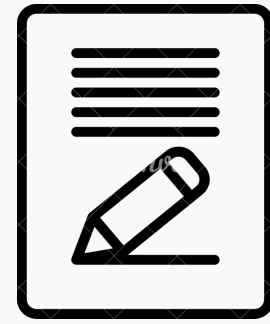


MnANALYSE

A case study on

Vodafone-Idea Merger



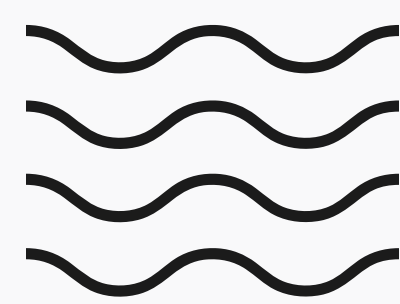


CONTENTS

- What are Mergers and Acquisitions?
- Telecom sector
- Need and benefits for Merger.
- Synergy
- SWOT Analysis
- Effects on Employees
- Effect on Stock Market
- Category of Merger
- Organic Vs Inorganic Growth
- Conclusion



MnA



What are **Mergers and Acquisitions**?

DEFINITION

Mergers and acquisitions (M&A) are defined as **consolidation** of companies. Differentiating the two terms

- **Mergers** is the **combination** of two companies to form one.
- **Acquisitions** is one company **taken over by the other**.

M&A is one of the major aspects of corporate finance world.

OBJECTIVE

- To attain **wealth maximization**, companies keep evaluating different opportunities through the route of **merger** or **acquisition**.
- Mergers and acquisitions may be completed to **expand a company's reach** or **gain market share** in an attempt to create shareholder value.

INTRODUCTION TO TELECOM SECTOR

India's Telecom Sector

- It is divided into **three categories** – wireless services, telephone lines, and the Internet, a sector that contains services provided by public and private organizations.
- The main public sector organizations were Mahanagar Telephone Nigam Limited (**MTNL**) and Bharat Sanchar Nigam Limited (**BSNL**), while the leading private sector organization was Bharti Airtel Limited (**Airtel**).
- In India, **wireless communication through pagers** was introduced in **1995**. This provided much-needed mobility in communication processes. **Motorola** has been a leading player in pager services with **80% of market share**.



Company History:

Idea's History



1995

2002

2004

2006

Idea Cellular was **incorporated as Birla Communications Limited** after GSM licenses were won in Gujarat and Maharashtra

The company **name was changed to Idea Cellular** after a series of name changes following **mergers and joint ventures** with **Grasim Industries, AT&T Corporation and Tata Group**

The **exit of AT&T Corporation** from the joint venture .

Idea Cellular became a **subsidiary of Aditya Birla Group.**

Company History:

Vodafone's History



1994

Founded in 1994, it is the Indian subsidiary of **UK-based** Vodafone Group plc and was a telecom service provider in India with Mumbai as its head office.

MARCH 20, 2017

India's third-largest telecom 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.

MARCH, 2018

The collective Vodafone Idea **network** had approximately **375 million subscribers** and is the **third largest mobile telecom network** in India.

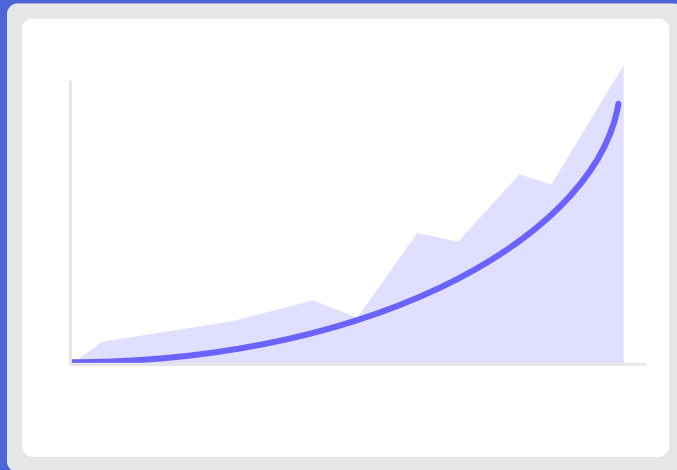


NEED FOR MERGER



- To tackle Reliance **Jio's cruising dominance** in telecom sector.
- To **contest** a brutal **price war**.
- Vodafone-Idea group would be the **country's largest telecom operation** with **35.06%** market share.
- Eliminating of **duplication of spectrum and infrastructure**.

