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Enemy's Enemy is Friend: A Case Study of the Vodafone-Idea Merger

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Abstract:

India is currently the world's second-largest telecommunications market with 1,191.40 million subscribers, as of September 2018. As India has large market for telecommunication it consist of many telecom companies such as Vodafone, Idea, Airtel, JIO, BSNL etc. These telecommunication giants has a ranking on the basis of their market share and customer base. Initially it was Airtel, Vodafone, Idea, Jio and BSNL respectively. But after the merger of Vodafone and Idea they jumped to first position from second and third one.

Introduction:

For escalating the size and volume of business merger and acquisitions are the most admired forms of Corporate Restructuring. However, corporate world is witnessing a revolutionary effect of corporate restructuring strategies which are sweeping across all the industries which has totally restructured the market place. Since from late Twentieth Century it has been a trend in advance countries, but now in twenty first century it has become a regular phenomenon in developing countries. During 1990 to 2001 the total number of merger and acquisition was increased by almost four times as compare to initial period.

This inclination is diverse now as compare to earlier time period, wherein the Merger and Acquisition was looked upon a threat and has evoked images of dark shadows and back door entries to the corporate world. However nowadays it has become a way of expanding business or portfolio for Indian companies and also has become a strategy for foreign companies to enter into the foreign market for growth. Due to Liberalization, Privatisation and Globalisation in 1991 reforms has opened doors for all foreign investors removing all trade barriers.

Merger and acquisition is not a new phenomenon to Indian corporate culture since in the past, companies have used this strategy for expansion of their business. Having spread their wings wildly during the days of controlled regime Indian enterprises is now refocusing on their core competencies, market share and global competitiveness. This process of refocusing has been accelerated by entering of foreign companies into the market. As it is most old and effective method of corporate restructuring and therefore it has become a important part of long term business strategy of corporate enterprises.

Definition of Merger:

Mergers and Acquisitions (M&A) mentions to the aspect of corporate strategy with the buying, selling or combining of companies that permits a company in a given industry grow rapidly without having to create another business entity (Responcibility, 2015).

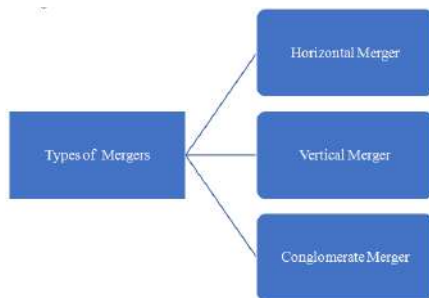
According to R. Srinivasan "Merger refers to when two or more companies, roughly of the same size or strength, submerge their individual identity into one in a friendly atmosphere". A holding company may be formed and its shares may be exchanged for the shares of others.

Harold J. Leavitt, Louis R. Pondy, David M. Boje defines merger as "Merger represents the most complete solution to situations of organizational interdependence, as it involves the total absorption of either a competitor or a vertically related organization, or the acquisition of an organization operating in another area".

M. K. Nandakumar, Sanjay Jharkharia, Abhilash S. Nair explains "Mergers and Acquisitions as" When two or more firms combine or, when one firm takes over or acquires a considerable stake in another firm, it is broadly called as merger and acquisition (M&A)". Merger is the combination of two companies when one goes out of existence.



Types of Merger



A. Horizontal Merger

This is merger between companies producing similar types of goods or services. These types of companies share the same product lines and markets and are in direct competition. Such kind of merger takes place to create more efficient economies of scale. The amalgamation of Daimler-Benz and Chrysler is a popular example of a horizontal merger. Horizontal merger allows to surviving company to control a greater share of market and it is hoped gain economies of scale. This kind of merger have either extreme large effect or smaller effect or nil effect on the market. When two small enterprises merge horizontally then effect on market is very negligible or less noticeable. Such kind of merger are very common in to the market. If a small or local grocery seller merge with another grocery seller, then the effect of this merger is on other local grocery stores are very minimal. In large horizontal merger the resulting current effect can be felt throughout the market and sometime throughout to the whole economy. Large horizontal merger are frequently perceived as anti-competitive. If one company holding 30% of market share combines with another company also holding 30% of market share, their combined shareholding will then increased to 60 %. This large horizontal merger has now given new company an unfair market advantage over its competitors.

