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"EVALUATE PRE AND POST-MERGER OPERATING PERFORMANCE FOR BREVERAGE INDUSTIRES IN INDIA WITH RESPECT TO UNITED SPIRITS LTD. AND UNITED BREWERIES LTD."

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ABSTRACT

This research effort is focused on mergers of Indian Beverage Industry with reference to selected firms from this sector i.e. United Breweries Ltd and United Spirits Ltd. during 2005 to 2012. In simple words, this study is all about to find out, is there any improvement in operating performance of merged manufacturing companies and also an attempts to fill this gap in knowledge about M&As of Beverage Industries in India. The present study is mainly based on secondary data, which have collected from using CMIE Prowees Database.

KEY WORDS: *Mergers, Acquisitions', Operating Performance.*

INTRODUCTION

Mergers, acquisitions and corporate control have emerged as major forces in the modern financial and economic environment. Mergers, a source of corporate growth, have been the subject of careful examination by scholars. The mergers and acquisitions in India have changed dramatically after the liberalization of Indian economy. The policy of liberalization, decontrol and globalization of the economy has exposed the corporate sector to domestic and global competition. Low cost products, with good quality have become essential for a company to survive in the competitive market. Factors like low interest rates, cheap labor, and liberal government policy, have helped the Indian corporate sector to reduce their cost. It is in this context that corporate sectors view mergers for further cost reduction through technology advancement or to make their presence felt in the market. The liberalization policy of Government of India has witnessed an unprecedented number of mergers and acquisitions in the country. In terms of the growth rate in mergers and acquisitions deals, India occupies the second position in the world.

OVERVIEW OF INDIAN ECONOMY (FOOD & BEVERAGE INDUSTRIES IN INDIA)

India is one of the fastest growing economies of the world. It withstood the impact of the slowdown in the global markets post 2008. With the burgeoning young and educated middle class, the growth engine for Indian economy, India is expected to become the third largest world economy by 2030, surpassing developed economies like Japan and Germany. Indian economy has undergone a considerable structural change in the last decade as it has been moving away from being an agriculture-led economy to a services-led economy. However, agriculture still contributes to 14% of the total GDP & employs 60% of the population. While, significant strides have been made in agricultural sector, there are quite a few areas of improvements which if addressed would drive the growth in both agriculture and its allied sectors. Addressing these areas would help the agriculture and thereby the food & beverage sector to better equip them to cater to the significant growth expected consumption in India in the next decade. In line with the growth in economy, Indian total annual household consumption is likely to treble, making India the fifth largest consumer market by 2030. Food and beverage (F&B) is the largest segment of the consumption basket and following are the Key highlights of Food & Beverage Industries in India

- ✓ F&B sector has scope for higher value addition as the current level of processing is lower compared to global experience.
- ✓ Export potential is high as currently it is concentrated only on select food items.
- ✓ Food wastage levels are a key concern, especially in case of fruits and vegetables.
- ✓ Challenges in supply chain due to inefficiencies and inadequate capacities; new business models and initiatives evolved to build capabilities.
- ✓ Product development and innovation focus is lacking, changing consumer preferences are expected to drive innovation.

(***Source: Grant Thornton (India), the Indian Food & Beverage Sector, 2014)***

SIGNIFICANCE

In this context, the present research work has attempted to study, observe and evaluate the operating performance of Indian Beverage Industry with reference to United Breweries Ltd and United Spirits Ltd., that have undertaken the M&As activities in India after the LPG, and view if mergers had a significant impact on operating financial performance of merging companies. In simple word, the study has aimed to study mergers of firms in Beverage Industry in India, to see if there are variations in the impact, for different firms in industries.

REVIEW OF LITERATURE

The researcher reviewed the few existing related to M&A and summarizes them on following way;

Pravin Mahamuni and Anand Jumle (2016) evaluated the Post Merger Financial Performance of Indian Manufacturing Companies with reference to Metals & Metal Products and Machinery Companies to find out whether merger & acquisition helps the organization in post merger period to improve their performance in the sense like; companies achieved liquidity, solvency and improve profitability after merger, companies expand their business activities after merger, is there any improvement in operating performance of merged manufacturing companies and also an attempts to fill this gap in knowledge about M&As in India.

