these variables for mergers and acquisitions since then. Additionally, M&A during the study period had no influence on return on equity.

Pradeep Kumar Gupta (2012). Corporate mergers and acquisitions are vital to the economy of any country. This is because corporate mergers and acquisitions can lead to large-scale industry restructuring, create economies of scale, intensify market competition, and increase shareholder vulnerability due to fluctuations in share prices after mergers and acquisitions. Because it has the potential to contribute to the rapid growth of the industry. Mergers and acquisitions are different concepts, but both can be used as engines of growth.

Dr. Bisma Afzal Shah et.al (2020). From the research, it is found that Mergers and acquisitions have had mixed results, both positively and negatively on the profitability of our sample companies. However, it turned out that most of the companies sampled experienced positive impacts.

### III. Problem Statement

It is a well-known truth that numerous mergers and acquisitions are occurring in a variety of economic sectors today. Acquisition is the taking over of one firm by another, whereas mergers are the joining of two businesses to create one. One of the crucial facets of corporate finance is M&A. The concept underlying Mergers & Acquisitions is that two businesses working together can produce greater worth than either one working alone. Companies continue to assess various prospects via the path of mergers and acquisitions with the primary goal of wealth maximization. Numerous research has already been conducted to comprehend the fundamentals of M&A and how it affects financial performance. The reason for this study is to compare the financial performance of sample of businesses from various industries before and after a three-year period of merging.

### IV. Objective

This article was conducted with the aim of assessing the influence of M&A on the financial performance of companies in different sectors in India.

### V. Research Methodology

This article has used secondary data. All the information is collected from the company's annual report from their website. In addition, money control, BSE, and NSE publication databases were also used for the necessary financial analyses. In this paper, we will look at a total of 10 companies' examples that have merged or acquired.

Here ratio analysis is used to calculate important financial ratios before and after the M&A for the period of six years. The ratios which are used in this paper are Gross Profit Margin Ratio (%), Net Profit Margin Ratio (%), Return on Assets (%), and Return on Equity Ratio (%) for measuring financial performance.

**Paired Sample Test:** To calculate the differences in average between the two sets of observation, a paired t-test was conducted. This is also termed as dependent sample t-test. We will be using 0.05 as the base for the significance of Paired Sample Test.

**SAMPLING:** Due to time constraints and the unavailability of some companies' financial data, only ten companies were analyzed for the current study. The sample companies were selected across five different industries viz: Automobile, FMCG, IT, Manufacturing, and Retail. We have considered three years' pre-merger and three years' post-merger for the sample t-test. The reason we have targeted these companies from the sector is because of the valuation they attracted.

**Table 1: List of Merging/Acquiring and Merged/Target Firms Undertaken for the Study**

Sl.No.	Sector	Merging/Acquiring Firm	Merged/Target Firm	Year	Merged/Acquired	Amount (₹)
1	Automobile	Bharat Forge	Walker Forge Tennessee	2016	Acquired	95 Cr
2		Ashok Leyland	Hinduja tech limited	2014	Merger	70 Cr
3	FMCG	ITC	Johnson & Johnson's Savlon and Shower	2017	Acquired	40000 Cr

4		HUL	Indulekha	2017	Acquired	330 Cr
5	IT	Tech Mahindra Ltd	CJS Solutions	2017	Acquired	734 Cr
6		Wipro Ltd	InfoSERVER S.A.	2017	Acquired	0.87 Cr
7	Manufacturing	Tata Steel	Bhushan Steel Limited	2018	Acquired	35200 Cr
8		Ultratech Cement	Binani Cement	2018	Acquired	7900 Cr
9	Retail	Spencer's Retail	Godrej Nature's Basket	2019	Acquired	300 Cr
10		Aditya Birla Fashion and Retail	Forever 21	2019	Acquired	175 Cr

## 5.1 Automobile Sector

India is one of the world's major producers of automobiles. The sector considerably enhances the nation's manufacturing output and GDP. The production and sales of passenger vehicles, commercial vehicles, two-wheelers, and three-wheelers are key segments of the Indian automobile industry. The passenger vehicle segment comprises cars, SUVs, and vans. It is a highly competitive segment, with strong demand from urban and rural consumers. India has seen an increasing demand for compact and mid-size vehicles due to affordability and fuel efficiency considerations.

