

# **Presentation to Media / Analysts**

**2<sup>nd</sup> June 2017**

# AGENDA

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- ❑ **Challenges faced by Telecom Companies and various Government Initiatives**
- ❑ **Current business profile of RCOM group**
- ❑ **Update on the strategic transactions**
  - Combination of wireless business into Aircel
  - Sale of Tower Assets to Brookfield
- ❑ **Way forward**

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- Challenges faced by Telecom Companies and various Government Initiatives**
- Current business profile of RCOM group
- Update on the strategic transactions
  - Combination of wireless business into Aircel
  - Sale of Tower Assets to Brookfield
- Current issues
- Way forward

# Telecom Sector is critical for the Economy

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**The Indian Telecom Sector has performed yeoman service to the Indian economy and social fabric since the very inception of economic liberalization.**

It has been the showpiece of the Indian economic upsurge story coupled with Information Technology services in establishing India firmly on the Global economic map.

- ❑ The Telecom sector directly and indirectly contributed 6.5% to the overall GDP in 2015 and in the era of the digital economy this contribution is only amplified.
- ❑ ICRIER estimated that a 10% increase in rate of mobile penetration delivers on average of 1.5% increase in rate of GDP growth.
- ❑ The sector provided direct and indirect employment to over 40 Lakh persons.
- ❑ The sector contributed ~INR 1.3 Lakh Cr. annually to the national exchequer.
- ❑ Cumulative investments in the sector amount to over INR 10 Lakh Cr

The sector is the bedrock of Digital India and is crucial to enable the digitization vision of the government

## Total liabilities of the telecom industry as on 31 March 2017

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<b>Industry Gross liability</b>	<b>INR Cr</b>
Indian debt and External Commercial Borrowings	~280,000
Deferred Spectrum Payments to Gol / DoT*	~295,000
Liabilities of Bond holders, vendors financing & creditors	~200,000
<b>Total</b>	<b>~775,000</b>

\*Deferred Spectrum Payments include the interest component

## Current stress in the telecom sector

### Reality Check

- ❑ FY 17 was the first time since inception that the Industry's revenue and EBIDTA declined.
- ❑ The combined revenues (the "revenue table") of the industry went down to an estimated INR 2,10,000 Cr in FY 17. Further in FY18, revenue is estimated to decline further by ~INR 25,000 Cr.
- ❑ This resulted in fall in EBITDA by INR 12,000 Cr (~INR 53,000 Cr in FY 17 compared to ~INR 65,000 Cr in FY 16), i.e. significantly lower operating cash flows for the Telecom Companies.

Revenues (INR Cr)	FY 13	FY 14	FY 15	FY 16	FY 17
Bharti Airtel	76,905	85,746	92,039	96,532	95,468
Idea	22,458	26,519	32,041	36,163	35,583
RCOM	21,778	22,321	22,098	22,113	19,949
EBITDA					
Bharti Airtel	23,334	27,843	31,452	34,190	35,621
Idea	6,005	8,334	11,281	12,181	10,583
RCOM	7,159	7,726	7,518	7,454	5,392

INR Cr	Q2 FY 17		Q3 FY 17		Q4 FY 17	
	Revenue	EBITDA	Revenue	EBITDA	Revenue	EBITDA
Airtel	24,651	9,460	23,335	8,570	21,934	7,992
Idea	9,300	2,840	8,662	2,165	8,126	2,196
RCOM	5,141	1,541	4,922	1,205	4,524	1,083

**Double digit de-growth in revenue and profitability in last 2 quarters**

## Performance: Declining sector operational performance

**The New Entrant introduced Promotional Free Offers in September 2016. The free offers continued up to 31 March, 2017**

- ❑ All operators were compelled to match the unlimited free voice and reduced data tariffs to protect customer base, resulting in revenue slide
- ❑ This has resulted in steep declines in both voice and data tariffs and realization.
  - **Voice Revenue per minute (RPM):** ~25% fall between Q2 FY17 and Q4 FY17
  - **Data Revenue per MB (RPMB):** ~40% fall between Q2 FY17 and Q4 FY17. In some plans it has dropped to ~INR 0.03/MB

Company	Q2 – FY 17 (INR)			Q4- FY 17 (INR)			Growth rate of Q4 over Q2 (%)		
	ARPU	RPM	RPMB	ARPU	RPM	RPMB	ARPU	RPM	RPMB
Airtel	188	0.32	0.20	158	0.24	0.12	-16.0	-25.2	-39.3
Idea	173	0.33	0.19	142	0.26	0.12	-17.9	-21.8	-38.5
Rcom	155	0.29	0.00	141	0.21	0.00	-9.0	-25.6	-