Pravin Mahamuni and Anand Jumle (2012) measured post-merger Operating Performance of Acquiring Firms of Food and Beverage Industries in India. The research focus on measuring impact of mergers on the operating performance of acquiring firms in food & beverage industries in India, by examining some pre- merger and post-merger financial ratios, with the sample of firms chosen as all merger firms in India during 2005 to 2008. The present study is mainly based on secondary data, which have collected from using CMIE Prowees Database.

Beena analyzed the pre and post-merger performance of a sample of 115 acquiring firms in the manufacturing sector in India, between 1995-2000, using a set of financial ratios 4 and t-test. The study could not find any evidence of improvement in the financial ratios during the post-merger period, as compared to the pre-Merger period, for the acquiring firms.

Pawaskar analysed the pre-merger and post-merger operating performance of 36 acquiring firms during 1992-95, using ratios 5 of profitability, growth, leverage, and liquidity, and found that the acquiring firms performed better than industry average in terms of profitability. Regression Analysis however, showed that there was no increase in the post-merger profits compared to main competitors of the acquiring firms.

Dube and Glascock (2006) examined the post-acquisition differences in share and operating performance, and in risk characteristics, for acquirers who pay cash versus those who employ stock, as well as for acquirers who merge with targets as opposed to those who directly approach target shareholders to tender their shares.

Healy, Palepu, and Ruback examined post-acquisition performance for 50 largest U.S. mergers between 1979 and 1984 by measuring cash flow performance, and concluded that operating performance of merging firms improved significantly following acquisitions, when compared to their respective industries.

Kruse, Park and Suzuki examined ***the long-term operating performance of Japanese companies using a sample of 56 mergers of manufacturing firms in the period 1969 to 1997.*** By examining the cash-flow performance in the five-year period following mergers, the study found evidence of improvements in operating performance, and also that the pre- and post-merger performance was highly correlated.

Pramod Mantravadi and Vidyadhar Reddy (2007) in their research study ***Mergers and operating performance***: The study results suggested that there are minor variations in terms of impact on operating performance following mergers in different intervals of time in India. It also indicated that for mergers between the same groups of companies in India, there has been deterioration in performance and returns on investment.

Siriopoulos et.al. (2006): In their study of ***Mergers and Acquisitions in Greece*** also find that ***acquired firms are highly productive operations***. These results support **McGuckin & Nguyen (1995) and Harris & Robinson (2002)** studies who have found that acquisition activity in the UK is generally associated with the transfer of firms with above average productivity.

Surjit Kaur compared the pre and post-takeover performance for a sample of 20 acquiring companies during 1997-2000, using a set of eight financial ratios 3, during a 3-year period before and after merger, using t-test. The study concluded that both profitability and efficiency of targeted companies declined in post- takeover period, but the change in post-takeover performance was statistically not significant.

RESEARCH METHODOLOGY

Objectives of the Study:

Based on Review of literature & available data, researcher stated following objectives.

(1) To analyze & compare the operating performance of United Breweries Ltd and United Spirits Ltd.

(2) To study the impact of merger on the operating performance of United Breweries Ltd and United Spirits Ltd.

Hypothesis of the Study:

- There is improvement in operating performance of merged firms.

Period of Study:

For study the above statements, researcher considered 3 years pre merger & post merger period where as merger year taken as a base year.

Sampling Method:

For conducting the study the researcher used non-probability convenient sampling method at the time of selecting sample companies with reference Beverage Industries in India (United Breweries Ltd and United Spirits Ltd. are chosen for study because they are one of the known & top companies from Beverage Sector in India).

Data Collection:

The present study is mainly based on secondary data. The availability of secondary data to be collected from Prowess Database of CMIE, Annual Reports, published Research, Reports and Research Organization, Books, periodicals and Website etc.