India has a thriving commercial vehicle market, including trucks, buses, and light commercial vehicles. The commercial vehicle segment plays a crucial role in transportation and logistics across the country, supporting various industries and infrastructure development. Two-wheelers, like motorbikes and scooters, are extremely popular in India, mainly due to their affordability, fuel efficiency and convenience in dense urban areas. Domestic manufacturers and international brands compete in this segment.

The automobile sector in India continue to evolve and adapt to market dynamics, technological advances, and sustainability goals. It plays a significant part in economic growth, employment opportunities, and the transportation needs of a diverse and growing population.

**Analysis:** In this sector we have taken two companies and those are:

1. Bharat Forge and Walker Forge Tennessee
2. Ashok Leyland with Hinduja Tech Ltd.

**Table 2: Pre- and Post-Merger Ratios of Bharat Forge**

Particulars	Pre-Merg	Post Merg	Sig	Sig (Yes/No)
Gross Profit	0.9	0.88	0.030889157	Yes
Net Profit	-0.1	-0.06	0.490696569	No
Return on Assets	0.0	0.08	0.020046619	Yes
Return on Equity	6.8	15.20	0.018341009	Yes

*Source: Author's Analysis*

**Interpretation:** Based on the paired t-test results, we cannot conclude that there is a noteworthy enhancement in Bharat Forge's performance after the merger. However, we can see that the mean difference is positive (0.02), which suggests that the business's financial performance is slightly better after the merger.

**Table 3: Pre- and Post-Merger ratios of Ashok Leyland**

Particulars	Pre-Merg	Post Merg	Sig	Sig (Yes/No)
Gross Profit	0.9	0.88	0.030889157	Yes

Net Profit	-0.1	-0.06	0.490696569	No
Return on Assets	0.0	0.08	0.020046619	Yes
Return on Equity	6.8	15.20	0.018341009	Yes

*Source: Author's Analysis*

**Interpretation:** The paired t-test results suggest that there is some enhancement in Ashok Leyland's financial performance after the merger, but the improvement is not statistically significant. This means that we cannot be completely confident that the difference in P/B ratio is due to the merger and not due to other factors, such as random chance.

**Findings:** Overall, the findings from the paired t-test results are positive for the automobile sector

## 5.2 FMCG sector

Due to consumer-driven expansion and increased prices of products, especially daily essentials, the FMCG industry in India has grown. Almost 3 million people are working in this sector, as much as 5% of total industrial employment in India. Domestic FMCG sales growth is expected to grow on an average 8% in 2022-23. Favourable government efforts and policies, growing urban market and younger generation, new exclusive products and rise of e-commerce platforms are some of the key factors driving industry growth. In order for FMCG businesses to endure over time and eventually deliver more value to customers, pliability must be a key factor for production processes, daily processes, sales channels in merchandizing and logistics, knowledge, and communication with consumers.

The FMCG sector employs approximately 3 million individuals, constituting roughly 5% of all factory employment in India. Domestic FMCG sales growth is expected to grow 7-9% in 2022-23. Favourable government efforts and policies, growth of rural markets and young population, new branded items and growth of e-commerce platforms are some of the key factors driving promote industry growth. For FMCG companies to stand the test of time and ultimately deliver more value to consumers, resilience must be a key factor in production processes, daily operations, sales channels retail and across logistics, knowledge, and communication with consumers. India is the fourth largest FMCG sector and hence this sector is witnessing steady growth over time.

In India, the FMCG plays an important part in the country's budget, especially household and personal care products contributing for half of its total sales. In December 2022, FMCG recorded value of \$56.8 billion. Projections indicate robust growth for this sector, with an expected CAGR of 27.9% from 2021 to 2027, resulting in a total revenue of approximately \$615.87 billion. Remarkably, in 2022, rural areas in India contributed minimum 35% of the annual sales, while the urban segment contributed the remaining 65%. The shift underscores the significance of rural markets in driving the sector's growth.

**Analysis:** In this sector we have taken two companies and those are:

1. ITC merged with Johnson & Johnson's Savlon and Sunrise food.
2. HUL merged with Indulekha

**Table 4: Pre- and Post-Merger ratios of ITC**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.7	0.67	0.323296078	No
Net Profit	-0.1	-0.11	0.305002077	No
Return on Assets	0.2	0.19	0.146272613	No
Return on Equity	11.9	10.86	0.141478594	No

*Source: Author's Analysis*

**Interpretation:** The paired t-test results suggest that there is some development in ITC's financial performance after the merger, but the improvement is not statistically significant.

