

NTT Docomo-Tata Teleservices: A Financial Affair Gone Wrong

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Abstract: *The cases study covers the journey of NTT-DOCOMO and TATA TELESERVICES which went through Mergers and Acquisition deal to enter the Indian market with the brand Tata DoCoMo but failed in achieving success and the breakup between both led to multiple issues- legal, financial and taxation which not only was heard at the national but internal court laws also. It is a study of all that could go wrong in a deal and its implications and more.*

Keywords: Mergers, Acquisitions, Arbitration, Debt, Taxation

1. Introduction

NTT – Nippon Telegraph and Telephone Japanese Company is owned by government for almost 33.71% stakes and is governed by the NTT law. It is headquartered in Tokyo, Japan and ranked 65th in Fortune Global 500. It is considered to be the fourth largest telecommunications company in the world in terms of revenue. While some NTT shares are publicly traded, control of the company by Japanese interests comprising of government and civilian is guaranteed by the number of shares available to buyers. Docomo was spun off from NTT in August 1991 and NTT Docomo INC as a subsidiary was formed to predominantly handle the mobile cellular operations of NTT. Docomo is abbreviation of the phrase, "do communications over the mobile network", and is also from a compound word *dokomo*, meaning "everywhere" in Japanese. Docomo rules almost more than half of domestic mobile telecom market of Japan. NTT Docomo has a wide range of investments in foreign carriers but these have not been very successful. Various interests of multibillion dollars have been in KPN, KT Freetel, AT&T Wireless which have resulted in losses and had to be written off. The domestic markets were profitable while at the same time almost a total of about US\$10 billion in losses were booked by Docomo.

Tata Group formulated a subsidiary Tata Teleservices Limited (TTSL) to handle its broadband and telecommunications service in India. Tata Teleservices commenced operations in 1996 with landline services and then CDMA services in 2002.

2. Problem with Discussion

The Japanese giant wanted to benefit itself from the Indian telecom market which is one of the fastest growing in the world and thereby in November 2008, NTT Docomo brought a 26% in Tata Teleservices for 2.7 billion USD leading to a venture called Tata Docomo that focused mainly on providing GSM services which was launched commercially in June 2009. The terms of this shareholders agreement were on the lines that the company would have two options: one to increase its stake up to 51% in two phases and second to sell its stake under which the Tata group would have to find a buyer for the shares held by the Japanese company at market price. If it failed to find a buyer then the Tata group itself had to buy the shares at a 50 per cent discounted price (termed a put option) guaranteeing a

bare minimum of returns of its original 50% investment. Both these options were linked to certain performance milestones over the subsequent 5 years of the deal.

Tata Docomo generated about 32.82 million users at the end of June 2010. It offered cheaper per-second billing plan and expanded in telecom circles but it failed to build on its initial success and started losing market share. The company started making financial losses. The annual reports weren't ever published for Tata Teleservices wasn't a listed company. The many reasons that were cited and observed were delay of introduction of 3G mobile networks which can carry high margin data services, alleged corruption scandal that led to Tata Teleservices losing three licences for irregularities in spectrum allocation to company in 2012 by Supreme court, cut throat competition with newer and cheaper telecom entrant.

Owing to such financial status and after a huge stated loss of almost 1.3\$ billion NTT Docomo announced on 25th April 2014 that were going to sell 100% of their shares in TTSL exiting Indian telecom 5 years after it had venture into the sale. The Indian company has failed to achieve the performance milestones set by the deal. These milestones remain undisclosed in quantum as well as in variable terms as part of their agreement. NTT Docomo were to sell their shares in Tata Indicom to Tata Teleservices. The PWC was engaged to find out the fair value price of the share which arrived at around Rs. 23.34. Tata telecom was unable to find a buyer for these shares. Tata agreed to pay Docomo at fair value price of Rs23.34 a share in accordance with the Reserve Bank of India (RBI) guidelines which stated that an international firm can only exit its investment at a valuation "not exceeding that arrived at on the basis of return on equity" as per amendments in rules after some years into the deal in 2013. Docomo not accepting the same dragged the case to international court of arbitration with plea to receive the Rs. 58 per share deal.

