

## Specificities of the Deal:

- The two companies agreed to merge their operations with a swap ratio of 1:1. This means every Idea share you hold will be exchanged with a new share in the merged company. This suggests that operationally, it is a merger of two equals
- To maintain an equal partnership, Vodafone will have 45.1% stake in the combined company. This is after transferring a 4.9% stake at Rs 110 per share to Aditya Birla Group for Rs 3,900 crore in cash. Aditya Birla Group will then own 26% of the combined company. The remaining 28.9% will be owned by Idea shareholders. The Birla Group will have the right to buy additional 9.5% stake from Vodafone over the next 4 years. This is to ensure that both the companies have an equal stake in the new company.

## When?

On 20th March, 2017 Board of Directors of Vodafone India and Idea jointly announced the merger between Vodafone India and Aditya Birla's Idea Cellular.

Approval of the merger was given by Department of Telecommunication in July 2018.

The National Company Law Tribunal gave the final approval to the Vodafone-Idea merger on August 30, 2018. On 31st August 2018, the merger was completed.

## Reason for Merger

- to make the biggest telecom network in India with the most elevated client base in India.
- control the rising of Jio (which first came out in 2016) in the telecom sector. In the initial phase for almost seven months, Jio announced free service to its user. So, as a result, it's started occupying the maximum part of the market.
- As the telecom business in India is an oligopoly (An oligopoly is a market characterized by a small number of firms who realize they are interdependent in their pricing and output policies. The number of firms is small enough to give each firm some market power) market structure the free service of Jio brought price war between the other companies.
- After the consolidation, Vodafone and Idea expected to see themselves in a solid situation in the business.

## Impact of Merger:

- This 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

- The merger provided support in overcoming the debt of Idea cellular and Vodafone India as a large sum of credit was infused in the joint venture

## NO BED OF ROSES

The merged entity's leverage levels are expected to rise to 5.5-6 times in the medium term, as full synergy benefits will be some time away.

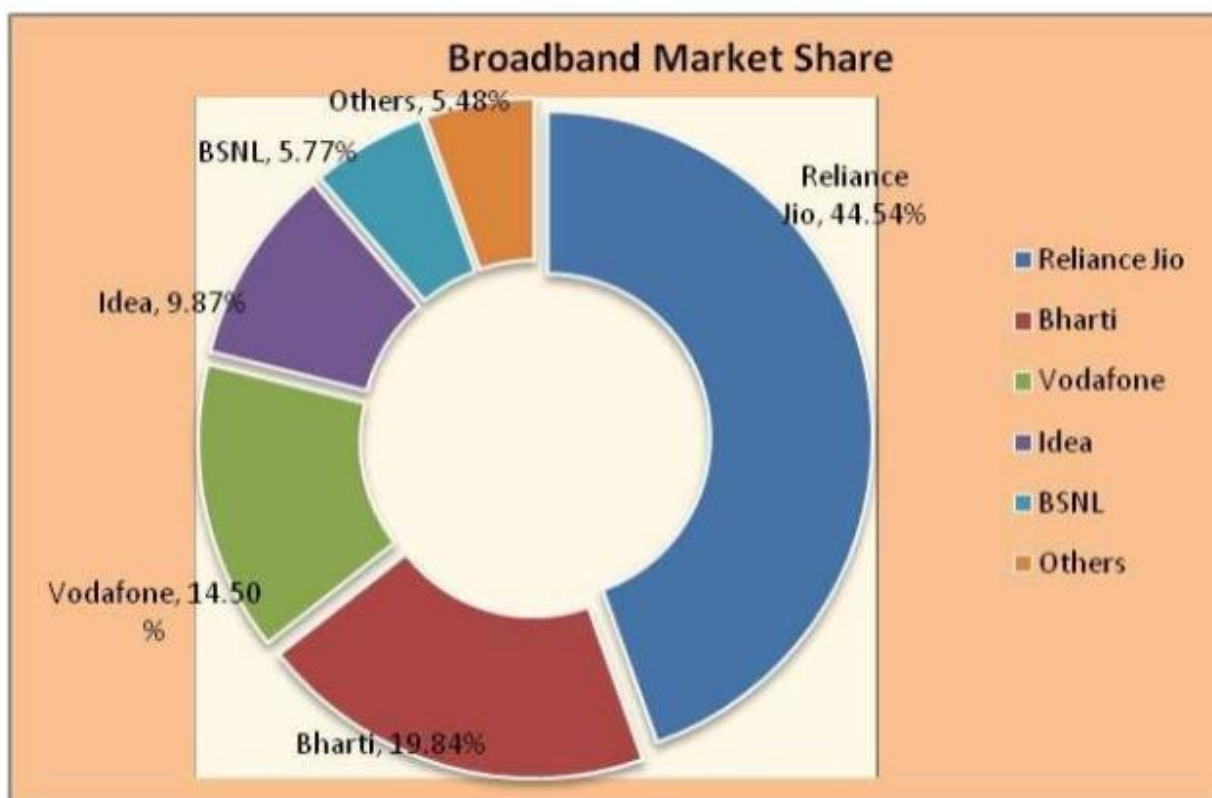
| (in Rs crore)           | Idea-Vodafone merged firm |          |             |
|-------------------------|---------------------------|----------|-------------|
|                         | Pre-merger                |          | Post-merger |
|                         | CY16                      | FY18     | FY19        |
| Revenue                 | 81,600                    | 75,100   | 76,600      |
| Ebitda                  | 24,400                    | 18,000   | 20,100      |
| Ebitda margin (in %)    | 30                        | 24       | 26          |
| Net debt                | 1,07,900                  | 1,08,800 | 1,11,300    |
| Net debt/Ebitda         | 4.4                       | 6        | 5.5         |
| Enterprise value*       | 1,75,400                  | 1,76,300 | 1,78,800    |
| Enterprise value/Ebitda | 7.2                       | 9.8      | 8.9         |

