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Analysing the Impact of Mergers and Acquisitions on the Indian Telecom Sector: A Comparative Study of Pre And Post Merger Performance

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Abstract

Two organizations with different assets and social characteristics are brought together through a merger/acquisition to achieve the association's fundamental financial and strategic objectives. These terms are often misunderstood and confused. Merger and acquisition processes have become very important in the modern business world. This exchange is used regularly to maintain business relationships. The idea of mergers and acquisitions was originally introduced by the Indian State Agency. Since then, changes made by the Telecommunications Regulatory Authority of India (TRAI) and the Ministry of Telecommunications (SPEC) have dramatically changed the business environment for the Indian telecommunications sector. The importance of this field as an entertainer is increasing in India. The telecommunications industry has concluded that mergers and acquisitions (M&A) are an essential tool for improving and enhancing its performance. The basis and purpose of this study is to determine the significant overall impact of M&A on the telecommunications sector. The main objective of this study is to evaluate mergers and acquisitions in the Indian telecommunications sector.

Keywords: *Mergers, Acquisitions, Indian Telecom Sector, Pre, Post, Merger Performance*

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1. Introduction

Combining organizations is how mergers and acquisitions (M and A) are defined. Contrasting the two terms, a merger is the comingling of two organizations into one, whereas an acquisition is the taking over of one organization by another. One of the important aspects of the corporate financial world is M and A. Generally speaking, M and An operate under the assumption that working together makes them more valuable than working separately. Organizations continue to evaluate various open doors via the method of merger or securing with the major purpose of augmentation of abundance. The combination or merging of two groups creates this consistently cooperative energy esteem.

According to Straub (2007), the term "merger and acquisitions " refers to the portion of the board of directors that manages corporate operations, corporate finances, and acquisitions, divestitures, and mergers of other companies, and does not provide assistance, funding, or support. can be done. If an organization develops rapidly in a particular industry without creating a separate line of business, or decides to acquire the target organization, it will at least take risks. As a general rule, procuring organizations should proceed with an acquisition when it creates a net liability on the investor's assets. A merger combines the assets and liabilities, investor preferences and organizational structures of the merging companies.

Improving an organization's marketing and founding efforts is widely recognized as a key factor in mergers and acquisitions. In the modern era, increased competition, the elimination of currency controls, unrestricted capital flows across borders, and economic globalization as a result of the liberation and synchronization of many economies have increased the presence of these countries.

The sophisticated business world is about financial development and globalization because most organizations aim to complete the best portion of the whole business on all levels of the market, including the private and unfamiliar market, for example. Professionals put in a lot of effort to achieve an overall outstanding goal, such "being awesome by what you continue and showing up as quickly as possible in light of the current situation." Businesses can therefore defeat their competitors, and many different strategies will be used to try to do so. One of their techniques can be seen as a representation of their market-focused lope talents. As a result, it

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implies that they need the best education and training to compete effectively with their opponents in that field.

Associations are the mode of advancement in the twenty-first century. Every company wants the biggest piece of the pie (development) compared to its competitors, so organizations are working to achieve optimum advancement employing the most straightforward strategy possible, such as merger and acquisitions (M&A). A business's financial stability as well as the financial backers' increased wealth and the close-knit coalition's objectives are the improvement fundamental expectations. M&A has been the main method for affiliation globalization over the past ten years.

2. Literature Review

The performance of selected mergers in India was broken down in a study conducted by Shashank Agarwal in 2007. The success or failure of the merger and its impact on the Indian economy are shown by performance analysis of pre- and post-merger enterprises in certain industries. The objectives of the merger are identified in this study along with the elements that affect mergers and acquisitions.

In India, mergers and acquisitions have significantly increased during the past year. When two businesses come to an agreement, it must follow certain rules. This is how mergers and acquisitions happen. Acquisitions and mergers are seen as a development strategy with the goal of boosting business and increasing investor wealth.

The effectiveness of mergers and acquisitions is influenced by considering income-creating cooperative energies and cost-reduction collaborations, according to Jarrod McDonald, Max Coulthard, and Paul de Lange's observations in 2005. The classification "Acquirer and the selling organization is called Target organization" is used when there are at least two organizations involved in the transaction. A securing organization submits a bid for a target to purchase organization in the corporate activity known as procurement. To achieve a specific company goal, mergers and procurement are mostly done.

