

# CATKing GD-WAT-PI Super 30

## Vodafone Idea Merger

The Idea-Vodafone merger is one of the biggest deals in the telecom industry so far. The merger, expected to be completed by 2018 marks the first consolidation in the domestic telecom market since the entry of Reliance Jio which has posed as formidable competition against the existing players. The new entity born out of the Idea-Vodafone merger is proposed to be named Vodafone Idea.

1. The merger is expected to be completed in 2018.
2. The approval for the merger by the Department of Telecom is in final stages. Post approval and the fresh issuance of the certificate of the incorporation by the Registrar of the Companies, the old name "Idea Cellular Limited" will be replaced by "Vodafone Idea Limited".
3. Once the merger is complete, the entire business of Vodafone India and Vodafone Mobile Services - excluding Indus Towers' investment, international assets, and IT platforms - will vest in the company.
4. Vodafone will own 45.1% of the combined company after transferring a 4.9% stake to the Aditya Birla Group for \$579 million in cash, concurrent with the completion of the merger. The Aditya Birla Group will own 26% of the combined company and Idea's shareholders the remaining 28.9%.
5. The merged entity will become the world's largest telecom operator and a leading communications provider in India "with almost 400 million customers, 35% market share, and a 41% revenue market share," according to Vodafone India
6. The combined company will have sufficient spectrum to compete effectively with the other major operators in the market. It would hold 1,850 MHz, including circa 1,645 Mhz of liberalised spectrum acquired through auctions. It will be capable of building substantial mobile data capacity, utilising the largest broadband spectrum portfolio with 34 3G carriers and 129 4G carriers across the country.
7. The merged entity will leverage Idea's leadership in semi-urban and rural telecom markets and Vodafone India's strong presence in metro cities to cater to a pan-India audience and allow for nationwide leadership within Indian Mergers & Acquisitions (M&A) guidelines.
8. Ahead of the merger transaction, Vodafone and Idea intend to sell their standalone tower assets and Idea's 11.15% take in Indus Towers to reduce leverage in the combined company.
9. The transaction will cut Vodafone Group's net debt by nearly Rs 54,552 crore.
10. The merged entity will be jointly controlled by Vodafone India and the Aditya Birla Group.

### **Benefits**

#### **Better Network Quality**

The combination of the assets of two of the biggest telcos in the country has led to the formation of the largest telecom entity with the most subscriber base. Keeping in mind that both the companies are strong players on a national-international level, it is undoubtedly evident that the joining hands of these two companies will mean better services for the consumers. It is our opinion that the combined cash reserve, airwaves, wireless assets, and workforce will grant more power to the newly formed company to better tackle competition. Also, as we have remarked in our previous takes, a massive number of towers and sites which both the companies owned in combination will lead to the expansion of the network in the country. Notably, with this merger, the combined entity has surpassed the largest telco of the nation concerning subscriber base and revenue market share.

#### **Better Customer Experience**

The combined synergies of both companies will also mean that Vodafone-Idea Ltd will be able to provide better services to the customers at even more attractive prices. We also think that the large combined cash reserve of the company will mean more investment in R&D thus leading to innovative products in the market. Moreover, the company will also have the buffer to provide better consumer-centric services with combined resources.

#### **Digital Services**

In addition to the above two points, Vodafone Idea Ltd will now be able to focus its efforts towards genuinely digital services. Previously we have also discussed the increasing intensity and role of content for the telcos as another product; we think that with the telecom industry marching towards an intersection with the IT sector, it is much more crucial for the company to diversify its effort in the content provision area as well. This merger will assist the company in deploying more and more digital services across its entire range of offerings and will also enable it to rack up more and more content sources for its apps.

#### **Increased Stability**

The Telecom Commission, the highest decision-making body in India for the telecom sector has also made comments on the merger saying that the consolidation of these two companies will bring stability to the pricing and industry in general. Keeping this in mind, and basing our argument on the comments by the Secy further strengthens our opinion about stability in the telecom sector. Already the prices have headed towards a saturation limit and are expected to stabilise further especially now that the merger had been completed. With three private telecom operators and one public telco dominating the scene, the pricing of the services is expected to rest at a stable mark now.