

MERGER AND ACQUISITION IN THE TELECOM INDUSTRY: AN ANALYSIS OF FINANCIAL PERFORMANCE OF AIRTEL AND TELENOR

Rekha Gupta

Master of Philosophy
B.K. School of Management,
Gujarat University

Dhaval Nakum

Junior Research Fellow
S.D. School of Commerce,
Gujarat University

Abstract

The service sector is in the process of an unprecedented restructuring exercise globally and merger and acquisition (M&A) are preferred choice for the same. This phenomenon is prevalent in emerging market economies like India. Companies like Airtel, Vodafone and Hutchison etc are reckoned as global leaders in their sectors. Indian firms have learnt about that inorganic growth is the faster mechanism. Merger & acquisition (M&A) are used by corporate sector to eye the units all around the operational region which, in-turn, will help them restructure financially. The driving force is restructuring the corporate entities financially through the medium of Merger & acquisition. This research study aimed to focus on the impact of merger and acquisition financial performance of the organization. The result suggests that doesn't have significant impact on shareholders wealth, shareholders profitability and ownership structure. But it has significant impact on the operating profit of the organization

Key Words: Merger and Acquisition, Secondary Data, Financial Performance, Shareholders Wealth, Shareholders Profitability.

INTRODUCTION

Concept of Merger & Acquisition:

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 exchange 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.

Takeover

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 control over a corporation which they otherwise held.

Overview of merger and acquisition in telecom industry

India's telecom industry is slated to grow at 4% CAGR over FY16-19 to \$33 billion (Rs 2.2 trillion approx), driven by a sharp 30% CAGR spurt in data revenues at \$11 billion (Rs 75,600 crore), said brokerage CLSA, adding that Bharti Airtel is best positioned to withstand competition from Reliance Jio Infocomm and gain revenue share with its mix of "in cumbency, improved execution, bigger capacity spectrum holdings and a head start over closest rivals, Vodafone India and Idea Cellular on both 4G capex investments and data network rollouts".

With over 1200 million mobile phone users & 460 million Internet users, Indian Telecom Industry is the fastest growing market in the world. The rapid strides in the telecom sector has been facilitated by policies (NTP 94, 99, 2012, 2015, 2017) of the Government that provide easy market access for telecom equipment. Many companies from India and global telecom companies took advantage of these policies. We had many telecom service providers in India viz: BSNL, MTNL, Videocon, Telenor, SSTL (MTS), Tata Tele Services (TTSL), Tikona, Aircel, Reliance Communication (RCOM), Vodafone, Idea, Airtel (Bharti), Reliance Jio.

Tata Tele has a consolidated debt of over Rs 34,000 crore.

LITERATURE REVIEW

Calipha et al(2010) Post-M&A integration is recognized as one of the critical phases of a merger or acquisition. It has been defined as the period when the “firms come together and begin to work towards the purpose of acquisition (Haspeslagh & Jemison(H&J), 1991, P. 105) and “the interaction and coordination between the firms involved” (Larsson & Finkelstein, 1999, P. 6).

Cartwright & Schoenberg, (2006) The impact of post-M&A integration on internal stakeholders has been relatively widely researched and considerable insight has been gained into the impact of M&A on executives, managers and employees of the combining firms. literature stream and therefore it is not discussed further here given our focus on customer impacts.

Bhaumik & Selarka (2008) This paper examines the impact of M&A on profitability of firms in India where family ownership and group affiliation is rampant among domestic firms. Their analysis suggests that on average, M &As involving unrelated firms in India during the 1995-2002 period did not add to profitability, nor created value for shareholders of domestic firms.

Merwe and Bekker (2003) studied about A framework and methodology for evaluating e-commerce Web sites. The objective of study is to The corporate Web site is an indispensable part of any e-commerce venture. The limitation of this study is firms engaged in e-commerce are limited in their ability to gauge their online performance based on objective criteria.

Dupuis and Ucan-Marín (2015) studied about the aquatic toxicology of petroleum oil: An overview of oil properties and effects to aquatic biota. The majority of the information presented pertains to finfish but also includes information on other aquatic biota such as shellfish and marine mammals. They used secondary data of oil industry. The limitation of this study is to use secondary data so not include all industry data of oil industry.

Hafidha et al (2014) studied about Smartphone Addiction among University Undergraduates: A Literature Review. The limitation of this study is to use secondary data and they have gathered only university student data. So this data is not told about all students' review.

Elhai et al (2017) studied about Problematic smartphone use: A conceptual overview and systematic review of relations with anxiety and depression psychopathology. The objective of study is Research literature on problematic smartphone use, or smartphone addiction, has proliferated. They discuss the concept of problematic smartphone use, including possible causal pathways to such use. They were using scholarly bibliographic databases; we screened 117 total citations, resulting in 23 peer-reviewed papers examining statistical relations between standardized measures of problematic smartphone use/use severity and the severity of psychopathology. The limitation of this study is they only included correlation studies in our systematic review, but address the few relevant experimental studies also. They discuss causal explanations for relationships between problem smartphone use and psychopathology.