B. Vertical Merger

A vertical merger is a merger between two firms involved into the same business but on different levels. A merger between two or more companies producing different goods or services for one specific finished product where one firm merges with another form in the same industry but another stage in the production cycle. The merger allows to have more control of another level of manufacturing or selling process will mergingat single industry. This kind of merger involved customers, company, supplier and a company merging. For example a cricket bat manufacturing company mergers with wood production company example can be called as supplier merging with the producer.

There are many reasons for companies to merge vertically, some of them to reduce risk of the availability of quality suppliers or the demand for output to take benefit of economies of scale to protect against monopolistic practices of other supplier or buyer with which the firm must otherwise Deal, and to reduce transaction like sales taxes and marketing expenses. Although in this kind of mergers the acquiring firm may lower its cost of production and distribution and make more productive use of resources.

C. Conglomerate Merger

When the merger takes place between totally unrelated business such kind of mergers is called as conglomerate Merger. There are two types of conglomerate Mergers such as pure and mixed. Pure conglomerate merger involve companies with nothing in common while mixed Conglomerate merger involve companies that are looking for product extensions or market extensions. This kind of merger offers when companies are not competitors and do not have a buyer supplier seller relationship and is made of a number of different seemingly unconnected business. In this merger one company owns a controlling stake in many smaller companies which runs business separately each of conglomerates subsidiaries business runs separately of the other business divisions but thecompanies' management reports to senior management in the parent companies. The benefit of this type of Merger is to diversify business risk by participating in number of different market. These are the two philosophies guiding many conglomerates,

- a) By participating in number of unrelated business the parent company is able to reduce cost why using fewer resources.
- b) By diversifying Business interest the risk inherent in operating in a single market are mitigated.

It is seen in the history that this kind of merger can be efficiently versified and complicated that they are too



difficult to manage efficiently. As the popularity increased in the period 1960 s and the 1980 s many conglomerates have reduced the number of business under their management to few choice subsidiaries true divestiture and spin-offs. (Bhagban Das, 2009)

Telecomm Mergers in India:

Mergers and acquisitions are not new to Indian telecom industry but once again it is in news as country's second and third telecommunication service providers Vodafone and Idea has recently announced their merger plans. Vodafone - Hutchison Essar Merger in 2007 This was one of the largest deals that happened in telecom industry on February 11, 2007. The company has bought the stake of 67 per cent in Hutchison Telecommunications International, a unit of Li Ka-shing's Hutchison for \$11.1 billion and the company became India's No. 2 telco by subscribers. The company was then called as Vodafone India after Vodafone Group Plc. raised its stake to a 100 per cent in the entity. Idea bought 80% in Spice telecom Aditya Birla group's Idea Cellular bought BK Modi's Spice Communications for over Rs 2,700 crore and then the former owns more than 80 per cent equity in the latter which is a subsidiary of the Mumbai-based telecom operator. Idea Cellular acquired the company from Modi Wellvest and Telekom Malaysia (TMI, now Axiata) in July 2008. Telenor bought Unitech Wireless Telenor, a Norway-based international telecommunication service provider bought 49 per cent stake in Unitech Wireless the telecom arm of the realty firm, Unitech, in two tranches for Rs 2,380 crore. However the company had raised its stake to over 60 per cent, but like Etisalat, saw its joint venture's licenses cancelled by the Supreme Court in 2012. It has however stayed put in the Indian market, bought back licenses in some circles, took control of the joint venture after Unitech exited it. Telenor now owns 100 per cent of its Indian unit. The company had rebranded itself to Telenor India from Uninor. Reliance Industries - Infotel merger Mukesh Ambani owned Reliance Industries bought 95 per cent stake in Infotel Broadband for Rs. 4,800 crore in June 2010. The company has already shaken the market by announcing its 4G plan. It was also offering cost-free unlimited voice call, and data offer to its users. The offer was ended on 31st March and after that Jio will charge for data and voice calls. It has already introduced its entry-level Rs 149 plan for free data and voice calls which will come into power from 1st April 2017. Reliance Communications - Aircel merger In the biggest consolidation deal in the telecom sector, Reliance Communications Ltd led by Anil Dhirubhai Ambani has announced its plan to merge with Aircel. If the merger comes through then the new entity will create a telecom operator ranked fourth by customer base and revenues and number three operator by revenues in 12 important circles. RCom and Maxis Communications Berhad (MCB) of Malaysia, which owns Aircel, will hold 50 per cent each in. The merged company will be one of India's largest private sector companies, with an asset base of over Rs 65,000 crore and net worth of Rs 35,000 crore (\$5.2 billion). Vodafone - Idea merger This news came as surprise for the Indian telecom sector. The proposed merger between both the entities created with a subscriber base of more than 400 million to emerge as the largest player in India and will displace Bharti Airtel, which had over 260 million users on its network. Vodafone also confirmed the news and said, "Vodafone confirms that it was in discussions with the Aditya Birla Group about an all share merger of Vodafone India - excluding Vodafone's 42 per cent stake in Indus Towers - and Idea. "Any merger would be effected through the issue of new shares in Idea to Vodafone and would result in Vodafone deconsolidating Vodafone India," it said. Country' s three leading mobile operators, Bharti Airtel, Vodafone and Idea, are under pressure due to the arrival of Mukesh Ambani led Reliance Jio, which has shaken up the market by offering free voice and data to customers (Priyanka, 2017)

