

Implications of Mergers and Acquisitions on Stakeholders: A Case Study of Reliance Industries Limited

Prof.(Dr.) K.C.Goyal*
Ms. Pragya Dheer**

*Director
ASM.s Institute of International
Business & Research,
Pimpri, Pune (Maharashtra)

**Assistant Professor
University of Kota, Kota (Raj.)

Abstract

This paper examines the “Implications of mergers and acquisitions on stakeholders” empirically by taking the case of Reliance Industries Limited (RIL) who has entered into corporate restructuring by opting merger strategy with its subsidiary Reliance Petroleum Limited (RPL). This study has found that there exist significant differences in the performance of the company before and after merger. By this merger almost all stakeholders of the company have been benefited as merger has resulted in the improved financial health and performance of the company.

Keywords:

Merger and Acquisition, Stakeholders, Shareholders, Employees, Government.

Introduction

A literature review reveals that little empirical work has been done so far to measure the implications of merger and acquisition on stakeholders. 'Stakeholders are the resource of the company that makes a company profitable and lead to success and if company does not take care of their stakeholders, they can legitimate claims on companies as they bear risk on the behalf of companies. This article examines targeting company's stakeholder's related practices pre and post merger.

Literature Review

“Good stakeholder practice serves a source of competitive advantage for the firm”

Barney in his research in 1991 and 2001 has proposed Resource Based View (RBV) and argues that competitive advantage can be gained by companies that have rare, valuable, non – imitable and non – substitutable resources. Recent work on companies' stakeholder and environment practice indicates that corporate responsibility (CR) in operationalised through stakeholders practices which result in no loss in financial performance but rather they help to get some minor gains (Margolis and Walsh 2001; 2003)..

Some believe that stakeholders are company's foundation stone or bottom line perspective (Donaldson and Preston 1995). While other believe that stakeholder practices represent ways of developing sound long term relationship with other stakeholders' group that are integrally based on normative or ethical consideration (Freeman, 1999) and should not be separated into instrumental, normative or descriptive rationales.

When referred to Mergers and Acquisitions (M&A), it is disruptive, change and absorb management, takes control of management decisions and create

significant transition and transaction cost. Sometimes it may be possible in the process of merger and acquisition, acquiring firms' shareholders and other stakeholders may benefit less or experience neutral returns because they incur the costs of acquisition, problems of integrating the target firm and servicing debt (Davidson 1989, Ahuja and Katila 2001).

In contrast, proponents of Mergers and Acquisitions claim that merger benefits society and stakeholders as they create more efficient markets and improve managerial performance. Additionally, Mergers and Acquisitions (M&A) occurs to achieve or to reduce competition or excess supply in market (Town 2001). Whereas, acquiring firm believe that it can improve the performance of the target and acquire innovations and unique resources leading to competitive advantage along with better stakeholder related practices which may emerged in smaller, less bureaucratic and more innovative firm.

The present study examines the implication of merger and acquisition on stakeholder by taking a case of Reliance Industries Limited (RIL) who has entered into the merger with its subsidiary Reliance Petroleum Limited (RPL) on 2nd March 2009 after orders sanctioning the same by the Hon'ble High Court of Judicature at Bombay and the Hon'ble High Court of Gujarat at Ahmedabad. This study focuses on three categories of stakeholder practices related to different stakeholder groups representing both primary and secondary stakeholders namely: Shareholders, Employees and Government.

Research Methodology

Objectives of the Study:

1. To study the financial implications of mergers and acquisition undertaken by RIL
2. To study the implications of mergers and acquisition opted by RIL on shareholders,
3. To study the implications of mergers and acquisition opted by RIL on employees
4. To study the implications of mergers and acquisition opted by RIL on Government.
5. To suggest the strategies to overcome ill effect of merger

strategy adopted by RIL

Scope of the Study:

The scope of the study is limited to examine the implications on stakeholders of merger strategy adopted by Reliance Industries Ltd.

Research Design

The present study is exploratory research in its initial stage followed by descriptive research.

