

## **A STUDY ON MERGERS AND ACQUISITIONS IN TELECOM SECTOR – INDIAN SCENARIO**

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### **Abstract**

With the population increasing day by day, there seems to be a need for more and more development. As a result, there are more and more companies and businesses coming up lately. Some companies function singularly until its existence, but some companies officially join another company and combine to form a single unit. This single unit formed from two or more different companies then works as another unit. The telecom sector of our country is also increasing day by day. With the increasing population, the demands in the telecom sector have also increased. Earlier there used to one old fashioned phone in one society or colony for use by all but in today's era, a child even of 10 years of age is given a mobile phone and even the lower or poor class can afford a mobile phone too. Today mobile phones have been a necessity more than a luxury where we can keep in touch with our near ones easily. Mergers and Acquisitions are seen even in this sector of the country.

**Keywords:** Mergers, Acquisitions, Telecom Sector, Mobile Companies, Development.

### **I. INTRODUCTION**

Mergers and Acquisitions are part of the strategic working of any business or working group. It involves the joining of two businesses with the object to increase market share and profits and to have an influential impact in the industry. Mergers and Acquisitions are complicated processes that require preparing, analysis and deliberation. There are a lot of parties who might be affected by a merger or an acquisition but before a deal is finalized, all parties need to be taken into consideration, and their concerns should be addressed, and all possible hurdles that can be avoided must be avoided. 'Mergers and Acquisitions' is a technical term used to define the consolidation of two or more companies. When two companies are combined to form one unit, it is known as merger, while an acquisition refers to the buying of one company by another one, which means that no new company is formed, only one company has been absorbed into another. Mergers and Acquisitions are an important component of strategic management, which comes under the head of corporate finance. The subject concerns buying, selling, dividing, and combining various companies. It is a type of restructuring to have rapid growth and increase profitability.

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## II. TYPES OF MERGERS

**A horizontal merger** is a merger that happens when the two companies are in the same sector of business, which means they are competitors. A horizontal merger happens between two companies who practice in the same line of business and decide to merge their companies into one for better efficiency and increased profits. Instances include Disney merging with Lucasfilm.

**A vertical merger** is a merger which happens when two companies are in the same line of production, but the stages of production in which they are involved are different. Instances include Microsoft buying out Nokia to support its software and provide the necessary hardware for the smartphone.

**Conglomerate merger** happens when the two companies are in a completely different line of business but still decide to merge for reasons specific to them and the merger. Instances include Berkshire Hathaway acquired Lubrizol. This kind of merger occurs mostly in order to diversify and spread the risks.

**Parties in an Acquisition:** The parties include the target company and the acquirer company. The **target** corporation is the company that is being acquired and the **acquirer** corporation is the company that acquires the target company.

**Difference between a Merger and Acquisition:** The major difference between a merger and an acquisition is that a merger is a form of legal joining of two companies, which are formed into a single entity. An acquisition happens when one company is totally absorbed into another company, which means that the company that is brought by another company continues to exist. In recent years, the distinction between the two has started blurring too much as companies have started doing joint ventures a lot lately. Sometimes the acquirer of a company wants to keep the name of the acquired company because of the goodwill attached to it.

## III. INDIAN TELECOMMUNICATIONS INDUSTRY

India is currently ranked at the world's second-largest telecommunications market with more than 1.20 billion subscribers and has shown strong growth in the past one and a half decades. The Indian mobile industry is growing fiercely and will contribute to India's Gross Domestic Product (GDP). This is according to a report which was formed by GSM Association (GSMA) in association and consultation with the Boston Consulting Group (BCG). As of January 2019, India witnessed growth in app downloads by 165% in the past two years. The government has made the easy market access to the telecom types of machinery and a just framework that is regulatory in nature and has ensured the availability of telecom services to consumer at affordable rates. The deregulation of Foreign Direct Investment (FDI) rules has made the telecom sector one of the fastest-growing sectors in the country and a huge means of employment opportunity generator in the country too.

**Market Size:** India with 604.21 million internet subscribers, as of December 2018, ranks as the world's second-largest market when it comes to total internet users. India is also the world's second-largest telecommunications market, with its subscriber base of 1,183.51 million as of March 2019. Moreover, in the year 2017, India surpassed the USA to become the second-largest market when it comes to a number of app downloads. The country remained the world's fastest-growing market for Google Play downloads in the year 2018. Over the next five years, an increase in mobile-phone penetration and a decline in data costs will lead to an added number of 500 million new internet users in India, creating opportunities for new businesses.

