

Merger of Idea and Vodafone

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Abstract: *Vodafone and Idea announced their merger in 2017, which made a huge impact on the Indian telecom sector. This was a major consequence to counter Jio's dominance in the industry which backed other major players to take precarious steps to maintain their stand in the Indian telecom market. Vodafone India was the second-largest player of the Indian Telecom Industry in terms of subscriber base, who have huge amount of subscribers in most of Urban area while Idea Cellular Limited has the third largest subscriber base in India and having large number of subscriber in rural area. Idea Cellular was a subsidiary of Aditya Birla Group. This merger did not only create a telecom giant but has had wide-ranging implications for the industry, services, the staff, and consumers as well as it pushed more merger moves in the telecom sector. In this paper, the current scenario of the Indian telecom market is also analysed to understand where Vodafone-Idea stands today.*

Keywords: Vodafone and Idea

I. INTRODUCTION

On March 20, 2017, India's third-largest telecommunications company, Idea Cellular (Idea), announced US \$ 23 billion, to merge with the world's second-largest company, Vodafone India Limited (Vodafone), to build India's most lucrative company estimated at US \$ 12.5 billion Vodafone Idea Ltd. (Vi) was created by merger of Vodafone India Ltd. And (excluding its interest in Indus Towers) with Idea Cellular Ltd. on 31 August 2018 which became one of the leading telecommunications operators in India offering voice, data, enterprise services, and other value added services in twenty-two circles. It has total 1,768.4MHz of spectrum across different frequency bands out of which 1,738.4MHz spectrum is liberalised and can be used towards deployment of any technology (2G, 3G, 4G or 5G). Recently acquired 23.6MHz of spectrum in March 2021 auction. The company offers Voice and Data services on 2G, 3G and 4G technologies across 22 service areas as in India. With its large spectrum portfolio to support the growing demand for data and voice, the company is committed to deliver delightful customer experiences and contribute towards creating a truly Digital India by enabling millions of citizens to connect and build a better tomorrow. The company is developing world-class infrastructure to introduce newer and smarter technologies, making both retail and enterprise customers future with innovative offerings, conveniently accessible through an ecosystem of digital channels as well as extensive on the ground presence.

1.1 OBJECTIVE

To Examine The Merger Between Vodafone India And Idea And The Specifics Of Their Deal.

1. **Background:** Vodafone India, the Indian subsidiary of Vodafone Group Plc, and Idea Cellular, a part of the Aditya Birla Group, were both struggling to compete effectively against rivals such as Bharti Airtel and Reliance Jio. The merger aimed to create a stronger entity better equipped to face the intense competition in the Indian telecom market.
2. **Deal Structure:** Vodafone India and Idea Cellular merged to form a new entity called Vodafone Idea Limited. Vodafone Group held a 45.1% stake in the merged entity, while the Aditya Birla Group held a 26% stake. The remaining shares were held by public shareholders.
3. **Financial Implications:** The merger aimed to achieve significant cost synergies, primarily through network integration, rationalization of overlapping operations, and shared infrastructure. The combined entity was expected to benefit from a larger subscriber base and improved operational efficiency.

4. **Regulatory Approval:** The merger received approval from the Competition Commission of India (CCI) and other regulatory bodies after a thorough review process. The authorities scrutinized the deal to ensure compliance with competition laws and to assess its potential impact on consumers and the market.
5. **Market Impact:** The merger reshaped the competitive landscape of the Indian telecom industry. Vodafone Idea emerged as one of the largest telecom operators in India, with a substantial subscriber base and a pan-India presence. The merger intensified competition among telecom players, leading to tariff wars and increased focus on improving service quality and offerings.
6. **Challenges and Integration:** The merger faced challenges related to network integration, customer retention, and debt reduction. The integration of disparate systems and cultures from both companies posed operational challenges. Additionally, the merged entity had to address the issue of high debt levels, a legacy of the intense price competition in the industry.
7. **Subsequent Developments:** Following the merger, Vodafone Idea continued to face financial challenges amid ongoing competition and regulatory pressures. The company embarked on various initiatives to improve its financial health, including raising funds, monetizing assets, and implementing cost-saving measures.

To Analyze The Impact Of The Merger On Both Entity.

Financial Impact:

- Revenue Growth: The combined entity may experience increased revenue due to expanded market presence, cross-selling opportunities, and economies of scale.
- Cost Savings: Consolidation of operations, elimination of redundancies, and procurement synergies can lead to cost savings.
- Profitability: Improved margins may result from enhanced pricing power, optimized operations, and reduced overhead costs.

Market Impact:

- Competitive Positioning: The merger could strengthen the competitive position of both entities by creating a larger, more diversified company with increased market share.
- Market Expansion: Access to new geographic markets or customer segments may facilitate growth opportunities.
- Regulatory Scrutiny: Regulatory approvals may be required for the merger, and any delays or conditions imposed could impact the timing and benefits of the integration.

Operational Impact:

- Integration Challenges: Combining systems, processes, and cultures can be complex and may result in short-term disruptions.
- Efficiency Gains: Streamlining operations and leveraging best practices from both entities can enhance overall efficiency.
- Talent Management: Retaining key talent and effectively managing workforce transitions are crucial for maintaining operational continuity.