\*Based on current market price of Rs93

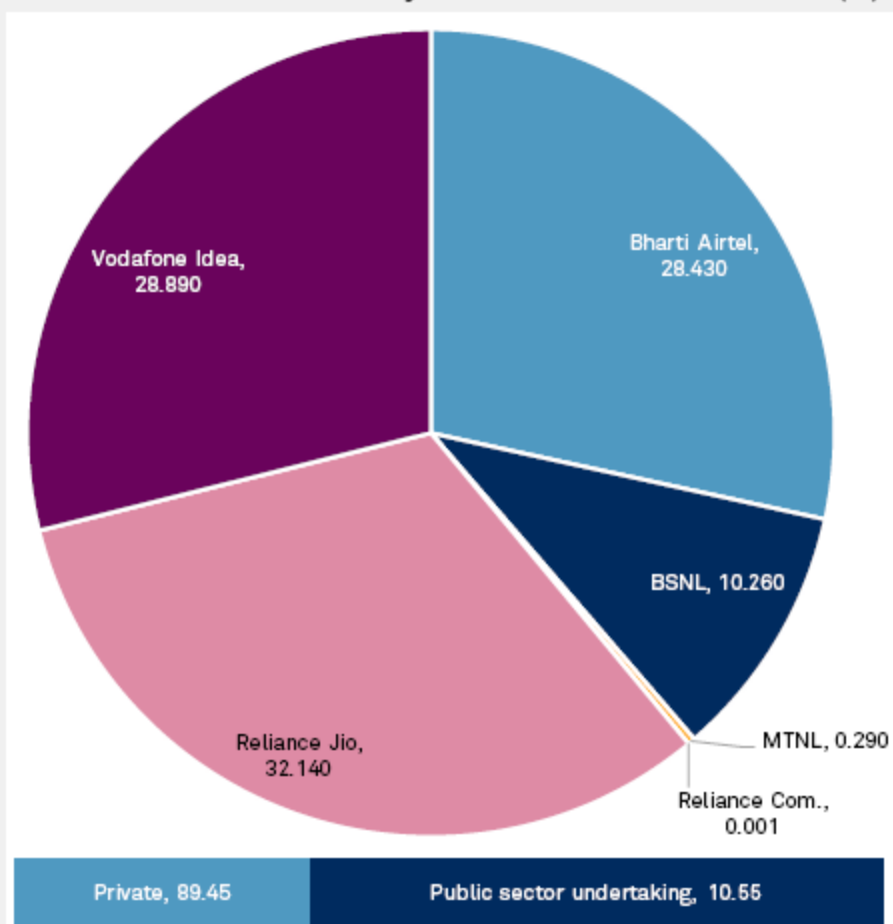
Ebitda: Earnings before interest, tax, depreciation and amortization

Source: JM Financial Institutional Securities, Mint research

## Service Provider-wise Market Share of Broadband (wired+wireless) Services as on 31.01.2018



### Indian telco market share by wireless subscribers in 2019 (%)

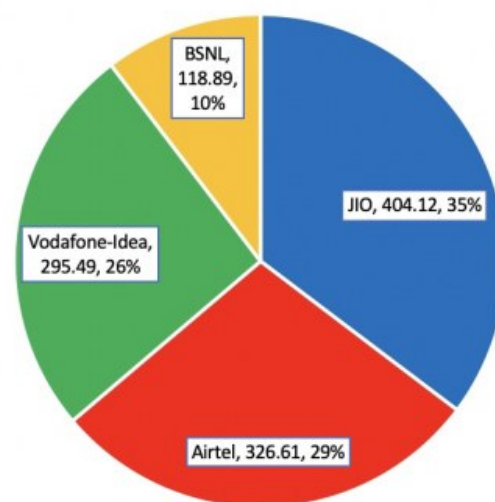


As of Dec. 31, 2019.

