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MERGERS AND ACQUISTIONS IN AVIATION INDUSTRY- INDIA

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ABSTRACT

Mergers and Acquisitions in aviation markets has become the hottest topic in the industry, most recently as a result of increasing cost pressures. These mergers and acquisitions have become highly strategic involving several considerations. The airlines industry is abuzz with news of mergers and acquisitions. In the last few years airline mergers and acquisitions have been a growing trend in several countries across the globe. It is highly strategic in nature and are undertaken after taking into consideration several important factors.Many argue that This paper has focused on the performance of Two Airline Companies after the consolidation of Airline sector in year 2012-13. The main objective of this paper is to analyze whether the merged Companies have achieved financial performance efficiency during the post-merger & acquisition period specifically in the areas of profitability, leverage, liquidity, and capital market standards.

The finding of this study shows that there is no improvement in surviving Company's return on equity, net profit margin, interest coverage, earning per share and dividend per share post-merger & Acquisition.To conduct a uniform research and arrive at an accurate conclusion, it is restricted research to only Indian companies.

Key words:cost pressure,strategic nature,financial performance,leverage

2. INTRODUCTION
INTRODUCTION

INDUSTRY OVERVIEW

With development of global aviation transportation, the international airline industry has been able to cover almost every country in the world since 1905s. Today the global airline industry consists of over 2000 airlines operating more than 23,000 aircraft, providing service to over 3700 airports.

INDIA'S AIRLINE INDUSTRY

India‘s civil aviation sector is much younger than other modes of transportation, and its market structure has changed frequently over the last few decades. Some features of India‘s civil aviation sector include a large number of consumers (passengers and cargo), a relatively small number of airlines with significant market share, significant cost barriers to market entry, differentiated services, and competitive firms affecting each other‘s business decisions.

In 2010- 11 six major Indian carriers with around 400 aircraft catered to 143 million passengers, including 38 million passengers that originated abroad. In 2010-11, Indian airlines carried approximately 1.6 million tons of air cargo. Further growth of the aviation sector between 2011- 2013 is estimated at 15%.

.**Growth**: Estimated domestic passenger segment growth is at 12% per annum. Anticipated growth for International passenger segment is 7% while the growth for International Cargo is likely to grow at a healthy rate of 12%.

India is currently the ninth largest aviation market in the world, according to a RNCOS report "Indian Aerospace Industry Analysis". Given the strong market fundamentals, it is expected that the civil aviation market will register a compound annual growth rate (CAGR) of more than 16 per cent during 2010-2013. India's domestic air traffic grew at a rate, which is the second highest after Brazil, according to global figures for June 2011, compiled by IATA. The country's domestic traffic grew by 14 per cent in the same period as against Brazil's 15.1 per cent.India is expected to cross the 450 million mark of domestic passengers by 2020. During the last two decades from a fleet of only about 100, the scheduled operators now have reached 435 aircrafts connecting the nation and the world.

Private carriers are anticipated to post a combined profit of US$ 350–US$ 400 million for the fiscal years 2012-13, as reported by Centre for Asia Pacific Aviation (CAPA) India, in its 2012- 13 - Aviation Industry outlook. Domestic capacity is also projected to grow by 13-14 per cent for the assessment period.

AIRLINE MERGERS & ACQUISITIONS

Airlines consider mergers and acquisitions as a means to increase their profitability and financial viability, but at the same time they must consider the operational and regulatory challenges to consummating a combination. Intended financial benefits stem from both cost reductions and increased revenues.

MAJOR MERGERS IN INDIAN AVIATION SECTOR

. Jet Airways and Sahara Airlines,Air India and Indian Airline and Kingfisher Airlines-Air Deccan

Study Sample :KINGFISHER AND AIR DECCAN

Kingfisher Airlines

Kingfisher Airlines is a private airline based in Bangalore, India. In 2010, it holded the status of India's largest domestic airline, providing world-class facilities to its customers. Owned by Vijay Mallya of United Beverages Group, Kingfisher Airlines started its operations on May 9, 2005, with a fleet of 4 brand new Airbus - A320, a flight from Mumbai to Delhi to start with. The airline operated on domestic as well as international routes, covering a number of major cities, both in and outside India. In a short span of time, Kingfisher Airlines had carved a niche for itself in the civil aviation industry.

