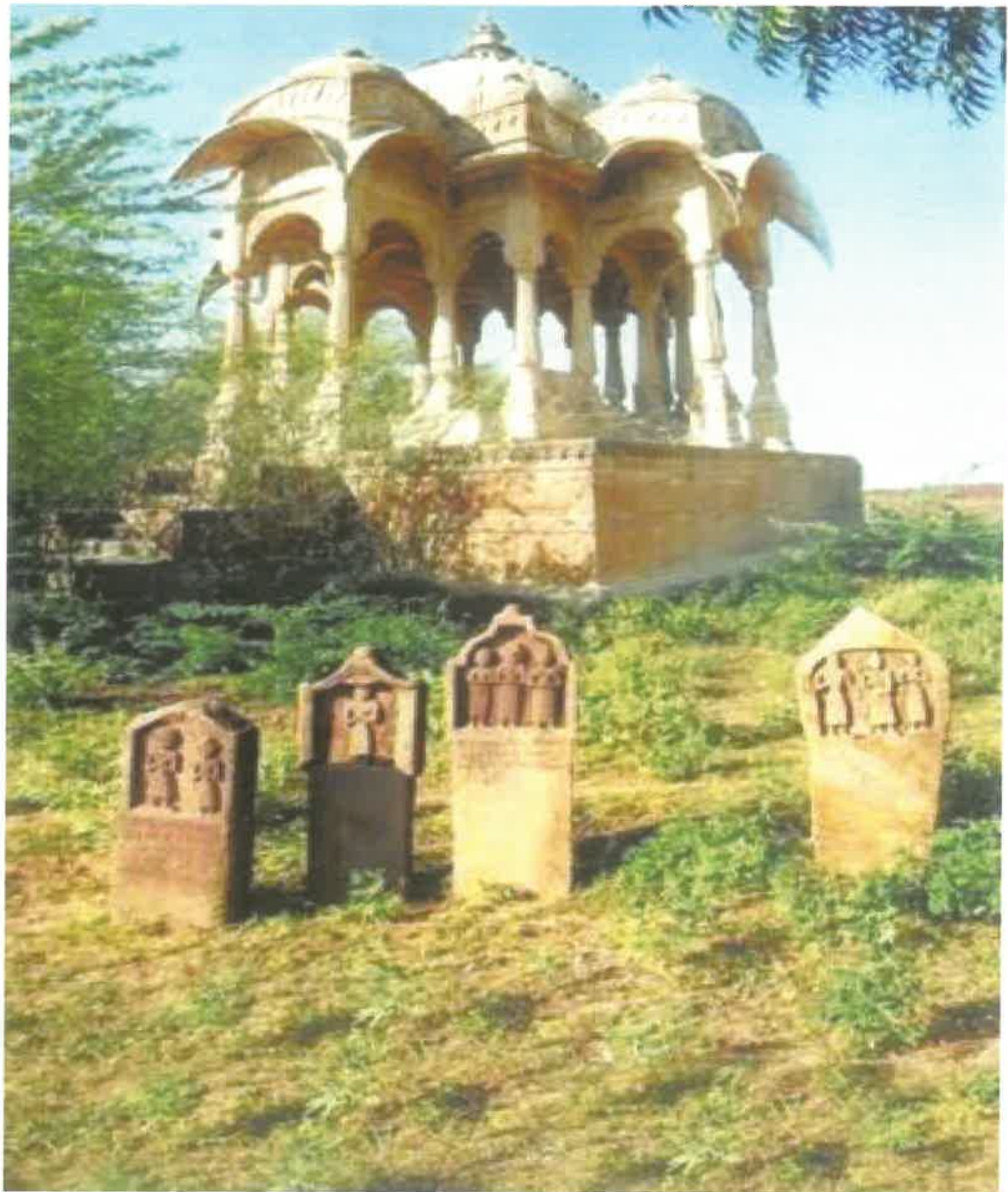


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INDEX

| S.No. | TITLE | Page No. |
|-------|--|----------|
| 1 | A COMPARATIVE STUDY ON THE ECONOMIC STATUS OF MIGRANT CONSTRUCTION WORKERS IN BANGALORE | 1 |
| 2 | INFLUENCE OF SOCIAL MEDIA MARKETING COMMUNICATIONS ON YOUNG CONSUMER'S ATTITUDES TOWARDS CHOOSING SMART PHONE BRANDS | 10 |
| 3 | INTERMINGLING OF CINEMA AND POLITICS IN SHASHI THAROOR'S <i>SHOW BUSINESS</i> | 15 |
| 4 | A STUDY ON TAX PLANNING AMONG SALARIED EMPLOYEES IN KOCHI CITY | 19 |
| 5 | दर ए बुतखाना बंद है औरतों की समस्याओं के पेशे नज़र | 29 |
| 6 | ECONOMIC IMPACT ON FISHERIES SECTOR DURING COVID 19 WITH SPECIAL REFERENCE TO MUNUMBAM HARBOUR | 34 |
| 7 | ADOPTION OF E-BANKING SYSTEM AMONG RURAL PEOPLE WITH SPECIAL REFERENCE TO KERALA | 43 |
| 8 | कृषि क्षेत्र में सुदूर संवेदन तकनीकी का अनुप्रयोग | 56 |
| 9 | सहज भाषिक संवेदन का आख्यान: गोदान | 60 |
| 10 | A COMPREHENSIVE STUDY: "WIRELESS APPLICATION PROTOCOL" | 65 |
| 11 | "जिनिंग उद्योगों में कार्यरत श्रमिकों की वर्तमान स्थिति का अध्ययन"— खरगोन जिले के संदर्भ में | 69 |
| 12 | APPRAISAL ON SUBSTITUTED COUMARINS | 74 |
| 13 | कोरोना महामारी का मीडिया पर प्रभाव | 103 |
| 14 | FREEDOM FROM OPEN DEFECATION: AN EMPIRICAL STUDY FROM TWO ADIVASI VILLAGES OF RURAL AREAS | 108 |
| 15 | A COMPARATIVE STUDY ON FINANCIAL PERFORMANCE OF HDFC BANK AND AXIS BANK USING COMMON SIZE STATEMENT ANALYSIS | 120 |
| 16 | ALTHUSSER AND THE EPISTEMOLOGICAL BREAK | 126 |
| 17 | INDIAN BANKING INDUSTRY: CHALLENGES AND OPPORTUNITIES | 130 |
| 18 | THE LAY-OFF FANTASY: THE LAY-OFFS IN <i>SUMMER OF THE SEVENTEENTH DOLL</i> | 139 |