Sources of Data:

This study is primarily based on the collection of secondary data. To analyse the implication of merger and acquisition, financial data both before and after merger of the company and published annual reports of company is used. The published Annual Reports of Reliance Industries Limited (RIL) have been collected from the corporate office of RIL. To know the perceptions of shareholders and employees on this merger researcher conducted the unstructured interviews of them. Other information is collected from website, magazine and companies' media releases.

Sample Design:

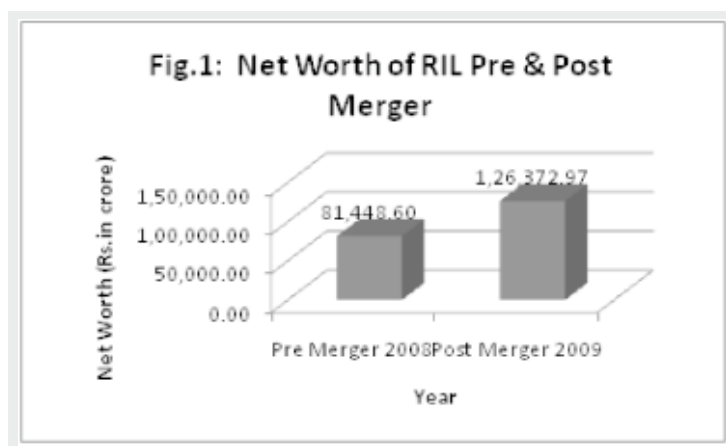
The sample size of the present study is 'Reliance Industries Limited' (RIL) and its stake holders i.e. employees and shareholders. To know the implications of this merger researcher has conducted unstructured interviews of 20 shareholders and employees each.

Data Analysis and Interpretation

Financial Implications:

A positive financial impact has been witnessed of the merger of Reliance Petroleum limited with the Reliance industries Limited as by this merger net worth, operating profits, sales, exports, production and revenue of the company increased substantially as it is evident from the particulars given below---

- **Impact on Net Worth:** By this merger net worth of the RIL increased by 55 percent. The net worth of the company was Rs. 81,448.60 crore in 2008 which increased to Rs. 1,26,372.97 crore in 2009 (Refer: Appendix-1). This could be understood properly with the help of figure 1.



Prior to this merger the combined Net worth of RIL and RPL was Rs. 94,897.50 crore which increased to Rs. 1,26,372.97 crore after merger took place, thus, it registered an impressive increase of 33 percent. (Refer: Appendix-1)

Component wise study of Net worth (Refer: Appendix-1) has shown positive implication of merger as evident from following facts-----

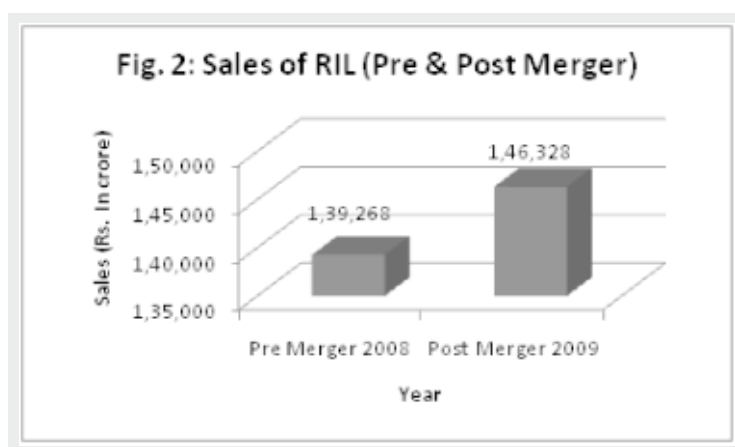
Impact on capital: After merger, capital of RIL increased from Rs.1,453 crore in 2008 to Rs.1,573 crore in 2009.

Impact on reserves and surplus: Prior to this merger the combined Reserves and Surplus of RIL and RPL were Rs. 86,390.51 crore which increased to Rs. 1,12,945.44 crore after

merger took place, thus it registered an increase of 31 percent.

