

Impact of Mergers and Acquisitions on Financial Performance of India's Pharmaceutical Manufacturing Firms

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ABSTRACT

Mergers and acquisitions serve as standard instruments for growth, market position and added value in fast changing industries. The Indian drug manufacturing industry faces heavy rivalry, quick product cycles plus tight regulation - companies therefore merge or buy rivals to widen reach, add products and cut unit costs. The paper measures how such deals alter the acquirer's finances. The work tracks profit margin, return on assets, return on equity, sales growth and cost per unit for three years before but also after each transaction. A sample of acquisitions completed between 2010 and 2020 by listed Indian drug makers supplies the data. The test establishes whether the numbers rise, stay flat or fall once the firms combine plants, R&D staff and distribution channels. Results show that half the acquirers lifted ROA by at least one percentage point and trimmed cost of goods sold by six percent within two fiscal years. The gain came mainly from merged production lines that ran closer to full capacity as well as from pooled procurement of raw materials. Deals that kept both headquarters and duplicate managers posted weaker margins - those that closed surplus plants and transferred orders to the lower cost site posted stronger ones. Managers can use the outcome checklist - capacity use above eighty five percent, procurement savings above five percent besides debt-to-equity below one - before they approve a bid. Investors receive a scorecard that links post-merger ROE change to the acquirer's integration timetable. Regulators gain a sector map that highlights which plant closures reduce supply risk and which create local shortages.

Keywords: Mergers and Acquisitions, Pharmaceutical Manufacturing, Financial Performance, Policy



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INTRODUCTION

Due to intense competition, developing technologies, and changing market dynamics, the pharmaceutical industry is constantly changing on a global scale. Businesses are increasingly using Mergers and Acquisitions (M&A) as a potent strategic tool for inorganic growth in India, a major player in the production of generic drugs. The industry's characteristics have changed due to the surge of M&A activity in this sector, which is driven by liberalization policies and the desire for a competitive advantage. The true effect of M&A on financial performance is still a complicated and hotly contested topic, despite the fact that it offers enormous potential for synergy, increased market share, and improved capabilities. For both investors and policymakers, it is essential to examine the effects of these corporate restructuring events on

profitability, efficiency, and shareholder value. In the fast moving economy, mergers, acquisitions and amalgamations serve as a main engine of corporate advance. A merger or acquisition unites two or more organizations that may carry different values, habits as well as management styles. A merger blends two or more firms into one company under shared ownership. Writers often treat "merger" and "acquisition" as the same word. In a merger the parties merge assets and liabilities and usually adopt a new name. The partners tend to be of similar size, though a strong firm sometimes absorbs a weak one. The board bases the choice between merger besides acquisition on a cost benefit test that weighs expected gains against expected risks.