Kitchenham et al (2012) study assesses the impact of systematic literature reviews (SLRs). The limitation of this study is the topic areas covered by SLRs are limited. The series of cost estimation SLRs demonstrate the potential value of EBSE for synthesizing evidence and making it available to practitioners.

RESEARCH METHODOLOGY

Objectives of the Study

The study has been undertaken to contribute towards the following broad Objectives:

- To gain perspective on Mergers and Acquisitions in Indian telecom Sector during the last decade.
- To make a comparative analysis of the impact of mergers on financial performance of the selected entity of telecom industry in India.

Duration

The researchers have made an attempt to study the impact of Mergers on financial performance of the sample company by using the available information for the period 2013-14 to 2017-18.

Data Collection

After defining the objectives & hypotheses we need to look at the type and sources of data and other specific information needed to attain the said objectives. The present study is mainly based on secondary data which have been collected through annual reports of the companies, and websites. The data of just preceding years of the year the merger took place has been considered for pre-merger study and the data for the year 2017-2018 has been used for post merger study.

Tools and Techniques

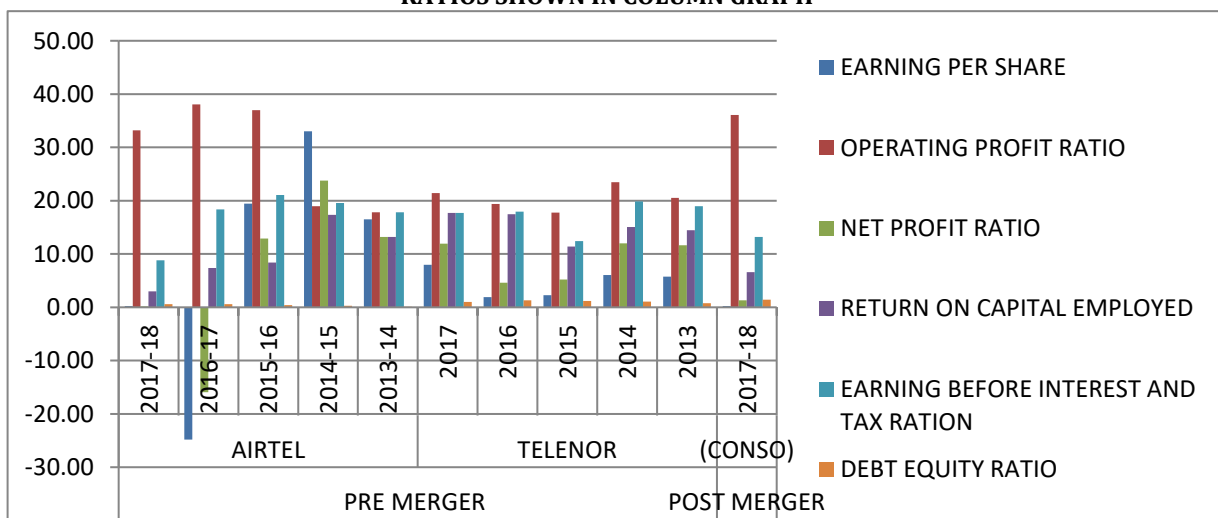
To analyze the available financial information of the sample company, various techniques of applied research and accounting tools like comparative ratios have been employed. The following 6 major financial ratios and their means were calculated for analyzing the financial performance of the companies:

- Earnings Per Share (EPS)
- Operating Profit Ratio (OPR)
- Net Profit Ratio (NPR)
- Return On Capital Employed (ROCE)
- Earnings Before Interest And Tax Ratio (EBIATR)
- Debt -Equity Ratio (DER)

CALCULATION OF PRE AND POST MERGER OF PARENT COMPANY (AIRTEL) AND SUBSIDIARY COMPANY (TELENOR)

RATIOS DEPICTING PRE-POST MERGER SCENARIO											
PARTICULARS	PRE MERGER										POST MERGE R (CONSO)
	AIRTEL					TELENOR					
	2017-18	2016-17	2015-16	2014-15	2013-14	2017	2016	2015	2014	2013	2017-18
EARNING PER SHARE	0.20	24.8	19.4	33.0	16.5	7.9	1.8	2.2	6.0	5.7	0.20
OPERATING PROFIT RATIO	33.1	38.0	37.0	18.9	17.8	21.	19.	17.	23.	20.	36.11
NET PROFIT RATIO	0.14	15.9	12.9	23.7	13.2	11.	4.6	5.2	11.	11.	1.30
RETURN ON CAPITAL EMPLOYED	3.01	7.38	8.38	2	8	69	49	39	07	45	6.61
EARNING BEFORE INTEREST AND TAX RATIO	8.82	18.3	21.0	19.5	17.8	17.	17.	12.	19.	18.	13.18
DEBT EQUITY RATIO	0.61	0.56	0.38	0.26	0.13	1.0	1.3	1.2	1.0	0.7	1.41

