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Acquisition of Lafarge Pakistan by Bestway Cement

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Abstract:

This research paper examines the acquisition of Lafarge group by Bestway cement, which happens to be market leader in cement industry of Pakistan. What were the reasons behind the takeover of a multinational group by the largest player and whether it would be successful in the long run? Also, what caused an internationally reputed player to surrender its market after years of doing business in Pakistan? We'll also examine what requires an acquisition to be successful and what are the blunders which lead to failure. In this regard, emphasis will be kept on cement industry.

An interview with the focal person, who was in the team which oversaw the takeover is conducted and it's encrypts are included in the appendix section. Secondary research is also incorporated in the paper but most of the data was acquired from the Bestway. The results of the research will be compared with the past literature and in the light of that research it would be concluded whether the deal done by Bestway will be beneficial or not.

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Introduction:

Bestway Cement Profile:

Bestway group is a multinational conglomerate operating in UK and Pakistan. It operates in multiple business sectors including, cement, wholesale, pharmacy, real estate and banking. In 2002, it became the second largest shareholder of United Bank Limited (UBL) in Pakistan. Recently, it has also decided to venture in to power generation sector in Pakistan thus further diversifying its operation in the country. It is the second largest cement producer in Pakistan and thus its name is mostly related with cement business in Pakistan. It initially started by setting up one cement in Hattar, KP in 1994 and then in the last decade it set up two more plants in Chakwal, Punjab due to high market demand.

(Bestway, 2016)

Lafarge Pakistan Profile:

Lafarge is a French based company specializing in making three products namely; cement, construction aggregates and concrete. It employs 64000 people present in 62 operating countries and boasts itself as the world leader in building materials. But in April 2015, it was announced that its 87% of the shares are acquired by the Bestway cement thus asserting its full management control. Lafarge Pakistan was renamed as Pakcem, a subsidiary of Bestway cement. Bestway made successful bid of first 75% of the shares for $329million and the rest of the 12% through public offers. After acquiring Lafarge's Chakwal cement plant, Bestway was poised to become the largest producer of cement in the country with more than 8miilion ton yearly production representing 18% of the entire industry's capacity in the country.

(Today, 2015)

Literature Review:

(Xin Chang, 2016) Examines the roles of financial advisors, the information gathered before moving on with takeover from the target firm's previous advisors. Before going through the deal or making up a contract they bargain on terms drafted after hearing from ex-advisors thus bringing an added advantage to the hiring firm. It is documented in their paper that by employing ex-advisor, acquirers pay lower takeover premiums and secure a larger proportion of merger synergies. It is also said that the informational role of acquirer's ex-advisors hired by targets is weaker than that of target's ex-advisors hired by acquirers.

(Png, 1989) Discusses a model of corporate acquisitions in which how bidders try to cut through the competition while making a potential bid. They talk about two contrasting model; the auction model and the basic model. Under the auction model, the first puts up a premium price only to cut the competing bidder's bid. While under the basic model, the bidder is allowed at most one bid, the first bidder will bid at a premium when accommodating investigation in order to increase the likelihood that the second bidder will draw a valuation below the first bid. Study indicates that if more than one potential bidder enters the fray and the costly bidding ensues, then competitive bidding occurs, giving the target deal a much fairer price.

(Haleblian, 2002) Explores the positive and negative transfer effects in organization acquisitions. Transfer effect is defined as the influence of a prior event on the performance of as subsequent event. The collected data from 96 organization which had mergers in the past, and it shows that successful acquisitions are consistent with positive transfer of industry knowledge. Likewise, consistent with theory on negative transfer of past acquisition knowledge, second acquisitions underperform first acquisition, especially when the targets are from different industries. The findings also shows that the positive or negative transfer effect is depended on the similarity of industrial environment. A bank

going for an acquisition of a steel plant is going to have a negative transfer effect, while if it goes for a bank then it is most likely to have a positive transfer effect.

