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MERGERS AND ACQUISITIONS IN INDIAN TELECOM SECTOR: A STRATEGIC ANALYSIS

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ABSTRACT

Reforms conducted by Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT) post liberalization have drastically altered the business environment in the Indian telecom sector. This sector has become more important performer in India. The telecom companies have selected for Mergers and Acquisitions (M&A) as a strategic tool to improve and increase their performances. The reason and object of the study is to know the overall strategic impact of M&A in the telecom industry. Previous research has shown that M&As in the telecom sectors of USA and Europe have not been fruitful. In this paper, 10 M&A deals in the BSE-listed Indian telecom companies during a timeframe spanning 10 years from 2000 to 2010 to determine the effect of M & As in this sector and how they have brought about changes, if any, in the business performance of the acquirer companies. The focus of this study is to measure the Mergers and Acquisitions in Indian Telecom Sector.

KEYWORDS: *TRAI, DoT, M&A, Post Liberalization, Business Environment, Business Performance.*

Introduction

Mergers and acquisitions are used as an effective and efficient strategic corporate restructuring tool in the business scenario worldwide for a long time since 1897. They are effective and efficient tools of the management to achieve greater efficiency and work efficiently by exploring synergies and growth opportunities. The service industry is backbone of social and economic development of a country in the world. The service sector has been playing a very important role in the growth of economy of the countries in the world. The service sector in India is highly dynamic and has grown to a considerable size, contributing to 59.5% in the GDP in 2014-15.

Telecommunications industry is one of the most profitable and rapidly developing industries in the world. According to the annual report 2014-15 published by DoT, Government of India, the Indian telecom sector has registered a whopping growth during the past few years and has become second largest telephone network in the world, after China. It is one of the few sectors in India which has witnessed the most fundamental structural and institutional reforms since 1991 and its continuing till 2017 with the introduction Reliance Jio making it competitive industry and benefitting the customer.

Government policies and regulatory framework implemented by Telecom Regulatory Authority of India (TRAI) and Department of Telecommunications (DoT) have provided a suitable and healthy environment for all the service providers. This has made the sector more competitive and more affordable to the customers with Jio. According to the information available in the annual report 2014-15 of TRAI, the telecom sector registered an impressive growth during the year.

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The important mergers and acquisitions in the telecom sectors includes acquisition of Command Cellular Services by Hutchison from Usha Martin, acquisition of stakes in Idea cellular by Aditya Birla group from the Tata group, merger of Aircel Ltd. with G T L Infrastructure Ltd, acquisition of Hutch services in India by Vodafone etc. In this paper, concentration on 10 M&A deals in the Indian telecom sector during a timeframe spanning from 2000 to 2010. The focus of study is to measure the change in performance levels of the companies, if any, in the post merger phase as compared to the pre merger ones.

Survey of Literature

Academic interest in mergers and acquisitions was first recognized in the 1960s (Kitching, 1967) and there are innumerable studies focusing on the impact of such a phenomenon on the different financial parameters:

The empirical study conducted by Park et. al. (2002) had profound impact in the research field related to M&A in the telecom sector. They investigated how market participants react to M&A involving telecommunications companies. The evidence suggested that such activities convey bad news to the market, to the shareholder value and a cross-border deal, rather than a domestic M&A deal, was the main driver of the negative market reaction. This suggested that value creation or synergy through an M&A deal was not a warranty even though it can generate an increase in size of the firm.

The results depicted small and sometimes positive changes in wages and employment following an acquisition. Conyon, M.J. et. al., (2004) in their study, “Do Wages Rise Or Fall Following Merger” successfully proved that wages rise following acquisition.

Yaylacicegi, U. (2005) explored the consequences of mergers and acquisitions in the telecommunications industry for the period 1988 to 2001 and established a significant evidence that mergers were followed by substantial deterioration in profitability and operational performance, in addition to a significant decrease in the investment on new technology.

Majumdar, S. K. et. al. (2009) evaluated the impact of the various mergers of the local exchange companies in the United States telecommunications industry that have taken place between 1988 and 2001 on technology investment levels among the firms. They conceived that the ‘efficiency defense’ for merger approvals did not hold and the findings call into question the validity of fundamental tenets of contemporary competition policy.

