

**TOPIC – CASE STUDY: VODAFONE IDEA MERGER***NANDINI CHANDAK***ABSTARCT**

The merger of Vodafone India and Idea cellular, two prominent telecommunication giants in the Indian market, marked a significant milestone in an industry history. This research paper presents a comprehensive analysis of Vodafone- Idea merger and its implications for Indian telecommunication landscape. The research begins by providing overview of company's pre-merger, highlighting their market share, customer base and revenue stream. The regulatory implications of the merger are also assessed, with the focus on compliance with relevant regulatory authorities. Lastly the research evaluates the competitive landscape post-merger, considering the positioning of the combined entity in relation to other major players in India telecommunication industry. The findings of this research provide valuable insights into Vodafone Idea merger overall impact on telecom industry.

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**INTRODUCTION**

The concept of mergers in the telecom business is not new. There have been numerous mergers and acquisitions in the Indian telecom market. Being the second-largest in the world, the Indian telecom industry must achieve stability, growth, sustainability, and innovation. The telecom industry is restructured by it.

One of the largest subscriber bases in the world with 1.2 billion users need it to

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meet its needs. Since it is difficult not always possible for individual telecom companies to withstand industry rivalry, pricing wars, and tariff increases, it is simple for businesses to join forces through mergers or amalgamations. This ensures the survival of the telecom industry.

Mergers do not provide a guarantee success but only lifelines to the companies .Mergers and acquisitions play a key role in the telecom sector since they give businesses an alternative to declaring bankruptcy, which upsets the market and the industry.

India has had numerous industry mergers over the years, beginning with the transfer of a license by the MAX company to the Hutchison group of Hong Kong. The transaction, which brought enormous success to telecom endeavours, was for around half a billion dollars. Following this, many businesses went through the merger and acquisition process, including the Hutch Essar merger with the Vodafone group, Idea cellule's acquisition of Spice Communications, and Reliance Communications. merger with Aircel, Bharti Airtel's acquisition of Telenor India, TATA Docomo, Vodafone Idea, and other deals. These mergers and acquisitions may succeed or fail; many businesses that have merged have since failed or gone bankrupt, such as Reliance Communications and Aircel, both of which collapsed.

## **WHAT ARE MERGERS**

Companies merge for a variety of reasons, including growth, access to new markets, increased market share, and so forth but the most crucial motive for a company merger is survival. When two businesses merge, their strengths are combined, their weaknesses are eliminated, and their work cultures are unified

The term merger has not been defined under Companies Act 2013 or Income Tax Act 1961 but merger as a notion can be defined as business transaction in which the ownership of companies ,business organisation or their operating units are transferred to or consolidated with another company and business organization .In legal terms it means forming of new legal entity under one name .

Some businesses merge to grow, while others merge to stay in business. Any merger will ultimately lead to the company's growth, whether it be through the introduction or development of new technology, customer-attracting innovation, the elimination of market competition, the expansion of the market, or the combining of assets , capital and resources .

As seen by the merger of the HDFC and HDFC banks, some merged entities succeed while others fail, as is also mentioned in the case of the merger and acquisition Vodafone Idea . The motive of the merger must remain intact; if it is sidetracked, the merger's entire purpose is lost.

## **INDIA'S TELECOM INDUSTRY**

The Indian telecom market has seen it all, from the 2G scandal to the introduction of 3G and 4G to prepare for 5G, as well as the heyday of broadband services like TATA DOCOMO and the sector's decline from 15 participants into only 4 operators at the moment. The state-owned era of MTNL, VSNL, and BSNL as well as the harsh pricing war era of private players have both been experienced. The Indian telecom industry is on the verge of changing from an oligopoly to a duopoly. The current telecom market is focused on the transition from 3G to 4G to 5G, and the business with the best chance of winning will grab it all. On the route to placing second, the industry encountered and overcame numerous snobs.

