

A Study of Mergers & Acquisitions in Aviation Industry in India and Their Impact on the Operating Performance and Shareholder Wealth

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ABSTRACT

The objective of this paper is to study, why organisations take the inorganic mode of expansion. However, the main focus is on studying the operating performance and shareholder value of acquiring companies and comparing their performance before and after the merger. To conduct a uniform research and arrive at an accurate conclusion, we restrict our research to only Indian companies. To get a perspective on India, we study aviation sector.

We will test feasibility that mergers improve operating performance of acquiring companies. However on studying the cases, we conclude that as in previous studies, mergers do not improve financial performance at least in the immediate short term.

Keywords

Restructuring, aviation, shareholders' wealth, operating performance, ratios

1. INTRODUCTION

The air travel market grew up originally to meet the demand of business travelers as companies became progressively wide-spread in their operations. On the other hand, rising income levels and extra leisure time led holidaymakers to travel to faraway places for their vacation. A further stimulus to the air travel market was provided by the deregulation and the privatization of the aviation industry. State-owned carriers that hitherto enjoyed monopoly status were now exposed to competition from private players. However, one development that changed the entire landscape of the industry was the emergence of low cost carriers (LCCs). These carriers were able to offer significantly cheaper fares on account of their low-cost business models and thereby attract passengers who might not otherwise be willing to fly. LCCs have achieved rapid growth in market

share in the U.S. domestic market, short-haul market in Europe and recently in Asia. Since 1970, the international passenger traffic has grown by an average rate of more than 6%, compared to a 7% increase in the domestic passenger traffic.

The aviation industry is highly cyclical. However, in times of recession, the decline in the industry growth rate is much sharper when compared to the world economy. After witnessing a strong growth during the late 1990s, the industry saw a sharp reversal in fortune as a result of a global economic downturn in 2001. The situation was further aggravated by 9/11 attack, the Iraq war and the SARS epidemic. The mammoth financial losses incurred by the scheduled carriers during this period led to a long-overdue restructuring among the full service carriers (FSCs). Many airlines embarked upon severe cost-cutting and fleet-rationalization programmes as they struggled to remain afloat. The conditions for FSCs were further worsened with the advent of budget carriers in the U.S. and Europe.

There was however a strong rebound in traffic in 2004, led by a strong recovery in the world economic growth and which continued for the next two years (2005 and 2006). According to ICAO (International Civil Aviation Organisation), the revenue per passenger kilometers (calculated as the number of seats multiplied by the kilometers flown) for international services has grown by 8.5% in 2005 and is estimated to have grown by 6% in 2006. The strong growth in the traffic and recovery of higher fuel cost through surcharges resulted in strong revenue growth for airline companies. However, this did not translate into a recovery in profitability, primarily on account of a significant increase in fuel costs. According to IATA, the combined losses posted by the world's scheduled carriers amounted to US\$ 6 bn in 2005, following a cumulative loss of US\$ 36 bn in the previous four years.

Future Outlook: As per the estimates of aircraft manufacturers and other industry bodies, the world passenger traffic is expected to grow at 5% p.a. in the medium to long-term. The growth will however be slower in matured economies, but faster in under-penetrated and growing economies like India and China. The primary reason for the increase in passenger traffic over the years has been decline in airline passenger yields. As per an estimate, after adjusting for the general inflation, the average airline yields (revenue per passenger kilometers) have almost halved since 1970. During the same period, the real revenue growth (by combining growth in traffic and decline in yields) has averaged only 2% to 3%. Since aviation industry is a high fixed cost industry, a small increase in operating cost can have a sharp impact on the profitability of the companies. High fuel prices, congestion cost, higher security and insurance cost can increase the overall cost of operations and thereby impact the demand for air travel services. However, there is room for cost reduction in the form of distribution cost and cost synergies from industry consolidation. Overall, we believe that consolidation is the only solution for addressing the problem of excess capacity and poor financial ratios of the company.

2. LITERATURE REVIEW

There are various strategic and financial objectives that influence mergers and acquisitions. Two organizations with often different corporate personalities, cultures and value systems are bought together. The terms ‘mergers’ and ‘acquisitions’ are often used interchangeably. In lay parlance, both are viewed as the same. However, academics have pointed out a few differences that help determine whether a particular activity is a merger or an acquisition.

