

IMPACT OF FINANCIAL PERFORMANCE ON MERGERS AND ACQUISITION OF AIRLINE INDUSTRY IN INDIA

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Abstract

Financial performance is related to the act of performing financial activity. It is the process of measuring the results of a firm's policies and operations in monetary terms. In other words, financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. It refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. In the present paper, pre and post impact of merger and acquisition of the airline industry has been explained in a lucid style.

Keywords: Financial Analysis, Mergers, Acquisition, Performance.

Introduction

Financial execution alludes to the demonstration of performing budgetary action. In more extensive sense, monetary execution alludes to how much money related destinations being or has been expert. It is the way toward estimating the consequences of a company's arrangements and activities in fiscal terms. At the end of the day, monetary execution is an emotional proportion of how well a firm can utilize resources from its essential method of business and create incomes. This term is additionally utilized as a general proportion of an association's by and large money related wellbeing over a given timeframe, and can be utilized to think about comparative firms over a similar industry or to look at enterprises or divisions in accumulation.

Monetary execution alludes to the demonstration of performing money related movement. In more extensive sense, monetary execution alludes to how much money related goals being or has been expert. It is the way toward estimating the aftereffects of a company's strategies and activities in fiscal terms. It is utilized to gauge company's in general money related wellbeing over a given timeframe and can likewise be utilized to think about comparative firms over a similar industry or to look at enterprises or segments in collection.

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Financial Performance Analysis

Budgetary execution investigation is the way toward distinguishing the monetary qualities and shortcomings of the firm by appropriately building up the connection between the things of asset report and benefit and misfortune account. It additionally helps in here and now and long haul estimating and development can be related to the assistance of money related execution investigation. The word reference significance of 'investigation' is to determine or separate a thing in to its component or segments parts for following their connection to the things as entire and to one another. The examination of budgetary explanation is a procedure of assessing the connection between the segment parts of money related proclamation to acquire a superior comprehension of the company's position and execution. This examination can be attempted by the executives of the firm or by gatherings outside the in particular, proprietors, loan bosses, speculators.

The examination of monetary articulation speaks to three noteworthy advances:

The initial step includes the re-association of the whole money related information contained the budgetary proclamations. In this manner the money related proclamations are destitute down into individual segments and re-gathered into few guideline components as indicated by their similarities and affinities. In this manner the asset report and benefit and misfortune accounts are totally re-threw and introduced in the dense frame completely not quite the same as their unique shape. The second step is the foundation of critical connections between the individual segments of monetary record and benefit and misfortune account. This is done through the application devices of monetary investigation like Ratio examination, Trend investigation, and common size asset report and near Balance sheet. Finally, the outcome gotten by methods for use of money related devices is assessed. In brief money related investigation is the procedure of choice, connection and assessment of monetary explanations. The devices of examination are utilized for deciding the speculation estimation of the business, FICO score and for testing productivity of task. In this manner budgetary examination features the certainties and connections concerning administrative execution, corporate proficiency, monetary quality and shortcoming and credit value of the organization.

Strategies of Financial Performance Analysis

Followings are the principle procedures of monetary execution examination:

Money related explanation examination can be performed by utilizing various strategies or systems. Coming up next are the imperative strategies or procedures of money related proclamation investigation.

- **Proportion Analysis**

Proportion examination is the investigation of the interrelationship between two monetary figures. The proportions are ordered as Short-term Solvency Ratios, Debt Management Ratios, Asset Management Ratios, Profitability Ratios, and Market Value Ratios. It is as a device has a few vital highlights. The information, which are given by money related proclamations, are promptly accessible. The calculation of proportions encourages the examination of firms which contrast in size. Proportions can be utilized to contrast a company's money related execution and industry midpoints. Likewise, proportions can be utilized in a type of pattern examination to recognize zones where execution has enhanced or disintegrated after some time. Since, Ratio Analysis depends on Accounting data, its adequacy is restricted by the bends which emerge in money related proclamations because of such things as Historical Cost Accounting and expansion. In this manner, Ratio Analysis should just be utilized as an initial phase in money related examination, to acquire a brisk sign of an association's execution and to recognize zones which should be researched further.

