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THE POST-MERGER RESTRUCTURING OF TARGET COMPANY AND PERFORMANCE ANALYSIS: A CASE STUDY ON TATA STEEL ACQUISITION OF BHUSHAN STEEL

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Abstract:

The case study examines the interesting Merger case of Tata steel acquisition of Bhushan steel ltd, that has been taken place in the steel industry. Under the Insolvency and Bankruptcy Code (IBC) of 2016, Tata steel ltd (TSL) acquired bankrupt Bhushan steel ltd (BSL) in 2018 and renamed as Tata Bhushan steel ltd (TBSL). Tata Steel currently owns 72.65% stake in Bhushan steel, after the completion of Tata BSL deal, The Tata Steel immediately paid the outstanding debt of Rs. 45369 crores and the existing board of directors of BSL are removed. In the current merger case debt restructuring & corporate board restructuring is identifiable clearly and it is found that operating and financial performance of merged firms are positive but not statistically significant in the post-merger period (3). In the proposed study researcher made an attempt to discover the different types of restructuring strategies implemented by the acquirer to improve the overall performance of target firm and merged entity followed by M&A, the empirical study is examined by employing paired-t statistic and ratio analysis method.

Keywords: Merger and Acquisition, Restructuring, Tata steel ltd, Bhushan steel ltd

INTRODUCTION:

The corporate merger is defined as “combination of two or more similar or entirely different firms, to carry on the business activities for the unforeseen period”. In case of merger one firm identifies the strength in the other firm, where the identified strength is the synergy which is over and above the cost of acquisition, if both the firms are committed to the merger mutually called as friendly merger and if only one party is interested then the merger may be hostile one. The businesses that consent to mergers often have comparable sizes and operational scopes. A corporate transaction known as an acquisition is one-in which one firm buy all or a portion of the stock or assets of another company. In most cases, acquisitions are conducted in order to control, enhance, and seize synergies from the target company's strengths. The major corporate strategies are

1. Amalgamations (neither company survives).
2. Mergers (any one company survives)
3. Acquisitions and Takeover (when both companies survive)

The corporate-restructuring tools are very much needed to firms to overcome the complications in the existing businesses it includes debt restructuring, equity restructuring, management restructuring, asset restructuring-sell offs, split-ups and split-offs are more popular etc. Others entail more radical modifications to the issuer's legal and accounting framework, such as the introduction of new goods and capacity expansion. Acquisitions, in which one firm buy another, are the most well-known of these structural modifications. Divestments and spin-offs, in which an issuer sells or divides a portion of its business, are two more well-known moves. Restructuring in the post-M&A period are quite common and our study through lights on Why do acquirer firm restructure the target? What kind of restructuring strategies are implemented? What is the impact or effect of restructuring on Target performance? These questions are addressed and researcher made a sincere attempt to answer the same.

Hence,

Statement of the problem is-**Why do firm merge and restructure?**



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Literature review:

Kumar & R, (2009) The paper attempts to analyses the merger and acquisitions from 1999-2002.

Author have examined the performance of pre- and post-merger period by considering accounting data and found that there is no significant improvement in the performance of merged entity after merger.

Kukalis & S, (2007) They investigated post-merger performance by taking 400 U.S based company from 1995-2000 and researcher considered 80 largest equity financed companies for evaluation and finds pre-merger target and post-merger merged entity not performed well following merger, except one year in the study period.

Agrawal & A, (2000) The study examines post-merger operating performance followed by merger and acquisition by applying market model and research finds that stock price return is negative following the merger and positive to tender offer but overall, long-run share price return is negative following merger.

Kruse and others, (2000) The paper finds the long-term operating performance followed by mergers of manufacturing companies listed on Tokyo Stock Exchange from the year 1969 to 1992. The study found that there is positive but statistically insignificant operating performance following merger and there is some salt of consistency between pre- and post-merger long term financial

Maksimovic, Phillips& Prabhala, (2011). The paper finds that there is drastic restructuring in a short period following merger and full-firm acquisition. Acquirers of firms sell 27% and close 19% of the plants of target firms within three years of the acquisition. Acquirers with skill in running their peripheral divisions tend to retain more acquired plants. Retained plants increase in productivity whereas sold plants do not. These results suggest that acquirers restructure targets in ways that exploit their comparative advantage.

Leepsa & Mishra, (2012). The present study examines the operating, financial and solvency position of both acquirer and target firm before and after merger. The study reveals that there is no significant improvement in the performance of merged entity following merger.

