

# A study on Pre and Post Financial Performance of Mergers and Acquisitions: A case study of Bharti Airtel

**Suruchi Satsangi**

(Research Scholar, Department of Accountancy & Law, Faculty of Commerce,  
Dayalbagh Educational Institute (Deemed University) Dayalbagh, Agra-282005)  
E-Mail : satsangisuru1994@gmail.com

**Prof. Prem Das Saini**

(Department of Accountancy & Law, Faculty of Commerce,  
Dayalbagh Educational Institute (Deemed University) Dayalbagh, Agra-282005)  
E-Mail : pdsaini.dei@gmail.com

## ABSTRACT

In recent period, Mergers and Acquisitions are growing day by day all over the world for improving the competitive market and to diminish the risk as a result of which the business can increase their market share. The Mergers means when one business joint with the other business and merges its identity to form a new business by transferring their business and undertaking including all other assets and liabilities to a new business. The Acquisition means the purchase of substantial portion of the assets or the securities by one business to another business and it may be friendly or hostile acquisition. The main objective of the study is to study the overall Mergers and Acquisition by Bharti Airtel and to examine the pre & post financial performance of Bharti Airtel merged and acquired with Telenor. The researcher has done an analytical research which is focusing on the pre and post financial performance of the Bharti Airtel and Telenor India. The appropriate data was collected from the secondary sources like various websites related to the company. The duration of the study is considered one financial year from pre and post Mergers and Acquisitions. The base year when Mergers and Acquisitions were held is considered as zero. Ratio Analysis, t-Test and presentation tool like graphs was used as tools in the study. The finding of the study is that the ratio of Bharti Airtel is comparatively high then the Telenor India and the parent company i.e. Bharti Airtel getting more benefits after the M&A with the Telenor as well as with all the subsidies.

**Keywords:** Merger and Acquisition, Pre – Post Financial Performance, Subsidies, Bharti Airtel and Telenor India.

### Introduction

The corporate area all over the global is restructuring its operations through dissimilar kinds of consolidation strategies in order to face numerous challenges posed by the new outline of globalization, which again led to the better addition of national and international markets. The intensity of such operations is increasing with the deregulation of several Government policies as a facilitator of the new financial regime. The Indian corporate sector too practiced such a boom in Mergers and Acquisition led restructuring strategies particularly after liberalization mainly due to the presence of subsidiaries of large MNCs here as well as due to the burden recorded by such strategies on the national firms. Finance, Drugs and Pharmacological, Telecommunication, Fabrics, Electrical equipment, Tea etc. are the major areas in which it has been happened.

Generous and reformist guidelines of the Government of India have been instrumental along with robust buyer demand for the rapid development in the Indian telecom segment. The government has allowed easy market access to telecom equipment and a reasonable and proactive regulatory agenda that has ensured

availability of telecom services to consumer at reasonable prices. The deregulation of Foreign Direct Investment (FDI) norms has made the sector one of the fastest growing and a top five employment opportunity generator in the country. In such a hyper competitive telecom industry, to remain in competition most of the firms are taking the inevitable merger and acquisition route.

### **Understanding The Concept Of Mergers And Acquisitions**

#### **Mergers or Amalgamations**

A merger is a mixture of dual or more dealings into one business. Laws in India practice the term 'amalgamation' on behalf of merger. The Income Tax Act, 1961 [Section 2(1B)] describes amalgamation as "the merger of one or extra businesses with any other or the merger of two or extra companies to form a new company, in this type of way that each one assets and liabilities of the amalgamating groups turn out to be assets and liabilities of the amalgamated organization and shareholders not much less than three-fourths in value of the stocks in the amalgamating company or groups emerge as shareholders of the amalgamated agency." Therefore, mergers or amalgamations may additionally take two bureaucracy: - Merger through Absorption and Merger through Consolidation. Also, there are three main sorts of mergers: - Horizontal merger, Vertical merger and Conglomerate merger.

#### **Acquisitions and Takeovers**

An 'acquisition' is the buying of one commercial or business by another business or other commercial entity. Therefore, in an acquisition two or more industries may continue independent, separate legal entities, but there may be an alteration in control of the businesses. The strategy of acquiring control over the organization of additional company – either directly by obtaining shares carrying voting rights or by contributing in the administration is generally referred to as 'takeover'. Takeovers may be generally classified into hostile takeovers and friendly takeovers. When an acquisition is 'forced' or 'unwilling', it is called a 'hostile takeover'. In an unwilling acquisition, the administration of 'target' business would oppose a move of being taken over. But, when administrations of obtaining and target companies jointly and freely agree for the takeover, it is called 'friendly takeover'.