The pages underneath present the most generally utilized proportions in every one of the classes given above. If it's not too much trouble remember that there isn't general assertion with respect to what number of these proportions ought to be computed. You may locate that diverse books utilize marginally extraordinary recipes for the calculation of numerous proportions. Along these lines, in the event that you are contrasting a proportion that you computed and a distributed proportion or an industry normal, ensure that you utilize indistinguishable recipe from utilized in the count of the distributed proportion.

- **Income Analysis**

Income investigation is the examination of the adjustment in the money position amid a period. An income proclamation is a standout amongst the most essential money related explanations for an undertaking or business. The announcement can be as basic as a one page investigation or may include a few calendars that feed data into a focal proclamation. An income explanation is a posting of the streams of money into and out of the business or task. Consider it your financial records at the bank. Stores are the money inflow and withdrawals (checks) are the money outpourings. The parity in your financial records is your net income at a particular point in time. An income proclamation is a posting of money streams that happened amid the past bookkeeping time frame. A projection of future streams of money is known as an income spending plan. You can think about an income spending plan as a projection of things to come stores and withdrawals to your financial records. An income proclamation isn't just worried about the measure of the money streams yet in addition the planning of the streams. Many money streams are built with different eras. For instance, it might list month to month money inflows and surges over a year's time. It not just tasks the money balance staying toward the year's end yet in addition the money balance for every month.

Working capital is an essential piece of an income investigation. It is characterized as the measure of cash expected to encourage business activities and exchanges, and is computed as present resources (money or close money resources) less present (liabilities due amid the up and coming bookkeeping period). Processing the measure of working capital gives you a snappy investigation of the liquidity of the business over the future bookkeeping time frame. On the off chance that working capital seems, by all accounts, to be adequate, building up an income spending plan may not be basic. Be that as it may, if working capital has all the earmarks of being inadequate, an income spending plan may feature liquidity issues that may happen amid the coming year. Most proclamations are built so you can recognize every individual inflow or outpouring thing with a place for a depiction of the thing. Proclamations like Decision Tool Cash Flow Budget (12periods) give an adaptable instrument to basic income projections. A more far reaching apparatus for a Farm Cash Flow (Decision Tool) is likewise accessible. A more inside and out dialog of making an income spending plan is Twelve Steps to Cash Flow Budgeting.

- **Relative Financial Statements**

Relative money related proclamation is an examination of budgetary explanations of the organization for a long time or of the two organizations of comparable sorts. Similar monetary explanations are the total arrangement of money related articulations that an element issues, uncovering data for in excess of one bookkeeping period. The money related articulations that might be incorporated into this bundle are:

- The salary articulation (indicating results for different periods)
- The asset report (demonstrating the money related position of the substance starting at in excess of one accounting report date)
- The explanation of money streams (demonstrating the money streams for in excess of one period)

- Another minor departure from the near idea is to report data for every one of the 12 going before months on a moving premise. Relative money related explanations are very valuable for the accompanying reasons:
 - Provides an examination of a substance's budgetary execution over numerous periods, with the goal that you can decide patterns. The announcements may likewise uncover strange spikes in the detailed data that can show the nearness of bookkeeping blunders.
 - Provides a correlation of costs to incomes and the extents of different things on the monetary record over various periods. This data can be valuable for cost the board purposes.
 - May be helpful for foreseeing future execution, however you ought to depend more on operational markers and driving pointers than on chronicled execution for this sort of investigation. It is standard to issue relative monetary explanations with extra sections containing the fluctuation between periods, and also the rate change between periods.
- **Pattern Analysis**

Pattern examination is the investigation of the pattern of the budgetary proportions of the organization throughout the years. The techniques to be chosen for the investigation rely on the conditions and the clients' need. The client or the examiner should utilize suitable techniques to determine expected data to satisfy their requirements. A pattern investigation is a technique for examination that enables dealers to anticipate what will occur with a stock later on. Pattern examination depends on chronicled information about the stock's execution given the general patterns of the market and specific industry.