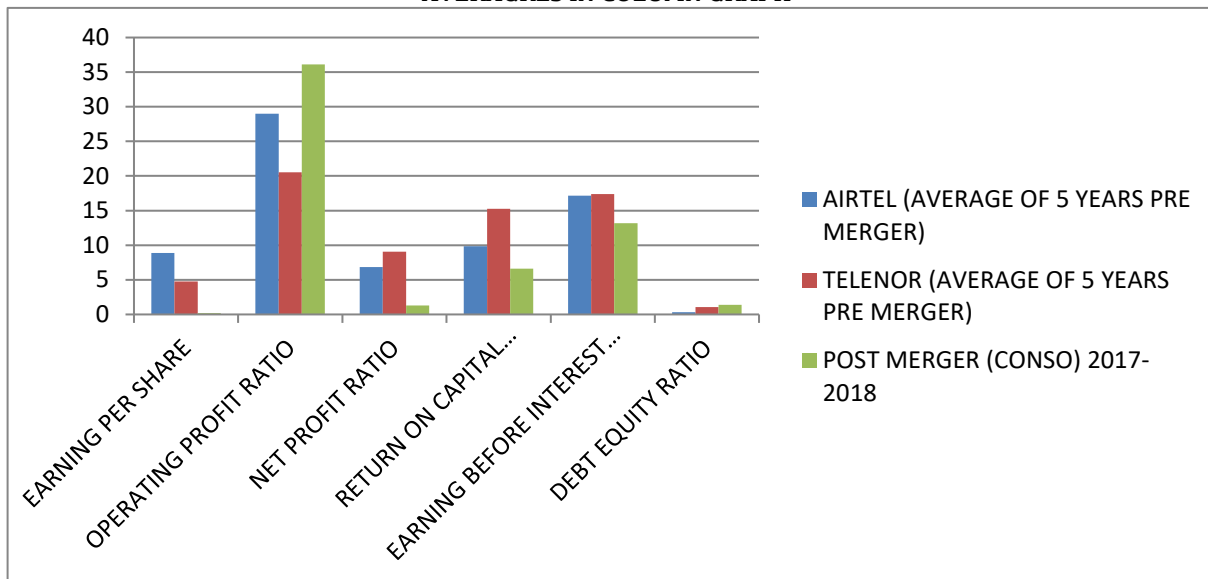
RATIOS SHOWN IN COLUMN GRAPH



AVERAGE RATIOS OF BOTH THE COMPANY

PARTICULARS	AIRTEL (AVERAGE OF 5 YEARS PRE MERGER)	TELENOR (AVERAGE OF 5 YEARS PRE MERGER)	POST MERGER (CONSO) 2017-2018
EARNING PER SHARE	8.872	4.748	0.20
OPERATING PROFIT RATIO	29.006	20.512	36.11
NET PROFIT RATIO	6.822	9.084	1.30
RETURN ON CAPITAL EMPLOYED	9.854	15.281	6.61
EARNING BEFORE INTEREST AND TAX RATIO	17.136	17.392	13.18
DEBT EQUITY RATIO	0.338	1.047	1.41

AVERAGES IN COLUMN GRAPH



To see graph and table we analyzed that operating profit and Debt-equity ratios were increasing but EBIT & Return on capital employed were decreased after merger with Telenor . So it was not good for company as well as shareholders because debt was increased & profit was decreased so Merger is not successful.

FINDING OF RESEARCH

ANALYSIS OF THE FINANCIAL RESULTS:

When we compare the average of Earning per share for the acquirer Company (Airtel) before merger it was 8.872% while that of the acquiring company (Telenor) was 4.748 %. After merger the earning per share is 20 % for year 2017-2018.

With the average Operating Profit Ratio for the acquirer Company before merger was 29.006% while the average Operating Profit Ratio for the acquiring company was 20.512 %. After merger the Operating Profit Ratio increased to 36.11% from 29.006% for the acquirer company.

The pre-merger average Net Profit Ratio for the acquirer Company was 6.822 % while the average of Net Profit Ratio for the acquiring company was 9.084 %. During the post merger period the average of Net Profit Ratio indicates a decrease to 1.30 % from 6.822% by the acquirer company.

