International Research Journal on Advanced Engineering and Management
https://goldncloudpublications.com
https://doi.org/10.47392/IRJAEM.2025.0139
e ISSN: 2584-2854
Volume: 03
Issue:03 March 2025
Page No: 855-860

A Study on Impact of Mergers and Acquisitions for Selected Companies in FMCG Sector

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Abstract
This study investigates the impact of mergers and acquisitions (M&A) on the financial performance of selected companies within the FMCG sector in India, focusing on the period from 2018 to 2024. It aims to assess how M&A activities influence profitability and shareholder value using a set of key financial ratios: Current ratio, Quick ratio, Net profit ratio, Return on Net Worth and Gross Profit Margin. These metrics offer insights into the efficiency and profitability changes post-M&A. The study employs a quantitative research approach, utilizing financial data collected from company annual reports, stock market data, and M&A transaction databases. Findings from this study are expected to shed light on the effectiveness of M&A strategies in enhancing operational and financial outcomes for FMCG firms. The research also addresses limitations such as data availability, market volatility, and the short-term nature of performance assessment. Overall, this study contributes to understanding how M&A influences the FMCG sector, providing valuable insights for industry stakeholders, investors, and policymakers. It provides a detailed understanding of how mergers and acquisitions shape financial planning in the FMCG sector, equipping decision-makers with insights into best practices and critical considerations for future M&A endeavors.
Keywords: *Corporate finance; Financial ratios; Mergers and Acquisition.*

1. Introduction
Mergers and Acquisitions (M&A) have become a significant corporate strategy for companies worldwide. While often used interchangeably, mergers and acquisitions hold distinct legal meanings. A merger involves two companies of similar size combining to form a new entity, whereas an acquisition occurs when a larger company absorbs a smaller one. The nature of M&A transactions can be either friendly or hostile, depending on the approval of the target company's board. These corporate restructuring strategies play a crucial role in organizational growth, fostering market expansion, profit maximization, resource optimization, and long-term survival. The Fast-Moving Consumer Goods (FMCG) sector holds a significant position in India's economy, contributing substantially to GDP. It is the fourth-largest sector, divided into three segments: food and beverages (19%), healthcare (31%), and household and personal care (50%). This industry is characterized by high turnover consumer-packaged goods, including products such as detergents, toiletries, cosmetics, and packaged food. The sector also encompasses pharmaceuticals, consumer electronics, and soft drinks, with top market players like Dabur (60%), Colgate (54.7%), and Hindustan Unilever (54%) dominating various sub-segments (K. Sharma & R. Singh, 2022; P. Mehra & T. Rao, 2023). In India, the FMCG sector has witnessed significant M&A transactions driven by factors such as rising consumer demand, digital transformation, changing consumer preferences, and globalization. Given its dynamic nature, M&A activities in this sector aim to achieve synergies, expand market share, and enhance operational efficiency. Understanding the financial impact of M&A on acquiring companies is essential. Studies analyzing pre- and post-acquisition performance using profitability, liquidity, and efficiency ratios indicate mixed results, showing

that M&A outcomes vary based on industry and strategic fit (Nidhip Shah, 2023; Nishat Afnan Mim, 2023). [1-2]

2. Objectives of the study

Primary objective: To study the impact of merger and acquisition in FMCG industry.

Secondary objectives: To analyze the impact of merger and acquisition on the operational performance of the sample companies undertaken to the study. To analyze the effect of mergers on the performance of FMCG with reference to their profitability of pre and post-merger. [4]

3. Need for the study

The need for this study on the impact of mergers and acquisitions (M&A) in the FMCG industry arises from several critical factors. Firstly, the FMCG sector in India is rapidly growing, driven by changing consumer preferences, urbanization, and increasing disposable incomes, making it essential to understand how M&A influences this growth. Additionally, the frequency of M&A transactions has surged in the context of globalization and liberalization, necessitating an analysis of the strategic motivations behind these deals and their actual impacts on companies. In a highly competitive landscape, insights into how M&A can enhance competitiveness and consolidate market positions are vital. Moreover, assessing the financial implications of M&A on performance metrics like revenue, profitability, and shareholder wealth is crucial for informed decision-making. The study will also address post-merger integration challenges, providing valuable lessons on effective strategies. [5]