(Gerry M. McNamara, Feb.2008) It assess the advantages of moving early in the acquisition process rather than joining it later, which they call as bandwagon effects. During the research they found that for early movers acquisition performance is higher but lower for acquirers who just hop on during an acquisition wave in the industry. Early mover advantage along with the type of industry and characteristics of acquirer also effect the amount to which firms gain early mover advantage. Study also reveals some practical implications for managers. The results demonstrate that early acquirers within an industry acquisition wave outperform later acquirers, suggesting that even the managerial staff of the firm isn't either thrilled by moving on late during the acquisition wave. Managers thus try to block the firm's idea of going for a takeover, once they understand that an industrial acquisition wave is underway.

(Park, 2003) It has been proven that related diversification is more cost-effective plus this diversification is more related to lucrative industries than unrelated diversification. But, the relationship between firm profitability and industry profitability has been ambiguous. This study, by focusing on a single event of large acquisition helps us in clearing this ambiguity. It finds that related acquirers were more profitable in their industries than unrelated acquirers, prior to acquisition. Second, related acquirers were in more profitable industries than unrelated acquirers, prior to acquisition. Thus, it proves that firm profitability and industry profitability have a positive effect on each other.

(Yook, 2004) This author examines post acquisition performance of acquiring by measuring their Economic Value Addition (EVA). Going through largest 75 acquisition in the 1990s it reveals that acquiring firms EVA deteriorate after completion of acquisitions. Although, when the industries are taken in context than the difference between EVA almost diminishes. This proves that decline in EVA is because of industrial effects which vary from industry to industry. Traditional accounting rate of returns and profitability measures were not used for this study because the ignore capital costs and can even unknowingly manipulate data. The results concluded that EVA is down because of industry effects, which reinforces the view that industries experiencing relatively poor

operating performance will get a hit. Even if acquiring firms show improved EVA's this doesn't necessarily translate into huge profits because this effect is nullified when the acquiring firm huge amount of premiums to the target firm.

(Jordan, 1988) This paper sheds light on merger and acquisitions in airline industry, the American and Canadian industries case in point. It is argued that airline mangers incur substantial problems while going through acquisitions, resulting in dwindling profits and lower traffic volume. It nullifies a popular opinion that acquisitions automatically translate into increased market power. Another major finding is that costs continue to increase following the merger if layoffs are not done at different points in time shortly after the acquisition. Human resource has to be cut down in order to enjoy the full benefits of acquisition. In comparison to the firms which didn't go through merger or acquisition enjoy a significant cost advantage which leads to low fares thus increasing demand for tickets, though market share might not increase substantially in the long run as compared to merged firms.

(Sandro Brusco, 2007) This study uses a mechanism design approach to study how private information impacts the overall efficiency of mergers and acquisitions. A situation is presented wherein a single target firm has to face many potential bidders, with all the firms hiding some private information about their own values and what will be their contribution in case of a merger. The main finding in this paper is that when all firms are uncertain about the efficiency of merging, the best bid might not be even executed. Liquidity of the acquiring firms also matters, which ascertain whether they'll be able to actually be able buy it.

(Shick, 1972) He discusses if the merger and acquisitions increase the return on investment for shareholders of acquiring firms or not. Equation is made to determine the return produced by acquisition. Historical literature is also studied in the light of the equation. The companies which are used as test case in this are from chemical industry. The two case which were used to study this model, one provided merger benefits while the other was a failure. It basically proved that the results of merger or acquisition are immediate and fairly constant. The first quarter results of the company after the acquisition is enough to determine the outcome. If the market gives a positive outlook

only in the first quarter following acquisition, then it is enough evidence to conclude that the acquisition was the right decision and it has been successful.

