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“VODAFONE AND IDEA: AN ANALYSIS OF FINANCIAL IMPACT OF MERGER”

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Abstract: - This merger did not only create a telecom giant but has had wide-ranging implications for the industry, services, the staff, and consumers as well as it pushed more merger moves in the telecom sector. In this paper, the current scenario of the Indian telecom market is also analyzed to understand where Vodafone-Idea stands today. Vodafone and Idea announced their merger in 2017, which made a huge impact in the Indian telecom sector. This was a major consequence of Jio's cruising dominance in the industry which backed other major players to take precarious steps to maintain their stand in the Indian telecom market. Vodafone India was the second-largest player of the Indian Telecom Industry in terms of subscriber base while Idea Cellular Limited has the third largest subscriber base in India. Idea Cellular was a subsidiary of Aditya Birla Group. This research work focuses on the merger deal which happened between Telecommunication companies Idea cellular and Vodafone India. The deal was officially announced on 20th March 2017 for total of \$23 billion.

Key words: VODAFONE, IDEA, MERGER, POST-MERGER ANALYSIS OF FINANCIAL STATEMENTS.

1. INTRODUCTION

In a general sense, mergers and acquisitions are very similar corporate actions - they combine two previously separate firms into a single legal entity. Significant operational advantages can be obtained when two firms are combined and, in fact, the goal of most mergers and acquisitions is to improve company performance and shareholder value over the long-term. Indian telecom sector has witnessed a significant growth and emerged as a noteworthy performer in the service sector and at the same time, Indian Industries have grown tremendously and many strategic alliances has taken place in India. Recently, Telecom sector is considered as the most volatile sector in the country even though there are many mobile users in India. Vodafone India is a 100% subsidiary of Vodafone Group. It commenced operations in 1994 when its predecessor Hutchison Telecom acquired the cellular license for Mumbai. Brand Vodafone was launched in India in September 2007, after Vodafone Plc. acquired a majority stake in Hutchinson Essar in May 2007. From a single operation base with 31 million customers, the company has expanded its operations across the country to cover all 22 telecom circles and service 210 million customers. Idea Cellular is an Aditya Birla Group Company, India's first truly multinational corporation. Idea is a pan-India integrated wireless broadband operator offering 2G, 3G and 4G services,

and has its own NLD and ILD operations, and ISP license. Idea is one of the top three mobile operators in India, with annual revenue in excess of USD 5 billion and a revenue market share of 19%. With nearly 200 million subscribers, Idea ranks sixth in the global rankings of operators in subscriber terms, for single country operations. Mergers involve the mutual decision of two companies to combine & become one entity. The combined business can cut cost of operation & increase profit which will boost shareholders value for both groups of shareholders.

2. LITERATURE REVIEW

Krishna murti and Vishwanath, (2010): There is a need to develop practical measures for analyzing the performance of a merged company as the frequency, Value, Numbers of Mergers & Acquisitions in India are increasing continuously.

Dasgupta (2004): Reforms mainly economic reforms is the most important factor in the growth of mergers in India as most of the mergers are results of economic reforms initiated since 1990s.

G. Coontz (2004): Conducted a study on 'Economic Impact of Corporate Mergers and Acquisitions on Acquiring Firm Shareholder'. The researcher concluded that companies are not able to perform better after Mergers and Acquisitions (M&A) in every aspect. The observed performance varies from industry to industry. The performance is solely dependent on the type of industry in which Mergers and Acquisitions (M&A) take place.

Liargovas (2011): Examined the Greek Bank post-Mergers financial performance of 1996-2008. To conduct the study, secondary information was collected from the information of Athens securities market, daily bulletin, printed annual money reports. Normal least multivariate analysis, t test was applied in the study.

Vermilion& Rau (1988): Depicted the results after Mergers and Acquisitions of companies. Authors found that after 3 years of Mergers and Acquisitions (M&A) the acquiring firms are under performance. On the other hand, if anyone is looking for the long-term performance of Mergers and Acquisitions (M&A), it is observed that it is not uniform across the firms.

Ms. Aastha Dewan (2007): Focused on the post-merger financial performance of the acquirer companies in India and performance of firms going through mergers in Indian industry. The merger cases for the year 2003 have been taken for the analysis. The financial data has been collected for six years from 2000-06. Pre-merger and post-merger financial ratios have been examined using paired sample t test. The results of the analysis reveal that there is significant difference between the financial performance of the companies before and after the merger.

Dr. V. K. Shobhana and Dr. N. Deepa (2011): Made a probe into the fulfilment of motives as vowed in the merger deals of the nine select merged banks. The study uses Summary Statistics, Wilcoxon Matched Paired Signed Rank Test and 't' test for analysis and interpretation of data pertaining to the five pre- and post-merger periods each.

2.1 The objective of the study

- To examine the merger between Vodafone and Idea and the specifics of their deal.
- To analyze the impact of the merger on the Indian Telecom industry.
- To Study the financial performance of Vodafone-Idea post-merger.
- To study about the Vodafone idea limited post-performance.
- To study about consumer expectations from the Vodafone idea limited.
- To Analyzed Stock Performance.

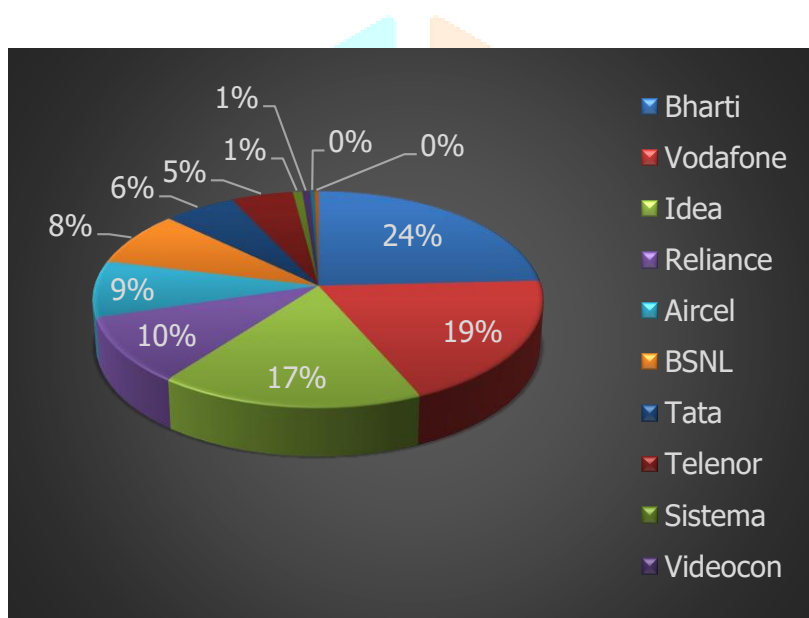
3. RESEARCH METHODOLOGY

The Indian telecom sector is going through a transforming phase now-a-days, telecom operators are going for mergers and acquisitions to survive in the industry and many players have even existed the market due to cut-throat competition and heavy losses. Vodafone-Idea merger requires through study and analysis because this merger created a stir in the market and forced other market players to merge with big companies.