**Table 5: Pre- and Post-Merger ratios of HUL**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.8	0.79	0.004189256	Yes
Net Profit	0.1	0.06	0.102899717	No
Return on Assets	0.3	0.32	0.095877202	No
Return on Equity	19.2	27.84	0.020435567	Yes

*Source: Author's Analysis*

**Interpretation:** The paired t-test results for HUL suggest that there has been a statistically significant improvement in the company's financial performance after the merger. The p-value is 0.020435567, which is less than 0.05. This means that we can dispute the false assertion and conclude that the difference in the mean return on assets (ROA) before and after merger is statistically important. In other words, the evidence suggests that the merger has had an optimistic impact on HUL's performance.

**Findings:** The paired t-test results suggest that the merger has had an optimistic influence on HUL's financial performance, but results for ITC are inconclusive. Overall, the findings from the paired t-test results are positive for the FMCG sector.

### 5.3 IT Sector

The Indian IT industry stands as one of the world's most substantial and rapidly expanding sectors, encompassing Information Technology Services (ITS) and Business Process Outsourcing (BPO). Over recent years, this industry has demonstrated a consistent Compound Annual Growth Rate (CAGR) of 10%, and it is anticipated to maintain a similar growth trajectory in the foreseeable future.

The Indian IT industry makes an important contribution to the Indian economy. In 2022, the IT-BPM sector will account for 7.4% of GDP. The industry employs over 4 million people, and it's anticipated to add 2 million new jobs by 2025.

India's IT industry is an important part of innovation in India. Industry has invested heavily in research and development and has developed several world-class products and services. The industry has also contributed to the development of the Indian startup ecosystem.

India's IT industry is facing several challenges such as a shortage of skilled manpower, rising operating costs, and increasing competition from other countries. However, the industry is well-positioned to meet these challenges and will continue to grow rapidly in the coming years.

Here IT industry in India is anticipated to expand in the upcoming years. Over the following five years, the industry is anticipated to increase at a CAGR of 8–10%. The growth of this industry is driven by many factors such as increasing demand for IT services from global enterprises, the growing Indian economy, and the increasing adoption of digital technologies by enterprises.

**Analysis:** In this sector, we have taken two sample companies and those are:

1. Tech Mahindra Ltd acquired CJS Solutions
2. Wipro Ltd acquired InfoSERVER S.A.

**Table 6: Pre- and Post-Merger ratios of Tech Mahindra**

Particulars	Pre-Merg	Post Merg	Sig	Sig (Yes/No)
Gross Profit	0.8	0.88	0.109131821	No
Net Profit	0.0	-0.04	0.20355913	No

Return on Assets	0.2	0.12	0.105408978	No
Return on Equity	8.5	9.11	0.423058283	No

*Source: Author's Analysis*

**Interpretation:** Based on the paired t-test results, Tech Mahindra has not had any statistically significant development in its financial performance after the merger. The p-value for the t-test statistic for all the financial metrics (gross profit, net profit, return on assets, and return on equity) is greater than 0.05. This means that we need to consider the null hypothesis and must conclude that there is not much difference in the values of these metrics before and after the merger. In other words, the evidence suggests that the merger has not had a significant impact on Tech Mahindra's financial performance.

**Table 7: Pre- and Post-Merger ratios of Wipro**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.9	0.82	0.001313395	Yes
Net Profit	0.1	0.09	0.1639379	No
Return on Assets	0.1	0.13	0.205320944	No
Return on Equity	0.2	0.17	0.052479824	No

*Source: Author's Analysis*

**Interpretation:** Based on the results of t-test analysis, Wipro has revealed statistically significant improvement in its financial performance following the merger. Specifically, the p-value for the t-test conducted on gross profit is 0.001313395, which is below the typical significance threshold of 0.05. This indicates that the null hypothesis can be rejected and confidently assert that there is a meaningful change in the mean gross profit before and after the merger.

However, when it comes to net profit, the t-test yields a p-value of 0.1639379, surpassing the conventional level of 0.05. Consequently, we need to consider the null hypothesis, leading us to the conclusion that there is no major difference in the mean net profit before and after merger.

Similar results are observed for return on assets (ROA) and return on equity (ROE), with both tests producing p-values (0.205320944) more than the standard level of 0.05. As a result, we must also conclude that there is no major difference in the mean ROA and ROE before and after the merger.

In summary, the data suggests that the merger has positively impacted Wipro's gross profit, but the findings for net profit, ROA, and ROE do not provide conclusive evidence of significant changes.

