

Mergers and Acquisitions in the Telecom Sector: A Contribution to Indian Economy

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Abstract

Mergers and Acquisitions have become a strategic tool that is being effectively used to acquire established brands and to expand the emerging and often low cost markets, particularly markets that provide an enormous number of skilled workers. They help counter competition, acquire new consumers, get a technological edge, improve bottom lines, etc. It is no wonder that the corporate world is fast realizing that M&As are here to stay.

The researcher aims to study the Merger between Vodafone India and Idea Cellular in order to analyse its impact and contribution to the Indian economy. The analyses so made are on the basis of the legal and regulatory framework of Mergers in Telecom sector. The significance, importance and utility of the research are to study and analyse the impact of Vodafone-Idea merger on the Indian economy along with studying various laws in order to make it useful for study material for future academicians and students. The researcher has made an attempt to analyse the effect of the merger in the economic and trade related domain. This research shall upgrade the thoughts in the minds of the reader about the various aspects associated to a merger and how various legislations play a separate role in the case of merger.

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INTRODUCTION

Vodafone India and Idea Cellular, India's top two and three carriers respectively, have decided to merge to form a new single entity that will be equally owned by both these carriers in India. The buzz regarding the Vodafone-Idea merger started in March 2017 and by 2018, the Department of Telecommunications has come to the final stage of approval of the merger. This development will result in India's largest

mobile phone operator and would also put a full stop to the fast-paced unity started by Reliance Jio. As already discussed in the previous chapters, the new entity will have about 410 million customers, almost 42% customer market share (CMS) and about 37% Revenue Market Share (RMS).

It was further added by Ms. Aruna [1] that the merger is in its final stage as they have got FDI approvals, liberalization of licenses and several clearances, which is sufficient enough

to displace Bharti Airtel from its top position and confirm its stronger position in the market competition kicked off by Jio. The merger is expected to be completed by mid-2018, getting a nod and clearance by all the concerned authorities.

IMPACT ON STAKEHOLDERS

Speed is considered the crux of all mergers; however, certain clearances are taking time from the respective authorities to approve the merger. But since the Government is pointing out towards an effortless way of doing the business, so it is expected that the regulatory approvals and clearances concerning the present merger will be speedy. Any delay would, thus, prove to be counterproductive for all the stakeholders, even for the Government.

The said merger is a major step for both of these Telecommunication Service Providers, reflecting their intentions to combine their operations for the long term. The Government, in this case, has a strong chance of gaining from this merger as a more powerful entity will be created through this merger that would stabilize the current revenue streams resulting from the taxes and other such resources. But on the contrary, the Government faces permanent revenue loss if a company fails or exits the respective industry. As the Government will re-auction more effective spectrum in the coming future, it will be necessary for all the stakeholders to keep the infrastructure in the proper place. For this purpose, a substantial amount of investment would be needed from the telecom players to achieve an effective band of 700 MHz. combining the resources through a merger would play an important role in developing such infrastructure. However, in situations like this, consumers are the biggest

beneficiaries other than the stakeholders because they will be the ones to get better products and services at cheaper rates. Moreover, the telecom industry is further putting in efforts to innovate the technology for voice and data networks.

Thus, mergers are observed as a positive development which drives in the stability and better outcomes. Without even a second thought, it can be said that the Vodafone-Idea merger is expected to bring substantial benefits by bringing stability amongst all the stakeholders in the nation's highly competitive telecom industry.

IMPACT ON EMPLOYEES

One of the major risks of the merger is often faced by the employees in the form of lay off or retrenchment and so is the situation in this case as well. With the process of the merger being near to completion, the conjecture has been made that the merger might lead to lay off of a large number of employees. It has been claimed by a report of Economic Times that approximately 50000 employees are expected to lose their jobs. However, it can be noted that both these companies have approximately 10,000 employees each and hence, it can be concluded that almost half of each company's employees' job is at stake with this merger.

Further quoting a senior official connected to this merger, he states that in times of margin pressures in a debt-heavy industry, both these giants do not want their new operations to kick start under the pressure of overabundance of manpower. Hence, it is expected that retrenchment will happen swiftly.

While Idea has refused to comment over the retrenchment report and it is described as pure speculation by a Vodafone spokesperson.

"This is pure speculation and untrue. The two companies have not received final merger approvals and so the leadership teams of Vodafone and Idea continue to compete in the market and manage their businesses separately. No decisions have been taken about the workforce of the merged entity" [2] as quoted by the spokesperson.

But conversely, it was asserted by the CEO of Vodafone that the said merger will not hamper and pose threat on the jobs of the Vodafone India employees. He further highlighted that the company's dedication is towards "creating greater professional opportunities" [3] for its staff in India through an email sent to all the employees post the announcement of the merger.

Though the job security seemed promising as per the CEO's (CEO Vodafone) words, reaching the final stage of the merger, it seems that promises are meant to be broken. Hence, this merger might have an adverse effect on the employees of both companies.