Literature review:

India's telecommunication network ranks the second largest in the world by number of telephone users with 1.179 billion subscribers as on 31 July 2018. (TRAI, 2018). As compared to other countries in the world India has the lowest call tariffs by mega telecom operators and hyper-competition among them. Telecommunication has reinforced the socioeconomic growth of India and has played a noteworthy role to narrow down the rural-urban digital divide to some extent. It also has helped to increase the transparency of governance with the introduction of e-governance in India. The government has practically used modern telecommunication facilities to deliver mass education programmes for the rural folk of India (Wolpert, 2018). In India now rural villages and urban cities are connected by worlds second large telecommunication network.

In India war between large telecom companies are at its high. To bit the competition many giants are shaking hands together to bit other competitor. Like Enemy enemy are friends. On the same page the story of Vodafone Idea started. As before the merger of Vodafone Idea Ltd. Bharti's Airtel was on rank one, Vodafone was on rank two, Idea cellular Ltd. on rank three Reliance Jio was on rank four and BSNL was on rank five.



Highlights about Idea Cellular Ltd.:

In 1995 Idea cellular one licenses to provide GSM based services in Gujarat and Maharashtra circle and incorporated as Birla Communication limited. after 1996 it changed its name to AT & T Communication limited. meanwhile they had joint venture between Grasim industries and AT & T Communication limited and started their operations in Gujarat and Maharashtra circle

In 2000 it merged with Tata Cellular Limited And required original license for Andhra Pradesh circle in 2002 they started operation in Delhi and launched the idea brand name and for the it again change its name to Idea Cellular Limited reached 1 million subscriptions mark and they grow by winning many prizes and tackle many milestones of achievement and became First operator in India two commercially launch EDGE services in 2005 and cross 6 million subscription. In 2007 its 7 subsidiaries merge with Idea Cellular Limited and equity shares listed on BSE and NSE. third largest mobile operator in India in terms of revenue and crossed uses of 1 billion minutes per day making it one of the top 10 companies' operations in the world. And again tackle one more milestone of crossing of 81 million subscribers. in 2011 day come off with 3G in 10 circles and become first operator to launch mobile number portability. In 2015 Idea cellular launch 4G services and cross 171 million subscribers .in 2016 subscriber base was 19,05,17,876 (Idea, 2018). and now as Idea was on third position in India want to become again on first position so it decided to shake hands together with Vodafone in 2017

Highlights about Vodafone India Ltd.:

Vodafone India was the Indian subsidiary of UK-based Vodafone Group plc and was a provider of telecommunications services in India with its operational head office in Mumbai. Vodafone has launched in India in the year 1995.As of March 2018, Vodafone India had a market share of 21%. with almost 223 million subscribers and was the second largest mobile telecommunications network nationally after Airtel (Abbas, 2018) it had revenue of 42,95,666. In July 2011, Vodafone Group purchased the mobile phone business of its partner Essar for \$5.46 billion. This intended Vodafone owns 74% of Essar (BBC, 2015). On 11 February 2007, Vodafone decided to acquire the governing interest of 67% held by Li Ka Shing Holdings in Hutch-Essar for US\$11.1 billion, pipping Reliance Communications, Hinduja Group, and Essar Group, which is the owner of the remaining 33%. The entire company was valued at USD 18.8 billion (Times, 2007). The transaction fastened on 8 May 2007. In April 2014, India based Piramal Group sold its 11% Stake in Vodafone India to Prime Metals, a secondary subsidiary of Vodafone Group (Prabha, 2014). And again to bit giants of telecom two giants had corporate marriage with approval announced there merger on 31st August 2018.