Data Analysis

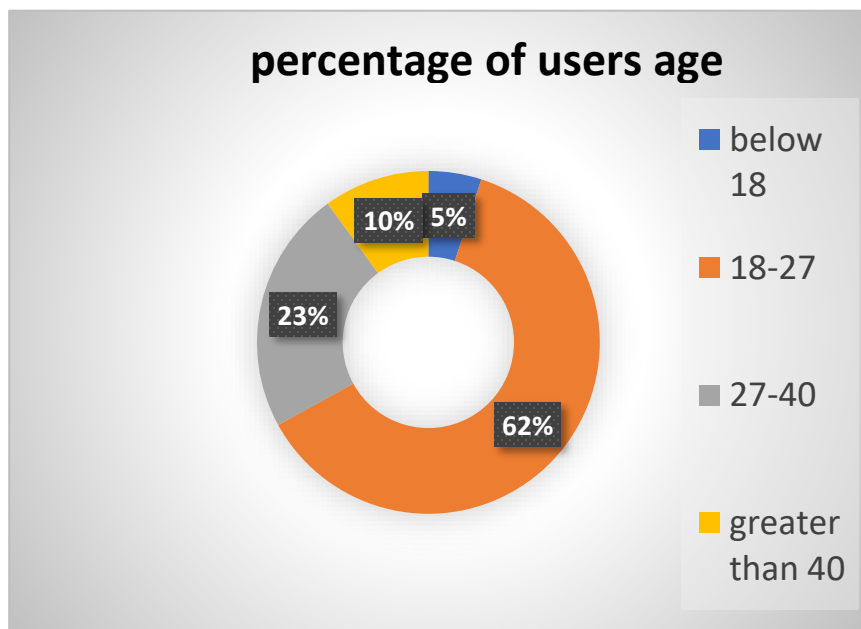
- Financial modelling.
- Determination of financial performance post-merger.
- Balance sheet and Profit and loss statements.

Pre-Merger Industrial Dynamics:



The telecom industry before the merger of Vodafone -idea looked like the above chart with Airtel the clear market leaders with 24.22% share and Vodafone and Idea second and third with 19.16% and 17.01% market share respectively. Jio entered the industry recently and gained a market share of 9.93% almost instantly through its free services and appealing offers.

PSU: 8.62% Pvt: 91.38%



Age Group:

Number of Vodafone Idea users according to age group.

Interpretation: Most of respondents are young and belong to 18-27 years age group.

Financial Highlights

Pre-Merger: "Idea Cellular Limited"
Balance Sheet as at March 31, 2016

₹ Mn

Particulars	As at March 31, 2016	As at March 31, 2015
EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	36,005.09	35,978.44
Reserves and Surplus	206,954.04	182,922.98
	242,959.13	218,901.42
Non-Current Liabilities		
Long-term borrowings	361,583.11	160,064.86
Deferred tax Liabilities (Net)	27,830.88	16,090.76
Other Long-term Liabilities	34,617.19	11,748.94
Long-term Provisions	3,394.20	2,820.65
	427,425.38	190,725.21
Current Liabilities		
Short-Term Borrowings	16,455.78	1,513.94
Trade Payables		
-Dues of micro enterprises and small enterprises	14.13	8.32
-Dues of creditors other than micro enterprises and small enterprises	32767.50	29693.46
Other Current Liabilities	74,940.47	132,927.38
Short-Term Provisions	3,516.42	2,988.68
	127,694.30	167,131.78
TOTAL	798,078.81	576,758.41
ASSETS		
Non-Current Assets		
Fixed Assets		
Tangible Assets	209,194.37	178,980.47
Intangible Assets	439,968.80	142,158.59

Capital Work-in-progress	60,388.27	50,794.46
Non-Current investment	16,668.52	16,466.07
Long-term Loans and Advances	34,078.09	38,906.69
	760,298.05	427,306.28
Current Assets		
Current Investment	8,321.00	111,675.00
Inventories	851.46	582.98
Trade Receivables	11,360.58	9,321.90
Cash and Bank Balances	7,576.63	15,419.38
Short-term Loans and Advances	9,651.09	11,391.22
Other Current Assets	20.00	1,061.65
	37,780.76	149,452.13
TOTAL	798,078.81	576,758.41

Statement of Profit and Loss for the year ended March 31,2016

₹ Mn

Particulars	For the year ended	
	March 31, 2016	March 31, 2015
INCOME		
Service Revenue	357,853.67	312,520.70
Other Operating Income	311.78	274.01
Other Income	1,834.40	4,523.37
TOTAL	359,999.85	317,318.08
OPERATING EXPENDITURE		
Personnel Expenditure	14,644.36	13,587.28
Network Expenses and IT outsourcing cost	93,729.02	82,886.64
License Fees and Spectrum Usage Charges	41,507.83	35,351.47
Roaming & Access Charges	46,436.26	47,313.23
Subscriber Acquisition & Servicing Expenditure	30,019.4	25,038.29
Advertisement and Business Promotion Expenditure	4,833.19	4,929.13
Administration & other Expenses	8,752.75	6,954.55

	239,922.89	216,060.59
PROFIT BEFORE INTEREST & FINANCE CHARGES, DEPRECIATION, AMORTISATION & TAXES	120,076.96	101,257.49
Interest & Finance Charges	17,979.57	9,316.58
Depreciation	47,482.87	41,434.95
Amortisation of Intangible Assets	14,512.11	7,115.13
PROFIT BEFORE TAX	40,102.41	43,390.83
Provision for Taxation - Current	8,621.82	14,530.99
- Deferred	11,740.12	780.27
- MAT Credit	(6,426.09)	(18.78)
PROFIT AFTER TAX	26,166.56	28,098.35
Earnings Per Share of ` 10 each fully paid up (in `)		
Basic	7.27	7.94
Diluted	7.25	7.91

Performance Highlights (Consolidated)

