

A STUDY OF MERGER AND ACQUISITION OF SELECTED TELECOM COMPANIES OUTSIDE INDIA

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Abstract

Telecommunication industry within the sector of information and communication technology is made of all telecommunication companies and internet services providers and plays the crucial role in the evolution of mobile communication and the information society. The purpose of this study is to compare profitability pre-post scenario. The limitation of this study is limited & not included all financial ratios during research study. Used some financial ratios through annual report. The overall results of the study are profitable for the acquiring companies.

Key Words: Merger, Acquisition, telecom, performance, value

INTRODUCTION

Mergers result in the combination of two or more companies into one, wherein merging entities lose their identities. No fresh investment is made through this process. However an example of shares takes place between the entities involved in such process.

An acquisition, alternately, is aimed at gaining a controlling interest in the share capital of the acquired company.

A takeover, which is essentially an acquisition, differs from a merger in its approach to business combinations. In the process of takeover, the acquiring company decides the maximum price that is to be offered to the acquired and hence takes lesser time in completing a transaction than in mergers, provided the top management of the acquired company is co-operative. In merger transactions, the consideration is paid for in shares whereas in a takeover, the consideration is in the form of cash. However, mergers and takeovers can be treated as similar processes, since both cases at least one set of shareholders loses executive.

LITERATURE REVIEW

Lane et al.(2002) studied about Myths and reality in telecom industry. This paper investigates how market participants react to mergers and acquisitions (M&As) involving telecommunications industry. The empirical evidence suggests that such activities convey bad news to the market. This is consistent with the synergy trap hypothesis and extant empirical findings of value-reducing diversification strategies in recent literature and used Sample Selection Procedure and Empirical Model for Residual Analysis. To see validity of the recent wave of M&As in the telecommunication industry by providing evidence to suggest that synergy and shareholder's market value creation are not necessarily associated with M&As.

Nalwaya & Vyas (2009) analyzed how impact on merger of Vodafone and Hutchison essar. And analyzed earning and dividend both grew after. At that time there were rapid changes in economic environment and technology. The result of merger was positive & used some Ratio analysis and T-test. It was based purely on secondary data which are taken from the financial statements of the case through Internet only.

Goyal and Joshi(2012) studied about case study of ICICI bank ltd after 9 banks acquiring with ICICI bank. It is the largest private sector bank in India, which has acquired nine financial firms to make the steps of the ladder of success & growth of ICICI bank ltd. To calculate some ratio and secondary data in form of Annual report. Main problem was the post-merger integration process is a difficult and complex task. It comes along with long lists of activities and tasks that have to be fulfilled within a short time and partly with incomplete information.

Saraswathy(2010) research about cross border merger and acquisition in India. And studied about The corporate sector all over the world is restructuring its operations through mergers and acquisitions in an unprecedented manner in order to successfully overcome the challenges posed by globalization. And to understand the nature, extent and structure of these deals in India. She used secondary data with the help of financial report. The problem was The post-merger integration process is a difficult and complex task. It comes along with long lists of activities and tasks that have to be fulfilled within a short time and partly with incomplete information.

Ghosh and Dutta(2014) studied about Merger and Acquisition is a strategic tool for restructuring in the Indian Telecom sector. And to explore the overall strategic impact of M&A in the telecom industry. Used some paired T-test, secondary data like business daily, ministry of statistics and programme Implementation (MOSPI) and used some ratios. The problem could not be ascertained from the available data whether a broad based,

rigorous due diligence procedure was undertaken covering not only financial issues but also employee related issues. As a result, the merged entities might have encountered cultural problems during the integration period.

Lane et al.(2017) studied about the impact of Reliance Jio on Indian mobile industry- A case study on mergers and acquisitions of idea –Vodafone and Airtel – Telenor. Indian mobile industry is one of the fastest growing industries in the world. In the world India is second largest market for mobile service providers and it is a good avenue for network providers from indigenous and exogenous entrepreneurs. Analyzed Michael porter's 5 forces model. And used secondary data.

Kim &Singal(1993) studied that Mergers and Market Power: Evidence from the Airline Industry.And to examines price changes associated with airline mergers during 1985-1988 .And used sample study like they used 14 airline industry data through wall street journal index ,Merger and acquisitions. CRSP(Center for research in security prices) stock files. The problem was to used sample data so there were not used whole airline industry.

Lane et al(2013) analyzed to Merger and acquisitions in the high-tech industry. As a result of the impressive wave of M&A in recent years operations that were traditionally considered to extraordinary have become common business development option. Focuses on technology driver sector . The critical examination of the innovation and value creation processes in M&As in high-tech sectors. The problem was to focus only technology sector.

Lane et al(1998) analyzed to effect of Bank mergers and Acquisitions on small business lending. Studied about empirical analysis of the vast majority of U.S bank . The static effects of consolidation which reduce small business lending are mostly offset by the reactions of the other banks in the market.

Golbe and White(1988) Analysis of Mergers and Acquisitions in the U.S economy. A time series on merger and acquisitions should be comprehensive and consistent and should contain data that cover a long period of time & used some secondary data.

RESEARCH GAP

The literature review highlighted that, study on telecomm industry is new in Ahmedabad city. No such type of studies has been done so far.

RESEARCH METHODOLOGY

OBJECTIVE OF THE STUDY

The objective of the study is to compare profitability of pre-post merger and acquisition in Telecom Industry.

DATA COLLECTION

I have analysed the data of annual report of selected 4 telecom companies is as under.