Data Analysis:

Pre-merger and post-merger operating performance ratios were estimated and the averages (mean) computed for the entire set of sample firms, which have gone through mergers during the period 2005 to 2008. The average ratios for each of the industry sub-samples were also computed. Average pre merger and post merger financial performance ratios were compared to see if there was any statistically significant change in operating performance due to mergers, using "paired two sample t-test" at confidence level of 0.05.

Tools used for Data Analysis:

In order to analysis & evaluation of the collected data, tools like Ratio Analysis, also Mean & paired 't'-test is used.

DATA ANALYSIS

Operating Profit Margin

Table No. 01: OPM

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		
United Breweries Ltd.	-16.47	-14.86	-13.32	-23.36	-23.55	-26.74	-14.88	-24.55	4.964	0.038
United Spirits Ltd.	-31.26	-38.51	-30.27	-39.53	-39.51	-44.75	-33.35	-41.26	2.032	0.179

From the analysis of above Table No. 01, it is noted that of Operating Profit Margin (mean) is *significantly decreased in post merger period* as compared to pre merger period of both the beverage firms. But in case of *United Breweries Ltd.* (-14.88 in pre period & -24.55 in post period, t-value = 4.964, $p < 0.05$)*, result shows that, operating profit margin in post merger period is statistically decreased.* It portrays that, *both firms are unable to keep their costs under control and result of this operating profit after merger is decreased. It means in post-merger period the average amount is decreased in operating profit after meeting all operating expenses*.

Gross Profit Margin

Table No. 02: GPM

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		
United Breweries Ltd.	6.74	9.13	9.28	6.69	6.23	6.53	8.38	6.48	2.052	0.177
United Spirits Ltd.	3.45	4.62	14.61	8.43	8.85	7.75	7.56	8.34	-0.21	0.857

Table No.02 of Gross Profit Margin, result shows that, the mean of the United Breweries Ltd (8.38 in pre period & 6.48 in post-merger period) is decreased, on the other side, United Spirits Ltd.

(1.61 in pre period & 0.69 in post-merger period) is increased in post merger as compared to pre merger and are able to cover their costs from sales (cost of goods sold). But *increase / decrease in gross profit margin of the both the firms are statistically insignificant because of the p value > 0.05.*

Net Profit Margin

Table No. 03: NPM

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		
United Breweries Ltd.	0.48	2.08	2.1	3.11	2.49	3.2	1.55	2.93	-2.1	0.17
United Spirits Ltd.	1.45	1.15	9.83	3.94	4.04	2.97	4.14	3.65	0.155	0.891

The Net Profit Margin of acquired firms during pre & post-merger period is given in above Table No. 03. In case of United Breweries Ltd (1.55 in pre & 2.93 in post period), is *showing improvement of mean of Net Profit Margin ratio which indicating that* United Breweries Ltd is *more efficient at converting sales into actual profit but the increase is not significant at required probability level.* On the other hand, the net profit margin (mean) of United Spirits Ltd. is declined in post-merger period; the decline is not significant at required probability level *which reveals that instead of increase in gross profit margin the net profit margin is decreased in post-merger period. It means all the activities are not done efficiently to generate profit.*

Return on Net Worth

Table No. 04: RONW

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		
United Breweries Ltd.	7.92	37.49	13	18.51	10.42	11.1	19.47	13.34	0.553	0.636
United Spirits Ltd.	9.55	7.15	44.45	11.66	9.56	7.8	20.38	9.67	0.826	0.496

The average Return Net worth of sample merged firms during pre and post-merger period is given in Table No. 04. It is noted that both sample merged firms [United Breweries Ltd (19.47 in pre & 13.34 in post period) & United Breweries Ltd. (20.38 in pre & 9.67 in post period]' variation in *average returns on net worth is lower in post-merger period* as compared to pre merge period. Hence it can be conclude that *due to merger & acquisition the amount of net worth is significantly increased but then merged firms were not able to get required returns on net worth after the merger.*

