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Merger Case of the Indus Towers: Some Key Facts Analysis and Understanding

Abstract

The merger between Bharti Infratel and Indus Towers represents a landmark consolidation in India's telecommunications infrastructure sector. Announced in April 2018, the merger aimed to create one of the world's largest telecom tower companies, with a pan-India presence and enhanced operational efficiencies. This strategic move sought to streamline operations, reduce redundancies, and improve financial stability, thereby strengthening the competitive position of the merged entity in the rapidly evolving telecom landscape. The merger involved a complex process of regulatory approvals, including from the Competition Commission of India (CCI), the Department of Telecommunications (DoT), and the National Company Law Tribunal (NCLT). Post-merger, the combined entity leveraged synergies to optimize resource utilization, enhance bargaining power, and accelerate network deployments, particularly in the context of 5G rollout. The integration of Bharti Infratel and Indus Towers was aimed at providing improved network coverage and reliability for mobile users across India. Challenges such as the integration of operations, regulatory compliance, and maintaining service continuity were significant, yet the strategic benefits underscored the merger's potential for value creation. The consolidation was expected to not only bolster the financial and operational framework of the new entity but also contribute to the broader objective of advancing India's telecommunications infrastructure. This abstract encapsulates the key aspects and strategic significance of the Bharti Infratel and Indus Towers merger, highlighting its impact on the telecom sector and the broader implications for stakeholders involved.

Key Words: Merger, Acquisition, Synergy, Post Merger Impact, Financial Position Implications

Introduction

The merger between Bharti Infratel and Indus Towers is a transformative event in the Indian telecommunications sector, marking a significant step towards the consolidation of telecom infrastructure in the country. Bharti Infratel, established in 2006 as a subsidiary of Bharti Airtel, and Indus Towers, founded in 2007 as a joint venture between Bharti Airtel, Vodafone, and Idea Cellular, have been pivotal in providing the backbone infrastructure for mobile networks across India. The merger, announced in April 2018, aimed to create a single, robust entity with a comprehensive footprint across India, enhancing operational efficiencies and financial stability.

The telecommunications industry in India has undergone rapid growth and significant changes over the past two decades, driven by increasing demand for mobile connectivity, data services, and the impending rollout of 5G technology. In this dynamic environment, the consolidation of telecom tower companies is seen as a strategic move to streamline operations, reduce costs, and improve service delivery. The merger of Bharti Infratel and Indus Towers was designed to address these industry needs, positioning the new entity to better compete in the market and meet the growing demands of the telecom sector. This merger required extensive regulatory approvals from various authorities, including the Competition Commission of India (CCI), the Department of Telecommunications (DoT), and the National Company Law Tribunal (NCLT). These approvals were necessary to ensure that the merger did not create a monopolistic market structure and complied with the relevant laws and regulations governing the telecom sector. The integration of Bharti Infratel and Indus Towers was expected to yield several strategic benefits, including operational synergies, enhanced bargaining power with vendors and customers, and a stronger financial foundation. By combining resources, the merged entity aimed to optimize the use of its telecom towers, reduce operational redundancies, and accelerate the deployment of advanced telecom networks, particularly 5G. In the broader context, the merger was also anticipated to have a positive impact on the Indian economy by facilitating better connectivity and supporting the digital transformation initiatives of the government. Improved network coverage and reliability would benefit mobile users, businesses, and public services, contributing to the overall growth and development of the digital ecosystem in India. This introduction provides an overview of the Bharti Infratel and Indus Towers merger, outlining its strategic importance, the regulatory landscape, and the anticipated benefits and challenges. It sets the stage for a detailed analysis of the merger's impact on the telecom sector and its broader implications for stakeholders involved.

The Indus Towers merger is a significant event in the Indian telecommunications sector, marking the consolidation of infrastructure to enhance operational efficiencies and competitiveness. Here is a detailed overview to provide a better understanding of the case:

1. Background and Key features

- A. Indus Towers:
- B. Established: 2007.
- C. Founders: A joint venture between Bharti Airtel, Vodafone, and Idea Cellular.
- D. Business: The company owns and operates telecom towers and related infrastructure, leasing space to mobile network operators.
- E. Bharti Infratel:
- F. Established: 2006.
- G. Parent Company: Bharti Airtel.