Cultural Impact:

- Cultural Alignment: Differing corporate cultures may pose challenges to integration, affecting employee morale and productivity.
- Leadership Alignment: Ensuring alignment among leadership teams and fostering a unified vision are essential for successful integration.

Strategic Impact:

- Synergy Realization: Achieving synergies in areas such as technology, distribution channels, or product portfolios is essential for delivering the expected value from the merger.
- Strategic Focus: The merger may necessitate a reassessment of strategic priorities and resource allocation to capitalize on emerging opportunities and address potential risks.

Stakeholder Impact:

- Shareholder Value: The merger's impact on shareholder value, including stock price performance and dividend payouts, will be closely monitored.
- Customer Satisfaction: Maintaining customer satisfaction during the integration process is critical to preserving relationships and retaining market share.
- Employee Engagement: Communicating effectively with employees about the rationale behind the merger and its potential benefits can help mitigate uncertainty and resistance.

II. RESEARCH METHODOLOGY

In this Research the methodology section outline the plan and method that how the study is conducted. This includes data and its sources and many things which are covered in the secondary research methodology. So, we mentioned below the detailed information about it.

Objective Definition:

- Clearly define the objectives of the research. This could include understanding the motivations behind the merger, assessing the impact on stakeholders, analyzing the financial implications, etc.

Literature Review:

- Review existing literature, academic papers, industry reports, and news articles related to mergers and acquisitions, telecommunications industry, regulatory frameworks, and previous mergers in the telecom sector.
- Identify gaps in the existing literature that the research aims to address.

Research Design:

- Determine the research approach (quantitative, qualitative, or mixed methods) based on the research objectives.
- Decide on the data collection methods (e.g., surveys, interviews, case studies, document analysis).
- Develop a research framework or conceptual model to guide the study.

Data Collection:

Quantitative data:

- Collect financial data, market performance indicators, and other relevant quantitative information from official reports, financial statements, and databases.

Qualitative data:

- Conduct interviews with key stakeholders such as executives, employees, customers, and regulators to gather insights into their perspectives, expectations, and experiences regarding the merger.
- Analyze documents such as merger agreements, regulatory filings, and industry reports.

Data Analysis:

Quantitative analysis:

- Use statistical techniques to analyze financial data and performance indicators before and after the merger.

Qualitative analysis:

- Employ thematic analysis or content analysis to identify recurring themes, patterns, and perspectives in the qualitative data.

Cross-validation:

- Triangulate findings from quantitative and qualitative analyses to ensure the reliability and validity of the results.

Interpretation and Conclusion:

- Interpret the findings in light of the research objectives and the existing literature.
- Draw conclusions regarding the success factors, challenges, and overall impact of the merger on various stakeholders.

- Discuss implications for theory, practice, and future research.

Recommendations:

- Based on the conclusions drawn, provide recommendations for policymakers, industry practitioners, and other stakeholders.
- Suggest strategies for managing post-merger integration challenges and maximizing the benefits of the merger.

Report Writing and Presentation:

- Prepare a comprehensive research report documenting the methodology, findings, conclusions, and recommendations.
- Present the research findings to relevant stakeholders through presentations, seminars, or publications in academic journals or industry magazines.

Ethical Considerations:

- Ensure adherence to ethical principles such as informed consent, confidentiality, and data protection throughout the research process.
- Obtain necessary approvals from institutional review boards or ethics committees if required.

Limitations:

- Acknowledge any limitations of the research methodology, such as constraints in data availability, sample size, or generalizability of findings.

III. LITERATURE REVIEW

CMA(Dr.)Ashok Panigrah, NMIMS University, 15 Jan 2020 The research paper identifies impact of post-merger which reflects That merger has caused more mergers and acquisitions of other telecom companies. The assets of Telenor India and Reliance Communication were bought by Bharti Airtel. Tata Teleservices customers have started migrating to the Airtel network under an Intra Circle Roaming (ICR) arrangement. Various initiatives have been taken by the merger entity like renewal of price due to troublesome entry of Reliance Jio which caused some serious imbalance. The huge number of subscriber base in India has made India the fastest growing market and with the merging of huge telecom players it will endow the telecom sector with health and life. The merger provided support in overcoming the debt of Idea Cellular and Vodafone India and large sum of credit will be infused in the joint venture. Impact of merger could be observed in various service providers in terms of quality of service in telecom sector. This impact could also be observed on the savings, synergies and the spectrum in rapid growth. Cost and capex synergies is created for both companies which is estimated to be around 10\$ billion after integration cost. The major cost and capex synergies would be around network infrastructure, savings in energy costs, operational efficiencies, service centres, lower maintenance expenses. The merger has reduced the operation cost incurred to about 60% of the total cost which will aid in improving the quality and performance of the service provided by the company.