A particular activity is called a merger when corporations come together to combine and share their resources to achieve common objectives. In a merger, both firms combine to form a third entity and the owners of both the combining firms remain as joint owners of the new entity (Sudarsanam, 1995)^[1].

An acquisition could be explained as event where a company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm. This may involve the purchase of another firm’s assets or stock (Donald M. De Pamphilis, 2008)^[2]. Acquiring all the assets of the selling firm will avoid the potential problem of having minority shareholders as opposed to acquisition of stock. However the costs involved in transferring the assets are generally very high.

There is another term, ‘takeover’ which is often used to describe different activities.

Takeover is slightly different than acquisition however the meaning of the later remaining the same. When the acquisition is forced in nature and without the will of the target company’s management it is known as a takeover. Takeover normally undergoes the process whereby the acquiring company directly approaches the minority shareholders through an open tender offer to purchase their shares without the consent of the target company’s management. In mergers and acquisitions scenario the terms mergers, acquisitions, takeover, consolidation and amalgamation are used interchangeably (Source: Chandra, 2001)^[3].

Mergers of corporations in similar or related product lines are termed as horizontal mergers. These mergers lead to elimination of a competitor, leading to an increase in the market share of the acquirer and degree of concentration of the industry (M&A, Milford Green, 1990)^[5]. However there are strict laws and rules being enforced to ensure that there is fair competition in the market and to limit concentration and misuse of power by monopolies and oligopolies.

In addition to increasing the market power, horizontal mergers often tend to be used to protect the dominance of an existing firm. Horizontal mergers also improve the efficiency and economies of scale of the acquiring firm (Lipczynski, Wilson, 2004)^[4]. Recent examples of horizontal mergers in the international market are those of the European airlines. The Lufthansa- Swiss International link up and the Air France- KLM merger are cases of horizontal mergers (Lucey, Smart and Megginson, 2008)^[5]. Horizontal mergers have been the most important and prevalent form of merger in India. Various studies like those of Beena, 1998^[6] has revealed that post 1991 or post liberalisation more than 60% of mergers have been of the horizontal type as cited in Mehta, 2006^[7]. Recently there have been many big mergers of this type in India like Birla – L&T merger in the cement sector.

The aviation sector has also witnessed quite a few such mergers like the Kingfisher airline – Air Deccan merger and the Jet Airways – Air Sahara merger.

A vertical merger is the coming together of companies at different stages or levels of the same product or service. Generally the main objective of such mergers is to ensure the sources of supply (Babu, 2005)^[8]. In vertical mergers, the manufacturer and distributor form a partnership. This makes it difficult for competing companies to survive due

to the advantages of the merger. The distributor need not pay additional costs to the supplier as they both are now part of the same entity (learnmergers.com). Such increased synergies make the business extremely profitable and drive out competition. Purchase of automobile dealers by manufacturers like Ford and Vauxhall are examples of vertical mergers. Ford's acquisition of Hertz is an example of a vertical merger (Geddes, 2006)^[9]. The acquisition of Flag Telecom by Indian telecom company Reliance Communications Ltd was a very significant vertical merger.

Conglomerate mergers occur between firms that are unrelated by value chain or peer competition. Conglomerates are formed with the belief that one central office would have the know-how or knowledge and expertise to allocate capital and run the businesses better than how they would be run independently (Robert Bruner, 2004)^[10]. The main motive behind the formation of a conglomerate is risk diversification as the successful performers balance the badly performing subsidiaries of the group (Brian Coyle, 2000)^[11]. Conglomerate mergers can also be explained as a merger between companies which are not competitors and also do not have a buyer seller relationship. The general observation has been that such conglomerate mergers are not very successful. Where only a few conglomerates like General Electronics (GE) have been successful, most others have failed (Patrick Gaughan, 2007)^[12].

Such acquisitions are not very commonly discussed while classifying mergers and acquisitions. Such acquisitions are driven by the financial logic of transactions. They generally fall under either Management Buyouts (MBOs) or Leveraged Buyouts (LBOs) (H. Ross Geddes, 2006)^[9].

Factor affecting mergers change with the changing legal, political, economic and social environments (Kaushal, 1995)^[13]. Business Organization literature has identified two common reasons which are derived out of mergers and acquisitions i.e. efficiency gain and strategic rationale (Neary, 2004)^[14]. Efficiency gain means the merger would result into benefits in the form of economies of scale and economies of scope. Economies of scale and scope are achieved because of the integration of the volumes and efficiencies of both the companies put together. Secondly the strategic rationale is derived from the point that mergers and acquisition activity would lead to change in the structure of the combined entity which would have a positive impact on the profits of the firm. However, we shall discuss these and various other factors that lead to mergers and acquisitions.