H. Business: Similar to Indus Towers, Bharti Infratel provides telecom tower infrastructure services.

- The combination of Bharti Infratel and Indus Towers by way of merger will create a pan-India tower company, with over 163,000 towers, operating across all 22 telecom service areas in India. The combined company will be the largest tower company in the world outside China[1].
- The combined company, which will fully own the respective businesses of Bharti Infratel and Indus Towers, will change its name to Indus Towers Limited and will continue to be listed on the Indian Stock Exchanges.
- The combination of the two companies' highly complementary footprints will create a tower operator with the ability to offer the high quality shared passive infrastructure services needed to support the pan-India expansion of wireless broadband services using 4G/4G+/5G technologies for the benefit of Indian consumers and businesses. The combined company will continue to offer high quality passive infrastructure services to all telecom operators on a non-discriminatory basis, thus helping to support the delivery of the Government of India's vision of 'Digital India'.
- The merger ratio (1,565 shares of Bharti Infratel for every 1 Indus Towers share, the "Merger Ratio") is within the range recommended by the independent valuer. The transaction values Indus Towers at an enterprise value of INR715bn (US\$10.8bn) or 9.3x EV/LTM EBITDA[2].
- Idea Group has the option to either: (i) sell its 11.15% shareholding in Indus Towers for cash based on a valuation formula linked to the VWAP for Bharti Infratel's shares during the 60 trading days prior to completion of the merger[3], which, if calculated at the time of this announcement, would equate to a cash consideration of INR65bn (US\$1.0bn)[4], or alternatively, (ii) receive new shares in the combined company based on the Merger Ratio. All the proceeds from the sale of the 11.15% stake will be for the benefit of the entity resulting from the merger of Vodafone India and Idea Group.
- Providence has the option to elect to receive cash or shares for 3.35% of its 4.85% shareholding in Indus Towers, with the balance exchanged for shares.
- Vodafone will be issued with 783.1m new shares in the combined company, in exchange for its 42% shareholding in Indus Towers. On the basis that (a) Providence decides to sell 3.35% of its 4.85% shareholding in Indus Towers for cash, and (b) Idea Group decides to sell its full 11.15% shareholding in Indus Towers for cash, these shares would be equivalent to a 29.4%[5] shareholding in the combined company. The Transaction values Vodafone's shareholding at INR284bn (US\$4.3bn)[6].

- On the basis that (a) Providence decides to sell 3.35% of its 4.85% shareholding in Indus Towers for cash, and (b) Idea Group decides to sell its full 11.15% shareholding in Indus Towers for cash, Bharti Airtel's shareholding will be diluted from 53.5% in Bharti Infratel today to 37.2% in the combined company[7].
- Pro forma for the Transaction, the combined company's equity value would be INR965bn (US\$14.6bn)[8].
- The final number of shares issued to Vodafone and the cash paid or shares issued to Idea Group and Providence, will be subject to closing adjustments, including but not limited to movements in net debt and working capital for Bharti Infratel and Indus Towers.
- Bharti Airtel and Vodafone will jointly control the combined company, in accordance with the terms of a new shareholders' agreement.
- The transaction is conditional on regulatory and other approvals, including from CCI, SEBI, NCLT, DoT (FDI approval), and is expected to close before the end of the financial year ending 31 March 2019.

2. Merger Details

- Announcement: The merger between Bharti Infratel and Indus Towers was announced in April 2018.

- Purpose: To create a pan-India tower company with a large footprint, expected to improve operational efficiencies, reduce costs, and enhance the ability to deploy networks more quickly.

- Ownership Structure Post-Merger:

- Bharti Airtel retained a significant stake.

- Vodafone Group received shares in the merged entity.

- Public shareholders and other entities held the remaining shares.

The transaction will be structured as follows:

a) Indus Towers will be merged with and into Bharti Infratel through a scheme of arrangement.

b) The Merger Ratio of 1,565 shares of Bharti Infratel for every 1 Indus Towers share is within the range recommended by the independent valuer. Based on the SEBI pricing guidelines for Bharti Infratel, in relation to the proposed scheme, as at 23 April 2018 (INR363 per share)

[9], the Merger Ratio implies an enterprise value for Indus Towers of INR715bn (US\$10.8bn). This is equivalent to valuing Indus Towers at 9.3x EV/LTM EBITDA[10].

c) It is intended that Idea Group will sell its 11.15% shareholding for cash concurrent with completion of the Scheme. The cash consideration payable by Bharti Infratel will be based on a formula linked to Bharti Infratel's VWAP for the 60 trading day period prior to completion of the merger[11]. Based on Bharti Infratel's VWAP during the last 60 trading days prior to the date of this announcement, this would equate to a cash consideration of INR65bn (US\$1.0bn). In lieu of cash, Idea Group will be able to elect to be issued with 207.9m new shares, based on the Merger Ratio[12]. This would be equivalent to a 7.1% shareholding in the combined company, on the basis that Providence also elects to receive new shares in exchange for its full 4.85% shareholding in Indus Towers. All the proceeds from the sale of the 11.15% stake will be for the benefit of the entity resulting from the merger of Vodafone India and Idea Group.