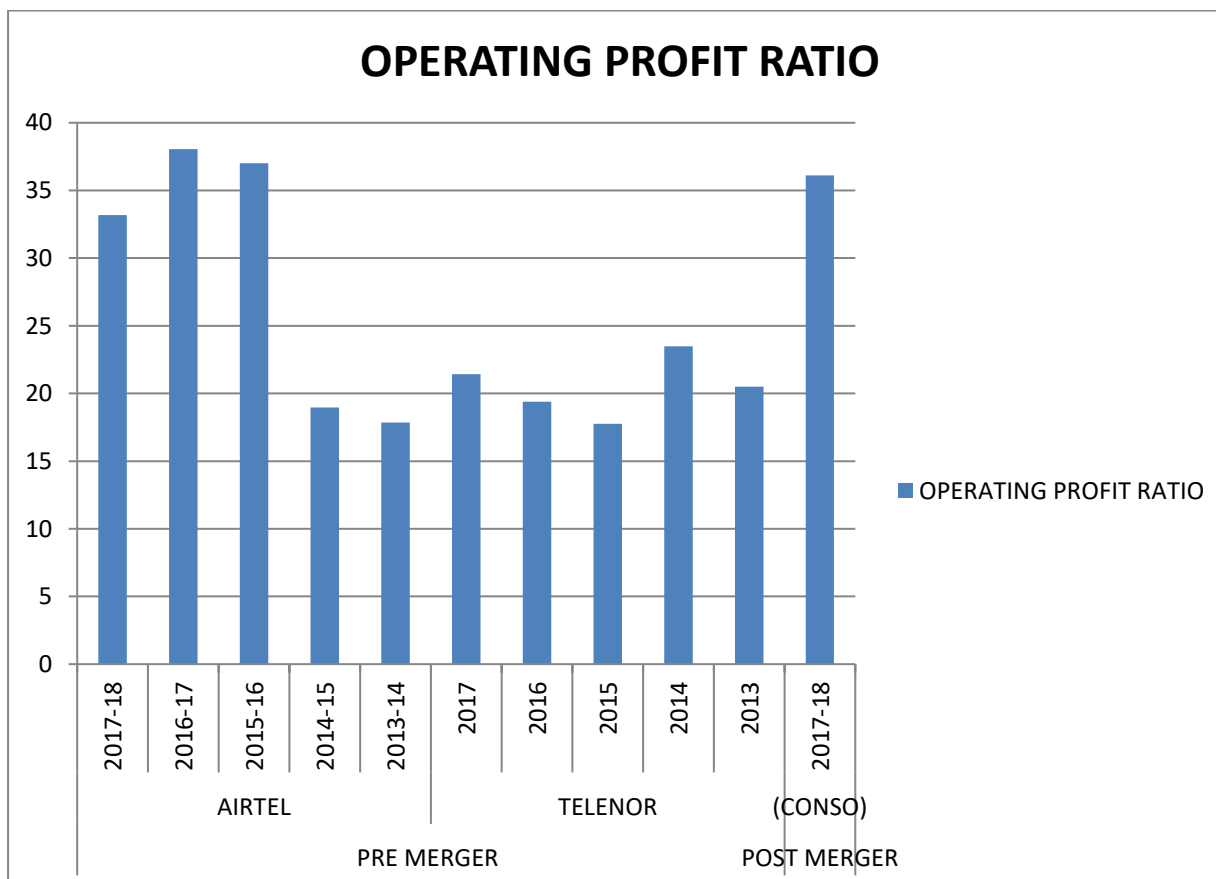
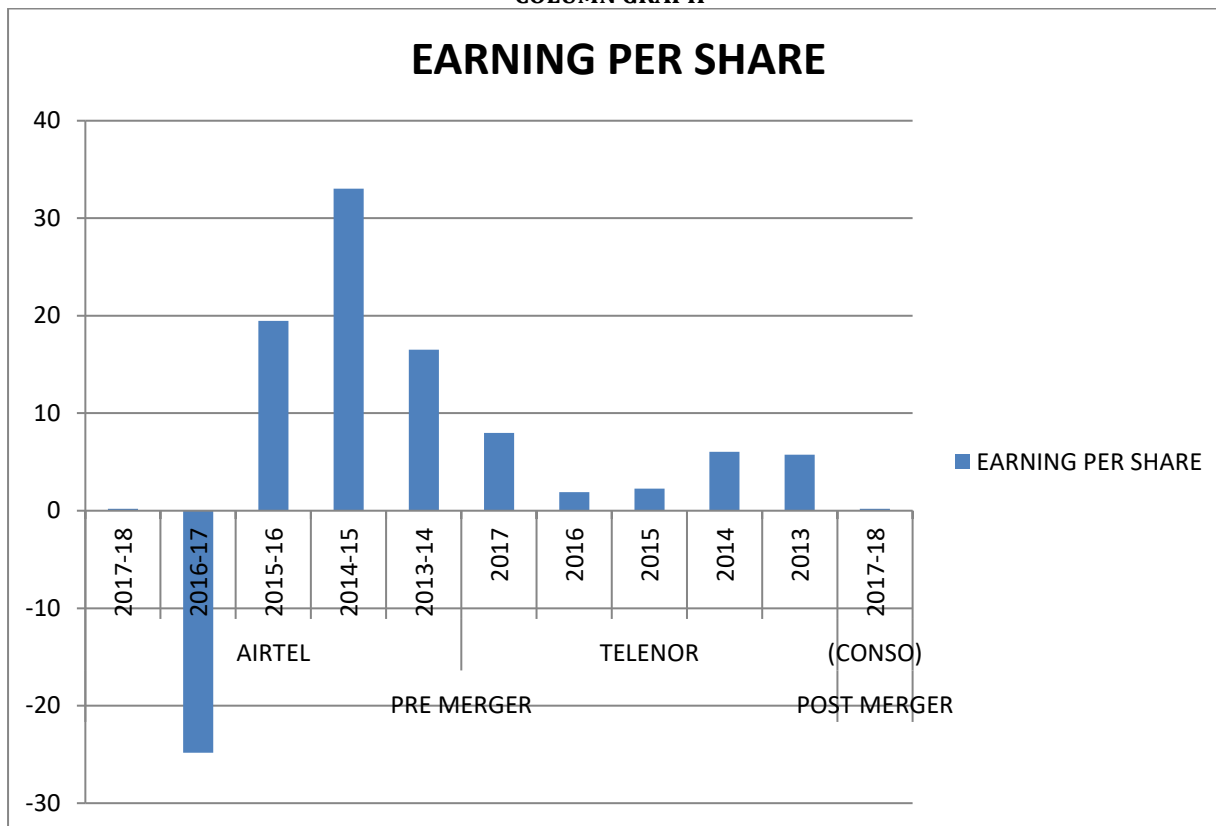
Taking the company's average of Return of Capital Employed for the parent company was 9.854% while the average of Return Of Capital Employed for the acquiring company was 15.281% after post merger period it reduce to 6.61% for parent company from 9.854%