The industry has seen and survived many shocks firstly the 2G scam in 2008 where the license was thrown away prices to the players on a first come basis

instead of auction which led to the loss of Rs 1.76 trillion . Then comes the infamous battle of telecom operators and government regarding AGR dues. The great Indian Jio disruption.

The telecom sector in India was state owned sector before the decision of liberalisation came into effect . The sector was in adherence with so called socialist policies of Nehruvian government. The services of MTNL(Mahanagar telephone Nigam Limited ) and VSNL(Videsh Sanchar Nigam Limited ) were spread across the country . On one hand the MTNL dominated metro cities such as Delhi and Mumbai and on other hand VSNL was used for international long-distance operator . Both were the hands of DOT(Department of telecommunication) which was responsible for providing telecom services throughout India .

India's telecom industry was liberalized in 1991 along with many other industries around the nation. The economy opened to the private sector, signalling the end of the era of publicly owned businesses and the beginning of the private competition. With the opening of the economy came an infusion of private and foreign investments in the telecom sector. Companies like UK-based Vodafone, Telenor, NTT Docomo, and SingTel entered the Indian market.

## **OVERVIEW OF COMPANIES**

### **IDEA CELLULAR-**

Idea Cellular is owned by Aditya Birla group . It is an Indian multinational company based in Mumbai. Idea cellular was the first multinational company under Birla group. It was established in 1995. Idea Cellular was the third-largest telecom company in India, with a market share of 15.9 . In India, the Aditya Birla

Group leads in several sectors such as fashion, lifestyle, viscose filament yarn, grey, and white cement, and concrete.

### VODAFONE INDIA –

Vodafone is a British multinational company. It is one of the largest telecommunication groups based in the United Kingdom. Vodafone India was the Indian subsidiary of UK-based Vodafone Group and was a provider of Telecommunications services in India with its operational head office in Mumbai. As of March 2018, Vodafone India had a market share of 21%. Vodafone's journey in India since 2007 when it entered the country by acquiring 67% controlling stakes from Hutchison has been marked with battles with the government, over the retrospective taxation issue which still continues as well as its first JV partner Essar group.

### PRE -MERGER

It is usually being quoted that an idea has no 'IDEA' anymore. Idea back then captured the market with its insightful campaigns and Bharat first strategies where its main focus would be rural and semi urban areas. What an idea sirji, No ullu banaving and the infamous tone Hunny Bunny, Education for all campaign swept the subscribers from their feet back then. It was because of these campaigns Idea won millions of subscribers. Idea cellular was at its peak from 2011 to 2015 where its revenue doubled from RS 15,438 crore in 2011 to Rs 31,527 in 2015 whereas its profits grew from Rs899 crore to Rs3193 crore. It became the third largest telecom operator.

The customers felt a personal connection with the campaigns introduced by Idea, it gave an identity to its subscribers. The campaign of 'EDUCATION FOR ALL

‘which shown Abhishek Bachan as sarpanch depicted the importance of education and right of education in rural areas moreover the campaign of ‘WHAT AN IDEA SIRJI’ addressed the unemployment issues in rural areas.

On other hand the Vodafone India had captured the large urban market and positioned itself as second largest in the country with subscriber base of 185million subscribers .We all know the infamous pug ,Chicka who became viral sensation in Vodafone India journey with its tagline – *Wherever you go our network follows*’ .The entry of Vodafone in India took place on the shaky foot, as soon as it stepped its foot in India it was slammed by the retrospective tax case . With ongoing on tax case, the company couldn’t enter IPO to raise funds for its operations

## LAWS GOVERNING M&A IN INDIA

There are many factors and complexities which undergoes during a merger of the companies . Bringing two business with different cultures and business transactions are difficult and time extensive process . The merging entities must not abuse their power , therefore to have a system of checks and balances in market , merged entities are governed through certain laws .

Assets .Equity, Liabilities ,Equipment are major considerations before a company is merged .These factors need to be considered if not and deal goes sideways the whole purpose of merging entities gets defeated , therefore approvals from SEBI and from certain regulatory authorities are centre to any mergers . It helps economy as well as businesses at large .