(MARIAPPAN, 2003) Discusses the human issues and strategies which affect the firm after a merger or acquisition. Global studies have indicated that cultural mismatch is the foremost barrier to successful integration. Organizational cultre has been identified as the greatest problem post mergers/acquisitions. Culture of a company provides meaning and direction to the firm and influences strategy and and overall management behavior. Before going ahead with acquisition, a cultural diagnosis of both the organization is necessary to fully understand the implications. Especially, the employees of the firm which is being acquired, they need to be counselled so there aren't much surprises for them. There are many perceived uncertainties present in the minds of the employees which needs to be addressed. Otherwise, there are numerous examples where there has been hostility and distrust towards the acquiring firm by the previous company's employees. This negative attitudes reduces the commitment of members to successful integration of the organizations and the extent to which they are willing to cooperate with the organization. The management of human resources, if done smoothly can help the organization and its employees in settling down quickly which in turn helps the firm in planning out a well though-out and coherent strategy to take the firm forward.

(Wallace N. Davidson III, 1989) This study tells that when a merger is terminated by the target, target firm cumulative abnormal returns remain positive and above pre-merger announcement levels. When the acquiring firm cancels its bid, the target firm's prices return back to pre-bid stage. But, the market prices of target shares does not return to pre-offer levels for cancelled tender offer. This is due to shareholders anticipation of a succeeding tender offer. While, the merger which are cancelled by other than the two negotiating parties, there isn't any share revaluation because of no subsequent mergers. The results of the study also point out that bidders generally do not gain from merger that collapse. They also indicate that target firm cancellation seems to have different value effects from bidder firm cancellation.

(Luo, 2005) It points out to the fact that market's reaction to acquisition tells us beforehand whether the deal will be successful or not. If the market reaction the deal is positive, it means it going to be successful but if its negatives, it means it won't last long. It has found that market reaction and fate of the acquisition are correlated. Merging firms also try to decipher the market reaction when going through the bidding process and later use that information when closing the deal. Moreover, the relation between market reaction and successful/unsuccessful merger varies with the deal characteristics. The companies also react to market differently and in a predictable manner. Deal completion decision is more susceptible to market opinion when the companies are not from high-tech industries or the bidder is small or midsized firm. Small or midsized bidders don't have the resources or time to do the valuation of the deal as compared to the market so they take the market's word very seriously.

(Martin, 2016) This articles argues that companies which tend to put emphasis on what they are going to get out of an acquisition are less likely to succeed in comparison to those which know what they have to give it. This conclusion is based upon past very famous merger or acquisition cases like the NeXT's takeover by Apple or Android's acquisition by Google. There are four ways discussed which helps in improving competitiveness of the target firm. First is by creating value by being a smart provider of growth capital. Buying a small start and fund their growth which helps the acquiring company's business in the long run. Second, it is to provide the acquired firm with a vision, better organizational and managerial skills. Third, the performance can be improved by transferring value skill set to the firm and its employees which may provide them with a competitive advantage. The acquired company business should be known very well to the parent company and their employees should be welcomed to the new management to make sure that this skills are acquired by them. Fourth and the last way is for the acquirer to share capability of an asset. The acquiring company's asset, customers, machinery or even highly equipped and experienced personnel are available to the acquired firm's employees.

(Marc Goedhart, 2010) This article argues that basically there are five archetypes of a successful acquisition. All of these five archetypes have to be fulfilled otherwise the acquisition won't create value and the perfect synergy. First, is to improve acquired company's performance, which can be by increasing its revenue through decreasing cost and improve cash flows. Second is to consolidate to remove excess capacity from the industry. Third is by providing more market access to the target firm's products or services. Acquiring company own customer base can be shared or new avenues created which previously it couldn't which may be due to financial constraints. Fourth is to get skills transferred but also at a lower cost. And lastly, an acquiring company should go for the dark horse while buying a company in a new industry. By making acquisition early in the lifecycle of a new industry or product line, long before most other recognize that it will grow significantly. Acquiring of WhatsApp by Facebook is a case in point.

(Meschi, 1997) This paper reviews the theoretical and empirical literature on the causes and consequences of merger. Empirical evidence gathered suggests that mergers are usually unprofitable and only shareholders of the acquired company are to benefit from it. The acquired firms also goes through a rough patch in terms of productivity and profitability. Mergers are also thought to decrease the competition in the market by buying out the smaller firms in the market, thus increasing the chances of oligopoly. This happens mostly in cases of hostile takeovers. The chances of forming an oligopoly in the market is only there where there are high barriers to entry and higher sunk costs like in oil and gas market.