Synergy has been described as $2+2=5$ (Pearson, 1999)^[15]. In other words, the whole would be greater than the sum of its parts (Sherman, 1998)^[16]. It implies that the combined handling of different activities in a single combined organisation is better, larger or greater than what it would be in two distinct entities (Bakker, Helmink, 2004)^[17]. The word synergy comes from a Greek word that means to co-operate or work together (Bruner, 2004)^[10]. Mergers theoretically revolve around the same concept where two corporations with come together and pool in their expertise and resources to perform better. Estimating synergies and its effect is an important decision in the merger process, primarily for four reasons. Firstly, mergers are meant for value creation and hence assessing the value that would be created by the synergies is important. Secondly, assessing how investors would react to the merger deal is another important consideration. Thirdly, managers need to disclose these strategies and benefits of such deals to investors and hence their perfect estimation and knowledge is important. Lastly, valuing synergies is important for developing post-merger integration strategies (Bruner, 2004)^[10]. However important valuing synergies may be, practically very few companies actually develop a transactional team, draw up a joint statement regarding the objectives of the deal or solve the post-closing operating and financial problems timely. Synergies can be further discussed as being financial, operating or managerial synergies.

Operational synergies refer to those classes of resources that lead to production and/or administrative efficiencies (Peck, Temple, 2002)^[18]. Product related diversification mergers are often carried out keeping operational synergies in mind. These synergies help firms bring down unit costs due to product relatedness. Common technology, marketing techniques like common brand and manufacturing facilities like common logistics are essentially the components of operational synergy (Peng, 2009)^[19]. Operational synergy can be explained as a combination of economies of scale, which would reduce average costs as a result of more efficient use of resources and economies of scope, which would help a company deliver more from the same amount of inputs (Bakker, Helmink, 2004)^[17].

Financial synergy refers to the impact of mergers and acquisitions on lowering the cost of capital of the merged or newly formed entity (DePamphilis, 2005)^[20]. Financial synergies lead to reduced cost of capital and / or increased borrowing power (Hankin, Seidner and Zietlow, 1998)^[21]. Conglomerate mergers generally focus on financial synergies that increase the competitiveness for each

individual unit controlled by one centralized parent company beyond what could have been achieved by each unit competing individually (Peng, 2009^[19]). Along with a lower cost of capital, financial synergies also bring about a larger capital base which helps funding of larger investments. In case of conglomerate mergers, financial diversification can bring about various other advantages like more stable cash flows, lower performance variations, insurance gains and other tax advantages (Bakker, Helmink, 2004)^[17]. Financial synergies are possible between related and unrelated firms unlike operational synergies that take place only between related firms. (Source: Peck, Temple, 2002).

Managerial synergy refers to the increased efficiency as a result of management teams of two firms coming together. Often management teams have different strengths and their coming together could result in improved managerial expertise (Ross, Westerfield, Jaffe, 2004)^[22]. These synergies occur when competitively relevant skills possessed by managers of previously independent companies can be successfully transferred to the merged entity (Hitt, Harrison, Ireland, 2001)^[23].

Growth is imperative for any firm to succeed. This growth can be achieved either through organic or inorganic means. However, mergers (inorganic) are considered a quicker and a better means of achieving growth as compared to internal expansions (organic). Along with additional capacity, mergers bring with them additional consumer demand as well (Sloman, 2006)^[24].

One argument often presented in favour of mergers is that they help in diversifying the group's lines of businesses and hence helps reduce risk. Risk could be interpreted as risk from the point of view of shareholders, lenders i.e. insolvency risk, business risk, etc.

Mergers can benefit the corporations and individuals in their own way by helping them reduce the tax bill. However, with stricter laws, undue advantage taken by corporations of tax reduction can be managed. Often large profitable corporations merge with certain loss making ones to help them take advantage of reduced expenditure on taxation. However, small shareholders of acquired companies tend to receive substantial tax benefits on merger with large corporations.

There is a tendency among managers, especially those of corporations where ownership and control are distinct, to enter into mergers for the lure of a higher pay packet and more rewards.