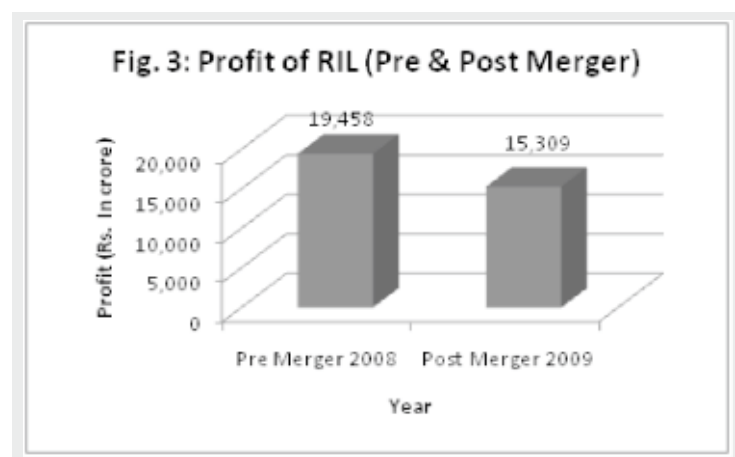
Impact on revaluation reserves: After merger, Revaluation Reserves of RIL increased from Rs. 871.26 crore in 2008, to Rs. 11,784.75 crore in 2009 thus registered 14 fold increase over 2008.

- **Impact on Sales:** A positive impact has been witnessed on the sales of RIL after merger of RIL and RPL. Its sales increased from Rs. 1,39,268 crore in 2008 to Rs. 1,46,328 crore in 2009; and thus it registered a growth of 5 percent over 2008. Furthermore, Reliance Industries achieved an impressive growth of 37 percent in its sales in 2010, as its sales figure reaches to Rs. 2,00,400 crore (Refer Appendix- II). To make it crystal clear, the same has been depicted in figure 2.



- **Impact on Exports:** After this merger exports of RIL increased by 24 percent. In 2008 the exports of RIL were Rs. 88,851 (\$19.76 billion) which increased to Rs. 1,10,176 crore (\$24.5 billion) in 2009.
- **Impact on Profits:** After this merger the profits after taxation of RIL gone down from Rs. 19,458 crore in 2008 to

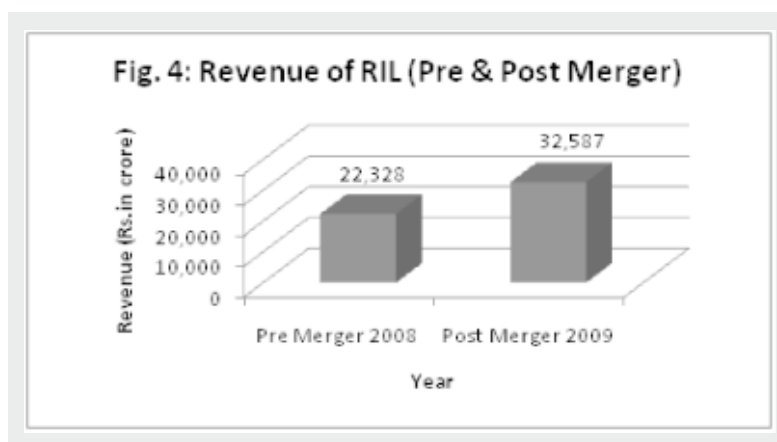
Rs.15,309 crore in 2009. This is mainly attributable to higher expenditures on raw materials which was 1.10 times more than that of 2008, however, RIL registered a growth of 8 percent in its profits after taxation in the following year (Refer Appendix- II). To make it more clear, the same has been depicted in figure 3.



- **Impact on Operating Profits:** Operating profits of RIL increased from Rs. 22,432 crore in 2008, to Rs. 24,152 crore in 2009, thus registered a growth of 8 percent over 2008. (Refer Appendix- II)
- **Impact on Area of Operation:** After restructuring, area of operation of RIL has also increased as the Jamnagar refinery processed 8.13 million tonnes of crude in 2009 as compared to 8.01 million tonnes of crude oil processed during the

corresponding period of year 2008.