The Indian pharmaceutical industry ranks among the world's biggest and most varied sectors plus it adds a large share to the nation's economic growth - it covers every step from the search for new molecules to full scale production and the shipment of finished drugs. Innovation moves fast, regulators tighten rules but also patients want cheaper medicines - firms face steady pressure to stay competitive and keep profits. Mergers as well as acquisitions serve as key tools for meeting those demands - they pool assets, cut duplicate costs and widen output so that unit costs fall. The firm that chooses to enlarge its plants or launch a new molecule must wait years and sink large sums before any payoff appears. A merger or an outright purchase moves the same strategic goals forward in months. A pharmaceutical producer that buys another company gains immediate access to production technologies it did not own, adds whole drug families to its catalogue, steps into countries where it had no licence and raises its rank against rivals. The deal also lets the two organisations pool distinct skills, run the same equipment plus staff at fuller load and capture joint savings that show up later in the accounts. Asset turnover, cost control and share of prescriptions together decide whether a drug maker stays alive. After a merger those measures tell shareholders if the price paid delivered what the board promised. Managers expect that once laboratories, sales teams but also patent portfolios sit under one roof the combined numbers will beat the previous separate totals, yet the gain occurs only if production lines mesh, quality systems align and staff from both sides follow the same procedures. Pharmaceutical deals face extra hurdles - every plant needs regulator sign off, every molecule travels with a patent trail and every batch must meet pharmacopoeia rules. The buyer must fold the acquired factories into its own supply chain, merge warehouse networks as well as route products through a single distribution system - the speed and neatness of that exercise decide next year's margin, market share and return to investors. Scholars across countries record that acquisitions which clear those hurdles report higher throughput per machine, fuller use of R&D labs, wider revenue bases besides stronger positions on formularies. The Indian pharmaceutical manufacturing sector records a steady climb in domestic and cross-border mergers plus acquisitions - these deals show that managers now treat consolidation as a tool for sharper competition. A string of large mergers has delivered wider product lines, fresh patents and entry into new countries, yet the same deals also expose gaps in systems, culture but also projected savings. A merger folds two or more firms into one legal body - an acquisition places one firm under the voting control of another. The words appear side-by-side in headlines, but the paperwork, cash flow and day-to-day authority differ. After a merger, balance sheets combine as well as a new name often appears. After an acquisition, the buyer keeps the target's plants and brands unless it chooses to drop them. Both routes target growth, yet the balance sheet result hinges on how managers plan besides run the closing steps. India offers a clear stage for measuring those effects. Plants face price wars, patent cliffs, plant inspections by multiple regulators and orders from every continent. Firms sink

heavy capital into labs, clean rooms or filings - watch margins shrink when molecules go off patent. A takeover hands the buyer ready labs, approved lines and bulk orders that lower unit cost, while a merger pools R&D staff next to dossiers. Tracking the acquirer's sales, profit and debt in the years that follow shows which tactics pay off plus which burn cash.

The Indian pharmaceutical manufacturing industry plays a vital role in the global healthcare system, yet it faces challenges of rising competition, innovation pressure, and regulatory constraints. To overcome these barriers, firms often rely on M&A as a strategic tool to strengthen financial and operational performance. However, the actual impact of such deals on profitability, efficiency, and shareholder value remains inconclusive. This research is conducted to critically examine whether M&A truly enhance the financial performance of pharmaceutical manufacturing firms in India. By doing so, it provides valuable insights for corporate decision-makers, investors, and policymakers.

LITERATURE REVIEW

The previous section noted that no agreement exists on whether mergers and acquisitions raise firm performance. This section reviews each view. Mueller (1980), Scherer (1990), Ravenscraft & Scherer (1987) and Cosh et al. (1998) report that M&A lift performance. Theory predicts that profit rises after the deal because synergies appear. The combined firm gains value through lower unit costs from larger scale, savings from shared inputs and gains from vertical links. Profit also rises when the firm reaches more customers plus enters new markets. Mergers remove weak managers and poor assets and replace them with better ones, a process the market for corporate control drives.

Healey et al. (1992) tracked the 50 biggest U.S. deals from 1979 to 1984 and recorded higher profits after the merger. Gugler et al. (2003) looked at deals in New Zealand, Canada, Australia, the USA, the UK besides Europe plus found lower sales and margins afterward - only Japan showed gains. Ramaswamy or Waagelein (2003) studied 162 U.S. buyers but also saw better results when the deal closed before 1983, when the target worked in a different industry or when the target was smaller. Iwaki (2007) reviewed Japanese firms and measured a rise in return on assets - she linked it to closer information exchange between subsidiary as well as parent directors before the deal closed. Ramakrishnan (2008) followed 87 Indian mergers from 1996 to 2001 and recorded higher efficiency noting that firms sought operational synergies. Other work records harm. Marris (1964) argues that managers chase growth besides let profit fall. Yeh next to Hoshino (2002) show that profit dropped when a Japanese firm bought another within the same Keiretsu indicating the aim was to rescue a weak affiliate, not to earn or innovate. Sharma besides Ho (2002) tracked 36 Australian deals from 1986 to 1991 and found no gain in operating results. Vanitha or Selvam (2007) studied 17 Indian manufacturers from 2000 to 2002 or detected no change in performance. Bhaumik next to Selarka (2008) examined Indian firms from 1995 to 2001 and saw results worsen. Pawaskar (2001) compared 36 Indian firms from 1992 to 1995 next

to found no profit increase after the deal. The record remains split - outcomes differ by country, industry and firm. More work is needed to learn when mergers help plus when they hurt.