Mergers are often carried out to achieve a better standing in the market by means of an increased market share and by becoming a leading player in the concerned sector. Reducing competition is another key concern when contemplating mergers. Often it is necessary to protect a key source of supply from a competitor which can be done through mergers.

Empirical Studies Regarding Post Merger Performances

Several researchers have tried to study the performances of acquiring firms post the merger.

However, there has been no concrete conclusion or consensus regarding the same. The most popular forms of empirical studies are event studies, accounting studies, clinical studies and executive surveys.

From most of the studies conducted till date, it only appears that mergers do not improve the financial performance of the acquirers.

Event studies and accounting studies as such point to the fact that these gains are either small or nonexistent. However, it must also be noted that there have been studies conducted that show that post-merger performance also largely depends on the industry or sector and cannot be generalized.

Accounting Studies

This method involves the study of financial statements and ratios to compare the pre-merger and post-merger financial performance of the acquiring company. It is also used to study whether the acquirers outperformed the non-acquirer's. Various ratios like return on equity or assets; EPS, liquidity, etc are studied. Whether a merger actually improves the operating performance of the acquiring company is uncertain, but mostly leads to a conclusion that mergers do not really benefit in improving operating performances. A research conducted on Indian companies also showed no real signs of better post-merger operating performance of the acquiring company.

Causes of Failures

There could be many causes of failed mergers and acquisitions. It is most likely that a failed merger would be a result of poor management decisions and overconfidence. There could be personal reasons considering which managers tend to enter into such activities and hence tend to ignore the primary motive of mergers, creating shareholder value. Sometimes however,

good decisions may also backfire due to pure business reasons. These factors can be summarized by the following points.

Overpayment

A very common cause of failed mergers is overpayment. This situation arises essentially due to over confidence or the urge for expansion. Overpayment often has disastrous consequences. Overpayment leads to expectations of higher profitability which is often not possible. Excessive goodwill as a result of overpaying needs to be written off which reduces the profitability of the firm.

Integration issues

It is rightly said that “Few business marriages are made in heaven” (Sadler, 2003)^[25]. Both merging companies need to be compatible with each other. Business cultures, traditions, work ethics, etc. need to be flexible and adaptable. Inefficiencies or administrative problems are a very common occurrence in a merger which often nullifies the advantages of the merger (Straub, 2007)^[26]. Often it is necessary to identify the people needed in the future to see the merger through. There must be some urgency between the parties and good communication between them. Due to lack of these qualities, mergers often do not produce the desired results (Sadler, 2003)^[25].

Personal Motives of Executives

Managers often enter into mergers to satisfy their own personal motives like empire building, fame, higher managerial compensation, etc. As a result, they often lose focus on the fact that they need to look at the strategic benefits of the merger. As a result, mergers that do not necessarily benefit the organisation are entered into. These executives enter into these mergers for the purpose of seeking glory and satisfying their ‘executive ego’, leading to failure of mergers.

Selecting the target

Selecting the appropriate target firm is an extremely important stage in the merger process.

Executives must be able to select the target that suits the organizations strategic and financial motives and needs. Often the incapability or lack of motivation and interest on the part of executives leads to incorrect target selection. Lubatkin (1983)^[50] very appropriately said that selecting a merger candidate may be more of an art than a science (Straub, 2007)^[26].

Strategic Issues

Strategic benefits should ideally be the primary motive of any merger activity. However, managers sometimes tend to overlook this aspect. Faulty strategic planning and unskilled execution often leads to problems. Over expectation of strategic benefits is another area of concern surrounding mergers. (Schuler, Jackson, Luo, 2004)^[27]. These issues which form the core of all merger activities are not addressed adequately leading to failures of mergers.

3. PROBLEM STATEMENT

It is said that a problem which is well defined is half solved. The main problem area which the research is testing related to the subject of mergers and acquisitions.

In this, we want to investigate whether mergers and acquisitions have an impact on the operating performance of the acquiring firm and does it create wealth for the shareholders.

This problem stems from the fact that there have been mergers and acquisitions which have created wealth only for the acquiring firms and few have created wealth for only the target firms.

Likewise mergers and acquisitions have sometimes benefitted the shareholders of only the target company and vice versa. We are trying to find out whether mergers and acquisitions impact the operating performance of the acquiring firm and enhance shareholder wealth.

Aim of the Research

‘The main aim of the research is to analyze the feasibility and the impact of mergers and acquisitions on the operating performance of the firm’.