Prof. Jignesh Vidani , L. J. Institute of Management Studies The research paper identifies impact of post merger which reflects the pre- merger strategies of both brands under which they analyses ZooZoo strategy of Vodafone and many more. The case which this paper will discuss is the case of the merger of Vodafone with Idea. We all are aware that Vodafone acquired Hutch and entered into the Indian Telecom sector where we saw changes in its services and advertising campaign from Pug to ZooZoo to love couples to Bala and her wife to the last one Christmas song. The campaign has always focused on its high network range as well as best services at a minimal cost. After the 4G network the company's campaign also focused on the high speed internet services with exciting data packages at cheaper rates. As per the deal structure, Vodafone and Aditya Birla Group will hold 50 percent and 21.1 percent respectively in the combined entity. The case will throw light on the merger of the Vodafone with Idea creating a best synergy effect to capture the market share. The Case will also highlight major advertising campaigns of the Vodafone and strategy behind them.

Naman Jain and Sai Srinivas Reddy ,Alliance University,School of Law and Alliance University-Alliance University The research paper identifies this merger with the Companies Act of 2013 regarding mergers and acquisitions and their impact on mergers and acquisition. The document focuses on the largest merger of Idea Cellular with Vodafone India under the Companies Act 2013, which led to the emergence of the largest subscriber telephone

company in India, replacing Airtel .which had the largest client in the last 15 years. Based on an analysis of the financial performance and share prices of the merged entity Vodafone Idea Ltd. However, it appears that the merger did not have a very positive impact. The likely reason could be fierce competition in the telecommunications industry, which has almost slowed down companies to make huge profits. Since the Idea Cellular and Vodafone India merger is a recent event ,the post-merger data only covers a few month.

W. Kittilaksanawong, Sinduja K and aswamy, 12 November 2018 The research paper identifies Synopsis The Indian telecom market was witnessing a fierce price war, especially from an aggressive entry of a new player Reliance Jio Infocomm Limited (Jio) with a predatory pricing strategy. To react to the increasingly intense rivalry and maintain top positions, the second and third largest telecom operator like Vodafone India and Idea Cellular Limited (Idea) decided to merge together. The combined entity would become the largest wireless carrier in India. Was the merger the right competitive strategy for Vodafone India and Idea to fight against the wars? What synergies could the merger bring about? Given Vodafone India and Idea agreed to maintain their respective brands after the merger, would the two brands compete and cannibalize each other's market share? As the Indian telecom industry was undergoing the liberalization of airwaves, how should the merged entity overcome potential regulatory hurdles? If this mega merger went through, what could be the impacts on the Indian telecom industry? If not, how should the companies move forward with the competition?

Sarita Agarwal, 3 February 2020 The research paper focuses on calculating the Altman's Z score for bankruptcy prediction for the Telecom Service Provider Industry in India. The modified Z score for non-manufacturing companies is used for analysis. All the four telecom service providers is considered for analysis. The Z scores for three preceding years is calculated and analyzed. The research paper states that BSNL is in the gray zone with a Z score of 2.65 as on 31.3.18. But since the Z score dropped from 2017 to 2018 and unavailability of 2019 annual report and the proposed merger of BSNL with MTNL, the survival of BSNL becomes doubtful. Bharti Airtel Limited and Vodafone- Idea Limited are in Financial Distress. However, Reliance Jio Infocomm Z score has shown an improvement in 2018-19 which gives a positive signal

- **Market Positioning:** The merger aimed to create a formidable competitor in the Indian telecom market, which has been highly competitive, especially with the entry of Reliance Jio with its disruptive pricing strategies. By combining resources, Vodafone Idea Limited sought to enhance its market presence and competitiveness.
- **Spectrum Portfolio:** One of the significant advantages of the merger was the combined spectrum portfolio of both companies. This allowed the merged entity to offer better coverage, higher data speeds, and improved quality of service to customers across the country.
- **Cost Synergies:** Consolidating operations and infrastructure led to significant cost synergies for Vodafone Idea Limited. This included savings in network maintenance, administrative expenses, and marketing costs. The merger enabled the company to streamline its operations and achieve better economies of scale.
- **Challenges:** While the merger presented opportunities, it also posed several challenges. Integrating two large telecom companies with different organizational cultures, systems, and processes required careful planning and execution. Additionally, the telecom sector in India faced regulatory and pricing pressures, which impacted the profitability and sustainability of all players, including Vodafone Idea Limited.
- **Financial Performance:** Following the merger, Vodafone Idea Limited faced financial challenges due to intense competition, high debt levels, and regulatory dues. The company struggled to maintain profitability amidst pricing pressures and increasing capital expenditure requirements for network modernization and expansion.
- **Strategic Initiatives:** To address its financial challenges and improve its competitive position, Vodafone Idea Limited pursued various strategic initiatives. These included raising funds through equity infusions, asset monetization, and cost optimization measures. Additionally, the company focused on enhancing its service offerings, improving customer experience, and expanding its

Average Revenue Per User from

Operators	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19	Sep-19	Mar-20
Airtel	194	188	158	145	116	101	123	128	154
Vodafone Idea Ltd. (VIL)						92	89	108	109
Idea	179	173	142	132	105				
Vodafone Jio	177	171	142	132	105				
				156	137	132	126	120	131

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