d) Providence will receive new shares equivalent to a 1.1% shareholding in the combined company in exchange for 1.5% out of its 4.85% shareholding in Indus Towers. The consideration for the remaining 3.35% of its shareholding in Indus Towers will be settled by Bharti Infratel in cash or shares at Providence's election. The valuation terms of the cash consideration will be identical to that for Idea Group and the valuation terms for the share consideration will be based on the Merger Ratio.

e) Vodafone will be issued with 783.1m new shares in the combined company, in exchange for its 42% shareholding in Indus Towers. On the basis that (a) Providence decides to sell 3.35% of its 4.85% shareholding in Indus Towers for cash, and (b) Idea Group decides to sell its full 11.15% shareholding in Indus Towers for cash, these shares would be equivalent to a 29.4%[13] shareholding in the combined company. The Transaction values Vodafone's shareholding at INR284bn (US\$4.3bn)[14].

f) On the basis that (i) Providence decides to sell 3.35% out of its 4.85% shareholding in Indus Towers for cash, and (ii) Idea Group decides to sell its full 11.15% shareholding in Indus Towers for cash, Bharti Airtel's shareholding will be diluted from 53.5% in Bharti Infratel today to 37.2% in the combined company[15].

g) The final number of shares issued to Vodafone and the cash paid or shares issued to Idea Group and Providence, will be subject to closing adjustments, including but not limited to movements in net debt and working capital for Bharti Infratel and Indus Towers.

3. Strategic Importance

1. Operational Synergies:

- Combining resources to streamline operations and reduce redundancies.
- Enhanced bargaining power with vendors and customers.

- Potential for improved service delivery and network expansion.

2. Financial Strength:

- A larger balance sheet and better financial stability.
- Increased ability to raise funds for future expansions or upgrades.

3. Market Position:

- Creating one of the world's largest telecom tower companies.
- Strengthening the competitive position against other players in the market.

4. Regulatory Approvals

- The merger required approvals from various regulatory bodies, including the Competition Commission of India (CCI), Department of Telecommunications (DoT), and the National Company Law Tribunal (NCLT).
- These approvals were essential to ensure that the merger did not lead to unfair market dominance or anti-competitive practices.

5. Post-Merger Impact

- On Operations: The merged entity aimed to optimize tower infrastructure, reduce operational costs, and facilitate faster roll-out of advanced telecom networks like 5G.
- On Customers: Improved network coverage and reliability for mobile users across India.
- On Shareholders: Potential for improved returns due to enhanced efficiency and market reach.

The post-merger impact of the Indus Towers and Bharti Infratel merger encompassed various aspects, including operational, financial, market, and strategic changes. Here are the key post-merger impacts:

Operational Impacts

Enhanced Scale and Efficiency: The merger created one of the largest telecom tower companies in the world. This enhanced scale brought about operational efficiencies, including optimized resource allocation, reduced duplication of efforts, and streamlined processes.

Improved Network Coverage and Quality: With a larger portfolio of towers, the combined entity could offer better network coverage and quality to telecom operators, thereby improving service reliability for end-users.

Financial Impacts

Revenue Growth: The expanded infrastructure base and increased tenancy ratios led to higher revenues. The merged entity was better positioned to attract more tenants, including telecom operators and new digital service providers.

Cost Synergies: Significant cost synergies were realized through the elimination of redundant operations, shared maintenance expenses, and better bargaining power with suppliers. This resulted in improved profitability margins.

Stronger Balance Sheet: The combined financial strength of Indus Towers and Bharti Infratel led to a stronger balance sheet, enabling better access to capital markets and more favorable financing terms for future investments.

Market and Competitive Impacts

Dominant Market Position: The merger solidified the company's position as the leading telecom tower provider in India, enhancing its competitive edge. This dominance allowed for better negotiation terms with telecom operators and other stakeholders.

Increased Competitive Pressure: While the merger strengthened the company's market position, it also led to increased competitive pressure on smaller players in the telecom infrastructure market, potentially driving further industry consolidation.

