

# Indian Telecom Sector: Pros & Cons of Merger and Acquisition for different players of Telecom Sector

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**Abstract:** Now a day in every sector Merger and Acquisition (M&A) are becoming an important strategic tool for company for maintaining a competitive advantages, Telecom is not exceptional of that. Due to various internal and external factors exists in Indian Telecom market there is possibility of a large numbers of M&A to take place in a short period of time in near future. The most of the previous studies was done on M&A focused on measuring pre and post performance of the companies involved in a particular M&A that too mostly based on financial parameters. The objective of this study is to explore the possibilities and risks for different key players such as Users, Telecom Service Providers (TSP) & Govt Regulatory body. This study also highlights on the possibility that Indian Telecom market may become monopolistic due to such M&A. This study also emphasis on the role of Government Telecom Company in view of provable M&A in Indian Telecom Market.

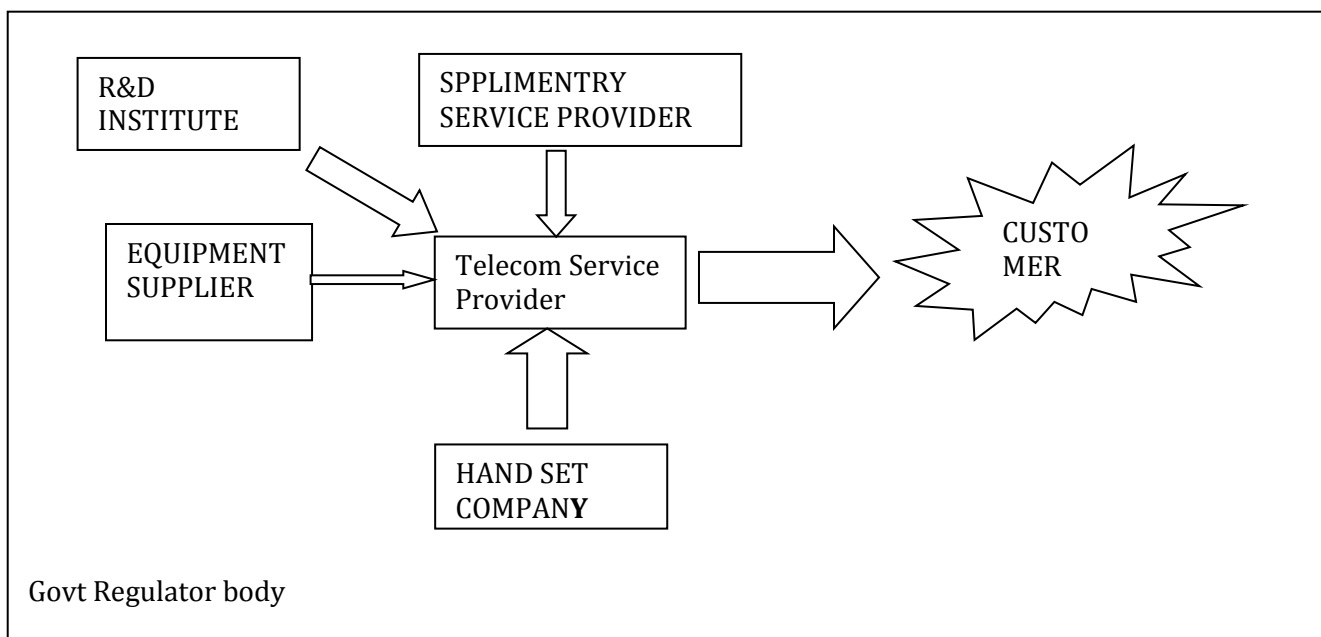
**Key Words:** Merger & Acquisition, Telecom Sector, BSNL.

