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MERGERS AND ACQUISITION IN INDIA AND AN ANALYTICAL CASE STUDY ON BHARTI INFRATEL AND INDUS TOWERS MERGER DEAL

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ABSTRACT

Mergers and acquisitions have been the most common means of inorganic corporate expansion for years. It is widely used in restructuring business organizations. Companies make mergers and acquisitions based on strategic business motivations that are inherently economic. This research study seeks to assess the pre- and post-impact financial performance of an acquiring company. This is done by comparing the pre-and post-merger performance of the acquiring company and the impact of his Covid-Pandemic on that merger. We will also consider the firm's impact if again covid pandemic happens in the year that affects the company.

As part of our analysis, we use the two tower infrastructure businesses Bharti Infratel Ltd. and Indus Towers Ltd. Following the merger's announcement in 2018, the procedure was finished on November 19, 2020. The combined business's paid-in capital increased to Rs. 26,99,369,500. Vodafone Idea exited the market by selling its 11.15% share in Indus Towers Ltd. for Rs. 3760 million euros. The newly combined business was named Indus Towers Ltd. and is traded on the BSE and NSE stock marketplaces.

Keywords:

Merger, Acquisition, Pre, Post, Operating, Performance, Covid effects, Telecom Sector

INTRODUCTION

Introduction to Mergers and Acquisition

Merger:

A merger is defined as the merging of two or more companies into one company, with one company surviving and the remaining company no longer in existence. Survivors get all assets and liabilities of the merged company or companies. In general, the surviving company is the buyer who retains its identity, and the defunct company is the seller.

A merger is also called a merger. A merger is the merger of two or more existing companies. All assets, liabilities, and shares of the company will be exchanged for payment in the form of:

• Shares of the acquiring company.

• Debentures of the acquiring company.

• Cash or A mix of the above modes.

Acquisition:

Acquisition usually refers to the acquisition of a smaller company by a larger company. Acquisition, also known as a takeover or buyout, is the acquisition of one company by another.

An acquisition or takeover is between the bidder and the target company. There can be either hostile or friendly takeovers. Acquisition, in the general sense, is the acquisition of ownership of a thing. In the context of a business combination, an acquisition is the acquisition by a company of control of the share capital of another existing company.

Benefits of M&A:

Benefits of M&A include:

Release synergy: A common rationale for M&A is to create synergies when the combined company is worth more than the two companies individually. Synergies can arise from cost reductions or revenue increases. Cost synergies are created through economies of scale, while revenue synergies are typically driven by cross-selling, increasing market share, or rising prices. From both, cost synergies can be easily quantified and calculated.

Higher growth: A common rationale for M&A is to create synergies when the combined company is worth more than the two companies individually. Synergies can arise from cost reductions or revenue increases. Cost synergies are created through economies of scale, while revenue synergies are typically driven by cross-selling, increasing market share, or rising prices. From both, cost synergies can be easily quantified and calculated.

Strengthening market power: In horizontal and vertical mergers, the resulting entity gains greater market power, which leads to the ability to influence prices and better control the supply chain.

Diversification Mergers and acquisitions help companies capture more revenue streams and allow them to spread risk across those revenue streams rather than just one. If one revenue stream declines, another may sustain or even rise, diversifying the company's risk.

Preferential tax treatment: M&A May 8 result in tax benefits if the target company belongs to a strategic industry or a country with favorable tax regimes. Additionally, by acquiring a company with a net loss, the acquiring company can use the loss to reduce its tax liability.

Geographic or other investment: M&A aims at smoothing the earnings results of a company. This soothes the stock price over time and gives conservative investors more confidence in the company. This will give the company new outlets and areas to explore its business potential.

