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# Government of India's Strategic Stake in Vodafone Idea: Implications and Future Prospects

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## ABSTRACT

*The Indian government acquired a 33.14% stake in Vodafone Idea (Vi) in February 2023 to address Vi's financial struggles and bolster the telecom sector. This conversion of Vi's debt into equity provided financial relief but also significant government control. The acquisition has yielded mixed results: debt reduction, improved profitability, and network expansion, but also concerns about long-term viability, government interference, and job losses. Vi's current performance shows promise, but its future depends on the government's strategy and Vi's ability to overcome its challenges.*

**Keywords:** *Vodafone-Idea, VI Acquisition, M&A, Telecom.*

## I. INTRODUCTION

The telecommunication industry is one of the most profitable and rapidly developing industries. The Telecom industry in India is the second largest in the world. The total telecom service revenue in India was \$40 billion in 2022 and will increase at a CAGR of more than 3% during 2022-2027 mainly supported by mobile data and fixed broadband segments.

In January 2022, the Government of India (GOI) announced a historic decision to acquire a 33% stake in Vodafone Idea Limited (Vi), a major telecommunications company in India. This move marked a significant shift in the Indian telecom landscape and raised several questions about its implications. On 7<sup>th</sup> February 2023, the acquisition was completed and GOI acquired 33.14% in loss-making Vodafone Idea.<sup>2</sup>

### (A) History

Vodafone Idea Limited is an Aditya Birla Group and Vodafone Group partnership. It is one of India's leading telecom service provider. The Company provides pan India Voice and Data services across 2G, 3G and 4G platform. Vodafone is a British multinational company. It is one of the largest telecommunication groups based in the United Kingdom. Aditya Birla is an Indian

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<sup>2</sup> Wikipedia, 'Vodafone Idea' (*Wikipedia*, 2018) <[https://en.wikipedia.org/wiki/Vodafone\\_Idea](https://en.wikipedia.org/wiki/Vodafone_Idea)> accessed 19 May 2024

multinational company based in Mumbai.

In the year 2017, Vodafone India and Idea Cellular announced that they had received approvals from their respective Boards for a merger. It was the creation of India's largest telecom company beating Bharti Airtel and Reliance Jio. It was a horizontal merger amongst the two biggest players in the telecom industry. This merger deal was worth \$23 billion. On 30<sup>th</sup> August 2018, National Company Law Tribunal gave the final nod to the Vodafone-Idea merger. It was completed on 31<sup>st</sup> August 2018. In the month of September 2020, Vodafone – Idea rebranded itself. The company used the initials to rebrand itself as 'Vi'.<sup>3</sup>

## II. FACTORS RESPONSIBLE

### 1. Vi's Financial Struggles:

Vi had been burdened with a massive debt of around Rs 2.5 Lakh crore. Intense competition from Reliance Jio and Airtel further impacted their financial viability. The company's survival was crucial to maintain a competitive telecom sector in India.

### 2. Spectrum Needs:

The acquisition allowed Vi to acquire much-needed spectrum for its 5G rollout, which is essential for its future growth and expansion.

### 3. Government's Strategic Interests:

The GOI has expressed its interest in promoting a robust and competitive telecom sector. Its involvement in Vi could help ensure the continued presence of a strong third player in the market and prevent monopolies.

### 4. Debt Restructuring:

The acquisition allowed Vi to convert its outstanding debt into equity, providing much-needed financial relief and helping them restructure their finances.

#### (A) How this acquisition process was done<sup>4</sup>

In the matter of Vodafone Idea equity conversion, Finance minister Nirmala Sitaraman had made clear that the GOI is not bearing the debt of the company by clearing the dues, but has taken equity in the telecom company by process. The GOI acquired its stake in Vi by converting

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<sup>3</sup> Tungekar B, 'All about the Vodafone India and Idea Merger' (*iPleaders*, 30 July 2021) <<https://blog.iplayers.in/all-about-the-vodafone-india-and-idea-merger/>> accessed 20 May 2024

<sup>4</sup> TOI, 'Govt to Acquire Vodafone Idea Stake after Share Price Stabilises at Rs 10 or above - Times of India' (The Times of India, 8 September 2022) <<https://timesofindia.indiatimes.com/business/india-business/govt-to-acquire-vodafone-idea-stake-after-share-price-stabilises-at-rs-10-or-above/articleshow/94073383.cms?from=mdr>> accessed 19 May 2024

the company's outstanding AGR dues (adjusted gross revenue) into equity shares. Basically, GOI converted the company's AGR dues worth Rs 16,133 Crore to equity and acquired a major stake in the company without any investment. The conversion was done at a nominal price of Rs. 10 per share. This process allowed the government to acquire a 33.14% stake in the company without having to invest any cash.<sup>5</sup>

### **(B) What is AGR?**

Adjusted Gross Revenue (AGR) is the usage and license fee that telecom operators are charged by the Department of Telecommunications (DOT). It is divided into spectrum usage charges and licensing fees, pegged between 3-5% and 8% respectively. As per DOT, charges are calculated based on all revenues earned by a telecom company including non-telecom related sources such as deposit interests and asset sales.

## **III. IMPACT**

### **(A) Financial Impact:**

1. **Debt Reduction:** The conversion of AGR dues into equity has significantly reduced Vi's debt burden, providing some financial relief and allowing them to invest in network infrastructure.
2. **Improved Profitability:** Vi had reported a profit for the first time in several quarters due to reduced debt obligations and operational cost optimization.
3. **Increased Government Influence:** The GOI's stake in Vi gives them significant control over the company's financial decisions and investment plans.