BENEFITS OF MERGER



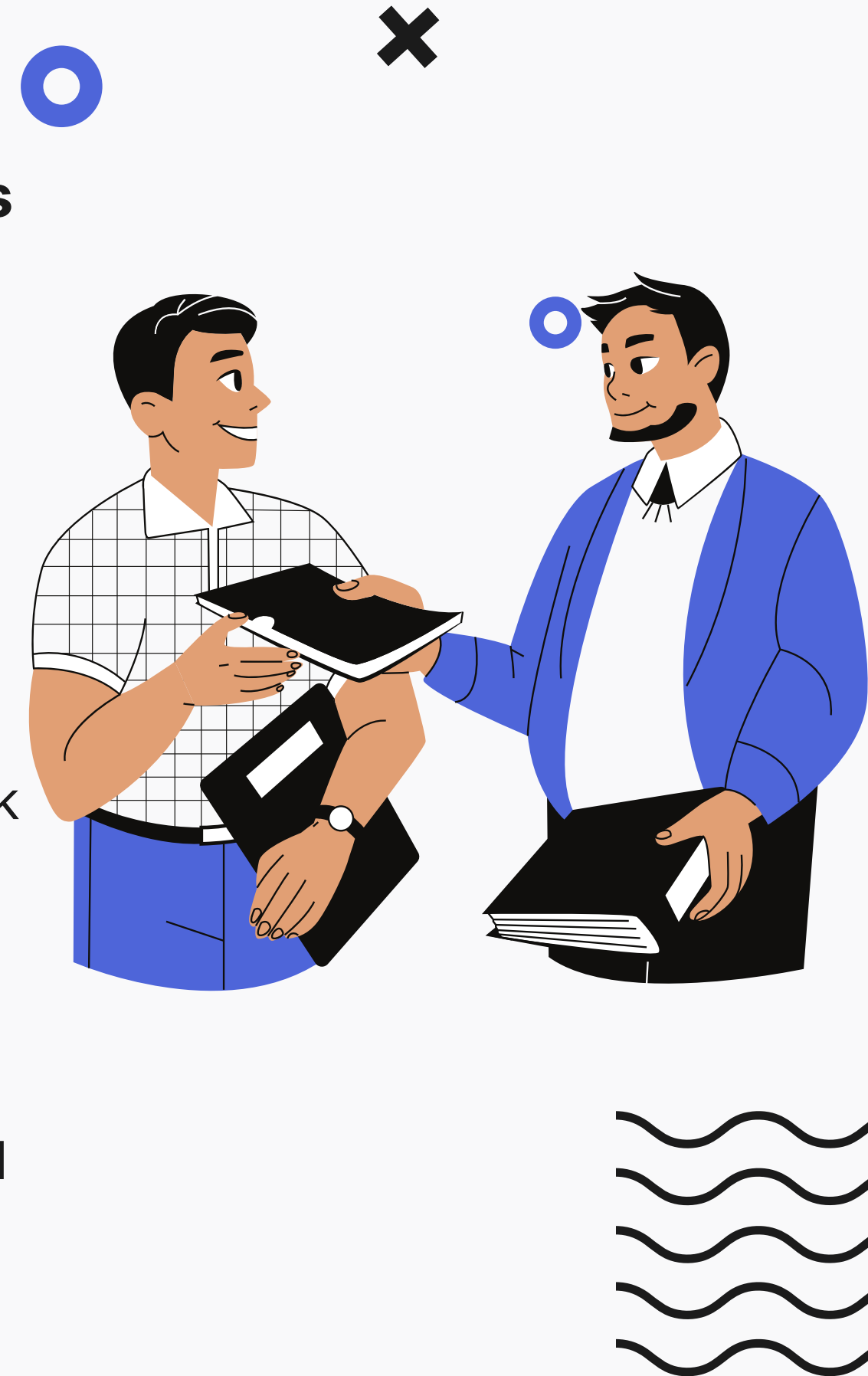
- **Superior network** *is the biggest benefit.*
- New VI network provides us ***excellent coverage*** wherever we go.
- **Reduced cost of operations.**
- **Market and customer base access.**
- **Reduced competition.**
- **Prevented closure of unprofitable businesses.**

WHAT IS SYNERGY?

In strategic management, synergy means **cooperative interaction** among divisions or groups, **especially among the acquired subsidiaries** or **merged divisions** of an organization, which helps create a greater combined effect.