COMPANIES ACT 2013-

Companies act is legislation in India which deals with management and operations of companies in India .It also provide certain legal and regulatory framework for mergers and acquisition in India .

The act also lays down provisions for NCLT (National Company Law Tribunal ) which plays a crucial role to deal with matters related to mergers and acquisition, it assumes the power of high court in such cases

Section 230 – 240 of companies act deals with mergers and amalgamations in India .

#### COMPETITION ACT 2002 –

Competition act is a legislation in India that regulates competition in India. The act provides healthy competition and provides protection to Indian market from monopolies .The act replaced MRTP act of 1956.

Mergers of certain companies may have adverse effect on the competition in the economy , therefore the approval CCI(Competition Commission of India ) is necessary for a merger to take place .The CCI makes sure that mergers do not exceed the threshold limit which could lead to adverse effect on the competition in the economy .

#### FOREIGN EXCHANGE MANAGEMENT ACT 1999-

FEMA act of 1999 deals with cross border mergers of companies under section 234 of Companies act 2013 . According to FEMA act defined cross border mergers as *any merger, amalgamation or arrangement between Indian company(ies) and foreign company(ies) in accordance with Companies (Compromises, Arrangements and Amalgamation) Rules, 2016 notified under the Companies Act, 2013.*

The FEMA regulations state that any cross-border mergers will require prior approval from RBI as required under rule 25A CAA rules 2016 . For the purpose of mergers valuation of both Indian and foreign company shall be done in accordance with rule 25A. The managing directors of company also need to file application with NCLT giving assurance for compliance of provisions .

### SEBI (SUBSTANTIAL ACQUISITION OF SHARES AND TAKEOVERS)REGULATION 2011 –

The fundamental objective of the SEBI takeover code is to provide legal framework for takeover activities . Investors are lifeline of any companies therefore protection of their interests is necessary. It is important that the investor has full confidence in the merged entities . These codes are laid down to protect interest of Investors , balance conflicting interest of shareholders in context of acquisition of shares of companies which is being merged .

SEBI code places a crucial role in mergers and amalgamations of company as it requires disclosing all all-necessary information regarding investments and ensures transparency to investors so that they can make informed decisions , it also lays down procedures to obtain approval form all shareholders of company and also stock exchanges . The stock exchanges analysis the risk pertaining to merger . It ensures that transitions pertaining to M&A takes places with transparent and fair manner .

### INSOLVENCY AND BANKRUPCY CODE 2016-

With increase in Entrepreneurial landscape and increase in company mergers new code for insolvency process was required .The insolvency and liquidation process in India prior to IBC was a time extensive and long process. Insolvency and



bankruptcy code of 2016 was a revolutionary law in bankruptcy process .The number of assets distressed of merged entities in India have risen rapidly .

One of the significances of the code is that it had shorten down the Corporate Insolvency Resolution Process in India has been reduced to 330days from 4yrs of previous code .The code has two main provisions for mergers of company's firstly the fast-track process and the CIRP.

### **VODAFONE IDEA MERGER**

On 31<sup>st</sup> august 2018 after completion of merger of Vodafone and Idea , a new entity with new brand name Vodafone Idea entered the telecom market with biggest subscriber base ever .This entity rebranded on September 2020 and identified itself as VI which meant 'WE'. Vodafone Idea merger was one of the biggest and most significant mergers in the telecom industry. The companies announced their merger in March 2017. On 30<sup>th</sup> August 2018NCLT gave final nod for the merger. The move of both telecom companies coming together where being celebrated by many . The merger deal was worth \$23billion one of the largest seen in the telecom industry

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### **DEAL STRUCTURE**

According to the construct of deal after the completion of merger Vodafone India will hold 45.2% stake in newly formed entity whereas Idea was left with 26%of stake ,moreover other 26%of shares were withheld with promoters . According to the deal Idea could acquire more of 9.5% shares in the company over next four years failure of which Vodafone has the right to sell this share in the open market .Vodafone will not have any voting rights on this 9.5% of share. On acquiring of

the shares, the stake of Vodafone India would come down to 35.6% and Idea would increase to 35.6% in the merged entity .

