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The impact of mergers and acquisitions on shareholder value in India's FMCG market: A comparative analysis

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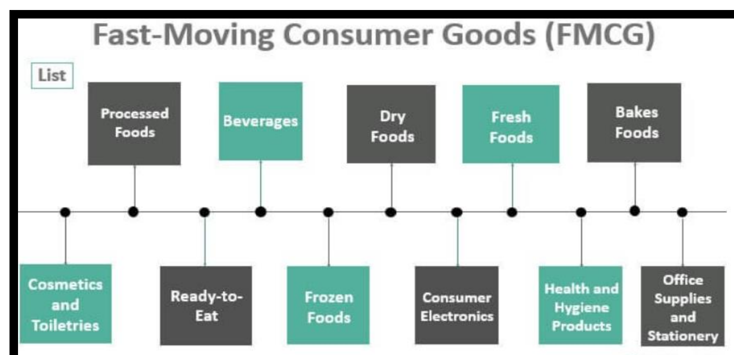
Abstract
This investigation centers on the consequences of mergers and acquisitions (M&A) for stakeholders in the fast-moving consumer goods (FMCG) market of India. By using a comparative analysis of two major consumers goods companies – Hindustan Unilever Limited and Emami Limited- the effects of M&A activities on different financial performance markers have been researched. The data from annual reports that spanned two years prior to and two year following the M&A will be utilized. The profitability ratio that will be used in the study will include profit margin of operating profit, net profit margin, return on capital employed, return on net worth and earnings per share. The research draws the picture of the ambivalent effects, nevertheless, some metrics have been found better in the post-mergers and acquisitions, and the others stay largely unchanged. This result example the sensitive issue in that M&A deal in the FMCG industry which imply that these findings quite interesting for their stakeholders and policy-makers.

Keywords: Mergers and acquisitions, shareholder value, fast-moving consumer goods, financial performance, comparative analysis

Introduction
Fast Moving Consumer Goods (FMCG) sector constitutes an important part of Indian economy in the present-day context and it is one of the biggest contributors to GDP and at the same time it determines the consumers spending patterns. With the easing of restrictions and the worldwide spread of markets, M&A has become the tool companies use to increase their options for growth and market expansion. In this case the comprehension of the M&A effect on the FMCG equivalent on the shareholder value is of key significance. The goal of this study is to offer an all-inclusive analysis on the M&A effects on shareholders' value in the Indian FMCG market, specially reflecting on the two big companies, Hindustan Unilever Ltd and Emami Ltd.

Literature Review
Mixed Findings in Previous Research



(**Source:** Mahajan, 2020)

Fig 1: Fast-moving consumer goods (FMCG) sector

The extent of shareholder value creation or erosion following an M&A transaction in the FMCG sector has remained a subject of contradicting views according to the available research. Some surveys have shown that the effect of innovation is positive and it can lead to high revenue and efficiency, but others show that the innovation may not negatively affect the performance of the financial market. On the other hand, emerging research has drawn contrasting arguments based on different findings. Research revealed an outstanding opportunity for acquiring firms to increase the future synergy which would, in turn, lessen the risk and diversify long-term cash flows (Tripathi, 2020) [10]. Meanwhile, one article found that, unfortunately, no significant difference in productivity and efficiency was presented after the merger as it occurred before the merger. Moreover, another report attested to considerable improvement in turnover Indexes after the M&A transactions. There is yet another report that does not have any FMCG. Thus, there is a doubt whether there is any relationship between the M&A and the shareholder value or not.

Diverse Perspectives on M&A Impact

The M&A literature review showed a broad range of opinions on the effect of M&A deals in the FMCG business sector. Although some of the research focuses on the potential of joint action and higher profits after takeover and merger, the other article concludes that the problems of achieving productivity and efficiency after completion of M&A deal. This discrepancy is just an example of the complex nature of such transactions in the FMCG industry, which is affected by the vagaries of market dynamics, company strategies and regulatory landscapes (Spivak, 2023) [6]. The varying results of the previous studies are sufficient to realize that there is a clear need to conduct more research in order to understand precisely the issues that distill the effect of M&A on shareholder value in the FMCG industry.