When studying mergers and acquisitions, it was found that research began to focus on the human dynamics and people management issues, only in the late 1980s (Cartwright & Cooper, 1990). It is said that the “HR can make or break the Mergers and Acquisitions” (Schraeder and Self (2003)). Yet Shook and Roth (2011) found that HR practitioners were not involved in planning decisions related to downsizings, mergers and/or acquisition. So they suggested that these practitioners need to play a more active role during the planning stages to ensure that training and development supports the financial goals of these change events.

Petkova, M. and Do, T.Q. (2012) explored whether the European acquirers in the telecom sector failed to deliver value to their shareholders in the period ranging from 1995 to 2005 and also discussed the possible motives behind the intentions to engage in M&A. The main inference drawn from the study was that acquisitions in general fail to create value to the shareholders, which might be due to many factors. They concluded that despite the negative evidence concerning post-acquisition performance, firms still choose to engage in acquisitions on account of external or internal motives.

Research Issue

The objective of this study is to explore the overall strategic impact of mergers and acquisitions in the telecom sector of India. We aim to comprehend whether M&A in this sector have led to the improvement in performance of the merging firms or has the performance deteriorated after the merged entity was formed. In this study, the performance of the sampled firms was examined via some human resource and financial parameters like HCROI, Compensation of Employees to PAT, EPS and Market Share. The magnitude of change from the pre to the post merger phase with respect to these aspects was studied and compared. Based on the objectives the following hypotheses were developed:

H_1 : There is no significant change on HCROI of the acquirer firms across telecom industry in India after merger and acquisition.

H_2 : There is no significant change on the EPS of the acquiring firms across telecom industry in India post merger and acquisition.

H_3 : There is no significant change in the market share of the acquiring firms across telecom industry in India after merger and acquisition.

H_4 : There is no significant change in the compensation to PAT ratio of the acquiring firms across telecom industry in India after merger and acquisition.

Research Methodology

The research work is empirical in nature. The study is database oriented. Data and facts have been collected from India's leading business and economic database and research company CMIE's (Centre for Monitoring Indian Economy Pvt. Ltd.) database prowess 4.14. These facts have been supplemented by information from different business dailies, magazines and the websites of the Ministry of Corporate Affairs, Ministry of Statistics and Programme Implementation (MOSPI), TRAI, Press Information Bureau, Government of India and the respective companies. From the prowess database we found that 8 BSE listed telecom companies has undergone mergers and acquisitions during the period of 2000-2010. Thus the target population of this study is these 8 telecom companies. Total 25 M&A has taken place in these companies in the said period. Out of those 25 M&A, 12 were with the subsidiaries of the acquiring companies and many had overlapping M&A in that period. Out of the 13 non-subsidiary M&As, reported non overlapping M&As during the period of our study. Those 10 M&As were selected as the subject of our study. The time frame of the study was 10 years i.e. 2000-2010.

Sample Space

We have made an attempt to trace the outcome of the M&A deals in the Indian telecom sector by examining the seven companies which are as follows:- Bharti Airtel Ltd., G T L Ltd., Idea Cellular Ltd., Mahanagar Telephone Nigam Ltd., Nettlinx Ltd. and Tata Communications Ltd. The main line of business for 28.57% of the sampled firms was cellular mobile service and also basic telephone services (28.57%). The others concentrate on wireless infrastructure (14.29%), internet service (14.29%) and communication services (14.29%). By recording the year of incorporation, we calculated the firm age of the sampled firms. It revealed that firm age of 42.86% i.e. 3 of the firms is between 15 to 20 years at present; there are equal numbers of firms (3) in the 26 to 30 years age bracket and just 14.29% i.e. 1 of the firms is aged above 30 years. With respect to the age of companies since merger, it was noted that presently 40% i.e. 4 of the companies is in the 11 to 15 years age bracket since the year of their mergers. Equal numbers of firms are there in the age group of 0 to 5 years and 6 to 10 years. The sampled firms are chosen on a pan-India basis. Majority (57.14%) of the firms is concentrated in Western India.

