HS 151: ECONOMICS | GROUP 9

CASE STUDY: VODAFONE
AND THE TELECOM INDUSTRY

Group Members:

Dewansh Kumar (22110071)
Dewansh Singh Chandel (22110072)
Deepanjali kumari (22110069)
Dharavath Mahesh (22110073)
Dhruv Sharma (22110074)
Dhruvi Sisodiya (22110075)
Digvijay Parihar (22110076)
Dipesh Patidar (22110077)

TELECOM INDUSTRY OVERVIEW

KEY DEVELOPMENTS:

Tracing the growth of the telecom sector in India from **state-controlled monopoly** to **private sector dominance.**

PROGRESS OVER THE YEARS:

- **1994**: Telecom **liberalization** opens the market to private players.
- **2016**: Entry of **Reliance Jio** disrupts the industry, leading to a data revolution.
- **2021**: India has over **1.17 billion mobile subscribers**, with 4G dominating the market.

FROM MONOPOLY TO OLIGOPOLY

PRE-1990S:

BSNL/MTNL MONOPOLY

POST-1990S

ENTRY OF PLAYERS LIKE AIRTEL, VODAFONE, IDEA.

POST-2016

POST-2016: CONSOLIDATION FOLLOWING JIO'S ENTRY (VODAFONE-IDEA MERGER, RELIANCE JIO'S DOMINANCE)

CURRENT OLIGOPOLY:

VODAFONE IDEA, RELIANCE JIO, AIRTEL CONTROL OVER 90% OF THE MARKET

INDUSTRY GROWTH AND CONSUMER BASE EXPANSION

- Subscribers Growth:
  - Number of mobile subscribers has grown from 5 million in 1997 to over 1.17 billion in 2021.
  - Data Usage: India's per capita data consumption is the highest globally, with an average of 14.1 GB/month per user.
- Pricing Trends:
  - The average cost per GB of mobile data in India fell from $3.55 in 2016 to $0.09 in 2021 due to Reliance Jio's aggressive pricing

