

# Reliance Communication (RCOM IN)

## Leading consolidation in Indian telecom?

### INDIA | TELECOM | Company Update

15 June 2015

Reliance Communications (RCOM) is in exclusive discussions for a potential merger between itself and Sistema Shyam TeleServices' Indian telecom business through a stock swap. If the deal goes through, it will mark the beginning of consolidation in the Indian telecom sector; it is positive for both RCOM and the sector. Whilst Shyam Sistema has had limited impact on the market, if the union materializes, it will clear the way for future mergers and set precedence (positives and negatives). We view the deal as a minor positive for telecom industry financials, but a major positive in terms of sentiment. Besides, RCOM is shoring up its spectrum assets—clearly, it is positioning itself as an acquisition candidate. Our take on the acquisition is as follows:

**Pooling of spectrum assets:** Shyam Sistema has a total of 35 MHz of spectrum in nine circles of which eight circles have 3.75MHz each in the 800MHz spectrum band; these eight circles are already liberalised and Sistema had paid Rs 37bn for the spectrum acquisition. After recent auctions, RCOM has acquired significant 800MHz spectrum and it has pan-India spectrum on this band; Sistema's acquisition will give RCOM more strength in this band. 800MHz has similar propagation characteristics as 900MHz, but its GSM handset ecosystem is not evolved (while 3G and 4G handset ecosystem is evolving). Pooling of spectrum assets will help in catering to data subscribers and help in competing against the strengthened data arsenal of Bharti, Vodafone, and Idea Cellular.

**Merger and acquisition norms could be a hurdle:** Sistema does not have significant revenue or subscriber market share in any of the circles and the combined market share of the two entities will not breach the 50% ceiling (of subscriber or revenue market share). However, Sistema has significant spectrum in the 800MHz band in nine circles. Merging with RCOM is most likely to hit the ceiling limit of 50% of the band spectrum, which in this case is 800MHz in many circles (seven of the nine). New spectrum trading and sharing norms are yet to be announced. If spectrum caps are raised then such mergers will be simplified. Otherwise, sharing and trading structure at the circle level would be complicated.

**RCOM positioning itself as the acquisition candidate for JIO:** RCOM acquired spectrum in 11 circles to complete its pan-India footprint in the 800MHz band in the March 2015 spectrum auctions. Reliance Jio also acquired 800MHz spectrum in 10 circles. Jio plans to launch services by December with 80% population. Achieving 80% on 2300MHz is an arduous challenge, considering the availability of passive infrastructure, capex requirements, and the state of current deployment. Jio will have to utilise 800MHz, which has superior propagation characteristics, and it will provide the necessary reach for the company for mega launch of data and voice services.

**Industry entering consolidation mode:** The possible merger clearly indicates that the industry is now entering consolidation mode. Consolidation is a significant positive, as the industry has fragmented voice and data markets. There is excess capacity on voice networks while data networks have seen underinvestment because of limited spectrum availability. The recent spectrum auction saw some degree of consolidation of spectrum assets. Further merger of entities will streamline the system inefficiencies and help the market to grow.

## Under Review

CMP RS 59

### COMPANY DATA

O/S SHARES (MN) :	2489
MARKET CAP (RSBN) :	146
MARKET CAP (USDBN) :	2.3
52 - WK HI/LO (RS) :	155 / 55
LIQUIDITY 3M (USDMMN) :	9.7
PAR VALUE (RS) :	5

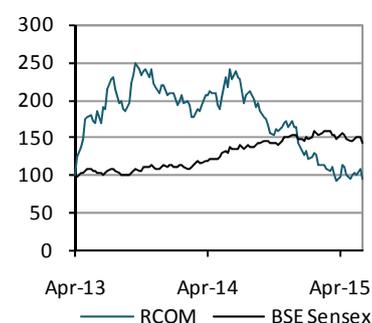
### SHARE HOLDING PATTERN, %

PROMOTERS :	59.7
FII / NRI :	21.8
FI / MF :	8.4
NON PROMOTER CORP. HOLDINGS :	1.6
PUBLIC & OTHERS :	8.5

### PRICE PERFORMANCE, %

	1MTH	3MTH	1YR
ABS	-4.5	-16.3	-60.1
REL TO BSE	-2.8	-7.6	-63.4

### PRICE VS. SENSEX



Source: Phillip Capital India Research

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**Pooling of spectrum**

Circle/Operator	Liberalized		Non-Liberalised		Combined	Maximum Cap	Exceeds M&A guidelines (Y/N)
	RCOM	SSTL	RCOM	SSTL			
Delhi		3.75	5.00		8.75	8.75	N
Mumbai			5.00		5.00	8.13	N
Kolkata	1.25	3.75	5.00		10.00	13.13	N
Andhra Pradesh			5.00		5.00	7.5	N
Gujarat	2.50	3.75	3.75		10.00	7.5	Y
Karnataka		3.75	5.00		8.75	8.13	Y
Maharastra			5.00		5.00	8.13	N
Tamil Nadu		3.75	5.00		8.75	7.5	Y
Haryana	1.25		3.75		5.00	8.13	N
Kerala		3.75	5.00		8.75	8.75	N
Madhya Pradesh			5.00		5.00	7.5	N
Punjab	2.5		3.75		6.25	7.5	N
Rajasthan			3.75	5.00	8.75		NA
Utterpradesh East			5.00		5.00	8.13	N
Utterpradesh West	1.25	3.75	5.00		10.00	8.13	Y
West Bengal	1.25	3.75	3.75		8.75	6.88	Y
Assam	5.00		2.50		7.50	6.25	Y
Bihar			5.00		5.00	8.13	N
Himachal Pradesh	2.50		2.50		5.00	6.25	N
Jammu & Kashmir	2.50		2.50		5.00	6.25	N
North East	5.00		2.50		7.50	6.25	Y
Orissa	1.25		3.75		5.00	6.88	N

Source: Company, PhillipCapital India Research

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