IMPACT ON THE CONSUMERS

The trend of merger and acquisition adds on to the positive development by benefiting the consumers, stakeholders, Government, and operators. "The present need is for a predictable, stable, long term, regulatory and policy environment to ensure the financial health of TSPs and a conducive environment for continued investments for a fully connected and digitally empowered India." [4] It has been predicted by the market experts that the new entity will behave fresh start without any baggage. Also, the new brand from will begin from square one which will make more sense, with Vodafone having its strength in urban telecom circles while Idea capturing over the rural areas. The strategy of the new entity is yet to be developed as stated

by the two companies and further, it will be looking forward to gripping over the consumers' attractions for these two existing giants, developed over past years.

The merger holds significant importance for the consumers in the following ways-

Better and improved network quality - Network integration and website rationalization would be significantly 'complicated and difficult' for Vodafone and Idea, which have 'different vendors in most of the 22 circles. Vodafone India has played down the risk and stated that the incorporated entity would have much more network capability, sites, and spectrum than the other players in the Indian market. The Company further stated that 'We don't seem to be rationalizing any network before the merger. Post-merger, too, our combined network can have a lot of capability and more coverage as we'll have the most spectrum for any entity as well as the most number of sites' [5]

Improved consumer experience - the merger would aid in clubbing up the vital resources and infrastructure, which will lead to better product and service quality thus resulting in a better consumer experience. Furthermore, the new entity will focus to reduce the financial challenges which will boost it to invest more in service quality.

Elevated stability in the industry - the overall integration in the debt struck telecom industry will result in improved financial health and sustainability of companies. Since such mergers would leave only three main companies in the telecom sector, this would lead to less competition in the market and larger revenues.

Digital approach - Truly digital approach as the new entity will be a true digital telco that will keep its focus on enhancing the core of the telecom business and also provide the

digital market of India with an enhance focus on the content and its quality as deliverable to the consumers.

Pricing - And lastly, the pricing, which forms the paramount interest of the consumers. The overall price of the services has been balanced to quite an extent and further, it is expected to continue at the affordable rates. But on the contrary, it is also predicted that this merger might be disadvantageous for the consumers as it may result in putting a full stop to the cheap tariff plans. Such a merger can lead to a few players in the market, thereby increasing the competition.

The entry of Reliance Jio in the Indian Mobile Industry has created turmoil in the telecom industry. The 4G network launched by Jio in September 2016 provided dauntless free services which include lifetime free calling and cheap data tariffs for the rest of 2016. This led to the dramatic slash in the tariffs of the rivals. Therefore, paving way for new competition and creating a struggle for the existing capitalists to protect themselves in such a situation.

Thus, it can be concluded that the merger can be advantageous for the consumers at the initial stage post-completion for the sake of sustaining the existing subscribers. But, in the longer run, it might adversely affect them.

IMPACT ON MEDIUM TRADE

The merger holds significance for the consumers as a speedy change is expected amongst the market organization and so the medium trade development. Medium Trade in India will see the domination of three medium giants, out of which Vodafone-Idea will be the largest.

There are various implications that this merger will lead to encouraging the medium trade-

There will be initiatives taken to sort the serious turmoil and misbalance created by Jio. India is the fastest-growing market in the subscriber base. The weak cash health of the medium sector will be determined by such mergers as there would be an infusion of health and life.

This merger will aid Vodafone-Idea to overcome the debts and further, a large amount of credit will be infused put in the system.

The merger will save the medium firms from commercializing their business and this will directly impact the quality of services provided by different players in the market.

CONCLUSION

It can be stated as the fact that growth in India, which is a knowledge-based economy, would not have been possible without the progress and development of the Indian Telecommunications and IT sectors. Though the growth in IT sectors has risen exceptionally yet it seems to have tragic mid-fall. However, it seems that the Government has realized the urgent need for reforms to give a boost to the growth in this sector and further, it has taken initiatives in this direction by introducing the Unified License and removal of foreign investment restrictions about this sector.

However, one cannot deny the fact that India still needs to cover a lot of the ground to achieve the growth rate which is equal to other developed and developing countries. India is amongst one of the last countries to have access to 3G technology wherein at such time the other countries already moved ahead with 4G technologies. Also, the Government still has a long way to go to introduce the policies, regulations, etc. not just for the sake and interest of the Government or the telecom

operators but also for the interest of the consumers. Though the Government seems to be in a relaxing position in dealing with certain issues existing in telecom sectors still it has finally given the green signal for 3G roaming packs, which were the cause of major pain to the telecom operator and also to the consumers.

Another thing which needs attention is the flexibility in the regulatory mechanism. The telecom legislation presently is archaic and thus need of the hour is the mechanism that can keep up with the pace of changing needs in the industry.

There is no double mind in concluding that the future years will be an exciting journey for the telecom sector.

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