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An Analysis of Working Capital in Pre and Post Amalgamation Period of Textile Industry

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Abstract:
The global uncertainty has impacted the fundamentals and the sentiments, indirectly impacting the valuation of merger and acquisitions for India. Firms targeting to achieve growth through exploring prospects internally and externally as well. The vital role is played by globalization for rise in trend of mergers and acquisitions. Feasibly mergers and acquisitions are prominent strategy for firms those pursuing competitive advantage over competitors in their business or industry. This paper analyzed pre and post gross and net working capital of acquiring companies in Textile industry during the year 1999 – 00 to 2009 – 10 are selected for this study listed on BSE / NSE. For this study difference of mean test has been used. It is evident from the analysis that the results are statistically significant in pre and post working capital situation for acquiring companies.

Keywords: Amalgamation, Gross working Capital, Net Working Capital, Textile Industry

Introduction:
In an integrated business world firms are facing fierce competition, this is result of forces such as rapid technological up gradation, and globalization and a state of uncertainty is an outcome of the same. Firms targeting to achieve growth through exploring prospects internally and externally as well. Business growth internally can be achieved through additional capital investment along with better management of financial and non-financial resources in existing business operations. Another way to achieve growth is through externally that involves strategies related to mergers and acquisitions, strategic alliances, joint ventures, etc. The vital role is played by globalization for rise in trend of mergers and acquisitions. Feasibly mergers and acquisitions are prominent strategy for firms those pursuing competitive advantage over competitors in their business or industry. Merger and acquisitions have become dominant tool for external growth. Throughout in the world for business reconstructing mergers and acquisitions have come out as natural process. To achieve various business objectives firms often use mergers and acquisitions as preferred tools. Few motives to recommend mergers and acquisitions: to gain competitive advantage (Lubatkin, 1987), to obtain innovative capabilities, to gain significant market power, consequently minimizing the risk related to the development of a new service or product, maximizing productivity through scale of operations and lastly in few cases, repositioning the firm's competitive scope. (Friedrich Trautwein, 1990; Patricia M. Danzon, Andrew Epstein and Sean Nicholson, 2004). Secondary reasons include solution to short-term financial problems (Fluck and Lynch, 1999), refresh the firm by fetching new knowledge towards sustainability (Vermeulen and Bakerma, 2001).

Review of Literature:
Kitching (1967) The study was conducted to ascertain the prime reasons for variation in financial performance. The study was focused to the scale of performance was great. The results showed that approximately 45% of the amalgamations were of conglomerate in nature from the sample. Followed by the horizontal amalgamations around 25% of the sample size considered. The next were concentric technology around 14%, concentric marketing having nearly 13%, and vertical integration of approximately 5% of the sample taken for study. It was proven by the researcher, that the risk of failure

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was relatively high in case of concentric acquisitions, and relatively on lower one in case of horizontal amalgamations.

Sinha & Gupta (2011) This paper examined the mergers and acquisition scenario of the Indian financial service sector. 80 cases of mergers and acquisition from of financial service sector were collected from 1993 to 2007. Specific 10 parameters were identified and used like profit margin, total advances, current ratio, net profit, etc. to carry out the study. The results showed that mergers and acquisitions effects were positive on account of profitability. Conversely, the results found that the liquidity position was deteriorated during the same period. It also indicated that companies might have managed to leverage the synergy from mergers and acquisitions, but on the ground of liquidity deterioration management of acquiring firms were inefficient to manage capital structure.

Verma & Sharma (2012) The aim was to study the impact of mergers and acquisitions on the financial performance of Tata Group, examined pre and post-M&A financial ratios, with the sample of 24 companies chosen between 2003-04 and 2007-08. The post-M&A performance was compared with the pre-M&A performance and tested for significant differences, using "paired sample t-test". The researcher used financial ratios to see overall financial health of merged and acquired companies. Calculation of mean pre and post-merger and acquisition financial ratios were compared for five years to see if there was any statistically significant change in financial performance. The results from the study of the pre and post M&A financial performance ratios of the Tata Group presents that the increase or decrease was statistically insignificant. In other words, the effect of M&A on Tata Group's financial performance was not significantly. This means that M&A's in Tata Group has not significantly affected Tata Group's financial performance.