**Investment/Major development:** Moving parallel with the daily increasing subscriber base, there have been a lot of investments and developments in the telecom sector. FDI inflows into

the telecom sector during April 2000 – March 2019 came up to a total of US\$ 32.82 billion, according to the data released by the Department for Promotion of Industry and Internal Trade (DPI). Some of the developments in the recent past during the first 3 months of 2018, India became the world's fastest-growing market for mobile applications. The country was said to be the world's fastest-growing market for Google Play downloads in the year 2018. Bharti Airtel launched 6,000 new sites in Gujarat in 2018-19. The number of mobile wallet transactions increased by 5 percent to 325.28 million in July 2018. BSNL is expected to launch its 5G services by the year 2020. Vodafone India and Idea Cellular have merged to become India's largest telecom company in September 2018.

**Government Initiatives:** The government has fast-tracked reforms in the telecom sector and continues to provide room for growth for telecom companies. Some of the other major initiatives taken by the government are as follows: The Government of India came out with a new policy known as the National Telecom Policy 2018 the object of which was the vision of attracting investments with the value of US\$ 100 billion by the year 2022. The Department of Information Technology envisages to set up over 1 million internet-enabled common service centres across the country as per the National e-Governance Plan, FDI cap in the telecom sector has been increased to 100 percent from the earlier 74 percent, The Government of India has introduced Digital India program under which all the sectors will be connected through internet.

#### **IV. MOTIVES FOR M&A IN THE TELECOM SECTOR**

1. Foreign Players are willing to enter India as India is a big market for telecom and hence, has always attracted the attention of many foreign players. The foreign players have used mergers and acquisitions means to expand its footprints in India since ages.
2. Inorganic Growth of Subscribers was another motive. The telecom sector in India is quite competitive and the big companies are also eager to acquire the customers of smaller companies as the market is getting saturated.
3. The rapid change in technology is also a motive for mergers and acquisitions in the sector. The telecom sector has witnessed a rapid change in technology from 2G to 4G and the upcoming 5G. So, the firms are going for mergers and acquisitions.
4. The acquisition of Brand Value is a motive as the brand name plays an important role in the Indian Telecom Industry. Smaller firms can benefit a lot by merging with bigger names and earn goodwill.
5. Limited Spectrum is another problem turning it into a motive. India is divided into 22 circles and each circle has a limited amount of spectrum to be allocated to different players in each of the technology from 2G to 4G. So, to grow, it is important to acquire spectrums of other players and mergers & acquisitions are an easy means to achieve this.
6. The coming of Reliance Jio in the telecom sector
7. After Reliance Jio Infocom Ltd. started services in the year 2016, giving free voice calls for a lifetime and 3 months of free data services, mergers and acquisitions had become unavoidable in India's telecom industry. Just 3 days after the Idea-Vodafone merger was declared, Bharti Airtel decided to buy Tikona Digital Networks Pvt. Ltd. 4G business, and its broadband wireless access spectrum in 5 telecom circles, for Rs1,600 crore.

#### **V. VODAFONE AND IDEA MERGER**

In March 2017, Idea and Vodafone India announced that their respective boards had approved the merger of both the companies. The merger got approval from the Department of Telecommunications in July the following year. In August the same year, National Company Law Tribunal gave the final nod for the merger. The merger was completed on the last date of

August 2018, and the newly merged entity named as Vodafone Idea Ltd was created into a single unit. The merger led to the formation of the largest telecom company in India by subscribers and by revenue too. As per the terms of the deals, the Vodafone Group holds a 45.2% stake in the combined entity, the Aditya Birla Group holds 26% and the remaining shares will be held by the public. The chairman now will be Kumar Mangalam Birla. Vodafone Idea Limited headquartered in Maharashtra is a pan-India integrated GSM operator offering 2G, 3G, and 4G VoLTE mobile services under two brands named now Vodafone and Idea. Vodafone Idea also provides services like Mobile payments, IoT, enterprise offerings and entertainment. As of June 2019, Vodafone Idea became the sixth largest mobile telecommunications network in the world. Vodafone's Idea has a network spread over 340,000 sites. Vodafone India's merger with Idea Cellular led them to be renamed as Vodafone Idea Limited.