## 1. INTRODUCTION:

### 1.1 Indian Telecom Sector

Day by day telecommunication are becoming the essential necessity for people of India .During the liberalisation in 1990's Indian Telecom industry came out from monopoly of Government of India, then after with the entry of private operators and initiation of FDI Indian telecom industry has shown tremendous growth

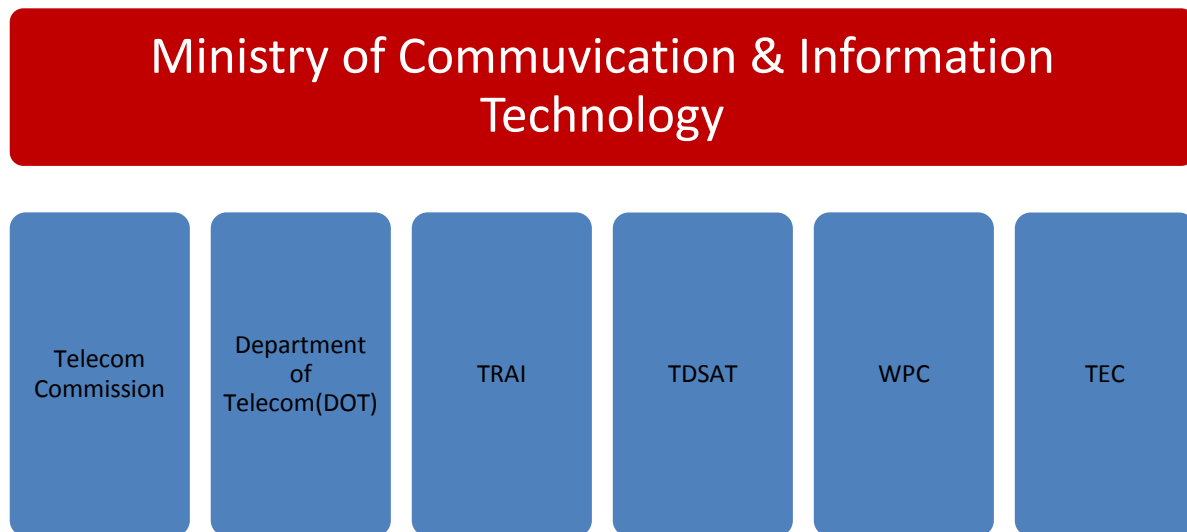
#### Key actors:



**Figure-1 Positioning of different Telecom Key Actors**

Fig.1 shows positioning of different Telecom Key Actors. No doubt in Telecom business the ultimate king is customer .Customer knows only his TSP (Telecom Service Provider) but there are other parties those plays their crucial role behind the scene.

## 1.2 Difference Govt Agencies governing the Indian Telecom sector:



**Figure-2 Difference Govt Agencies governing the Indian Telecom sector**

Source: dot.gov.in

Figure-2 shows the major government authorities those govern the whole telecom sector. These authorities come under the Ministry of Communication & Information Technology. They have their specifies roles. **Telecom Commission** consists of officers from different Ministry .Its key roles includes Policy formulation International cooperation, Promotion of Standardization, Preparing budget for Department of Telecom(DoT)and supervising its operation. As per the Indian Telegraph Act 1885 Central Govt has the authority to grant the Licences for telecom actives .Central Govt acts through the **Department of Telecom (DoT)**. After Globalization & Liberalization in 1992, it became necessary for Govt to establish an agency which provides a fair and transparent policy environment which in turn promotes a level playing field. With this purpose in1997 TRAI was established. The powers of TRAI is basically are proposal in nature it is depends on DoT to accept or reject. **Telecom Dispute Settlement & Appellate Tribunal (TDSAT)** came in existence in 2000. It's role is to settle dispute between (a) Licensor (DoT) and Licensee (b) Between service providers (c) Service provider and group of customers. Any appeal against decision of TDSAT can be filled only at Supreme Court of India. Spectrum is not only use by Telecom companies but other agencies like Military services, Radio also work on wireless. So there is a wing called **Wireless Planning and Coordination wing (WPC)** that caters the needs of all the wireless users. **Telecom Engineering Centre (TEC)** provides technical support to DoT and technical advice to TRAI & TDSAT. It prepares specification for Telecom network equipment, services and interpretability.