4. Method

For the purpose of the study, Analytical research is used as the study discusses about the analysis of financial performance of selected FMCG companies who have undergone merger and acquisition. The pre-merger and post-merger averages of the companies are computed for 1 years prior to, and 1 years after, the year of merger and acquisition completion. This research paper is based on the study on the impact of financial performance of the sample company by using available information for the particular time period. The study relies on secondary data, extracted from reliable sources such as company annual reports and financial databases. [3]

Fmcg Companies Selected Are

- ITC and Sunrise Foods (2020-2021)
- Hindustan Unilever and GlaxoSmithKline Consumer Healthcare (2019-2020)
- Zydus Wellness and Heinz India (2018-2019) TATA Consumer Products and TATA Coffee (2023-2024)

5. Tables

Table 1 Financial Ratios

Ratios	Formulas
Liquidity Ratios:	
Current Ratio	Current assets/Current liquidity
Quick Ratio	(Current assets - Inventories)/Current liquidity
PROFITABILITY RATIOS:	
Gross Profit Margin	(Sales-COGS)/Sales *100
Net Profit Ratio	Net profit/Sales *100
Return on Net Worth	Net income/Shareholder's equity *100

Table 2 Ratio Analysis of ITC and Sunrise Foods

	Pre-Merger		Pre-Merger
Ratios	**ITC - 2020**	**Sunrise Foods-2020**	**ITC -2021**
Liquidity Ratios:			
Current Ratio	1.9	2.95	1.52
Quick Ratio	1.18	1.7	0.76
Profitability Ratios:			
Gross Profit Margin(%)	35.82	27.37	30.69
Net Profit Ratio(%)	33.17	10.46	28.65
Return on Net Worth(%)	24.41	28.23	22.74

Source: ITC Reports and Accounts 2020-21; ITC Portals

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Table 3 Ratio analysis of HUL and GlaxoSmithKline Consumer Healthcare

	Pre-Merger		Post-Merger
Ratios	**Hindustan Unilever - 2019**	**Glaxosmithkline Consumer Healthcare -2019**	**Hindustan Unilever -2020**
Liquidity Ratios:			
Current Ratio	1.36	2.9	1.31
Quick Ratio	1.07	2.65	1.02
Profitability Ratios:			
Gross Profit Margin (%)	64.86	69.84	53.2
Net Profit Ratio (%)	15.79	20.71	17.37
Return on Net Worth(%)	78.8	24.17	83.89

Source: Annual Reports-Unilever; GSK Financial Reports

Table 4 Ratio analysis of Zydus Wellness and Heinz India.

	Pre-Merger		Post-Merger
Ratios	**Zydus Welllness - 2018**	**Heinz India - 2018**	**Zydus Welllness - 2019**
Liquidity Ratios:			
Current Ratio	5.32	2.19	1.42
Quick Ratio	5.03	1.66	0.91
Profitability Ratios:			
Gross Profit Margin (%)	68.14	36.87	69.47
Net Profit Ratio(%)	23.36	7.3	16.89
Return on Net Worth (%)	19.38	11..39	24.8

Source: Zydus wellness Annual report 2018-2019, Zydus Wellness-Investors

Table 5 Ratio Analysis of Tata Consumer Products and TATA Coffee.

	Pre-Merger		Post-Merger
Ratios	**TATA Consumer Products - 2023**	**TATA Coffee - 2023**	**TATA Consumer Products - 2024**
Liquidity Ratios:			
Current Ratio	1.24	3.48	0.58
Quick Ratio	1.17	1.76	0.67
Profitability Ratios:			
Gross Profit Margin(%)	11.26	49.62	12.54
Net Profit Ratio(%)	8.73	21.2	7.56
Return on Net Worth(%)	7.39	17.03	7.16

Source: Integrated Annual Report 2023-24- Tata Consumer Products; Tata Coffee- Investor Overview