- ❑ **Drop in Operating performance: Revenue** by ~15-20% and **EBITDA** by ~25-30% in Q4 vs Q2
- ❑ **Fall in Government revenues:** ~20% reduction in the same period. Going forward it is expected to decline further
- ❑ **Return on Capital:** Meagre 2%, lowest among all infra sectors and much less than the bank deposit rates
- ❑ **Employment loss:** Employment in sector being curtailed, with job losses of ~10,000 in last year and expected losses of ~30,000-40,000 jobs in next 12-18 months

# Impact on Government of India

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## Reduced Cashflows also hampering capacity of telecom companies:

- ❑ Ability for any future purchase of spectrum is impaired, leaving Govt's spectrum holding of INR 5 lakh crore unsold (**about 60% of spectrum on offer**), negatively impacting government budgeting exercise
- ❑ Inability to modernize telecom infrastructure, making India's broadband speeds (a key development index globally) lag behind other countries
- ❑ Digital India Vision's execution – it would slowdown the rural coverage and reach



# Deteriorating Credit Profile of the Telecom Industry

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All rating agencies have raised serious concerns on the state of the sector

❑ **Fitch** statement:

*“Negative outlook reflects expectation of longer and deeper than expected deterioration in the credit profile of telcos following the extended free services by Reliance Jio.”*

❑ **India Ratings & Research (A Fitch Group Company)** statement:

*“IndRa has revised the outlook on the telecom sector to negative for FY18 from stable to negative for FY17 due to intensified competition.”*

❑ **CRISIL** statement:

*“At least, two out of the top three telcos will bleed in FY18, but competition will only heat up further..... The profitability picture appears grim with aggregate EBITDA margins of the telecom industry (excluding Jio) expected to drop further by 50 to 100 basis points (bps) in fiscal 2017-18, which will be over and above the 600 bps drop estimated for FY17.”*

❑ **Moody’s** statement:

*“We still expect intense price competition to persist over the next few quarters, as incumbents such as Bharti, Vodafone India (unrated) and Idea Cellular respond in efforts to protect their subscriber market shares.”*

## Consolidation and exit of Telecom players

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Process of consolidation started in FY 2008 and currently industry is consolidating from 14 to 6 players in FY 2017

- ❑ Airtel has acquired Videocon and BWA spectrum from Aircel and has announced merger with Telenor and Tikona
- ❑ RCOM is acquiring SSTL and has announced sale of wireless business to Aircel
- ❑ BSNL is planning to merge with MTNL
- ❑ Vodafone and Idea have announced merger
- ❑ DoCoMo has exited India after selling stake in Tata Teleservices; Tata Teleservices & Tata Teleservices Maharashtra Limited going to be a standalone player
- ❑ Jio is the new entrant
- ❑ Global players like Etisalat, MTS and Telenor have exited / are exiting the market due to unviability of business

# Unsustainably High Level of Tax Incidence

Telecom is one of the highest taxed sectors of the Indian economy – cumulative tax incidence of ~33% of revenues. Globally, no other country has such high tax burden on its telecom sector.

- ❑ License Fees of 8% of revenue
- ❑ Spectrum Usage Charges of 5.5% on average
- ❑ Microwave spectrum levy of 1.5%
- ❑ Proposed GST of 18% of revenue
- ❑ Interconnect Usage Charges of 14 p / min

## Sample comparative tax rates

Country / Region	Tax (%)
European Union	20
South Africa	24
Sri Lanka	20
Thailand	29
China	22
USA	17

**From Revenue per minute of ~INR 0.40, fixed charges\* (levies, fixed payments) account for [INR 0.29 (~70%)], leaving very less cash for operations and financial returns**

## Negative Impact on Sector

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**The reduced EBIDTA of the industry is insufficient to cover existing debt obligations and deferred payment commitments**

Particulars	INR Cr
Estimated FY18 EBITDA	43,000
Annual interest payments (@10.5%)	27,000
Annual loan repayment obligation	50,000
Spectrum related deferred payment obligation	20,000
Annual capital expenditure	65,000

**Cash deficit of ~ INR 120,000 Cr per year**

## Formation of Inter-Ministerial Group

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- ❑ On March 29, 2017, The Government of India constituted an IMG.
  
- ❑ The terms of reference of IMG are as follows:
  - i. To examine systemic issues affecting viability and repayment capacity in telecom sector and furnish recommendations for resolution of stressed assets at the earliest.
  
  - ii. Policy reforms and strategic interventions for the telecom sector.
  