### 1.3 Indian Telecommunications at a glance

As per TRAI report, there are 1151.78 Million telecom subscribes and 236.09 million Broad Band users in India. Today the Indian telecommunications network is second largest network in the world after China (which having around 1321.93 Million subscribers) and it has the fastest growth rate (As per Wikipedia data as on 31<sup>st</sup> dec2016). The overall Tele-density in India increased from 87.81 at the end of Nov-16 to 89.90 at the end of Dec-16.

(As on 31<sup>st</sup> December, 2016)

Particular	Wireless	Wire line	Total(Wireless+Wireline)
<b>Total Telephone Subscribers (Million)</b>	<b>1127.37</b>	<b>24.40</b>	<b>1151.78</b>
Urban Telephone Subscribers (Million)	662.20	20.55	683.14
Rural Telephone Subscribers (Million)	464.78	3.86	468.64
<b>Overall Tele-density</b>	<b>88.0</b>	<b>1.90</b>	<b>89.90</b>
<b>Broadband Subscribers (Million) 1</b>	<b>217.95</b>	<b>18.14</b>	<b>236.09</b>

Source TRAI Press Release No.12/2017

In Wireless Telecom Private Service providers are the market leader, they are holding 91.09% market share whereas the PSU having only market share of only 8.91%. The figure -3. Graphically represent percentage share of service provider as on 31<sup>st</sup> December 2016:

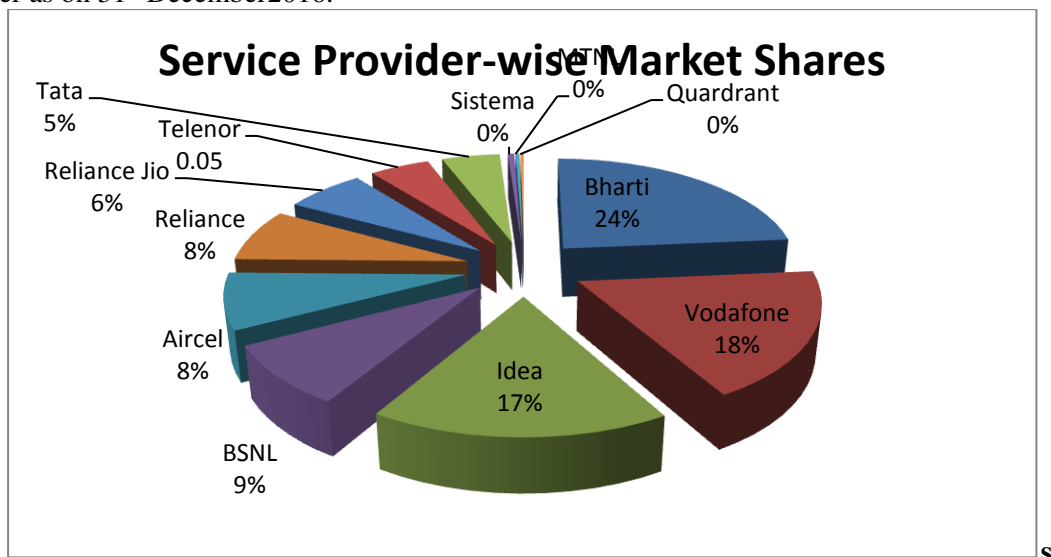


Figure-3

Source TRAI Press Release No.12/2017

#### 1.4 Basic of Merger and Acquisition

In this dynamic world for survival and achieve the substantial growth companies has to go for expansion. There is two type of expansion are first is Internal expansion also known as Organic expansion; second is External expansion or Inorganic expansion (Pahujal & Samridhi, 2016)

Under Internal expansion companies adopted different strategies like launching the new line of products or services, technology updating, improving work efficiency of human resource, alteration in the course of operation. For the external expansion companies goes for mergers, acquisitions, takeovers and amalgamations. A company goes external expansion for instantaneous growth (Porwal, Gupta & Khaneja, 2011)

Merger is the process under which two or more companies combined in to a single (May be stronger one or new) company. This is a negotiated deals in which the interest of all the parties are taken into consideration. But in acquisition a company based on its strength and weakness decided to buy other company (Pranathi, Noor & Priyadarshini, 2016). Thus acquisition is one way decision by acquiring company and for that company even go for hostile deal if the friendly negotiation with the management of companies get fails. In hostile transaction company directly approaches to the shareholder of target Company without concerned of management of that target company (Zielinska, 2004).