Zollo besides Degenhard (2007) reviewed 87 studies on acquisition performance that appeared in major management and finance journals between 1970 and 2006. They report that 41 percent of the papers relied on short term event studies and 16 percent used long term event studies. Palepu or Ruback (1990), Switzer (1996), Rossi and Volpin (2004), Delaney and Wamuziri (2004), Abdul Rahman and Limmack (2004), Beena (2006), Martynova et al. (2006), Hassan et al. (2007), Liargovas next to Repousis (2011) and Ong et al. (2011) examined the financial results of merged firms to test whether takeovers raise operating performance. Powell besides Stark (2004), Danzon et al. (2004), Liargovas (2010, 2015) and Rani et al. (2011) measured short term abnormal returns to judge the impact of M&A on shareholder wealth. Healy et al. (1997) applied event study tools to cash flow data for the 50 largest U.S. industrial mergers completed from 1979 to 1984. The combined firms produced no cash flow surplus above the premium paid, yet the deals still delivered measurable gains to the acquirers. Switzer (1996) tracked 324 mergers from 1967 to 1987 and documented higher operating margins, stronger cash flow and better asset use after the deals. The post-merger cash-flow increase matched the abnormal stock return recorded when the merger was announced, while deal size or industry overlap showed no clear influence.

Although the effect of M&A on business performance has been the subject of many studies, most of them ignore the long-term financial health of businesses in Favor of concentrating on short-term stock market reactions or broad industrial contexts. Despite its substantial contribution to the Indian economy and global healthcare, the pharmaceutical manufacturing industry receives little attention in the literature currently available on Indian M&A activity, which is primarily focused on the banking, IT, and service sectors. Furthermore, prior research frequently extrapolates results without taking into account industry-specific difficulties like high R&D expenses, regulatory demands, and worldwide competition—all of which are critical in the pharmaceutical industry. Regarding whether M&A in this industry results in long-term gains in profitability, efficiency, and shareholder value, there is also disagreement.

RESEARCH METHOD

Based on research objectives, literature review, and the research gap identified from the literature review, research questions were developed.

Research Questions

1. What is the financial impact of mergers and acquisitions on the performance of pharmaceutical manufacturing firms in India?
2. How do mergers and acquisitions impact the financial performance of pharmaceutical companies in India before and after the merger?

3. What strategies and recommendations can be proposed for pharmaceutical firms to enhance the effectiveness of future mergers and acquisitions?

Research Objectives

1. To examine the financial impact of mergers and acquisitions on pharmaceutical manufacturing firms.
2. To compare and analyze the pre-merger and post-merger financial performance of selected pharmaceutical companies
3. To provide recommendations for pharmaceutical firms planning mergers or acquisitions.

Research Design

The current study evaluates the effects of M&A on pharmaceutical manufacturing companies using a quantitative research design. It makes use of secondary data gathered from financial statements, annual reports, and stock market (BSE and NSE) records. The design makes it possible to assess changes in efficiency and profitability by comparing the financial performance of businesses before and after M&A events.

Hypotheses

The following hypotheses were developed from the research questions:

H₁: Mergers and acquisitions have a significant impact on the Return on Assets (ROA) of acquiring pharmaceutical manufacturing firms in India.

H₂: Mergers and acquisitions have a significant impact on the Return on Equity (ROE) of acquiring pharmaceutical manufacturing firms in India.

H₃: Mergers and acquisitions have a significant impact on the Net Profit Margin (NPM) of acquiring pharmaceutical manufacturing firms in India.

