ORIGINAL RESEARCH PAPER

Management

A STUDY ON MERGERS AND ACQUISITIONS- VODAFONE AND HUTCHISON ESSAR

KEY WORDS: Mergers, acquisition, financial performance

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ABSTRACT

Mergers & Acquisition have become very popular throughout the world in the recent times. This has become popular due to globalization, liberalization, technological developments & intensely competitive business environment. The Indian economic reform since 1991 has opened up a whole lot of challenges both in the domestic and international spheres it is an indispensable strategic tool for expanding product portfolios, entering into new market, acquiring new technologies and building new generation organization with power & resources to compete on global basis. The post-merger performance of the firms could be measured in several ways. One way to measure the performance is to monitor the share prices after the merger deal is struck, that is "event studies" which assumes that stock markets are efficient. Studies relating to profitability after M&A's may not, therefore, be sufficient to evaluate the corporate performance. It is, therefore, useful to examine the relative efficiency of the firms after M&A's.

The service sector is in the process of an unprecedented restructuring exercise globally and merger and acquisition are preferred choice for the same. This phenomenon is prevalent in emerging market economies like India. Companies like Airtel, Vodafone and Hutchison etc are reckoned as global leaders in their sectors. These Indian firms have learnt that inorganic growth is the faster mechanism.

Introduction:

The term merger referring to the merging of two companies where one new company will continue to exist. The term acquisition refers to the acquisition of assets by one company from another company. In an acquisition both companies may continue to exist. However, throughout this course we will loosely refer to mergers and acquisitions (M & A) as a business transaction where one company acquires another company. The acquiring company will remain in business and the acquired company will be integrated into the acquiring company and thus, the acquired company ceases to exist after the merger.

The ultimate aim of merger and acquisitions is to produce synergy. Following a merger, companies should have the capability to improve overall efficiency, which was not possible before the merger. In effect, this means that costs are reduced when both companies use, for instance, the same production facilities like financial, operating and management.

REVIEW OF LITERATURE:

Khemani (1991) states that there are multiple reasons, motives, economic forces and institutional factors that can be taken together or in isolation, which influence corporate decisions to engage in M&As. It can be assumed that these reasons and motivations have enhanced corporate profitability as the ultimate, long-term objective. Another study shows that merger did not lead to excess profits for the acquiring firm (Pawaskar, 2001). Mantravedi and Reddy (2008) investigate Indian acquiring firms and found that there are minor variations in terms of impact on operating performance following mergers in different sectors of Indian industries.

Surjit, 2002 carried out an analysis of 20 merging firms to compare the pre & post takeover performance by applying a set of eight financial ratios. He found that profitability and efficiency of merging companies declined in the post takeover period. Swaminathan (2002) studied the sample of five companies & found that four of the five acquiring firms improved operating and financial synergies (measured through financial ratios). Arora (2003) examined the post merger performance of merged companies using the value added metrics of corporate performance such as EVA, MVA and RONW

Objectives of the Study:

1. To study the performance of Mergers and Acquisitions in Indian telecom sector.
2. To make a comparative analysis of the impact of mergers before and after on financial performance of Vodafone and Hutchison essar.

COMPANY PROFILE BEFORE MERGING (VODAFONE)

- The name Vodafone comes from voice data fone, chosen by the company to "reflect the provision of voice and data services over mobile phones."
- Vodafone Group plc is British multinational telecommunications company headquartered in London and with its registered office in Newbury, Berkshire. It is the world's 2nd-largest mobile telecommunications company measured by both subscribers and 2013 revenues (behind China Mobile), and had 434 million subscribers as of 31 March 2014.
- Vodafone owns and operates networks in 21 countries and has partner networks in over 40 additional countries. Its Vodafone Global Enterprise division provides telecommunications and IT services to corporate clients in over 65countries.
- Vodafone has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. It had a market capitalization of approximately Ł89.1 billion as of 6 July 2012, the third-largest of any company listed on the London Stock Exchange. It has a secondary listing on NASDAQ.
- Vodafone was established in 1982 when Racal Strategic Radio Plc, a subsidiary of Racal Electronics Plc.
- Later it was de-merged from Racal Electronics and named the Vodafone Group in 1991 by accounting its 20 percent shares of its value in to London stock Exchange.
- During its expansion in overseas it purchases Air Touch Communication Inc in the US and changed its name to Vodafone Air Touch Plc.