(Achim, 2015) It states that in the recent past, the trend of mergers and acquisition has been quite significant in the developing world. Different country has different characteristics, what could be said of acquisition in a country like US, the same can't be said of India. The laws, the bidding process and market volatility all vary from one country to another. The role of intermediaries in mergers and acquisitions is of high

importance which is often negated during the research on this topic. Accountants, auditors or financial advisors all play an important part in sealing the deal.

Research Methodology:

The research methodology done in this report is almost primary research. Secondary research was carried out with the help of literature present in different journals regarding mergers and acquisitions. Firstly, an interview was conducted with National Sales Manager, Mr. Saud Raja of Bestway cement. He was directly involved in this acquisition right from the start. He walked us through the whole process and explained us the challenges faced by the company and how it has successfully coped with it as it has been more than a year since the acquisition of Lafarge took place.

Primary Research:

Q. Why was Lafarge acquired?

It was a strategic decision to buy Lafarge as demand for cement was growing day by day and our output wasn't enough to cater to the needs of the growing market. Cement is used in all types of infrastructures whether building dams, houses, roads, bridges, underpasses and especially in the past 5years or so we have seen massive growth in housing societies. Instead of setting up a new plant it was in our best interest to go for an operational plant which is in our existing plant's proximity as well. (District, Chakwal). Lafarge has had an established base with its existing products especially Pakcem which was considered to be the premium brand. It's not only used in domestic market but is exported to Afghanistan as well.

Q. What was the market share of Bestway prior to acquisition and now after the acquisition?

Bestway had an 18-20% share of the domestic market before acquiring Lafarge and now it has grown to 25%. All our numbers have increased over the year which includes our capacity, sales, product ranges and dealership. Only by going through the numbers it can be safely concluded that it has a positive effect on our business.

Q. Were other competitor's interest in buying out Lafarge as well?

Yes, Fauji, lucky, DG cement all were very much interest when Lafarge showed its intent of selling out its Pakistan business in 2014. A competitive bidding took place under the laws of Competition Commission of Pakistan and we emerged successful with our highest bid. Lafarge decision to quit came from their headquarters based in France, otherwise they were doing quite well in the Pakistani market. Had it been a dead business no party would had shown intent of buying it.

Q. What was the effect on the organizational culture of Bestway after getting employees from Lafarge?

Initially, when the committees of both the companies were engaged in negotiations, Lafarge wanted Bestway to retain all of its employees thus ensuring their job security. But, obviously we couldn't accommodate all of them so many employees left prior and some were laid off as well. The positive is that we got the best human resource from Lafarge.

There was a cultural shock for employees as they were used to be working for a multinational company, which had everything defined and worked according to the book. Here, there is not much of corporate environment. Not that its bad but the office culture here is more casual. It's not necessary to wear suit or dress formally, in fact most of the times we come to office wearing jeans. Here, the administrative work is lax and a bit slow. With the passage of time, new employees have adapted to these changes.

Q. Why Pakcem (previously Lafarge) is kept as a subsidiary? Why not integrate with bestway?

We have planned to make it an integral part of Bestway and not be kept as a subsidiary. But, the Securities & Exchange Commission of Pakistan (SECP) stipulates that the acquired firm has to be kept as a subsidiary for one year.

Q. Was there any technology transfer that benefited Bestway?

Product range of Lafarge was quite different from Bestway and their plant is also state of the art. They had innovative product ranges like Tiles grout, Extreme bond, premium stallion, Ordinary Portland Cement (OPC) and pre-fabric Stallion which is used in construction purposes. We didn't had the know-how of these products so yes there was transfer of technology. Secondly, Lafarge extracted limestone from Pakistan and after finishing the product it exported to Europe. Furthermore, it also made limestone specialized for Pakistani market.