Kingfisher was engaged earlier in the following businesses:

Scheduled Air Transport Services Commercial Airline Business	Ground handling services	Training academy

Merger Motive

Vijay Mallaya had a vision. His successful Kingfisher Airlines had completed a merger agreement with low cost carrier airlines Deccan Aviation on May, 2007. With this deal he planned to become the dominant low cost carrier in the country.

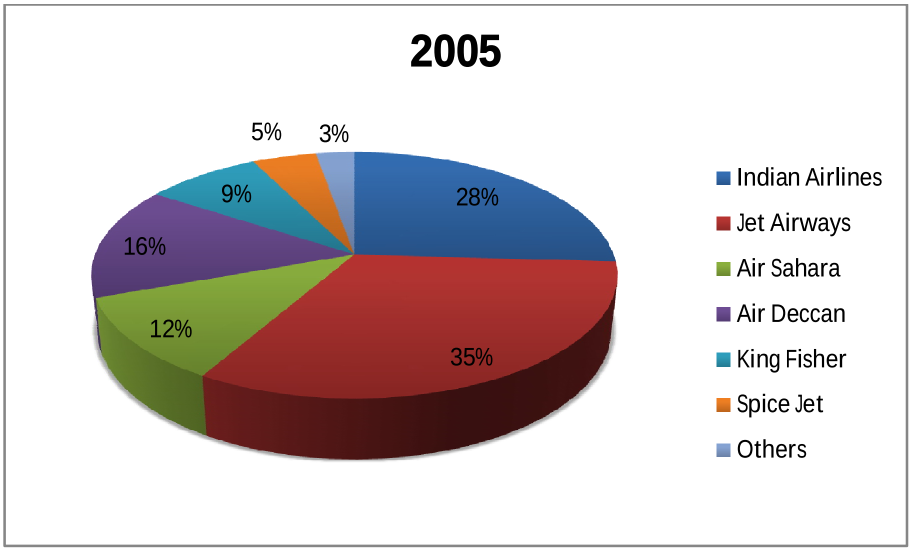
Deccan Aviation Limited

Deccan Aviation, promoted by Capt. G.R. Gopinath, Capt. K.J. Samuel and Capt. Vishnu Singh Rawal, was initially incorporated as a private limited company on June 15, 1995 in Karnataka with the main objective of pursuing chartered aviation services both for commercial and non-commercial purposes in India and to provide all aviation related services. It was converted into a public limited company in 2005. The company’s vision was “To empower every Indian to Fly” and its mission “To demystify air travel in India by providing reliable low cost and safe travel to the common man by constantly driving down the air fares as an ongoing mission”. As is evident from their mission statement, the strategy was to garner market penetration through cost reduction.

Deccan was engaged earlier in the following businesses:

Scheduled Air Transport Services Scheduled Air Transport Services Commercial Airline Business	Non -Scheduled Air Transport Services Scheduled Air Transport Services Charter Services Operations

Market Share Data (2005)



Market Share of combined entity was 25% in 2007. Market share of Kingfisher on July 2009 reduced to 19%.

Kingfisher & Air Deccan Merger – Key Features

- On 1st June 2007, the Board of Air Deccan approved the allotment of equity share of 26% to UB group & its nominees. The shares were allotted at Rs.155 per share approximately a 10% premium for the current market price (CMP). The UB group made the money in two phases: Rs.150 Crore as initial investment & Rs396 Crore at the on or before the end of June.
- Once the investment process was complete, the UB group will became the single largest shareholder in the Deccan Aviation ltd.
- UB group made an open offer to acquire minimum 20% to all shareholders of Deccan aviation at a price of Rs.155.
- The Kingfisher-Air Deccan group was supposed be the largest domestic airline with a fleet of 71 aircraft including 41 Airbus aircraft and 30 ATR aircraft. This combined airline powerhouse was to cover all segments of air travel from low fares to premium fares and offer the maximum number of 537 daily flights covering the single largest network in India connecting 69 cities whilst taking advantage of unparalleled synergy benefits arising from a common fleet of aircraft.
- For the near future, it was decided Kingfisher will continue to serve the corporate and business travel segment while Air Deccan will focus on serving the low fare segment but with improved financial prospects for both carriers.
- Kingfisher Airlines and Air Deccan would have, henceforth, work very closely together to exploit the significant synergies that exist in the areas of operations and maintenance, ground handling, vastly increased connectivity, feeder services, distribution penetration etc.