Objectives of the Study

Following are the main objectives of the study:

- To identify the issues and reasons of the Mergers and Acquisitions in the aviation industry in India.
- To study post merger growth in the aviation sector of India.
- To evaluate and analyze the pre and post Merger Profitability.
- To evaluate and analyze the pre and post Merger Liquidity,
- To evaluate and analyze the pre and post Merger Leverages.
- To offer suggestions wherever needed for future prospects.

Hypothesis of the Study

Followings are the main hypothesis of the study:

- H₀₁** The operating Cost is reduced after Mergers and Acquisitions in the surviving company.
- H₀₂** The Profitability improves after Mergers and Acquisitions in the surviving company.
- H₀₃** The Liquidity improves after Mergers and Acquisitions in the surviving company

Scope of the Study

For the purpose of this study, 3 cases of Mergers and Acquisitions in the aviation industry in India have been selected, which took place in the recent years. Only those cases of Mergers and Acquisitions are selected for this study which happened from 2000 to 2012. Deals which happens prior and post to this period has not been taken into consideration because they are not much relevant to the present aviation industry. These 3 surviving companies

control almost half of the of the Scheduled Domestic Airlines market share. The present study includes the period from 201The study includes following three companies:

- Indian Airlines and Air India
- Air Deccan and Kingfisher Airlines
- Air Sahara and Jet Airways

Data Analysis

The selected data will be analyzed with the help of various tool and techniques of management accounting like ratio analysis, comparative statements, common-size statements and other statistical tools like mean, standard deviation. t- test etc., with the assistance of SPSS, MS-Excel and other calculation applications.

Tools & Techniques of Data Analysis

Following are the main tools and techniques which have been used into the present research:

- Ratio analysis
- Trend analysis
- Statistical averages
- Measures of dispersion
- Anova

Analysis and Interpretation

The analysis and interpretation is classified into two categories:

- **Pre-Merger Financial Position**

The pre-merger financial position of selected airline industry is explained as follows:

Table 1: Operating Profit Ratio

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	14.23 (H)	5.25	9.29(H)	8.98
2013-14	11.02	4.71	-3.1	14.12
2014-15	-12.23	-3.51	-24.03	-20.52
2015-16	-25.32	12.25	-21.02	37.57
2016-17	-33.61	12.77(H)	-43.83	56.6
Maximum	14.23	12.77	9.29	58.06
Minimum	-33.61	-3.51	-43.83	
Range = H - L	47.84	-3.51	53.12	

Table 2: Gross Profit Ratio

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	8.62(H)	2.69	7.52(H)	5.93
2013-14	6.42	-3.11	-4.1	10.52
2014-15	-16.95	-10.36	-25.07	-14.71
2015-16	-30.91	4.14	-22	35.05
2016-17	-42.88	6.43(H)	-45.09	51.52
Maximum	8.62	6.43	7.52	53.71
Minimum	-42.88	-10.36	-45.09	
Range = H - L	51.5	-10.36	52.61	

Table 3: Net Profit Ratio

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	1.26(H)	-5.25	0.88(H)	6.51
2013-14	0.16	-6.38	-6.39	6.55
2014-15	-4.85	-7.81	-26.49	-21.64
2015-16	-14.59	-3.51	-23.3	-19.79
2016-17	-41.16	-0.59(H)	-12.98	40.57
Maximum	1.26	-0.59	0.88	42.42
Minimum	-41.16	-7.81	-26.49	
Range = H - L	42.42	-7.81	27.37	