Highlights about Vodafone Idea Limited:

Vodafone Idea Limited (BSE., 2018), (Idea, 2018) is India's largest telecom operator (Now, 2018)with its headquarter based in Mumbai, Maharashtra (SDxCentral, 2018), (MySmartPrice., 2018) .Vodafone Idea is GSM operator offering 2G, 3G and 4G mobile services under two brands named Vodafone and Idea. Vodafone Idea also provides services including Mobile payments, IoT, advanced enterprise offerings and entertainment, accessible via both digital channels as well as on-ground touch points, centers across the country(India, 2018). The company has a vision create world's best digital practices to connect and encourage every Indian to build a better tomorrow' (www.vodafoneidea.com, 2018) As of November 2018(TeleAnalysis., 2018), Vodafone-Idea has 32.2% market share in India with 422 million subscribers(TeleAnalysis., 2018), making it the largest mobile telecommunications network in India and second largest mobile telecommunications network in the world(BSE., 2018) Vodafone Idea has a broadband network of 340,000 sites, distribution reach of 1.7 million retail outlets (India, 2018).On 20 March 2017, Idea and Vodafone India announced that their respective boards had approved a merger of the two companies. The merger got approval from Department of Telecommunications in July 2018. On August 30, 2018, National Company Law Tribunal gave the final nod to the Vodafone-Idea merger (Parbat & Sengupta, 2018), (Kurup,2017),(BSE.,2018). The merger got approval from Department of Telecommunications in July 2018. On August 30, 2018, National Company Law Tribunal gave the final nod to the Vodafone-Idea merger (Parbat & Sengupta, 2018).Vodafone India merged on 31 August 2018, with Idea Cellular, and was renamed as Vodafone Idea Limited. However, the merged entity continues using both the Idea and Vodafone brand(Idea, 2018) Currently, the Vodafone Group holds a 45.1% stake in the combined entity, the Aditya Birla Group holds 26% and the remaining shares will be held by the public(BSE., 2018) Kumar Mangalam Birla heads the merged company as the Chairman, with Balesh Sharma as the CEO(India, 2018).

Here a snapshot of all ranking of telecom operators is given:



Table No.1: Ranking of Telecom operators after the merger of Vodafone Idea.

Rank	Operator	Subscribers (in millions)	Market Share	Ownership
1	Vodafone Idea Limited	427.64	36.55%	Vodafone Group (45.1%) Aditya Birla Group (26%) Axiata Group Berhad Providence Equity (28.9%)
2	Airtel Tata DoCoMo [3]	362.7	31.00%	Bharti Enterprises (64%) SingTel (36%)
3	Jio	275	22.46%	Reliance Industries Limited
4	BSNL ,MTNL	117	10.00%	State-Owned

Source: (India, 2018),(Idea, 2018),(Times, 2018).

Research Methodology:

Basically, secondary data is used for the study of merger between Idea and Vodafone. Secondary data has been collected from the newspapers, official websites of the companies merged, moneycontrol.com, official report. In addition to that, data is also collected from reports and statements of annual reports & magazines, journals, internet and text book and others.

Data Analysis:

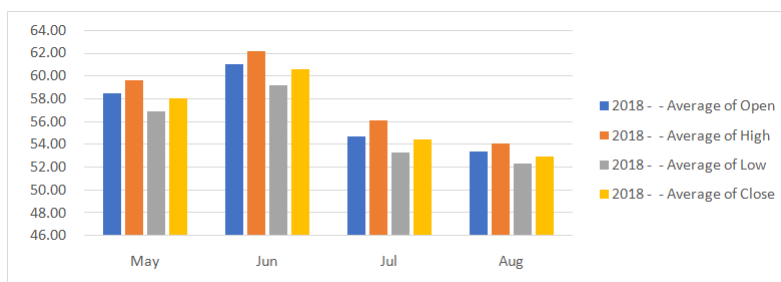
In order to know to why the merger between Idea Vodafone took place and what was the effect on its share prizes before and after the merger. And what exactly happen with the competitors.