6. Figures

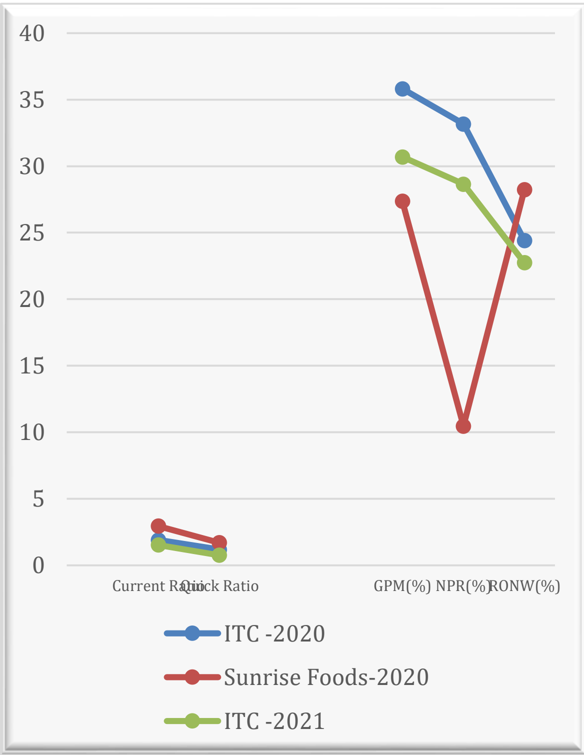

Figure 1 Graphical Representation of ITC and Sunrise Foods

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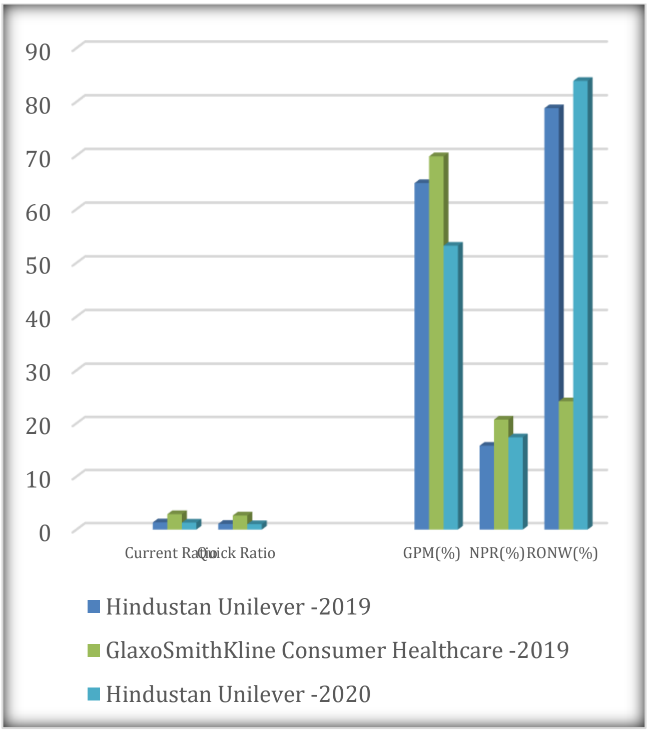

Figure 2 **Graphical Representation of HUL and GlaxoSmithKline Consumer Healthcare**