Kingfisher & Air Deccan- Merger Advantage

- The fresh equity capital allowed the Deccan to pay the loans & to fund various infrastructure projects.
- Reduction of cost by sharing infrastructure.
- The merger ensured that Kingfisher does not need to invest more in infrastructure or in spare planes, thereby reducing costs and increasing profitability.
- The combined share of the two carriers will increase the Market share.
- As per the existing laws Kingfisher Airlines would have not be able to operate on international routes until 2010. However Air Deccan was eligible from the second half of next year as its five-year ceiling is coming to an end.

Kingfisher & Air Deccan- Synergies

Operational Synergies

- Kingfisher and Air Deccan have exactly the same fleet of aircraft, the same equipment in terms of engine, in terms of brakes and in terms of avionics. This provided a huge opportunity on saving in engineering and maintenance cost.
- The airlines were to achieve perfect synergies in the backend (operations and maintenance, ground handling, vastly increased connectivity, feeder services, distribution penetration) while preserving the front-end and that would have enable both Deccan and Kingfisher to be profitable.
- Apart from ground handling synergies, there is a whole host of items where duplication is completely unnecessary and can now be avoided.

Infrastructure Synergies

- Kingfisher and Air Deccan was able to access ground infrastructure at 65 airports, of which more than 28 are common to both the set ups.
- The new entity had over 71 aircraft.

Route Synergy

- On the most lucrative of routes, New Delhi-Mumbai, that on its own accounted for more than half of India's 33 million passenger traffic, the two carriers now accounted for a total of 155 flights.
- According to Dr.Mallya kingfisher considered swapping or switching in coordination with each other to rationalize the fleet structure.

Investment synergy

- Both airlines had orders for about 90 aircraft placed with European aircraft major, Airbus Industries.
- Kingfisher had placed orders for new aircrafts at higher prices as compared to Air Deccan. The alliance with Air Deccan may provide it the opportunity to renegotiate its rates with the manufactures thereby saving substantially.

Issues

1. Glamour of the airlines: No industry other than film-making industry is as glamorous as the airlines. Airline tycoons from the last century, like J. R. D. Tata and Howard Hughes, and Sir Richard Branson and Dr. Vijaya Mallya today, have been idolized. Airlines have an aura of glamour around them, and high net worth individuals can always toy with the idea of owning an airline. All the above factors seem to have resulted in a "me too" rush to launch domestic airlines in India.

2. Objectivity: Pricing Pressure exerted by other low cast carriers (LCC).

3. Declining yields: LCCs and other entrants together commanded a market share of around 46%. Legacy carriers are being forced to match LCC fares, during a time of escalating costs. Increasing growth prospects have attracted & are likely to attract more players, which lead to more competition. All this has resulted in lower returns for all operators.

3. LITERATURE REVIEW

1.Agrawal Anup, Jeffe Jeffrey F.(1999), in their article “The Post-merger Performance Puzzle”, examines the literature on long-run abnormal returns following mergers. The paper also examines explanations for any findings of under- performance following mergers. We conclude that the evidence does not support the conjecture that under- performance is specifically due to a slow adjustment to merger news. We convincingly reject the EPS myopia hypothesis, i.e. the hypothesis that the market initially overvalues acquirers if the acquisition increases EPS, ultimately leading to long-run under-performance.

2. Saple V. (2000) in his research thesis on “Diversification, Mergers and their Effect on Firm Performance: A Study of the Indian Corporate Sector”, finds that the target firms were better than industry averages while the acquiring firms had lower than industry average profitability. Overall, acquirers were high growth firms which had improved the performance over the years prior to the merger and had a higher liquidity

3.Ramaswamy and Waegelein (2003) in their article, “Firm Financial Performance Following Mergers,” studied the post-merger financial performance of 162 merging firms that occurred during 1975-1990 in the US. They used industry- adjusted operating cash flow returns on market value of assets as the measure of performance & used only firms that had not gone in for any merger during the study period as part of their control sample, since they felt that only that would make the data incorruptible and the results more robust. The study found a significant increase of 12.7 per cent in firm performance after the merger had taken place.