Mahesh & Daddikar (2012) The researcher examined the Indian Airline Companies performance after the merging of Airline sector in year 2007-08. The researcher primarily examined efficiency of financial performance in the time duration after mergers and acquisitions have been achieved or not. The performance was evaluated on the parameters of profitability, leverage, liquidity, and capital market standards. To determine the financial performance standards level of significance differences the researcher used Paired sample t-test. For the study relevant financial ratios were considered into four broad categories: profitability, financial leverage, liquidity and capital market. Along-with Mean, Variance and standard deviation were used for descriptive statistics. The result showed that their return on equity, expenses to income, earning per share and dividend per share improvement is identified but these improvement in post-merger duration was statistically insignificant.

Jayakumar (2013) The study demonstrated the effectiveness of strategies in pharmaceuticals for realizing the desired objectives. The study covered duration of six years 2002-03 to 2009-10 in pharmaceutical industry. The impact of acquisitions on the operating performance, of these firms, with respect to the pre-acquisition and post-acquisition financial ratios is presented. The key financial ratios such as Operating Profit Ratio, Gross Profit Ratio, Net Profit Ratio, Return on Net Worth Ratio were used to study the effectiveness. The result and analysis of the financial ratios of the acquiring firms stated that there is insignificant effect on the operating performance of the firms in post-acquisitions duration.

Objectives:

1. To study and analyze pre and post-acquisition gross working capital situation of acquiring companies.
2. To study and analyze pre and post-acquisition net working capital situation of acquiring companies.

Hypothesis:

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H_{01}: Acquisition has no significant impact on gross working capital of the acquiring companies.
H_{02}: There is no significant difference between the net working capital 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 / NSE.

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 data Gross Working Capital and Net Working Capital is used. For the verification of hypotheses difference of mean test has been used.

Result and Discussion:

Table – 1 Gross Working Capital of firms in Textile Industry (Values in Crores)

Sr. No.	Company Name	Pre-Acquisition Year					Post-Acquisition Year				
		5	4	3	2	1	1	2	3	4	5
1	Spentex Industries Ltd.	33.34	34.52	24.73	26.76	113.51	447.79	571.38	485.61	508.54	769.53
2	Sangam (India) Ltd.	135.02	146.12	200.21	223.45	277.83	586.60	584.18	638.67	872.24	901.73
3	R S W M Ltd.	245.20	305.78	286.56	300.87	426.61	629.48	653.71	908.89	975.24	1116.62
4	Eastern Silk Inds. Ltd.	48.17	71.31	69.32	78.38	97.56	145.72	156.89	222.84	188.95	134.68
5	Welspun India Ltd.	180.80	166.04	166.04	140.91	185.35	236.91	310.56	601.17	750.45	798.28
	Mean	**128.51**	**144.75**	**149.37**	**154.07**	**220.17**	**409.30**	**455.34**	**571.44**	**659.08**	**744.17**

(Source : CMIE Prowess Database)

Table – 2 Test results of Gross Working Capital of Textile Industry

t-Test: Paired Two Sample for Means		
	Pre	*Post*
Mean	159.3756	567.8664
Variance	1247.776	19305.06
Observations	5	5
Pearson Correlation	0.852657	
Hypothesized Mean Difference	0	
df	4	
t Stat	-8.27536	
P(T<=t) one-tail	0.000582	
t Critical one-tail	2.131847	
P(T<=t) two-tail	0.001164	
t Critical two-tail	2.776445	

The difference between the pre-acquisition and post-acquisition gross working capital is tested statistically by using the difference of means test. The value of the two tail significance is 0.001164 is less than 0.05 ($p<.05$), as such the difference between the means is significant. The test output indicates that there is a significant difference in pre-acquisition gross working capital and post- acquisition gross working capital. Hence the post-acquisition gross working capital is more than pre-acquisition gross working capital, with $t_4 = 2.776$, $p<0.05$. Hence, it can be concluded that the post-acquisition gross working capital is more than pre-acquisition gross working capital.