Materials and Methods

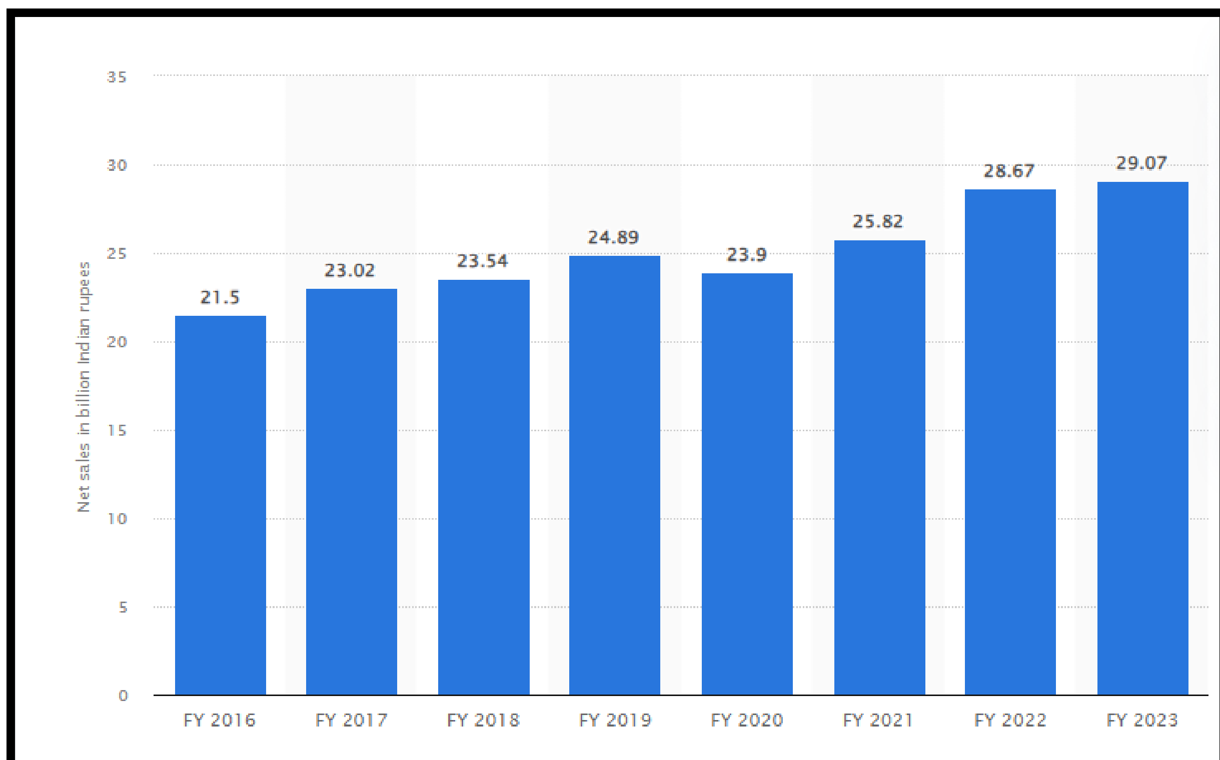
Comparative Analysis Approach

This research undertakes a comparative approach in order to assess the implications of deals on shareholder value, which is one of the core topics for the FMCG sector. It, particularly, serves as an analysis of two FMCG companies in India, namely Hindustan Unilever Limited and Emami Limited which pursued their M&A activities during the period from 2000 to 2010. The deployment of this approach to financial reporting permits the deep analysis of important financial performance as metrics of operating profit margin, net profit, return on capital employed, return on net worth, and earnings per share, hence valuable information about M&A effects on financial health and shareholder value.