4. Ahmed Dr. Salma & Yasser Mahfooz (2009) in their case study paper, “Consolidation in the Sky - A Case Study on the Quest for Supremacy between Jetlite and Kingfisher Airlines”, did an attempt to descriptively analyse the rationale for consolidation in the Indian airline industry. The paper also evaluates major changes in the business environment affecting the airline industry.

5. Sinha Dr. Neena,Kausik Dr. K.P. & Chaudhary Miscma (2010) in their research article on "Measuring Post Merger and Acquisition Performance: An Investigation of Select Financial Sector Organizations in India", examines the impact of mergers and acquisitions on the financial efficiency of the selected financial institutions in India. The analysis consists of two stages.

Firstly, by using the ratio analysis approach, we calculate the change in the position of the companies during the period 2000-2008. Secondly, we examine changes in the efficiency of the companies during the pre and post-merger periods by using nonparametric Wilcoxon signed rank test. The result of the study indicate that M&A cases in India show a significant correlation between financial performance and the M&A deal, in the long run, and the acquiring firms were able to generate value.

6. Leepsa N.M. & Mishra Chandra Sekhar (2012) in their research paper on "Post Merger Financial Performance: A Study with Reference to Select Manufacturing Companies in India", intends to study the trend in merger and acquisition (M&A) particularly with reference to manufacturing companies. The present study is an attempt to find out the difference in post-merger performance compared with pre-merger in terms of profitability, liquidity and solvency.

7.Mantravadi Pramode and Reddy Vidyadhar,(2007), "Relative size in Mergers and Operating Performance" they explains that This research study aims to study the impact of m & A on the operating performance of acquiring corporate in different periods in India, by examining some pre and post merger financial ratios with chosen sample firms and mergers between 1991-2003. The result suggests that there are minor variations in terms of impact on operating performance following merger in different intervals of time in India.

8. Kumar (2009), "Post-Merger Corporate Performance: an Indian Perspective", examined the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. The study attempts to identify synergies, if any, resulting from mergers. The study uses accounting data to examine merger related gains to the acquiring firms. It was found that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, show no improvement when compared with pre- merger values.

9. Canagavally R.(2000); "An Analysis of Mergers and Acquisitions" they measures the performance in terms of size, growth, profitability and risk of the companies before and after merger. The dissertation also investigates the share prices of sample companies in response to the announcement of merger.

OBJECTIVES

1. To study post M&A influence on profitability standards of the surviving company in Indian Airline industry

2. To analyze post M&A effect on leverage standards of the surviving company in Indian

Airline industry

3. To determine post M&A liquidity position of the surviving firm in Indian Airline industry

4. To ascertain post M&A improvement in capital market standards of the surviving company in Indian Airline industry

4. RESEARCH METHODOLOGY & SCOPE

SCOPE OF THE STUDY

The project focuses on Merger & Acquisition activities in Indian context with special reference to Airline Industry/Sector in particular to analyze post-Merger & Acquisition financial performance based on case study methodology of selected two mergers in airline industry.

DATA COLLECTION

The companies involved in Merger & Acquisition in Indian Airline sector from 2005-2012 are compiled from several sources like journals, investment web sites, and web sites of the BSE and NSE. Data on performance evaluation parameters for up to two years prior and two years after the M&A year for each acquiring company in the sample has been extracted from AGM reports & other related data sources.

STATISTICAL TOOLS & TECHNIQUES

To analyze the data Mean and standard deviation were used for descriptive statistics. The data has been analyzed with the help of MS-Excel.

