

## **Effect of Merger on Financial Performance: A Case Study of Kingfisher Airlines**

**Megha Aggarwal**  
Assistant Professor,  
FMS-WISDOM,  
Banasthali Vidyapith,  
Rajasthan- 304022

**Shikha Singh**  
Research Associate  
FMS-WISDOM  
Banasthali Vidyapith  
Rajasthan- 304022

### **Abstract**

In the era of 21 century, for obtaining benefits of synergy merger and acquisitions, commonly known as M&A, are the most widely used strategies of the organizations. To obtain benefits such as entering in new market, cost reduction, cross selling, risk diversification, increasing shareholder's value, M&A can be done within the industry or outside the industry. Media provide reports on daily basis for various updates of any of the industry either Bollywood for latest releases, sports for world cup matches or stock market for ups and downs. Aviation industry of India is also in news for its various deals of Merger and Acquisition in recent years. This paper has focused on one of these mergers- Air Deccan and Kingfisher Airlines. The main objective of this paper is to analyze financial performance of Kingfisher Airlines pre and post-merger. Financial performance has been analyzed with the help of ratios specifically in the areas of profitability, Liquidity and Leverage. Further T-test has been used to determine the significance differences in these financial performance areas. Data has been collected from various Annual Reports of Kingfisher Airlines for pre and post-merger period. Analyses shows that there is no significant benefit has been achieved by Kingfisher after the merger. Analysis also shows that there is no improvement in company's return on equity, interest coverage, earnings per share and dividend per share.

**Keywords:** Financial Performance, Kingfisher, Liquidity, Merger & Acquisitions, Profitability

**JEL CODE:** G34

## **INTRODUCTION**

For any business organization, growth has two ways; Organic which is related to the turnover of the business and Inorganic, skipping few steps of the business ladder, corporate restructuring and business combinations. To enhance Shareholder's wealth, changes in the ownership, business mix, finance mix, asset mix are the various ways of corporate restructuring. Continuous evaluation of portfolio of business, capital mix, ownership and asset management can help to find the opportunities to increase the shareholder's wealth. Due to rapidly changes in technology, market, competitors, product, customers and even their preferences, it becomes necessary to use inorganic growth strategies like mergers, acquisitions, takeovers or spinoffs.

Restructuring as per Oxford dictionary means "to give a new structure to, rebuild or rearrange". The wealth of the shareholder's is not only the benefit of corporate restructuring as it can provide other non financial benefits like, innovation, competition master, cost leader etc.

## **MERGER AND ACQUISITION**

*'M&A represents a Marriage'*.<sup>1</sup>

### **Merger**

Merger occurs when two or more companies combine together to start a new company. It can be done through two ways either merger through absorption, combining two or more companies in to an existing company or merger through consolidation, combining two or more company into a new company.

### **Acquisition**

Acquisition can be referred as when tow firms combine but the one firm acquires another and the second firm ceases to exist. It can be said as one company takes over another company and establishes itself as a new company. This takeover can be friendly or hostile. When the

---

<sup>1</sup> Alam A., Khan S., Zafar Dr. F., "Strategic Management: Managing Mergers & Acquisitions", International Journal of BRIC Business Research, Vol. 3, No 1, February 2014

target company welcomes the acquiring company the takeover referred as friendly takeover whereas when the target company does not want to be acquire it referred as hostile takeover.

Merger and Acquisitions provide benefit either financially or non financially to the companies involved. Major benefit of merger and acquisition is to receive the benefit of synergy i.e., 2+2=5. The value of combined company is greater than then the value of two companies separately. This can also be represent as

$$V (A+B) > V (A) + V (B)$$

Where V = Value of the firm

A = Firm 1

B = Firm 2

Many mergers which happened we can't remember a time when two companies were distinct but there are mergers which fall flat on their faces. Mergers on which synergy effect does not worked and do not create any wealth for the shareholders.

In the list of corporate couplings which worked we always talk about Disney and Pixar merged in the year 2006 with the amount of \$7.4billion in a stock deal with the success of movies like WALL-E, UP, Bolt etc.

Exxon and Mobil joined in the year 1999 and signed the agreement with the amount of \$81 billion to form ExxonMobil and becomes strongest leader in the oil market.

For the failure Merger and Acquisition, this paper has focused two big companies of Aviation industry of India, Air Deccan and Kingfisher Airlines. The financial performance of the company after the merger does not improve significantly as a result the merged Kingfisher Red has to close off in the year 2011.