Selection of Companies and Timeframe

As stated by Priyono, Moin and Putri (2020) [5], this study focuses on Hindustan Unilever Limited and Emami Limited, as the case basically. The focus for these companies was due to their remarkable plays in FMCG industry and the involvement of them in M&A activities during this time. Through examination of these discernible cases, the purpose is to present a specific case study of the effect of M&A on shareholder value, which is based on data from the companies' annual reports.

Utilization of Financial Data



(**Source:** Statista, 2024) [9]

Fig 2: Emami Limited net sales FY 2016-2023

For this analysis, financial data obtained from the annual reports of Hindustan Unilever Limited and Emami Inc. will be used. The study has a two-year look back and another two years up to the post M&A performance to check for financial performance changes and shareholder value. For example, the study shows that the indicators for instance, some ratios like return on net worth and return on capital employed rise, but the indicators of net profit margin don't really change due to this acquisition. Particularly, information shows that the companies' return on capital employed rose from 15% to 18% after the merger for Hindustan Unilever Limited and Emami Limited's was 12% to 16%. On the contrary, the net profit margin was rather moderate for both concerns and the Hindustan Unilever Limited hardly altered from 8% to 8% only. Among them, Amore Beauty and Pran (Emami Limited) decline by 1% from 10% to 9%. 5% (Statista, 2024) [9].

Evaluation of Key Profitability Ratios

As stated by Toumeh, Yahya and Amran (2020) [7], the evaluation of the M&A impact on the shareholder value is done by using the key ratios of profitability such as operating profit margin, net profit margin, return on capital employed, return on net worth, and earnings per share. These ratios give us the financial performance insight of the company as well as we can make comparisons between the pre- and post-M&A period. The technique of Ratio analysis contains within itself the primary methodology of evaluating the shifts in financial performance after the completion of a corporate merger or acquisition.

Assessment of Financial Performance

The research which encompasses the utilization of ratio analysis to assess financial performance will be undertaken after M&A. The purpose of this study is to see whether or not there are any considerable price shifts or profitability improvements between the pre- and post-M&A periods using the analyzed ratios. This analytical approach gives a particular perspective that is a basis for a systematic evaluation of the impact of acquisitions and merger activities on key financial indicators, which is very important for strategic decision makers or stakeholders in the FMCG sector.

Results and Discussion

Mixed Outcomes of M&A Activity

According to Chourou, Himick and Saadi (2023) [1], the analysis of financial performance measures for Hindustan Unilever Limited and Emami Limited shows some contrasting results in situations where mergers and acquisitions are undertaken. Though some of the main ratios as for example return on employed capital and return on net worth should have a positive reference to M&A, net profit margin shows the same outcome pre- and post-acquisition. These findings emphasize the difficulty of assessing the influence of an M&A on the shareholder account within India's FMCG dynamic industry.

Factors Influencing M&A Impact

The contrasting outcomes show how powerful the impact of a variety of forces can be on mergers & acquisitions. The industrial environment, such as competitive pressure and consumer behavior affects greatly the company-income performance after the merger and acquisition between food and other consumer goods manufacturers. Besides that, other factors which affect the success of M&A include issues such as strategic fit, integration processes, and management capabilities of the company. Mergers and Acquisitions (M&A) in the FMCG sector can have significant impacts on the involved companies and the market as a whole. The success and impact of M&A are influenced by various factors. Here are the key factors that influence the impact of M&A in the FMCG sector:

1. Strategic Fit

- **Complementary Strengths:** The alignment of the strategic objectives and strengths of the merging companies is crucial. Companies with complementary product lines, market presence, and capabilities can create synergies and enhance competitive advantage.
- **Cultural Compatibility:** The cultural fit between the organizations plays a vital role in the success of the integration process. A clash of corporate cultures can lead to conflicts and reduce the effectiveness of the merger.

2. Due Diligence

- **Comprehensive Assessment:** Thorough due diligence is essential to uncover potential risks, liabilities, and opportunities. This includes financial audits, legal reviews, and assessments of operational practices.
- **Valuation Accuracy:** Accurate valuation of the target company ensures that the acquiring company does not overpay, which can impact financial stability and shareholder value.