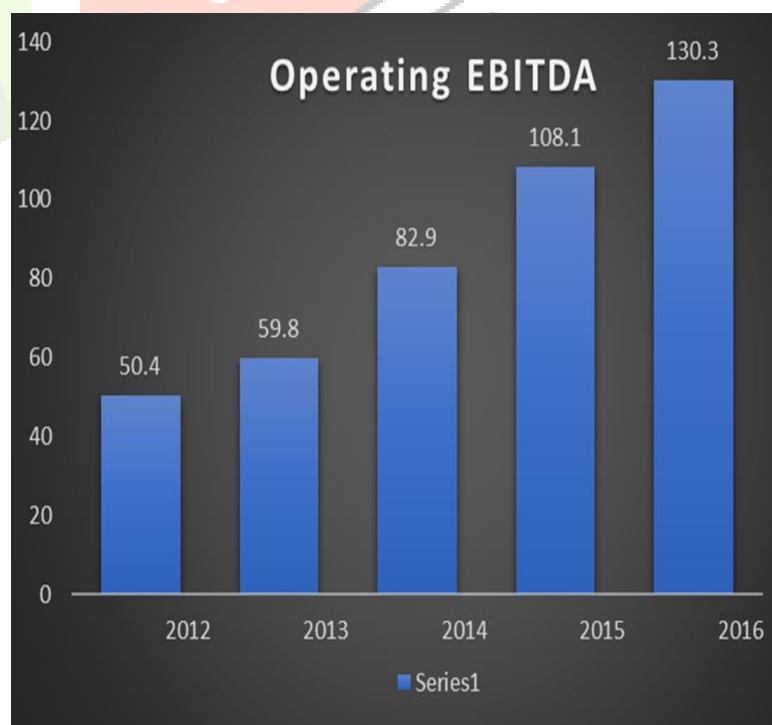
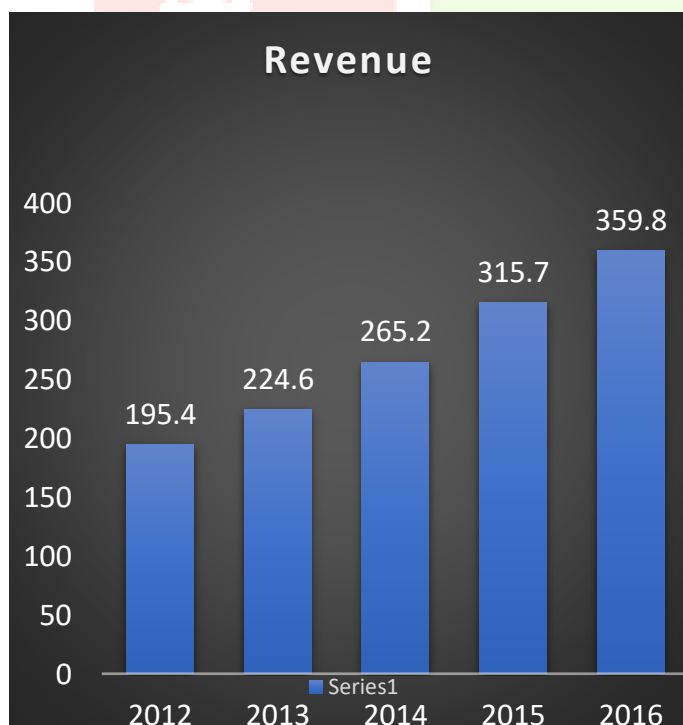
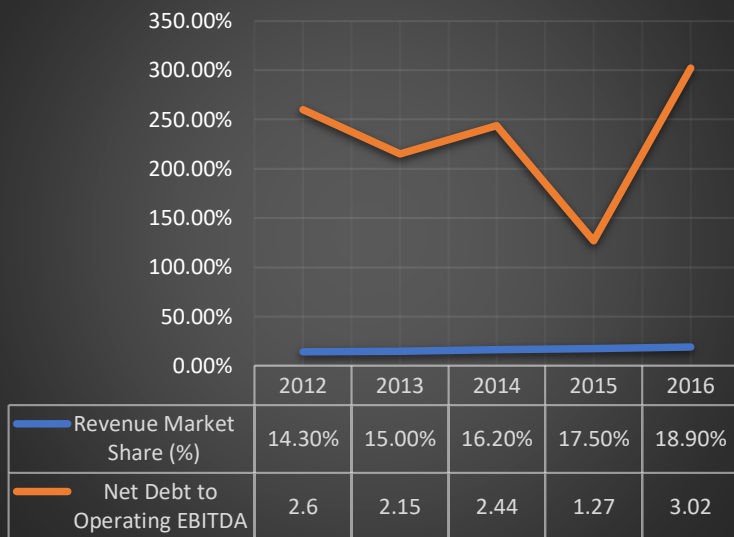
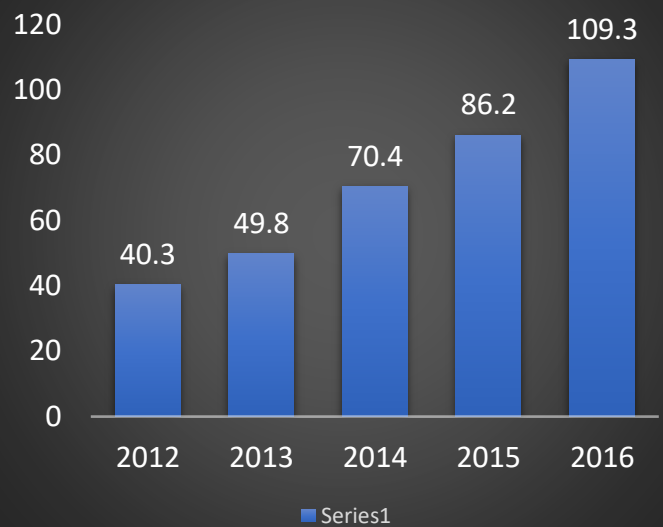


Chart Title



Cash Profit



Pre-Merger: "Vodafone Group Plc"
Balance Sheet as at March 31, 2016

Particulars	2016 £m	2015 £m
Non-current assets		
Goodwill	22,789	22,530
Other intangible assets	23,979	20,950
Property, plant and equipment	28,082	26,600
Investments in associates and joint ventures	(82)	(300)
Other investments	3,662	3,750
Deferred tax assets	22,382	23,840
Post-employment benefits	177	160
Trade and other receivables	4,580	4,860
	105,569	102,720
Current assets		
Inventory	565	480
Taxation recoverable	1,109	570
Trade and other receivables	9,141	8,050