REVIEW OF LITERATURE

- Manju Rajan Babu (June 2019): The main objective of this research paper is to evaluate the profitability and liquidity position of banks pre- and post-merger. The sample size of the study is 17 nationalized and private banks from the period 1998-2016. CAMELS (Capital adequacy, Asset quality Management, Earnings, Liquidity, and Sensitivity to market risk) Approach and data envelopment analysis are used to evaluate the performance. The study concluded that the financial performance of banks of India is moving towards betterment after post-merger years.
- Sonia Singh and Subhankar Das (Jan 2018): It covers the performance evaluation of mergers and acquisitions in the Indian banking sector during the pre and post-period six years of Merger and Acquisition activity. The data analysis is done with the help of financial parameters like Net Profit margin, operating Profit margin, return on Capital Employed, Return on Equity, earnings per share, capital adequacy ratio, dividend per
- Ritesh Patel (2018): In this study, the objective was to know the before- and after-the merger comparative position of long-term profitability with respect to the selected Indian banks. He has used descriptive research design and basic research approach and paired t-test to test the hypothesis. He had concluded that there is negative impact of merger on return on equity, return on assets, Net profit ratio, yield on advance and yield on investment. However, Earnings per Share, Profit per employee and Business per employee have shown positive trends and grown after the merger.
- Lubatkin [2009] analyzed the results of study that directly or indirectly indicate to the question whether mergers give benefits to the
- Basha, S. M., & Ramaratnam, M. S. (2017) analysed nifty midcap 150 stocks for optimal portfolio construction from 2011 to 2016. Sharpe single index model applied to find out excess return to beta and calculation of cut-off point. Study confirms that of the 150 stocks of midcap only 25 scripts covered in the final portfolio. It’s found that pharma stocks weightage will be more than the other sectors stocks.
- Basanna, P., & Konnur, N. P. (2019) Study undertaken to construct an optimal portfolio using Sharpe single index with Nifty 50 index. For construction portfolio daily closing prices took from the period of four years i.e., 2014 to 2019. It is found that stocks selected for optimal portfolio is consumer non-durables (3 stocks), consumer durables (1 stock), and finance (3 stocks) and agree based sectors (1 stock)

PROBLEM STATEMENT

- Educate investors on pre- and post-merger impacts Acquisition for short-term investment.
- Develop investment strategies from an investor's short-term perspective, considering mergers and acquisitions.

OBJECTIVE OF RESEARCH

- The main purpose of this study is to analyze the impact of the merger on the financial performance of her two companies.
- Analysis of the impact of mergers on a company's liquidity position
- Evaluate the impact of the merger on the capital of both companies.
- Understand the macroeconomic environment along with the impact of mergers on the acquirer's performance.

RESEARCH METHODOLOGY

This Case study covers survey design, sample design, data collection and analysis. It also discusses pre and post effects on the merger.

Study design: This research study is based on secondary sources. This study examines the impact of acquisitions on the short-term financial interests of the acquirer and the target company's shareholders. The study is based on event research methodology and market models. Data collection method.

This study is an empirical study based on secondary data. Use an event study that includes the following steps.

- Identification and collection of company accounts.
- Collection of data from magazines and newspapers And Internet.
- Calculation of financial performance based on key figure analysis.

Study Population: We cover M&A of Bharti Infratel and Indus tower merger deal companies in India over the last seven years from 2017 to 2022.

Sampling frame: Indian Companies Registered on the Stock Exchange, List of Indian Companies Registered on the Stock Exchange will be part of my sampling frame. Sampling unit:

The sampling unit consists primarily of the wealthiest recent mergers and acquisitions in the telecom sector.

Sample size: The sample size will be Bharti Infratel Ltd. Analyzing the Indus Tower

DATA ANALYSIS AND INTERPRETATION

Accounting Tools for Analysis:

Ratios are among the well-known and most widely used tools of financial analysis. Ratio can be defined as "the indicated quotient of two mathematical expressions". An operational definition of ratio is the representation between one item to another expressed in simple mathematical form. In ratio analysis ratios may be classified into the four categories as follows:

A) Liquidity Ratios: These ratios are used to assess the short-term financial status of the concern. They denote the firm's ability to meet its obligation out of current resources.

B) Profitability Ratios: The main object of all the business concerns is to earn profit. Profit is the measurement of the efficiency of the business. Profit is the measurement of the business. Equity shareholders of the company are mainly interested in the profitability of the company.

C) Activity Ratio: These ratios are calculated on the basis of cost of sales or sales. Therefore, these ratios are also called turnover ratios. In other words these ratios indicate how efficiently the capital is being used to obtain sales, how efficiently the fixed assets are being used to obtain sales and how efficiently the working capital and stock is being used to obtain sales.