| 19 | MODERN TRAGIC VISION IN ARTHUR MILLER'S DEATH OF A SALESMAN | 142 |
| 20 | A STUDY ON THE ROLE OF BUSINESS INCUBATORS IN PROMOTING STARTUPS IN ERNAKULAM DISTRICT | 145 |

| | | |
|----|---|-----|
| 21 | THE EFFECT OF SOCIAL DIGITAL MEDIA PLATFORMS ON JOB SATISFACTION | 156 |
| 22 | AN ANALYSIS OF LIQUIDITY POSITION IN PRE AND POST AMALGAMATION PERIOD OF TEXTILE INDUSTRY | 165 |
| 23 | A STUDY ABOUT THE AWARENESS LEVEL OF MUTUAL FUND INVESTMENT AMONG INVESTORS | 169 |
| 24 | हरिसुमन बिष्ट के कथा-साहित्य में चित्रित मध्यम वर्ग | 174 |
| 25 | VLSI DESIGN FOR TURBO DECODER MODULE FOR IN VEHICAL SYSTEM | 179 |
| 26 | पूर्व मध्यकालीन भारत में दास प्रथा | 187 |

AN ANALYSIS OF LIQUIDITY POSITION IN PRE AND POST AMALGAMATION
PERIOD OF TEXTILE INDUSTRY

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Abstract:

The valuation of amalgamation is getting impacted due to global uncertainty. Companies are looking forward to expand themselves organically and inorganically as well. The overall globalization process added a fuel to fire for mergers and acquisitions. For gaining competitive advantage in cutthroat global competition companies have adopted strategy of amalgamation comprehensively. This paper attempted to analyze pre and post liquidity position of acquiring companies in Textile industry during the year 1999 – 00 to 2009 – 10 are selected for the study listed on BSE. The difference of mean test was used. From the analysis it's evident that the results were statistically insignificant in pre and post liquidity position for acquiring companies.

