

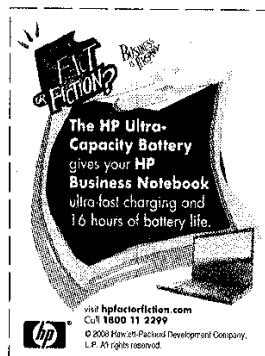
Publication : The Times of India
Date : Monday, March 10, 2008
Edition : Mumbai
Page : 23 (Times Business)

RCom to issue 1.75cr shares under ESOPs

TIMES NEWS NETWORK

Mumbai: Just when you thought employee stock options (ESOPs) had been given a quiet burial, it seems to be finding its way back. On Sunday, Reliance Communications (RCom), the telecom arm of the Anil Dhirubhai Ambani Group (ADAG), said it will offer up to 1.75 crore shares of the company to about 20,000 employees. At current market prices of a little over Rs 545 for each RCom share on BSE, the plan is worth about Rs 950 crore. It was put in place to share the growth in value and reward its employees for having participated in the unprecedented success of the company, a press note issued by the group said.

When looked at from a macro perspective though, the announcement is a significant one. In some sense, it signals how intense the telecom battle has gotten in the country. To get a sense of that, it is important to first come to terms with how the industry is evolving in India. While the Indian telecom business is clearly the world's fastest growing, it is also maturing quickly. Most telecom analysts reckon the industry now has an upside of



roughly 300-350 million subscribers before growth begins to plateau. By no stretch of imagination is that a number to be puffed at. That said, the fact is that instead of consolidating, the business is attracting newer entrants. Many have applied for licences and an ugly battle for spectrum is being played out. Over the next couple of years, therefore, incumbents in the business will have to share the spoils with a lot more competitors than those that exist today.

The entry of new players will also translate into them battling for people. For any player to have a good chance at grabbing the telecom upside, it will need to retain people.

When looked at from that perspective, ESOPs seem a good enough incentive as any to retain people. The announcement also makes RCom the first player in telecom to offer its people ESOPs. There is good chance that competition may feel compelled to follow suit.

Interestingly, RCom was the first telecom company to offer key executives an ESOP plan. But that was in the days when the Ambani brothers were together. In fact, in October 2000, Dhirubhai Ambani, the family patriarch had put in place three conditions for investing in the telecom business.

One, that RIL will invest upto 50% capital for the new venture. Two, that the family will get an equal stake. And finally, that the investment must present a considerable upside for all stakeholders. Based on these guidelines, it was decided that RIL and the family will get 45% each in the telecom business while the balance will go as ESOPs to employees. Since then though, the brothers split and a bitter battle was fought around elder brother Mukesh Ambani's sweat equity in the company.

The episode was buried when the Ambani empire was split between both brothers.