Analysis and Discussion

The study is based on a short run analysis of two periods-viz three years prior to the merger and three years immediately after the merger. The secondary data which has been collected was subjected to descriptive and inferential analysis. This research work tried to test the hypotheses relating to the impact of merger and acquisition on the various parameters and thus derive at conclusion about whether the event of merger and acquisition has made an impact on the performance of these firms. The IBM software SPSS 20.0 and MS Excel were used to compute and analyze the data. The ratios for each of the performance parameters were estimated for all the ten mergers individually. This was followed by the Shapiro-Wilk normality test. On the basis of the normality results, paired t test at 95% confidence level was carried out for dataset following normal distribution and Wilcoxon Paired Sign-Rank Test was computed for dataset not following normal distribution. This enabled us to compare means of the subject over time in the two differing situations i.e. performance before the merger and performance after the merger. t-test and Wilcoxon test were chosen because those are easy to understand and perform as well as used widely. The following formulae have been used for computation purposes:

$$HCROI = \frac{[Revenue - (Operating\ Expences - Compensation)\ ]}{Compensation}$$

$$EPS\ (Earning\ Per\ Share) = \frac{PAT\ - Preference\ Dividend}{No.\ of\ Shares}$$

$$Market\ Share = \left[\frac{Company's\ Total\ Income}{Industry's\ Total\ Income}\right] \times 100$$

$$Total\ Compensation\ to\ PAT\ Ratio = \frac{Compensation\ to\ Employees}{PAT}$$

Findings

- **HCROI t Test**

Table 1. Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
HCROI PRE	3.8210	10	5.18077	1.63830
HCROI POST	.2430	10	1.90680	.60298

Table 2. Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
HCROI PRE HCROI POST	3.57800	4.83613	1.52932	.11844	7.03756	2.340	9	.044

Since the calculated value of t (2.340) for N=10 (as in Table II) exceeds the table value (2.262), we can reject the null hypothesis. The results are significant at 0.05 level of significance (p=0.44). This indicates that the means of the pre and post HCROI values are significantly different.

From the paired samples statistics table (Table I), we observe that the pre merger HCROI mean is significantly greater than that of the post merger period. We therefore conclude that it is more likely to have been due to some systematic and deliberate cause. If all other confounds are eliminated, this systematic cause must have been the vent of merger:

$$\eta 2= (2.340)2/ [(2.340)2 + 10] = 35.38\%$$

So 35.38% of the variability in the reduced performance in the HCROI scores can be explained by this merger. We conclude that the phenomenon of merger did not improve the HCROI of the companies in the post merger period. Previous research has proved that there is a positive association between different human capital indicators post merger and acquisition period. (Rizvi (2011); Seleim et. al. (1996); Bouillon (1996); Hitt et. al. (2000); Brown and Medoff (1987); Conyon et. al.(2000).

- **EPS t Test**

Table 3. Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
EPS PRE	6.6300	10	12.40293	3.92215
EPS POST	3.8310	10	5.35302	1.69277

Table 4. Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
EPS PRE EPS POST	2.79900	7.67895	2.42830	-2.69419	8.29219	1.153	9	.279

The calculated value of t for N=10 is 1.153 (as in Table IV). The result is not significant at 0.05 level of significance (p=0.279). Since the calculated value of t is lower than the table value, there is no reason to reject the null hypothesis. Hence we can say that change in the earnings per share of the companies on the post merger phase is not significant:

$$\eta 2= (1.153)2/ [(1.153)2 + 10] = 11.74\ \%$$

So 11.74 % of the variability in the abridged performance in the earnings per share scores can be explained by this merger. We deduce that the phenomenon of merger did not benefit the earnings per share of the companies in the post merger period. Previous research has shown that the activity of mergers and acquisitions has a mixed impact on EPS and share price of enterprises post merger. (Mahesh R. and Daddikar, P. (2012); Loughran, T. et. al. (1997); Hassan, M. et. al. (2007); Andrade (1999); Tuch, C. and Sullivan, N. O. (2007); Delaney, F.T. and Wamuziri, S.C. (2004); Kumar, B. R. and Panneerselvam (2009); Al-Sharkas, A.A.(2010 and Ramakrishnan, K. (2010).