The swap ratio decided was 1:1 which meant for one share held by shareholder of Vodafone India or Idea the shareholder would get one share of the merged Entity. This ratio was based on the price of Idea at 72.5 per unit. Implied enterprise value for Idea and Vodafone was INR 72 thousand crores and INR 82 thousand and 8 hundred crores respectively. The swap ratio is determined through a fixed formula keeping in mind the debt, profits and dividend of company .

Vodafone contributed a net debt of Rs 55,200crore whereas Idea would contribute net debt of Rs 52,700. Post merger the Vodafone Idea would have 41%revenue share in the market and 35% market share . The combined entity would come up with a 300million customer base . Mr Kumar Mangalam Birla was appointed as chairman of newly formed entity. Vodafone India had more financial rights as CFO was appointed by the company .CFO of the company is responsible for looking after all financial activities of the company . But the COO and CEO were appointed by both .

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## REASONS FOR MERGER

The merger between both companies took place for many reasons the prime being the entry of Jio in the telecom market. It is also important to note that it was not the only reason which prompted the merger . On one hand the debt ceiling of Idea Cellular saw no end on the other hand the taxation case against Vodafone India created a number of hurdles, and to topple it all the Supreme court decision regarding AGR dues worsened the issues for both the companies .

Jio is the brainchild of Mukesh Ambani which came into the making from 2007 and launched it in 2015. The vision of Ambani was to provide the accessible cheap data to struggling Indians in the market, he quoted , '*Data as new oil*' . The

entry of Jio in the market disrupted the telecom industry in a way no one had seen before . It offered its customers free unlimited 4G data for first six months from its launch .It also provided services such as free voice calling, free roaming charges which the longstanding top players couldn't provide to the customers . As proved by generations of Political parties , 'Freebies' are something which attract votes as well as customers in the Indian market . With the services provided by Jio it was backed with 16million subscribers in just 26days.The services provided by Jio where very well-rehearsed with price sensitive Indian markets . Small telecom operators like Telenor, Aircel, and others were driven out of the market by Jio's entry into the telecom sector, leaving only three businesses to compete in the telecom industry. .With services provided by Jio all other telecom players where struggling to keep its subscriber base intact , it was at this time when Vodafone and Idea decided to merger to keep them floating in telecom industry .

Following the market upheaval induced by Jio, both Vodafone and Idea experienced significant subscriber losses. With Jio's entry into the market, Vodafone and Idea were forced to compete on two fronts at once. First, both companies were still offering 3G services, while Jio entered the market with 4G services. Second, Jio's free services attracted customers like magnets, while Vodafone and Idea were unable to lower their prices because they already carried enormous debt loads.

With 2016 coming to an end, it became imperative to both the companies that they were sinking ships if they didn't merger. So, the companies announced their merger in 2017 and became top player in the industry . Both the companies pooled their resources together and managed to sustain themselves in the market

The merger of Vodafone and Idea made sense in many terms, it eliminated duplication of spectrum and infrastructure capex . The duplication of efforts would fall down , there would be huge revenue savings as duplication of cost are

eliminated such as idea and Vodafone has 1,34,000 sites and 1,40,000 sites respectively post-merger 55,000 and 60,000 sites would be eliminated also there would be huge revenue savings as there would be severe job cuttings ,the work done by two will be done by one. After the announcement of the merger in September 2017 both companies decided to sell their standalone tower business to ATC Telecom Infrastructure Pvt Ltd to which post sale both the companies will have revenue 38.5 billion for 10,200 towers and 40 billion for 9800 towers respectively ,which would help both the companies with their dues.