ABOUT THE MERGER

- Cost synergies of approximately Rs 1400 crore in the combined operations.
- Spectrum front with huge spectrum capacity of 34 3G and 129 4G network carriers.
- Dealings gave the merged company a superior spectrum/network position.
- Higher revenue market share and about 20-25 per cent lower capex requirements.
- The high free cash flow reached about Rs 8000-10000 crore which was used to strengthen the market position.



SWOT ANALYSIS

● STRENGTHS:

- Well established player in the telecom sector with **28 crore customer**.
- 1,714.8 MHz out of the 1849.6 MHz spectrum is liberalised and **can be used towards deployment of any technology** (2G, 3G, 4G or 5G).
- Revenue is increasing on both YOY and QNQ basis.
- Globally renowned brand name.
- **India's largest telecom company** in terms of **subscribers**.

○ WEAKNESSES:

- **Negative cash flow** in balance sheet.
- ROC and ROE is decreasing in past years.
- Company is continuously **losing its subscriber base**.
- Lack of quality and customer service.
- Net worth of company is fully eroded.
- Annual net profit declining for last 2 years.



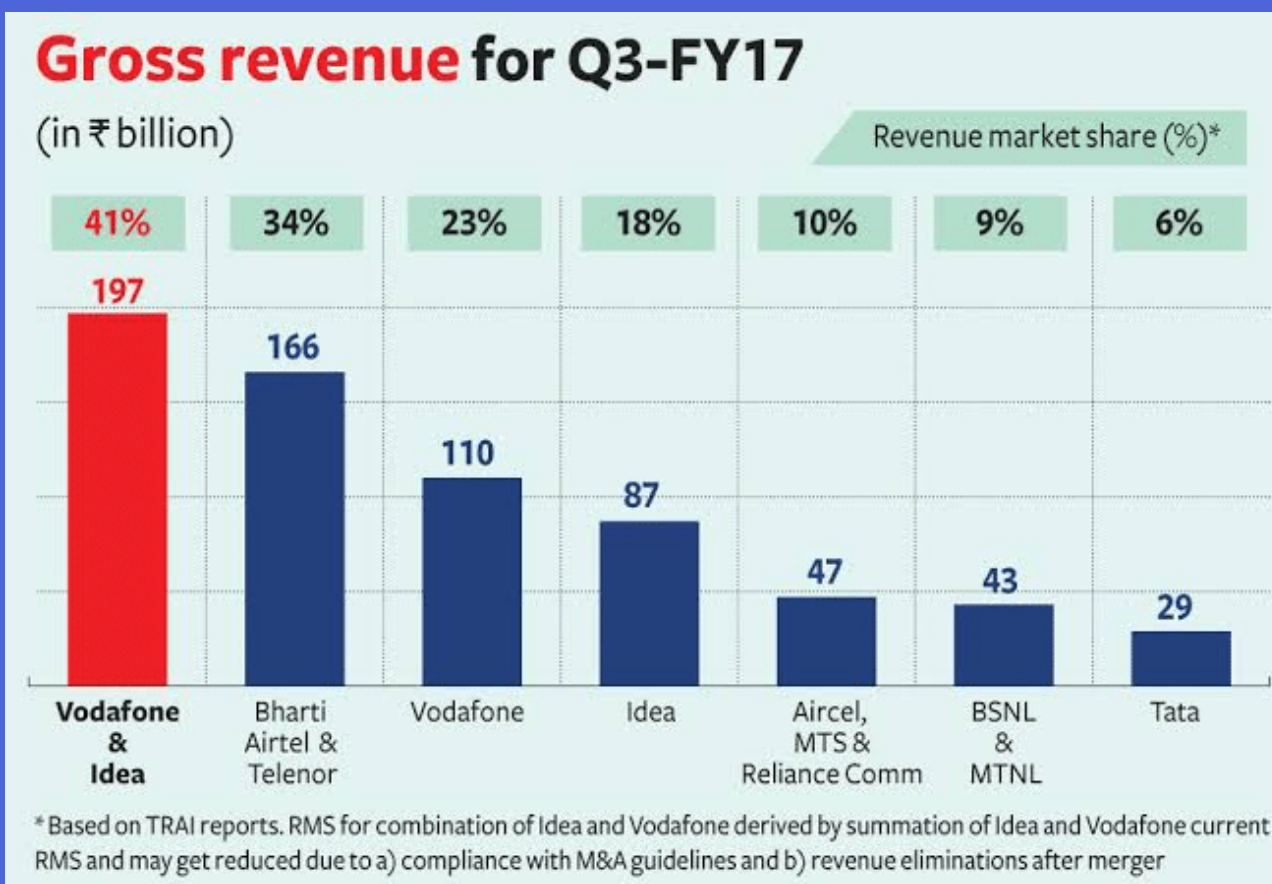
OPPORTUNITIES:

- **5G is the next technology frontier in the telecom sector**, 5G will be USED in INDIA to enable DIGITAL India, SMART Cities & SMART Village missions for India.
- India's aim of **High Bandwidth Broadband**.
- Huge opportunity to capture market share in more than **130 crore mobile subscriber with only 3 player in the market**.
- Entry barrier in the sector so there is very rare chance of entry of any new player.