### **Review Of Literature**

#### **1. Bedi, Atashi (2018), Post Acquisition Performance Of Indian Telecom Companies: An Empirical Study**

This study indicated that even though the groups might also had been able to leverage the synergies springing up out of the merger and acquisition deal, however they have got not been capable of improve their liquidity role, that is seen from the decreasing present day ratio in maximum of the instances with the exception of bharti airtel and vodafone. The income margin additionally did no longer show a lot improvement after the merger, which is a totally crucial device because it helps to expose the impact of merger on the earnings of the agency and to justify the selection taken by the management to the shareholders. Also, the solvency function of corporations changed into negatively laid low with the merger activities. The end result of the t-take a look at conducted confirmed that there was no distinction between the mean score of the numerous ratios calculated in the pre and post merger length. This proved that basic the financial overall performance of the telecom businesses did no longer improve in brief run after the merger and acquisition.

**2. Chawla, Mahesh Dilip (2017), Mergers And Acquisitions In Indian Telecom Sector: A Strategic Analysis**

Reforms performed via Telecom Regulatory Authority of India (TRAI) and department of Telecommunications submit liberalization have notably altered the business environment inside the Indian telecom sector. This region has end up greater vital performer in India. The telecom businesses have decided on for Mergers and Acquisitions (M&A) as a strategic tool to enhance and boom their performances. The reason and item of examine is to recognize the overall strategic effect of M&A in the telecom industry. Preceding research has proven that M&As inside the telecom sectors of USA and Europe have not been fruitful. On this paper, 10 M&A offers in the BSE-listed Indian telecom agencies at some stage in a time frame spanning 10 years from 2000 to 2010 to determine the effect of M & As in this zone and the way they have added about changes, if any, inside the enterprise performance of the acquirer agencies. The focal point of this study is to measure the Mergers and Acquisitions in Indian Telecom area.

**3. Singh, Sasmita (2017), Post-merger Analysis Of Returns To Equity Shareholders: An Indian Telecom Sector Study**

Telecom region is one of the hastily developing sectors in India. Mergers and acquisitions has come to be an ever going inevitable necessity for further increase in this area. The intention of this paper is to establish whether or not these mergers result in improvement in returns to the fairness holders of the obtaining Indian telecom corporations. It focuses in particular at the mergers that have taken location in the course of the length of 2008-2015. The effects show that most of these mergers go to pot the returns to the shareholders even though the effect isn't always huge.

**4. 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) is turning into an essential strategic tool for organization for maintaining a aggressive benefits, telecom isn't always first rate of that. because of various inner and outside factors exists in Indian telecom market there's possibility of a large numbers of M&A to take place in a quick time period in close to future. the maximum of the previous research changed into done on M&A targeted on measuring pre and put up performance of the corporations worried in a selected M&A that too typically based totally on monetary parameters. The objective of this take a look at is to explore the possibilities and risks for distinctive key players inclusive of users, telecom provider companies (tsp) & govt. regulatory frame. this look at additionally highlights at the opportunity that Indian telecom market may also grow to be monopolistic due to such M&A. this examine also emphasis on the position of presidency telecom corporation in view of provable M&A in Indian telecom marketplace.

**Research Gap**

Many firms consider Mergers and Acquisitions as a mean of growth in this competitive world. Hence, it becomes important to understand whether mergers of firms have led to a better performance or not. Because, only then one can justify the use of mergers as an important tool of corporate strategy. Numbers of studies are concluded as the performance evaluation of different sectors of industries but the researcher wants to study about the telecommunication companies so the researcher choose this topic which will be helpful for the further study.

### Need Of The Study

In today's world, India's economy is rising very rapidly and every business sector needs to enhance their business activities at a great level, merger and acquisitions comes as the option to widen the business area, and gives boost to the business sector. Is merger and acquisition beneficial or not? For this researcher analyze the impact and evaluate the competency in the selected companies after merger and acquisitions took place. So that researcher needs to carry out research to find the effects of merger and acquisition on selected companies.