Source: Telecom Regulatory Authority of India's Feb. 25 report

Subscribers in Millions  
Sept 2020

### Telecom Market Share India



\* Data is Based on Trai Report

■ JIO ■ Airtel ■ Vodafone-Idea ■ BSNL

## **Expectations vs Reality**

### **Expectations:**

Once you combine the Vodafone and idea customers, the merged entity could be the biggest telecom company in India. It would have nearly 40 crore customers, 35% customer market share and 41% revenue market share. This merger is a strategic response to Jio's significant move.

## **Effect on the stock market**

Idea share price went to Rs 120 from an average of Rs 72.5 when speculation about the deal began. However, Idea's shares fell 14%, to Rs 93, after the announcement of the deal. This is because investors were not clear about the deal despite a detailed announcement. A lot of operational issues have been left unresolved.

Investors are concerned about the longer-than-expected time (around 18 months) for the completion of the merger, and the two companies' estimate that synergy benefits will fully accrue only in the fourth year since the closure of the merger. Analysts at JM Financial Institutional Securities Ltd wrote in a note to clients that their near-term outlook is dampened by longer M&A approval/completion cycle and a rather extended time-frame for full synergy extraction, among other things. They had anticipated synergy benefits to accrue in FY20, within two years of the completion of the merger.

For some other analysts the synergy estimates themselves are ambitious. Analysts at Bernstein Research said in a note to clients, "We remain skeptical on the (companies' estimates on) synergies, particularly in light of the poor showing Vodafone and Idea had in our latest survey of Indian smartphone users.

And since synergy benefits are some time away, this would mean that leverage in the medium-term could rise to an unwieldy 5.5 times, even after accounting for proceeds from tower sales. This is expected to inhibit the two companies' ability to invest adequately in their businesses.

## Vodafone Idea and its timeline of woes





# VODAFONE IDEA

## AND ITS TIMELINE OF WOES



Vodafone Idea is fighting for its survival even after weathering off the Jio juggernaut over the last few years. Hit by a demand of ₹53,000 crore for the repayment of adjusted gross revenue dues, Vodafone CEO Nick Read said that its Indian entity could be liquidated if the government does not provide any assistance.

Essentially, the future looks dire for Vodafone Idea. Vodafone has written down the book value of its Indian business to nil, sparking speculation that the second biggest telco in India could wind up soon. In November 2019 alone, 36 million Vodafone Idea subscribers migrated out to other networks.

But Vodafone Idea has more than just Jio to blame. It has stopped competing with Airtel and Jio when it comes to offering new features like eSIM, VoWiFi and more.