Manish Agarwal and Harminder Singh (2006) observed that as innovation advanced in the modern world, mergers became well-known in almost every industry, providing tax breaks to businesses. The target organization's net shareholdings and profit are assessed by the acquirer

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organization before to the acquisition, and based on the target organization's net resource worth, the acquirer decides whether to secure with that particular company. The buyer wants to take into account and evaluate the value of the target company's brand, fixed asset value, liquid cash on hand, and net offer value. Usually, big businesses will acquire little ones to expand their reach, but there have also been instances where small businesses bought shares from big businesses that went on to succeed.

According to Orley and Ashenfelter (2008), mergers are successful provided that post-merger financial performance is better than pre-merger. A successful merger also demonstrates the administration's skill and effective use of resources. Financial industry mergers and acquisitions have shown that they are an effective tool for bolstering weak institutions after combining with powerful ones. Both monetary and non-monetary factors influence the performance after a merger. In any event, the impact of particular financial aspects on performance after mergers can be estimated. After a merger, it might be difficult to determine how non-financial variables affected the bottom line. In this study, only the final acts and characteristics of pre- and post-merger are considered.

Rajesh Kumar and Prabina Rajib (2007) observed that a company's likelihood depends on its side interests in purchasing and selling ventures. In any case, mergers and acquisitions have no impact on a company's profitability during a time when there are new companies entering the market. Proportion analysis is a key step in ensuring profitability and liquidity. The norms and requirements for mergers and orders are unclear. The merger and acquisition procedure is crucial for protecting financial investments. This study examines the financial performance before and after the merger using financial benchmarks such profit ratios, return on resources ratios, return on capital utilized ratios, return on value ratios, and P/E ratios.

According to Ashish S. Joshi's (2008) research, firms with larger merger and acquisition rates have a more substantial entry into the global market, which raises the seriousness of the commodity in the presence of innovative innovation. Some businesses find it difficult to satisfy their working capital requirements without the executive productivity; as a result, demand for assets from acquired sources suddenly rises. This is the cause for mergers. Large businesses with lots of liquid cash and assets will often use the available assets to expand their firm under these circumstances. Therefore, in exchange for the expansion of their business, large

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corporations provide small corporations money, offers, or a combination of the two, as agreed. This leads to the development of business and the entry of new business sectors.

According to Vyas, Vijay H. (2008), theories about mergers and acquisitions have long assumed that gaining market share, fostering cooperative energy, strategically pitching asset moves, and other factors lead to improved organizational performance. Reduced competition among businesses in the current business sectors is one justification for merger and security. It is evident that focusing on financial records and profit and loss articulation both before and after the merger is the best way to learn more information about the merger's success.

According to B. Rajesh Kumar and S. Panneerselvam (2009), pre- and post-merger investigations should be conducted soon because they have a significant impact on the number of investors in both the acquirer and the target. Acquisitions and mergers trigger business restructuring with the goal of gaining competitive advantage. work on increasing the company's value, developing expertise, and achieving teamwork. Rebuilding is linked with an association's goals for profitability, liquidity, and dissolution. The social benefits of the target organization and the acquirer organization are combined through mergers and acquisitions. There are many merger disappointment cases in India for a variety of reasons. Many businesses believe mergers and acquisitions are the greatest solution for the problem raised in their organization, however organizations need to look back on themselves before entering into a merger. Due to sociological differences between the organizations, a sizable portion of mergers fail to make sense. Due to the firms' tendency to have a robust bunny esteem on the lookout, perfect expectations for mergers can result in let-down. There should be continual communication between investors, executives, and partners or the business, as this can sometimes lead to unfavourable outcomes in mergers and acquisitions. Each organization should respect and submit to the societies and values of other organizations, and the board shouldn't heedlessly follow market trends. The board should place trust in the representatives and hold the employees' abilities.

3. Research Methodology

The labor involved in the examination is precise. The review is organized using a data base. The most comprehensive business and financial data set for India and the think tank CMIE's data set capacity were used to gather information and facts. Data from a variety of business

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newspapers, journals, the Service of Corporate Issues, Service of Insights and Program Execution (MOSPI), TRAI, Press Data Department, Legislature of India, and the websites of the individual organizations have added to these facts. Eight BSE-recorded telecom businesses underwent mergers and acquisitions between 2000 and 2010, according to the ability information base. These 8 telecom organizations are hence the study's target population. In the aforementioned time frame, these firms underwent a total of 25 M&As. Twelve of those 25 M&A transactions involved the auxiliary businesses of the purchasing corporations, and many of them at the time had covered M&A. During the time of our review, there were 13 non-auxiliary M&As that were announced. We choose those 10 M&As to be the focus of our analysis. The review covered a period of ten years, or 2000 to 2010.

