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Evaluation of FCFF in Post Acquisition - A Case Study of Bharti Airtel acquiring Zain Africa

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Abstract: Merger and acquisition have been common phenomenon in recent times. Companies have been actively involved in merger and acquisitions domestically as well as internationally. The increased competition in the global market has promoted the companies to go global for merger and acquisition. Secondary data were extracted from audited annual reports and financial statements of companies for a time span of five years (2013-2017). Data were sorted, cleaned and coded first and then this data entered into SPSS.
Keywords: Free Cash Flow, Descriptive Analysis, T-Test

I. INTRODUCTION

Till the year 1988, concept of Merger and Acquisition in India was not much popular. During that period a very small percentage of businesses in the country used to come together mostly into a friendly acquisition with a negotiated deal. Merger and acquisition are a key part of a corporate growth strategy. The movement of merger and acquisition in India has changed over the years. To study the concept of Merger/Acquisition in detail by taking examples of some companies. The objective is to find out the major issues associated with pre and post merging situations with special emphasis on the human aspect. Merger/Acquisition is a phenomenon which is easy to think but hard to implement. Three phases of mergers – pre merger, transition phase and the post-merger phase have its own advantages as well as difficulties, if handled with proper care synergies can be withdrawn but a little mistake can spoil the whole transition. Companies are acquiring more and more firms in order to expand their business and with lots of reasons which are discussed here. If any company is not adopting this way either they will not grow or will be acquired by the other major big firm. Although the present system which is adopted by the companies for takeover can't be taken as the appropriate one because the major reason behind this is of synergies but still more and more companies are merging with one another as there is a flow of merger or acquisition in the present era. When companies merge or make a plan for acquisition the only factor in their mind is growth or expansion or synergies. People factor is totally ignored. Either they are not involved anywhere or if involved then at very lower level.

II. BACKGROUND OF THE STUDY

Bharti's offer to Zain of $10.7bn (EV) for the Africa assets of Zain (excl Sudan and Morocco) has reportedly been accepted by the board of Zain. In the largest ever telecom n Business for by an Indian firm, Bharti Aritel on Tuesday signed a deal with Kuwait-based Zain Telecom to buy its African Business for $10.7 billion (about Rs. 48000 crore). Announcing the deal, Sunil Mittal said, 'this agreement is a landmark for global telecom industry and game changer for bharti. Bharti will be the world's fifth largest wireless company with operations across 18 countries fulfilling our vision of building a world class multinational.
Mr.Sunil Bharti Mittal, chairman and managing Director, Bharti Airtel said, "This agreement is a landmark for global telecom industry and game changer for Bharti more importantly, this transaction is a pioneering step towards south cooperation and strengthening of ties between India and Africa. With the acquisition Bharti's total customer base will increases to around 179 million in 18 countries. Bharti launched mobile services in India in 1995, srilanka in 2009 and acquired warid in Bangladesh in January 2010.

III. REVIEW OF LITERATURE

Cartwright & cooper (1993) reinforced the previous financial and financial and other strategic benefits expected from mergers and acquisitions are undermined by the cultural conflicts. Carleton (1997) Research studies reported that more than two thirds of large merger and acquision deals fails to create value for shareholders. . An acquisition relates to the transfer of ownership between two firms, where one firms (the acquirer) buys a part or the totality of another firm (the acquired) establishing itself as the new owner