Mounting losses and AGR dues-

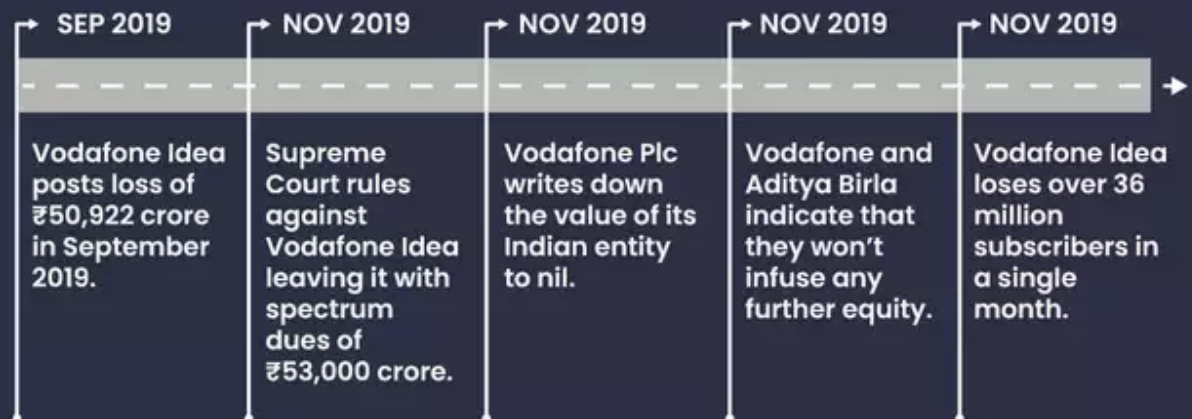


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# VODAFONE IDEA

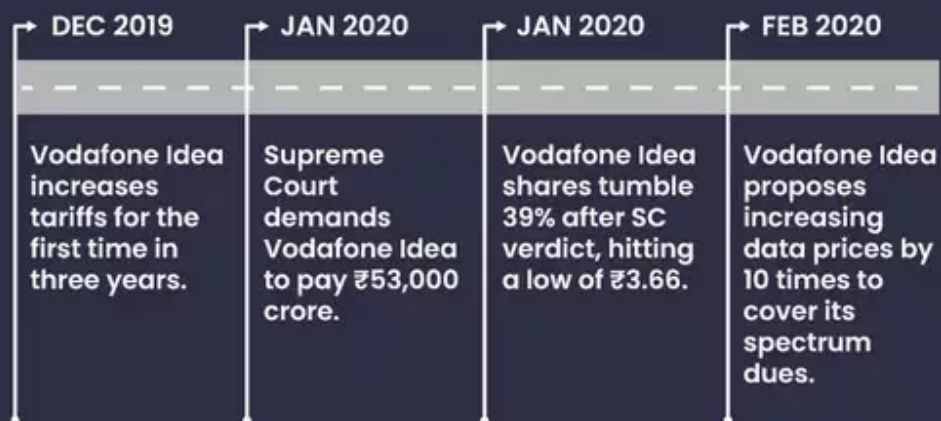
## AND ITS TIMELINE OF WOES





# VODAFONE IDEA

## AND ITS TIMELINE OF WOES



### AGR Case Update – On 19th July 2021:

the Supreme court heard the counsels from Telecom operators (V!, Airtel, and Tata Teleservices), on the application that AGR dues recalculation should be done to remove arithmetic and calculation errors made by DOT while calculating the operator's respective AGR dues.

The Supreme Court Bench heard the case and reserved it for further order. They have directed that the case be listed after two weeks. The case will now be heard in early August 2021 and we will have to wait till then if the court allows for the recalculations.

It is positive news for Shareholders and the company even if there is a bleak chance of reduction in AGR dues.

## **Will V! Go bankrupt and close down anytime soon?**

The short answer is – No, at least not so soon

- For starters, the Supreme Court of India has passed the judgment related to the AGR dues and it brings the much-awaited good news for the troubled telecom giant. The apex court in its AGR judgment has said that the company can pay the Rs. 53,000 crores of AGR dues in the 10 year period. Something that Vodafone-Idea wanted for a long time. They requested a 15 year period to pay the dues and the court has given them nearly what they were looking for.
- The path ahead is still not easy; as they still face Jio and its aggressive pricing strategy. The company has lost market share, talent pool, and most importantly the trust of its users by not caring much about the business for the last 2-3 years.
- The rebranding to V! from Vodafone-Idea shows that the company is serious and wants to splurge money to regain the lost brand glory. But branding is not sufficient. As they continue to lose subscribers and market share; that is terrible for the survival of the business.
- Another major issue is the lack of funds to pay the bank loans and AGR dues. The company may be able to raise funding privately as [Reliance Jio did](#). They can have strategic partners in the future that will ensure better cash flow and expansion. V! have been in talks with several investors, but so far there is no news of anything getting finalized. Maybe the management is waiting for the resolution of the AGR dues before they disclose their funding secrets.
- Apart from paying for the AGR dues, they will have to invest heavily in the roll-out of 5G services in the next couple of years. V! can't be late to the market with 5G, as more high-value customers can churn and [port to JIO or Airtel](#).
- The Vodafone Idea share reached the low of Rs. 3.4 in Feb 2020. Back then, the uncertainty around the survival of the company was at its peak. In the later months after the AGR judgment, the share price has been rising. It was earlier expected that the Share price can break free and easily touch Rs. 20 target, but in the recent months it has been range-bound in the Rs. 8 to 12 price band. There is strong resistance at Rs. 12. Considering the company has sailed through the worst time, we are positive about the outlook for the company. It is not going to be easy for the third largest telecom operator considering its weak balance sheet, and amount of debt, AGR dues. However, if Vodafone Idea is able to have a

strong partner/investor, some relief from the court or Govt of India, then it can see a turnaround.

### **Why Vodafone Idea May Not Shutdown? 6 Steps Company Plans to take.**

- Pay part AGR dues before the 23rd January deadline. VIL can pay upto Rs. 4000 crore to show the court and government that they have the intent to stay afloat and do business.
- Ask the Government to re-evaluate the dues and offer either more relief in terms of payment schedule or the interest on principal payment.
- According to DOT VIL owes 53,000 Crore in dues. However, the company is doing self-assessment of these and sources say they may actually owe Rs. 44,000 Crore.
- The government owes VIL Rs. 9000 crore as GST input credit that the company intends to use to pay the AGR dues.
- Lastly, they are planning to sell the data centers and optic fiber business along with an 11% stake in the Indus Towers to raise money.
- Also, the cash flow for the company has improved as they have increased the rates by up to 40%.

All of the above plus some help from the Vodafone Global and ABG group can make it possible for the company to survive and have a future.

<https://candytech.in/vodafone-idea-latest-news-and-updates/>

### **What went wrong with the merger of Idea and Vodafone**