Table – 3 Net Working Capital of firms in Textile Industry (Values in Crores)

Sr. No.	Company Name	Pre-Acquisition Year					Post-Acquisition Year				
		5	4	3	2	1	1	2	3	4	5
1	Spentex Industries Ltd.	29.03	28.53	15.78	14.48	80.35	381.52	422.64	358.51	370.48	424.32
2	Sangam (India) Ltd.	128.82	132.49	189.70	210.40	244.48	526.92	531.70	587.28	447.91	515.67
3	R S W M Ltd.	200.54	259.08	250.98	260.96	382.58	563.16	599.76	846.68	886.01	994.63
4	Eastern Silk Inds. Ltd.	20.10	35.26	41.87	32.20	26.98	54.54	46.94	126.52	67.55	13.99
5	Welspun India Ltd.	155.48	132.03	132.03	105.89	143.08	96.13	216.52	506.34	585.12	581.60
	Mean	**106.79**	**117.48**	**126.07**	**124.79**	**175.49**	**324.45**	**363.51**	**485.07**	**471.41**	**506.04**

(Source : CMIE Prowess Database)

Table – 4 Test results of Net Working Capital of Textile Industry

t-Test: Paired Two Sample for Means		
	Pre	*Post*
Mean	130.1248	430.0976
Variance	701.89	6522.584
Observations	5	5
Pearson Correlation	0.737153	
Hypothesized Mean Difference	0	
df	4	
t Stat	-10.5141	
P(T<=t) one-tail	0.000231	
t Critical one-tail	2.131847	
P(T<=t) two-tail	0.000463	
t Critical two-tail	2.776445	

The difference between the pre-acquisition and post-acquisition net working capital is tested statistically by using the difference of means test. The value of the two tail significance is 0.000463 is less than 0.05 ($p<.05$), as such the difference between the means is significant. The test output indicates that there is a significant difference in pre-acquisition net working capital and post- acquisition net working capital. Hence the post-acquisition net working capital is more than pre-acquisition net working capital, with $t_4 = 2.776$, $p<0.05$. Hence, it can be concluded that the post-acquisition net working capital is more than pre-acquisition net working capital.

Textile industry				
Variables	**Pre – Mean (5 years before)**	**Post – Mean (5 years after)**	**'p' value (0.05)**	**Significant / Not Significant**
1. Gross Working Capital	159.3756	567.8664	0.001163762	Significant
2. Net Working Capital	130.1248	430.0976	0.000462719	Significant

1. **Gross Working Capital:**
   From the analysis of Gross Working Capital of Textile industry that Gross Working Capital has increased in post-acquisition period. The mean of Textile industry are increased as compared to pre-acquisition period i.e. Rs. 159.3756 Crores to Rs. 567.8664 crores. This indicates that firms have acquired huge amount of current assets in acquisition.
2. **Net Working Capital:**
   It is observed from the analysis that Net Working Capital of Textile industry that Net Working Capital has climbed in post-acquisition period as compared to pre-acquisition period. The mean for industry are Rs. 130.1248 Crores and Rs. 430.0976 Crores respectively in pre and post-acquisition era. It points out that post-acquisition acquiring firms have accumulated large amount of current assets. Hence, it highlights that firms in Textile industry have attracted huge amount of funds are invested and blocked in current assets after acquisition.

CONCLUSION:

1. **Gross Working Capital:**
   The Gross Working Capital position of the Textile industry has been sizeable increased after acquisition. That concluded to huge amount of absorption of current assets.
2. **Net Working Capital:**
   The Net Working Capital position of the Textile industry greater than before to a notable extent. This determines heavy investment in current assets in post-acquisition period.

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