Before Merger the average of Earning before Interest and Tax Ratio was 17.136 for the acquirer Company and for the target company average was 17.392%. After Merger the Earning before Interest and Tax Ratio is 13.18 % which is a slight decrease in the post merger period for the acquirer company.

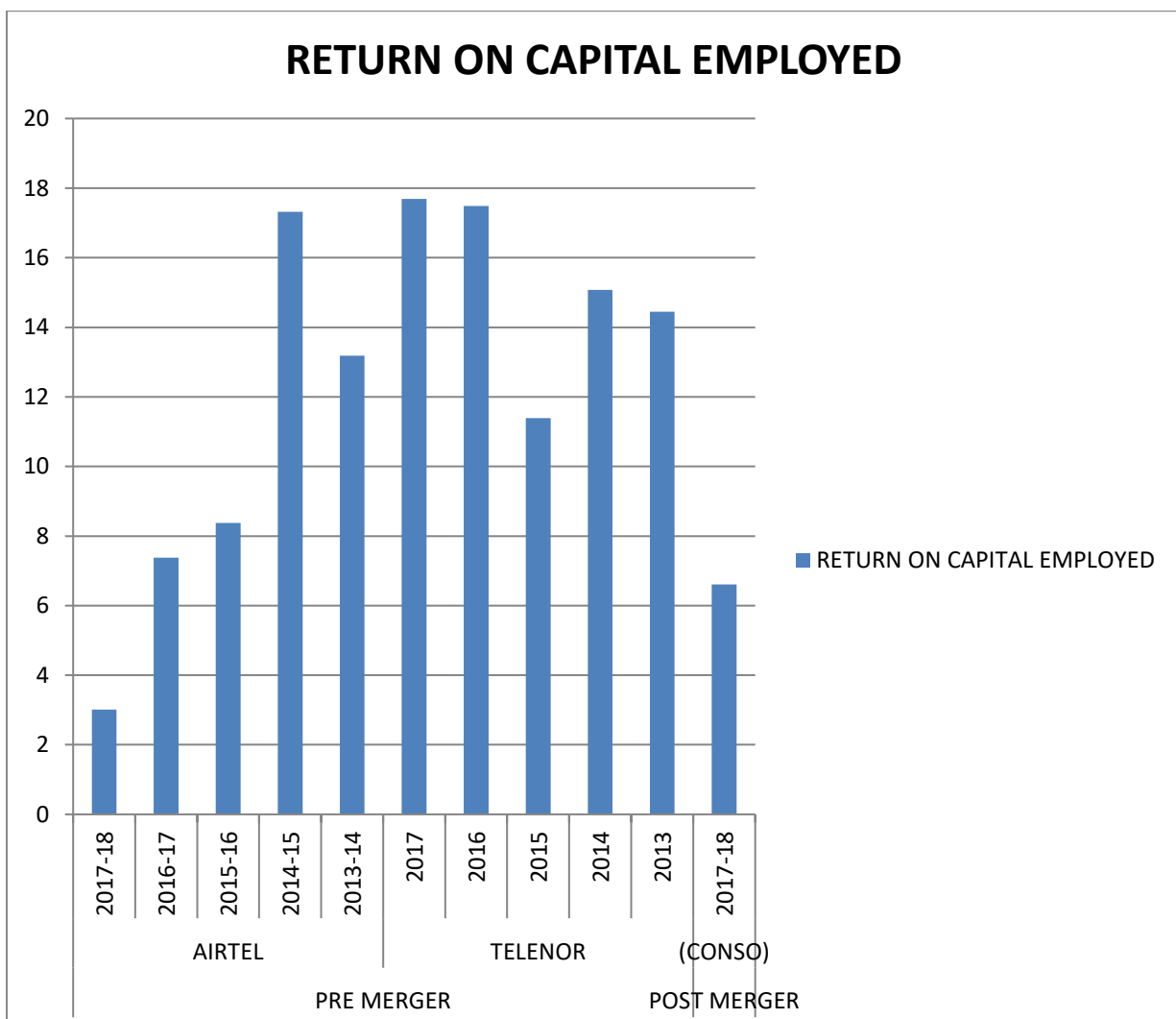