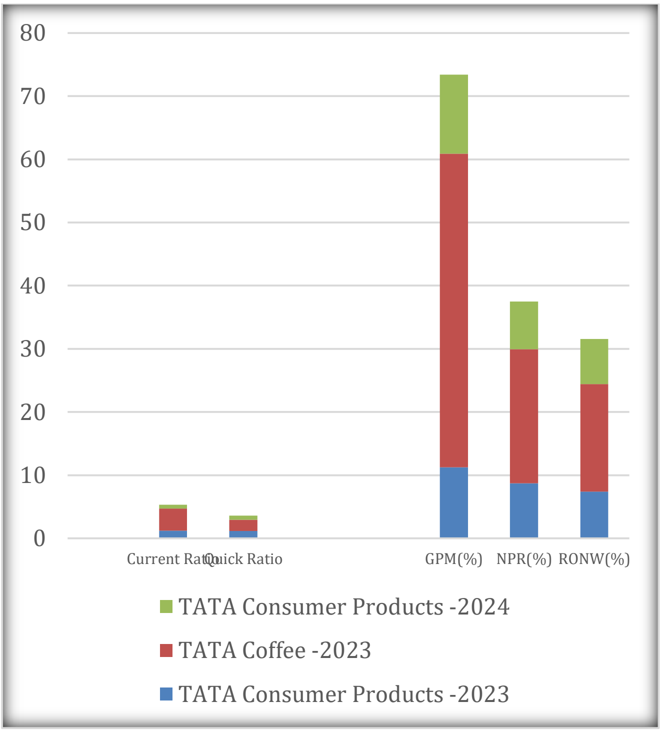

Figure 4 **Graphical Representation of Tata Consumer Products and TATA Coffee**

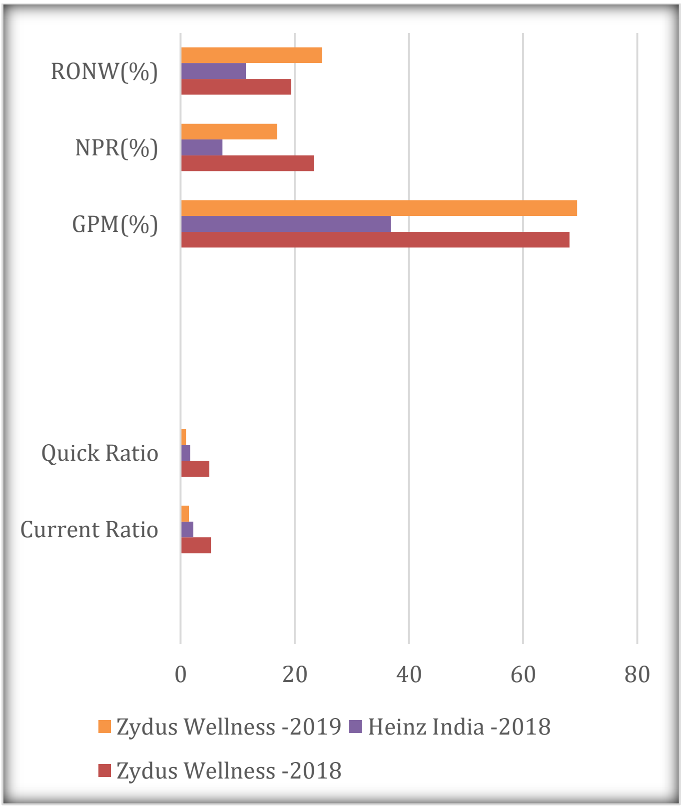

Figure 3 **Graphical Representation Zydus Wellness and Heinz India**

7. Results and Discussion

7.1. Results

This analysis examines the financial impact of mergers on companies by comparing liquidity ratios and profitability ratios before and after the merger. The study includes the Current Ratio, Quick Ratio, Gross Profit Margin (GPM), Net Profit Ratio (NPR), and Return on Net Worth (RONW). [6]

7.2. ITC and Sunrise Foods (2020-2021)

7.2.1.Liquidity Ratios Analysis

- **Current Ratio** declined from 1.9 (ITC) and 2.95 (Sunrise Foods) pre-merger to 1.52 (ITC post-merger), indicating reduced short-term liquidity.
- **Quick Ratio** decreased from 1.18 to 0.76, suggesting a decline in highly liquid assets post-merger.

7.2.2.Profitability Ratios Analysis

- **Gross Profit Margin (%)** dropped from 35.82% to 30.69%, likely due to higher production costs or pricing adjustments.
- **Net Profit Ratio (%)** fell from 33.82% to 28.65%, indicating higher operating costs or financial burdens. [7]

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- **Return on Net Worth (%)** declined from 24.41% to 22.74%, showing reduced shareholder returns.

7.3. Hindustan Unilever and GlaxoSmithKline Consumer Healthcare (2019-2020)

7.3.1. Liquidity Ratios Analysis

- **Current Ratio** slightly declined from 1.36 to 1.31, reflecting a marginal reduction in liquidity.
- **Quick Ratio** decreased from 1.07 to 1.02, indicating a slightly lower ability to meet short-term obligations. [8]

7.3.2. Profitability Ratios Analysis

- **Gross Profit Margin (%)** fell from 64.86% to 53.2%, likely due to integration expenses or pricing strategy changes.
- **Net Profit Ratio (%)** improved from 15.79% to 17.37%, reflecting better overall profitability despite higher costs.
- **Return on Net Worth (%)** increased from 78.8% to 83.89%, suggesting improved shareholder returns and enhanced efficiency in utilizing equity post-merger.