Other investments	4,220	3,85
Cash and cash equivalents	10,218	6,88
Assets held for sale	2,891	–
	28,144	19,84
Total assets	133,713	122,57
Liabilities		
Equity		
Called up share capital	3,792	3,79
Additional paid-in capital	119,925	117,05
Treasury shares	(6,940)	(7,045)
Accumulated losses	(56,608)	(49,471)
Accumulated other comprehensive income	5,716	1,81
Total equity attributable to owners of the parent	65,885	66,14
Non-controlling interests	1,437	1,59
Put options over non-controlling interests	(5)	(7)
Total non-controlling interests	1,432	1,58
Total equity	67,317	67,73
Non-current liabilities		
Long-term borrowings	29,327	22,43
Deferred tax liabilities	446	59
Post-employment benefits	447	56
Provisions	1,280	1,08
Trade and other payables	1,501	1,26
	33,001	25,94
Current liabilities		
Short-term borrowings	16,020	12,62
Taxation liabilities	540	59

Provisions	757	76
Trade and other payables	15,732	14,90
Liabilities held for sale	346	
	33,395	28,89
Total equity and liabilities	133,713	122,57

Statement of Profit and Loss for the year ended March 31,2016

Particulars	2016 £m	2015 £m
Continuing operations		
Revenue	40,973	42,227
Cost of sales	(30,435)	(30,882)
Gross profit	10,538	11,345
Selling and distribution expenses	(3,570)	(3,455)
Administrative expenses	(5,110)	(5,746)
Share of result of equity accounted associates and joint ventures	44	(63)
Impairment losses	(450)	-
Other income and expense	(75)	(114)
Operating profit	1,377	1,967
Non-operating income and expense	(2)	(19)
Investment income	300	883
Financing costs	(2,124)	(1,736)
Profit before taxation	(449)	1,095
Income tax (expense)/credit	(3,369)	4,765
(Loss)/profit for the financial year from continuing operations	(3,818)	5,860
Profit for the financial year from discontinued operations	-	57
(Loss)/profit for the financial year	(3,818)	5,917
Attributable to:		

– Owners of the parent	(4,024)	5,761
– Non-controlling interests	206	156
(Loss)/profit for the financial year	(3,818)	5,917
(Loss)/earnings per share		
From continuing operations:		
– Basic	(15.08) p	21.53p
– Diluted	(15.08) p	21.42p
Total Group:		
– Basic	(15.08) p	21.75p
– Diluted	(15.08) p	21.63p
(Loss)/profit for the financial year		
Other comprehensive income:		
Items that may be reclassified to profit or loss in subsequent years		
(Losses)/gains on revaluation of available-for-sale investments, net of tax	(2)	4
Foreign exchange translation differences, net of tax	3,540	(6,516)
Foreign exchange losses/(gains) transferred to the income statement	70	(1)
Fair value gains transferred to the income statement	-	(9)
Other, net of tax	34	7
Total items that may be classified to profit or loss in subsequent years	3,642	(6,515)
Items that will not be reclassified to profit or loss in subsequent years		
Net actuarial gains/(losses) on defined benefit pension schemes, net of tax	126	(212)
Total items that will not be classified to profit or loss in subsequent years	126	(212)
Other comprehensive income/(expense)	3,768	(6,727)

Total comprehensive income/(expense) for the year	(50)	(810)
Attributable to:		
– Owners of the parent	(123)	(1,076)
– Non-controlling interests	73	266
	(50)	(810)

Financial indicators:

This has been a strong year of execution for the Group, delivering a return to organic growth in both revenue and EBITDA for the first time since 2008. With the recovery of our European performance and the continued strong growth in AMAP, we met our financial guidance for both EBITDA and free cash flow and increased our dividend per share by 2.0% to 11.45 pence.

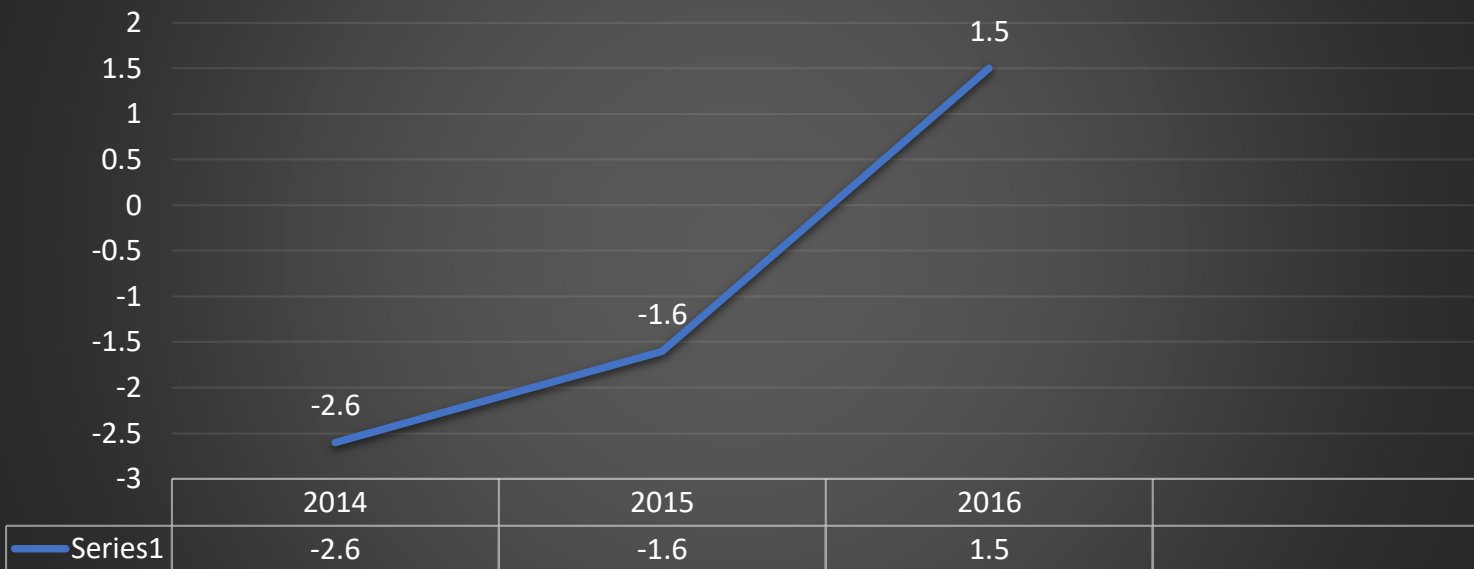
Organic service revenue growth:

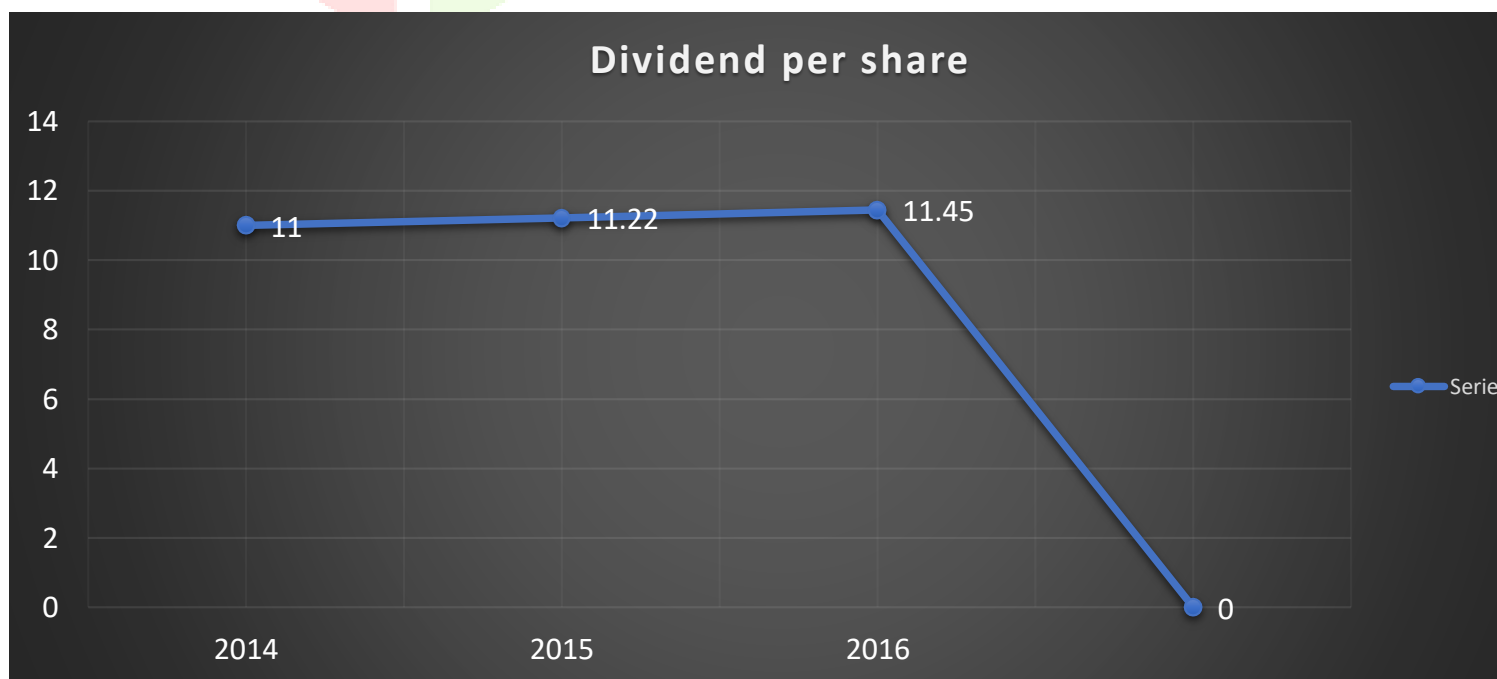
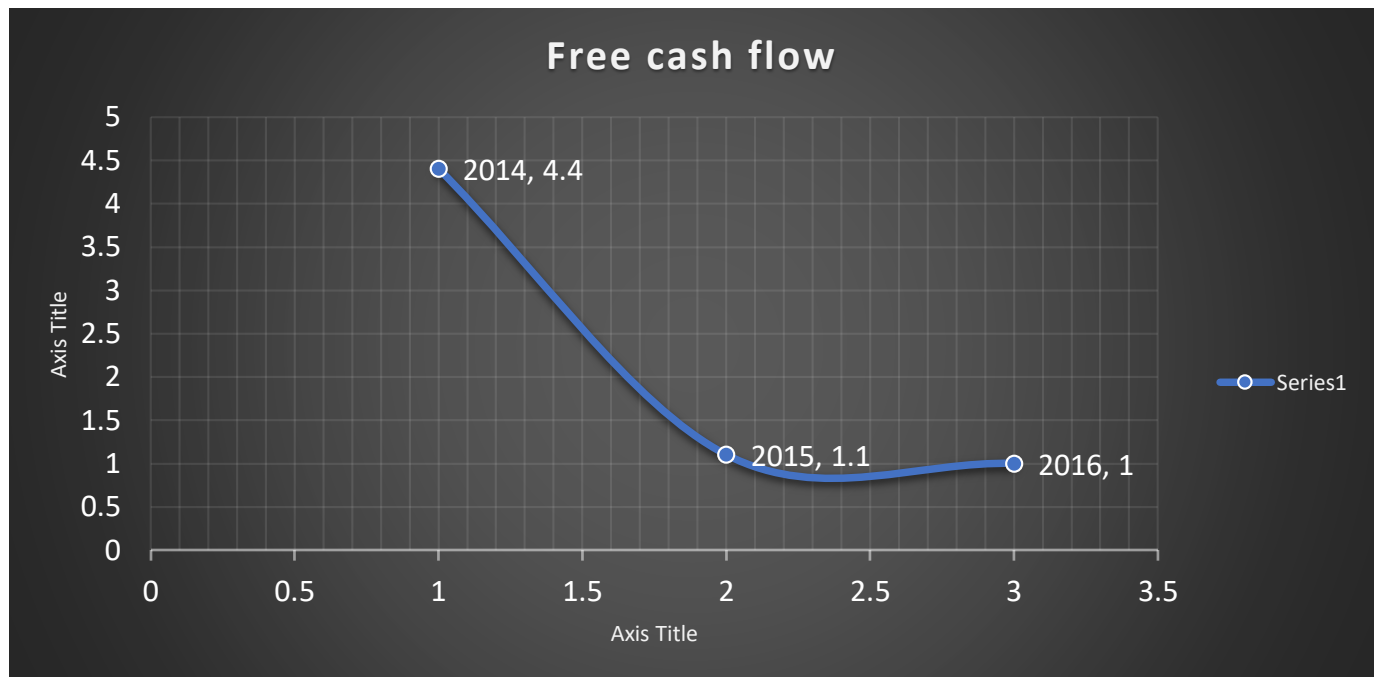
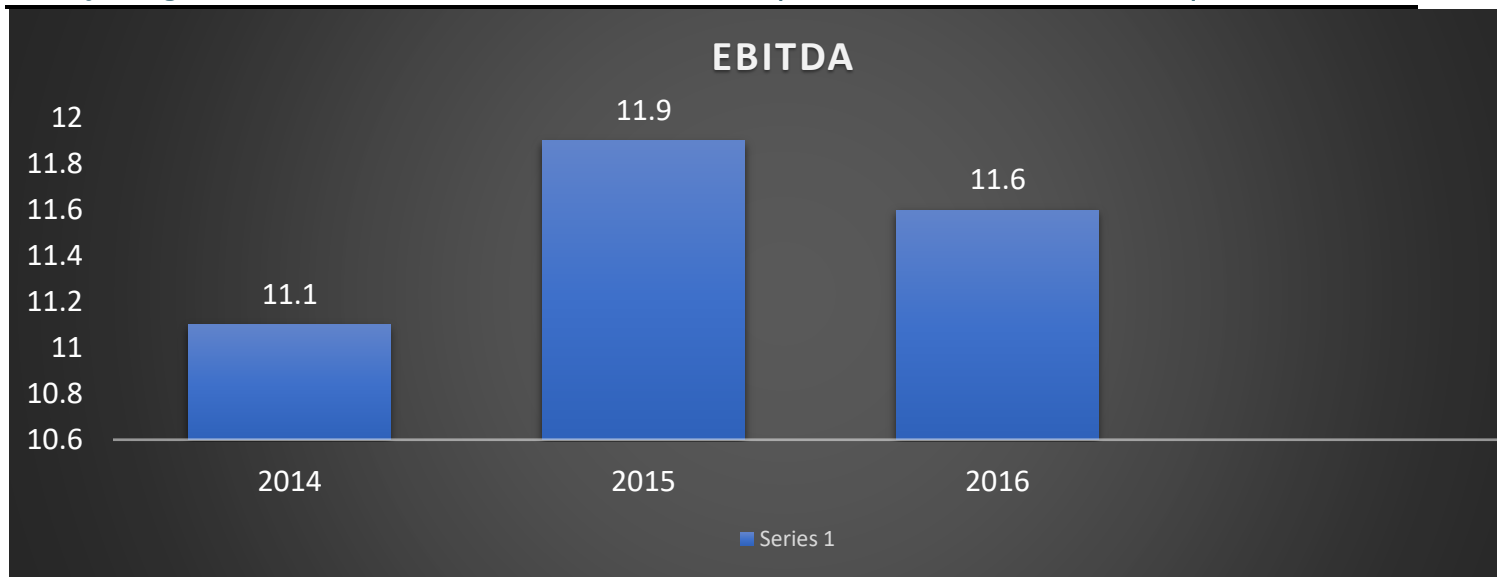
%