- **Impact on Revenue and Growth:** A positive impact may be witnessed on the revenue growth for the refining & marketing segment after merger which increased by 46 percent from Rs 22,328 crore in 2008 to Rs 32,587 crore (US\$ 7.6 billion) of 2009 mainly due to high product prices driven by high crude oil prices. To make it more clear, the same has been depicted in figure 4.



- **Impact on Production:** A positive impact has been witnessed on the Production of petrochemical products of Reliance Industries Limited (RIL) after merger with Reliance Petroleum Limited (RPL). Its production increased from 4.8 million tonnes in 2008 to 5.0 million tonnes in 2009, and thus registered a growth of 4 percent.

Impact on Shareholders:

- Consequent upon this merger 1 share of RIL was allotted to every shareholder of RPL for every 16 shares held by them in erstwhile RPL on 'record date' i.e. 29th September 2009. Thus by this merger, shareholders of erstwhile RPL benefited marginally. The share of RPL was traded last on 24th September 2009 at Rs.130.85, as after this date share was delisted at Bombay Stock Exchange, whereas on this date the market value of share of RIL was Rs. 2104.4. Thus, erstwhile shareholder of RPL got 1 share of RIL worth Rs. 2104.4 for their 16 shares worth Rs. 2093.60 and thus they were

benefited by Rs.10.80 on their every 16 shares held by them. Moreover, they became the shareholders of world renowned company which is ranked 1st in India and also ranked very high world over.

- In the personal conversation with shareholders of erstwhile RPL researcher came to know that shareholders of this company were having a very pleasant experience of this merger of which they acknowledged by citing several reasons like the immediate one was that they started getting dividends being the shareholders of RIL while they did not get any dividend from merged RPL, since they made their investment in that company (RIL declared and paid a dividend of Rs. 13 per share for the year ending on 31st March, 2009) as shown in Table-1; another reason expressed was that they now became the shareholder of a blue chip and prestigious, worlds' no.1 company Reliance Industries Limited (RIL). Their net worth of their investment was also increased.

Table 1 showing Audited Financial Result for the year ended 31st March 2009
(This statement shows the restructuring effects on the company, creditors and shareholders*)
(Rs. in crores, except per share data)

| S.no | Particulars | Year Ended | |
|------|---|----------------------|--------------|
| | | 31st March (Audited) | |
| | | 2009 | 2008 |
| 1 | Paid up Equity Share Capital, Equity Shares of Rs. 10/- each. | 1,574 | 1,454 |
| 2 | Equity Share suspense | 69 | - |
| 3 | Reserves excluding revaluation reserves | 1,12,945 | 77,442 |
| 4 | Debenture Redemption Reserve | 927 | 587 |
| 5 | Earnings per share (Face value of Rs. 10) | | |
| | Basic | 96.8* | 134.2 |
| | Diluted | 96.8* | 134.2 |
| 6 | a) Gross Debt to Equity Ratio | 0.63 | 0.44 |
| | b) Debt Service Coverage Ratio | 4.01 | 6.09 |
| | c) Interest Service Coverage Ratio | 11.77 | 17.96 |
| 7 | Dividend per Share | 13.00 | 13.00 |
| 8 | Public shareholding [Excluding Equity Share Suspense and including Global Depository Receipts (GDR's)] | | |
| | - Number of Shares (in crores) | 74.82 | 65.30 |
| | - Percentage of Shareholding (%) | 47.54 | 44.92 |
| 9 | Promoters and Promoter Group shareholding | | |
| | a) Pledged / Encumbered | | |
| | - Number of Shares (in crore) | - | - |
| | - Percentage of Total Promoters and Promoter Group Shareholding (%) | - | - |
| | - Percentage of Total Share Capital of Company (%) | - | - |
| | b) Non - Encumbered | | |
| | - Number of Shares (in crore) | 77.17 | 74.67 |
| | - Percentage of Total Promoters and Promoter Group Shareholding (%) | 100.00 | 100.00 |
| | - Percentage of Total Share Capital of Company (%) | 49.03 | 51.37 |