7.4. Zydus Wellness and Heinz India (2018-2019)

7.4.1. Liquidity Ratios Analysis

- **Current Ratio** dropped significantly from 5.32 (Zydus Wellness) and 2.19 (Heinz India) pre-merger to 1.42 post-merger, showing a major liquidity reduction.
- **Quick Ratio** declined from 5.03 to 0.91, suggesting a sharp decrease in readily available liquid assets.

7.4.2. Profitability Ratios Analysis

- **Gross Profit Margin (%)** slightly improved from 68.14% to 69.47%, showing strong cost control.
- **Net Profit Ratio (%)** declined from 23.36% to 16.89%, indicating integration costs.
- **Return on Net Worth (%)** increased from 19.38% to 24.8%, suggesting enhanced shareholder returns.

7.5. TATA Consumer Products and TATA Coffee (2023-2024)

7.5.1. Liquidity Ratios Analysis

- **Current Ratio** fell from 1.24 to 0.58 post-merger, indicating a significant liquidity decline.
- **Quick Ratio** dropped from 1.17 to 0.67, suggesting a reduction in highly liquid assets, possibly due to increased financial obligations post-merger.

7.5.2. Profitability Ratios Analysis

- **Gross Profit Margin (%)** improved from 11.26% to 12.54%, reflecting better cost efficiency.
- **Net Profit Ratio (%)** decreased from 8.73% to 7.56%, indicating increased operational or financial costs post-merger.
- **Return on Net Worth (%)** slightly declined from 7.39% to 7.16%, indicating stable but unimproved shareholder returns experiments.

7.6. Discussion

The post-merger financial performance shows mixed results, with liquidity ratios generally declining, while profitability ratios vary across cases. The key observations include:

Liquidity Impact: Most companies experienced a decline in Current and Quick Ratios post-merger, suggesting increased financial obligations and challenges in short-term liquidity management. Mergers often require significant working capital adjustments, which can strain liquid assets.

Profitability Performance: Gross Profit Margin fell in some cases (e.g., ITC, Hindustan Unilever), indicating higher production costs or integration inefficiencies. Net Profit Ratio fluctuated, improving in some cases (e.g., TATA Consumer Products) but declining in others due to post-merger financial adjustments. Return on Net Worth increased in some cases, suggesting improved shareholder returns and operational efficiencies.

Strategic Implications: Companies must focus on cost synergies, operational efficiencies, and capital structure optimization to sustain financial stability post-merger. Firms with declining liquidity should improve working capital management to maintain short-term financial health. While mergers lead to growth opportunities, financial stability post-merger depends on cost management, liquidity planning, and effective strategic execution.

Conclusion

Mergers and acquisitions (M&A) play a crucial role in corporate restructuring strategies, enabling firms to achieve growth, market expansion, and financial synergies. The FMCG sector, being one of the most dynamic industries in India, has witnessed significant M&A activities aimed at enhancing operational efficiency, increasing market share, and driving long-term profitability. The financial performance of acquiring firms post-merger often depends on various factors such as strategic alignment, operational integration, and effective management practices. The study highlights that while mergers and acquisitions create opportunities for cost synergies and revenue growth, they also pose challenges such as liquidity constraints, cultural integration issues, and regulatory compliance. The analysis of financial ratios before and after mergers indicates mixed results, with some companies achieving improved profitability and shareholder value, while others face short-term liquidity concerns and operational inefficiencies. Overall, the success of an M&A transaction in the FMCG sector is influenced by factors like pre-merger compatibility, leadership effectiveness, and post-merger integration strategies. Companies that approach M&A with well-defined objectives, due diligence, and strategic execution are more likely to create long-term value for stakeholders. This study underscores the importance of continuous monitoring and adaptability in post-merger phases to ensure sustainable financial performance and market competitiveness.

Acknowledgements

We express our sincere gratitude to all those who contributed to the successful completion of this research paper. We extend our heartfelt thanks to Google Scholar, Money control, and other reputed financial websites for providing valuable resources, data, and insights that significantly enriched this study. We are also grateful to the various academic journals and research databases that served as crucial references throughout this work. A special note of appreciation goes to our mentors, peers, and reviewers whose constructive feedback and encouragement have been instrumental in refining this paper. Lastly, we extend our gratitude to our institution and all those who have supported and motivated us throughout this academic journey.

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