- ❑ The IMG is authorized to invite nominees from telecom sector and financial institutions and co-opt any other Members.
  
- ❑ IMG shall submit its recommendations within 3 months.
  
- ❑ IMG has already started engaging with all stakeholders to get a view on the issues and possible recommendations.

# Industry Submission to GoI for critical policy interventions

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## A – Deferment of Payment Liabilities

- ❑ DOT Levies (Adjusted Gross Revenue related payments) – Moratorium for 3 years
- ❑ Spectrum related deferred payment obligations – Moratorium for 3 years
- ❑ Service Tax / GST – Moratorium for 3 years
- ❑ Interest on DOT Spectrum Payments to be calculated using SBI's base rate

***The above policy steps would help the Telecom Industry in short term cash-flow relief***

# Industry Submission to GoI for Critical Policy Interventions

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## B – Optimization of Payment Liabilities

- ❑ **License Fees:** propose to reduce to 5% (reduction of 3% from existing 8%) and payment to be annually in arrears
- ❑ **Spectrum Usage Charges:** propose to reduce to uniform rate of 1% and payment to be annually in arrears
- ❑ **Deferred Spectrum Charges:** Repayment period of the existing liabilities to be spread over the remaining tenure, concomitant with spectrum life
- ❑ **Mobile Termination Charges (MTC):** should be discontinued given free/low voice tariffs environment

*The above policy steps would help the Telecom Industry recover the financial health*

## C – Flexibility in Financing Arrangements

- ❑ RBI should instruct banks to follow “5/25” scheme to disburse long term loans to telecom operators
- ❑ Current ECB policy restrictions should be relaxed, to tap large forex funding pool
  - Short term tenure of 3 to 5 years with larger amounts should be allowed.
  - Pricing cap of 500 basis points over LIBOR should be relaxed to applicable market rates.

***The above policy steps would help the Telecom Industry in cost-effective refinancing, helping in infusing financial health.***



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- ❑ **Current business profile of RCOM group**
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  - Sale of Tower Assets to Brookfield
- ❑ Way forward

# Current business profile of RCOM group

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## Wireless Business

~85 Mn Wireless customers with Pan India operations with long dated spectrum offering voice and data across 4G/3G/2G services

## Tower business

One of the largest tower infrastructure companies in India with 43,000 towers

## Fiber business

1,92,000 RKM of Intercity and Intracity fiber serving all 3G & 4G operators and ISPs

## Enterprise & IDC Business

35,000 India Enterprise customers, full suite of voice and data services and 10 data centers comprising over 1Mn Sq Ft.

## GCX

68,698 Km global submarine Cable Network & 46 Landing Points in 27 Countries and over 200 international carrier customers

## DTH

~5 Mn subscribers pan India

## Real Estate

Prime real estate of over 130 acres in Navi Mumbai / DAKC, 5 acres in the heart of Delhi and other places

## RCOM Group- Key Indicators in FY 2017

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Key Indicators	INR Cr	Numbers
Net Assets	~72,000	
Spectrum Value	20,000	
Net Worth	27,500	
Shareholders		~1.6 Mn, of which Foreigners hold 16% and Indian retail shareholders are 13%
Customer Base		~92 Mn Retail Customers and 35,000 Enterprises
Employment		~75,000

# Wireless Business

Reliance Communications is an integrated telecommunications service provider. The voice and non-voice business is driven by 2G/3G/4G based wireless services to consumers on a nationwide basis.

## Spectrum Advantage

- Nationwide Spectrum Sharing Arrangements (RCOM's access to Jio's state-of-the-art 4G network)
- Ample spectrum in **18 circles** :  
**>=10MHz in 11 circles and 8.75MHz in 7 circles**

Spectrum	Technology
800 Mhz	4G
1800 Mhz	2G
2100 Mhz	3G

## Key Performance Indicators

Metric	March-2017
Total customer base	84.7 mn
Active customers	79.6 %
Average Revenue Per User	INR 141
Revenue per minute	0.344
Data customer	28.3 mn
Total minutes of usage	105.6 bn mins
Total NLD minutes	15,630 mn mins
Total ILD minutes	4,584 mn mins