* - after considering allotment of shares to erstwhile RPL shareholders
(Source: Reliance Audited Financial Statement 31st March 2009)

Impact on Employees:

- RIL did not change its employee structure after restructuring, as it considers the employees an asset of the firm.
- RIL announced a Voluntary Separation Scheme (VSS) for the employees who voluntarily want to separate from the company during the year 2009. About 430 employees opted the VSS offered by the Company. A sum of Rs. 111 crore was paid during the year 2009.
- In the personal conversation with employees of erstwhile Reliance Petroleum Limited researcher came to know that employees were having very pleasant experience of this merger of which they acknowledge by citing several reasons, immediate one was that after merger the employee structure was not changed by Reliance Industries Limited and given them the chance to work with the world no.1 company, whereas, since RPL was not making any profits since its inception, therefore, there was a strong possibility that many of them could have been thrown out of employment to safeguard the project of the company.

Impact on Government (taxation):

Reliance Industries Limited (RIL) has become the India's largest contributors to a national exchequer essentially by approach

of remuneration of taxes as well as duties to various government agencies.

- During 2009 a sum of Rs. 17,972 crore (\$4.0 billion) was paid in a form of assorted taxes as well as duties.
- RIL has acknowledged a sum of Rs. 370 crore towards liabilities on account of corporate guarantees issued on behalf of a subsidiary, being an exceptional item. In the previous year 2008, exceptional item of Rs. 4,733 crore represents gains primarily arising out of transactions concerning RPL shares.
- Provision for Current Tax for the year ended 31st March 2009 includes provision for Fringe Benefit Tax of Rs. 57 crore (US\$ 11.2 million).

Conclusion

It may be concluded that, the merger of Reliance Industries Limited (RIL) and Reliance Petroleum Limited (RPL) proved much beneficial to almost all stakeholders as well as to the company. By this merger shareholder of the company, creditors, debenture holders, employees and other stakeholders like government of India, state government, suppliers, customers and financial institutions are benefited.

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APPENDIX-I
Appendix I Table showing Pre Merger and Post Merger figures of Reliance Industries Limited and Reliance Petroleum Limited

(Rs. in Crore)

| Particulars | RIL' 2009 (Post Merger) | RIL' 2008 (Pre Merger) | RPL' 2008 |
|---|-------------------------|------------------------|------------------|
| Source of Funds: | | | |
| Total Share Capital | 1,573.53 | 1,453.39 | 4,499.98 |
| Equity Share Capital | 1,573.53 | 1,453.39 | 4,499.98 |
| Share Application Money | 69.25 | 1,682.40 | - |
| Reserves and Surplus | 1,12,945.44 | 77,441.55 | 8,948.96 |
| Revaluation Reserves | 11,784.75 | 871.26 | - |
| Net Worth | 1,26,372.97 | 81,448.60 | 13,448.94 |
| Secured Loans | 10,697.92 | 6,600.17 | 12,827.52 |
| Unsecured Loans | 63,206.56 | 29,879.51 | - |
| Total Debt | 73,904.48 | 36,479.68 | 12,827.52 |
| Total Liabilities | 2,00,277.45 | 1,17,928.28 | 26,276.47 |
| Application of Funds: | | | |
| Gross Block | 1,49,628.70 | 1,04,229.10 | 223.70 |
| Less: Accumulated Depreciation | 49,285.64 | 42,345.47 | 39.74 |
| Net Block | 1,00,343.06 | 61,883.63 | 183.96 |
| Capital Work in Progress | 69,043.83 | 23,005.81 | 23,090.31 |
| Investment | 20,268.18 | 20,516.11 | 2,438.32 |
| Inventories | 14,836.72 | 14,247.54 | 748.17 |
| Sundry Debtors | 4,571.38 | 6,227.58 | - |
| Cash and Bank Balance | 500.13 | 217.79 | 2.24 |
| Total Current Assets | 19,908.23 | 20,692.91 | 750.41 |
| Loans and Advances | 13,375.15 | 18,441.20 | 918.06 |
| Fixed Deposits | 23,014.71 | 5,609.75 | - |
| Total Current Asset, Loans and Advances | 56,298.09 | 44,743.86 | 1,668.48 |
| Current Liabilities | 42,664.81 | 29,228.54 | 1,099.87 |
| Provisions | 3,010.90 | 2,992.62 | 4.73 |
| Total Current Liabilities and Provisions | 45,675.71 | 32,221.16 | 1,104.61 |
| Net Current Assets | 10,622.38 | 12,522.70 | 563.87 |
| Total Assets | 2,00,277.45 | 1,17,928.28 | 26,276.47 |