Table 4: Return on Investment

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	65.88(H)	-2.37	0.74(H)	-68.25
2013-14	29.49	-3.04	-4.78	34.27
2014-15	-8.61	-4.43	-30.52	-26.09
2015-16	-10.71	-2.03	-23.87	-21.84
2016-17	-17.4	-0.42(H)	-10.33	-16.98
Maximum	65.88	-0.42	0.74	96.4
Minimum	-17.4	-4.43	-30.52	
Range = H - L	83.28	-4.43	31.26	

Table 5: Return on Capital Employed

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	12.65	1.29 (H)	1.14(H)	11.51
2013-14	19.25(H)	-4.04	-6.65	25.9
2014-15	-2.95	-5.49	-55.07	-49.58
2015-16	-5.87	-2.7	-55.07	-49.2
2016-17	10.7	-0.79	-21.06	31.76
Maximum	19.25	1.29	1.14	74.32
Minimum	-5.87	-5.49	-55.07	
Range = H - L	25.12	-5.49	56.21	

Table 6: Return on Equity

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	6.54	16.27	3.96(H)	12.31
2013-14	19.22(H)	-45.06	-143.02	-162.24
2014-15	-15.25	-307.5	-151.93	-292.25
2015-16	-4.92	491.95(H)	-109.06	601.01
2016-17	-2.35	50.12	-100.16	150.28
Maximum	19.22	491.95	3.96	643.88
Minimum	-15.25	-307.5	-151.93	
Range = H - L	34.47	-307.5	155.89	

Table 7: Current Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	0.68	0.52	1.86(H)	1.18
2013-14	1.18	0.79	1.53	-0.74
2014-15	2.17(H)	0.96(H)	1.12	-1.21
2015-16	1.44	0.76	1.07	-0.68
2016-17	1.66	0.39	0.71	1.27
Maximum	2.17	0.96	1.86	1.78
Minimum	0.68	0.39	0.71	
Range = H - L	1.49	0.39	1.15	

Table 8: Quick Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	0.56	0.42	1.4(H)	0.98
2013-14	1.01	0.67	1.21	0.54
2014-15	1.81(H)	0.81(H)	1.01	1.00
2015-16	1.02	0.63	1.01	-0.39
2016-17	0.93	0.3	0.66	0.63
Maximum	1.81	0.81	1.4	1.51
Minimum	0.56	0.3	0.66	
Range = H - L	1.25	0.3	0.74	

Table 9: Debt Equity Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	6.45	10.26	16.25(H)	9.8
2013-14	25.64 (H)	8.41	10.25	17.23
2014-15	12.65	49.69 (H)	-5.16	54.85
2015-16	-25.33	-167.2	-15.19	-152.01
2016-17	-10.26	-68.33	2.65	70.98
Maximum	25.64	49.69	16.25	216.89
Minimum	-25.33	-167.2	-15.19	
Range = H - L	50.97	-167.2	31.44	

Table 10: Interest Coverage Ratios

Years	Air India (%)	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-0.95	-1.69	0.85	2.54
2013-14	-1.89	-0.61	0.52	2.41
2014-15	0.51	-1.7	1.25	2.95
2015-16	0.78	0.47	-0.89	1.67
2016-17	0.84(H)	0.79(H)	1.99(H)	1.2
Maximum	0.84	0.79	1.99	3.88
Minimum	-1.89	-1.7	-0.89	
Range = H - L	2.73	-1.7	2.88	

- **Post Merger Comparative Analysis of Selected Companies**

The post merger comparative analysis of the selected companies is as follows:

Table 11: Operating Profit Ratio

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	-55.46	2.01	-20.65	-57.47
2013-14	-12.65	6.62	-18.69	25.31
2014-15	-9.85(H)	-7.61	0.52(H)	10.37
2015-16	-22.65	1.61	-33.27	-34.88
2016-17	-35.44	13.21(H)	-523.78	-536.99
Maximum	-9.85	13.21	0.52	-536.99
Minimum	-55.46	-7.61	-523.78	
Range = H - L	45.61	-7.61	524.3	