### Objectives Of The Study

1. To study the overall Mergers and Acquisition by Bharti Airtel.
2. To examine the pre & post financial performance of Bharti Airtel merged and acquired with Telenor India.

### Hypothesis Of The Study

- **H<sub>0</sub>** - There is no significant difference between pre and post Mergers & Acquisitions on financial performance of Bharti Airtel.

### Research Methodology

- The researcher has done an explanatory as well as analytical research which is focusing on the pre and post financial performance of the company.
- The data is collected from the secondary sources such as various websites, journal etc.
- For the analysis purpose, data are taken one year from pre and one year from post of mergers and acquisitions of the company. The merged year have been taken as base year and considered as zero.
- The followings companies are taken into study:

S.NO.	PARENT COMPANIES	TARGET COMPANIES	YEAR
1.	Bharti Airtel	Telenor India	2017

- Ratios and t-Test are used to measure the pre and post financial performance and Graphs are used to present the data of the Bharti Airtel.

### ANALYSIS OF THE STUDY

#### To study the overall Mergers and Acquisition by Bharti Airtel

S.NO.	MERGERS AND ACQUISITIONS BY BHARTI AIRTEL	DEAL DATE
1.	MTN Group	2009
2.	Zain Group	2010
3.	Warid Bangladeshi and Robi	2010
4.	Telecom Seychelles	2010
5.	Wireless Business Services Private Limited (WBSPL)	2012
6.	Augere Wireless	2015
7.	Telenor	2017

Source: [https://en.wikipedia.org/wiki/Bharti\\_Airtel#Acquisitions\\_and\\_mergers](https://en.wikipedia.org/wiki/Bharti_Airtel#Acquisitions_and_mergers)

### 1. MTN Group

In May additionally 2008, it emerged that Airtel changed into exploring the opportunity of purchasing the MTN organization, a South Africa-based totally telecommunications company with operations in 21 international locations in Africa and the center East. The economic instances mentioned that Bharti was considering supplying US\$45 billion for a 100% stake in MTN, which might be the largest distant places acquisition ever via an Indian firm. But, both aspects emphasized the tentative nature of the talks. The Economist magazine referred to, "If anything, Bharti would be marrying up", as MTN had extra subscribers, better sales and broader geographic insurance. But, the talks fell apart as MTN group tried to reverse the negotiations by using making Bharti nearly a subsidiary of the new organization.

### 2. Zain

In Jun 2010, Bharti struck a deal to shop for Zain's cell operations in 15 African international locations, in India's second largest distant places acquisition after Tata steel's \$13 billion purchase of Corus in 2007. Bharti Airtel finished its \$10.7 billion acquisition of African operations from Kuwaiti firm on 8 June 2010, making Airtel the arena's 5th biggest Wi-Fi provider via subscriber base. Airtel has stated that its revenues for the fourth zone of 2010 grew by way of 53% to US\$3.2 billion in comparison to the preceding 12 months; newly acquired Zain Africa department contributed US\$911 million to the overall. but, net income dropped by using forty one% from US\$470 million in 2009 to US\$291 million 2010 because of a US\$188 million growth in radio spectrum costs in India and an increase of us\$106 million in debt interest.

### 3. Warid Bangladesh and Robi

In 2010, Warid Telecom bought a majority 70.90% stake inside the employer to Bharti Airtel for US\$300 million. The Bangladesh Telecommunication Regulatory commission approved the deal on 4 January 2010. Bharti Airtel constrained took management manipulate of the company and its board, and rebranded the enterprise's offerings underneath its personal "airtel" brand from 20 December 2010. Warid Telecom offered its final 30% share to Bharti Airtel's Singapore-based totally concern Bharti Airtel Holdings Pte restrained in March 2013.

### 4. Telecom Seychelles

On eleven Dec. 2010, Bharti Airtel introduced that it would accumulate a 100% stake in Telecom Seychelles for US\$62million taking its international presence to 19 international locations. Telecom Seychelles commenced operations in 1998 and operates 3G, fixed Line, and ship to shore offerings satellite telephony, among price introduced services like VSAT and Gateways for international visitors throughout the Seychelles below the Airtel brand. The corporation has over 57% share of the cellular marketplace of Seychelles. Airtel introduced plans to make investments US\$10 million in its constant and mobile telecoms network within the Seychelles over 3 years, even as also taking part inside the Seychelles East Africa submarine cable (SEAS) project. The US\$33 million SEAS assignment is aimed at improving the Seychelles' worldwide connectivity via constructing a 2,000 km undersea high-velocity hyperlink to Dares Salaam in Tanzania.

