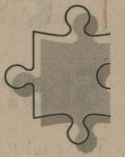


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# We'll Never Walk Alone



In the works for the past few months, it is an arranged marriage that the managements and employees of both companies must adapt to, and fast. Fears and egos will jostle to have a say as two work cultures learn to think and compete as one. The sooner they integrate the better it will be for the new entity amid a hyper-competitive environment

## Vodafone's Eventful Journey in India Takes a New Turn

Some say merger a sign of fatigue and exhaustion for UK giant, while others say co's in for long haul

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**New Delhi:** It hasn't been all smooth sailing for Vodafone in India ever since the company entered the country 10 years ago. Shortly after its entry, Vodafone was slapped with a massive tax bill, which led to a dispute that still hasn't been settled. The tax demand crimped Vodafone India's plan for an initial public offer. With the entry of Reliance Jio Infocomm last year, Vodafone wrote off ₹5 billion and announced an equity infusion of about \$7 billion.

Now, after the merger with Idea Cellular, widely seen as part of the consolidation playing out after Jio's entry, it's become the No. 1 telecom company in India. The question that remains, though, is whether this is another step that Vodafone is taking on its Indian journey or the beginning of a phased withdrawal from the world's second-largest telecom market.

For some, the terms of the merger suggest fatigue and exhaustion on the part of the British telecom giant, which bought a controlling stake in Hutchison's India unit in 2007.

"Seems as though India's shine has worn out for Vodafone," said Sandip Das, former CEO of Hutchison Essar Telecom, the company that Vodafone bought over in 2007.

Even though Vodafone holds a larger share in the venture with Idea than the Aditya Birla Group, the former has ceded significantly to the latter, experts said.

The terms of the agreement suggest that Vodafone has relented, said Sanjay Kapoor, former CEO of Bharti Airtel. "This could signal that they don't really have the desire to steer the market and that they are looking at India in a completely new light now," said Kapoor.

"This does show Vodafone is tired of running the marathon and could look at making its way out," said a senior industry executive on condition of anonymity.

Senior industry leaders that ET spoke to said the terms hint at the giant telco eventually exiting the market, although none of them were willing to speak on record.

Kapoor said the terms, which include

truncated voting rights for Vodafone, indicate that it wants to treat the merger as a joint venture and not as part of its global balance sheet.

"This would enable them to leverage. The distancing shows they can deal with the India business in a separate manner. Idea surely seems to have gotten a better deal," said Kapoor.

However, Rajan Mathews, director general of the Cellular Operators Association of India, maintained that Vodafone is in for the long haul and the deal is simply a reaction to current market conditions. When Vodafone entered the market, it was understood that that the initial return on investment would be low, Mathews explained, but this was supposed to pick up over time.

The company, after buying Hutch's controlling stake of about 67% in 2007, steadily increased its holding to 100% in 2013. However, the company could never monetise its investments through an IPO, which was indefinitely postponed and eventually shelved.

"How does one then monetise? IPO was one way. Since the company can't go for one at this point in time, this merger is the best option," said Mathews, who said low individual returns drove the two partners to the merger.

Going back to Vodafone's entry, Das said that as the company sought to become a larger global player, the Indian market couldn't have been ignored and the time was right. Agrees Kapoor, who said that Vodafone first tested the waters by buying a small stake in Bharti Airtel and when the time was right, it entered India through the acquisition.

"In hindsight, it sounds like a very well planned story. They knew they could be a substantial player in the Indian market through the inorganic route and so they bought into Hutch in 2007," Kapoor said.

Kapoor said Vodafone acted like a responsible No. 2 company. "No irresponsible moves. They understood the market and tried to grow into the No. 1 slot but that didn't happen. Now they've become No. 1, though," said Kapoor.

Vodafone's India journey has been marred by the multi-billion-dollar tax controversy. Although the Supreme Court ruled in the company's favour, the government amended the law with retrospective effect, seeking over ₹20,000 crore in taxes, interest and penalty from the company. The dispute is now in international arbitration.