(Ross et el., 1998). The firms that hold excess cash might use it in buying overpriced firms rather than paying out dividends to the shareholders. This is possible even when the firms have a low financial capacity after making acquisitions since they invest in non-profitability investment projects (Griffith & Carroll,2001). Mergers and acquisions fail to meet the anticipated goals. Free cash Flow can also depict that some sort of agency problems exist within a firm since the excess cash might not be used by the managers to pay shareholders dividends (Maheshwari, 2002). The topic M &A has been increasingly in the literature in the last two decades (Appelbaum et el., 2007) in response to the rise in merger and acquisition activities as well as the increasing in complexity of such transaction themselves (Ghughan, 2002).
Swami Prasad (2007) identifies that the success of a merger between two or more companies depends as much on cultural fit as it does on strategic fit and financial fit and the proper management of change and employee response thereto. M&As have been studied in strategic management under diverse lenses. The post-acquisitions integration of the acquired firms has warranted special research attention (Zollo and Singh, 2004). The M&As may be opportunities for the firms to reconfigure their businesses, altering their pool of resources and capabilities (Karim and Mitchell, 2000; Ferreira 2007). Hansen and Nohira (2004) Merger and acquisitions have become a global phenomenon and a popular strategic choice for company growth and expansion. Richardson (2006) defined free cash flow (FCF) as the net cash the firm earns from operating activities after making deduction from development costs; this cost is then added to R&D expenditure and finally investment expenditures of new projects are deducted from that. Pradeep Kumar Gupta(2012) states that Merger and Acquisition has become a strategic concept to grow quickly for a number of leading companies world wide. (Neha Sharma 2014)This paper examines that the impact of merger and acquisition on the performance of Indian telecom industry they reaches the demographics growth opportunities keep India an attractive destination merger and acquisition.

IV. OBJECTIVE OF THE STUDY

To investigate the changes in free cash flow in post-acquisition period

V. RESEARCH METHOLOGY

A. type of research

This study is considered by Descriptive Research design because of the mergers and acquisition is existing nature problems faced by companies and it's descriptive in nature.

B. Sample Design

Acquirer	Acquired	Type of the activity	Deal value	Year of occurrence	Strategic motive
Bharti Airtel	Jain Africa	Acquisition	Cash payment $10.7 (48000crore)	Feb 2010	Bharti Airtel selected this option and took debt to buy zain that would return higher profits in the long term. To expand the business operations services.

C. Sources Of Data

The research has been based on secondary data analysis.

1) *Secondary data:* It is the data which is already present in the secondary form like press, Magazine, news, paper, journals and internet Source of secondary data
2) Annual report of the company.
3) Academic books.

4) Company website.

D. *Tools For The Study*

1) Statistical Tools:
2) *Descriptive statistics:* In this study using of the statistical tools for to identifying the companies mean, standard Deviation and the Kurtosis, Skewness of the study.
   a) Mean: Simple or arithmetic average of a range of values or quantities computed by dividing the total of all values.
   b) Standard Deviation: It is a measure of symmetry or more precisely, the lack of symmetry. A distribution, or data set, is symmetric if it looks the left and right of the centre point.
   c) Kurtosis: It is a measure of whether the data are heavy tailed or light tailed relative to a normal distribution.
3) *T test:* A t-test is analysis of two population means through the use of statistical examination, t test with two samples is commonly used with small sample sizes, testing the difference between the samples when the variance of two normal distribution are not knows.
4) *Financial tools:* Free Cash Flow to the Firm: FCFF calculates the total value of the firm. Free cash flow to the firm is the cash available to pay investors after a company pays its costs of doing business invests in short term assets like inventory and invests in long term assets plants and equipment. The firms investors include both bondholders and financial stockholders.

E. *Hypothesis Of The Study*

There is no significant change in FCFF in post-acquisition period.

VI. DATA ANALYSIS AND INTERPRETATION

The following study ascertains to analyze the impact of changes in FCFF in post-acquisition of Bharti Airtel. The study consisting the period of 2013 to 2017.The study using both statistical and financial tool.

A. *Calculation Of Fcff*

Particulars	2017	2016	2015	2014	2013
Total Revenue	62,460.60	61,785.80	60,689.40	50,771.90	46,814.00
Purchase	0	51.6	71.4	20.5	183.6
Operating expenses	29,528.10	15,074.70	14,602.50	12,751.40	12,121.00
Other expenses	7,316.80	20,968.40	19,699.90	19,199.70	18,064.30
EBIT	25,615.70	25,691.10	26,315.60	18,800.30	16,445.10
Interest	2,912.50	3,559.00	1,409.10	1,336.40	1,652.30
EBT	22,703.20	22,132.10	24,906.50	17,463.90	14,792.80
Depreciation	12,203.40	9,543.10	7,559.70	7,231.30	6,826.70
Change in Working Capital	-17,249.50	-16,486.10	-8,295.10	-12,369.20	-13,221.90
FCFF	27,749.30	29,075.10	25,641.90	22,601.80	21,188.00

