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Publication : Financial Express
Date : 27.05.2009
Edition : Mumbai
Page No. : 08 (C&M)

RComm to demerge optic fibre division

fe Bureau
Mumbai, May 26

Reliance Communications (RCom), India's third largest telecom operator, on Tuesday said it has received approval from its shareholders for the demerger of its optic fibre division and subsequent merger with wholly-owned subsidiary Reliance Infratel. The scheme is now subject to requisite approvals and sanctions, inter-alia of the Bombay High Court. Last week, the shareholders of Reliance Infratel had adjourned the meeting of its shareholders amid reports of minority shareholders raising objection to the scheme of consolidation of RCom's optic fibre division with itself.

Shares of Rcom on the Bombay Stock Exchange took a beating and closed 9.56% down, at Rs 291.45 and at Rs 291.40 down by 9.57%. In January, the board had approved the consolidation of its passive infrastructure business through a scheme of arrangement for demerger of optic fiber undertaking of the company to Reliance Infratel. No additional equity shares will be issued and no change is pro-

For cost savings

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posed in the capital structure of the company in terms of said scheme, the company had then said.

"The de-merger will help reduce set-up and operating costs resulting in cost efficiency coupled with greater financial flexibility," the company said in a regulatory statement. Moreover, the segregation of business into providing telecommunications services and infrastructure will enable both the companies to concentrate on their core businesses. It will also promote high valued standalone business by conversion of cost-centric assets to revenue-centric ones by

sharing of the Infrastructure of Reliance Infratel Limited with other wireless service providers operating in the same field, the statement added

Harit Shah, analyst, Angel Broking, said, "The hiving off of the tower division will largely help the company to focus on its main business of wireless communications."

Reliance Infratel owns, operates, and develops telecom infrastructure, primarily consisting of wireless communication sites and towers. Reliance Infratel currently owns all of the towers used by RCOM's CDMA and GSM wireless networks and is developing additional towers to meet the needs of RCOM and other customers.

The above consolidation of the Optic Fibre division into Reliance Infratel reflects the global trend of segregating the telecommunication infrastructure business, with a view of adopting the best management practices, and to identify the actual economic value add arising out of infrastructure business and telecommunication services businesses.