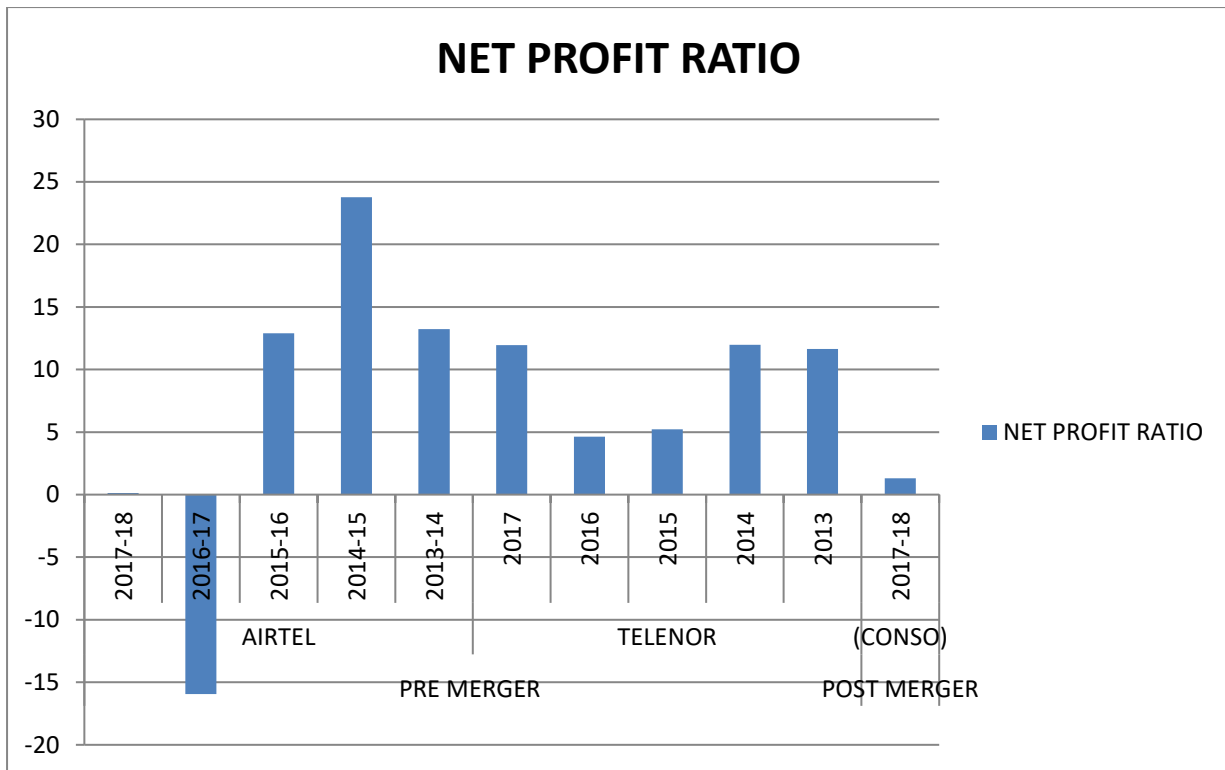
If the average of debt-equity ratio before merger is compared, the acquirer Company had the debt-equity ratio of 0.338 %.while for the target company the ratio was 1.047%. Post merger the ratio changed to 1.41% indicating some increase after merger took place.