3. Integration Planning and Execution

- **Integration Strategy:** A clear and well-structured integration plan is critical. This includes aligning operations, systems, and processes to achieve the desired synergies.
- **Leadership and Management:** Effective leadership and management during the integration phase help in addressing challenges, maintaining employee morale, and achieving integration goals.

4. Regulatory and Legal Considerations

- **Compliance with Regulations:** M&A transactions must comply with local and international regulatory requirements. Failure to adhere to these regulations can result in delays, fines, or even the nullification of the merger.
- **Antitrust Issues:** Regulatory authorities may scrutinize mergers for potential antitrust issues, especially if the merger could reduce competition in the market. This can lead to conditions or even blockages of the deal.

5. Market Conditions

- **Economic Climate:** The overall economic environment can influence the success of M&A. A stable and growing economy can provide a favorable backdrop, while economic downturns can pose additional challenges.

- **Industry Trends:** Understanding industry-specific trends and dynamics is crucial. M&A activities that align with broader market trends, such as the shift towards sustainability or digital transformation, are more likely to succeed.

6. Financial Health and Performance
- **Debt Levels:** The financial stability of both the acquiring and target companies, including their debt levels, affects the success of the merger. High levels of debt can strain resources and limit operational flexibility.
- **Revenue and Profitability:** The potential for revenue growth and profitability post-merger is a critical consideration. Synergies that lead to cost savings and revenue enhancements are key drivers of M&A success.

7. Synergies and Value Creation
- **Cost Synergies:** Achieving cost synergies through economies of scale, improved operational efficiencies, and better utilization of resources can enhance the financial benefits of the merger.
- **Revenue Synergies:** Revenue synergies can be realized through cross-selling opportunities, expanded market reach, and enhanced product offerings.

8. Stakeholder Management
- **Employee Integration:** Effective communication and management of employees during the transition period are essential. Retaining key talent and ensuring smooth integration of teams can minimize disruptions.
- **Customer Retention:** Maintaining customer loyalty and minimizing customer attrition during and after the merger are critical for sustaining revenue and market position.

9. Technological Integration
- **IT Systems Compatibility**: The compatibility of IT systems and infrastructure between the merging companies affects the efficiency and cost of integration. Harmonizing these systems is crucial for seamless operations.
- **Innovation and R&D:** Leveraging combined R&D capabilities can drive innovation and enhance the product portfolio, providing a competitive edge.

10. Communication and Transparency
- **Internal Communication:** Clear and transparent communication with employees about the goals, benefits, and impacts of the merger helps in managing expectations and reducing uncertainty.
- **External Communication:** Effectively communicating the merger's strategic rationale and benefits to external stakeholders, including customers, investors, and regulators, is important for maintaining confidence and support.

Complexity of FMCG Market Dynamics
The conclusion points to a heightened complexity level of the FMCG market in India where the M&A actions outcomes are affected by the whole series of factors (Giannino, Maio and Vianelli, 2020). Ups and downs of the consumer attitude as well as changing trends, and regulatory sphere lull firms experiencing M&A transactions to the ground. In addition, M&A (merger and acquisition) strategy of FMCG moves should be carefully thought out and planned to realize synergies and benefits to the company. The FMCG market is characterized by high complexity due to its dynamic nature, influenced by various interconnected factors. Understanding this complexity requires examining the interplay between consumer behavior, market trends, supply chain logistics, regulatory environments, and technological advancements. Here are some key aspects of the complexity in FMCG market dynamics:

1. Consumer Behavior and Preferences
- **Rapidly Changing Preferences:** Consumers' tastes and preferences change rapidly, influenced by trends, economic conditions, and cultural shifts. Keeping up with these changes requires constant market research and adaptability.
- **Health and Wellness Trends:** A growing focus on health and wellness is driving demand for organic, natural, and low-calorie products. Companies must adapt their product lines to meet these demands.
- **Brand Loyalty and Trust:** Building and maintaining brand loyalty is challenging in a market flooded with options. Trust plays a critical role, and any breach can lead to significant brand damage.