Key words: Amalgamation, Liquidity Position, Current Ratio, Quick Ratio, Textile Industry

INTRODUCTION:

An integrated business world resulted into fierce competition among firms. This phenomenon is a result of various forces like upgradation of technology, globalization and dynamic nature of business situations. Companies are aiming for achieving growth through exploiting prospects organically as well as inorganically. An organic growth can be achieved by supplementary capital investment coupled with better management of both types of resources financial and non-financial in prevailing business. The other way for achieving the growth by inorganic approach which contains strategies such as mergers, acquisitions, joint ventures, strategic alliances, etc. Out of these mergers and acquisitions are considered as dominant tool for gaining competitive advantage over competitors and for external growth.

OBJECTIVES:

1. To study pre and post-amalgamation liquidity position of acquiring companies.
2. To analyze pre and post-amalgamation liquidity position of acquiring companies.

HYPOTHESIS:

- H01:** Amalgamation has no significant impact on current ratio of the acquiring companies.
H02: There is no significant difference between the quick ratio of the acquiring companies.

RESEARCH METHODOLOGY:

- **Selection of the sample:** Amalgamations in Textile industry during the year 1999 – 00 to 2009 – 10 are selected for this study listed on BSE.
- **Sources and Collection of Data:** This research paper is purely based on secondary data collected from various sources like: Annual Reports, CMIE Prowess Database and company website.
- **Period of the study:** The researcher has taken 5 years pre-amalgamation data and 5 years post amalgamation data for the analysis and the year of amalgamation is excluded.
- **Tools used for analysis:** For the analysis of liquidity Current Ratio and Quick Ratio are used. For the verification of hypotheses difference of mean test has been used.

REVIEW OF LITERATURE:

Asquith & Kim (1982) Investigated to verify that conglomerate merger bids, does have any effect on the merging firms' wealth of stockholder and bondholders. For calculating results, the basis of returns to the announcement date, daily and monthly of merger bid from the year 1960 to 1978 were considered. The investigation results were based on investigation of 50 firms whose target firms'

stockholders gained due to merger bid, on the contrary any other security holder lost or gained. Addition to that investigation result also revealed that market efficiency resolved the conflicts of interest among stockholders and bondholders. **Healy, Palepu, & Ruback (1990)** in this paper examined the after-acquisition merged firms operating performance. For the study sample of fifty largest mergers between U.S. public industrial companies accomplished during 1979 to 1983 were measured for cash flow performance. The outcome of this study showed that merged firms have considerable developments in asset productivity relative to their industries after the merger, lead to higher post-merger operating cash flow returns. **Pawaskar (2001)** the researcher analyzed the operating performance in post-merger period of the acquiring firm and makes an effort to identify the sources of merger-induced changes. The analysis of regression to norm is done to identify whether competitive forces would have led to profit changes even if the merger had not occurred. Study is based on sample of 36 cases of mergers between 1992 and 1995. Merger showed a negative impact on the profitability. The study showed that merger did not lead to improved performance. The only significant gains to the acquired firm were through an increased leverage. The analysis further shows that mergers did not lead to excess profits for the acquiring firm. **Vanitha & Selvam (2007)** This paper assessed financial performance before mergers and after mergers in the manufacturing industry in India. For this study seventeen companies were consideration out of fifty eight companies from manufacturing sector, those undergone for mergers and acquisitions between 2000 and 2002. The study narrowed with pre-merger and post-merger period of 3 years respectively. The tools used were ratio analysis, standard deviation, mean and 't' test for evaluating financial performance. The results obtained were insignificant in relation to solvency, liquidity and profitability. **Dhiman & Parry (2011)** An aim of the study was designed to evaluate the impact of on the financial performance due to acquisitions for acquiring companies. Particular accounting variables were used to measure performance and equate pre-acquisition and post-acquisition financial performance of firms. The researcher studied the effect of acquisition on the sample of 10 firms. This study revealed that acquisition not necessarily benefitted in the long run profitability. The results highlighted that acquisitions have insignificant impact on profitability of the firms during post-acquisition period.