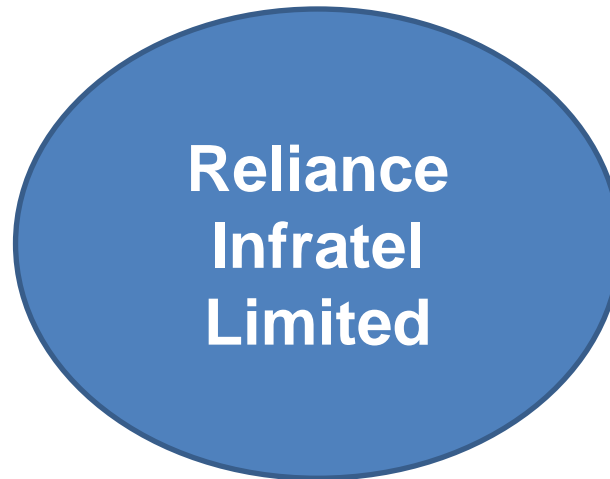
# Tower Business

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43,000+ towers  
spread across India

High Quality Cell  
sites to support  
tenancies upto 4x  
and beyond

Established Anchor  
tenants and  
successful track  
record of 3<sup>rd</sup> party  
tenancies



Largest standalone  
tower portfolio in  
India with a single  
controlling  
shareholder

Portfolio of fiberized  
and fiber ready  
towers essential for  
data led tenancies

GBT Heavy Towers-  
Higher Tenancies  
and Better range

## Other Businesses

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### Fiber business

- 1,92,000 RKM of Intercity and Intracity fiber serving all 3G & 4G operators and ISPs

### Enterprise & IDC Business

- **Enterprise Business:** 35,000 India Enterprise customers , full suite of voice and data services
- **Data Centre Business:** 10 data centers comprising over 1Mn Sq Ft.
- **Carrier Business:** Comprises of National Long Distance Data

### GCX

- 68,698 Km global submarine Cable Network & 46 Landing Points in 27 Countries and over 200 international carrier customers
- IP services , Managed Network Services, Private line services

### DTH & Consumer Broadband

- **~5 Mn subscribers pan India**

### Real Estate

- Prime real estate of over 130 acres in Navi Mumbai / DAKC, 5 acres in heart of New Delhi and other places in India

# Agenda

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- ❑ Challenges faced by Telecom Companies and various Government Initiatives
- ❑ Current business profile of RCOM group
- ❑ **Strategic Transformation**
  - Combination of wireless business into Aircel
  - Sale of Tower Assets to Brookfield
- ❑ Way forward

# Strategic Transformation Drivers

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Anticipating enhanced competitive pressure in future, RCOM launched a strategic transformation program in 2015

- ❑ Strategic Initiatives
  
- ❑ Deleveraging
  
- ❑ Competitive Edge
  
- ❑ Sustainability of Operations
  
- ❑ Profitability



# RCOM Challenges and Responses in FY 2017

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- ❑ Expiry of 900 MHz spectrum in 5 Eastern Circles
  - a. RCOM's 900 MHz spectrum holding in 5 Eastern Circles expired in Dec-2015; full year impact in FY 2017
  - b. Owing to the prevailing inordinately high spectrum prices, RCOM chose not to buy in these 5 circles and entered into an ICR arrangement with Vodafone for operational continuity which was costlier
  
- ❑ Migration from CDMA to 4G
  - a. RCOM initiated the migration from CDMA to 4G in 2016
  - b. In order to free up its valuable 800 MHz spectrum for future proof 4G , the spectrum was liberalized from CDMA to 4G which enabled sharing and trading. The Company paid ~INR 7,000 Cr for liberalization
  - c. This enabled the creation of India's most advanced 4G network with Jio under a capital light model for RCOM;
  
- ❑ Kickstarted strategic initiatives for overall business optimization

# RCOM's Strategic Initiatives

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- ❑ Strategic merger of SSTL
- ❑ Strategic Tie-up with Jio
- ❑ Strategic sale of Wireless Business to Aircel
- ❑ Strategic sale of Tower Assets to Brookfield, Canada

# Transformation– Strategic Merger of SSTL

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## Strategic Rationale

- ❑ RCOM will acquire 30 MHz of valuable and superior 800 Mhz band spectrum in 8 Key Circle of Delhi, Gujarat, Kolkata, Karnataka, Tamilnadu and Kerala
- ❑ RCOM will have extended validity of its spectrum by 12 years to FY 2033
- ❑ The cost to acquire the spectrum in FY 2020 would have been over INR 12,000 Cr
- ❑ SSTL spectrum value is INR 7,500 Cr

## Status

Approval	Status
SEBI	Received
CCI	Received
Shareholders	Received
High Courts	Received
DoT	Received, final NoC awaited

**Process was delayed by 9 months from Feb, 2016 to Oct, 2016 in Bombay High Court by one shareholder holding <10 shares of RCOM**