Q. What are the challenges faced by Bestway after acquiring Lafarge?

The cost of production has increased not only due to increased demand but the factors of production employed by Pakcem for its product ranges are expensive. Administrative costs of Lafarge were previously higher as well which we are trying to bring under control. Budgets for their staff, office employees and other activities were very high of which the Lafarge employees were used to.

Q. what is the future plan of Bestway:

We will be trying to penetrate in the market more aggressively as we are in the process of setting up another 5 plants out of which 2 are in the construction phase. One is located in Cherat, District Attock and second in Hub, near Karachi. We are also exporting our products to Afghanistan and India. We also used to export to Middle East but the economy has slowed down there and we don't have much demand coming in from there. But there is so much happening in Pakistan that we do not care about that much. Industrial zones are being built, massive investments are being made in building infrastructure, and the demand for housing is growing immensely. Motorways and Highways are being built in the country. Only this fiscal year we had a 16% growth in demand for cement which speaks volumes about the future of cement industry. We are the market leader, so we not only intend to retain our top position but to make further inroads in the market.

Secondary Research

We have the interview excerpts, which we can dissect for analysis but it would be better done along with the financial standings of Bestway and Pakcem after the acquisition of the latter. For this purpose, ratios were calculated after the acquisition and before the acquisition so as to give us a clear picture whether the acquisition has been a success story so far.

For Bestway, ratios of two quarters are compared, 3 months ending September 2014 with September 2015 and 9 months ending March 2015 with March 2016. Basically, three types of ratio were calculated namely; operating profitability ratio, internal liquidity ratios and return on investment ratios.

For Pakcem, only one quarter ratios were compared; 3 months ending September 2014 with September 2015. Reason being, 9 months ending March 2015 financial quarter report was not available probably because the acquisition took place in March-April 2015.

NOTE 1: The ratios are calculated from the consolidated financial statements which have financial values of both the parent company and its subsidiaries. Some ratios especially internal liquidity might not give a clear comparison as previously Bestway didn't had any subsidiary and values were of solely Bestway.

NOTE 2: Financial Reports from which the values were used are given in the appendix at the end of this report.

NOTE 3: Ratio's formulas are also given in the appendix

Bestway: 3 months ending September 2014 with September 2015

Operating Profitability Ratios

	30-Sep-14	30-Sep-15
Operating Profit Margin	0.36	0.34
Net Margin	0.249	0.242
Earnings Per Share	2.94	3.88
Gross Margin	0.363	0.396

Starting with the Operating Profit Margin, this ratio takes indicates the profitability of current operations. This ratio seems to have taken a slight dip but drawback of this ratio is that it doesn't takes into account the company's capital and tax structure. Company Capital surely has changed due to acquisition of a Pakcem.

Net Margin again indicates the profitability of a company's operation but after incorporating tax. It is approximately similar as compared to the last year

Earnings per share indicates the company's profit allocated to each outstanding share of a common stock. This appears to have risen significantly, indicating more profitability for stockholders which shows a very positive sign following the acquisition of LaFarge.

Lastly, gross margin indicates the efficiency of operations as well as how products are priced. It shows the average amount of profit considering only sales and the cost of the items sold. This appears to have risen which shows that there has been increase in the efficiency of operation.

Return on Investment Ratios

	30-Sep-14	30-Sep-15
Return on Assets	0.061	0.041
Return on Common Equity	0.0645	0.053

Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. It surely has fallen since the last year but not because its profits have fallen, but due to tremendous rise in the value of assets after the acquisition. Return on Investment does not comes within a year after a company invests hundreds of millions of rupees. It will take a couple of years before this ratio rises above the September 2014 mark.

Same is the case with return on common equity ratio which will take a couple of years to mature. It basically indicates the ability of a firm to generate profits from its shareholders investments in the company.