## **VI. MERGE OF TELENOR IN BHARATI AIRTEL**

Telenor India announced a merger with Bharti Airtel in April 2018. This will boost the base of the subscribers of Airtel along with the 4G spectrum footprint. After the merger, Airtel's footprint will be boosted with the addition of 43.4 MHz spectrum in the 1800 MHz band in seven circles (Andhra Pradesh, Bihar, Maharashtra, Gujarat, UP (East), UP (West) and Assam). The Department of Telecom on April 3 had asked Bharti Airtel to submit Rs 1,700 crore as the bank guarantee before approving its merger with Telenor India. The guarantee included a one-time spectrum charge of Rs 1,499 crore for the radio waves allocated to Airtel without auction and over Rs 200 crore for spectrum payment which Telenor has to make. DoT has also asked for an undertaking from Airtel that the company shall be liable to any dues if pending with respect to the merger of the two companies. It will also be liable for paying all demands which may be raised by any wing of the department for Telenor India. DoT also directed Airtel to lessen its market share in the Bihar telecom circle on the foundation of money earned from telecom services known as Adjusted Gross Revenue. DoT asked Airtel to lessen the limit to not more than 50% within one year after the merger was approved. After this, an affidavit of no objection concerning the merger was issued and their affidavit was moved to the National Company Law Tribunal commonly known as NCLT. NCLT approved the merger of Airtel and Telenor India effectively. Telecom companies from time to time have to furnish bank guarantees to meet their contractual commitments with the licensor, which is the DoT. A failure in meeting the requirement of fees causes the department to encash the bank guarantee as a tool to penalize the defaulter. Typically, a bank guarantee is issued by a bank or any other money lending institution. This institution promises to pay the sum of money in case of default by the defaulter.

## **VII. IMPORTANCE OF THE MERGER IN THE TELECOM SECTOR FOR THE CONSUMERS**

The merger holds importance for the consumers also.

1. The Indian telecom industry would see the domination of three top telecom companies: **Bharti Airtel**, **Jio** and Vodafone-Idea, out of which the domination of Vodafone-Idea would be the largest.
2. The process of branding will be on an individual basis for both the companies that have been found to have a complementary nature with respect to each other.

## **VIII. IMPACT OF MERGER IN TELECOM INDUSTRY**

Several other implications that this merger will bring forth on the telecom industry include:

1. There can be initiatives based on the renewal of price discipline for the disruptive entry by Jio has caused some serious misbalance
2. The poor financial health of the telecom sector can be observed and through such mergers, there will be the inclusion of health and life since India is the fastest-growing market in terms of the subscriber base.
3. The deal saved both the telecom companies from selling off their business which was being planned initially and which would have directly impacted the quality of services being provided by different players in the industry.

The merger will speed up the pace of the telecom sector. It has also been found that the savings, synergies, and the spectrum will have a significant impact on the growth. There will be saving of more than 60 percent of the cost of the operation, and this will help and aid in improving the quality and performance of the service through investments from the saved money.

#### **IX. LEGAL FRAMEWORK RELATING M&A IN THE TELECOM SECTOR**

1. National Telecom Policy formed in 2012 has made M&A in Telecom Service Sector simpler while ensuring adequate competition and allowing 100% FDI.
2. The merger in the case of licenses shall be done for the respective service category. Access to service license allows the provision of internet service and so the merger of ISP license with services license shall also be permitted.
3. In a service area, the market share of the merged entity should not be more than 50%. If it is more, it must reduce it below 50% in an annum.
4. The total spectrum held by the merged entity should not be more than 50% in a service area. If it is excess, it must be surrendered within an annum.
5. The corporation which acquires will have to pay the difference between the market price determined in the auction & the administrative price if an acquired company has got spectrum after paying the administrative price.
6. If due to a merger or transfer of license in any service area business, corporation or entity becomes an important market power, then TRAI's Telecommunication Act of the year 2002 will come into place.



#### **X. CONCLUSION**

Mergers and Acquisitions are an essential part and portion of the strategic working of any business or working group. It involves the joining of two businesses with the object to increase market share and profits and to have an influential impact in the industry. Mergers and Acquisitions are complicated processes that require preparing, analysis and deliberation. There are a lot of parties who might be affected by a merger or an acquisition but before a deal is finalized, all parties need to be taken into consideration, and their concerns should be addressed, and all possible hurdles that can be avoided must be avoided. The telecom sector of our country is also increasing day by day. With the increasing population, the demands in the telecom sector have also increased. Earlier there used to one old fashioned phone in one society or colony for use by all but in today's era, a child even of 10 years of age is given a mobile phone and even the lower or poor class can afford a mobile phone too. Today mobile phones have been a necessity more than a luxury where we can keep in touch with our near ones easily. Mergers and Acquisitions are seen even in this sector of the country. Developmental prospects can be innumerable in nature but the huge amount of development In the Telecom sector is causing disruptions in the lives of the everyday people. Therefore, we must try not to depend so much on the telecom industry.

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