For this historical share price trend of Vodafone and Idea is taken into consideration with comparison of newly merged firm named Idea-Vodafone Ltd. Performance for the four months.

Table No.2:Analysis of Idea Cellular Ltd.

Month	Average of Open	Average of High	Average of Low	Average of Close
May	58.50	59.62	56.93	58.00
Jun	61.02	62.16	59.16	60.60
Jul	54.73	56.07	53.25	54.41
Aug	53.38	54.04	52.31	52.92
Grand Total	56.94	58.02	55.44	56.52

Source: (Moneycontrol, 2018)



In above chart the blue bar represents average of open price, the orange bar shows average of high price for the month, grey bar shows average of low price and yellow bar shows average of closing price.

Here we can clearly see that average of open price was Rs.58.50 , Rs.61.02, Rs.54.73, Rs.53.38 for the month of May, June, July, August respectively. Further average of high prices were Rs.59.62, Rs.62.16, Rs.56.07, Rs.54.04 for the month May, June, July, August respectively. To explain more the average of low prices were Rs.56.93, Rs.59.16, Rs.53.25, Rs.52.31 for the month May, June, July, August respectively. Average of close was Rs.58.00, Rs.60.60, Rs.54.41, Rs.52.92 for the month May, June, July, August respectively.

Analysis of Vodafone India Ltd.:

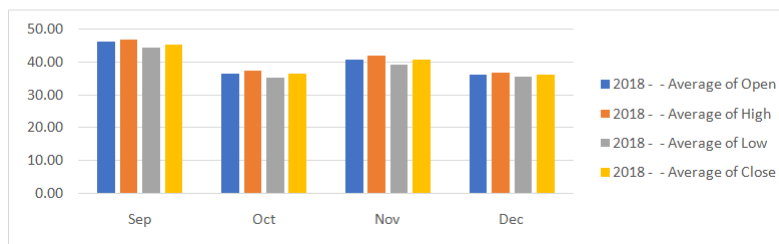
In case of Vodafone India Ltd. It was not listed on either NSE or BSE so said data is not available for the analysis.



Table No.3: Analysis of Vodafone -Idea Ltd.

Month	Average of Open	Average of High	Average of Low	Average of Close
Sep	45.99	46.68	44.12	45.26
Oct	36.22	37.19	35.20	36.28
Nov	40.51	41.77	39.08	40.47
Dec	35.95	36.71	35.39	36.01
Grand Total	39.45	40.37	38.25	39.30

Source: (Moneycontrol, 2018)



In above chart the blue bar represents average of open price, the orange bar shows average of high price for the month, grey bar shows average of low price and yellow bar shows average of closing price.

Here we can clearly see that average of open price was Rs.45.99, Rs.36.22, Rs.40.51, Rs.35.95 for the month, September, October, November and December respectively. Further average of high prices were 46.68, Rs.37.19, Rs.41.77, Rs.36.71 for the month, September, October, November and December respectively. To explain more the average of low prices were Rs.44.12, Rs.35.20, Rs.39.08, Rs.35.39 for the month, September, October, November and December respectively. Average of close was Rs.45.26, Rs.36.28, Rs.40.47, Rs.36.01 for the month, September, October, November and December respectively.

Findings:

1. It is found that after the merger of Vodafone and Idea it jumped to first position as compare to before the merging of companies.
2. It can be seen from study that initially Airtel was on rank one, Vodafone on second, Idea was on third rank, Jio was on fourth rank and BSNL was on fifth rank.
3. From table no.1 it is clearly seen that Vodafone Idea Ltd. has 427.64 million subscribers with market share 36.55%.
4. After merger of two giants Vodafone and Idea Airtel slides two position two having 362.70 million subscribers with market share 31%.
5. Reliance's Jio is at third position with 275 million subscribers and market share is 22.46%.
6. And BSNL has 110 million subscribers with 10 % market share.
7. As Idea was well established company and had good share prices in past but as compare to past after the merger Vodafone Idea did a good job in share prices. Also in future it will increase its share prices by performing more efficiently and making customers more happy.

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