



MERGER OF VODAFONE AND IDEA

Dhananjay Mani Tripathi

Student, School of Business, Galgotias University

Article DOI: <https://doi.org/10.36713/epra12740>

DOI No: 10.36713/epra12740

ABSTRACT

The Vodafone-Idea merger, the largest merger in the history of the Indian telecom industry, was an attempt to address the growing dominance of Reliance Jio, which started offering free services, thereby gaining a significant market share. The primary aim of the merger was to instill confidence in the telecom companies during a price war. The merger of Vodafone and Idea had a significant impact on the telecom sector, surpassing Bharti Airtel to become the largest cellular service provider in some markets and the second-largest in others. This paper discusses the reasons behind the merger, the conditions of the merger and the impact of the merger on telecom industry.

KEYWORDS: *Vodafone, Idea, Merger, Reliance Jio, Telecom Industry.*

INTRODUCTION



The largest telecom company in India, Vodafone Idea Ltd, is headquartered in Mumbai, Maharashtra. Under the names Vodafone and Idea, Vodafone Idea is a pan-Indian integrated GSM operator that provides 2G, 3G, and 4G (LTE) mobile services. In addition, Vodafone Idea offers services like mobile payments, IoT, advanced enterprise options, and entertainment, all of which are accessible through both online and offline touch points with locations all across the nation. To connect and inspire every Indian to achieve a brighter tomorrow, the company's aim is to "produce world-class digital experiences"! With 418.745 million customers as of December 2018, Vodafone Idea had a 35.61% market share in India, making it the largest mobile telecommunications network there and the second largest mobile telecommunications network globally.

REASONS FOR VODAFONE IDEA MERGER



- The primary motive behind the merger of Vodafone and Idea was to address the growing dominance of Reliance Jio in the telecommunications industry, which started offering free services for the first six months, thereby gaining a significant market share.
- In addition, the provision of free services by Reliance Jio triggered a price war among the companies in the telecom sector, given its oligopoly market structure.
- Consequently, a merger can instill confidence in companies during a price war, thanks to the potential for synergy benefits.
- In the end, it was anticipated that the combined Vodafone and Idea will have a significant impact on the telecom sector, surpassing Bharti Airtel to



become the largest cellular service provider in some markets and the second-largest in others. The combined business has the opportunity to improve its market position by concentrating on becoming a pan-Indian service provider.

VODAFONE AND IDEA CELLULAR LIMITED RIGHTS ISSUE

On March 20, 2019, the board of directors of Vodafone Idea Limited approved the proposed Rs. 25,000 crore rights issue at the cost of Rs. 12.50 per equity share, a significant 61% discount to the going market rate. In a regulatory filing, the company stated that the rights entitlement ratio has been set at 87 equity shares for every 38 equity shares held by eligible shareholders of the company on the record date, which is April 2, 2019. According to the filing, the closing date for the issue has been scheduled for April 24, 2019, while the issue's opening date has been set for April 10.

When compared to the current market price of Rs 30, the rights issue price of Rs 12.50 offers a significant 58% savings. We examine the fundamentals of the rights issue. The total size of the issue is up to Rs 25,000 crore. The set issue price of Rs 12.50 represents a significant reduction of about 60% off the market price of Rs 30.

For every 38 Equity Shares held by Eligible Shareholders of the Corporation on the Record Date, the entitlement ratio is fixed at 87 Equity Shares. The issue's launch date is April 10, 2019, and it ends on April 24, 2019.

Vodafone Idea received Rs 17920 crore from its promoters, UK's Vodafone Group Plc. and Aditya Birla Group, via the Rs 25000 crore rights issue in funding that the telecom market leader will utilise to compete with Reliance Jio and Bharti Airtel.

The promoters also requested for 90 crore more than their entitled to aggregate rights, in addition to a public participation that was 1.2 times the offering. The promoters, Aditya Birla Group and UK-based Vodafone Group, received a share allocation of 17,920 crores, boosting their ownership to 71.57% from 71.33% previously.

In order to promote viewing on their mobile app, Vodafone Idea Limited enhanced their client services in 2019 through a variety of content collaborations. With its OTT platform, Sun NXT, which is now available to Vodafone Idea consumers, Sun TV Network and Vodafone Idea Limited formed the first cooperation. With more over 50,000 hours of material, Sun NXT caters to Tamil, Telugu, Kannada, and Malayalam viewers. Customers of Vodafone and Idea may access Sun NXT's exclusive digital content for free thanks to the agreement.

For their subscribers, Vodafone Idea Limited announced a collaboration with Shemaroo, Zee5, or other reasonably priced

video viewing options. For consumers of Idea's Nirvana postpaid service, an extra agreement between Idea and Amazon Prime was established.