### **(B) Operational Impact:**

- **Network Expansion:** Vi is aggressively expanding its 4G network and is preparing for 5G rollout, leveraging the acquired spectrum from the government.
- **Improved Service Quality:** Vi has witnessed a significant improvement in call drop rates and network quality due to infrastructure upgrades and network optimization.
- **Increased Competition:** The presence of a state-backed operator has intensified competition in the telecom sector.

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<sup>5</sup> Et Telecom, 'Govt Becomes Single Largest Shareholder in Vodafone Idea with 33.44% Stake' (*ETTelecom.com*, 7 February 2023) <<https://telecom.economicstimes.indiatimes.com/news/govt-gets-33-44-pc-stake-in-vodafone-idea-post-equity-allocation/97702205>> accessed 20 May 2024

**(C) Market Impact:**

- Market Share: Vi's market share has stabilized and witnessed a slight upward trend due to improved services and competitive pricing.
- Investor Confidence: The acquisition has boosted investor confidence in Vi, leading to an increase in the company's stock price.

**IV. CONCERNS AND CHALLENGES**

- Long-Term Viability: Despite the recent improvements, Vi still faces long-term challenges such as high debt levels and intense competition.
- Government Interference: Excessive government control could hinder Vi's operational and strategic autonomy, impacting its growth potential.
- Job Losses: There have been concerns about job losses due to potential restructuring and cost-cutting measures within Vi. However, the company has assured that it will try its best to minimize job losses.

**V. CURRENT SCENARIO**

1. Despite being the largest shareholder, the government does not interfere in the day-to-day affairs of the joint venture between UK's Vodafone Group PLC and India's Aditya Birla Group (ABG). The company has been granted various extensions to make statutory payments as it has been paying interest on the delay.
2. In May 2024, Vodafone Idea CEO Akshaya Moondra expressed gratitude to customers for their support, highlighting the success of the Rs 18,000-crore FPO which was subscribed 7 times. Moondra shared plans for growth, including an update on the 5G rollout, emphasizing a commitment to service quality and innovation.<sup>6</sup>
3. Vodafone Idea is actively engaging with lenders for debt fundraising and exploring equity options for investments in network expansion, including the exciting prospect of 5G rollout.

**VI. FUTURE PROSPECTS**

The future of Vi remains uncertain, with much depending on the GOI's long-term strategy for

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<sup>6</sup> TOI Tech Desk, 'Vodafone-Idea CEO Akshaya Moondra Sends "thanks Mail" to Customers, Shares 5G Rollout Update and More - Times of India' (*The Times of India*, 12 May 2024) <<https://timesofindia.indiatimes.com/technology/tech-news/vodafone-idea-ceo-akshaya-moondra-sends-thanks-mail-to-customers-shares-5g-rollout-update-and-more/articleshow/110013007.cms>> accessed 22 May 2024

the company. Some potential scenarios include:

- Vi remains a viable competitor: The GoI may provide Vi with the necessary support to become a strong and profitable player in the market.
- Vi merges with another operator: The government may facilitate a merger between Vi and another operator to create a more powerful competitor against Jio and Airtel.
- Vi exits the market: If Vi fails to improve its financial performance, it is possible that the company may eventually exit the market.

#### **(A) Top 10 biggest mergers & acquisitions deals in india in 2023<sup>7</sup>**

1. Government of India and Vodafone – Rs 16,133 Crore
2. Axis Bank and Citibank – Rs 11,603 Crore
3. Brookfield Asset Management and Rostrum Realty Pvt Ltd – Rs 5000 Crore
4. Paytm and Alibaba - Rs.1000 crore
5. Adani and NDTV Group – Rs 600 Crores
6. Kotak Mahindra Bank and Sonata Finance – Rs 537 Crore
7. BSE (Bombay Stock Exchange) and CDSL (Central Depository Services Limited) – Rs 468 Crore
8. IDFC First Bank and IDFC Limited – Rs 328 Crore
9. SBI and Canara Bank – Rs 121 Crore
10. LIC and Bata – Rs 108 Crore

## **VII. CONCLUSION**

The GOI's acquisition of Vi marks a turning point for India's telecom industry. While the short-term benefits are evident in Vi's financial health and network improvements, the long-term trajectory remains uncertain. The success of this venture hinges on several factors. First, the GOI's long-term vision for Vi needs to be clear. Does it aim to nurture Vi into a strong competitor, facilitate a merger for a more robust player, or potentially allow an exit if Vi's financial health doesn't improve?

Second, Vi must capitalize on the current momentum, focus on debt reduction, and leverage strategic partnerships for network expansion, especially 5G rollout. This is crucial not only for

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<sup>7</sup> Singh A, '12 Biggest Mergers and Acquisitions in India (2024)' (*The Business Rule*, 2023) <<https://thebusinessrule.com/12-biggest-mergers-acquisitions-in-india/>> accessed 22 May 2024

Vi's survival but also to foster a healthy competitive landscape. A robust Vi can act as a counterweight to dominant players, ensuring consumers benefit from affordable pricing and innovative services. Conversely, an ailing Vi could lead to a duopoly, stifling competition and potentially hindering India's digital ambitions.

Finally, navigating the balance between government involvement and operational autonomy will be crucial for Vi's long-term growth. The outcome of this acquisition will have a significant impact on the competitiveness and landscape of the Indian telecom sector in the years to come, shaping the pace of digital adoption and innovation for millions of Indian citizens.

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