4. DATA & ANALYSIS

The Indian airline industry underwent liberalization in the year 1990 when the private sector companies were allowed to start its business. Many companies like Damania, East-West, Air Sahara and NEPC entered the market but after nearly a decade none of them survived. However in today’s scenario there have been number of private airline companies operating in this sector with players like Air Deccan, Kingfisher, Jet Air, Go Air, Spice Jet and many other players. The Indian aviation has only two Government controlled airline companies i.e. Air India and Indian Airlines. Sahara Airlines is one of the oldest private sector airline companies in India which

commenced business in 1991 and then was rebranded as Air Sahara in 2000. Similarly the government owned domestic airline company Indian Airlines was rebranded as 'Indian' under its plan to revamp the position in the airline industry. Later the government announced the merger of Air India and Indian which would build an airline giant in India. Jet Airways is one private player which operated both on domestic and international routes in India and holds a major share in the aviation industry in India. Spice Jet, Go Air and Air Deccan are the low cost no frill airline companies in India. Kingfisher airlines was being considered as the closest competitor to private players and it operates in both domestic and international routes.

Strategic alliance and mergers have been one of the buzz words in the airline industry. According to Oum, Park and Zhang (2000)^[28] for the airline industry 'strategic alliances refer to a long term commitment and partnership with two or more companies who attempt to gain competitive advantage collectively by fighting their competitors by sharing resources, cutting costs and improving profitability.

The following is the market share of different airline companies in the year 2008.

5. ANALYSIS & FINDINGS

KINGFISHER AIRLINES AND AIR DECCAN MERGER

One of the significant moves in the airline industry was the merger between Air Deccan, the first low cost carrier in India and Kingfisher Airlines. Air Deccan has created waves in the airline industry by offering people the lowest cost flying experience and shifted rail travelers to airline travelers.

However Air Deccan and Kingfisher Airlines have now merged and known as Kingfisher Aviation. The merger

started when Kingfisher Airlines owner Dr. Vijay Mallya bought 26% controlling stake in Air Deccan.

Synergy

The combined entity now has a fleet size of 71 aircrafts covering 70 destinations and more than 550 flights in a single day. The merger would benefit the entity by offering operational synergies like inventory management, maintenance, engineering and overhaul which would reduce the overall cost by 4% to 5% i.e. around 300 million (Financial Express, 2007)^[29]. Further the company would be able to rationalize its routes in a better way by changing its fare structure which will attract more passengers (Business Standard, 2007)^[30]. The merged entity would also have clear business model with reaching wider domestic base with Air Deccan capabilities and Kingfisher Airlines would reach international destinations.

Synergies can be seen in two directions, financial and operational. On operational grounds this merger would help Kingfisher expand its international base as it finishes 5 year mandatory period to fly domestic before getting an international license. Secondly on financial grounds it would mean a lot to Kingfisher because of savings on operation cost. With the growth expected in the industry, the combined entity would make better profits in the coming years. Other reasons for merger with Air Deccan was totally logistical like both the companies have the same maintenance contract with Lufthansa Technik, both the companies have Airbus fleet and same types of engines and brakes.

Financial Analysis

The merger between Kingfisher Airlines and Air Deccan took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

Table 1

Kingfisher Airlines	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	10.2%	-1.3%	-21.9%	-51.5%	-26.5%
Gross Operating Margin	-4%	-24.6%	-21%	-47.8%	-33.9%
Net Profit Margin	-6.4%	-27.5%	-23.6%	-13.1%	-30.5%
Return on Capital Employed	15.4%	-9.8%	7.5%	-19.6%	-24.4%
Return on Net Worth	-143%	-347.5%	-287.4%	-129.8%	-809%
Debt-Equity Ratio	20.8	4.6	6.3	6.4	4.7
EPS	-63.0	-347.5	-31.0	-13.9	-118.5
P/E	-1.9	-0.3	-4.6	-9.6	-0.4

From the above ratios it can be seen that before 2008 (Pre-merger) operating profit margin has increased to 14.57 % from 10.23 % .The operating profit has increased to 22.33 % , so we called it a successful merger. However, due to recession it has decreased to 10.50 % . From the above ratios it can be seen that before 2008 (Pre- merger) Net profit margin has decreased over a period of time. We called it a successful merger. Because net loss margin has decreased .However, due to recession Net loss margin increased to (30.53) % . The figure of net worth has increased to 384.7 crores which was decreased after merger and due to the recession time it has decreased to (2125.34) crores and debt to equity ratio has come closer to 2.66:1 which is near to ideal ratios. To sum up, it was indeed a good deal. Here, no of shares has increased which directly affected the EPS of the company which resulted in to loss of the company in terms of per share `Of (72.33).

