

EVALUATION OF SUN PHARMA & RANBAXY M&A DEAL'S PERFORMANCE: BASED ON ECONOMIC VALUE ADDED (EVA ANALYSIS)

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ABSTRACT

The paper uses economic value added (EVA) as a tool to analyse whether merger and acquisition (M&A) can effectively improve company performance. By using the EVA system, the paper analyse the impact of Sun Pharma & Ranbaxy M&A deal on Sun Pharma Company's economic value. The expectation of this exercise is that the large entity will bring in improved efficiency and profitability. The aim of this project is to examine the impact of Merger and Acquisition on the Economic Value of Sun Pharma by using the Economic Value Added.

By using the EVA model, this paper examine Sun Pharma & Ranbaxy M&A deal and verify whether M&A can bring value creation for Sun Pharma or not. The results show that Sun Pharma & Ranbaxy M&A deal couldn't bring abnormal value creation for company but it bring some Economic value to the small extent. Probably the merger effect has started paying its role. The future of the merged entity seems to be good going by the trends but one has to wait and see if the same level performance can be continued by Sun Pharma Company.

KEYWORDS: EVA, Merger, Acquisition, NOPAT, M&A, Cost of Debt, Cost of Equity.

Introduction

Merger & Acquisition

Merger is defined as combination of two or more companies into a single company where one survives and the others lose their corporate existence. The survivor acquires all the assets as well as liabilities of the merged company or companies. Acquisition in general sense is acquiring the ownership in the property. In the context of business combinations, an acquisition is the purchase by one company of a controlling interest in the share capital of another existing company.

- **Motive Behind Merger and Acquisition**

In the globalized economy, M & A acts as an important tool for the growth and expansion of the economy. The main motive behind the M & A is to create synergy, that is one plus one is more than two and this rationale beguiles the companies for merger at the tough times. M & A help the companies in getting the benefits of greater market share and cost efficiency. Companies go for M & A for achieving higher profit and expanding market share. M & A is the need of business enterprises for achieving the economies of scale, growth, diversification, synergy, financial planning, Globalization of economy, and monopolistic approach also creates interest amongst companies for M & A) in order to increase the market power.

- **About Sun Pharma and Ranbaxy M&A deal**

Sun Pharmaceutical Industries Ltd. and Ranbaxy Laboratories Ltd on 6th April 2014 announced that they have entered into definitive agreements pursuant to which *Sun Pharma* will acquire 100% of Ranbaxy in an all-stock transaction. Under these agreements, Ranbaxy shareholders will receive 0.8 share of *Sun Pharma* for each share of Ranbaxy. This exchange ratio represents an implied value of

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