Internal Liquidity ratios

	30-Sep-14	30-Sep-15
Current Ratio	1.078	1.16
Quick Ratio	0.162	0.526
Cash Ratio	0.047	0.369
Cash flow from Operations	0.375	0.25
Receivable turnover ratio	10155	113
Average Collection Period	0.035days	3.23days
Inventory Turnover Ratio	4.6	0.971
Average number of days in stock	79.3 days	376 days

Current ratio measures the ability of a firm to meet its short term obligations. The higher the ratio the better for the firm. Current ratio has increased over the year which means it has now more liquid assets than previous year to cover for current liabilities if the need arises

Quick Ratio takes into account purely liquid assets excluding the stock and inventory which are used for current ratio. Again higher the number, the better for the company and it has risen for Bestway which is another positive sign

Cash ratio reveals how much cash and marketable securities the company has on hand to pay off its current obligations. Increase in this ratio shows a positive sign

Cash flow from operations provides the same information as current or quick ratio but it’s a better indicator of a company’s ability to pay short term abilities with the cash it produces from current operation. There has been a dip from last year which is due to increase in cash expenses immediately after the merger. Surely, next year’s figure will be improved.

Receivable turnover ratio is an indicator of how much take does the company takes in collecting dues from customers. If this ratio is too high this may indicate that the company does not offer its clients a long enough credit facility and as a result may be losing sales. It has decreased

significantly which means previously company had given too much relaxation to its customers. Getting them quickly is better which now it has achieved.

Average Collection Period provides the same information as receivable turnover ratio except it gives in number of days. It has increased to 3.23 days which is better than 0.035 which means it wasn't even giving enough time to customer to pay them pack.

Inventory Turnover Ratio indicates that the company sells its inventory rapidly and that the inventory does not languish, which means there is less risk that the inventory reported has decreased in value. It has decreased significantly from 4.6 to 0.971 which means it has lots of inventory, thus not a good sign. But this due to acquiring of Lafarge which means their inventory is also included in this calculation. These figures are right after acquisition, meaning they have quadrupled their inventory. Calculations of March 2016 will provide a much clearer picture of the inventory status.

Average number of days in stock provides the same info as inventory turnover except it provides the information in number of days. This has increased from almost 80 days to 376 days, but as stated earlier this due to the acquisition which took place shortly before this period.

Bestway: 3 Months ending 31 march 2015 with 31March 2016

Operating Profitability Ratios

	31-Mar-15	31-Mar-16
Operating Profit Margin	0.394	0.384
Net Margin	0.28	0.28
Earnings Per Share	10.74	15.64
Gross Margin	0.386	0.436

Operating Profit Margin is roughly the same last year indicating the profitability of the current operations which are almost similar.

Net Margin has remained the same which indicates after tax profitability of company's operation has remained same.

Earnings per Share (EPS) has increased significantly which means the company's profit allocated to each outstanding share of common stock has increased.

Gross Margin has also showed very much improvement which indicates that the efficiency of operations of the company has increased post-acquisition

Return on Investment Ratios

	31-Mar-15	31-Mar-16
Return on Assets	0.2	0.2
Return on Common Equity	0.2	0.25

ROA has remained the same indicating the company is almost as profitable relative to its total assets as it was last year

Return on Common Equity has increased that the company's ability to generate profits from its shareholders investments has increased over the year.

Internal Liquidity Ratios

	31-Mar-15	31-Mar-16
Current Ratio	1.23	1.3
Quick Ratio	0.23	0.42
Cash Ratio	0.28	1.71
Cash flow from Operations	1.01	1.56
Receivable turnover ratio	58.5	39.73
Average Collection Period	6.24	9.18
Inventory Turnover Ratio	3.85	4.56
Average number of days in stock	94.8days	80days

Current ratio increased over the year indicating the company's ability to pay off its short term obligations better than last year

Quick Ratio has also increased indicating the company has more liquid assets than previous year.

Cash Ratio has increased tremendously indicating the company cash in hand has multiplied over the year

Cash flow from operations ratio increased from 1 to 1.56 which means its current profitability has increased with respect to Bestway short term obligations.