## **AVIATION INDUSTRY OF INDIA**

Potential of the aviation industry in India is enormous. Now a days aviation industry plays a most important part in developing the economy of nation because this industry plays lead role in transportation of people and goods nationally and internationally. Due to emergence of various airlines with variety of features, this can be easily availed by middle class people. Aviation industry of India has witnessed incredible growth story in the last decade with strong growth in passenger and cargo traffic. Immense growth has seen in number of operating aircrafts, heavy investment in the infrastructure of airport, speedy growth in number of operational airports, modern and latest technology has used to improve the capacities of various metro and non metro airports.

Due to speedily expanding air transport network and start exploring of the airport infrastructure from government to private sector, the growth of air traffic in the country have fuelled up. India is likely to be the fastest emerging aviation market in the world in 2020, according to former minister Ajit Singh, Minister of Civil Aviation, government of India.

The other phase of growth in Aviation industry of India is anticipated to come from Tier II and Tier Iii cities. Total air traffic generated by non-metro airports is only 30% (approx.), which is likely to rise to 45% in upcoming years representing huge unused market potential. The government is planning to construct nearly 200 low-cost airports in upcoming years, to meet the demand for air travel.

Due to 'open sky policy' various overseas players are entering in the aviation industry of India. The market is full with private players and their aircrafts. Now a days private airline have 75% (approx.) share of domestic air market in India.

Low cost carrier (LCC) of Aviation industry of India plays a vital role in attracting the large group of air travelers.

## **AIR DECCAN**

Capt. Gopinath, Capt.K.J. Samuel and Vishnu Raval started Air Deccan on 23<sup>rd</sup> August 2003 as a first low cost carrier of India, which change the overlook of Aviation industry of India.

This airline fulfills the dream of every common man of India who is interested in air travel. Air Deccan with a logo of kingfisher adorns on its aircrafts, 26% stake of Air Deccan has been acquired by the exuberant Kingfisher airlines (owner is liquor baron Mr. Vijay Mallya).

Due to some drawbacks like: airline was too much focused on South India, intently slowing down at check-in and overbooking, there were no lounges to attend the passengers of delayed flights, scarcity of airport personnel, frequent breakdowns in services, etc.; Air Deccan merge with Kingfisher Airlines and Mr. Vijay Mallya became the chairman and CEO of the new company Kingfisher Red. The merger has been taken place in April 2008. Less than expected growth in Aviation industry of India coupled with cram full and it result acute competition between airlines emerged in almost all the Indian carriers, including Air Deccan, running into heavy losses leaving with single option to merge with Kingfisher Airlines.

## **KINGFISHER AIRLINE**

A Kingfisher Airline Limited is an airline group based in India, founded by Mr. Vijay Mallya, under the parent company of United Breweries (UB). Kingfisher airlines has a 50% stake in low cost carrier Kingfisher Red, Kingfisher airlines had a second largest share in India's domestic air travel market until 2011. But due to acute financial crisis faced by the airlines at the starting of 2012, it has the lowest market share since April 2012; because financial issues due to heavy debt, lay off staff caused a bad image, high price of tickets, diverged from its target, inadequate services declined the airlines.

At the end of March 2011, Kingfisher Airline has suffering from the loss of over Rs.4,283 crores (Rs.42.83 billion) and never made even a single rupee in profit since it was started in 2005. During last two-and-half years, fleet size has come down from 89 to 66, due to dozen of aircrafts were grounded because of major engine problems for which it frightened to sue the engine maker. On the other hand the market was turning the other way with severely increased in fuel price. At that time Kingfisher has touched the load of 80%, but due to high cost, there was no scene for making money (mainly debt related). So, airline went for debt restructuring. In September 2011, Mr. Vijay Mallya (being Chairman and CEO) announced that Kingfisher Airline will close their low fare segment that was being run as Kingfisher Red brand. Owner of the company had to sell 49% of his ownership of Force India (F1 car) to Mr.

Subrato Roy (Founder and Chairman of Sahara India Pariwar) to get kingfisher going, but this idea was also failed to save the airlines from downfall.