The London tribunal asked the Tata Group to pay \$1.17 billion for not abiding by the agreement. Docomo then moved this to the Delhi High Court to enforce the award. On one hand it filled the London court judgement with Delhi High court and on the other hand it sought that the Tata Group's overseas assets be sold to provide compensation. The Tata Group deposit an amount of \$ 1.2 billion with the Delhi High court. Therein begins a series of interventions of RBI with Delhi High Court wanting to be

party to the litigation and in various terms trying to term the agreement between TATA and Docomo as illegal and other objections. At the end of the case the RBI interventions were rejected and the party's plea to enforce award was granted. Docomo promised not to pursue overseas assets for the next six months and in a statement on its website, NTT Docomo stated that concurrent with the receipt of the amount, all shares in Tata Teleservices held by it have been transferred to Tata Sons and companies designated by Tata Sons.

3. Conclusion

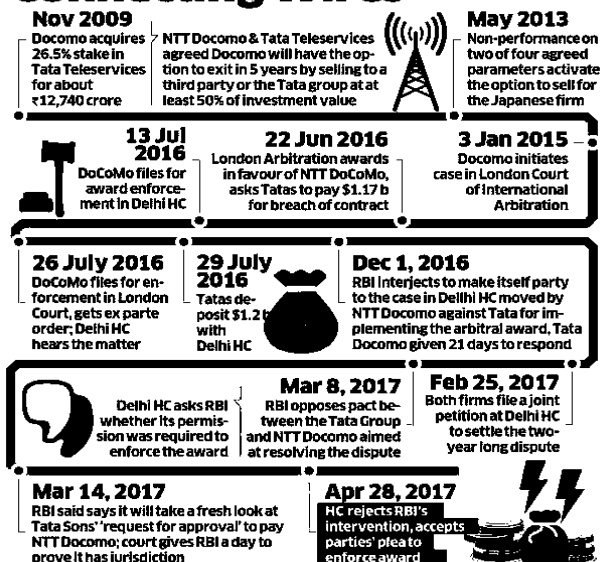
The Tata Docomo fight was one major point of contention between Ratan Tata and Cyprus Mistry and his method to handle the dispute had led as a trigger to the ousting of the latter. With the Tata Docomo case resolved in 2017 the company still stood amongst a series of losses and debt it couldn't hold. Tata Teleservices an associate firm became subsidiary of Tata Sons from February 2017 after its arrangement with NTT Docomo ceased. With the entry of Reliance JIO in 2016 survival of Tata son's teleservices business was becoming difficult and thereby Tata Sons signed a deal with Bharti Airtel to transfer its consumer mobile business in no debt no cash deal and Airtel will only pay a part of Tata Teleservices's unpaid spectrum payment liability.

The exit from the Docomo venture led tata teleservices to be one of the biggest units to be closed down in the Tata group's 149-year history. This in turn led to exit plan for almost 5000 employees which includes a notice of three to six months, severance packages for those willing to leave earlier, a voluntary retirement scheme (VRS) for elders, while transferring only a small part of its employees to other group companies.

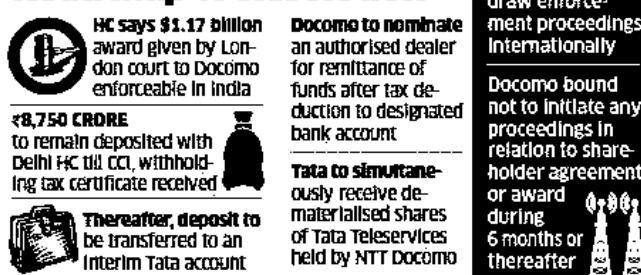
It seemed initially that Tata and Docomo both entered the mobile market in a blind race top earn without any future long term proper planning and it led to huge debts, tangled legal disputes, unimaginable losses and exit of an international company from Indian market and an end of a telecommunication conquering battle for a company like Tata. This was one chapter closed in the telecom sector wherein the Indo-Japan relations were threatened but lastly after a period of 3 years and a roller coaster ride for both the giant companies ended if not well at least on an amicable note.

Diagram 1: Flow Chart for the NTT-DOCOMO-Tata Teleservices casehistory

Connecting Wires



Road Map to Resolution



Source:

<https://economictimes.indiatimes.com/news/company/corporate-trends/court-accepts-tata-docomo-agreement-rejects-rbi-objection/articleshow/58415100.cms>

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