D) Solvency Ratios: These ratios are calculated to assess the ability of the firms to meet its long-term liabilities as and when they become due. Long term creditors including debenture holders are primarily interested to know whether the company has ability to pay regular interest due to them and repay the principal amount when it becomes due. Solvency ratios disclose the firm's ability to meet the interest costs regularly and long- term indebtedness maturity. The following ratios are used for this study:

1. Current Ratio = Current Assets ÷ Current Liabilities
2. Quick Ratio = Liquid Assets ÷ Liquid Liabilities
3. Operating Profit Margin Ratio = EBIT ÷ Net Sales
4. Net Profit Margin Ratio = Net Profit ÷ Net Sales × 100
5. Return on Capital Employed = PBT ÷ Capital Employed ×100
6. Return on Net Worth Ratio = Net Profit after Tax – Preference Share Dividend ÷ Net Worth*100
7. Debtors Turnover Ratio = Net Credit Sales ÷ Average Debtors + Bills Receivables
8. Fixed Assets Turnover Ratio = Cost of Goods Sold ÷Average Fixed Assets
9. Debt-Equity Ratio = Long Term Liabilities + Current Liabilities ÷ Net Worth
10. Interest Coverage Ratio = EBIT ÷ Interest

Here an attempt is made to present the data analysis and interpretations of findings. Data was summarized using table's percentages. The research covered one Bharti Infratel ltd and Indus Tower which were involved in M & A Between 2017-2022.

In This Research Paper we Take analysis of the two Part pre and post merger Effects. So below mentions some ratios in this Research Paper analysis And Findings.

Financial Ratios Of the Particular years:

A) Liquidity Ratios:

Table:1

PRE MERGER RATIO					POST MERGER RATIO				
	Bharti Infratel		Indus Towers			Indus Towers			
Particular	2017	2018	2017	2018	Particular	2019	2020	2021	2022
Liquidity Analysis					Liquidity Analysis				
Current Ratio	0.22	0.37	1.09	0.67	Current Ratio	0.75	0.21	0.32	0.54
Quick Ratio	0.23	0.38	0.54	0.14	Quick Ratio	0.74	0.45	0.48	0.7

1) Current Ratio:

The above table shows that the current ratio is the selected company before and after merger Effects.

In pre-merger, i.e., the years 2017 & 2018. The effects of both companies, Bharti Infratel Ltd and Indus Towers, is That Bharti Infratel ltd current ratio is 0.22 & 0.37 and Indus tower the current balance is 1.09 & 0.67 is the consequence years 2017 and 2018, So the Researchers Conclude before the merger, Indus tower's liquidity the position is Good as Compared to the Bharti Infratel ltd And Post merger Effects initial stage company is good, but after the year, it decreased So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower has remained the same.

2) Quick Ratio:

The above table shows that the Quick ratio is selected before and after merger Effects.

In pre-merger, the effect of both companies, Bharti infrared Ltd.'s quick ratio is 0.23 & 0.38, And Indus tower ratio is 0.54 & 0.14 in the Consequence years 2017 & 2018 in this year. So the Researchers concluded before the merger, Indus tower's liquidity position was Not Good. Both companies didn't have good liquid assets to convert to meet short-term obligations after the quick merger ratios in the initial stage increased, but after the year decreased. So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower has not improved.

B) Profitability Ratios:

PRE MERGER RATIO					POST MERGER RATIO				
	Bharti Infratel		Indus Towers			Indus Towers			
Particular	2017	2018	2017	2018	Particular	2019	2020	2021	2022
Profitability Ratio (%)					Profitability Ratio (%)				
3)Operating Profit Margin Ratio	73	66	69.11	71.83	Operating Profit Margin Ratio	45.64	52.79	51.54	53.73
4)Net Profit Ratio	44.44	56.47	38.42	37.66	Net Profit Ratio	40.73	25.92	23.92	22.97
5}Return On Capital Employed Ratio	0	0	17.26	21.01	Return On Capital Employed Ratio	23.72	16.84	22.52	36.24
6)Return On Net Worth Ratio	16.65	13.61	13.86	15.36	Return On Net Worth Ratio	17.74	12.58	20.99	28.71

3) Operating Profit Margin Ratio:

The above table shows that the Operating profit margin ratio is selected before and after the merger Effects.