Receivable turnover ratio has dropped from 58.5 to 39. The high turnover ratio previously indicated that company collects its dues from customer quickly. Decreasing ratio indicates that company is having difficulties collecting its dues from customer. This ratio should be kept steady as its shows company's effective credit policy.

Increased receivable turnover ratio's effect is highlighted in average collection period as well which show an increase in the number of days bestway takes to collect its credit from customer. This has increased from 6 days to 9 days bit but still it's very manageable.

Pakcem: 3 months ending September 2014 with September 2015

Operating Profitability Ratios

	30-Sep-14	30-Sep-15
Gross Margin	0.27	0.3
Operating Profit Margin	0.117	0.216
Net Margin	0.049	0.118
Earnings Per Share	0.26	0.19

Gross Margin has increased indicating the increase in the efficiency of operations

Operating Profit Margin too has increased even with the change in company's capital.

Net Margin too indicates the profitability of a company's operation which too have increased.

Earnings per share has decreased because the company was acquired and made a subsidiary of Bestway, so the portion of a company's profit allocated to each outstanding share of common stock has decreased. Still considering that it has been acquired, EPS still did not fell quite sharply

Return on Investment Ratios

	30-Sep-14	30-Sep-15
Return on Assets	0.046	0.04
Return on Common Equity	0.069	0.02

ROA has decreased slightly over the past year indicating that its profit fell slightly compared to its total assets.

Return on Common Equity has decreased sharply because many of the shareholders pulled out of the stock because of the uncertainty about the company after its been acquired/

Internal Liquidity Ratios

	30-Sep-14	30-Sep-15
Current Ratio	0.718	1.25
Quick Ratio	0.174	0.53
Cash Ratio	0.036	0.05
Cash flow from Operations	0.188	0.093
Receivable turnover ratio	91.8	5.3
Average Collection Period	3.97	68.9
Inventory Turnover Ratio	5.26	1.46
Average number of days in stock	69.4 days	250days

Current Ratio increased meaning its current assets have increased significantly as compared to current liabilities. Below 1 is considered to be very poor because that means for every $1 liability the company has less than $1 which is very unhealthy for the company's operations.

Quick Ratio increased almost three folds which again is appositive sign.

Cash Ratio has also increased indicating that the company's cash in hand has increased.

Cash flow from operations though has decreased which means its ability to pay off current liabilities form current profits has decreased.

Receivable turnover ratio has dropped suggestively 91 to 8 meaning customers are taking more time to repay their debts. But these figures are not the true indicators because these are taken from consolidated financial statements which has taken in to accounts sales of Bestway as well. By next year the figures will be clearer as now they are quite speculative

Average collection period highlights the same trend in days

Inventory turnover ratio has decreased meaning the stock is languishing more time in the factory. But again these figures coming from consolidated financial statements have figures of Bestway and Pakcem combined and comparing them with last year independent Lafarge is harsh

Average number of days in stock have also increased owing to lower inventory turnover ratio.

FINDINGS:

The basic purpose of this study was to highlight whether the acquisition of Lafarge by Bestway has been successful or not. In this aspect, the author considered two options of primary and secondary research. An interview with National Sales Manager of Bestway was conducted in Rawalpindi office, who according to best of his ability shared the details and his views on the merger. As the author was not being given any documents related to the merger, it was necessary to have an opinion of a person who was directly related with this acquisition. The reports before the acquisition and after the acquisition provided financial numbers to ascertain about the success of the deal.

After conducting both the primary and secondary research, it can be safe to say that the merger has been very much successful and benefited Bestway immensely. Only if the annual reports of last fiscal year had been available the ratios like the inventory turnover, which at present shows a negativity post-acquisition, would have been showing the number favoring the acquisition. Still, apart from a couple of ration, especially the operating profitability and other internal liquidity ratios show tremendous improvement.

Market demand for Bestway products is increasing in double digits and it is setting up multiple plants shows the confidence of Bestway and obviously the acquisition has been a success story otherwise they would have been slowing down their construction of plants. It also proves that Bestway has a considerable financial muscle.