RESULT AND DISCUSSION:

Table – 1 Current Ratio of companies in Textile Industry (Values in Times)

| Sr. No. | Company Name | Pre-Acquisition Year | | | | | Post-Acquisition Year | | | | |
|---------|-------------------------|----------------------|-------|-------|-------|------|-----------------------|-------|-------|-------|------|
| | | 5 | 4 | 3 | 2 | 1 | 1 | 2 | 3 | 4 | 5 |
| 1 | Spentex Industries Ltd. | 7.74 | 5.76 | 2.76 | 2.18 | 3.42 | 6.76 | 3.84 | 3.82 | 3.68 | 2.23 |
| 2 | Sangam (India) Ltd. | 21.78 | 10.72 | 19.05 | 17.12 | 8.33 | 9.83 | 11.13 | 12.43 | 2.06 | 2.34 |
| 3 | R S W M Ltd. | 5.13 | 6.55 | 8.05 | 7.54 | 9.69 | 9.49 | 12.12 | 14.61 | 10.93 | 9.15 |
| 4 | Eastern Silk Inds. Ltd. | 1.72 | 2.69 | 2.53 | 1.70 | 1.38 | 1.60 | 1.43 | 2.31 | 1.56 | 1.12 |
| 5 | Welspun India Ltd. | 7.14 | 5.64 | 4.88 | 4.02 | 4.38 | 1.68 | 3.30 | 6.34 | 4.54 | 3.68 |
| | Mean | 8.70 | 6.27 | 7.45 | 6.51 | 5.44 | 5.87 | 6.36 | 7.90 | 4.55 | 3.70 |

(Source: CMIE Prowess Database)

Table No. 2 – Statistical Analysis of Current Ratio for Textile Industry

t-Test: Paired Two Sample for Means

| | Pre | Post |
|------------------------------|----------|----------|
| Mean | 6.876 | 5.6792 |
| Variance | 1.556942 | 2.653613 |
| Observations | 5 | 5 |
| Pearson Correlation | 0.549683 | |
| Hypothesized Mean Difference | 0 | |
| df | 4 | |
| t Stat | 1.903779 | |
| P(T<=t) one-tail | 0.064836 | |
| t Critical one-tail | 2.131847 | |
| P(T<=t) two-tail | 0.129673 | |
| t Critical two-tail | 2.776445 | |

The difference between the pre-amalgamation and post-amalgamation current ratio is tested statistically by using the difference of means test. The value of the two-tail significance is 0.129673 is greater than 0.05 ($p > .05$) for Textile Industry, as such the difference between the means is not significant. The test output indicates that there is an insignificant difference in pre-amalgamation current ratio and post-amalgamation current ratio. Hence the post-amalgamation current ratio is less than pre-amalgamation current ratio, with $t_4 = 2.776$, $p > 0.05$. Hence, it can be concluded that the post-amalgamation current ratio is less than pre-amalgamation current ratio.