Table 12: Gross Profit Ratio

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	-50.21	-3.63	-23.18	46.58
2013-14	-17.95	1.69	-21.91	23.6
2014-15	-12.65(H)	-12.22	-3.26(H)	-9.39
2015-16	-20.54	-2.03	-39.49	-37.46
2016-17	-45.25	8.73(H)	-571.41	-580.14
Maximum	-12.65	8.73	-3.26	580.14
Minimum	-50.21	-12.22	-571.41	
Range = H - L	37.56	-12.22	568.15	

Table 13: Net Profit Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-35.25	-8.5	-30.53	-26.75
2013-14	-11.26	-4.13	-34.42	-30.29
2014-15	-10.41(H)	-21.68	-16.15(H)	-11.27
2015-16	-13.95	-10.02	-42.37	-32.35
2016-17	-21.31	5.41(H)	-857.85	-863.26
Maximum	-10.41	5.41	-16.15	-863.26
Minimum	-35.25	-21.68	-857.85	
Range = H - L	24.84	-21.68	841.7	

Table 14: Return on Investment

Years	Air India (%)	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-6.59(H)	-6.91	-21.73	-15.14
2013-14	-10.25	-4.24	-21.86	17.62
2014-15	-9.65	-24.13	-12.44(H)	-14.48
2015-16	-10.68	-12.26	-25.63	-14.95
2016-17	-9.58	7.00 (H)	-153	-160
Maximum	-6.59	7.00	-12.44	-160
Minimum	-10.68	-24.13	-153	
Range = H - L	4.09	-24.13	140.56	

Table 15: Return on Capital Employed

Years	Air India (%)	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-7.21	-15.25	-79.61	-72.4
2013-14	-6.59	-14.03	-66.86	-60.27
2014-15	-4.51(H)	-138.29	-30.32	-133.78
2015-16	-8.25	-123.05	-361.44	-353.19
2016-17	-6.52	53.17(H)	71.66(H)	78.18
Maximum	-4.51	53.17	71.66	433.1
Minimum	-8.25	-138.29	-361.44	
Range = H - L	3.74	-138.29	433.1	

Table 16: Return on Equity

Years	Air India (%)	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-6.75	82.07	72.13(H)	88.82
2013-14	-7.36	31.62	43.58	-50.94
2014-15	-5.25(H)	91.97(H)	29.31	97.22
2015-16	-9.05	31.58	41.3	50.35
2016-17	-7.06	-21.92	31.92	38.98
Maximum	-5.25	91.97	72.13	113.89
Minimum	-9.05	-21.92	29.31	
Range = H - L	3.8	-21.92	42.82	

Table 17: Current Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	1.25(H)	0.34	0.4	0.91
2013-14	1.05	0.36	0.46(H)	0.69
2014-15	0.62	0.31	0.36	0.31
2015-16	0.95	0.37	0.19	0.76
2016-17	1.12	0.43(H)	0.1	1.02
Maximum	1.25	0.43	0.46	1.15
Minimum	0.62	0.31	0.1	
Range = H - L	0.63	0.31	0.36	

Table 18: Quick Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	0.75	0.26	0.37	0.49
2013-14	0.45	0.3	0.43(H)	0.15
2014-15	0.5	0.25	0.32	0.25
2015-16	0.6	0.31	0.17	0.43
2016-17	0.94(H)	0.35(H)	0.08	0.86
Maximum	0.94	0.35	0.43	0.86
Minimum	0.45	0.25	0.08	
Range = H - L	0.49	0.25	0.35	

Table 19: Debt/Equity Ratio

Years	Air India	Jet Airways	Kingfisher Airlines	Range = H -L
2012-13	-10.11	-6.37	25.95(H)	36.06
2013-14	-9.58	-3.65	-45.26	-41.61
2014-15	-6.58	-1.94	-12.77	-10.83
2015-16	-10.25	-1.54(H)	-10.26	-8.72
2016-17	-4.56(H)	-1.67	-9.18	7.51
Maximum	-4.56	-1.54	25.95	71.21
Minimum	-10.25	-6.37	-45.26	
Range = H - L	5.69	-6.37	71.21	