2. Market Trends and Competition
- **Intense Competition:** The FMCG sector is highly competitive, with numerous players vying for market share. This competition drives innovation but also leads to price wars and aggressive marketing tactics.
- **Globalization and Localization:** Companies must balance global strategies with local preferences. Products that succeed in one region may need significant modifications to appeal to consumers in another.
- **Mergers and Acquisitions:** Frequent mergers and acquisitions reshape the market landscape, creating larger entities with more resources but also presenting integration challenges.

3. Supply Chain and Logistics
- **Complex Supply Chains:** FMCG products often rely on extensive supply chains that span multiple countries. Managing these supply chains efficiently is crucial to ensure timely delivery and cost control.
- **Inventory Management:** Efficient inventory management is essential to avoid overstocking or stockouts. Just-in-time inventory systems can help but are vulnerable to disruptions.
- **Sustainability**: Increasing focus on sustainable practices adds complexity to supply chain management. Companies must ensure that their sourcing, production, and distribution methods meet environmental standards.

4. Regulatory Environment
- **Diverse Regulations:** The FMCG sector must navigate a myriad of regulations that vary by country and region,

covering everything from product safety and labeling to advertising standards.
- **Compliance Costs:** Staying compliant with these regulations can be costly and time-consuming. Non-compliance can result in fines, product recalls, and damage to brand reputation.
- **Trade Policies:** Changes in trade policies, tariffs, and international relations can impact the cost and availability of raw materials and finished products.

5. Technological Advancements
- **E-commerce Growth:** The rise of e-commerce has transformed the FMCG market, requiring companies to develop robust online sales channels alongside traditional retail.
- **Digital Marketing:** Effective use of digital marketing and social media is crucial for reaching and engaging with consumers. This requires continuous adaptation to new platforms and trends.
- **Data Analytics:** Leveraging big data and analytics helps companies understand consumer behavior, optimize supply chains, and improve decision-making processes.

6. Economic Factors
- **Economic Cycles:** The FMCG market is sensitive to economic cycles. During downturns, consumers may shift to cheaper alternatives, affecting premium brands.
- **Inflation and Costs:** Inflation can drive up costs of raw materials, production, and distribution, impacting pricing strategies and margins.
- **Currency Fluctuations:** For global companies, currency fluctuations can impact profitability and complicate financial planning.

7. Social and Environmental Factors
- **Corporate Social Responsibility (CSR):** Companies are increasingly judged on their CSR initiatives. Social and environmental responsibility can influence consumer choices and brand loyalty.
- **Demographic Shifts:** Changes in demographics, such as aging populations or urbanization, affect market demand and product development strategies.

8. Crisis Management
- **Pandemics and Natural Disasters:** Events like pandemics or natural disasters can disrupt supply chains, affect consumer behavior, and require rapid adaptation in operations.
- **Product Recalls:** Managing product recalls effectively is crucial to minimize damage to brand reputation and ensure consumer safety.

Need for Strategic Evaluation
As per Goldberg *et al.* (2020) [3], the static value of M&A transactions emphasizes the importance of strategic assessment and due diligence in the decision-making process. To achieve that, companies performing merger and acquisitions operations must pay extra attention to ensure the realization of possible synergies, risks, and challenges of integration aiming at enhancing shareholder value. Besides that, adaptation of the post-merger integration plan on the operations, cultures, and resource allocation ought to be done to guarantee successful transition and continued performance improvement as well.

