



An analytical study of impact of Merger & Acquisition on Financial Performance of Telecom industry in India – With reference to Vi Ltd.

Prashant Pathak, Dr. Vinod Kumar Vishwakarma, Priyank Srivastava

Research scholar, Department of commerce, Guru Ghasidas Vishwavidyalaya, Bilaspur, Assistant professor, Department of commerce, Guru Ghasidas Vishwavidyalaya, Bilaspur, Research Scholar, CMP Degree college, University of Allahabad.

Guru Ghasidas Vishwavidyalaya, Bilaspur, University of Allahabad

Abstract:

Numerous studies have highlighted the risky nature of Mergers and Acquisitions (M&A), often revealing that many companies fail to meet the expected financial outcomes post-transaction. Nonetheless, M&A is viewed as an investment endeavour where the highest risks can yield significant results, regardless of success or failure. This paper seeks to explore the effects of M&A on the financial performance of the Idea & VI Telecom Company in India. The primary objective is to assess how M&A impacts profitability, growth, and liquidity positions by analysing the financial data for five years before and after the merger. Recent Indian companies that underwent M&A between 2018 and 2019 were selected, with data collected from 2014 to 2023. Secondary data sourced from annual audited financial statements spanning the pre- and post-merger periods were utilized for analysis. To evaluate profitability, growth, and liquidity positions in Idea & VI, relevant financial ratios were employed. Statistical analysis was conducted using the paired t-test through SPSS software to determine the significance level of the findings. The study's results indicate a significant impact on the financial performance of both the acquiring and acquired companies following the M&A transaction.

Introduction:

In today's dynamic business landscape, every company strives for profitable growth. This growth can stem from internal initiatives like introducing new products, expanding existing ones, or consistently improving sales. Externally, companies seek growth through acquisitions, with Mergers and Acquisitions (M&A) being pivotal strategies, particularly in the telecom sector where they're viewed as essential for sustainable competitive advantage. In fact, about 85% of Indian firms utilize M&A as a primary growth tactic. Evaluating financial performance in this context requires considering strategic and economic factors for long-term success. Financial managers and senior executives seek evaluative standards to swiftly gauge performance and set appropriate strategies. Financial performance is viewed as the result of a collaborative effort among various assets—human, physical, and capital—to achieve common goals. These assets, along

with other influencing factors, affect performance across key parameters such as profitability, liquidity, and economic growth, thus shaping overall financial performance.

Contribution of Telecom Industry in India's Economy:

The telecom industry is one of the most important sectors in the Indian economy, with a 6.5% contribution to the country's GDP. In the last quarter of FY 2022-2023, the industry's gross revenue was INR 85,356 Cr (\$11.38 Bn). The industry includes Infrastructure, Equipment, Mobile Virtual Network Operators (MNVO), White Space Spectrum, 5G, Telephone service providers and Broadband.

The telecom sector is set to grow at a Compound Annual Growth Rate (CAGR) of 9.4% from 2020 to 2025. However, with a CAGR of 15.9% throughout the forecast period, the smartphone industry in India will have the fastest growth. By 2025, India's digital economy is anticipated to be worth \$ 1 trillion. This article has been studied on the financial performance of Idea Ltd and Vodafone (Currently as "Vi") as their merger was one of the greatest in the history of telecom industry of India.

About IDEA & Vi Ltd.

VI, formerly known as Vodafone Idea, is headquartered in Mumbai and Gandhinagar and operates nationwide, offering integrated GSM services encompassing 2G, 3G, 4G, LTE Advanced, Volte, and Vo Wi-Fi. The merger of Vodafone India and Idea Cellular in August 2018 led to the establishment of 'Vodafone Idea Limited', which rebranded as VI in 2020, consolidating the separate Vodafone and Idea brands.

In October 2022, VI enhanced its network capacity in Andhra Pradesh and Telangana, focusing on boosting the speed of its gigaset 4G service by expanding the utilization of the 1,800 MHz spectrum band for faster download and upload speeds. A promotional campaign was also launched to underscore the superior network coverage in these regions.