Table 20: Interest Coverage Ratios

Years	Air India (%)	Jet Airways (%)	Kingfisher Airlines (%)	Range = H -L
2012-13	0.35	-0.6	-0.89	0.95
2013-14	-1.56	0.27	-1.58	1.85
2014-15	-0.52	-2.15	-0.62	1.63
2015-16	-1.25	-0.46	-0.45	-0.8
2016-17	0.89 (H)	2.19(H)	1.29(H)	1.3
Maximum	0.89	2.19	1.29	4.34
Minimum	-1.56	-2.15	-1.58	
Range = H - L	2.45	-2.15	2.87	

Table 21: Chi Square Test

Ratios	Chi-Square	d f	Asymp. Sig.	Decision
OPR	.000a	14	1	Accepted
GPR	.000a	14	1	Accepted
NPR	.000a	14	1	Accepted
ROI	.000a	14	1	Accepted
ROCE	.867b	13	1	Rejected
ROE	.000a	14	1	Accepted
CR	.000a	14	1	Accepted
QR	3.200c	12	0.994	Rejected
DER	.000a	14	1	Accepted
ICR	.000a	14	1	Accepted

It can be concluded from the above table that the p values of all variables are less than 0.05 hence the null hypothesis is accepted i.e. there is no association between the various costs of the airlines industry and merger and acquisition in the variable except return on capital employed and quick ratio. Hence, it is found that the return on capital employed of Air India is marked satisfactory during the period of study while Jet Airways was marked good in the financial position after merger.

Table 22: Anova Test

		Sum of Squares	d.f.	Mean Square	F	Sig.	Decision
OPR	Between Groups	1358.196	2	679.098	2.221	0.151	Accepted
	Within Groups	3668.562	12	305.714			
	Total	5026.758	14				
GPR	Between Groups	913.756	2	456.878	1.414	0.281	Accepted
	Within Groups	3877.577	12	323.131			
	Total	4791.333	14				

NPR	Between Groups	223.646	2	111.823	.752	0.493	Accepted
	Within Groups	1785.065	12	148.755			
	Total	2008.711	14				
ROI	Between Groups	1630.310	2	815.155	1.714	0.221	Accepted
	Within Groups	5707.803	12	475.650			
	Total	7338.113	14				
ROCE	Between Groups	3117.200	2	1558.600	5.659	0.019	Rejected
	Within Groups	3305.069	12	275.422			
	Total	6422.269	14				
ROE	Between Groups	52860.416	2	26430.208	.909	0.429	Accepted
	Within Groups	349018.701	12	29084.892			
	Total	401879.116	14				
CR	Between Groups	1.514	2	.757	4.086	0.044	Rejected
	Within Groups	2.223	12	.185			
	Total	3.737	14				
QR	Between Groups	.820	2	.410	3.777	0.053	Rejected
	Within Groups	1.303	12	.109			
	Total	2.123	14				
DER	Between Groups	4136.954	2	2068.477	.778	0.481	Accepted
	Within Groups	31887.947	12	2657.329			
	Total	36024.900	14				
ICR	Between Groups	4.365	2	2.183	1.642	0.234	Rejected
	Within Groups	15.949	12	1.329			
	Total	20.315	14				

Inference Drawn

It can be concluded that the F ratio is found satisfactory in all the variables but it is not satisfactory in return of capital employed (0.019); current ratio (0.044); quick ratio (0.053) and interest coverage ratio of all the selected companies under study. It is, therefore, suggested that the company is not in good condition after merger. The debt liabilities on the companies have been increased after merger. Hence, it can be concluded that the position of pre- merger is better than post merger. The Jet Airways is managing their performance in a good manner.

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