Objectives of the study

- To examine the post-merger restructuring of target company and its impact on target firm.
- To understand the financial and operational efficiency of acquired firm followed by M&A
- To analyze the synergistic benefits enjoyed by the merged firm.

Hypothesis of the study

A hypothesis is a suggested explanation for certain actions, information, or future events. In other words, it focuses on describing the anticipated outcomes of the research. The following is the research's hypothesis:

H₀: There is no significant difference between pre- and post-merger financial performance of Tata steel.

H₁: There is a significant difference between pre- and post-merger financial performance of Tata steel

Research Methodology

The study is purely based on secondary data. The researcher used -4 to +4 years operating and financial data to analyse the operating & financial efficiency of merged entity followed by acquisition. The data is collected from various sources like money control.com, Yahoo finance and the official websites of respective companies and BSE official websites were used. The researcher had also gone through a number of periodicals and publications by Economic times, Times now etc. Researcher analysed the data by using the paired sample t-test and the different ratio analysis techniques were used.



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Company profile: Tata steel acquisition of Bhushan steel ltd

Particulars	Tata-steel	Bhushan-steel
Year of incorporation	1907	1983
Entity type	Public ltd	Public ltd
Industry group	Steel	Steel
Main-product/service	Finished steel (non-alloy steel)	Cold rolled coils, strips, sheets
Age of the firm as on Merger year	111 years	35 years
Market capitalization as on merger year	62837.5 crores	4330 crores

Source: CMIE Prowess Database.

Objective 1 justification:

Table :1 Restructuring followed by Merger	
Types of restructuring	Details
Debt restructuring	Bhushan Steel had a gross debt of Rs 63,020 crore before merger. Currently, the debt stands at Rs 17,651 crore. Since the acquisition, the company's external debt has been declining, and some of its debt has been prepaid (Rs 45369).
Asset restructuring	De-bottlenecking and de-coupling of operations, incorporating plant predictive maintenance framework, restarting idle assets like Direct Reduced Iron and ConArc, measuring operating key performance indicators, and different asset restructuring strategies have been used as keys for asset transformation
Management restructuring	After acquisition, Tata steel redefined the Management as well. Tata steel removed CFO of Bhushan steel from the chair.
Other types of restructuring include	Within a month of the acquisition, Tata Steel reorganized the organization structure and established specialized functional departments, among others, for safety, the environment, corporate social responsibility (CSR), vigilance and ethics, human resources, transformation, shared services, and industrial by-product management.
Supply and value chain restructuring	It includes increased waste reduction, resource consumption optimization, energy efficiency enhancement, and throughput maximization. Together with improving the product mix, it has also optimized operating costs and working capital
Corporate board restructuring	After acquisition Tata steel removed some of board of directors from the directorship and appointed professional &qualified one.

Sources: press release by Economics times and times India & Annual reports of firms.



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Post-Merger the Tata steel BSL undertaken following activities to improves the overall well-being

1.TSBSL has taken use of Tata Steel's synergy. Using synergies includes boosting the use of captive raw materials, combining inbound and outbound cargo planning, inter-plant synergies, and producing Tata Steel branded goods at Tata Steel BSL sites without a direct relationship with the customer.

2. According to the corporation, Following the takeover, TSBSL has invested roughly \$400 crore in capital projects for safety, the environment, and nourishment.

3.Tata Steel BSL used its internal accruals to pay for the investment. For captive power supply, the business additionally paid Rs 765 crore for a 99.9% interest in Bhushan Energy Company (formerly known as Anugul Energy Ltd), which was resolved through insolvency in 2019.

Objective 2 justification:

Table 1 showing pre-and post-merger financial and operating performance of Tata steel

Particulars	Before Merger (3-year avg)	After Merger (3-year avg)	t-value	Remark
PAT	918.33	12628.33	-2.95268	Significant @***
EBITDA	12146.66	24719.33	-4.33873	Significant @**
SALES	54738.33	91896.66	-8.21774	Significant @**
TOTAL ASSETS	168613	194624.66	-2.40656	Not Significant
CASH FLOW	-8	-988.66	0.676941	Not Significant
CURRENT ASSETS	26324.66	34407	-2.13893	Not Significant
CURRENT LIABILITIES	34189.33	46466	-3.91816	Significant @*

***Significant at 1%, **significant at 5%, * significant at 10%, level of significance respectively and N denotes Not significant at any level.