### 5. Wireless Business Services Private Limited

On 24 may 2012, Airtel introduced an agreement to gather a forty nine% stake in wireless commercial enterprise offerings personal confined (WBSPL) at an funding of ₹nine.07 billion (US\$one hundred thirty million). WBSPL become a joint venture based by means of Qualcomm, and held BWA spectrum inside the telecom circles of Delhi, Haryana, Kerala and Mumbai. Qualcomm had spent US\$1 billion to collect BWA spectrum in those 4 circles. The deal gave Airtel a 4G presence in 18 circles. On four July 2013, Airtel announced that it had acquired an additional 2% fairness share capital (making its stake 51%) in all of the 4

BWA entities of Qualcomm, thereby making them its subsidiaries. On 18 October 2013, Airtel announced that it had acquired one hundred percentage equity shares of WBSPL for an undisclosed sum, making it a completely owned subsidiary.

#### 6. Augere Wireless

Airtel bought Augere wireless Broadband India non-public confined, an employer that owned 4G spectrum inside the Chhattisgarh-Madhya Pradesh circle for an undisclosed sum in December 2015. The financial times anticipated Augere's spectrum to be well worth 1.5 billion (US\$21 million). On 16 February 2017, Airtel announced that the merger of Augere Wi-Fi into Bharti Airtel limited were completed.