By September 31, 2023, VI's subscriber base had reached 219.8 million, ranking it as the 3rd largest mobile telecommunications network in India and the 11th largest globally. The primary stakeholders in VI include the Government of India with a 24% equity share, the Vodafone Group with 24.21%, and the Aditya Birla Group with 13.59% equity. It also targeted to become the 1st marketer of telecom industry in India.

Literature review:

1. **Neelam Rani (2013)**, examined the financial results over the long run of Indian M&A firms. Information was gathered from secondary sources such as NSE, CMIE, and so on. The information was gathered during a ten-year period. The 14 ratios were calculated: total assets turnover ratio (TATR), fixed assets turnover ratio (FATR), current assets turnover ratio (CATR), total debt over total assets ratio (DA), and current ratio (CR). The operating profit margin based on sales (OPMS), net profit margin (NPM), operating profit ratio based on assets (OPMA), labour-related expense ratio (LRE), selling, general, and administration expense ratio (SRE), and research and development expense ratio (RDE) are the ones that were calculated. To identify the noteworthy variations
2. **Agnihotri (2013)**, investigate and analysed determinants of acquisitions in three industries in India and find that the volatility of earnings and business group affiliation has a significant influence on acquisitions by Indian firms. The paper focused more on increase in earnings due to Acquisitions
3. **Chawla, Mahesh Dilip (2017)**, Mergers and acquisitions in Indian Telecom sector: a strategic analysis changes implemented by the Department of Telecommunications and the Telecom Regulatory Authority of India (TRAI) have significantly changed the business climate in the Indian telecom industry. In India, this area has become a more significant performer. The telecom companies have chosen to use mergers and acquisitions (M&A) as a tactical instrument to improve and significantly increase their performance. The purpose of this study is to identify the overall strategic impact of mergers and acquisitions in the telecommunications sector. Previous studies have demonstrated the lack of success of mergers and acquisitions in the US and European telecom industries. Ten M&A offers in the Indian telecom companies that are listed on the BSE at some point in time are included in this paper.

4. **Singh, Sasmita (2017)**, post-merger analysis of returns to equity shareholders: An Indian Telecom Sector Study, In India, the telecom sector is one of the fastest growing. Acquisitions and mergers are now a constant and necessary requirement for future growth in this sector. This research aims to determine whether or not the acquiring Indian telecom businesses' equity holders receive better profits as a result of these mergers. Particular attention is paid to the mergers that have occurred between 2008 and 2015. The results indicate that the majority of these mergers increase shareholder returns, even though the impact isn't always significant.
5. **Viral Upendrabhai Pandya's (2017)**, Using time-series data and significant recent global developments research attempts to quantify the mergers and acquisitions industry in India from 1991 to 2010. This article further attempts to classify patterns in the manufacturing and non-manufacturing sectors in order to offer concrete proof of the intentions and rationales behind the specific behaviour's noted, as well as the potential trajectory of mergers and acquisitions in India.
6. **Rabi Narayan Kar and Amit Soni (2017)**, study stressed the use of mergers as a tactic to increase enterprise value. In order to examine the impact of the mergers, researchers examined and chose the post-liberalization period.
7. **Sharma, Sachin and Verma, Priyanka, (2017)**, Indian Telecom Sector: Pros & Cons of merger and acquisition for different players of Telecom Sector, merger and acquisition (M&A) strategies are becoming vital for organizations to maintain competitive advantages, including in the telecom sector. With numerous internal and external factors influencing the Indian telecom industry, a surge in M&A activities is anticipated. Previous M&A studies primarily focused on financial performance, but this research delves into opportunities and threats for key stakeholders like users, telecom service providers (TSPs), and government regulators. It also examines the potential for monopolization in the Indian telecom sector due to M&A and the role of the regulatory framework.
8. **Bedi, Atashi (2018)**, Post Acquisition Performance Of Indian Telecom Companies: An Empirical Study, This study found that despite potential synergies from mergers and acquisitions, most groups failed to enhance their liquidity, as indicated by a decrease in the current ratio, except for Bharti Airtel and Vodafone. Profit margins also saw little improvement post-merger, crucial for demonstrating the impact on company earnings to shareholders. Additionally, the solvency of companies suffered after mergers. T-tests revealed no significant difference in financial ratios pre and post-merger, suggesting overall performance didn't immediately improve.