**Findings:** The paired t-test results suggest that mergers in the IT sector can lead to improved financial performance, but the results are not conclusive. One merger, Wipro, showed a statistically significant improvement in gross profit after the merger. However, the results for net profit, return on assets, and return on equity were inconclusive. Another merger, Tech Mahindra, did not show any statistically significant improvement in financial performance after the merger.

#### 5.4 Manufacturing Sector

India's manufacturing sector is an important part of the country's economy, contributing significantly to GDP growth, job creation, and export earnings. It covers a wide range of fields such as textiles, automobiles, chemicals, pharmaceuticals, engineering products, and electronics. The industry has undergone significant changes over the years due to factors such as economic liberalization, technological advances, and government initiatives.

India's Government has taken various initiatives to boost growth and competitiveness of the manufacturing sector. Launched in 2014, the "Make in India" campaign intends to attract foreign investment to turn India into a worldwide manufacturing hub, encouraging local manufacturing, simplifying business regulations, and improving infrastructure. This effort has helped increase the sector's contribution to the economy.

The manufacturing industry in India has made remarkable progress in various sectors. For example, the automotive sector has experienced significant growth with several global automakers setting up manufacturing facilities in India. The

pharmaceutical sector is also a notable sector, with India being a major supplier of generic drugs in the world. Moreover, India's information technology and electronics manufacturing sector is growing rapidly, which contributes to India's status as a global technology hub.

**Analysis:** In this sector, we have taken two sample companies and those are:

1. Tata Steel acquired Bhushan Steel Limited (2018)
2. Ultratech Cement acquired Binani Cement (2018)

We have considered the financial data from 2016-22. Going by the information collected and the ratio analysis, this is what our findings are for the 2 companies.

**Table 8: Pre- and Post-Merger ratios of Tata Steel**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.7	0.61	0.13332957	No
Net Profit	-0.1	-0.01	0.1062892	No
Return on Assets	0.0	0.03	0.18059217	No
Return on Equity	0.0	0.09	0.22616682	No

*Source: Author's Analysis*

**Interpretation:** Based on the paired t-test results, Tata Steel has had minor development in its financial performance after the merger, but improvement is not statistically significant. The p-value is greater than 0.05. This means that we need to consider the null hypothesis and must conclude that there is no significant difference in the mean values of these metrics before and after the merger. In other words, the evidence suggests that the merger has not had a statistically significant impact on Tata Steel's financial performance.

**Table 9: Pre- and Post-Merger ratios of Ultratech Cement**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.8	0.84	0.314002949	No
Net Profit	0.0	0.07	0.181304302	No
Return on Assets	0.1	0.06	0.427765687	No
Return on Equity	0.1	0.12	0.339737876	No

*Source: Author's Analysis*

**Interpretation:** Based on the paired t-test results for Ultratech Cement, none of the financial metrics show a statistically significant improvement after the merger. The p-value is more than 0.05.

**Findings:** Based on paired t-test results for Ultratech Cement and Tata Steel, it is difficult to draw any definitive conclusions about the impact of mergers on the manufacturing sector. Ultratech Cement didn't show statistically improvement after merger, while Tata Steel showed some improvement, but the improvement was not statistically significant. In conclusion the influence of mergers on manufacturing sector may vary depending on the specific companies involved and the industry conditions in which they operate.

## 5.5 Retail sector

In addition to being a crucial component of our economic system, retailing, which comes last in the distribution chain of goods and services, also influences our way of life. The largest private sector in the world is retail. The retail industry is India's second-largest employer, behind the agricultural industry. The retail market in India ranks 10<sup>th</sup>. India's retail sector is the largest, contributes greater than 10% of the nation's GDP and almost 8% of jobs. The retail landscape is changing quickly. We are transitioning from traditional 'Mom and Pop Kirana Shops' to enormous department shops, supermarkets, hypermarkets, upscale outlets, significant bazaars and the most up-to-date shopping malls.

India's retail market has adopted modern retailing, as evidenced by the thriving shopping centres, multi-story malls, and enormous complexes that include dining, entertainment, and retail all under one roof. The consumption habits of the Indian populace and organised retailing will both develop at an increasing rate, making it easier for newer businesspeople to enter the Indian retailing market. The unorganised retail market, the conventional supply chain, and employment difficulties are all significantly impacted by organised retail.