*Annual Report of Reliance Industries Limited as on 31st March 2009 and *Annual Report of Reliance Petroleum Limited as on 31st March 2008,

Appendix II Profit and Loss Statement of Reliance Industries Limited (Before and After Merger)

(Rs. in crore)

| Particular | Mar'2010 | Mar'2009 | Mar'2008 |
|------------------------------------|--------------------|--------------------|--------------------|
| Income | | | |
| Sales Turnover | 2,00,399.79 | 1,46,328.07 | 1,39,269.46 |
| Excise Duty | 8,307.92 | 4,369.07 | 5,463.68 |
| Net Sales | 1,92,091.87 | 1,41,959.00 | 1,33,805.78 |
| Other Income | 3,088.05 | 1,261.03 | 6,595.66 |
| Stock Adjustments | 3,947.89 | 427.56 | -1,867.16 |
| Total Income | 1,99,127.81 | 1,43,650.59 | 1,38,534.28 |
| Expenditure | | | |
| Raw Materials | 1,53,689.01 | 1,09,284.34 | 98,832.14 |
| Power and Fuel Cost | 2,706.71 | 3,355.98 | 2,052.84 |
| Employee Cost | 2,330.82 | 2,397.50 | 2,119.33 |
| Other Manufacturing Expenses | 2,153.67 | 1,162.98 | 715.19 |
| Selling and Admin Expenses | 5,756.44 | 4,736.60 | 5,549.40 |
| Miscellaneous Expenses | 651.96 | 562.42 | 412.66 |
| Pre operative Expense Capitalised | -1,217.92 | -3,265.65 | -175.46 |
| Total Expenses | 1,66,070.69 | 1,18,234.17 | 1,09,506.10 |
| Operating Profit | 29,969.07 | 24,152.39 | 22,432.52 |
| PBDIT | 33,057.12 | 25,416.42 | 29,028.18 |
| Interest | 1,999.95 | 1,774.47 | 1,162.90 |
| PBDT | 31,057.17 | 23,641.95 | 27,865.28 |
| Depreciation | 10,196.53 | 5,195.29 | 4,817.14 |
| Other Written Off | 0.00 | 0.00 | 0.00 |
| Profit Before Tax | 20,560.64 | 18,446.66 | 23,018.14 |
| Extra ordinary Items | 0.00 | 0.00 | 48.10 |
| PBT (Post Extra-ordinary Items) | 20,560.64 | 18,446.66 | 23,066.24 |
| Tax | 4,324.97 | 3,137.34 | 3,559.85 |
| Reported Net Profit | 16,235.67 | 15,309.32 | 19,458.29 |
| Total Value Addition | 12,381.68 | 8,949.83 | 10,673.96 |
| Preference Dividend | 0.00 | 0.00 | 0.00 |
| Equity Dividend | 2,084.67 | 1,897.05 | 1,631.24 |
| Corporate Dividend Tax | 346.24 | 322.40 | 277.23 |
| Per Share Data (annualised) | | | |
| Shares in issue (lakhs) | 32,703.74 | 15,737.98 | 14,536.49 |
| Earning Per Share (Rs.) | 49.64 | 97.28 | 133.86 |
| Equity Dividend | 70.00 | 130.00 | 130.00 |
| Book Value (Rs.) | 392.51 | 727.66 | 542.74 |

Source: Annual Report of Reliance Industries Limited 2008-2009; 2009-10 and Dion Global Solutions Limited.