5.Financial DATA Analysis

The merger between Kingfisher Airlines and Air Deccan took place in the year 2006. Hence below analysis has been done two years prior to the merger i.e. during 2004-05 and 2005-06 and two years after the merger i.e. 2007-08 and 2008-09 respectively

Kingfisher Airlines	2004-05	2005-06	2006-07	2007-08	2008-09
Operating Profit Margin	1.3%	21.9%	51.5%	26.5%	10.2%
Gross Operating Margin	4%	24.6%	21%	47.8%	33.9%
Net Profit Margin	6.4%	27.5%	23.6%	13.1%	30.5%
Return on	15.4%	9.8%	7.5%	19.6%	24.4%

Capital Employed					
Return on Net Worth	143%	347.5%	287.4%	129.8%	809%
Debt Equity Ratio	20.8	4.6	6.3	6.4	4.7
EPS	63.0	347.5	31.0	13.9	118.5
P/E	1.9	0.3	4.6	9.6	0.4

From the above ratios it can be seen that before 2008 (Pre- merger) operating profit margin has increased to 14.57 % from 10.23 % .

- The operating profit has increased to 22.33 % , so we called it a successful merger. However, due to recession it has decreased to 10.50 %.
- From the above ratios it can be seen that before 2008 (Pre- merger) Net profit margin has decreased over a period of time. We called it a successful merger. Because net loss margin has decreased .However, due to recession Net loss margin increased to (30.53) %.

- The figure of net worth has increased to 384.7 crores which was decreased after merger and due to the recession time it has decreased to (2125.34) crores and debt to equity ratio has come closer to 2.66:1 which is near to ideal ratios.
- To sum up, It was indeed a good deal Here, no of shares has increased which directly affected the EPS of the company which resulted in to loss of the company in terms of per share of (72.33).

Above ratios depicts that there is direct relationship between market price and EPS as both figures were decreasing which resulted in to negative price to earnings ratio. Return on net worth has increased to 75.7 % which attracts the investors to continue with the company and new investors to put their money in company's equity. From the above ration efficiency and profitability of a company's capital investments has determined which is fluctuated over a period of time. It was 10.62 % in June 2006 which comes to 63.54 %. So , there is overall increased in return on capital employed .ROCE as currently defined is erroneous and capable of misleading investors and other interested parties on the performance of an enterprise.

Test for Profitability Ratios of KFA Ltd

Ratios	Mean		Std Deviation		Mean Difference
	Pre	Post	Pre	Post	
GPM	-19.07	7.49	6.38	6.21	-26.56
NPM	-17.7	-24.02	7.37	11.35	6.31
ROA/ ROI	19.48	-114.5	9.61	58.7	133.98

ROE	-109.18	33.99	0.16	8.08	-143.17
ROCE	-24.43	13.04	4.53	12.28	-37.47

1. Profitability ratios reflect the KFA's capability to deliver luxury air travel service at a high cost. All profitability ratios have declined post-merger, demonstrating negative impact of operating performance, inefficient management policies and lower yield.

2. Post-acquisition mean value of GPM has improved indicating management's control over the COGS and favorable purchasing policies. Major contributing factor for positive gross profit is attributed to route rationalization and commencement of international flights.
3. During past five years Indian airline industry had witnessed major downturn on account of global economic crisis, lower passenger count, rising fuel prices, fluctuations in foreign exchange rate, all these external environmental factors along with internal environmental factors like non-strategic management decisions, higher overheads & financial charges influenced NPM negatively & resulted in greater losses. Post-merger period KFA had shown continual losses that were greater than the reported losses of pre-merger period losses.
4. Post-acquisition mean value of ROA/ROI indicates erosion in shareholders' funds by bad management policies and intense competition in airline industry. KFA did not utilize its assets to the best extent to generate higher sales revenue in spite of increased fleetsize.
5. Post-acquisition mean value of ROE has been positive which reflects greater reserves accumulation. Improved performance nullified previous losses and safeguarded shareholders' value.
6. The analysis reveals the negative relationship between profits actually earned and capital actually employed. ROCE had shown both negative & positive returns over the years due to non-strategic investment decisions. Management team has able to provide minimum return on capital employed on account of sound financial investment decisions. Though leading financial institutions downgraded KFA's creditworthiness on the basis of rising debt component in capital structure over the years assuming the possibility of financial risks.