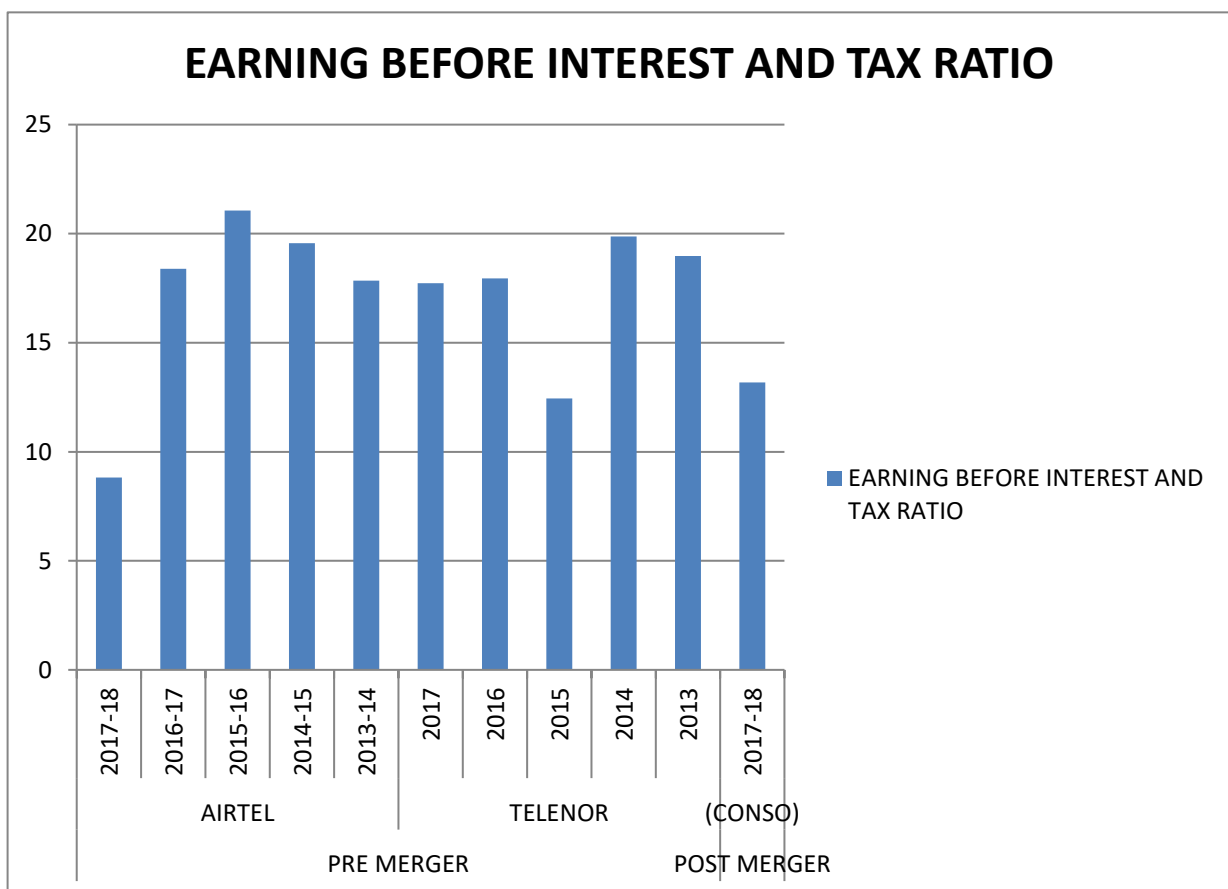
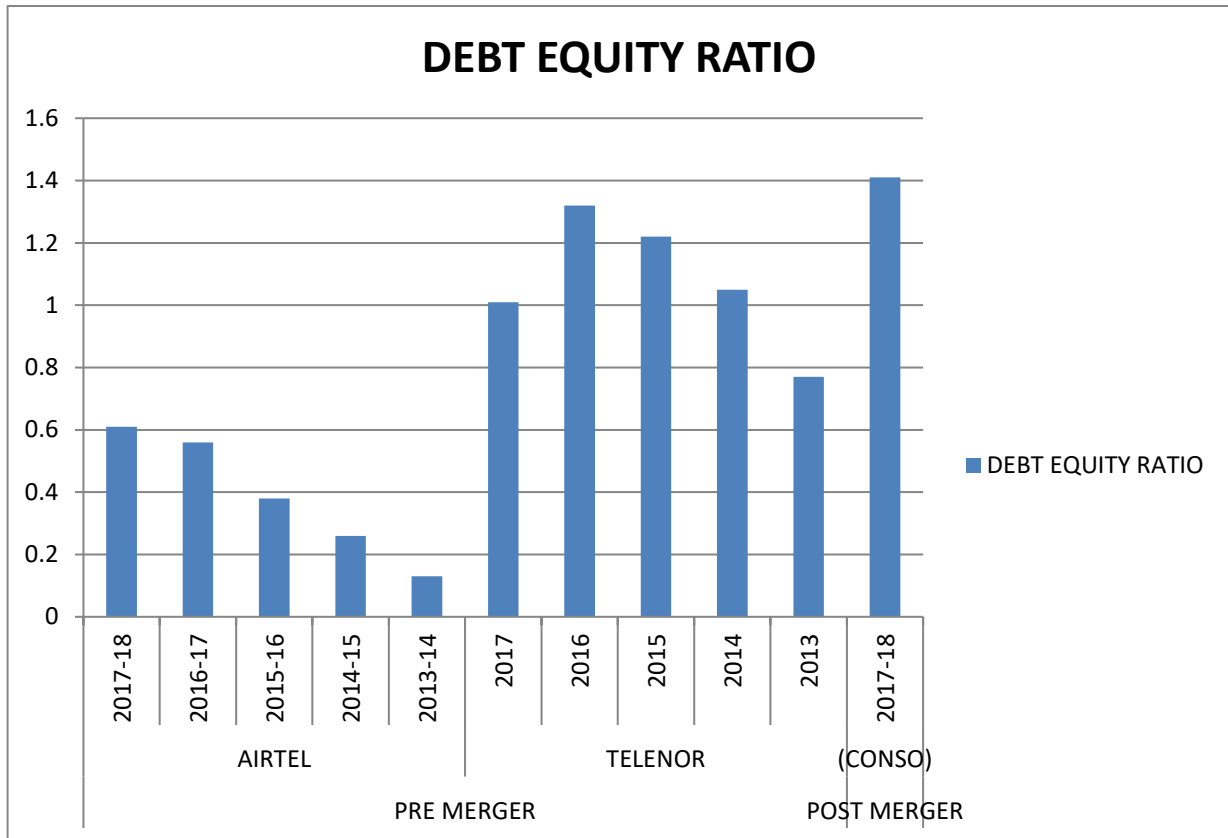
FINANCIAL INDICATOR WISE ANALYSIS