Particulars	EBIT	EBT	FCFF
2013	16,445.10	14,792.80	21,188.00
2014	18,800.30	17,463.90	22,601.80
2015	26,315.60	24,906.50	25,641.90
2016	25,691.10	22,132.10	29,075.10
2017	25,615.70	22,703.20	27,749.30

The above table shows that the EBIT of the company is consistently decreases from 2016 to 2017 but in 2016 the EBIT is high. The EBT of the company is lightly increases from 2013 to 2015 but little decreases in the year 2016 and in the year 1017 the EBT moves to 22,703.20. The Free Cash Flow to the Firm of the Bharti Airtel is increases from 2013 to 2016 i.e., 21188 to 29075.10. But in the year 2017 little decreases to 27749.30.Thus, the FCFF is very good in the year 2016 i.e., 29075.10.

B. Descriptive Analysis

	EBIT	EBT	FCFF
Mean	22573.56	20399.7	25251.22
Standard Deviation	4603.587	4143.514	3337.075
Kurtosis	-2.46308	-1.58683	-2.20807
Skewness	-0.73901	-0.54242	-0.1583
Minimum	16445.1	14792.8	21188
Maximum	26315.6	24906.5	29075.1

The above table shows that the Descriptive analysis of the study, the Mean value is Increases in FCFF i.e., 25251.22 and lower will be the EBT i.e., 20399.7. The standard Deviation is positive and the EBIT value is increases i.e., 4603.58 compare to the value of EBT and FCFF. The Kurtosis value is negative in EBIT, EBT, and FCFF. The Skewness value is negative in FCFF i.e., -0.1583 and also negative in EBIT and EBT. The FCFF minimum value was 14792.8 in EBT and the maximum value was 29075.1 in FCFF.

C. Calculation Of One Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
EBIT	10.96	4	.000	22573.56	16857.45	28289.66
EBT	11.00	4	.000	20399.70	15254.84	25544.55
FCFF	16.92	4	.000	25251.22	21107.69	29394.74

Sources: Authors Calculation: SPSS Database

From the above table represent the calculation of one sample t-test considering the study period of 5 yrs. using EBIT, EBT, and FCFF. The study found, all the Free Cash Flow to the Firms variables t-test resulted positive with the degree of freedom at 4. The study find that EBIT, EBT and FCFF are less than the significance level 0.05 therefore it proven that is no significance change in financial performance of the post- acquisition. Further, it observed that, EBIT, EBT, FCFF resulted P-value less than 0.05% significance level. Therefore H_0 is rejected. Hence forth, it's proven that there is no significant change in FCFF in Post- acquisition Period.

VII. FINDINGS & RECOMMENDATIONS

A. Findings

1) The free cash flow to the firm is increases to 29075.10 in the year 2016.
2) In the context of above analysis it is clear that Bharti Airtel has focused on increasing shareholders wealth rather other aspects.
3) Historical Free Cash Flow to Firm is arrived at from the Income Statement, Balance Sheet of the Company from its Annual Reports and it increases but in the year 2017 it decreases.
4) In this, the FCFF in all the year is positive value which means it indicates that the firm has cash remaining after expenses. When if it is negative FCFF values it indicates that the firm has not generated enough revenue to cover its costs and investment activities.

5) The p value 0.000 implies that the regression model significantly predicts the association of independent variable with dependent variable.
6) The change in Working Capital in all the year (2013-2017) is negative.

B. *Suggestions*

1) Good indicator for investors seeking Regular dividends- For income investors, Free Cash Flow can be a reliable indicator of a company's ability to maintain its dividend or even Increase its pay-out
2) For growth oriented investors, companies with high free cash flows to firm are likely to invest their free cash for the capital expenditures that are necessary to grow their core business. Growing levels of Free Cash Flows are generally an excellent indicator of future earnings gains.
3) Free Cash Flow is arguably the most important financial indicator of a company's stock value. Any investor looking to invest in a company's corporate bond or public equity should check its FCFF.

VIII. CONCLUSION

We note that the excess cash generated by the company (CFO+CFI) can be approximated as Free Cash Flow to the Firm. A better way to Measure Company's performance by Investment Banks and Investors is to calculate Free Cash Flow to firm (FCFF) as it looks at company's ability to survive and grow. FCFF is widely used not only by the growth investors (looking for capital gain) but also by income investors (looking for regular dividends). Positive and growing FCFF signifies an excellent Future Earning Capabilities, however, negative and Stagnant FCFF maybe cause of worry for the Business.

