

Strategic Restructuring Through Merger and Acquisition- A Case Study on Indian Telecommunication Sector

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Abstract:

BBB means one billion Jan Dhan account, one billion addhar, one billion mobile phone! Indian telecom sector is too big to handle. It is world's second largest market in telecommunications which is segmented into wireless, internet and wire line service segments. It is even supported by FDI which is now 100% instead of 74%. But due to oligopoly market structure telecom sector is a sector of financial stress too. Indian markets is not friendly with cartels or better say it is not appreciated by the government but current entry of jio has initiated contraction of telecommunication sector. Shut down of host operator or merger and acquisitions announcements is changing the face of competition in Indian telecommunication market.

mergers and acquisition are often in competition. Reliance communication already purchased Aircel the giant of south but entry of Jio threshold the purpose. May be they have not understand the corporate strategy well. In this paper we are trying to find out the conclusion of this merger as mergers either create wealth or reduce wealth. Merger of virgin communications cannot be generalized with merger of Rcom or Aircel or presently with Idea and Vodafone.

This paper talks about the current situation of Indian telecommunication sector as well as how the merger of giants, i.e. Idea & Vodafone, is going to affect the Indian telecommunication sector as a whole. We would like to see whether this merger of top two positioned telecommunication companies is beneficial for them financially as well as in capturing market? They have a strong competitor with multiple marketing strategies. Is it a correct decision to join hand with each other?

Keywords: Mergers, Indian Telecommunication, vodafone

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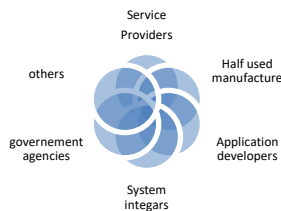
I. INTRODUCTION

Human being and communications are as old as civilisation is. The human initially started with making few letters then derived the languages to communicate. In India there is a difference between Boli and Bhasha, in English we say there is difference between ascent and language. Language is having its alphabets, literature and other things. Ruins of communications are still available with Haddappa civilisation. Formally if we see this sector is 165 years old. In India, the commencement of the telecommunication sector is start with the "Telegraph". The Indian postal & telecom sectors are one of the world's oldest. In 1850, the 1st

experimental electric telegraph line was started between Calcutta & Diamond Harbour. In 1851, it was opened for the use of the British East India Company. The posts & Telegraphs department engaged a small corner of the public works department, at that period. The construction of 4000 miles (6400km) of telegraph lines was ongoing in November 1853. Evidently Rani Jhansi was having telegraph facility at her castle. William O'Shaughnessy was the one who pioneered the telegraph & telephone in India, went to the public works department, & worked towards the development of telecom throughout this period. Later on it was adopted by metros as well as the armed

forces cantonments in India.

Present Eco System of India Telecommunication Sector:



The Indian telecommunication sector has Massive Market Coverage by companies with high Revenues Generation, it has strong Subscriber Base with branded product. It has challenges of oligopoly which is now somewhat like an Triopoly. The Indian telecommunication sector is on cross road today as number of companies are either closed or acquired by some other company

Videocon – Closed in 2015

Aircel – Closed as purchased by R-comm. I 2016

Telenor – Acquired by Airtel

TTSL – Took by Airtel 2017

Tikona – purchased by Airtel in March 2017

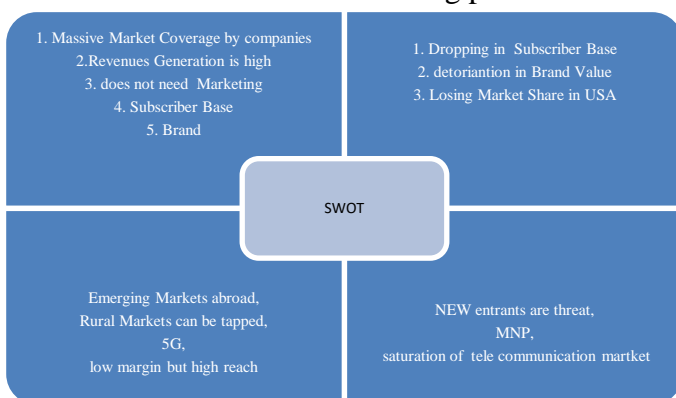
MTS - Acquired by RCOM and Closed

RCOM – Closed. Asset sold to Jio

Vodafone & Idea – Merged together

Only 3 entities left in private play – Airtel, Jio, Vodafone + Idea

It we look at SWOT analysis of Vodafone as a whole than it seems to be in strong position



Aditya Birla group was among the few who initiated the telecommunication sector. Idea was brain

child of AT&T, Tata and Aditya Birla group. They had worked a lot for this day. The company was positioned number two before jio came into existence. GSM was the core product. It was having 5 subsidiary companies which were providing services short message , GPRS to high end services in the country in different circles. It was having a unique advertising caption- “ what an Idea sir ji!”