The survival of companies highly depended on this merger ;post-merger Vodafone Idea would be the at top competing neck to neck with Jio in the market.

## CHALLENGES OF MERGER

At the time of merger there was one challenge which became difficult to solve it is of Spectrum Management. Spectrum forms the most important component of telecommunication services. The word spectrum refers to range of radio waves used for communication . In India the spectrum allocation is controlled by the government to ensure efficiency. The country is divided among 22 telecom circle ,telecom company bid for spectrum in these circles . It is done to align the services offered by all telecom providers. It is crucial that firms divide their scarce telecom resources in a fair and open manner. This spectrum is divided into bands and allocated to telecom companies .

According to M&A guidelines, combined spectrum holding cannot be more than 50% of total spectrum allocation, if it does the companies need to reduce it by 1 year ,however in case of Vodafone and Idea coming together they would be breaching the spectrum holding cap in 5 circles in 900 MHz band and in two circles in the 2,500 MHz band and is likely to breach the revenue market share cap of 50 per cent in six circles .The managing of these spectrum would be a

challenge for both companies as one will have to let go part of their spectrum for no revenue in return.

Additional problems like brand identity and cultural differences between the two companies will become apparent over time. Before their merger, Vodafone and Idea each had their own distinct identities. For example, whereas Vodafone focused on urban areas, Idea focused on rural areas. It would also be difficult to apply the same pricing strategy in urban and rural areas due to regional differences. Being multinational corporations, Vodafone and Idea being Business Enterprise would undoubtedly experience a clash of cultures, and as companies of two separate countries, they would also have to deal with operational challenges.

### **FAILURE OF VODAFONE IDEA**

With both Vodafone and Idea barely surviving the shockwaves created by Jio across the telecom industry the Supreme Court verdict in 2019 exacerbated the situation . The Supreme court in its verdict asked the telecom operators to pay AGR dues up to 1.4lakh crore out of which Vodafone Idea alone had to pay 56,709 crores to the government.

When in 1999 government came up with revenue sharing model ,where all telecom operators had to pay a percentage of revenue to the government in form of AGR dues . It included annual fees and spectrum due charges ; the license fee was set for 8% and spectrum dues were set for 3-5%. The tussle between government and telecom operators was regarding the definition of AGR ,to which government said AGR included both revenue and non-revenue services and Telcom operators debated whether it must be for only for telecom services. It was a 15- year -long battle to which Supreme Court in 2019 gave judgement in favour of government . As a result, the original license fee paid by telecom operators of

23,189 crore got triple down to 92642 crores and spectrum fees which stood at 11594 crores to 46321 crores .

This judgment placed a tremendous strain on businesses whose debt load was already out of control; for example, Vodafone Idea alone owed the banks 1.2 lakh crore. Following the ruling, all telecom providers were under pressure and wanted relief packages to avoid going out of business. As the matter was already pending before the NCLT, it had already been difficult for the government to recover from businesses like RCOM and Aircel to recover AGR dues. The Supreme Court rejected the government's request for such relief and mandated that the telecom operators pay their AGR dues within the next 10 years, despite the government's relief package's assertion that they may do so within the following 20 years.. The court set a deadline of March 31, 2031 for the companies , default to which the companies will have to pay the penalties.

Second, Jio was the first company to offer 4G LTE and VoLTE services, whereas Vodafone and Idea were both relatively late to offer 4G services to their consumers. Both businesses, which entered the telecom sector a decade before Jio, were unable to anticipate market demands. Jio caters to the needs of telecom users, who are ravenous for quick data, affordable packages, and efficiency. As a result, the already indebted corporation lost subscribers and was forced further into debt. Even after their merger, both businesses found it challenging to launch 4G infrastructure because of this enormous debt. Vodafone Idea could not deliver 4G services effectively , while Jio was rolling out 5G. VI's market share has thus tumbled from about 44% in 2017 to just 28% in February. Vodafone-Idea had a gross debt of \$2,203.2 billion as of September 2023.