Above ratios depicts that there is direct relationship between market price and EPS as both figures were decreasing which resulted in to negative price to earnings ratio. Return on net worth has increased to 75.7 % which attracts the investors to continue with the company and new investors to put their money in company’s equity. From the above ration efficiency and profitability of a company's capital investments has determined which is fluctuated over a period of time. It was 10.62 % in June 2006 which comes to 63.54 % . So , there is overall increased in return on capital employed .ROCE as currently defined is erroneous and capable of misleading investors and other interested parties on the performance of an enterprise

JET AIRWAYS & AIR SAHARA MERGER

Jet Airways started its business operations in 1993 and is now the largest company in the airline industry in terms of market share. The company has a fleet size of 88 aircraft and flies over 60 destinations worldwide with over 360 flights scheduled for a single day.

Synergy

Table 2

Fleet	Jet Airways	Air Sahara	Merged Entity
B737-300	-	2	2
B737-400	6	3	9
B737-700	13	7	20
B737-800	28	7	35
B737-900	2	-	2
CRJ-200	-	7	7
ATR-72	8	-	8
A330-200	2	-	2
A340-300	3	-	3
TOTAL	62	26	88

The major efficiency and synergy comes because both the companies use B737 as their domestic fleet efficiencies. Air Sahara has B737s which are more than 10 years old and CRJ-200 which were taken on lease for higher rentals. Jet Airways will have to rationalize the cost aspect of operating and maintaining the fleet size. Since Jet Airways does not have a proper mix of aircrafts this would lead to higher maintenance cost for merged entity.

Financial Analysis

Table 3

Jet Airways	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	33.2%	24.8%	14.7%	8.6%	5.2%
Gross Operating Margin	24%	19.8%	6.6%	4.1%	-6.4%
Net Profit Margin	9%	7.9%	0.4%	-2.9%	-3.5%
Return on Capital Employed	31.6%	21.2%	13.8%	6.3%	4%
Return on Net Worth	22.4%	21.1%	1.3%	-13.7%	-31.1%
Debt-Equity Ratio	1.7	2.3	2.9	6.5	12.6
EPS	45.4	52.4	3.2	-29.3	-46.6
P/E	27.6	18.5	195.8	-17.7	-3.3

The acquisition between Jet Airways and Air Sahara took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and

2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively.

On carefully looking at the above figures it can be seen that the operating margins of Jet Airways were very

strong in the year 2004-05. Later the operating margins started slowing down in the coming years. Post-merger the operating margins of Jet Airways had gone down to 5.2% from an earlier five year high of 33.2%. Gross Profit margin was very strong at 24% in 2004-05 however post-merger it has moved into a negative territory of (6.4%). Return on capital employed proves the efficiency with which the business is maintained. Looking at the post-merger results the shareholders who act as owners would surely be disappointed with only 4% return compared to 31.6% in 2004-05. Similarly the return on Net Worth for the company has also gone negative and post-merger it has not added any significant value for shareholders. The debt-equity ratio of the firm at the current level is around 10 times higher than in the year 2004-05 which shows the level of leverage which the company wants to drive on. The EPS which is the crude factor for any shareholder has seen a dip of -46.6%. Looking at the P/E ratio clearly shows that the stock has been highly undervalued and shareholders wealth has been deteriorated.

Overall it can be seen that Jet Airways has been able to post positive operating margins post mergers however Kingfisher Airlines have failed to do that. Kingfisher Airlines also has a negative return on capital employed compared to Jet Airways. But on other parameters like EPS, Return on Net Worth and Net Profit Margin have been negative for both the companies. It can be thus inferred that mergers and acquisitions have not created enough shareholder wealth post-merger.

6. CONCLUSION

In 2007 alone, Indian aviation saw three mergers -- Kingfisher Airlines acquiring Air Deccan at Rs 550 crore (Rs 5.5 billion) and Jet Airways acquiring Air Sahara at Rs 1,450 crore (Rs 14.5 billion) besides the forced merger of national carriers Air India and Indian Airlines. Industry analysts say Kingfisher's merger with Air Deccan gave the merged entity rights to fly international.