LITERATURE REVIEW

Yaylacicegi, U. (2005) found in his research paper that the impact of M & A in the Indian Tele communications industry just after the early liberalization of telecommunication sector where the domain were opened to multiple companies. During that period profitability was very high as all the companies were doing price skimming to churn the butter out of the market as it was changing too fast due to new technological changes. Call in one rupee was too introduced during this time period of two years.

Majmudar, S. K.(2009) talked about changes in American telecommunication industry which was undergoing the change at the same time when Indian telecommunication was welcoming new entrants to telecommunication industry. one thing was common that both the countries were experiencing the new wave of technology and pinch of mergers due to competition

Petkova, M. and Do, T.Q. (2012) mentioned in his paper that in EU acquirers of telecom sector failed to deliver value for money to the owners as till the year 2005 the whole telecommunication sector was reshaping itself due to super fast changes in technology. Big companies like Siemens who joined hand with verizone were failed to provide value for money to the share holders.

Seethanaik,d.(2015) mentioned in her paper, that companies actually hedge their investment before they opt for mergers and acquisition but in telecom sector we saw traditional hiring practices. Acquisition process is very complex and firm should not focus on short term benefits as well as results.

Research objectives-

1. This is third major merger in Indian telecom industry after Rcom and Aircel, Telenor /uninor. But is it worth to get merge to fight against JIO?

2. Is it really financially beneficial to Vodafone and Idea individually to enter in to the market as a merged company?

II. RESEARCH GAP

India is witnessing changes in telecommunication sector i.e. structural, fundamental as well as institutional after new economic policy .mergers and acquisition are often in competition. Telenor became uninor, BPL and Videocon shut down their circles. BSNL is fighting with cash crunch. Reliance communication already purchased Aircel the giant of south but entry of Jio threshold the purpose. May be they have not understand the corporate strategy well. In this paper we are trying to find out the conclusion of this merger as mergers either create wealth or reduce wealth. Merger of virgin communications cannot be generalized with merger of Rcom or Aircel or presently with Idea and Vodafone.

III. RESEARCH METHODOLOGY

Population- 7

Sample size – 2

Type of research – empirical and the study is data base oriented

Sampling unit – Vodafone and Idea

Type of data- Secondary

Source of data- Collected from audited annual report of Vodafone and Idea, Capitoline & money control

Test run- Paired T- Test

Time period- 2016-17, 2017-18, 2018-19

Tool – Return on equity ad profitability

Software used- SPSS 19

IV. HYPOTHESIS

H0: There is a positive impact of mergers and acquisitions on the Return on Equity of the Idea and Vodafone.

H1: There is a no positive impact of mergers and acquisitions on the Return on Equity of the Idea and Vodafone

Why Vodafone and Idea as sampling units?

Jio came as an invader to Indian telecom industry. Its aggressive marketing, loss making strategy is resulting in to blue ocean as it captured 50% of market on immediate basis and still spreading. It forced the other companies to change its strategy. Now it has come to the question of survival. But every decision should ripe a financial fruit. So we would like to know that whether this merger is ripping fruit for Vodafone and Idea or not?

V. DATA ANALYSIS



Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	2 YEARS PROFITABILITY BEFOR MERGER	907.6050	2	2458.87191	1738.68500
	2 YEARS PROFITABILITY AFTER MERGER	-9418.3000	2	6558.69824	4637.70000

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	2 YEARS PROFITABILITY BEFOR MERGER & 2 YEARS PROFITABILITY AFTER MERGER	2	1.000	.000

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	U			
Pair 1	2 YEARS PROFITABILITY BEFOR MERGER - 2 YEARS PROFITABILITY AFTER MERGER	10325.905	4099.82633	2899.01500	-26509.57312	47161.38312	3.562	1	.174

VI. ANALYSIS AND DISCUSSION

The study is based on an analysis of only four years which is generally considered as short term. We have taken data for two years prior to the merger and two years after the merger. The null hypothesis is accepted as mean is lying in the range. And there is a strong positive correlation is visible. The results for profitability too is satisfactory. So in nut shell it is accepted that this merger is beneficial for both the companies.

VII. CONCLUSION

They should give time. Indian telecommunication Market is too competitive they should enter in the other market like Africa & Latin American countries. Or they can follow strategy of Rcom and Airtel Idea is having its own reputation. The new company must expand in India they are already done its restructuring. so, its beneficial to them. If they want to fight with jio, then they have to integrate. Virgin mobile/communication and Verizon in USA are the biggest market players. So, if Vodafone & idea applying strategy of virgin mobile then they are able

to give competition to jio. Virgin mobile is having concept of market orientation, in that they are considering 3 pillars: customer focus, coordinated marketing, & profitability. Virgin communication is the leading name in the communication & entertainment sector providing a "Quad Play" of services consisting of broadband, T.V., mobile & fixed line telephone. They are building its large business through constant innovation, successful diversification & competitive product design using a future proof strong communication network. Virgin media has put together 3 strategic priorities in its manifesto: Engaging our people, growing our business, fixing the fundamentals.

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