

## **Telecom consolidation**

### **What is the issue?**

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- The shareholders of Idea Cellular have approved the company's proposed merger of its mobile business with Vodafone India.

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- Tata groups recently announced that it would sell its consumer mobile business to telecom operator Bharti Airtel Ltd.

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- With the range of consolidations happening in the Indian Telecom sector, it is witnessing a change of phase.

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### **What are the recent developments?**

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- The telecom sector had around 9-10 mobile operators in each circle just a few years ago.

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- However, with the range of consolidations happening now, this is now set to go down to 3-4 mobile operators.

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- Recent mergers and acquisitions include that between Vodafone & Hutchison Essar, Telenor & Unitech Wireless, Reliance & Aircel, Airtel & Tata, etc.

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- The latest proposal to merge Vodafone and Idea Cellular is expected to take this progress to next level.

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### **Why is this so significant?**

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- The merger can conclude only after the National Company Law Tribunal (NCLT) grants approval.  
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- If the merger materialises, the number of **private players** in the Indian telecom space would decline to three.  
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- The four players expected to remain are Airtel, Reliance Jio, Vodafone-Idea combine and the state-owned BSNL.  
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- A limited operators market would generate the optimum balance of **competition and investment**.  
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- Airtel, Reliance Jio and the Voda-Idea combine will **compete** for the lucrative **data services market**, setting the stage for a three-way battle.  
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### Why is this an unhealthy sign?

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- Consolidations are expected to fare well in terms of revenue, return on equity and encouraging infrastructure-based competition.  
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- However, the factors that had driven earlier consolidations and those behind the ongoing ones are different.  
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- The twin troubles of high spectrum costs and intense pricing pressures led by Reliance Jio have hit hard the Indian telecom sector.  
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- Resultantly, most of the deals are in the nature of **distress sales by loss-making companies**.  
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- E.g. Jio's entry triggered exits by the weaker players and merger of smaller incumbents (Idea and Vodafone).  
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- The current consolidations had led to huge **value destruction** and had been painful for those exiting.  
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- Another serious implication is the **impact on jobs**.  
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- According to a market estimate, as many as 30,000 jobs could be at stake from the ongoing consolidation.  
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- Also, unsuccessful mergers could lead to disruptions in the telecom operations.

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## **What lies ahead?**

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- Consolidation, if it was done as a natural progression than being forced due to market disruption by one operator, is good.

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- Given all these, it is expected that after the initial pain, the consolidation would augur well for the telecom industry.

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- The surviving three to four operators could emerge stronger, to capitalise on the huge potential that data services would bring.

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**Source: BusinessLine**

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