This deal too justifies that acquisition of companies especially belonging to same market are successful and integrates within a short span of time.

Recommendations:

Bestway has acquired Lafarge only last year for $329 million. They are setting up 5 plants of which 2 are in construction. Their administrative costs have gone up after acquiring Lafarge. So, they need to proceed with caution as they are spending huge amounts of money on creating very expensive assets in a relatively short span of time. Bestway has never acquired or built a plant since 2004, keeping this is mind they are proceeding aggressively. If market slows down and demand fall, it will keep a huge cash strap for Bestway.

After the financial budget 2016 when government imposed a capital gains tax on properties, real estate market has almost but crashed. It will also impact Bestway market growth and demand. They need to pursue other avenues like start exporting to Middle East and Central Asia again.

Bestway needs to increase its customer base in Sindh and South Punjab where they are lagging behind. Having a solid customer base in only one region increases the pressure on the company as a whole.

Bestway should look to tap the mega projects like highway and motorways which are in full throttle nowadays. They already do provide cement to them but make sure to increase the share as these are the highest revenue generating market. Other firms like fauji, lucky and DG cement all are vying to become the supplier or one of the supplier for these projects.

After the passage of 2 years, Bestway will remove the subsidiary status and integrated into it formally as stated by the National Sales Manager. But, the employees the got from Lafarge, as they said we only hired the best human resource, they should be kept on Lafarge's product as they have a better know-how about those products.

Limitations:

1. Didn’t had access to the document of the merger that would had made the work a lot easier and comprehensive.
2. Time was another constraint. The annual reports of the fiscal year ended on June 2016 was to be published in late September 2016. If it had been published till the completing of this report, the ratios would have highlighted a more positive outlook.
3. Pakcem comparison unlike Bestway could only be done with 3 months ending September 2014 with September 2015. This doesn’t depicts the merger effects of now because of the unavailability of the annual report of this year.
4. This primary research is solely done on the interview of the National Sales Manager. Undoubtedly, he tried to give every answer to the best of his ability and listened to my queries very patiently. Information given by him is solely his viewpoint, it cannot be described as the actual position of the company.
5. There wasn’t much information available on Bestway cement. Even some of the reports were scanned copies in a pdf format which made it difficult to read.

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Formulas for Appendix

- **Gross profit margin** = gross profit / net sales

  Where:

  Gross profit = net sales - cost of goods sold

- **Operating profit margin** = operating income / net sales

  Where:

  Operating income = earnings before tax and interest from continuing operations

- **Net Margin**= Net Income/ Net sales

- **EPS =** net income / average outstanding common share

- **Current ratio** = current assets / current liabilities

- **Quick ratio** = (cash+ marketable securities + accounts receivables) / current liabilities

- **Cash ratio** $= \frac{\text{(cash + marketable securities)}}{\text{current liabilities}}$

- **Cash flow from operations ratio** $= \frac{\text{cash flow from operations}}{\text{current liability}}$

- **Receivable turnover** $= \frac{\text{net annual sales}}{\text{average receivables}}$

Where:

Average receivables = (previously reported account receivable + current account receivables)/2

- **Average number of days receivables outstanding** $= \frac{\text{365 days}}{\text{receivables turnover}}$

- **Inventory turnover** $= \frac{\text{cost of goods sold}}{\text{average inventory}}$

Where:

Average inventory = (previously reported inventory + current inventory)/2

- **Average number of days in stock** $= \frac{365}{\text{inventory turnover}}$

- **Return on assets** $= \frac{\text{earnings before interest and taxes}}{\text{average total assets}}$

  Where:

  $\text{Average total assets} = \frac{(\text{previously reported total assets} + \text{current total assets})}{2}$

- **Return on common equity** $= \frac{(\text{net income} - \text{preferred dividends})}{\text{average common equity}}$

  Where:

  Average common equity = (previously reported common equity + current common equity) / 2