THREATS:

- Very difficult to compete in such a **highly competitive market**.
- Again disruption is expected in telecom sector by JIO.
- **5G has the potential to truly change the role of telecoms companies**.
- Even after getting 10-15 years time for AGR payment company needs huge capital infusion and increase in ARPU to meet its obligations.

PROBLEMS AND EFFECTS ON EMPLOYEES



- Vodafone Idea's **subscriber base fell to 30.9 crore** as of May 2020 compared with **Reliance Jio's 39.27 crore** and **Bharti Airtel Ltd.'s 31.7 crore**.
- Vodafone Idea (VI) has faced **challenges in its network integration** process, including logistical and on removal of duplicate sites
- Vodafone-Idea lost 14 million subscribers in the June quarter, taking the **losses in the past year to about 115 million users**.
- However, the **merger failed to solve both the company's existing issues**. Total debt now stands at more than Rs 1 lakh crore and their ARPU is lowest in the world at Rs 108
- **Vodafone-Idea let go of around 4,000-5,000 employees people in the lead up to the merger in August 2018.** Seven months down, the employee count now is around 12,500, down from the pre-merger combined headcount of over 17,000.

EFFECT ON STOCK MARKET

01.

Idea and Vodafone with a market share of 16.9% and 18.96%

03.

Idea's shares fell 14% after the announcement of the merger.

05.

Vodafone and Idea's India's business was worth Rs 82,800 crore and Rs 72,200 crore.

02.

Idea share price went to Rs 120 from an average of Rs 72.5 when speculation about the deal began.

04.

Customer share of idea was 20 Cr and of Vodafone was 22 Cr.

06.

VI had nearly 40 crore customers, 35% customer market share and 41% revenue market share just after merger





CATEGORY OF MERGER

Horizontal Integration

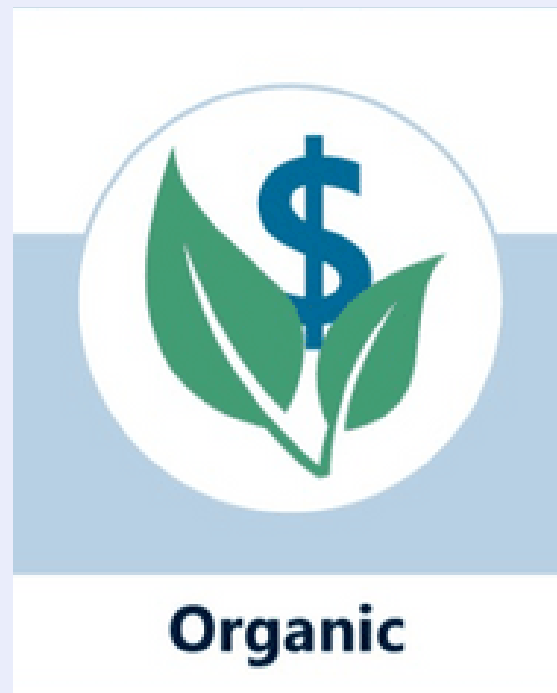
This type of merger takes place between two companies operating in the **same industry**. These companies are usually competitors and **merge to gain higher market power and economies of scale**.

Other motives of include a larger customer base, higher pricing power because of increased market share, and lower employment cost as the top management of the merged entity is lower than the two merging entities combined.

This merger is one of the famous examples of horizontal integration.



ORGANIC AND INORGANIC GROWTH



ORGANIC GROWTH Vs INORGANIC GROWTH

In general, growth is considered either organic or inorganic.

