Vodafone-Idea Merger

What is the issue?

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Idea Cellular, the Kumar Mangalam Birla-led telecommunications major, agreed to merge with the Indian unit of the U.K.-headquartered Vodafone Plc, making it a $23 billion giant.

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Merged entity:

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- The Vodafone-Idea merger will create the country's largest network with 400 million subscribers and 41 per cent share of industry revenue, ahead of Bharti Airtel (268 million subscribers and 36 per cent share of revenue) and Reliance Jio (over 100 million subscribers).
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- The combine will have a stronger balance sheet and will be able to cut down on expenditures.
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- The move has stoked rumours that the current tariff war, initiated by the Mukesh Ambani-led Reliance Jio's entry into the high-speed data market in 2016, will possibly come to an end in the near future.
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What are the causes?

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- Due to the **poor financial health of the sector**, we are witnessing mergers, acquisitions and combinations of companies like Idea and Vodafone, Aircel and R Comm and MTS.
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- Other companies such as Videocon and Etisalat have already left the industry because of this hyper-competitive pressure.

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- Vodafone and Idea Cellular have decided to merge in order to survive in an industry that is seeing its fortunes dip with each passing quarter.
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- **The high debt burden caused by steep spectrum prices and the tariff war unleashed by Reliance Jio** have left the industry gasping for breath.
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- The numbers are startling: Of the five listed networks, four (except Bharti Airtel) reported losses in April-December 2016.
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What the TRAI suggested?

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- The Telecom Regulatory Authority of India (Trai) has from time to time made a case for **reducing the various levies imposed by the government on the networks.**
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- It has suggested that the spectrum user charge be reduced from an average of 6 per cent of adjusted gross revenue to 3 per cent and then 1 per cent; the licence fee be lowered from 8 per cent to 6 per cent; and the contribution to the Universal Services Obligation Fund be reduced from 5 per cent to 1 per cent.
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- It has also suggested that networks be allowed to pay for spectrum over 20 years instead of the current 10 years.
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What are the measures suggested to revive the sector?

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- Sunil Mittal of Bharti Airtel has suggested shared active infrastructure, including spectrum, to restore the sector’s profitability and credibility.
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- Thus spectrum could be jointly owned by a network operating company from which all service operators can take it on lease.
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- This will transform telecom operators into purely marketing companies and strengthen their balance sheets.
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Source: The Hindu, Business Standard

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