## LITERATURE REVIEW

Srivastava, J., & Ali, A. (2013), conducted the study to examine the reasons behind the failure of the Kingfisher Airlines in the year 2012, by using secondary data. They concluded that Kingfisher plans to increase revenues through more efficient operations, while at the same time controlling costs by flaking some realty assets incoming sale and leasebacks for some Airbus aircraft, and switching some high-cost rupee loans into low-cost foreign currency loans and Kingfisher Airlines is also working “aggressively” with a association of banks, which hold a 23% stake in the company, to further reduce interest costs and raise working capital.

Mahesh, R., & Prasad, D. (2012), conducted a study to examine whether the airlines of India have attained financial performance efficiency during the post merger & acquisition period especially in the areas of profitability, leverage, liquidity, and capital market standards, by using Paired sample t-test. They concluded that there is irrelevant improvement in return on equity, expenses to income, earning per share and dividend per share post-merger.

Garg, C. P., Sharma, A., & Yadav, M. (2011), they conducted a study to examine that whether the LCC’s are economically sound for the operators or not. They concluded that LCC’s need to build a flexible and robust business model so that it can keep changing strategies as per the market dynamics.

Raja Rajeswari, M. (2010), she conducted a study to find out the trend in growth of current profitability and turnover position of the selected transport industry in India and compare the overall financial performance of the sample companies, by using ratio analysis techniques. She concluded that Air Traffic Enquiry Committee (established by government of India, in 1950) found no justification for nationalization of airlines, it favored their voluntary merger.

Bansal, S. C., Khan, M. N., & Dutt, V. R. (2008), conducted a study to examine the current status of the Indian civil aviation industry and challenges and opportunities emerging due to

liberalization in India. They concluded that airlines have regularly increasing the base fare due to increasing ratio of fuel by oil companies due to this passenger load has fallen. If the current aviation scenario persists, domestic carriers may move to again to mergers and acquisitions as smaller low-cost airlines, hurt by rising fuel prices and decreasing load of passenger. Consolidation and reforming are the way to go for Indian carriers to beat losses and stay flying.

Dixit, M. R., Sharma, S., & Karna, A. (2007), conducted a study to investigate that the entrepreneur unsuccessful to maintain his enterprise and the ambition if his strategic and operational choices and environmental responses to the choices create a resource or competence inequity and constrict the entrepreneur, by using comparative analysis and discussions. They concluded that an enterprise (Air Deccan) outlived but Air Deccan as imagined by founder of the airline unable to hold up the challenges it faced.

Kim, E. H., & Singal, V. (1993), conducted a study to focus on change in price related with airline mergers during 1985-1988, by using skewness and kurtosis coefficient of Lfarchg using the sign test. They concluded that air fare increased on routes provided by the merging firms' comparative to a control group of routes affected by the merger.

## **OBJECTIVES**

Literature review showed various studies of mergers and acquisitions as well as in aviation industry. But no study has been found which gives a comparison of pre and post merger performance of Air Deccan and Kingfisher Airlines Merger. The new merged company Kingfisher Red is the selected company for the current study. Following are the major objectives of the current study:

1. To examine the Post Merger effect on liquidity position of the merged company.
2. To examine the Post Merger effect on leverage standards of the merged company.
3. To examine the Post Merger effect on profitability standards of the merged company.

## **RESEARCH HYPOTHESIS**

1. **H(0):** There is no significant progress in liquidity position of the merged company.
2. **H(0):** There is no significant progress in leverage position of the merged company.
3. **H(0):** There is no significant progress in profitability position of the merged company.

## **SCOPE OF STUDY**

The focus of this research paper is on merger of Air Deccan and Kingfisher Airline which forms a new company Kingfisher Red. Financial performance has been analyzed by the comparison of Pre and Post merger details provided in the annual report.

## **RESEARCH METHODOLOGY**

### **SAMPLING TECHNIQUE**

Convenience sampling has been used to choose the sample company for this research paper. Such sampling technique is selected because of the proper data availability and proximity to the researcher.

### **SAMPLE SELECTION**

In this research paper, we have selected merger of two companies from Indian aviation sector. The merged company Kingfisher Red has been selected and data calculated for pre and post merger.



## DATA COLLECTION

Data has been collected from 2006-2008 for Pre Merger and from 2008-2010 for post Merger of Air Deccan and Kingfisher Airline (Kingfisher Red) in Aviation industry of India. Data has been compiled from the annual reports of the company.

## STATISTICAL TOOLS

To analyze the data financial ratios has been calculated and mean and standard deviation were used for Pre and Post merger period. Paired sample t-test (2 tailed with 95% significance level) has been used for the testing of hypotheses. MS-Excel is the only statistical application used for the study.