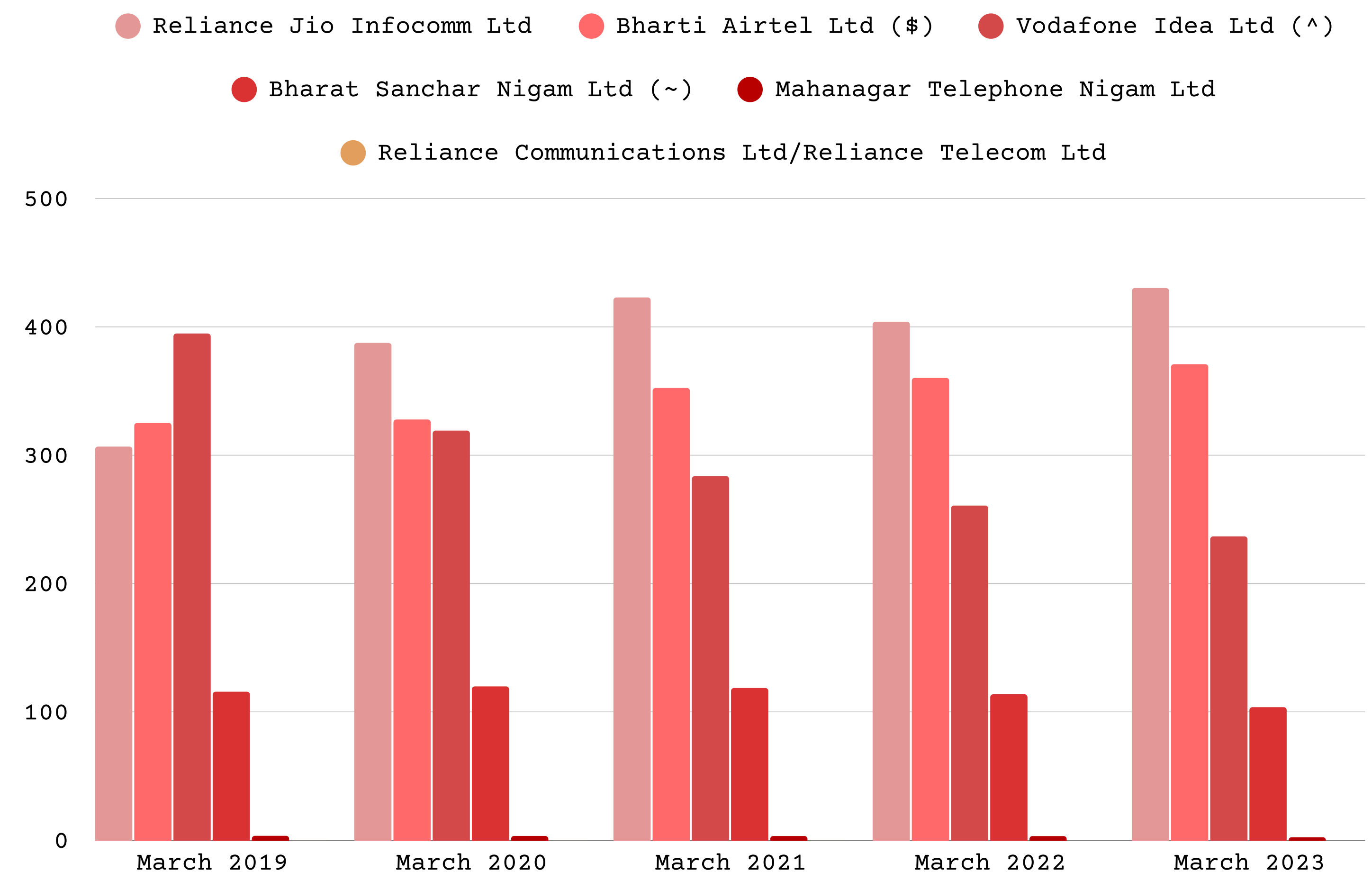

Figure: Distribution of telecom market revenue amongst different firms from 2019 to 2023 based on TRAI's Report

JUSTIFICATION OF THE OLIGOPOLY IN THE LAST 20 YEARS

- **Market Concentration:** The top three players (Reliance Jio, Airtel, Vodafone Idea) hold over 90% market share. Jio leads with 37%, Airtel at 32%, and Vodafone Idea with 21.57%.
- **Price Wars:** Jio's 2016 entry caused a 90% drop in data prices, increasing competition but keeping the market concentrated among a few players.
- **Regulation Impact:** High spectrum costs and the AGR dues crisis (₹1.8 trillion for Vodafone Idea) reinforced the dominance of the top players.

Tools for Analysis:

- **CR3:** Confirms the oligopolistic market with limited competition.
- **Price Sensitivity:** Consumers shifted to cheaper data plans after Jio's price disruptions.

VODAFONE'S ENTRY INTO THE INDIAN TELECOM MARKET

01

Entry through Hutchison Acquisition (2007):
Vodafone entered the Indian market by acquiring a 67% stake in Hutchison Essar for $11.1 billion in 2007, marking one of the largest foreign investments in India at the time

02

Growth and Establishment as a Major Player:
Post-acquisition, Vodafone rapidly expanded its presence, becoming the second-largest telecom operator in India by 2011, offering premium services and building a strong brand in urban markets

03

Merger with Idea Cellular (2018):
Due to competitive pressures, especially after Jio's entry, Vodafone merged with Idea Cellular in 2018, creating Vodafone Idea Ltd., the largest telecom operator by subscribers at the time, though it soon struggled due to financial challenges.

VODAFONE'S FINANCIAL PERFORMANCE ANALYSIS

COST STRUCTURE:

- Vodafone Idea's cumulative losses amounted to over ₹1.8 trillion by 2021 due to network maintenance, spectrum acquisition, and government dues (AGR liabilities).
- High fixed costs, exacerbated by the AGR ruling, made cost optimization critical.

REVENUE TRENDS:

- Vodafone's ARPU (Average Revenue Per User) fell from ₹154 in 2016 to ₹121 in 2021
- Mounting debt pressures and declining profitability caused Vodafone to lose market share.

COMPARATIVE ANALYSIS WITH RIVALS (AIRTEL AND RELIANCE JIO)

REVENUE COMPARISON:

Reliance Jio leads with annual revenues of **₹87,835 crores** (FY 2023), while Vodafone Idea struggles at **₹45,605 crores.**

SUBSCRIBER BASE:

Jio dominates with over **439 million** users in 2023, compared to Vodafone Idea's **241 million.**

COST EFFICIENCY:

Jio's **lower operational costs** and **first-mover advantage** in 4G give it an edge, while Vodafone lags due to **high legacy costs.**

VODAFONE'S STRATEGIC FAILURES AND PRODUCT CHALLENGES

CHALLANGES

- Failure to adapt to the low-cost, high-data model set by Jio.
- Delayed 4G expansion, leading to lower data speeds and user churn.
- Vodafone's debt of ₹2.2 trillion (2022) and delayed government relief further complicated recovery efforts.

MISSED OPPORTUNITIES:S

- Underutilized potential in digital and fintech services, which Jio capitalized on.