The major motives behind an M & A may be Economies of Scale, Saturated Market Consolidation, Competitive Position Improvement, Synergy

Merger can be classified into six type. The first one is **Horizontal Merger**, under which two companies those are in direct competition come together and share their product, market and customer base. Second one is **Vertical Merger** under which a company come together with its supplier to get strategically advantage of getting uninterrupted supply. Under third one is **A Market Extension Merger** when two companies that sell the same product in different markets come together so that they can extend their reach. Fourth one is **Product extension Merger** when two companies dealing with different products but in the same market come together. Under fifth type of merger that is **Conglomeration Merger** in this two companies who don't have a lot to do with one another decide to merge to get more assets, increase economies of scale which in turn help in increase leverage for loan. The sixth one is called **Strategic Merger** is the combination of all other merger type mentioned before.

#### 2. NEED/IMPORTANT OF STUDY:

Indian Telecom industry is in consolidated phase. After entry of Reliance Jio in India Telecom Market, the game has changed completely. The company has added 72.15 Million subscribers within 3 months (TRAI press release for QE Dec 2016). Other telecom operators are forced to redesign their future strategies. Following are the few possible M&A from Indian Telecom field those are in various media reports these days.

1. Vodafone and Idea Cellular
2. Telenor and Airtel
3. R-com and Airtel

4. MTNL and BSNL
5. TATA and Reliance
6. Bharti and MTS

So the purpose of this study is to analyse the scenario of Indian Telecom market in prospect of these upcoming M&A and present the advantages and disadvantages of these mergers in point of view of different players like Private Telecom companies, Subscriber, Govt. regulatory bodies, Government Telecom company (BSNL).

### 3. OBJECTIVES:

To understand challenges & opportunities exist in Indian Telecom Sector for different key affiliate in prospect of M & A.

### 4. METHODOLOGY:

This study is a qualitative research done with the secondary data collected from research journals, magazines and various websites.

### 5. REVIEW OF LITERATURE:

It was examined (Porwal, Gupta & Khaneja, 2012) the effect of the merger on the wealth of shareholders of both the companies that is Idea Cellular and Spice Communications, by comparing pre and post merger financial ratios and the behaviour of share prices. Study found that Merger does not provide any significant effect on value created for shareholder of merging entities. Study also stipulated that if there is any difference in returns, around the announcement date of merger that may be due to other external factors other than merger.

Verma and Sharma (2014) conducted a study on Indian Telecom companies which were merged during 2001-02 to 2007-08. They analyzed the Return on Shareholder's Fund (ROSF) on the basis of select financial variables and operating variables. This study also concluded that there was insignificant improvement in financial as well as operating performance.

It was proposed (Pranathi, Noor & Priyadarshini, 2016) that implementation of merger and acquisition in a proper strategies way, may provide the successful entry of a new brand into a market. In their study, it was presented that UK based Vodafone was carried out acquisition of Hutchison Essar of India to tap the huge potential of Indian Telecom market.

The study was conducted (Soni, 2016) on top 10 value wise merger and acquisition done by Indian companies and concluded that for a short term investment, investors have to look strategic alliance closely it is not always true that there will be positive response for investors, from these mergers and acquisitions.

Ghosha and Dutta (2014) conducted a study on M&A deals, of 10 BSE listed Telecom companies. Under this study they included Human Resource (HR) parameters like HCROI (Human Capital Return on Investment), Compensation of employees to PAT ratio along with financial parameters like EPS (Earnings Per Share) and market share, for analyzing the pre and post merger performance of the companies. The finding indicates that there is significant change only in HR parameters in the post merger period.

Under their study Pahuja & Samridhi (2016) pointed out reasons of failure of M&A and also suggested how to prevent this failure. According to finding of this study Cultural difference, Flawed intention, Ego difference, Resistance by employees are the main reasons behind the failure of M&A. The study suggested that for successful M&A management should make continuous dialogue with stakeholders, creditors, employees and governments' legalizations and try to retain the best talent of both companies.

