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Experts Say Voda-Idea Merger Positive for Industry, Consumers

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Kolkata: The mega Vodafone-Idea Cellular consolidation is likely to be positive for the telecom industry and

consumers in the long run, although the second- and third-largest mobile carriers could end up losing customers and revenue in the short term to Bharti Airtel and newcomer Reliance Jio Infocomm should they get too bogged down by the complexities of the merger process, analysts and industry experts said.

Ex-Bharti Airtel CEO Sanjay Kapoor said the merger is "unlikely to have much impact" on the competitive telecom landscape in the short term, as he expects "Jio to continue attacking" both

on network capacity and price fronts. "Idea and Vodafone could end up losing customers and revenue in the short term, if they take their eyes off the ball due to operational complexities associated with any merger," he said. Kapoor, in fact, expects Airtel and Jio to make concerted efforts to allure Vodafone and Idea customers, and believes the Sunil Mittal-led telco will particularly try "to first protect turf and ensure Jio's customer gains, in the short-to-medium term, are primarily at the expense" of the two merging entities.

Rajan Mathews, director general of the Cellular Operators Association of India (COAI) agreed that Vodafone and Idea could face customer acquisition and customer retention challenges, going forward, if the merger exercise is not concluded rapidly.

"It's important that the mega merger is rapidly concluded as any elongation of the process would be detrimental to the merging entities," said Mathews, who heads the trade body representing India's top telecom companies — Airtel, Vodafone India, Idea — and the newcomer, Reliance Jio.

Brokerage Motilal Oswal backed the view, saying the Vodafone-Idea merger timelines would be highly sensitive in a hyper-competitive environment.

"Since the telecom market is highly

competitive, given Jio's capacity game, there is a major market share dilution risk if the deal takes a prolonged period to fructify," the brokerage said in a note seen by ET.

Harsh Jagnani, VP-sector head, Ica, sees no immediate letup in competitive intensity and believes pressure created by Jio's launch last September, and the subsequent pricing competition, had pushed the Indian telecoms industry to consolidation. Jagnani does

not expect any reduction in competition in the industry in the medium term, but believes consolidation will be positive for the industry in the long run, as it would "restore some pricing power and give better bargaining terms with vendors or suppliers". Prashant Singhal, global telecom leader at EY, expects consolidation to help bring synergies at a time when operators are grappling with excessive competition and pressurised margins. Singhal also expects consumers to benefit from the merger

"as the strategy will now pivot on innovation to offer value in terms of quality of service and content". Kapoor agreed that consolidation is good, but warned that "the present day trend of 1% return on investments (RoIs) is detrimental to the industry" as top telcos would not have investors' consent to make the necessary capex infusions in network, which will eventually undermine customer experience.

Gopal Vittal, Bharti Airtel MD, recently said that the telecom industry is at its weakest ever with a debt burden of more than ₹4.5 lakh crore.

Brokerage Credit Suisse, however, said the combined entity is likely to "remain highly leveraged" and will need some form of "capital infusion" sooner than later.