The problems for Vodafone Idea became worse when on the top management lost confidence in the company . Vodafone CEO Nick Read clearly *specified* “*It is a highly stressed situation that they are trying to navigate,*” . “*I want to make*

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*it very clear we are not putting any additional equity into India.*” This message created the stress among the company as capital infusion needed to be the top priority to stay afloat in the industry. Following the lead in August 2021 Aditya Birla group chief Kumar Mangalam Birla step down as Non-Executive director.

## GOVERNMENT STAKE

The issues with Vodafone Idea seem to never end. The corporation has faced many challenges over the years, including a severe debt cycle and the Jio disruption. When a company needs support, it appears that neither of its founders is motivated by a desire to see it succeed. .

On one hand ,Kumar Managalam Birla stepped down as non executive chairman citing that “irretrievable point of collapse”. He appealed the government to step up and provide for the relief package or the company would be on verge of bankruptcy , he also put forward the proposal to provide the government with 27% stake of his own in the company . On other hand CEO of Vodafone group Vittorio Colao had clearly stated that the company would not invest a penny in the debt- ridden company . Basically both the company argued the government to intervene and bail them out .

The proposal was to convert the amount of spectrum auction instalment and Adjust Gross Revenue (AGR) dues the company owned to government to equity, this move was done to rescue the company which has been embedded in deep-down debt. The company’s board of directors approved the allotment of 16,133,184,899 equity shares to the government, the face value stood at Rs 10 each. This approval means that the government holds 33.44 per cent of Vodafone Idea. With this Government has become the highest shareholder in the company followed by Vodafone group with a stake of 32.29% and Idea stake stand at 18.07%. This equity conversion plan reduced holding of promoters to 50% from

75%. Its aim was to provide the company with a breather by government becoming the highest stake holder in the company. The shares of Vodafone Idea dropped by 19% after the move.

The government's action was crucial in salvaging the corporation, which was on the edge of bankruptcy. The government was unable to take the chance of the industry returning to a duopoly as it did in 1990. Vodafone Idea's absence from the market would have a significant impact on the telecom sector because duopolies are inherently unfair and stressful for both consumers and the economy.

## CONCLUSION

India's telecom sector is both a blessing and a curse. In the telecom industry, the company who submits the highest bid wins the competition; the one that is late is undervalued. If the telecom market returns to a duopoly like it did in the 1990s, it will burden consumers and the economy, hence Vodafone Idea must survive. It's bad for an industry to have a duopoly, and if the telecom sector becomes one, it will cause a downward price and tariff spiral that will make it difficult for new businesses to enter the market. This is because once two major companies control the majority of the market, it becomes difficult for smaller businesses to enter.

Before it disappears, the government must give Vodafone Idea extra attention. A corporation that is heavily indebted, losing thousands of subscribers, and making losses every single financial period will not be successful in attracting investors; instead, the government will be its only choice. The government receives close to 30% of the revenue from telecom operators; this percentage must be reduced if the industry is to thrive.



Another key could be capital infusion in the company .The company needs \$8 - 10 billion in capital infusions for next- generation rollout . With 5G services been rolled by the company ,it needs to gather funds for sustainable investment ,if not it would fall further down the road. The company needs to catchup with the changes in the industry ,while Jio and airtel have plans to roll out 6G the Vodafone Idea is stuck with 5G rollout With rolling out of 5G services across the country the prediction is that the growth in the sector will be profound but it is also to see that how struggling companies such as Vodafone idea survive, on one hand it is burdened with debt and on other end it is bringing out huge investments by rolling out 5G services . The company and government need to come up with certain compromises changes .

As India moves closer to the idea of a "**Digital India**," the telecom sector will become increasingly more important to the economy. The speed at which the nation is moving toward digitalization requires the telecom industry to keep up. The proverb "**An early bird catches the worm**" sums up the telecom sector in India. The company that goes out to the people with its services and innovation first will prevail

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