After one unsuccessful attempt, Reliance Communications (RCOM) has fast-tracked its plan to offload up to 95 per cent stake in its tower arm, Reliance Infratel Limited (RITL).

The company initiated discussions with private equity (PE) firms Blackstone and Carlyle in late 2011, and the deal was scheduled to be closed in January this year. Now, after several rounds of negotiations, the private equity majors have signed a term sheet to acquire stake in the tower company.

Prior to this, RCOM had come close to offloading the business to GTL Infrastructure. However, the proposed Rs 500 billion deal fell through due to differences over its valuation.

Selling a stake in RITL has been on RCOM's agenda for some time now, especially since it is on a sticky financial wicket. If the transaction is successfully concluded, it would help the company reduce around Rs 360 billion of debt from its books.

Background

RITL, formerly Reliance Telecom Infrastructure Limited, has a pan-Indian presence with a portfolio of about 50,000 towers.

RCOM holds a 95 per cent stake in the company through its wholly owned subsidiary, Reliance Communications Infrastructure Limited, and other trusts and holding companies. In August 2007, the operator sold a 5 per cent stake in RITL to seven financial investors for $337.5 million.

Industry implications

Like its peers, RITL has been going through a rough patch owing to uncertainties in the telecom sector.

The Supreme Court's cancellation of 122 2G licences is expected to impact the fund-raising plans of tower companies. According to industry analysts, the licence cancellation would mean fewer tenants for towers in the medium term. In the long term, a new auction process may result in fewer players being able to access spectrum, thereby reducing the demand for towers. Revenues are thus expected to be impacted severely, with the annual rental income coming down by Rs 20 billion to Rs 25 billion.

The licence cancellation would particularly affect tower companies that had developed infrastructure in anticipation of major network roll-outs by the new players. The effects are already visible in the annual tower additions, which have reduced significantly.

Therefore, tower companies have shifted their focus from adding tower sites to improving the efficiency of existing towers and cost reduction through partnerships.

As part of this partnership, these companies plan to share business opportunities with each other. They have also reportedly begun using common contractors and resources to manage operational expenditure for towers located in contiguous regions. Also, these companies plan to establish independent renewable energy companies that will generate and supply green power to run towers. The Towers and Infrastructure Providers' Association is preparing a request for proposal document for the initiative that will help save the cost of diesel for running towers, especially in areas where grid power is not available.

Recent setbacks

In another setback for RITL, Infotel Broadband Services has shelved its plans of leasing out towers for 4G services. Earlier this year, Infotel had invited bids from tower operators for leasing about 26,000 towers across the country for the first phase of its wireless broadband foray. RITL was looking to win this contract, which would have helped improved its valuation.

Recently, the company made headlines for its dispute with Etisalat DB and S Tel. RITL had filed a petition against Etisalat DB to recover dues of Rs 12 billion with the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) for providing its telecom infrastructure to the operator.

It has filed a similar case against S Tel and is looking to recover Rs 700 million from the operator. In its latest ruling with regard to the company's claim against S Tel, TDSAT has barred the operator from transferring its property to a third party until the Delhi High Court takes a final decision on the issue. Also, the tribunal has asked RITL to not bar the company from accessing its towers.

Analyst views

Regulatory uncertainty aside, industry experts are concerned about the proposed stake sale as a consensus has not been reached on RITL's valuation. Currently, the deal value is estimated to be Rs 150 billion to Rs 200 billion. Importantly, disagreement on the stake's valuation was the key reason for the failure of the previous deal with GTL. However, this time the company may just strike the right note.

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