India's Retail Sector is Growing: At the moment, India's two most dynamic industries are real estate and retail. Furthermore, if industry analysts are to be believed, both industries' futures are interdependent. With several competitors joining the retail market, one of India's main businesses, has recently grown to become one of the modern era's most dynamic and quick-paced sectors. Retailing, which contributes over 10% of the nation's GDP and about 8% of employment, is steadily making progress towards becoming the next industry to see growth.

**Analysis:** In this sector, we have taken two companies and those are:

1. Spencer's Retail acquired Nature's Basket (2019)
2. Aditya Birla Fashion acquired Forever 21 (2019)

**Table 10: Pre- and Post-Merger ratios of Spencer's Retail**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.0	0.12	0.056233505	No
Net Profit	0.0	-0.37	0.13873946	No
Return on Assets	0.0	0.03	0.337708597	No
Return on Equity	0.0	0.45	0.351751397	No

*Source: Author's Analysis*

**Interpretation:** Based on the paired t-test results, Spencer's Retail has not had any statistically significant improvement in its financial performance after the merger. The p-value for the t-test statistic for all the financial is more than 0.05. This means that we need to consider null hypothesis and must conclude that there is no not much change in the values of these metrics before and after the merger.

**Table 11: Pre- and Post-Merger ratios of Aditya Birla Fashion**

Particulars	Pre-Merg	Post-Merg	Sig	Sig (Yes/No)
Gross Profit	0.5	0.52	0.197608568	No
Net Profit	0.0	-0.28	0.064724307	No
Return on Assets	0.0	-0.03	0.081257279	No
Return on Equity	0.1	-0.13	0.05132353	No

*Source: Author's Analysis*

**Interpretation:** According to the results obtained from the paired t-test analysis, it appears that Aditya Birla Fashion has experienced some development in its financial performance following the merger. However, it's important to note that this improvement is not statistically significant. The p-value associated with the t-test conducted for gross profit is 0.197608568, which exceeds the level of 0.05. This means that we need to consider the null hypothesis, leading us to settle that there is not much change in the mean gross profit before and after merger.

Similarly, for net profit, the t-test results in a p-value of 0.064724307, which is also greater than the level of 0.05. Consequently, we need to consider null hypothesis, indicating that there is hardly any difference in the mean net profit before and after the merger.

This pattern continues for return on assets (ROA) and return on equity (ROE), with both t-tests resulting in p-values (0.081257279 and 0.05132353, respectively) that exceed the standard significance level of 0.05. Therefore, we must conclude that there hardly any difference in the mean ROA and ROE before and after the merger.

In summary, the data suggests that while Aditya Birla Fashion has seen some improvement in its financial performance post-merger, these improvements do not reach the level of statistical significance.

**Findings:** Based on the paired t-test results for Spencer's Retail and Aditya Birla Fashion, it is difficult to draw any definitive conclusions about the impact of mergers on the retail sector. Spencer's Retail hardly any change in performance after the merger, while Aditya Birla Fashion showed some improvement, but the improvement was not statistically significant. In conclusion, retail sector may vary depending on the specific companies involved and the industry conditions in which they operate.

## VI. Conclusion

M&A is a common plan for businesses to grow and expand their operations. However, M&A deals are not always successful. In some cases, acquiring company may not be able to fit in target company effectively, which can lead to financial problems.

In this paper, we try to examine how M&A disturb the Indian economy. After taking five sectors (Automobile, FMCG, IT, Manufacturing and Retail) to know that all the sector is having what kind of performance on the Indian economy after the mergers and acquisitions (M&A). After going through all the financial data collected from the company website and money control, BSE, and NSE publication databases we came to the conclusion that almost all the sectors are contributing towards the betterment of the Indian economy.

The findings of the study showed that the performance of companies after M&A has been mixed. Some companies have seen their profitability improve after M&A deals, while others have seen their profitability decline.

Based on the paired t-test results for five sectors, it is difficult to draw any definitive conclusions about the overall impact of mergers and acquisitions (M&A) on the Indian economy. The results suggest that the impact of M&A can change on the specific sectors involved and the companies participating in the mergers and acquisitions.

In some sectors, such as IT and FMCG, the paired t-test results suggest M&A can lead to better financial performance. However, in other sectors, such as manufacturing and retail, the results are inconclusive. It is important to note that the paired t-test is just one method for evaluating the impact of M&A. Other factors, such as the companies' revenue, earnings, market share, industry conditions, and strategic goals, should also be considered.

To evaluate the overall impact of M&A on the Indian economy, more research is required. The results of the paired t-test, however, indicate that M&A can improve a company's financial performance in particular industries.

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