**Transaction is expected to close by 30 June 2017**

## Transformation 2 – Strategic Tie up with Jio

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- ❑ **Tower Monetisation** : Long term agreement to utilise RCOM's full tower portfolio . RCOM also has reciprocal rights to utilize RJIO towers on same terms
- ❑ **Inter-city and intra-city Fiber**: Monetisation / Sharing of nationwide inter-city and intra-city fiber optic network infrastructure with reciprocal access to RCOM. Contributing significantly to Balance Sheet. RCOM also has reciprocal rights to utilize RJIO fiber on same terms

### Future growth on Opex light model

- ❑ **4G Spectrum Trading & Sharing arrangement** in 800 Mhz band : Resulted in capex savings of over INR 20,000 Cr and three years time to deploy / launch of 4G network.
- ❑ **4G ICR arrangement with Jio** to obtain access to 1800 / 2300 Mhz 4G spectrum bands for higher speed and better customer experience.

### 4G Pan India Network on a Capital light model

# Transformation 3 – Strategic Sale of Wireless Business to Aircel

## Aircel Transaction

- ❑ **New Company to be called AirCom**
- ❑ **Rationale**
  - Scale in marketplace – 10% RMS and 16% CMS with over 180 Mn customers
  - Synergy value of INR 20,000 Cr in fiercely competitive market
  - Spectrum value of INR 28,500 Cr.; 2G spectrum validity extended by 5 years
  - Debt reduction of RCOM group by INR 14,000 Cr
  - 50% stake in AirCom will enable future upside
- ❑ **Status**
  - Definitive Documents were signed during September 2016

Approval	Status
Stock Exchanges	Received
CCI	Received
Shareholders	Received
Lenders	Pending – Formal consent process to start shortly
NCLT	Final petition for approval of the scheme submitted and will be heard on 28 <sup>th</sup> June, 2017
DoT	Pending

**Transaction expected to be completed by 30 September 2017**

# Transformation 4– Strategic sale of Tower Assets

## Tower Transaction with Brookfield, Canada

### ❑ Rationale

- **Reduction of debt:** INR 11,000 Cr.
- **49% economic upside**, after 3 years (non-monetization clause for 3 years) through strategic sale or an IPO after 5 years

### ❑ Status

- Definitive Documents were signed during December 2016
- NCLT approval is in process

Approval	Status
CCI	Received
IP-1 & Corporate Registration	Received
Shareholders	Received
NCLT	Pending – to be heard on 28 <sup>th</sup> June 2017
Lenders	Pending – Formal consent process to start shortly

**Transaction expected to be completed by 30 September 2017**

## Debt: Post transactions

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	INR Cr
<b>Current Net Debt on 1<sup>st</sup> June 17</b>	45,000
Debt repayment from Aircel proceeds	(14,000)
Sale of Tower Business	(11,000)
<b>New Reduced Debt</b>	<b>20,000</b>

*Only fund based debt has been considered*

**Reduction in  
Debt by ~ 60%**

**The Company is developing plans for further deleveraging and servicing of balance debt, which may inter alia include the following;**

- Strategic Transaction of Global / Indian Enterprise business and Data Centres
- Strategic sale of DTH business
- Monetization of 49% economic upside in tower company
- Monetization of Dhirubhai Ambani Knowledge City & Delhi Property
- Monetization of 50% stake in Aircel

# RCOM Group post transactions

<b>Enterprise &amp; IDC Business</b>	Stable and long-term customer contracts
<b>GCX</b>	The emerging market's largest and highest capacity subsea cable system
<b>Fiber business</b>	Inherent business capacity and long term contracts
<b>DTH &amp; Consumer Broadband</b>	~5 Mn subscribers pan India
<b>Real Estate</b>	Prime real estate of over 130 acres in Navi Mumbai/DAKC , 5 acre in the heart of New Delhi and other places
<b>Strategic Holdings</b>	<ul style="list-style-type: none"><li>• 50% equity stake in AirCom wireless</li><li>• 49% economic upside in Tower Company. (51% valued for INR 11,000 Cr)</li></ul>

**Cash flows of remaining businesses are annuity-like and stable in nature.**



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# Debt Resolution Plan

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- ❑ Reliance Communications' Lenders constitute Joint Lenders' Forum (JLF)
- ❑ RCOM to receive STANDSTILL ON DEBT SERVICING OBLIGATIONS for interim period of 7 months, till December 2017
- ❑ Lenders take note of advanced stage of implementation of strategic transactions of Wireless and Towers business for debt reduction of Rs 25,000 crore, or ~60%
- ❑ Lenders to give RCOM time of 7 months till December 2017 to complete the strategic transactions
- ❑ RCOM to also present plan for sustainable long term servicing of remaining debt of Rs 20,000 crore

**Thank You**

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