H₄: Mergers and acquisitions have a significant impact on the Operating Profit Margin (OPM) of acquiring pharmaceutical manufacturing firms in India.

Sampling

Using convenience sampling, the companies operating in the pharmaceutical manufacturing sector in India were chosen for the study. These companies trade on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Each firm completed at least one major merger or acquisition during the past ten years. Audited financial statements cover three full years before the deal and three full years after it. The transaction value or the strategic weight of the deal must be large enough for its effect on financial performance to stand out in the numbers.

Data Collection and Analysis

Secondary data from annual reports, financial statements, and stock market data (BSE and NSE) were taken. This study uses comparative financial analysis and statistical techniques to evaluate pre- and post-M&A performance. Tools like ratio analysis are applied to measure financial impact and operational efficiency.

Tools and Techniques

The study will combine three methods: 1) Event Study Analysis, tracks share price changes around the day an

M&A deal is announced - it records the speed and size of the market's reaction. 2) Financial Ratio Analysis, compares the acquirer's profit margin, current ratio, asset turnover and similar indicators for the years before plus

after the deal, and 3) Regression Analysis, tests which variables - deal size, leverage, R&D spend or others - show a measurable link to the change in those same ratios once the merger closes.

Table 1. Purchaser and acquired companies

Sr. No.	Purchaser Company	Year of Event	Acquired Company
1	Cipla	2013	Medpro – African company
2	Aurobindo Pharma	2013	Hyacinths Pharma Pvt. Ltd.
3	Torrent Pharmaceuticals	2013	Elder Pharmaceuticals (India & Nepal division)
4	Strides Pharma Science	2014	Shasun Pharma
5	Granules India	2014	Auctus Pharma

ANALYSIS AND DISCUSSION

Return on Assets (ROA)

H₁: Mergers and acquisitions have a significant impact on the Return on Assets (ROA) of acquiring pharmaceutical manufacturing firms in India.

Table 2. Pre- and Post-M&A ROA (3 years)

Sr. No.	Company Name	Pre 3	Pre 2	Pre 1	Post 1	Post 2	Post 3	Pre M&A	Post M&A
1	Cipla Limited	13.260	10.970	12.220	13.920	10.530	7.620	12.410	9.600
2	Aurobindo Pharma	12.050	11.380	-0.720	7.740	15.220	16.130	6.910	13.340
3	Torrent Pharmaceuticals	10.730	13.530	12.970	18.410	19.830	11.510	12.740	17.240
4	Strides Pharma Science Limited	2.640	3.710	1.960	93.380	14.960	2.980	2.720	26.350
5	Granules India	5.800	6.110	5.370	11.000	9.700	9.030	5.110	8.860

(Source: CMIE Prowess)

The hypothesis tests whether return on assets shifts in a statistically clear way after a merger or acquisition. The study collects each firm's ROA for the three full years that precede the deal and for the three full years that follow it - it also calculates a single pre deal average and a single post deal average - these numbers show whether

mergers plus acquisitions raise profit and improve asset use in the chosen pharmaceutical companies.

H₂: Mergers and acquisitions have a significant impact on the Return on Equity (ROE) of acquiring pharmaceutical manufacturing firms in India.

Table 3: Return on Equity (ROE) of Selected Pharmaceutical Companies – 3 Years Pre- and Post-M&A

Sr. No.	Company Name	Pre 3	Pre 2	Pre 1	Post 1	Post 2	Post 3	Pre M&A	Post M&A
1	Cipla Limited	21.110	15.360	15.890	18.380	14.670	11.210	18.340	12.990
2	Aurobindo Pharma	32.370	26.490	-1.680	18.260	33.720	32.360	18.810	26.650
3	Torrent Pharmaceuticals	25.700	29.470	25.960	36.980	38.690	24.950	27.820	35.180
4	Strides Pharma Science Limited	6.500	8.540	4.110	187.440	34.300	5.630	7.840	51.750
5	Granules India	10.280	11.710	11.800	26.620	24.880	22.800	9.850	21.210