## DATA DESCRIPTION

Current study analyzes the effect of merger and acquisition on pre and post financial performance of kingfisher Red for the period of 4 year. Data for the years 2006-07 and 2007-08 have been taken to analyze pre merger financial performance and data of 2008-09 and 2009-10 has been taken to analyze post merger financial performance. For this study relevant ratios have been identified and calculated for the said period. Following are the broad categories of ratios and classified in to various relevant ratios.

Ratio	Description	Standard
<b>Liquidity Ratios</b>		
Current Ratio	Current Assets/Current Liabilities	High
Liquid Ratio	Liquid Assets/Current Liabilities	High
<b>Leverage Ratios</b>		
Debt-Equity Ratio	Debt/Equity	Low
Total Assets to Debt Ratio	Total Assets/Debt	Low

Interest Coverage Ratio	EBIT/Interest Charges	High
-------------------------	-----------------------	------

**Profitability Ratios**

Return on Capital Employed	EBIT/Capital Employed	High
----------------------------	-----------------------	------

Return on Assets	NPAT/Total Assets	High
------------------	-------------------	------

Return on Equity	(NPAT-Preference Dividend)/Equity	High
------------------	-----------------------------------	------

## ANALYSIS

To test the hypotheses pre and post merger financial ratios have been calculated and compared to see if there are any significant statistical changes in financial performance by using paired sample t-test at a confidence level 0.05 or 95% (2 tailed). The results are shown in the following table for the merged company.

Table 1.1: Paired Sample t-test for financial ratios

Ratios	Mean		Mean Difference	Standard Deviation		t-value	p-value (two - tailed)
	Pre	Post		Pre	Post		
<b>Liquidity Ratios</b>							
Current Ratio	1.31	0.18	1.13	0.905	0.0141	1.73	0.33
Liquid Ratio	1.2	0.135	1.065	0.848	0.0212	1.73	0.33
<b>Leverage Ratios</b>							
Debt Equity Ratio	0.635	14.1	-13.465	0.0494	3.394	-5.52	0.11
Total Asset to Debt Ratio	2.445	1.145	1.3	0.2192	0.2192	4.19	0.14
Interest Coverage Ratio	-21.5	-4.95	-16.55	2.1213	0.3535	9.45	0.06
<b>Profitability Ratios</b>							
Return on Capital employed (%)	-76.7	-1.16	-75.54	19.374	0.1555	-5.55	0.11
Return on Assets (%)	-49.25	-47.5	-1.75	7	14.849	-0.31	0.8
Return on Equity (%)	-6.41	-9.45	3.04	1.004	3.4648	1.74	0.33

## TESTING OF HYPOTHESES

### Liquidity Ratios

- Post merger current ratio has been decreased by 86% showing the inability of the company to pay off its short term liabilities in a year.
- Falling of Liquid ratio shows the worsening position of the company as the mean difference between pre and post merger ratio is 1.065. This indicates that company is not able to meet its immediate current liabilities and depends highly upon inventory.

Based on the results of t-test (95% significance level), the null hypotheses  $H(0)$  = there is no significant progress in Liquidity Ratios of the merged company, is accepted. Data reveals that there is no statistically significance difference between pre and post values because p value  $> 0.05$  for all the selected liquidity ratios under study.

### Leverage Ratios

- Post merger Debt – Equity ratio increased by 95% showing the higher leveraged policy adopting by the merged company and not able to explore the debt funds of the market.
- Total assets to debt ratio decreased by half indicating the impact of assets has been decreased on debt.
- Interest coverage ratio showing a negative trend and indicate the inability of the company to pay off its debt charges due to negative profits.

Based on the results of t-test (95% significance level), the null hypotheses  $H(0)$ = there is no significant progress in Leverage Ratios of the merged company, is accepted. Data reveals that there is no statistically significance difference between pre post values because p value  $> 0.05$  for all the selected liquidity ratios under study.

### Profitability Ratios

- Profitability ratios reflect the air services provided by the company on high or low cost fares. All the profitability ratios are showing the negative trend which indicate the negative impact of performance and yield as well.

- All ROCE, ROA and ROE ratios are negative which indicates the operating losses of the company.
- Positive mean difference value in ROE indicates the destruction of share holders fund due to bad management.