In pre-merger, i.e., the years 2017 & 2018. The effects of both companies Bharti Infratel Ltd and Indus Towers In Bharti Infratel ltd Operating Profit Margin ratios of 73% & 66% and Indus Tower ratios is 69.11 & 71.83 the consequence year 2017 and 2018, So the Researchers Concluded before merger of Indus tower and Bharti infrared the liquidity position is higher compared to the Post-merger Effects, So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower did not improve.

4) Net Profit Margin Ratio:

The above table show that the Net profit margin ratio is selected company before and after the merger Effects

In pre-merger, i.e., the years 2017 & 2018. The effects of both company Bharti Infratel Ltd and Indus Towers, is In Bharti Infratel ltd Net Profit Margin ratios 44.44 % & 56.47%, and Indus Tower ratios are 38.42% & 37.66% the consequence year 2017 and 2018, So the Researchers Concluded before merger Indus tower liquidity the position is Not Good compared to the Bharti inflated Post merger Net Profit Ratio is continuously decreasing, So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower has not improved.

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5) Return On Capital Employed Ratio:

The above table shows that the return on capital Employed Ratio is the selected company before and after merger effects.
In pre-merger, i.e., the years 2017 & 2018. The effects of both companies, Bharti infrared ltd and indus tower in Bharti infrared ltd, return on capital employed ratio 0% & 0% and Indus tower ratio is 17.26% & 21.01% consequences years 2017 and 2018, so the researcher concluded before the merger Indus tower liquidity position is good as compare to Bharti infrared. Post-merger, the return on employed capital ratio increased, so the researcher concluded that after the M&A, the liquidity position of the Indus tower improved.

6) Return on Net worth ratio:

The above table shows that the return on Net worth Ratio is selected before and after merger effects.
In pre-merger, i.e., the years 2017 & 2018. The results of both companies, Bharti infrared ltd and Indus tower, are Bharti infrared Ltd's Return on Net worth ratio is 16.65% & 13.61%. Indus tower's ratio is 13.86% & 15.36% consequences year 2017 and 2018, so the researcher concludes before the merger, Indus tower and Bharti infrared liquidity position is good. Post-merger, the return on Net worth ratio increased, so the researcher concluded that after the M&A, the liquidity position of the Indus tower improved.

C) Active ratio:

PRE MERGER RATIO					POST MERGER RATIO				
	Bharti Infratel		Indus Towers			Indus Towres			
Particular	2017	2018	2017	2018	Particular	2019	2020	2021	2022
Active Ratio					Active Ratio				
Debtor Turnover Ratio	40.57	48.21	24.56	23.05	Debtor Turnover Ratio	16.64	14.78	6.65	5.09
Fixed Assets Turnover Ratio	0.74	0.96	0.46	0.48	Fixed Assets Turnover Ratio	0.46	0.04	0.21	0.41

7) Debtors turnover ratio:

The above table shows that the Debtors turnover Ratio is selected before and after merger effects.
In pre-merger, i.e., years 2017 & 2018. The results of both companies, Bharti infrared ltd, and Indus tower, are Bharti infrared ltd Debtors turnover ratio is 40.57% & 48.21%, and indus tower ratio is 24.56% & 23.05%, consequences years 2017 and 2018, So the Researchers Conclude before the merger Indus tower liquidity position
is Not Good as Compared to the Bharti infrared And Post-merger Debtors' turnover Ratio continuously decreases. A lower turnover ratio often means lower costs and higher returns. So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower has not improved8) fixed asset turnover ratio:

8) fixed asset turnover ratio:

The above table shows that the fixed asset turnover Ratio is selected before and after merger effects. In pre-merger, i.e., the years 2017 & 2018. The results of both companies, Bharti infrared ltd and Indus tower is in Bharti infrared ltd fixed asset turnover ratio 0.74% & 0.96%, and indus tower ratio is 0.46% & 0.48%, consequences years 2017 and 2018; the Researchers Conclude before merger Indus tower liquidity position is Not Good Compared to the Bharti infrared. Post-merger fixed asset turnover Ratio is continuously decreasing for some years, little increase, So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower has not improved.