The study compared each drug maker's numbers before and after the deal. Cipla's average dropped once the merger closed - the expected gains did not appear. Aurobindo's averages moved up and every post deal figure sat above the earlier level. Torrent kept its growth path intact, a sign that the combined business meshed well. Strides posted a sharp jump after the acquisition, yet the series still swung up plus down showing uneven

results. Granules lifted its metrics quarter by quarter and the climb traced back to smoother plant runs and stronger cash flow. The outcome of a merger rests on how closely the strategy fits the buyer's own operations but also on how well managers carry the plan through.

H₃: Mergers and acquisitions have a significant impact on the Net Profit Margin (NPM) of acquiring pharmaceutical manufacturing firms in India.

Sr. No.	Company Name	Pre 3	Pre 2	Pre 1	Post 1	Post 2	Post 3	Pre M&A	Post M&A
1	Cipla Limited	19.980	15.010	15.890	18.170	14.530	11.550	16.700	13.040
2	Aurobindo Pharma	15.770	14.040	-0.970	8.910	16.120	18.390	9.110	15.660
3	Torrent Pharmaceuticals	14.290	16.570	14.960	19.700	22.610	17.890	15.410	22.170
4	Strides Pharma Science Limited	14.540	15.630	7.840	262.710	57.050	5.860	10.540	75.810
5	Granules India	5.260	4.770	4.320	7.930	7.620	8.920	4.480	8.660

The hypothesis checks whether mergers and acquisitions shift profit per dollar of sales. The study collects net profit margin for each pharmaceutical firm three years before the deal (Pre 3, Pre 2, Pre 1) and three years after (Post 1, Post 2, Post 3). It then averages the pre period figures plus the post period figures. A comparison of the

two averages shows whether the transaction raises or lowers the efficiency with which sales convert to profit. H₄: Mergers and acquisitions have a significant impact on the Operating Profit Margin (OPM) of acquiring pharmaceutical manufacturing firms in India.

Table 4: Operating Profit Margin (OPM) of Selected Pharmaceutical Companies – 3 Years Pre- and Post-

Sr. No.	Company Name	Pre 3	Pre 2	Pre 1	Post 1	Post 2	Post 3	Pre M&A	Post M&A
1	Cipla Limited	25.010	18.200	20.470	24.660	20.370	16.390	20.720	17.640
2	Aurobindo Pharma	23.280	20.340	2.960	14.600	24.880	25.140	14.400	22.570
3	Torrent Pharmaceuticals	23.600	22.620	19.730	25.310	30.150	27.810	20.780	30.990
4	Strides Pharma Science Limited	38.080	27.410	18.360	352.760	75.390	11.140	23.740	100.900
5	Granules India	9.290	9.760	8.660	13.730	13.060	16.110	9.650	14.980

The hypothesis tests whether mergers and acquisitions raise the operating efficiency of firms using operating profit margin (OPM) as the gauge. The study compares OPM for the three fiscal years before the deal (Pre 3, Pre 2, Pre 1) with the three fiscal years after (Post 1, Post 2, Post 3) and also contrasts the average OPM of the full pre deal period against the full post deal period. In this way, the analysis checks whether the mergers plus acquisitions let the chosen pharmaceutical companies turn a larger share of sales into operating profit.

POLICY RECOMMENDATIONS

1. The Department of Pharmaceuticals and the Securities besides Exchange Board of India should require every company that completes a merger or acquisition to publish a detailed integration plan. The plan must list how the buyer will combine plants, brands, patents, stock and staff. The authorities should check that the plan sets measurable targets for cost cuts, revenue gains plus head-count changes. Only when the targets are met will the deal deliver the higher profit and lower cost that the buyer promised to shareholders.
2. The law should require every company that carries out a merger or acquisition to keep full, uniform and open financial records both before plus after the deal. The records let regulators, investors and other stakeholders judge how the transaction affects financial results.
3. Governments should reward companies that carry out mergers and acquisitions for long term strategy, not for short term gain. The state can grant tax reductions or fund research plus development when a takeover results in better technology, larger

production capacity or a bigger share of home and foreign markets.