Based on the results of t-test (95% significance level), the null hypotheses  $H(0)$ = there is no significant progress in Profitability Ratios of the merged company, is accepted. Data reveals that there is no statistically significance difference between pre post values because p value  $> 0.05$  for all the selected liquidity ratios under study.

## **CONCLUSION**

Results showed that there is no significant improvement in the various ratios of the company in pre and post merger period. The null hypothesis of the study has not been rejected which stated that there is no significant progress or improvement in the financial position of the company in pre and post period. Kingfisher Red, the merged company was unable to encash the benefit of synergy. Being a low cost carrier, Air Deccan was not able to recover the operational expenses. But post merger impact, synergy benefit, does not worked for the company. Being in loss in post merger Kingfisher Red has to close down its operation in Airline industry in September 2011.

## **LIMITATIONS OF STUDY**

1. The study shall focuses only on Aviation industry of India merger & acquisition specifically the merger of Air Deccan & Kingfisher Airlines.
2. The study has examined only two years of Pre and Post merger & acquisition performance due to the inadequacy of time and resources.
3. The study calculated per merger performance for the year 2006-2007 (period of 12 months) and 2007-2008 (period of 9 months), as provided in the annual reports of the company, in view of merger date April 1, 2008 company close its account on March 31, 2008 instead of June 30, 2008.

## REFERENCES

Alam A., Khan S., & Zafar Dr. F. (2014). Strategic Management: Managing Mergers & Acquisitions. *International Journal of BRIC Business Research*, Vol 3, No 1, pp.1-10

Bansal, S. C., Khan, M. N., & Dutt, V. R. (2008). Economic Liberalization and Civil Aviation Industry. *Economic and Political Weekly*, pp.71-76.

Dixit, M. R., Sharma, S., & Karna, A. (2007). Aspirations, Enterprise Strategy and Sustenance of a Start-up in a Competitive Environment: A Study of Developments in Air Deccan. IIMA Institutional Repository, Working paper.

Faulkner, D., Teerikangas, S., & Joseph, R. J. (Eds.). (2012). *The handbook of mergers and acquisitions*. Oxford University Press.

Garg, C. P., Sharma, A., & Yadav, M. (2011), A Critical Appraisal Of Indian Low Cost Carriers: Opportunities & Challenges, *International Journal of Research in Finance & Marketing*, Vol. 1, No. 6, pp. 67-81.

Internet search engine [www.wikipedia.com](http://www.wikipedia.com) accessed for various terminologies.

Kar, R. N., & Soni, A. (2008). *Mergers and Acquisitions in India: A Strategic Impact Analysis for the Corporate Enterprises in the Post Liberalisation Period*. IGIDR Working Paper Series, WP-2008-31.

Kim, E. H., & Singal, V. (1993). Mergers and market power: Evidence from the airline industry. *The American Economic Review*, pp. 549-569.

Kingfisher Airlines, Annual Report 2006-2010 accessed from [www.flyingfisher.com](http://www.flyingfisher.com)

Mahesh, R., & Prasad, D. (2012). Post Merger and Acquisition Financial Performance Analysis: A Case Study of Select Indian Airline Companies. *international journal of engineering and management sciences*, Vol. 3 No. 3, pp. 362-369.

O'Connell, J. F., & Williams, G. (2006). Transformation of India's Domestic Airlines: A case study of Indian Airlines, Jet Airways, Air Sahara and Air Deccan. *Journal of Air Transport Management*, Vol. 12, No. 6, pp. 358-374.

Pandey, I. M. (2009). *Essentials Of Financial Management, 1E*. Vikas publishing house PVT Ltd.

Raja Rajeswari, M. (2010), Financial Performance of Selected Air Transport Companies in India. *Journal of Global Economy*, Vol. 6, No. 4, pp. 255-266.

Srivastava, J., & Ali, A. (2013), Reason Behind Kingfisher Airline's Failure: "An Eye Opening Case Study Revealing Three Key Words For Aviation Industry Success: Costs, Costs, Costs", Retrieved from <http://jaipuria.edu.in/pgdm/wp-content/uploads/2013/07/Reason-behind-Kingfisher-Airlines-Failure.pdf> on July 15, 2014

The top 10 Best (and Worst) Corporate Mergers of All Time...Or, the Good, the Bad, and the Ugly, Retrieved from <http://www.rasmussen.edu/degrees/business/blog/best-and-worst-corporate-mergers/> on July 12, 2014

Vadapalli, R. (2007). *Mergers, Acquisitions and Business Valuation*. Excel Books India.