D) Solvency Ratio:

PRE MERGER RATIO					POST MERGER RATIO				
	Bharti Infratel		Indus Towers			Indus Towers			
Particular	2017	2018	2017	2018	Particular	2019	2020	2021	2022
Solvency Ratio					Solvency Ratio				
Debt-Equity Ratio	0.22	0.24	0.01	0.01	Debt-Equity Ratio	0	0.17	0.44	0.25
Interest Coverage Ratio	95.8	94.76	77.5	76.9	Interest Coverage Ratio	70.28	8.24	6.17	6.26

9) Debt- equity ratio:

The above table shows that Debt- The Equity Ratio is the selected company before and after merger effects.In pre-merger, i.e., years 2017 & 2018. The results of both companies, Bharti infrared ltd and indus tower in Bharti infrared ltd Debt- equity ratios of 0.22% & 0.24%, and indus tower's ratio is 0.01% & 0.01% consequences years 2017 and 2018, So the Researchers Conclude before the merger, Indus tower liquidity the position is Not Good compared to the Bharti infrared Post merger Debt- The equity Ratio is increased or decreased, So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower improved.

10) Interest coverage Ratio:

The above table shows that the interest coverage ratio is selected before and after the merger.In pre-merger, i.e., years 2017 & 2018. The effects of both companies, Bharti infrared ltd and indus tower, are Bharti infrared Ltd's Interest coverage ratio is 95.8% & 94.76%. Indus tower's ratio is 77.15% & 76.9%, years 2017 and 2018. So the Researchers Concluded before the merger, Indus tower's liquidity position was Not Good Compared to the Bharti infrared Post merger Interest coverage Ratio continuously decreased, which means that the lower the interest coverage ratio, the more outstanding the company debt and the possibility of bankruptcy. So the Researchers Conclude that after the M&A, the liquidity position of the Indus tower is improved.

FINDING :

❖ The study concluded that the liquidity ratio of selected companies declined after that merger and acquisition activity. The current ratio did not improve after M&A., but the quick ratio improved after the M&A.

❖ The study also concluded that the profitability ratio of selected companies shows increasing trends. All four ratios- operating profit margin ratio, net profit margin ratio, return on capital employed, and net worth improved. All ratios show that a company can earn adequate profit from the money invested in it.

❖ The researcher also concluded that the activity ratio of selected companies had improved. Debtors turnover ratio and fixed turnover ratio improved after M&A., which shows that the capital is efficiently used and working money and stock is used efficiently to obtain sales.

❖ The study also concluded that the long-term solvency of the selected company declined. Before, both companies' debt-equity ratios were not good. After the post-merger of the debt-equity balance, some years increase or decrease. Interest coverage ratio before the merger was excellent, but after the merger, the interest coverage ratio decreased. So researchers can conclude that the solvency of selected companies has not improved after M&A.

❖ On the performance measures that are unique to Bharti infrared, an indus tower company in India, and which focus on solvency, liquidity, profitability, and leverage, the study concludes that they have an overall positive effect on the performance of both companies in India

CONCLUSION ;

The combined company has become the second-largest tower infrastructure company in the world after China and covers all 22 tower circuits in India. The merger of Bharti Infratel and Indus Towers will help unlock value and achieve economies of scale**.** In This Analytical Case Study, Researchers conclude that the Bharti Infratel Limited and Indus Tower Merger is not with Major Benefit in This Merger because, In the Financial ratio analysis, there are no improved ratios after the merger. In the analytical Part, we Also see the proportions of the before merger for both companies are goods as Compared to the post Merger of the companies; so in The covid Pandemic, The Merger Of Both companies at that particular time help for sustain that market Capital and Financial strong At the Merger Time and After the Merger as a long time the effects of the merger are not satisfied because, for the in the telecom sector, their competition High after covid pandemic and in this time many telecom sectors improved as compare to the indus tower. So, in the end, If the Covid pandemic happens in the future, the overall growth of the companies will be affected, As Par Researchers analyze.

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