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Particulars	Vodafone	Idea
Customers (mn)	205	191
Customer market share (%)	18%	17%
Revenue Q3 FY17 (Rs. bn)	110	87
Revenue market share Q3 FY17 (%)	23%	18%
Total spectrum holding (in MHz)	958	891
Spectrum market share (%)	14%	13%

Source: Company websites

This report is not a voting recommendation. IiAS will engage with stakeholders and wait for the shareholder notice of the merger before articulating a voting recommendation.

Idea-Vodafone merger: Vodafone cedes ground

The merger of Idea and Vodafone is good for both companies – it creates the largest telecom company in India and its size will help it to weather the competitive onslaught brought on by Reliance Jio. But the deal favours the AVBirla group, which gets equal voting rights despite being relatively smaller, and an option to buy out equity from Vodafone at a pre-determined price. The AVBirla group also gets Chairmanship of the Board. Vodafone plc's shareholders should be concerned that they drew the short straw.

The Idea-Vodafone merger will create the largest telecom company in India, at an equity valuation pegged at Rs. 946 bn. It gets the Aditya Birla (AVBirla) group to pole position and saves Vodafone plc from having to consolidate the India business on its balance sheet.

IiAS believes Vodafone has given away more in this deal. Vodafone is larger than Idea Cellular, and while one may argue that the gap is narrowing, Vodafone should have had a stronger position in this transaction. In allowing an equal relationship with Idea, Vodafone should have commanded a premium and better quality of control. But, the deal contours considerably favour Idea Cellular.

Vodafone has been generous in other ways too. Vodafone has allowed the AVBirla group a three-year period (the 'standstill' period) to equalize the equity stake, yet allowed it equal voting rights before stake equalisation. During the 'standstill period', until equalisation is achieved, the voting rights of the additional shares held by Vodafone will be restricted and votes will be exercised jointly under the terms of the shareholders' agreement. While this may be conducive to a harmonious merger, it has short-changed Vodafone plc's shareholders of their voting rights.

Vodafone has also granted a call option on 9.5% of its equity without any premium. The AVBirla group can, within the next three years, acquire from Vodafone upto 9.5% of the combined entity's shares at a pre-determined value of Rs.130. In case the AVBirla group does not acquire this equity, Vodafone will be compelled to sell down its equity stake till it equalizes with that of the AVBirla's. Therefore, if the price of Rs.130 is not attractive, the AVBirla group will not exercise its option to purchase equity and Vodafone will have lost the opportunity to encash its holdings. This deal component not only allows the AVBirla group's the power to decide if the valuation is right, but also pivots the equalization to the AVBirla group's holding.

Vodafone will appoint the Chief Financial Officer (CFO), while the board Chairmanship has been ceded to an AVBirla nominee – Kumar Mangalam Birla. The CEO and COO selection will be a joint decision. Each will nominate three members to the twelve-member board, with the balance six being independents. It would have been good for shareholders to know who is clearly in-charge.

In ceding most of its rights, Vodafone has stayed true to its tagline: "Power to you". But while this is good for its customers, it is not good for its own shareholders.

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