Need for the Study:

There is no doubt that M&A's have been and continue to be a popular strategic alternative to organization growth. Very few study have been done on the various factors, but for the study few prime causes like study about, total sales, financial performance i.e. Operating profit, net profit have taken for the analysis to determine the M&A performance.

Objective:

To test the pre and post impact of Mergers and Acquisition (M&A) on the financial performance of Idea & Vi Ltd, Considering the factors on revenue, operating profit & net profit.

Hypothesis of the Study:

H₀: There is no significant difference between pre and post impact of merger and acquisition on the financial performance of Idea & Vi Company.

H₁: There is significant difference between pre and post impact of merger and acquisition on the financial performance of Idea & Vi Company.

Research Design:

This study is of inferential character and depends on secondary data which are quantitative in nature. The main data sources used in this research paper are website of company, e-newspapers, journals and financial reports issued and published by various competent authorities. The study covers a period of ten years from the year 2014 to 2023.

Scope of the Study:

This study cover only merger and acquisition of IDEA & Vi companies because, as it was not possible for the researcher to consider all companies for study as the data will be huge, so a convenient sampling method and availability of required data has been considered as basic for selection of these companies.

Analysis & Interpretation:

Table 1: Revenue of IDEA & VI Ltd.

PRE MERGER		POST MERGER	
YEAR	TOTAL REVENUE	YEAR	TOTAL REVENUE
2014	26,179.47	2019	39,203.50
2015	31,731.81	2020	7,070.10
2016	35,967.59	2021	19,863.50
2017	35,475.68	2022	38,389.80
2018	28,467.10	2023	42,049.00
MEAN	31,564.33	MEAN	29,315.18
S.D.	4280.915728	S.D.	15218.86667

*Amt. in Crores.

Source: Money Control

Paired T-test values for Total Revenue	
Observations	5
Correlation "r"	-0.393459342
P-value of paired sample t-test	0.786384461
Significance level	5%

The above Table 1 represents the Total Revenue data of the company from the financial years April 2014 to March 2023. On the basis of available data, following inferences can be drawn:

1. In the FY group 2014-2016 there is constant increase in the revenue of the company by 21% and 13% respectively.
2. From the FY 2017, there was a fall of 1.36% in the revenue of the company
3. In the FY 2018, there was a fall in the revenue by 19.75%.
4. In the year of merger implementation i.e. FY 2019 there was rise of 37.7% signifying better results of M&A.
5. In the pandemic year of FY 2020 there was an acute downfall in the revenue by 82%
6. Later the company struggled to cope up with the challenges and there was constant rise of revenue with average growth rate of 95% for the year group 2020-23.

Considering the significance level at 5%, paired sample T-test shows that there is no significant difference between pre and post merger of Idea and Vi on the revenue since "p-value > 0.05". Thus, as a result Null hypothesis is accepted.

Table 2: Operating and Net profit of Idea & Vi Ltd.

PRE MERGER			POST MERGER		
YEAR	OPERATING PROFIT	NET PROFIT	YEAR	OPERATING PROFIT	NET PROFIT
2014	7,254.24	1,689.31	2019	3,878.90	-14056
2015	9,673.41	2,809.84	2020	14,617.40	-73,131.50
2016	11,894.59	2,646.29	2021	16,428.50	-46,293.70
2017	10,094.84	-831.08	2022	15,433.50	-28,237.20
2018	5,644.30	-4,458.30	2023	16,275.90	-29,307.80
MEAN	8,912.28	371.21	MEAN	13,326.84	-38205.24
S.D.	2464.788525	3067.163224	S.D.	5331.143905	22621.775

*Amt. in Crores.

Source: money control.