In his study Mboroto (2013) analyzed the pre and post performance of petroleum firms those were engaged in mergers and acquisition in Kenya between year 2002-2012. The analysis and result of this study shows that petroleum firms performed better in Kenya in the post-merger/acquisition era as compared to the pre-merger/acquisition era.

Study of Dhiman and Parray (2011) concluded that indifference in the financial performance of firms before and after acquisition is also true for manufacture sector in India.

Under his study Bhalla (2014) explored that after year 2000, the importance of India has been continuously increased for global M&A activity. The researcher studied the sector wise process for M&A activities and found that it is the financial sector which leads as far as numbers of M&A deals are concerned.

### 6. CONCLUSION:

On the basis of study of various research papers and survey reports, it can conclude that there is the possibility of large number of M&A in Indian Telecom Market and if it happens only 3 or 4 Telecom Company will survive. It is possible that these companies may firm group to hike price, thus may able to create an environment of **monopolistic competition**. This is imperfect form of competition in which the decision of a company does not affect the other companies as in this form of market the companies are the not the perfect substitute of each other.

The effect of such M&A on different stakeholders like Customers, Service Providers, Government Regulatory bodies, Government Telecom Company(BSNL) can be summarised point wise as follows:

**Benefit to customer**

- Quality of Service (QoS) will improve as there will be better utilization of spectrum .There will be better coverage and less call drop.
- Prize war will exist but in limited space thus cost pay by the customer will be remain low.
- Company may offer roaming free of cost due to availability of its own spectrum.

**Benefit to Service provider**

- Sufficient spectrum will be available for companies.
- Sufficient infrastructure will be available.
- Operating cost will reduce and these M&A will remove the duplicity of operation.
- These M&A will bring the diversity for Service Providers. Companies after merger may offer different service in different geographical areas.
- It will be become easier for companies to raised fund either by bank loan or IPO as after merger Telecom Companies will become bigger in size.

**Benefit to Government Regulatory Bodies**

- Easy monitoring as there will be very few operators
- Sufficient spectrum for auction.
- Easy regulation.

**Benefit to Government Telecom Company(BSNL)**

- Its survival will become importance as regulatory instrument.
- Its presence in all over India with various services like lease line, Land Line, Broad band will advantages for the company.
- Being a Government company, it may bring schemes for customers that will be cheaper as compare to those of private players.
- It may emerge as trusted telecom brand with its fair billing practice.
- It can offer cheaper like 339 ,or bb 249
- With the radiation issues people may again divert to Land Line services, in which BSNL has upper hand.
- It has advance of not having debit of any bank or financial institutions.

BSNL has to overcome it's internal and external challenges for availing the advantages of scenario may developed in Indian Telecom Market due to large number of M&A . Company has to bring done its operational cost , as of now above 60% of its revenue is going to salary expenses. BSNL has to focus on better customer relation management to intact in its customer base.

There are certain probable disadvantages also associated with these M&A in Indian Telecom Market. First is hike in service price as operator may create a cartel. Second is due to presence of less players Government has to sell spectrum at low price which in turn result in revenue loss to Government. These M&A will lead to Job Cut as after merger companies will focus on operational efficiency and remove the duplicity of operations.

**7. LIMITATION:**

The first and the foremost limitation of this study is that Indian telecom industry is in transit stage and the results produced by this study is based on the belief that in future there will be only few player in the Indian telecom field but it all will be depend on development in telecom field in world perspective and many other internal and external factors of telecom industry. One another limitation of this study is that the entry of the Reliance Industry in Telecom filed with R-Jio is concerned as a major driving force for upcoming merger and acquisition but it will be too early to come into conclusion about R-JIO.

**8. SUGGESTION FOR FURTHER STUDY:**

Future research can be carried out to find out, the effect of each individual case of M&A of Telecom companies, on different players of this field once these deals get finalized. A separate study can be done to analyse the effect of entry of Reliance Industry in telecom field.

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