COMPANY PROFILE BEFORE MERGING (Hutchison Essar Limited)

- HEL was one of the leading mobile operators in India.
- It was the fourth largest service provider in terms of customer numbers.
- HEL was a Joint venture between HTIL (Hutchison Telecommunication International Ltd) and Essar Group. They started their services under the brand name Hutch in 1994 after it acquired the cellular license for the Mumbai circle.
- The company was initially set up as a joint venture between HTIL and Max India Ltd.the Parent Company of HTIL is Hutchison Whampoa whose headquarter was in Hong kong.
- Sashi and Ravi Ruia, the Indian brothers behind the Essar conglomerate.
- The Essar Group is a diversified business corporation with a balanced portfolio of assets in the manufacturing and services sectors of Steel, Energy, Power, Communications, Shipping Ports & Logistics, Projects.
- Essar employs more than 50,000 people across offices in Asia, Africa, Europe and the Americas
- In July 2005, Essar bought a 64 percent stake in BPL Cellular

Ltd. for US$ 1.156 billion, making it the largest ever acquisition in the Indian telecom sector at that time.

REASONS FOR VODAFONE TO BID

- Accelerates Vodafone's move to a controlling position in a leading operator in the attractive and fast growing Indian mobile market
- India is the world's 2nd most populated country with over 1.1 billion inhabitants
- India is the fastest growing major mobile market in the world, with around 6.5 million monthly net adds in the last quarter
- India benefits from strong economic fundamentals with expected real GDP growth in high single digits
- Increases Vodafone's presence in higher growth emerging markets
- Potential for Hutch Essar to bring Vodafone's innovative products and services to the Indian market, including Vodafone's focus on total communication solutions for customers
- Vodafone and Hutch Essar both expected to benefit from increased purchasing power and the sharing of best practices

REASONS FOR HUTCHISON ESSAR TO BE SOLD

- Urban markets in the country had become saturated.
- Future expansion would have had to be only in the rural areas, which would lead to falling average revenue per user (ARPU) and consequently lower returns on its investments
- HTIL also wanted to use the money earned through this deal to fund its businesses in Europe
- The sale of its interests in India will enable Hutchison Telecom to become one of Asia's best capitalized companies
- Relations between Hutchison Telecom and the Essar group of India will be key to the sale of Hutch's 67% stake in Hutch-Essar There are two main reasons which are responsible for Li Kashing to leave India. They are
- Hutch-Essar: Mutual Distrust
- Right time to quit Indian operations to finance other operations.

VODAFONE AND HUTCHISON ESSAR DEAL VALUE

Acquirer Company	Year	Targeted Company	Deal Value
VODAFONE	2007	HUTCHISON ESSAR	$10 BILLION

FINANACIAL PERFORMANCE OF VODAFONE AND HUTCHISON ESSAR

Ratios	Pre-Merger period						Post- merger Period		
	Acquirer or Parent (Vodafone)			Acquirer or target (Hutchison essar)					
Particulars	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06	2007-08	2008-09	2009-10
Operating profit Ratio(%)	-14.79	40.78	41.84	14.39	13.48	19.01	20.21	4.31	10.65
Net Profit ratio (%)	-25.05	27.31	-50.6	7.21	5.93	7.48	19.04	7.5	19.38
Return on Investment(%)	-3.28	4.95	-11.72	3.42	5.46	7.51	14.11	7.66	11.26
Earnings per share	-13.24	8.12	-27.66	3.78	3.36	4.7	2.49	0.84	2.49
Dividend payout ratio (%)	NA	27.33	NA	45.73	51.48	36.8	55.82	16.07	51
Debt equity ratio (%)	0.12	0.17	0.27	1.03	0.36	0.33	0.29	0.37	0.32

VODAFOE-HUTCH SUCCESS/RESULTS

- 2nd largest Telecom operator in India (Revenue & subs)
- 24.06% customer market share-91.4 million of which 93.2% are pre-paid users (Dec 09,source COAI)
- Revenues in first 6months of 2009 were $ 1.1485 billion.
- Revenue increased by 26% in the 6months ended sep09, but operating profit 6.6% due to tough competition.
- Recoded highest net additions of 2.98 million and seen subscriber count at 85.8 million in Nov 09.

VIII. CONCLUSION

The study has concluded that M&A indeed has effect on the operating performances of the entities involved. One significant aspect that emerges while analyzing Vodafone-Hutch Essar deal was that macro economic variables has played a significant contribution to the operational aspect of company post merger and acquisitions.. In present scenario Vodafone India is contemplating mergers with other Indian telecom giants for the company's sustainability and growth.

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