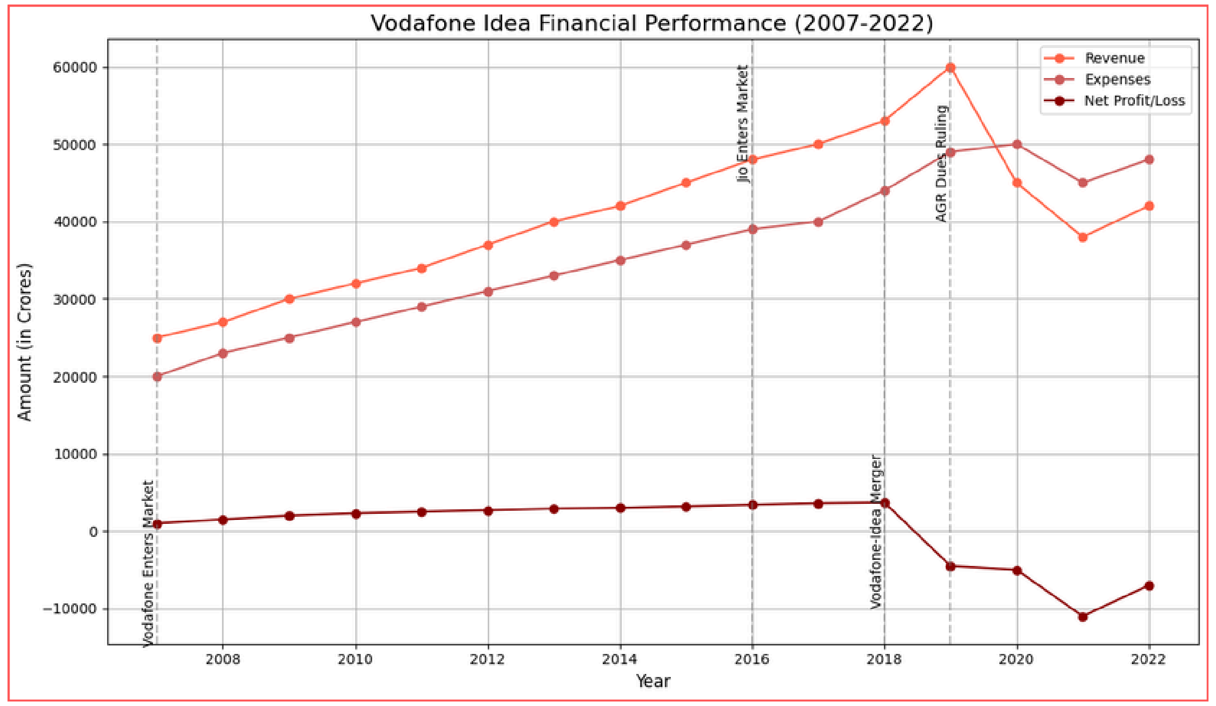

Figure: Vodafone-Idea's financial Performance (2007-2022)

VODAFONE-IDEA MERGER AND AGR LAWSUIT

Merger with Idea (2018):

- Vodafone and Idea Cellular merged in **August 2018** to form Vodafone Idea Ltd., creating **India's largest telecom operator** with over 400 million subscribers.
- The merger was **driven by intense competition**, particularly from Reliance Jio, leading to consolidation for survival.

AGR (Adjusted Gross Revenue) Lawsuit:

- Vodafone Idea faced a major financial blow due to a Supreme Court ruling in 2019 on Adjusted Gross Revenue (AGR) dues, leading to a liability of over **₹58,000 crores** ($7.9 billion).
- The AGR case pertains to the government's demand for dues from telecom operators, including spectrum charges and license fees.

Impact of AGR Ruling:

- Vodafone Idea struggled to pay the AGR dues, leading to concerns about its survival and multiple pleas for government relief.
- companies, has filed curative petitions in the Supreme Court, requesting a reconsideration of its 2019 judgment. This judgment required telecom operators to pay AGR dues

REFERENCES:

- "Vodafone and Idea Merger: Creating India’s Largest Telecom Operator," Economic Times, 2018.
- https://www.youtube.com/watch?v=qGuVhQOJmzshttps://www.scconline.com/blog/post/2022/11/29/vodafone-versus-india-a-never-ending-saga/
- https://blog.ipleaders.in/international-arbitration-case-vodafone-against-india-case-study/
- https://taxguru.in/income-tax/vodafone-case-analysis.html
- https://www.insightsonindia.com/2020/09/26/retrospective-taxation-the-vodafone-case-and-the-hague-court-ruling/