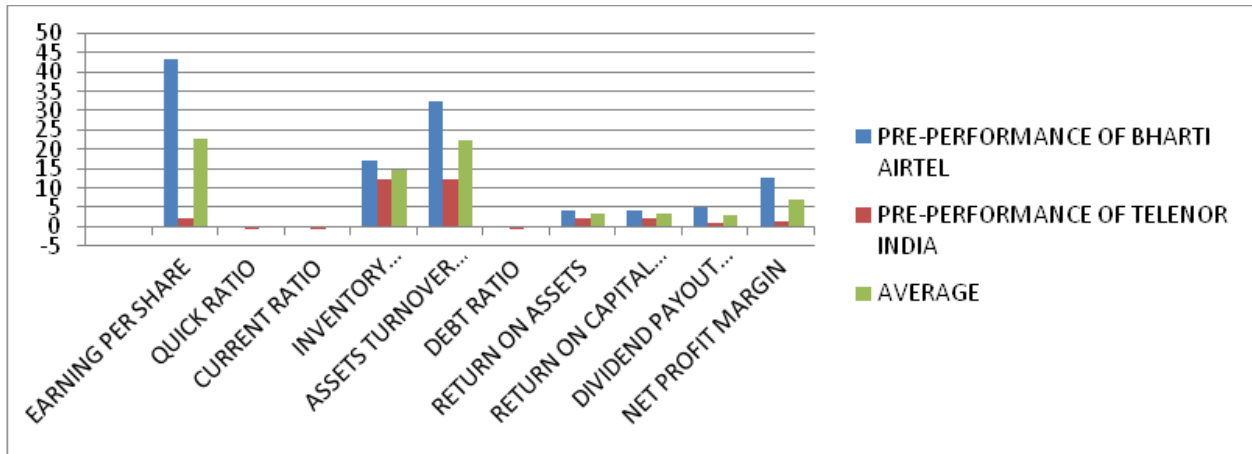
#### 7. Telenor India

On 2 January 2017, the financial instances said that Airtel had entered into discussions with Telenor India to gather the latter. On 23 February 2017, Airtel introduced that it had entered into a definitive agreement to acquire Telenor. As part of the deal, Airtel will collect Telenor India's assets and customers in all seven telecom circles that the latter operates in - Andhra Pradesh, Bihar, Maharashtra, Gujarat, Uttar Pradesh (East), Uttar Pradesh (West) and Assam. Airtel will gain forty three. Four MHz spectrum within the 1800 MHz band from the Telenor acquisition. Enterprise trendy pronounced that it was a no-coins deal, however might cost Airtel 1,600 crore over a ten-yr. period because of spectrum license payments. On 2 January 2017, the financial instances said that Airtel had entered into discussions with Telenor India to gather the latter. On 23 February 2017, Airtel introduced that it had entered into a definitive agreement to acquire Telenor. As part of the deal, Airtel will collect Telenor India's assets and customers in all seven telecom circles that the latter operates in - Andhra Pradesh, Bihar, Maharashtra, Gujarat, Uttar Pradesh (East), Uttar Pradesh (West) and Assam. Airtel will gain forty three. Four MHz spectrum within the 1800 MHz band from the Telenor acquisition. Enterprise trendy pronounced that it was a no-coins deal, however might cost Airtel 1,600 crore over a ten-yr. period because of spectrum license payments.

**To examine and analyze the pre & post financial performance of Bharti Airtel merged and acquired with Telenor**

PRE-PERFORMANCE				
S.NO	RATIOS	PRE-PERFORMANCE OF BHARTI AIRTEL (2016)	PRE-PERFORMANCE OF TELENOR INDIA (2016)	AVERAGE
1.	EARNING PER SHARE	43.42	2.35	22.88
2.	QUICK RATIO	0.41	(0.23)	0.09
3.	CURRENT RATIO	0.41	(0.23)	0.09
4.	INVENTORY TURNOVER RATIO	17.42	12.25	14.83
5.	ASSETS TURNOVER RATIO	32.58	12.34	22.46
6.	DEBT RATIO	0.38	(0.04)	0.17
7.	RETURN ON ASSETS	4.20	2.40	3.30
8.	RETURN ON CAPITAL EMPLOYED	4.49	2.21	3.35
9.	DIVIDEND PAYOUT RATIO	5.11	1.01	3.06
10.	NET PROFIT MARGIN	12.90	1.45	7.17



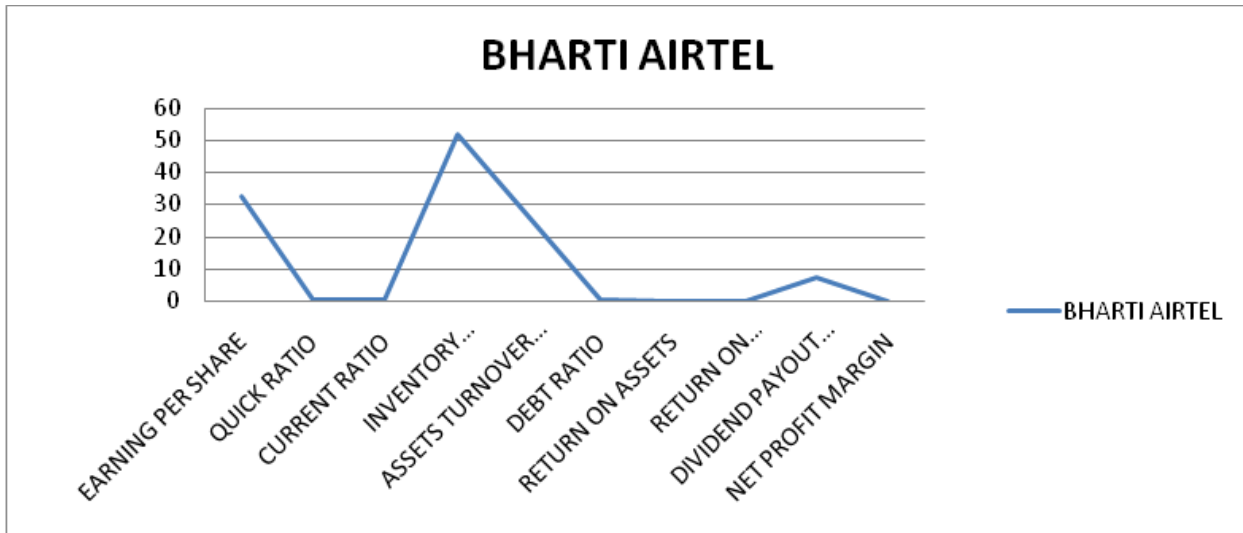


**Interpretation:**

The pre performance of Bharti Airtel and Telenor India in which Earning Per Share is positive in both the companies that showed the share of the companies going average. The Quick Ratio was decreased that showed companies had low capacity to convert the receivables into cash. The Current Ratio of Bharti Airtel was increasing as comparable to the Telenor India that showed company has ability to pay all the debt. Inventory turnover ratio and Assets Turnover Ratio of Bharti Airtel were higher than the Telenor India that showed the company had better sales as well as the capacity to generate sales from assets. The Debt to equity, Return on Assets, Return on Capital Employed, Dividend Payout Ratio and Net Profit Margin of both the companies are decreasing that showed companies pay higher interest on debt than return, companies net profit may be negative, unable to pay dividends to their shareholders and may be companies spend more than its earnings in the year of 2016.