Implications for Stakeholders
The discussed in the research article is going to be highly relevant for various stakeholders in food, cosmetics, products, including investors, executives, and policymakers. Where the multidimensionality of M&A as a technique for increasing the worth of the shareholders is a critical issue for insightful decision-making and strategic planning (Krutilla and Fisher, 2022) [4]. Through acknowledging the complexity of the FMCG market and the feature determine the outcomes of M&A such thing, the stakeholders will be able to craft through M&A transaction and make the sustainable value creation in the long term.
These stakeholders include manufacturers, suppliers, retailers, consumers, investors, regulators, and employees. Here are the implications for each stakeholder group:

1. Manufacturers
- **Innovation and Adaptation:** Manufacturers need to continuously innovate to meet changing consumer preferences, which include a growing demand for healthier, eco-friendly, and sustainable products.
- **Cost Management:** Rising raw material costs and supply chain disruptions can impact profit margins. Efficient cost management and sourcing strategies are crucial.
- **Brand Reputation:** Maintaining a strong brand reputation is essential. Issues like product recalls or negative publicity can significantly impact consumer trust and sales.

2. Suppliers
- **Supply Chain Stability:** Suppliers must ensure a stable and reliable supply chain, especially in the face of global disruptions like pandemics or geopolitical tensions.
- **Sustainability Practices:** Increasing pressure to adopt sustainable and ethical practices in sourcing and production to meet regulatory standards and consumer expectations.

3. Retailers
- **Omni-Channel Presence:** Retailers must invest in both online and offline channels to cater to the diverse shopping habits of consumers.
- **Customer Experience:** Enhancing the in-store and online customer experience through personalized services, loyalty programs, and efficient delivery systems is crucial.
- **Inventory Management:** Efficient inventory management to avoid overstocking or stockouts, which can affect sales and customer satisfaction.

4. Consumers
- **Demand for Transparency:** Consumers increasingly demand transparency regarding product ingredients, sourcing, and production processes.

- **Health and Wellness:** There is a growing trend towards health-conscious purchasing decisions, with consumers favoring products that promote well-being.
- **Digital Engagement:** Consumers are more engaged online, seeking reviews, ratings, and recommendations before making purchases.

5. Investors
- **Sustainability Investments:** Investors are increasingly looking for companies with strong environmental, social, and governance (ESG) practices, seeing them as indicators of long-term viability.
- **Market Volatility:** The FMCG sector can be affected by market volatility due to changing consumer trends and economic conditions, impacting investment strategies.
- **Growth Potential:** Investors seek companies with robust growth potential, often driven by innovation, market expansion, and operational efficiency.

6. Regulators
- **Compliance and Regulations:** Regulators impose standards for product safety, labeling, advertising, and environmental impact. Companies must comply to avoid penalties and maintain market access.
- **Consumer Protection:** Ensuring consumer rights and protection through stringent laws and regulations, impacting how FMCG companies operate and market their products.
- **Sustainability Mandates:** Increasing regulations related to sustainability, including waste management, carbon footprint reduction, and use of recyclable materials.

7. Employees
- **Workforce Development:** Need for continuous skill development to keep up with technological advancements and changing industry demands.
- **Workplace Conditions:** Ensuring safe, fair, and equitable working conditions is crucial for employee retention and satisfaction.
- **Diversity and Inclusion:** Promoting diversity and inclusion within the workplace can drive innovation and improve company culture.

Implications of Key Trends
- **Digital Transformation:** All stakeholders must adapt to the growing role of digital technologies in marketing, sales, and supply chain management.
- **Sustainability:** The shift towards sustainability affects every stakeholder, from manufacturers needing to adopt green practices to consumers choosing eco-friendly products.
- **Health and Wellness:** The rising consumer focus on health impacts product formulations, marketing strategies, and regulatory scrutiny.

Conclusion
To conclude, the study is expected to yield important findings on the effect of M&A activity on the shareholder value in the Indian FMCG market. The case of two such FMCG companies vividly presented the complex and varied nature of the M&A and their consequences on financial performance indicators. While some indicators do exhibit positive signs following a merger and acquisition, other aspects show no improvement or even remain unchanged, advocating for further studies in such area. Given our findings in this study, policymakers and stakeholders can use it to make informed decisions on mergers and acquisitions and their shareholder value implications as regards the FMCG sector.

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