Table No. 3 – Quick Ratio of companies in Textile Industry (Values in Times)

| Sr. No. | Company Name | Pre-Acquisition Year | | | | | Post-Acquisition Year | | | | |
|---------|-------------------------|----------------------|------|------|------|------|-----------------------|------|------|------|------|
| | | 5 | 4 | 3 | 2 | 1 | 1 | 2 | 3 | 4 | 5 |
| 1 | Spentex Industries Ltd. | 0.49 | 0.35 | 0.01 | 0.08 | 1.22 | 1.04 | 0.53 | 0.30 | 0.39 | 0.23 |
| 2 | Sangam (India) Ltd. | 3.25 | 1.34 | 2.68 | 2.79 | 1.99 | 2.10 | 2.09 | 2.41 | 0.36 | 0.33 |
| 3 | R S W M Ltd. | 1.03 | 0.92 | 1.25 | 0.98 | 1.13 | 1.68 | 1.83 | 2.29 | 1.62 | 1.27 |
| 4 | Eastern Silk Inds. Ltd. | 0.77 | 0.95 | 1.24 | 0.86 | 0.82 | 0.86 | 0.66 | 1.09 | 0.55 | 0.21 |
| 5 | Welspun India Ltd. | 1.23 | 0.78 | 0.67 | 1.30 | 1.00 | 0.24 | 0.44 | 0.96 | 0.44 | 0.71 |
| | Mean | 1.35 | 0.87 | 1.17 | 1.20 | 1.23 | 1.18 | 1.11 | 1.41 | 0.67 | 0.55 |

(Source: CMIE Prowess Database)

Table No. 4 – Statistical Analysis of Quick Ratio for Textile Industry

t-Test: Paired Two Sample for Means

| | Pre | Post |
|------------------------------|----------|----------|
| Mean | 1.1652 | 0.9852 |
| Variance | 0.032453 | 0.130761 |
| Observations | 5 | 5 |
| Pearson Correlation | -0.14627 | |
| Hypothesized Mean Difference | 0 | |
| df | 4 | |
| t Stat | 0.942752 | |
| P(T<=t) one-tail | 0.199594 | |
| t Critical one-tail | 2.131847 | |
| P(T<=t) two-tail | 0.399187 | |
| t Critical two-tail | 2.776445 | |

The difference between the pre-acquisition and post-acquisition quick ratio is tested statistically by using the difference of means test. The value of the two-tail significance is 0.399187 is greater than 0.05 ($p > .05$) for Textile Industry, as such the difference between the means is not significant. The test output indicates that there is an insignificant difference in pre-amalgamation quick ratio and post-amalgamation quick ratio. Hence the post-amalgamation current ratio is less than pre-amalgamation current ratio, with $t_4 = 2.776$, $p > 0.05$. Hence, it can be concluded that the post-amalgamation current ratio is less than pre-amalgamation current ratio.

Table No. – 5 Summary of Textile Industry

| Textile industry | | | | |
|------------------|--------------------------------|--------------------------------|---------------------|----------------------------------|
| Variables | Pre – Mean (5 years before) | Post – Mean (5 years after) | 'p' value (0.05) | Significant / Not Significant |
| Current Ratio | 6.876 | 5.6792 | 0.129673 | Not Significant |
| Quick Ratio | 1.1652 | 0.9852 | 0.399187 | Not Significant |

1. Current Ratio:

From the analysis of Current Ratio of Textile industry that Current Ratio has decreased in post-amalgamation period. The mean of Textile industry are increased as compared to pre-amalgamation period i.e. 6.876 to 5.6792. This indicates that firms have acquired huge amount of current liabilities.

2. Quick Ratio:

It is observed from the analysis that Quick ratio of Textile industry that Quick Ratio has declined in post-amalgamation period as compared to pre-amalgamation period. The mean for industry are 1.1652 and 0.9852 respectively in pre and post-amalgamation era. It points out that post-amalgamation acquiring firms have accumulated large amount of non-liquid assets. Hence, it highlights that firms in Textile industry have attracted huge amount of funds are invested and blocked in current assets after amalgamation.

CONCLUSIONS:

The Current Ratio of the Textile industry has been decreased after amalgamation. That concluded to huge amount of absorption of current liabilities. The Quick Ratio of the Textile industry lower than before to an extent. This determines heavy investment in non-liquid assets in post-amalgamation period. From the study it's evident that the results were statistically insignificant in pre and post amalgamation for liquidity position of acquiring companies.

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