3.1. Hypothesis of the study

H1: After mergers and acquisitions, the HCROI of the acquiring corporations in India's telecom industry has not significantly changed.

H2: Following mergers and acquisitions, the EPS of the acquiring companies in India's telecom business has not significantly changed.

H3: After mergers and acquisitions, the market share of the acquiring companies in India's telecom business has not significantly changed.

H4: After mergers and acquisitions, the pay to PAT ratio of the acquiring corporations across India's telecom industry has not significantly changed.

4. Analysis and Result

This assessment was based on a short-term analysis over two time periods, specifically the three years before the merger and the three years after the merger. Educational and inferential analyzes were performed on the newly collected data. The purpose of this study was to analyze hypotheses about the impact of these events on many borders and to determine whether the occurrence of mergers and acquisitions affects the performance of these organizations. Using MS Succeed and the IBM tool SPSS 20.0, the data was analysed and dissected. The proportions of each of the ten mergers for each of the performance boundaries were assessed independently. This was behind the Shapiro-Wilk ordinariness test. The Wilcoxon matched sign-rank test was

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computed for the dataset that adhered to ordinary dispersion based on the ordinariness results, and a matched t test with a 95% level of confidence was computed for the dataset that did not. This provided an opportunity to evaluate thematic strategies over time under two diametrically opposed circumstances, including pre-merger and post-merger performance. The t-test and the Wilcoxon test were chosen because they are both popular and easy to use. Calculations were made using the attached formulas:

$$\mathbf{HCROI} = \frac{[\mathbf{Revenue} - (\mathbf{Operating\ Expences} - \mathbf{Compensation})]}{\mathbf{Compensation}} \qquad (1)$$

$$\mathbf{EPS(Earning\ Per\ Share)} = \frac{\mathbf{PAT} - \mathbf{Preference\ Dividend}}{\mathbf{No.\ of\ Shares}} \qquad (2)$$

$$\mathbf{Market\ Share} = \left[\frac{\boldsymbol{Company's\ Total\ Income}}{\boldsymbol{Industry's\ Total\ Income}}\right] \times \mathbf{100} \qquad (3)$$

$$\mathbf{Total\ Compensation\ to\ PAT\ Ratio} = \frac{\mathbf{Compensation\ to\ Employees}}{\mathbf{PAT}} \qquad (4)$$

4.1. Findings

- **HCROI t Test**

Table 1: Statistics for paired samples

	Mean	N	Std. Deviation	Std. Error Mean
HCROI PRE	2.7320	20	4.27066	2.52720
HCROI POST	.1540	20	2.80570	.50389

Table 2: Test of paired samples

	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	2.46700	3.72524	2.43823	.12733	6.02647	2.450	10	.055

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The calculated value of t for N=20 (shown in Table II) exceeds the value shown in Table (2.262), allowing us to rule out the false hypothesis. At the 0.05 significance level (p=0.55) the results are huge. This indicates that an essentially proprietary method was used to determine pre- and post-HCROI values.

A table of matched case measures (Table 1) shows that the pre-merger mean HCROI is significantly higher than the post-merger mean HCROI. From this we conclude and conclude that the motive must be effective and intentional. If all remaining grievances are resolved, this planned action is likely a result of the merger:

$$\eta 2 = (\mathbf{2.340})\mathbf{2}/[(\mathbf{2.340})\mathbf{2} + \mathbf{10}] = \mathbf{35.38}\% \qquad (\mathbf{5})$$

A 35.38% change in performance deterioration in HCROI scores can be attributed to this association. We argue that the details of the merger did not affect his HCROI for the combined companies. Previous research has shown positive correlations between some employee metrics and post-merger and procurement hours.

- **EPS t Test**

Table 3: Statistics for paired samples

	Mean	N	Std. Deviation	Std. Error Mean
HCROI PRE	5.5200	20	13.30382	4.83324
HCROI POST	2.7420	20	4.46403	2.58366

Table 4: Test of paired samples

	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	3.68800	6.56984	3.53720	-1.58528	7.38328	2.242	10	.368

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As shown in Table IV, the calculated value of t for N=20 is 2.242. The result is not significant at the significance level of 0.05 (p=0.368). There isn't a very good justification to rule out the false hypothesis because the determined worth of t is less than the table worth. As a result, we may conclude that there hasn't been a significant modification to the organizations' income per share in the post-merger stage:

$$\eta 2 = (\mathbf{1.153})\mathbf{2}/[(\mathbf{1.153})\mathbf{2} + \mathbf{10}] = \mathbf{11.74}\,\% \qquad (\mathbf{6})$$

This merger can therefore explain 11.74% of the variation in the condensed performance in the profit per share ratings. We argue that the peculiarities of the merger didn't help the organizations' post-merger profit per share. According to earlier studies, there are conflicting results regarding how mergers and acquisitions affect EPS and share prices of acquired companies.