Paired T-test values for Operating Profit		Paired T-test values for Net Profit	
Observations	5	Observations	5
Correlation 'r'	0.356754902	Correlation 'r'	-0.456504811
p-value of Paired Sample t-test	0.120237529	p-value of Paired Sample t-test	0.023419384
Significance level	5%	Significance level	5%

The above Table 2 represents the Operating Profit & Net Profit of IDEA & Vi Ltd from the financial years April 2014 to March 2023. On the basis of available data, following inferences can be drawn.

1. In the year group 2014-2016 there was a constant increase in Operating profit & Net profit of company. It pivoted around the average of three years.
2. In the FY 2018, there was a fall in the Operating profit of the company by 44% and Net profit is also fall by 436%
3. From year 2019-2021 Operating profit was increased, but Net profit is continuously follow the falling trend till 2019-2023.
4. In the first set of data, operating profit is consistently higher than net profit, indicating that the company is able to cover its expenses and still generate positive earnings.
5. In the second set of data Net profit is negative for most years, indicating that the company is experiencing losses despite generating revenue from its operations.
6. However at significance level 5%, paired sample T-test shows that there is no significant difference between pre and post merger of IDEA & Vi Ltd on the operating profit, since “p-value > 0.05”. Thus, as a result Null hypothesis is accepted.
7. But in Net profit there is significance difference between pre and post merger of IDEA & Vi Ltd of Net profit, since “p-value < 0.05”. Thus, as a result Null hypothesis is rejected.

CONCLUSION:

The telecom sector plays a crucial role in the development of the economy. Its development is also linked with the growth of other industries as well. The reformation of the companies as a merger and acquisition was a significant shift in the favour of country's growth. In this study the effect of M&A has been studied on the financial performance of IDEA & Vi Ltd.

The study revealed that there is no significant difference on the Revenue and Operating profit of the IDEA & Vi Ltd, but there is significant difference on Net profit of the IDEA & Vi Ltd. However in FY 2023 there was a surge in Revenue, Operating and Net Profit of the company

which might be due to heavy consumer demand and better supply management of the company and it is expecting the same to be followed in upcoming years as well.

Experts believe that after M&A the financial performance of company is at its growing stage; hence, at this time, it is not advised to judge its impact over the various sectors of the economy to derive some final result.

LIMITATIONS & FUTURE SCOPE:

The study is purely based on Secondary data and the researcher has taken only three variables, i.e. Total Revenue, Operating Profit and Net Profit to measure the financial performance of Idea & VI Ltd. The other variables have not been considered. Further scope of the study extends to analysis of primary data with consideration of other variables to measure the financial performance of the company.

References:

1. Neelam Rani (2013), "Financial performance analysis of mergers and acquisitions: evidence from India"
2. Agnihotri, A. (2013) Determinants of Acquisitions: An Indian Perspective. Management Research Review, 36, 882-898. <https://doi.org/10.1108/MRR-04-2012-0077>.
3. Chawla, M. D. (2017). Mergers and Acquisitions in Indian Telecom Sector: A strategic analysis. Inspira- Journal of Modern Management & Entrepreneurship (JMME), 266-272.
4. Singh, S. (2017). Post-Merger Analysis of Returns to Equity Shareholders: An Indian Telecom Sector Study. International Journal of Advance Research in Computer Science and Management Studies, 4-12.
5. Pandya, V.U. (2017) Mergers and Acquisitions Trends—The Indian Experience.
6. Kar, R.N. and Soni, A. Mergers and Acquisitions in India: A Strategic Impact Analysis for the Corporate Enterprises in the Post Liberalization Period 2017.
7. Sharma, S., & Verma, P. (2017). Indian Telecom Sector: Pros & Cons of Merger and Acquisition for different players of Telecom Sector. International Journal for Innovative Research in Multidisciplinary Field, 537-542.
8. Bedi, A. (2018). Post Acquisition Performance of Indian Telecom Companies: An Empirical Study. Pacific Business Review International, 56-62.

Web references:

1. www.trai.gov.in
2. www.wikipedia.org
3. <https://www.myvi.in/investors/annual-reports>
4. <https://www.moneycontrol.com/financials/vodafoneidea/balance-sheetVI/ic8/2#ic8>