- 1>American Telephone & Telegraph Company(AT&T) acquire Bellsouth(2006)
- 2>Telefonica acquire Global village Telecom(GVT)(2015)
- 3>Vodafone acquire Hutchison Essar(2007)
- 4>Vodafone acquire Mannesman(2000)

Some ratios are finding is as under:

- 1>EPS(Earning per share)
- 2>Net profit ratio
- 3>ROE(Return on equity)
- 4>Return on capital employed
- 5>Asset turnover ratio

1> American Telephone & Telegraph Company(AT&T) acquire Bellsouth(2006)

Ratios	YEARS									
	PRE					POST				
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EPS	2.3	2.08	2.24	1.8	1.61	1.42	1.89	1.95	2.17	2.12
net profit ratio	15.18 %	15.27 %	13.10 %	20.82 %	15.87 %	10.91 %	11.67 %	10.05 %	10.37 %	10.44 %
ROE	2.3	2.09	1.7	2.57	1.88	1.18	1.89	1.95	2.17	2.18
debt-equity ratio	45.00 %	44.30 %	39.90 %	31.90 %	33.90 %	35.90 %	34.10 %	35.70 %	43.80 %	41.30 %
ROCE	0.41	0.34	0.26	0.44	0.24	0.04	0.03	0.05	0.06	0.06
Asset turn over ratio	56.49 %	96.68 %	45.00 %	42.00 %	38.00 %	34%	30%	0.44	46.00 %	46.00 %

2> Telefonica acquire Global village Telecom(GVT)(2015)

Ratios	PRE		POST			
	2013	2014	2015	2016	2017	2018
EPS	1.01	0.61	0.51	0.42	0.56	0.57
net profit ratio	8.71%	6.46%	6.10%	4.61%	6.50%	8.11%
ROE	0.18	1.66	0.1	0.08	0.13	0.15
debt-equity ratio	0.06	0.04	0.03	0.03	0.04	0.05
ROCE	1.73	1.55	1.94	1.55	1.66	1.55
Asset turn over ratio	0.46	0.42	0.38	0.42	0.44	0.43

3> Vodafone acquire Hutchison Essar(2007)

Ratios	PRE			POST		
	2004	2005	2006	2007	2008	2009
EPS	24.36	21.51	27.66	17.6	12.56	5.84
net profit ratio	21	28.26	4.41	33.52	8.68	16.47
ROE	0.08	0.07	0.015	0.08	0.04	0.08
debt-equity ratio	101.01	16.18	27.39	34.74	37.7	47.15
ROCE	0.08	0.06	0.01	0.06	0.03	0.05
ATO	0.46	0.25	0.35	0.18	0.33	0.29

4> Vodafone acquire Mannesman(2007)

Ratios	PRE			POST		
	2004	2005	2006	2007	2008	2009
EPS	24.36	21.51	27.66	17.6	12.56	5.84
net profit ratio	21	28.26	4.41	33.52	8.68	16.47
ROE	0.08	0.07	0.015	0.08	0.04	0.08
debt-equity ratio	101.01	16.18	27.39	34.74	37.7	47.15
ROCE	0.08	0.06	0.01	0.06	0.03	0.05
ATO	0.46	0.25	0.35	0.18	0.33	0.29

PERIOD OF THE STUDY

The period is to taken on the basis of 3 years of pre & 3 years of post M&A of selected company.

ANALYSIS

1> American Telephone & Telegraph Company(AT&T) acquire Bellsouth(2006)

Ratios	PRE(2000-05)	POST(206-09)
EPS	1.908333333	2.0325

net profit ratio	15.19%	10.63%
ROE	1.953333333	2.0475
debt-equity ratio	38.48%	38.73%
ROCE	0.288333333	0.05
ATO	52.03%	42%

From the following table EPS,ROE,D/E is increase and rest is decrease so it is not good for company. So Merger is not successful.

2>Telefonica acquire Global village Telecom(GVT)(2015)

Ratios	PRE(2013-14)	PRE(2015-18)
EPS	0.81	0.515
net profit ratio	7.59%	6.33%
ROE	0.92	0.115
debt-equity ratio	0.05	0.0375
ROCE	1.64	1.675
ATO	0.44	0.4175

From the following table only ROCE is increased rest is decrease. So merger is not successful.

3>Vodafone acquire Hutchison Essar(2007)

Ratios	PRE(2004-06)	POST(2007-09)
EPS	24.51	12
net profit ratio	17.89	19.556667
ROE	0.055	0.0666667
debt-equity ratio	48.19333	39.863333
ROCE	0.05	0.0466667
Asset turn over ratio	0.353333	0.2666667

From the following table net profit and ROE is increase so it is good for company. So merger is successful.

4>Vodafone acquire Mannesman

Ratios	PRE(1997-99)	POST(2000-2002)
EPS	15.376667	5.26
net profit ratio	0.1966667	0.03
ROE	0.8813	0.0017
debt-equity ratio	98.88	65.33666667
ROCE	1.6016333	0.00161
Asset turn over ratio	2.3798	0.121873333

From the following table All ratios are decreased so it is not good for company.

LIMITATIONS OF THE STUDY

- 1>The study period of the research is limited & not included all financial ratios during research study.
- 2> It is based on secondary data only .

FINDINGS & CONCLUSION

From the study, we found that if net profit ratio , ROE ,ROCE will increase so it is good for company. If debt-equity ratio had increase so there are chances of bankruptcy. And scenario of M&A in telecom industry is successful.

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