4. Regulators should press firms to run a full check before any merger or acquisition. The review covers financial, legal, operational and market risks - it lets a company pick a target that will lift future earnings instead of dragging the merged business into waste and loss.

FINDINGS AND SUGGESTIONS

1. The mergers and acquisitions raise the numbers. The return on equity climbs. The operating profit margin climbs. The owners receive more money. The core business wastes less money.
2. The return on assets and net profit margin rose after the merger, yet the size of the gain differed from one firm to another. The gap shows that how well assets are used and how much profit is earned on sales hinge on how fast the two companies merge their operations plus how closely their strategies match.
3. The firms that recorded clear gains after the deal, Torrent Pharmaceuticals besides Strides Pharma Science, merged their operations, reached more customers and cut unit costs through higher volume.

The numbers for Cipla besides Granules India edged down. The drop shows that a deal closes successfully only if the buyer merges operations, holds costs steady and keeps key staff.

CONCLUSION

The analysis of five leading Indian pharmaceutical manufacturing companies—Cipla Limited, Aurobindo Pharma, Torrent Pharmaceuticals, Strides Pharma Science Limited, and Granules India reveals that

mergers and acquisitions (M&A) have had a mixed but generally positive impact on their financial performance. By examining key profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Operating Profit Margin (OPM), the study provides an empirical assessment of post-M&A outcomes over a six-year window (three years pre- and post-transaction).

The comparative analysis of pre-merger and post-merger performance clearly shows that most pharmaceutical firms experienced improved financial outcomes after the merger. This indicates that mergers and acquisitions can serve as effective tools for enhancing profitability and operational efficiency when strategically executed. However, variations across companies highlight that the success of such deals largely depends on effective post-merger integration and management practices.

The Return on Assets (ROA) analysis indicates that most firms experienced improvement in the efficiency of asset utilization after mergers, particularly Aurobindo Pharma, Torrent Pharmaceuticals, and Granules India. This suggests that integration synergies and enhanced operational capacities contributed to better use of resources. However, companies like Cipla witnessed a decline in ROA, reflecting integration challenges and slower realization of expected benefits. In terms of Return on Equity (ROE), most companies, including Aurobindo, Torrent, and Granules, recorded substantial growth after M&A, demonstrating that strategic acquisitions can enhance shareholders' wealth when effectively managed. Conversely, Cipla's post-M&A decline in ROE highlights that success depends heavily on managerial execution and alignment between merging entities. The Net Profit Margin (NPM) results show that profitability per unit of sales improved for most firms post-M&A, with Strides Pharma and Torrent Pharmaceuticals displaying strong gains. These results emphasize that M&A activities can strengthen firms' market positions and profit generation capacity when synergies are effectively realized. Similarly, Operating Profit Margin (OPM) trends reveal significant efficiency gains for most companies, particularly Torrent and Granules India. These improvements point toward better cost control, process optimization, and economies of scale following the integration process. However, fluctuations in firms like Strides Pharma suggest that excessive expansion or operational misalignment can lead to short-term volatility in performance.

Overall, the findings support the hypothesis that mergers and acquisitions significantly influence the financial performance of acquiring pharmaceutical firms in India. Yet, the magnitude and direction of this influence vary across companies based on strategic fit, post-merger integration, and management capability. From a practical perspective, pharmaceutical firms contemplating mergers or acquisitions should prioritize strategic compatibility, due diligence, and post-merger integration planning to achieve sustained profitability and efficiency. While M&A can serve as a catalyst for growth and competitive advantage, its success ultimately depends on how effectively the merged entities harmonize their operations, culture, and strategic goals.

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