Strategic Impacts

Better Positioned for 5G Rollout: The combined entity was well-positioned to support the rollout of 5G networks in India. The merger enabled more efficient deployment of the necessary infrastructure, crucial for the success of 5G technology.

Expansion Opportunities: The enhanced operational and financial capabilities allowed the company to explore new business opportunities, including entering new geographic markets and diversifying into related telecom infrastructure services.

Stakeholder Impacts

Shareholder Value Creation: The merger led to value creation for shareholders through improved financial performance, increased share prices, and dividends. The realization of synergies and growth prospects were positively reflected in the company's valuation.

Customer Benefits: Telecom operators and other customers benefited from improved service quality and network reliability. The expanded tower network enabled better connectivity and service options for end-users.

Employee Impact: While some redundancies were inevitable, the merger also created opportunities for career growth within a larger organization. Effective change management strategies helped mitigate adverse impacts on employees.

Technological and Innovation Impacts

Enhanced Technological Capabilities: The merger brought together the technological expertise and resources of both companies, fostering innovation in tower infrastructure management and deployment.

Focus on Digital Transformation: The combined entity was better equipped to invest in digital transformation initiatives, such as smart towers and IoT solutions, enhancing operational efficiencies and service offerings.

Brand and Reputation Impacts

Unified Brand Identity: The merger led to the creation of a unified brand, strengthening the company's market presence and reputation. The integrated brand leveraged the strengths of both Indus Towers and Bharti Infratel.

Positive Market Perception: The successful execution of the merger and realization of synergies positively impacted the market perception of the company, enhancing its reputation among investors, customers, and other stakeholders.

Long-term Implications

Industry Consolidation: The merger set a precedent for further consolidation in the telecom infrastructure sector, as companies sought to achieve similar scale and efficiencies.

Sustainable Growth: The merged entity was well-positioned for sustainable long-term growth, supported by a robust infrastructure base, strong financials, and a strategic focus on emerging technologies and market opportunities.

In summary, the post-merger impact of the Indus Towers and Bharti Infratel merger was multifaceted, leading to significant operational efficiencies, financial improvements, market dominance, strategic advantages, and positive stakeholder outcomes. The merger positioned the combined entity as a leading force in the telecom infrastructure sector, capable of driving innovation and supporting the future growth of telecommunications in India.

6. Challenges

-Integration: Merging two large companies involves significant logistical and managerial challenges.

-Regulatory Compliance: Ongoing compliance with telecom regulations and competition laws.

- Market Dynamics: Navigating the competitive landscape and adapting to technological advancements.

The Indus Towers merger case, involving its merger with Bharti Infratel, faced several challenges that needed to be addressed to ensure a successful integration and realization of the intended benefits. Here are some of the key challenges:

Regulatory and Compliance Challenges

Regulatory Approvals: Obtaining approvals from various regulatory bodies, such as the Competition Commission of India (CCI) and the Department of Telecommunications (DoT), was a significant challenge. These approvals were crucial to ensure the merger did not create anti-competitive conditions or violate any legal norms.

Antitrust Concerns: Addressing potential antitrust concerns was critical. The merger created one of the largest telecom infrastructure companies, which could raise issues related to market dominance and competition. Ensuring that the merger did not lead to monopolistic practices or unfair competitive advantages required careful regulatory scrutiny.

Integration Challenges

Operational Integration: Integrating the operations, systems, and processes of two large organizations was a complex task. Ensuring seamless operational integration to realize the anticipated synergies without disrupting ongoing operations posed a significant challenge.

Cultural Integration: Merging the organizational cultures of Indus Towers and Bharti Infratel was another challenge. Aligning different corporate cultures, management styles, and employee expectations required effective change management strategies and communication.

Financial and Economic Challenges

Realizing Synergies: While the merger aimed to achieve cost savings and revenue enhancements, realizing these synergies in practice could be challenging. It required

meticulous planning, execution, and continuous monitoring to achieve the anticipated financial benefits.

Market Conditions: The telecom sector is highly dynamic and subject to rapid technological changes and economic fluctuations. Navigating these market conditions while executing the merger added an additional layer of complexity.

Stakeholder Management Challenges

Shareholder Expectations: Managing the expectations of shareholders from both companies was crucial. Ensuring that the merger delivered value and met the performance targets was essential to maintain shareholder confidence and support.

Customer Retention: Ensuring that the merger did not disrupt services or negatively impact customer relationships was vital. Maintaining high levels of customer satisfaction and addressing any concerns proactively was necessary to retain customers.