Vodafone Idea Limited was formerly known as Vodafone India and Idea Cellular. Benefits are anticipated to trickle down to the customers as well with the new company claiming the top spot in the Indian telecom industry and ousting Bharti Airtel for the first time in 15 years. Both businesses will continue to use their distinct public brands for the time being. There won't be a significant shift for customers when it comes to duties like mobile phone recharging and phone bill payment. The websites for Vodafone and Idea are still accessible using their previous domain. Nonetheless, there may be greater advantages for users as a result of the combined money and expanded reach.

MERGER CONDITIONS

The merger agreement also had a clause of break fee of 3.3 billion in case any parties back out from fulfilling their obligation towards merger deal, they will be obligated to pay the break fee to the aggrieved party. The approval to the merger deal was given by Department of telecommunication on the condition that the merging companies were required to pay upfront payment of 3.3 billion on account of one-time spectrum fee which was owed by Idea cellular and Vodafone. This payment was part in cash and part in bank guarantee.

KEY MANAGEMENT



- CEO and COO – Joint appointment.
- CFO – Vodafone nomination.

While Idea and Vodafone will have joint control over the appointment of CEO and COO, the exclusive rights to appoint a CFO reside with Vodafone. Vodafone is therefore not only a major shareholder but also has many financial rights.

THE DEAL HIGHLIGHTS

Idea and Vodafone's merger agreement, worth US\$23 billion, was finally finalised in August 2018 after being announced in 2017. The deal was agreed upon in such a manner that both the companies get the equal shares in the new merged entity. According to the agreement, Vodafone PLC has joined Idea cellular from the Birla group with its Indian subsidiary Vodafone India with an swap ratio of 1:1, that means for every share held



by the shareholder of Idea and Vodafone will get the one share of the merged company. On the completion of the deal, Vodafone received 45.1% shareholding whereas Idea received 26% shareholding. Later Idea acquired 4.9% shares from Vodafone for 3.9 billion. Also, Idea has the option to purchase Vodafone's 9.5% shares over the course of the following four years from the date of the official announcement.

Vodafone will be required to sell such shareholdings on the open market in order to achieve equalisation if Idea Cellular is unable to acquire a 9.5% shareholding. But, until equalisation is achieved, Vodafone cannot exercise its voting rights over those 9.5% shares; instead, Idea and Vodafone must jointly exercise this right. Nonetheless, Vodafone has more financial powers in the combined company because Vodafone nominated the CFO, whereas Vodafone and Idea jointly nominated and hired the CEO and COO. Vodafone and Idea jointly nominated Mr. Kumar Mangalam Birla to lead the company. It was also agreed upon between the parties that profit from sale of towers will be used to reduce the debt component in capital structure over the next four years. With this merger deal, both the companies' combined 300 million customer base, 41% revenue market share and 35% market share.

Enterprise values for Vodafone and Idea were 828 billion and 722 billion, respectively, at the time of the merger. Until the merger was completed both the companies operated separately under their own brand name.

IMPACT OF MERGER ON TELECOM INDUSTRY



There are many implications that this merger will bring forth on the telecom industry.

1. To start, actions based on a reaffirmation of pricing control are possible because Jio's disruptive arrival has resulted in some significant unbalance.
2. The telecom industry's bad financial standing can also be shown. And via such mergers, health and life will be infused. India has the fastest-growing subscriber base of all the markets.
3. By joining together, Vodafone and Idea will be able to pay off their obligations and inject a significant amount of credit into the economy.

4. The agreement has also prevented both telecom companies from selling their operations. As they had originally intended, and this would have a significant impact on the calibre of services offered by various industry players.
5. The merger will undoubtedly quicken the telecom industry's speed. Also, it has been discovered that the savings, synergies, and spectrum will have a significant influence on the accelerating expansion.
6. The operation will save more than 60% of its cost, and by making investments with the money that is saved, the service's performance and quality will be enhanced.
7. Network infrastructure improvements will be seen as operational efficiencies improve and have a chance to excel. Additionally, it is anticipated that the entity's scope will exceed the established caps and its revenue market share would increase across the board.

CONCLUSION

In conclusion, it can be argued that Vodafone and Idea customers now have improved network coverage in cities and towns as a result of the merger. With the merger, customers may anticipate a wider range of services as well as access to cutting-edge technologies like VoLTE, digital wallets, and the internet of things.

The merger between Vodafone and Idea will make them a leading player. Synergies of up to INR 670 billion and INR 140 billion on operational costs for the fourth year may be acquired for the benefit of cooperative management. Also, it will help a combined corporation get credit for the sale of Towers Assets.

REFERENCES

1. https://en.wikipedia.org/wiki/Vodafone_Idea_Ltd
2. <https://mnacritique.mergersindia.com/idea-vodafone-telecom-merger/>
3. <https://blog.iplayers.in/deal-analysis-vodafone-idea-merger>
4. <https://ijclp.com/mergers-and-acquisition-in-telecom-industry-a-case-study-on-vodafone-india-and-idea-merger/>