Test for Financial Leverage standards of KFA Ltd

Ratios	Mean		Std Deviation		Mean Difference
	Pre	Post	Pre	Post	
Debt to equity	6.82	8.9	0.08	3.09	-2.08

Capitalization	0.76	1.84	0.08	0.18	-1.08

1. Post-merger D/E ratio has increased indicating the higher leverage policy employed by KFA instead of infusing more equity funds in its capital structure. KFA accessed capital markets for fund raising purpose from public at large. The raised equity capital is devoted for long-term investment purposes and acquisition of capital assets. Thus, in order to fulfill working capital needs, KFA had borrowed loan from leading Indian banks & financial institutions on short-term basis. Over the years the debt amount had increased on account of inefficient borrowing policies and at the same time low operating probability contributed limited funds to service the debt and amortization of the same. The analysis indicates that the claims of lenders are more than the equity shareholders' and their interests are not safe & they have to bear the probable future losses.
2. Over the years total capitalization had shown increasing trend on account of more debt addition to the capital structure. The proportion of debt is high compared to equity funds reflecting use of over leveraging to fund the business operations. Post-acquisition KFA had incurred losses & unable to create enough reserves for future investment purposes. To fulfill operating activities and strategic plans KFA had dependent on debt financing as a result it is leading to debt trap wherein future earnings are not enough to meet the obligations and there is a likely possibility of default.

Test for Liquidity Standards of KFA Ltd

Ratios	Mean		Std Deviation		Mean Difference
	Pre	Post	Pre	Post	
Current Ratio	1.37	0.86	0.42	0.14	0.51
Acid-Test Ratio	1.58	0.79	0.56	0.11	0.79
Interest Coverage	32.64	0.58	41.97	1.33	32.06

1. Post-merger current ratio decreased by 35% indicating scarcity of resources to pay its debts over the short-term period and difficulty meeting current obligations. Over the year's relative increase in current liabilities is greater than the addition in current assets on account of rising financial charges, creditors payments etc.
2. A falling acid-test ratio indicates worsening liquidity positions of KFA and failure to

meet immediate current liabilities. It is also observed that acid-test ratio is much lesser than the current ratio suggesting current assets are highly dependent on inventory & sundry debtors.

3. Over the years interest coverage had shown declining trend and KFA's inability to honor its debt payments due to negative operating profit margin reported over.

Test for Capital Market Ratios of KFA Ltd

Ratios	Mean		Std Deviation		Mean Difference
	Pre	Post	Pre	Post	
EPS	22.41	-41.3	12.106	29.211	18.89
Price/Earnings Ratio	-2.46	-0.7	0.014	0.382	-1.76
Price-to-Book Ratio	8.97	2.06	10.324	1.471	6.91
Market Value	2150	1912.5	315.37	767.21	237.5

1. Post-acquisition EPS had indicated a negative trend due to continual losses incurred by the KFA since its inception. Management team failed to provide bare minimum profit to equity holders. Unfortunately, KFA's equity shareholders' have lost their funds. Decline in EPS is attributed to higher operating expenses increasing interest payments, proportionate decrease in sales revenue on account of inefficient management practices and intense competition.
2. Over the years P/E ratio has indicated a negative trend reflecting lower price paid by the investors for reported low EPS. Investors' expectations and market appraisal has been violated by KFA on account of deteriorating profitability. During past five years KFA did not reported any dividend payments which further worsened investors' confidence.
3. Post acquisition P/B ratio had declined but it did not support the concept of Fama and French, low P/B ratio results in higher equity returns. This contradictory outcome is attributed to decline in market price of equity share due to deteriorated investors' confidence in KFA's future performance & quality of earnings.
4. Post-acquisition market value had deteriorated by 11% and KFA eroded investor's wealth year-on-year basis. Investors' have lost their confidence in KFA's future earning quality and market analyst have given sell signal in order to recover.

Critical Analysis: Kingfisher Airlines-Deccan: Not as easy as it sounded

The Kingfisher Airlines acquisition of Air Deccan is another case of underestimating the challenges of merging two carriers. It is a venture that has proved to be costly. Removing Air Deccan as an independent operator took out the airline that was most responsible for the irrational fares in the market place and, to this extent, it restored some pricing discipline which advantaged the entire industry.