After considering the state of Jet Airways and Air Sahara along with the scenario of the Indian Aviation Industry this acquisition was a good decision taken at the right time. This move further strengthened the position of Jet Airways and helped it fight with the other competitors and maintain its market leadership. Also Air Sahara found an easy bailout option to clear its debts. Thus this deal was beneficial for both Jet Airways and Air Sahara.

Jet-Sahara or Kingfisher-Deccan and Air India-Indian Airlines had different corporate cultures. This makes a merger process difficult. Fortunately, Jet Airways has kept JetLite as a subsidiary. "Otherwise they would have killed the airline." However, some feel that apart from the reasons cited above, external factors like slowdown in the Indian aviation market because of recession have contributed to the failure of the merger.

Post-merger the operating margins of Jet Airways had gone down to 5.2% from an earlier five year high of 33.2%. Gross Profit margin was at a very strong 24% in 2004-05 however post-merger it has moved into a negative territory of (6.4%). Return on capital employed proves the efficiency with which the business is maintained. Looking at the post-merger results the shareholders who act as owners would surely be disappointed with only 4% return compared to 31.6% in 2004-05. Similarly the Return on Net worth for the company has also gone negative and post-merger it has not added any significant value for the shareholders.

Shareholders wealth of Kingfisher airlines has deteriorated significantly post-merger with Air Deccan. The P/E ratio of the firm also states that the stock has been undervalued over the years and does not look that an immediate upward movement in share price or EPS basis which the P/E will go up.

Overall it can be seen that Jet Airways has been able to post positive operating margins post-merger however Kingfisher Airlines have failed to do that Kingfisher Airlines also has a negative return on capital employed compared to Jet Airways. But on the other parameters like Earnings per share, Return on Net Worth and Net Profit Margin have been negative for both the companies. It can thus be inferred that mergers and acquisitions have not created enough shareholder wealth post-merger.

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Appendix 1

KINGFISHER AIRLINES	IN CRORE	2004-05	June 2006	June 2007	March 2008	March 2009
Operating Profit Margin	Operating profit	31.28	-113.44	-262.4	-325.18	-553.2
	Net Sales	305.55	1285.42	1800.21	1456.28	5269.17
Net Profit Margin	Net Profit	-19.53	-340.55	-419.58	-188.14	-1608.83
	Net Sales	305.55	1285.42	1800.21	1456.28	5269.17
Return On capital Employed	EBIT	20.11	-150.97	-290.91	155.16	174.37
	Capital Employed	189.37	241.75	852.25	445.95	-274.42
Return On Net Worth	Net Profit	-19.53	-340.55	-419.55	-188.14	-1608.83
	Net Worth	13.66	224.13	384.7	198.88	-2125.34
Debt-Equity Ratio	Debt	284.48	451.66	916.71	934.38	5665.56
	Equity	13.66	224.13	384.7	198.88	-2125.34
EPS	PAT	-19.53	-340.55	-419.58	-188.14	-1608.83
	No. Equity Share	1,553,226	49,904,959	99,326,445	135,668,051	222,434,428
PE	MPS		85.85	137.65	122.05	33.25
	EPS		-68.23	-42.24	-13.87	-72.33

Appendix 2

JET AIRWAYS	IN CRORE	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	Operating profit	1461.39	1431.64	1037.12	755.1	601.83
	Net Sales	4338.01	5693.73	7057.78	8811.1	11,571.15
Net Profit Margin	Net Profit	391.99	452.04	27.94	-253.06	-402.34
	Net Sales	4338.01	5693.7	7057.78	8811.1	11,571.15
Return On capital Employed	EBIT	1212.68	1071.08	873.1	734.71	310.29
	Capital Employed	3895.11	5801.42	6072	12394.15	16198.98
Return On Net Worth	Net Profit	391.99	452.04	27.94	-251.86	-402.34
	Net Worth	1750.89	2143.86	2104.81	1851.75	1294.65
Debt-Equity Ratio(lakh)	Debt	2,964.84	4,895.6	6,056.3	12,015.04	16,323.53
	Equity	1,750.84	2,143.86	2,104.81	1,851.75	1,294.65
EPS	PAT	391.99	452.04	27.95	-251.86	-402.34
	No. Equity Share	7.298	8.633	8.633	8.633	8.633
PE	MPS	1210.05	933.4	647.75	557.5	172.9
	EPS	45.78	52.1	3.23	-29.31	-46.4