Growth in revenue demonstrates our ability to increase our customer base and stabilize or raise ARPU. Our aim was to return to service revenue growth.

We returned to service revenue growth supported by our Project Spring investment program and achieved stabilization in our European businesses.

Organic service revenue growth





Post-Merger: "Vodafone Idea Limited"
Consolidated Balance Sheet as at March 31, 2019

Particulars	₹Mn	
	As at March 31, 2019	As at March 31, 2018
ASSETS		
Non-current assets		
Property, plant and equipment	502,526	244,54
Capital work-in-progress	23,587	6,51
Investment property	672	
Goodwill on consolidation	36	6
Other intangible assets	1,274,767	552,30
Intangible assets under development	27,443	29,34
Investments accounted for using the equity method	15,298	16,60
Financial assets		
Long term loans to employees	8	2
Other non-current financial assets	10,362	4,18
Deferred tax assets (net)	103,385	12,05
Other non-current assets	155,099	17,79
Total non-current assets (A)	2,113,183	883,42
Current assets		
Inventories	42	36
Financial assets		
Current investments	67,088	56,30
Trade receivables	33,000	8,87
Cash and cash equivalents	8,428	19
Bank balance other than cash and cash equivalents	1,480	9
Loans to joint venture and others	19	2
Other current financial assets	680	31
Current tax assets (net)	-	7,75
Other current assets	71,260	17,91
Total current assets (B)	181,997	91,83
Assets classified as held for sale (AHFS) (C)	1,815	10,50
Total Assets (A + B + C)	2,296,995	985,77
Liabilities		
EQUITY AND LIABILITIES		
Equity		
Equity share capital	87,356	43,59
Other equity	508,992	229,03
Total equity (A)	596,348	272,62
Liabilities		
Non-current liabilities		
Financial liabilities		
Long term borrowings	1,044,029	569,40
Trade payables	8,680	
Other non-current financial liabilities	97,381	26,06
Long term provisions	3,467	3,10

Deferred tax liabilities (net)	471	65
Other non-current liabilities	4,235	5,60
Total non-current liabilities (B)	1,158,263	604,83
Current liabilities		
Financial liabilities		
Short term borrowings	41,207	21
Trade payables	126,486	35,47
Other current financial liabilities	303,946	43,82
Other current liabilities	69,499	26,59
Short term provisions	379	22
Total current liabilities (C)	541,517	106,33
Liabilities classified as held for sale (D)	867	1,97
Total Equity and Liabilities (A + B + C + D)	2,296,995	985,77

Consolidated Statement of Profit and Loss for the year ended March 31, 2019

₹ Mn

Particulars	For the year ended March 31, 2019	For the year ended March 31, 2018
INCOME		
Service revenue	369,865	282,420
Sale of trading goods	191	51
Other operating income	869	318
Revenue from operations	370,925	282,789
Other income	7,311	3,530
TOTAL INCOME	378,236	286,319
OPERATING EXPENDITURE		
Cost of trading goods	260	73
Employee benefit expenses	22,944	15,430
Network expenses and IT outsourcing cost	170,052	97,334
License fees and spectrum usage charges	39,331	28,667
Roaming and access charges	41,690	35,358
Subscriber acquisition and servicing expenditure	28,007	27,942
Advertisement, business promotion expenditure and content cost	10,439	8,148
Other expenses	17,772	9,362
	330,495	222,314