Technological Challenges

System Integration: Integrating the IT systems, networks, and infrastructure of two large companies involved technical challenges. Ensuring compatibility and smooth transition without data loss or system downtime was critical.

Innovation and Upgradation: Keeping pace with technological advancements, such as the transition to 5G, required significant investment and focus. Balancing the immediate integration tasks with long-term technological upgrades was a challenge.

Human Resource Challenges

Workforce Redundancies: The merger potentially led to job redundancies and restructuring, which could affect employee morale and retention. Managing these changes sensitively and providing support to affected employees was important.

Talent Retention: Retaining key talent and ensuring that the merged entity had the necessary skills and expertise to drive future growth was another challenge. Effective talent management and retention strategies were essential.

Brand and Reputation Management

Brand Integration: Integrating the brand identities of Indus Towers and Bharti Infratel while maintaining brand equity and customer loyalty was a complex task. Developing a unified brand strategy that reflected the strengths of both entities was important.

Reputation Management: Ensuring that the merger was perceived positively by all stakeholders, including customers, employees, investors, and regulators, was crucial.

Managing any negative perceptions or resistance effectively was necessary to protect the company's reputation.

In summary, the Indus Towers merger case faced multiple challenges across regulatory, operational, financial, stakeholder management, technological, human resource, and brand management dimensions. Successfully addressing these challenges was essential to achieve the strategic objectives and realize the full potential of the merger.

7. Conclusion:

The merger of Bharti Infratel and Indus Towers was a landmark event aimed at consolidating the telecom infrastructure sector in India. It was driven by the need for operational efficiencies, financial strength, and enhanced market position to better serve the rapidly growing demand for telecom services in the country. Despite the complexities involved, the merger has the potential to create significant value for stakeholders and drive the future growth of India's telecommunications infrastructure. The merger case of Indus Towers, one of the largest telecom tower companies in India, involves significant aspects of regulatory approvals, strategic benefits, and market impacts. Below are some key conclusions drawn from the merger:

Strategic and Operational Synergies

Increased Operational Efficiency: The merger of Indus Towers with Bharti Infratel aimed to create a more efficient and larger-scale operation. This consolidation was expected to lead to cost savings through economies of scale, optimized resource allocation, and streamlined operations.

Enhanced Market Position: The combined entity was anticipated to strengthen its market position, making it the largest tower infrastructure provider in India. This enhanced scale would improve bargaining power with vendors and customers.

Financial Implications

Revenue Growth: The merger was projected to result in higher revenue due to an expanded tower portfolio and increased tenancy ratios. The combined entity could cater to a broader range of telecom operators and other tenants, leading to improved financial performance.

Cost Reductions: Significant cost synergies were expected, including reductions in maintenance and operational expenses, due to the integration of infrastructure and elimination of redundancies.

Regulatory and Competitive Landscape

Regulatory Approvals: The merger required multiple regulatory approvals, including from the Competition Commission of India (CCI), the Department of Telecommunications (DoT), and other relevant authorities. The approval process was crucial to ensure compliance with competition laws and to address any anti-competitive concerns.

Market Competition: While the merger was likely to create a dominant player in the telecom tower market, it also raised concerns about reduced competition. Regulators needed to ensure that the merger did not lead to monopolistic practices or adversely affect the interests of smaller players in the industry.

Stakeholder Impact

Shareholders: For shareholders of both companies, the merger promised potential value creation through improved financial metrics and stock performance. The anticipated synergies and growth prospects were expected to translate into higher shareholder returns.

Customers: Telecom operators and other customers were likely to benefit from improved service quality and network reliability due to the enhanced infrastructure capabilities of the merged entity.

Employees: While there were concerns about job redundancies, the merger also opened up opportunities for career growth within a larger organization. The companies aimed to manage the integration process smoothly to mitigate adverse impacts on employees.

Long-term Implications

Industry Consolidation: The merger was indicative of a broader trend of consolidation in the telecom infrastructure sector, driven by the need for greater efficiency and competitiveness in a rapidly evolving market.

Future Growth Prospects: The combined entity was well-positioned to capitalize on future growth opportunities, including the expansion of 4G networks and the upcoming rollout of 5G technology. This strategic positioning was expected to drive long-term growth and innovation in the telecom infrastructure space.

In summary, the Indus Towers merger was a strategic move aimed at creating a dominant player in the telecom tower industry with enhanced operational efficiencies, stronger market position, and improved financial performance. While it presented several benefits, it also required careful management of regulatory approvals, competitive dynamics, and stakeholder interests to ensure a successful integration and realization of synergies.

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