The above table represents the operating & financial performance of Tata steel .The data set includes data of (2015-2017) pre-merger period and post-merger period (2019-2022) has been considered, to analyse the financial performance, 7 random variables have been tested by using paired-t test at 1%,5%,10% level of significance respectively and the study found that PAT,EBITDA and Sales have been increased and it is proven that these 3 variables increased significantly after merger reveals that ,these 3 variables positively and statistically significant at different levels as mentioned in the table and other 3 variables calculated t-value falls in the acceptance region, hence for all 3 variables(Total assets,cashflow,current assets) together it is concluded that there is no significant difference between pre-and post-merger performance of Tata steel ltd-BSL ltd.(Null hypothesis is accepted and alternative is rejected in this case).The study found



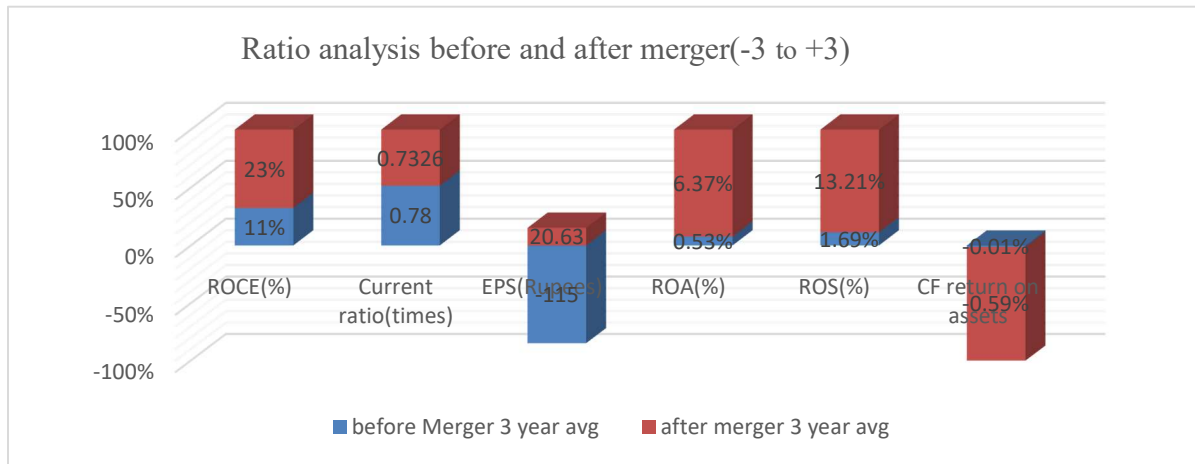
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that there is positive but not statistically significant difference in the financial performance of Tata steel after merger and hence it is concluded that there is no significant changes in the financial performance of merged entity.

articulars	Before Merger 3-Year Avg	After Merger 3-Year Avg
ROCE (%)	11%	23%
Current Ratio (Times)	0.78	0.7326
EPS(Rupees)	-115	20.63
ROA (%)	0.53%	6.37%
ROS (%)	1.69%	13.21%
CF Return on Assets	-0.01%	-0.59%

Source: Authors calculation



Objective 3 justification:

The synergistic benefits are enjoyed by stakeholders of merged entity in one or in other form, Tata steel acquisition of Bhushan steel will enhance the annual capacity of merged firm by around 43% to 18.6 million tonnes per annum (Bhushan steel is having 5.6 million tonnes per annum). The merged firm estimates that revenue from domestic steel production will up by CAGR 5.3% and volume growth in domestic steel production will rise by 6.1% and the merged entity will enjoy the increase in market share as market leader in steel industry.

Findings

- 1.The study identifies that PAT, EBITDA and Sales were increased positively and there is statistically significant difference between pre-merger and post-merger performance. (The financial variables are selected randomly to know the financial feasibility of the merged firm)
- 2.Bhushan steel price as on the date of resolution plan was Rs.27(18th of May 2018) and as on May 31st 2021 it was traded at Rs 52(CAGR of 48% hike in shareholders wealth).
3. Merger and Acquisition process yields benefits in the long run and in short-run the effect will be reflects on share price performance on the event day as we observed both firms share prices were gained to the merger announcement and we observed that shareholder & market respond positively to the merger event.



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Conclusion

The merger of two or more companies will enhance the value of stake-holders in one or in other way, there are many empirical evidence reveals that merger enhances the value of stakeholders in the post-merger period i.e., Asset productivity of merged firm that leads to higher operating cashflows were improved (Palepu and Ruback,1990) and in our case as well Total Sales,PAT,PBDIAT,PBIT and Cash Profit are showing improvements in the post-M&A period but not statistically significant, Merger will improve the performance of target as well as acquirer co in the longer period not immediately with these we can conclude that “Merger enhances the value of stake holders in one or other ways”

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