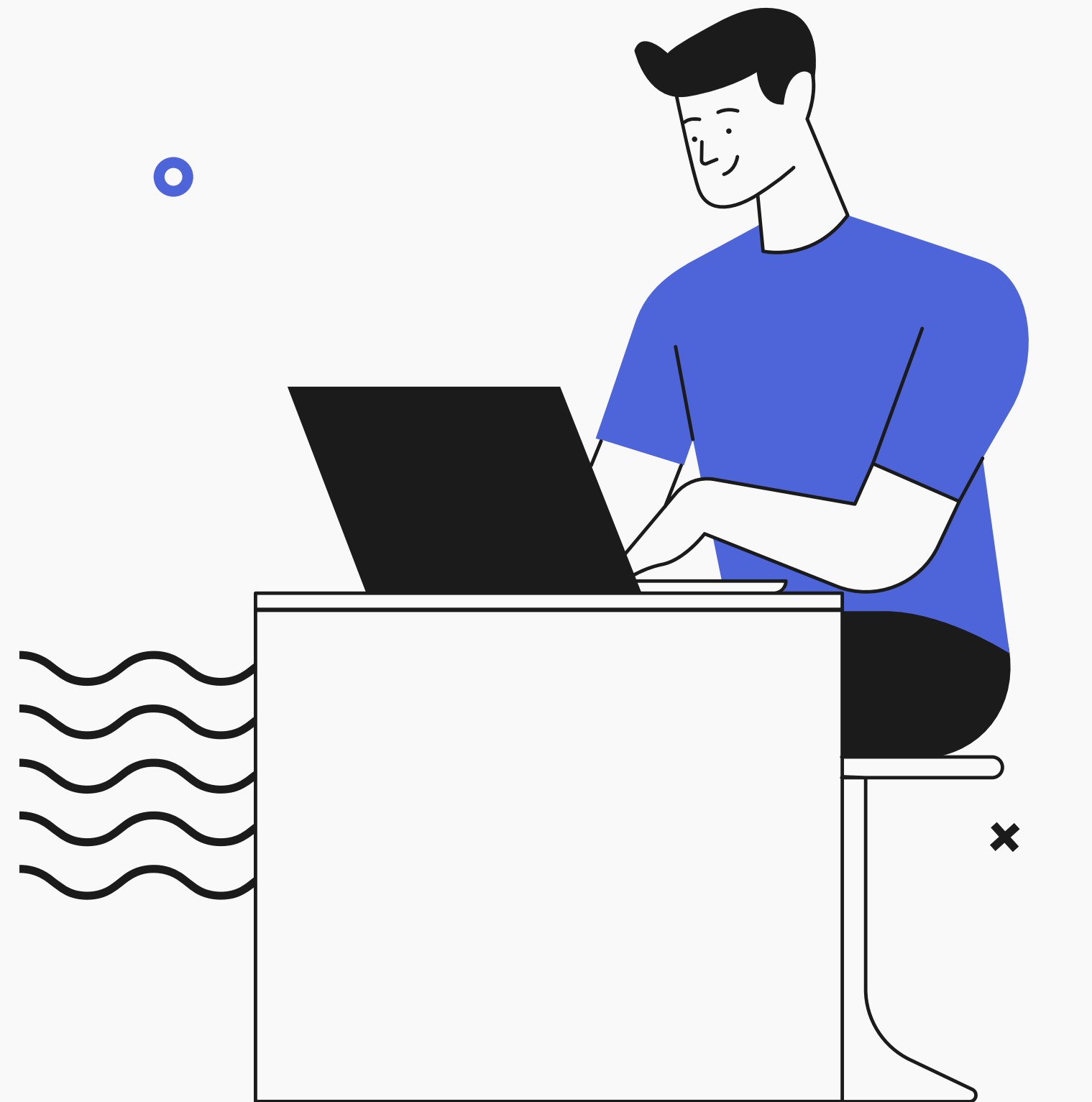
- **Organic growth** comes from expanding your organization's output and engaging in internal activities that increase revenue.
- **Inorganic growth** comes from **mergers**, acquisitions, and joint ventures.

Vodafone and Idea followed the latter :

- Growth is much, much **faster**
- **External growth**
- **Riskier**
- More **expensive**

CONCLUSION

- Although the merger failed to solve many issues that the two companies faced, it has had its fair share of advantages.
- It enabled cost savings and asset monetization opportunities aiding financial performance.
- It has expanded their reach and enabled better network facilities.
- Survival in this cut throat competition (from the entry of Jio) would've been very difficult, had the companies not merged.
- The promoters of Aditya group had smartly consolidated with Vodafone in this pricing war and at the same time had rights to equalize the stake in stages.



THE TEAM LEDGER-NDARY



Geetanjali Karma

Team Leader



Abana Sidhu



Swati Jhawar



Shivam Saini



Manan Jain

Mentor
**Sushanth
Reddy Manda**

THANK YOU!