PROFIT/(LOSS) BEFORE FINANCE COSTS, DEPRECIATION, AMORTISATION, SHARE OF NET	47,741	64,005
PROFIT/(LOSS) OF JOINT VENTURES AND ASSOCIATE, EXCEPTIONAL ITEMS AND TAX		
Finance costs	94,628	48,130
Depreciation	77,984	50,630
Amortisation	67,372	33,461
PROFIT/(LOSS) BEFORE SHARE OF PROFIT/(LOSS) OF JOINT VENTURES AND ASSOCIATE, EXCEPTIONAL ITEMS AND TAX	(192,243)	(68,216)
Add: Share in profits/(losses) of joint ventures (net)	2,707	3,458
Add: Share in profit/(loss) of associate	(739)	(234)
Profit/(Loss) before exceptional items and tax	(190,275)	(64,992)
Exceptional items (net)	8,521	-
PROFIT/(LOSS) BEFORE TAX	(181,754)	(64,992)
Tax expense:		
– Current tax	182	1,234
– Deferred tax	(35,897)	(24,544)
PROFIT/(LOSS) AFTER TAX	(146,039)	(41,682)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Items not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains on defined benefit plans	501	442
Income tax effect	(178)	(152)
Group's share in other comprehensive income/(loss) of joint ventures and associate (net of taxes)	5	(7)
Other comprehensive income/(loss) for the year, net of tax	328	283
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(145,711)	(41,399)

Earnings/(loss) per equity share of ₹ 10 each:		
Basic	(21.16)	(11.36)
Diluted	(21.16)	(11.36)



Consolidated Balance Sheet as at March 31, 2021

₹Mn

Particulars	As at March 31, 2021	As at March 31, 2020
ASSETS		
Non-current assets		
Property, plant and equipment (including RoU Assets)	575,704	663,113
Capital work-in-progress	5,996	10,415
Investment property	-	660
Intangible assets	1,099,200	1,194,592
Intangible assets under development	63	966
Investments accounted for using the equity method	41	15,244
Financial assets		
Other non-current financial assets	77,323	82,459
Deferred tax assets (net)	23	20
Other non-current assets	135,461	134,866
Total non-current assets (A)	1,893,811	2,102,335
Current assets		
Inventories	6	25
Financial assets		
Current investments	-	4,548
Trade receivables	25,070	30,943
Cash and cash equivalents	3,503	3,708
Bank balance other than cash and cash equivalents	18,662	22,922
Loans to joint venture and others	9	9
Other current financial assets	2,117	23,033
Other current assets	90,975	81,673
Total current assets (B)	140,342	166,861
Assets classified as held for sale (AHFS) (C)	653	-
Total Assets (A+B+C)	2,034,806	2,269,196
EQUITY AND LIABILITIES		
Equity		
Equity share capital	287,354	287,354
Other equity	(669,634)	(227,555)
Total equity (A)	(382,280)	59,799
Liabilities		
Non-current liabilities		
Financial liabilities		
Long term borrowings		
Loans from banks and others	64,846	86,279
Deferred payment obligations	1,509,309	876,525
Trade payables	1,268	6,660
Other non-current financial liabilities	172,819	274,073
Long term provisions	416	3,421
Deferred tax liabilities (net)	22	38
Other non-current liabilities	4,381	4,611
Total non-current liabilities (B)	1,753,061	1,251,607

Current liabilities		
Financial liabilities		
Short term borrowings	-	322
Trade payables	132,757	117,672
Other current financial liabilities	466,819	377,135
Other current liabilities	63,991	462,168
Short term provisions	458	493
Total current liabilities (C)	664,025	957,790
Total Equity and Liabilities (A+B+C)	2,034,806	2,269,196

CONSOLIDATED STATEMENT OF PROFIT AND LOSS for the year ended March 31, 2021

₹Mn

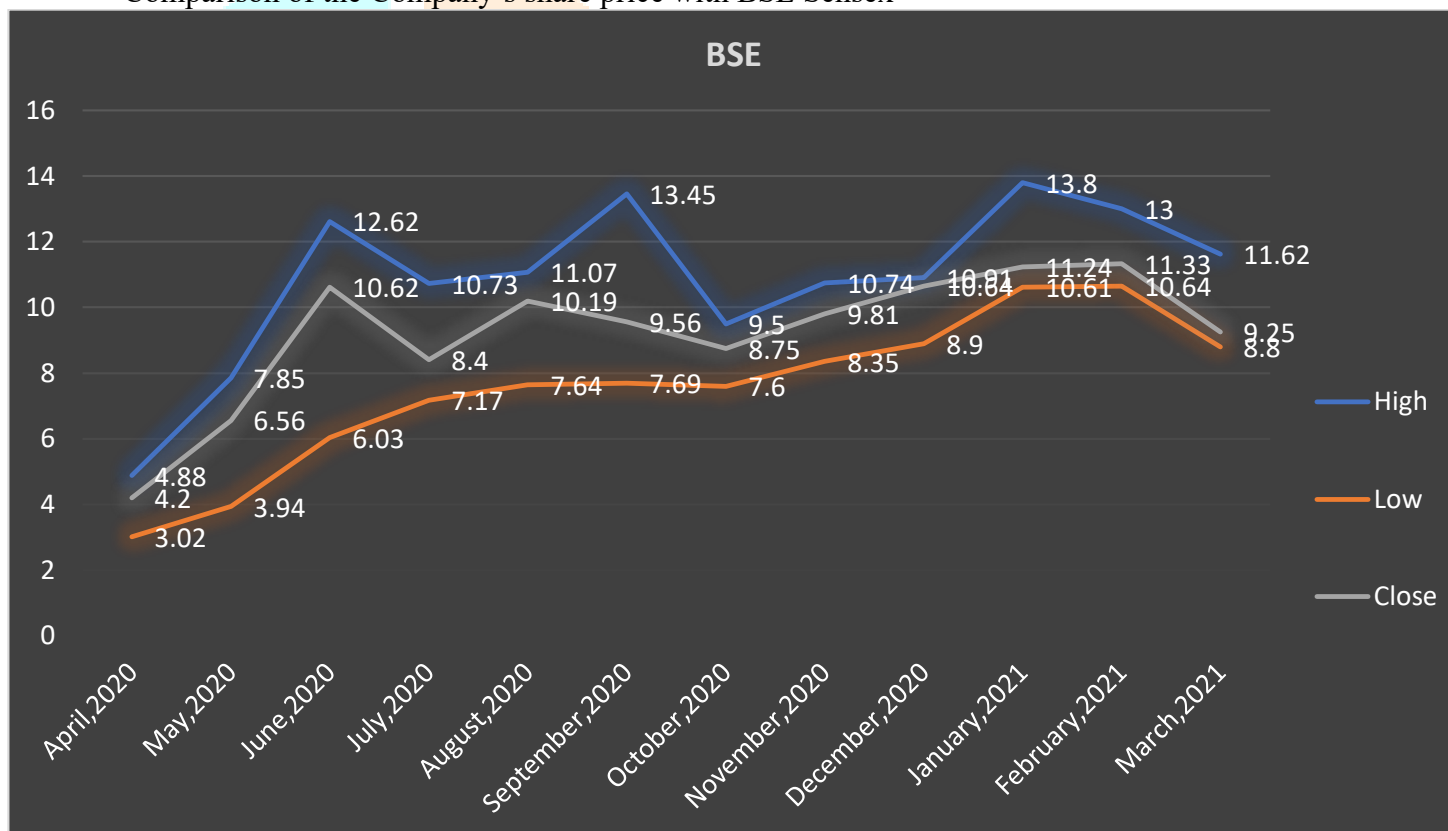
Particulars	For the year ended March 31, 2021	For the year ended March 31, 2020
INCOME		
Service revenue	419,331	449,123
Sale of trading goods	51	44
Other operating income	140	408
Revenue from operations	419,522	449,575
Other income	1,742	10,393
Total income	421,264	459,968
OPERATING EXPENDITURE		
Cost of trading goods	30	39
Employee benefit expenses	20,300	21,643
Network expenses and IT outsourcing cost	95,938	109,916
License fees and spectrum usage charges	41,295	48,482
Roaming and access charges	52,906	59,976
Subscriber acquisition and servicing expenditure	17,677	29,299
Advertisement, business promotion expenditure and content cost	7,875	11,774
Other expenses	14,044	19,321
	250,065	300,450
Profit/(Loss) before finance costs, depreciation, amortisation, share of net profit/(loss) of joint ventures and associate, exceptional items and tax	171,199	159,518
Finance costs	179,981	153,920
Depreciation	145,013	152,080
Amortisation	91,372	91,484
Profit/(Loss) before share of profit/(loss) of joint ventures and associate, exceptional items and tax	(245,167)	(237,966)
Add: Share in profits/(loss) of joint ventures (net)	2,314	3,677
Add: Share in profit/(loss) of associate	-	(124)
Profit/(Loss) before exceptional items and tax	(242,853)	(234,413)
Exceptional items (net)	(199,681)	(383,557)
Profit/(Loss) before tax	(442,534)	(617,970)
Other comprehensive income/(loss)		