- **Market Share t Test**

Table 5: Statistics for paired samples

	Mean	N	Std. Deviation	Std. Error Mean
HCROI PRE	3.560050	20	3.2665736	2.2320202
HCROI POST	3.023562	20	3.4882567	.7328332

Table 6: Test of paired samples

	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	.5684954	3.8622854	.8303604	-1.3583623	3.8735353	.588	10	.403

As shown in Table VI, the calculated value of t for N=20 is 0.588. The result is not significant at the relevance level of 0.05 (p=0.403). The organization's post-merger pie hasn't changed all

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that much. We note that the post-merger share for the entire industry is marginally lower than the pre-merger share.

$$\eta 2 = (\mathbf{0.699})\mathbf{2}/\,[(\mathbf{0.699})\mathbf{2} + \mathbf{10}] = \mathbf{4.66}\% \qquad (\mathbf{7})$$

Thus, this merger explains 4.66% of the variability in the abbreviated performance in the piece of the pie ratings. We surmise that the merger's idiosyncrasies didn't make the organizations' piece of the pie more interesting in the period following the merger. The success of acquiring enterprises was examined in the past in relation to the venture bank's share of the pie, and it was shown that this share was strongly correlated with the contingent expense instalments collected by the banks as well as the scope of previous agreements the banks had completed. It had no bearing on how well the acquirers performed.

- **Employees' Compensation for the PAT Wilcoxon Test**

Table 7: Ranks

		N	Mean Rank	Sum of Ranks
	Negative Ranks	10[a]	4.30	36.00
Compensation To PAT post -	**Positive Ranks**	10[b]	4.50	37.00
Compensation To PAT pre	**Ties**	0[c]		
	Total	20		

- Payment to PAT post < Payment to PAT pre
- Payment to PAT post > Payment to PAT pre
- Payment to PAT post = Payment to PAT pre

Table 8: Test Statistics [a]

	Compensation To PAT post – Compensation To PAT pre
Z	-.042[b]
Asymp. Sig. (2-tailed)	.848
Exact Sig. (2-tailed)	1.000

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Exact Sig. (1-tailed)	.400
Point Probability	.028

• Ranks Test was signed by Wilcoxon.

• based on low rankings.

As shown in Table 7, the average negative position is not significantly different from the average positive position. This means that his PAT percentage rep pay-out after the merger is likely to be higher than before. It follows that this performance boundary has come to light as a result of the merger's peculiarities. While some previous studies have effectively demonstrated that earnings grow following procurement, others have discovered minimal, sporadic favourable changes in compensation in the stage after obtaining.

5. Conclusion

The time period under analyse reveals that the acquiring organization appears to have benefited from all M and A transactions. The study focused on four boundaries that can provide light on the pre- and post-merger performance of Indian telecom businesses between 2000 and 2010. HR cut off HCROI was the only indicator showing significant changes over time after fusion. None of the three additional dimensions used to calculate performance have shown significant change in the post-merger years. A key factor in the improved performance since the merger is the agency salary-to-PAT ratio. The merger may have had a limited impact on the overall performance of the seven telcos from 2000 to 2010, as none of the four borders showed any noticeable improvement after the merger.

Alluded to as corporate alliances and relationships, M&A frequently. All marriages are not destined to be happy marriages, much like no relationship is, therefore all of the peculiarities of marriage are also unproductive. In actuality, the opposite is true more often than not. Despite the fact that mergers and acquisitions are common, data has shown that the majority of them have fallen short of expectations for key performance indicators and financial goals during the premerger organizing period. After a financial collapse, an economy finds a way to rebound. It is impacted by the peculiarity's overflow effect. The phrase "spill over impact" refers to a secondary effect that may occur after an initial, more significant effect and may take place at a

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different time or location. This review focused on the organizations' post-merger times during the post-recessionary period. Therefore, the corporation was typically experiencing spill over effects at that time.

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