<b>POST-PERFORMANCE</b>		
<b>S.NO</b>	<b>RATIOS</b>	<b>BHARTI AIRTEL</b>
1.	EARNING PER SHARE	32.84
2.	QUICK RATIO	0.49
3.	CURRENT RATIO	0.49
4.	INVENTORY TURNOVER RATIO	51.94
5.	ASSETS TURNOVER RATIO	26.13
6.	DEBT RATIO	0.64
7.	RETURN ON ASSETS	0.03
8.	RETURN ON CAPITAL EMPLOYED	0.04
9.	DIVIDEND PAYOUT RATIO	7.61
10.	NET PROFIT MARGIN	0.14

<b>t-Test: Paired Two Sample for Means</b>		
	<b>PRE MERGER RATIO</b>	<b>POST MERGER RATIO</b>
Mean	3.351	12.035
Variance	23.27141	341.0464278
Observations	10	10
Pearson Correlation	0.798699	
Hypothesized Mean Difference	0	
Degree of Freedom	9	
t Stat	-1.84304	
P(T<=t) one-tail	0.049218	
t Critical one-tail	1.833113	
P(T<=t) two-tail	0.098435	
t Critical two-tail	2.262157	



**Interpretation:**

The post-performance of Bharti Airtel in which Earning per share is high as compare to the pre-performance of the company that showed the share of the company is high. The Quick Ratio of the company is positive that showed company has capacity to convert the receivables into cash. The Current Ratio showed that company has ability to pay the debt. Inventory turnover ratio and Assets Turnover Ratio of the Bharti Airtel were showed that company had better sales as well as the capacity to generate sales from assets. The Debt to equity, Return on Assets, Return on Capital Employed, Dividend Payout Ratio and Net Profit Margin of the company that showed companies pay higher interest on debt than return, companies net profit may be positive, able to pay dividends to their shareholders and may be companies spend more than its earnings after the Mergers and Acquisitions.

Above the analysis, the critical t-value at the  $p = 0.05$  significance level for a two tailed test at the probability value of Bharti Airtel's value is 2.26 and calculated t-value of parent company is 0.09. The calculated t-value is in accepting area so, the null hypothesis is accepted. This showed that there is a significance difference between pre and post Mergers and Acquisitions of Bharti Airtel that improve the performance of parent company after the M&A.

**Future Implication Of The Study**

- The Bharti Airtel is at the Growing phase to capture the market and potential customers in near future.
- The company has adequate liquidity to meet out the operational obligations and strike opportunity to capture the new market.
- The company needs to make improvement in innovative products services for being survival in the market.

**Findings Of The Study**

- The Merger and Acquisition of Bharti Airtel are found to be more beneficial and have increasing growth rate after the Merger and Acquisition as compared with the Telenor India.
- The leverage ratios and Profitability Ratios are found to be decreasing which indicated that companies are paying the huge amount of interest on debt/sources of funds.
- Thus, dividend distribution is quiet unexpected for the shareholders due to the shortage of funds.



**Conclusion**

It is the time to going globally for locating the brand new opportunities and to amplify the bottom of the companies by the Indian corporations to sell all-spherical balanced growth in the Indian economic system. Mergers and Acquisitions are considered as one of the most useful techniques for quicker and more secure developmental approach if thru analysis has performed earlier than and after Merger and Acquisition in Indian company zone has provided proof that it is a beneficial tool for survival of weak firms by using merging in to large companies. The present study focused on pre & post financial performance of Bharti Airtel merged and acquired with Telenor India. Finally it is concluded that the Bharti Airtel performance is too good after the Merger and Acquisition with the Telenor India. The Bharti Airtel had more subsidies which involved in the process of Mergers and Acquisitions.

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