PRE MERGER OF PARENT AND SUBSIDIARY COMPANY AND POST MERGER OF PARENT COMPANY IN COLUMN GRAPH



<https://www.gapinterdisciplinaries.org/>





FORMULA USE TO FIND ALL THE RATIO

$$\text{EPS} = \frac{\text{Profit Available to Equity Shareholders}}{\text{No of Shares Outstanding}}$$

$$\text{OPERATING PROFIT} = \frac{\text{OPERATING PROFIT}}{\text{TURNOVER}} \times 100$$

$$\text{NET PROFIT MARGIN} = \frac{\text{PROFIT AVAILABLE TO SHAREHOLDERS}}{\text{TURNOVER}} \times 100$$

$$\text{RETURN ON CAPITAL EMPLOYED} = \frac{\text{OPERATING PROFIT}}{\text{TURNOVER}} \times 100$$

$$\text{EBIT} = \frac{\text{EARNING BEFORE TAX} + \text{FINANCE EXPENSE} - \text{FINANCE INCOME}}{\text{TURNOVER}} \times 100$$

$$\text{DEBT – EQUITY RATIO} = \frac{\text{TOTAL DEBT}}{\text{TOTAL EQUITY}}$$

LIMITATIONS OF THE STUDY

- To encompass the pre and post merger performance of the selected sample merger case, it is difficult to narrate all incidents and changes brought up due to mergers and acquisitions and therefore necessary inferences are inserted wherever required.
- Secondly, the study is based purely on secondary data which are taken from the financial statements of the case through Internet only and therefore can't be denied for any ambiguity in data used for the analysis.
- This research considers only financial variables that have impact on merger and acquisition but there are other variables which can play an important role in the success of merger and acquisition.

CONCLUSION

To analyze the financial performance of sample case during pre & post merger period, 6 major financial ratios were used as financial indicators. On the basis of analytical study of the sample case, the following conclusions have been drawn which are perfectly in the line of objectives predetermined. There is significant impact of merger and acquisition on Operating Profit. On the other hand there is no significant impact on shareholders profitability, overall profitability, shareholders wealth and ownership structure.

REFERENCES

- Calipha, R., Tarba, S. & Brock, D. (2010). Mergers and acquisitions: A review of phases, motives, and success factors. *Advances in Mergers and Acquisitions*, 9, 1-24.
- Cartwright, S. & Schoenberg, R. (2006). Thirty years of mergers and acquisitions research: Recent advances and future opportunities. *British Journal of Management*, 17 (1), S1-S5.
- Bhaumik, S. K., & Selarka, E. (2008). Impact of M&A on firm performance in India: Implications for concentration of ownership and insider entrenchment.
- Van der Merwe, R., & Bekker, J. (2003). A framework and methodology for evaluating e-commerce web sites. *Internet Research*, 13(5), 330-341.
- Dupuis, A., & Uacán-Marín, F. (2015). A literature review on the aquatic toxicology of petroleum oil: An overview of oil properties and effects to aquatic biota. *Canadian Science Advisory Secretariat*.
- Al-Barashdi, H. S., Bouazza, A., & Jabur, N. H. (2015). Smartphone addiction among university undergraduates: a literature review. *Journal of Scientific Research & Reports*, 4(3), 210-225.

Elhai, J. D., Dvorak, R. D., Levine, J. C., & Hall, B. J. (2017). Problematic smartphone use: A conceptual overview and systematic review of relations with anxiety and depression psychopathology. *Journal of affective disorders*, 207, 251-259.

Wen, J., Li, S., Lin, Z., Hu, Y., & Huang, C. (2012). Systematic literature review of machine learning based software development effort estimation models. *Information and Software Technology*, 54(1), 41-59.

Nidhi Nalwaya & Rahul Vyas (2010) "Merger and Acquisition in the Telecom Industry: An Analysis of Financial Performance of Vodafone Plc and Hutchison Essar