Any Indian airline requires five years of domestic flying experience and a fleet of 20 aircraft to get permission to fly international. Kingfisher Airlines was only two years old in 2007, when it acquired over four-year-old Air Deccan. The objective of the acquisitions made by Indian carriers has been just to acquire market share and not to create a big merged entity that could share each other abilities to expand further. Kingfisher Airlines acquired Air Deccan in 2007 and despite many changes in logo and name ran it as an LCC division of the airline

However, integrating such different carriers (one, a classic low cost airline and the other a 5 star carrier), has proven to be extremely difficult. The huge combined network and distinct in-flight products of the two carriers, has created duplication and confusion about the brand. This has been damaging to Kingfisher, with repercussions for its financial performance. The combined entity has a large network and diverse operations that are proving to be hard to manage and consequently in 2011, kingfisher announced to call off its low-cost operations.

6.CONCLUSION

Kingfisher Airlines announcement to discontinue with Red, its low-cost wing formed after merging with Air Deccan, raises the question on the success of mergers of aviation companies in the country. Analysts say mergers by India's airlines have not been successful so far because of their objectives: it's to either kill competition or acquire flying rights to fly international. Some also say the Indian aviation did not see any mergers, it was outright acquisitions and the company that was acquired lost its identity.

The aviation industry in India is growing at 20 per cent per annum, making it one of the largest in the world. Six major Indian carriers with around 400 aircraft catered to 143 million passengers, including 38 million international, in 2010-11. Out of the 38 million international passengers, Indian carriers flew 35 per cent of them in 2010-11. Attempts by full-service carriers to run two different kinds of services (both full service and low cost) within the same airline also created serious problems, as there is a lot of difference in the costs, the turnaround time of aircraft, the training modules and the distribution models. But this consolidation, aimed at creating a more viable business model, took place against the background of an industry that was beginning to exhibit the first signs of distress.

The bullish fleet orders placed by Indian carriers saw capacity being introduced at the rate of 6 to 6.5 aircraft a month, whereas the actual growth in demand was closer to 3 aircraft equivalents. Aside from the mis-match between supply and demand, the rate of growth was simply too great for the industry to handle from a management and capital perspective. In a fragmented market, with multiple start-ups chasing market share, loss-leader pricing was widespread and Air Deccan in particular was responsible for setting fares well below cost as it fought to retain its first mover market share.

The rapid increase in capacity at a time when the airport modernization program was yet to deliver upgraded infrastructure, meant that airports and airways were highly congested, increasing airline operating costs. With the inadequate surface access and airport (and airways) infrastructure, airlines were unable to secure a significant competitive edge over other means of travel, thereby excluding huge parts of the still-untapped leisure market. In a period of global boom, demand for skilled personnel such as pilots and engineers also outstripped supply leading to a sharp escalation in wages, and in some cases grounding of aircraft due a shortage of staff. Balance sheets were stretched as a result of the aggressive fleet induction programs, combined with the mounting operational losses. These early signs of growing pains were largely ignored and airlines continued to pursue aggressive but unachievable growth strategies. The flaws in this approach were exposed by the astronomical fuel prices in 2008 which created an impossible operating environment, not only for Indian airlines, but for the entire global industry.

Indian aviation is re-shaping itself for survival. The Indian Airlines-Air India merger, the Kingfisher-Deccan merger and the acquisition of Air Sahara by Jet airways has set the ball rolling for further M&A activities in this sector. LCCs such as IndiGo and SpiceJet have significant capital requirements and will need further flows of funding. The next round of consolidation is therefore most likely to occur in the LCC sector, especially as the full service carriers do not have the balance sheets to engage in further acquisitions.

The result of financial shows that there is insignificant improvement in return on equity, expenses to income, earning per share and dividend per share post-merger. The result from ratio analysis illustrated that there is no significance difference in the defined financial performance standards between pre-merger and post-merger. Hence there are no significant improvements in surviving company's performance post-merger and acquisition and reject the alternative situation which considers that there is significance improvement in surviving company's performance post-merger and acquisition activity for the sample under consideration.

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