Return on Capital Employed

Table No. 05: ROCE

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		

United Breweries Ltd.	0.88	2.9	3	5.73	4.39	5.5	2.26	5.21	-2.96	0.098
United Spirits Ltd.	3.67	2.55	18.86	7.24	5.64	4.53	8.36	5.80	0.434	0.706

From the analysis of above Table No. 05 of Return on Capital Employed of sample merged firms during pre and post-merger period, it is observed that, *average return on capital employed of* United Spirits Ltd. (from 8.36 in pre & 5.80 in pre merger) *has declined in post-merger period as compared to pre-merger period.* But, in case of United Breweries Ltd. (from 2.26 in pre period to 5.21 in post period) is showing *increase in return on capital employed after the merger. It seems that this firm after the merger has shown efficiency in using its funds & also reveals that management has shown efficiency in using the investment and creditors into the business.* Also obtained 't' values of the both firms are not significant at the required probability level & increase / decrease in ratio is not statistically significant.

Debt – Equity Ratio

Table No. 06: DER

Company	Pre-merger			Post-merger			Mean		't' value	'p' value (0.05)
	-3	-2	-1	1	2	3	Pre (Before 3 years)	Post (After 3 years)		
United Breweries Ltd.	10.98	12.87	1.92	2.15	1.03	1.01	8.59	1.40	2.207	0.158
United Spirits Ltd.	2	1.73	1.11	0.63	0.73	0.71	1.61	0.69	3.267	0.082

The result shown in the above Table No. 06 of Debt-Equity Ratio for pre & post-merger period of sample merged firms indicating that, United Breweries Ltd (8.59 in pre period & 1.40 in post-merger period, t-value = 2.207 & p > 0.05) & United Spirits Ltd. (1.61 in pre period & 0.69 in post-merger period, t-value = 3.267 & p > 0.05) debt equity ratio is significantly decreased in post-merger period as to pre-merger period. *It reveals that majority of assets are financed through debts rather than equity in post-merger period. It means due to merger activity these firms are getting more debts.*

Hypothesis Testing

Table No. 07: Overview of Performance Parameters

Performance Parameters	United Breweries Ltd.	United Spirits Ltd.
OPM	↓	↓
GPM	↓	↑
NPM	↑	↓
RONW	↓	↓
ROCE	↑	↓
DER	↓	↓

After analyzing the above result, this hypothesis i.e. ***there is improvement in operating performance of merged firms*** is **rejected**. Because Table No. 07, it clearly shows that due to merger activity undertaken by these sample firms, their operating performance have been decreased. It means, negative impact on overall profitability of the these sample firms in post merger period.

FINDINGS

- ✓ Operating performance of the selected sample firms of Beverage Industry, in post-merger period is declined. As there are decline in profitability ratios as well in return on net worth & invested capital.
- ✓ In case of United Breweries Ltd. there is marginally improvement in profitability ratios, but not statistically significant.
- ✓ In case of United Spirits Ltd. return on net worth & capital invested is declined. There is insignificant increase in leverage show in post-merger period in both the selected sample firm from Beverage Industry in India.
- ✓ On the other hand, debt equity ratio is significantly decreased in post-merger period as to pre-merger period. It reveals that majority of assets are financed through debts rather than equity in post-merger period. It means due to merger activity these firms are getting more debts.
- ✓ Finally it can be conclude that, negative impact on operating performance was found due to merger activity undertaken by these two sample firms for beverage sector in India.

CONCLUSION

It is quite clear from the study that firm gaze at M&As due to the various factors as well as for expanding their market reach or as an entry strategy in the country or business segment. Some time it affected positively as well as negatively on the overall results of entire firms after the merger take place. But in this study, research found that there is negatively impact on operating performance in post-merger period of the selected merged firms from Beverage Industries in India.

Future research in this area could be an extension of the present study, by estimating and comparing with industry/sector averages, and the differences, if any, could be explored further to derive further insights. Researchers could also analyze the post-merger returns to shareholders of acquiring firms involved in mergers in India, to correlate with findings of studies indicating poor post-merger performance.

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