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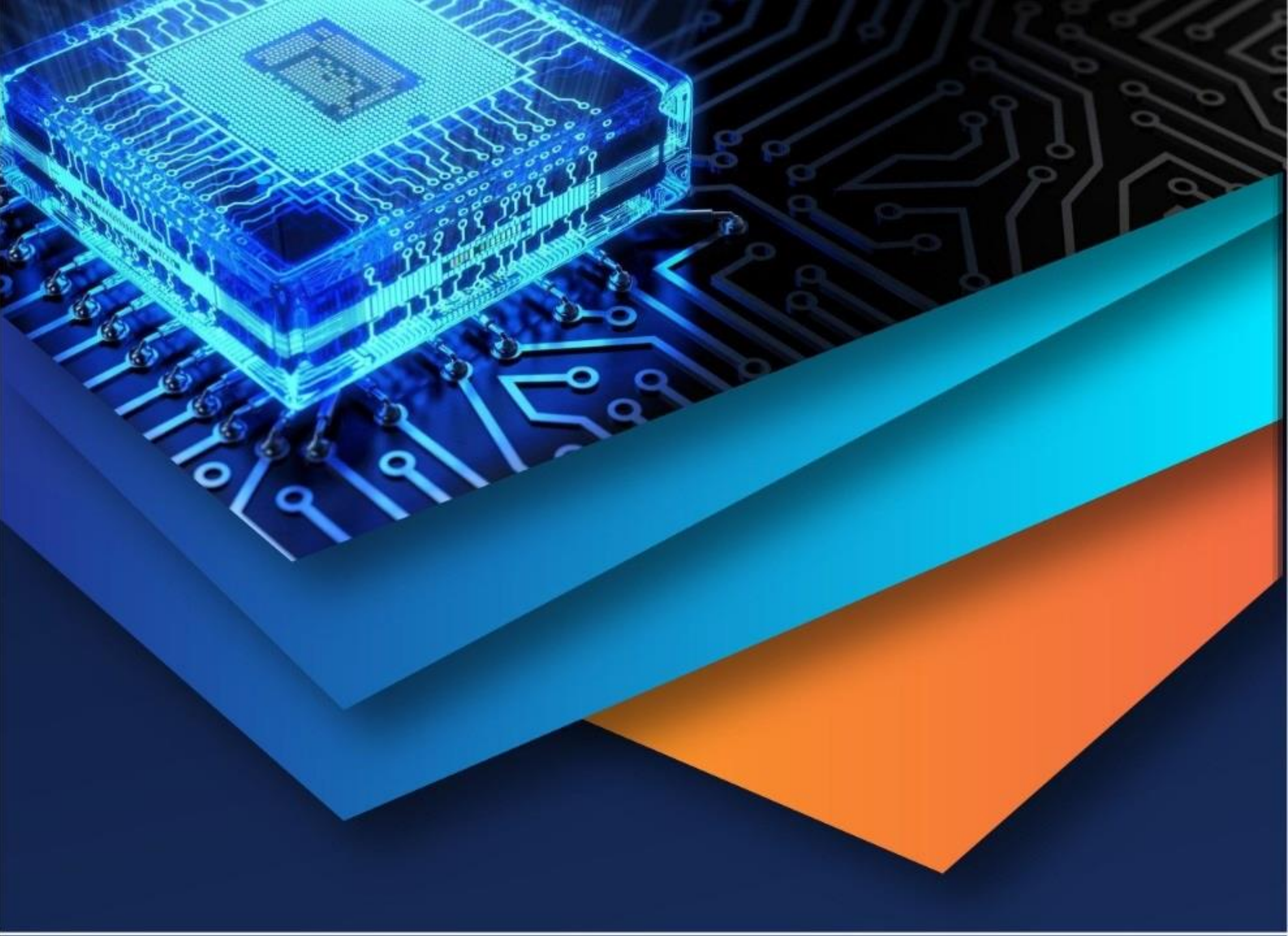

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