- **Market Share t Test**

Table 5. Paired Samples Statistics

	Mean	N	Std. Deviation	Std. Error Mean
Market Share PRE	2.670060	10	4.1774647	1.3210303
Market Share POST	2.012473	10	2.5991458	.8219221

Table 6. Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Market Share PRE Market Share POST	.6575865	2.9733965	.9402705	-1.4694532	2.7846262	.699	9	.502

The calculated value of t for N=10 is 0.699 (as in Table VI). The result is not significant at 0.05 level of significance (p=0.502). There has been no significant change in the market share of the companies post merger. We observe that the post merger market share is slightly lesser than that of the pre merger period.

$$\eta 2= (0.699)2/ [(0.699)2 + 10] = 4.66\%$$

So 4.66% of the variability in the abridged performance in the market share scores can be explained by this merger. We surmise that the phenomenon of merger did not perk up the market share of the companies in the post merger period. Past study relating to investment bank market share and performance of acquiring firms depicted that market share was positively related to contingent fee payments charged by the banks and also to the percentage of deals completed in the past by the bank. It was unrelated to the performance of the acquirers. (Rau, P.R.(2000)).

- **Compensation of Employees to PAT Wilcoxon Test**

Table 7. Ranks

		N	Mean Rank	Sum of Ranks
Compensation To PAT post – Compensation To PAT pre	Negative Ranks	5[a]	5.40	27.00
	Positive Ranks	5[b]	5.60	28.00
	Ties	0[c]		
	Total	10		

- Compensation To PAT post < Compensation To PAT pre
- Compensation To PAT post > Compensation To PAT pre
- Compensation To PAT post = Compensation To PAT pre

Table 8. Test Statistics[a]

	Compensation To PAT post – Compensation To PAT pre
Z	-.051[b]
Asymp. Sig. (2-tailed)	.959
Exact Sig. (2-tailed)	1.000
Exact Sig. (1-tailed)	.500
Point Probability	.039

- Wilcoxon Signed Ranks Test
- Based on negative ranks.

Table 7 shows that the negative mean rank is less than the positive mean rank. This suggests that the compensation to employees to PAT ratio measure post merger is likely higher than that in the pre merger period. So we can infer that the phenomenon of merger has accentuated this performance parameter. Previous research has shown small and sometimes positive changes in wages in the post acquisition phase and others have successfully proved that wages rise following acquisition (Charles Brown and James L. Medoff (1987) and Conyon, M.J. et. al., 2004).

Conclusion

This paper studied four parameters which can throw light on the performance of the Indian telecom companies in the pre and post merger phases during 2000-2010. Only the HR parameter HCROI revealed a significant change in the post merger period. All the remaining three aspects selected for computing the performance divulged no significant change in the period post merger. The ratio between compensation of employees and PAT has been the only parameter where the performance has improved after the merger. Since three out of four parameters have shown no significant enhancement during the post merger phase, it may be concluded that the change in the overall performance of the seven telecom firms due to merger in the period of 2000-2010 was not of much significance.

M&A are often referred as corporate marriages and alliances. Just like all marriages are not destined for a happy relationship; similarly all the phenomena of merger are also not prolific. In fact the reverse is true majority of the time. Despite the popularity of mergers and acquisitions, evidence has shown that the majority have failed to improve performance and to achieve anticipated strategic and financial objectives set forth in the premerger planning phase.

An economy takes time to recuperate after a financial meltdown. It is influenced by the spillover effect of the phenomenon. Spillover effect refers to a secondary effect that follows from a primary effect, and may be far removed in time or place from the event that caused the primary effect. In this study, the post merger period of the firms corresponded with the period immediately after the recession. So quite naturally, the corporate were undergoing spillover effects at that time.

The prowess database has not reported the hierarchy-wise distribution while computing the compensation of the employees. Due to this limitation, equal weight age was given to all the employees. With more detailed data on this, our study would have been more robust. Another limitation is the timeframe of the study. This study, a part of research covering a large gamut of issues, necessitated the restriction of the time period to the ten- year timeframe spanning from 2000-2010. Though the sample size of 10 finally merged or acquired pairs of firms appears to be limited, it forms the 40% of the population size (total 25 M&As).

No control group was used in the study. Due to obvious constraint of unavailability of data, the target firms which had undergone mergers were not considered in the study. However this study paves a way towards further research using longer time periods and inter-sectoral studies. It also encourages future studies on several other HR and financial aspects which are influenced by the events of mergers and acquisitions.

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