Items not to be reclassified to profit or loss in subsequent periods:		
Re-measurement gains/(loss) on defined benefit plans	374	(281)
Income tax effect	(4)	193
Group's share in other comprehensive income/(loss) of joint ventures and associate (net of taxes)	(2)	(2)
Other comprehensive income/(loss) for the year, net of tax	368	(90)
Total comprehensive income/(loss) for the year	(441,963)	(738,871)
Earnings/(loss) per equity share of ₹10 each:		
Basic	(15.40)	(27.26)
Diluted	(15.40)	(27.26)

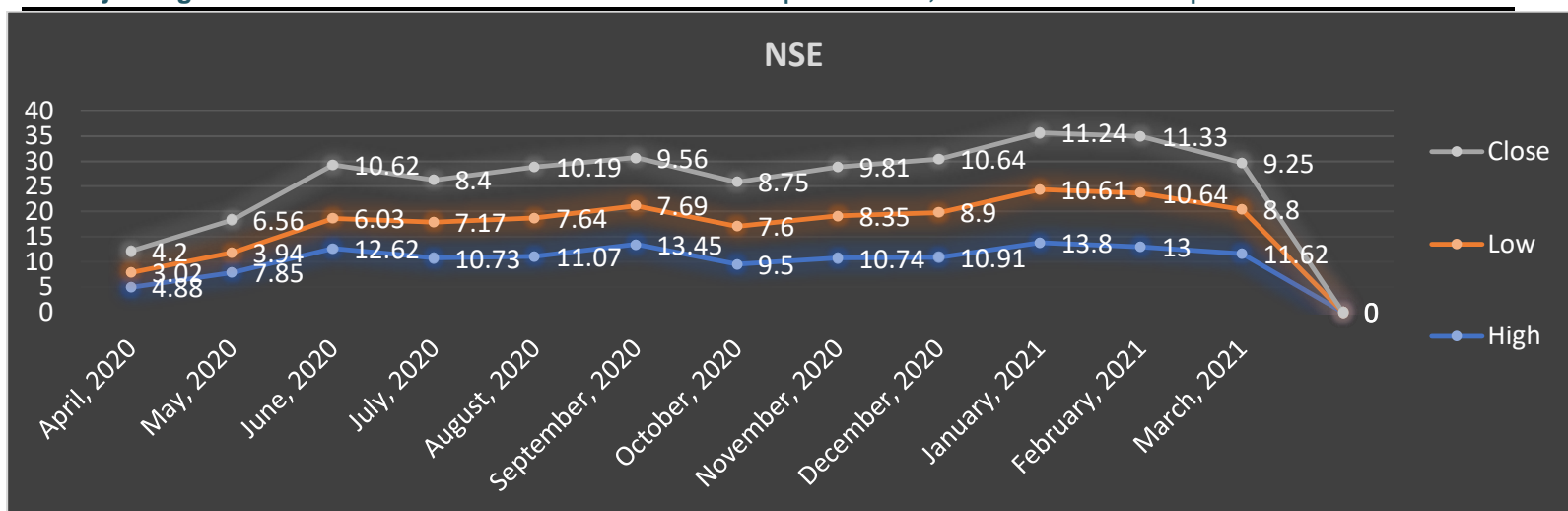
Stock Performance:

The performance of the Company's share price the broad-based BSE and NSE indices during the Financial Year 2020-21 is as under:

- Comparison of the Company's share price with BSE Sensex



- Comparison of the Company's share price with NSE Nifty



Recommendation

The merger of Vodafone and Idea Cellular will be watched keenly by management gurus the world over. It is not often that an Indian company and the subsidiary of a multinational corporation agree to come together. Two brands will lead to extra expenditure and mixed messaging. If the whole idea behind the merger is to achieve synergies and cut costs, there is no reason why both the brands should continue.

Conclusion

It can be concluded that the merger was needed in order to fight the competitive pricing policy taken up by Reliance Jio. The consumer is the most beneficial because of this merger as now all the telecom companies will try to bring in the best technology at the best price and with better customer service in order to maintain customer loyalty. The merger of Vodafone and Idea is a perfect example of a market that mostly benefits the customers. This deal released the telecom industry from the pressure of fierce prices and tariffs. The entry of Reliance Jio into the telecom industry had a huge impact.

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