

COMPANY PROFILE

# Reliance

# Communications Limited

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## COMPANY OVERVIEW

Reliance Communications Limited (RCOM or “the company”) is an integrated and converged telecommunications service provider in India. The company is part of the Reliance Anil Dhirubhai Ambani Group. RCOM offers wireless, wireline, long distance, voice, data, video and internet and information technology infrastructure services. It also offers direct-to-home (DTH) television (TV) services under the brand, Big TV. The company primarily operates in India where it is headquartered in Navi Mumbai and employed 14,169 people as of March 31, 2014.

The company recorded revenues of INR223,210 million (\$3,705.3 million) during the financial year ended March 2014 (FY2014), an increase of 2.5% over FY2013. The operating profit of the company was INR31,910 million (\$529.7 million) in FY2014, a decrease of 3.7% over FY2013. The net profit of the company was INR10,470 million (\$173.8 million) in FY2014, an increase of 55.8% over FY2013.

## KEY FACTS

<b>Head Office</b>	Reliance Communications Limited Dhirubhai Ambani Knowledge City Navi Mumbai - 400 710 IND
<b>Phone</b>	91 22 303 86286
<b>Fax</b>	91 22 303 76622
<b>Web Address</b>	<a href="http://www.rcom.co.in">http://www.rcom.co.in</a>
<b>Revenue / turnover (INR Mn)</b>	223,210.0
<b>Financial Year End</b>	March
<b>Employees</b>	14,169
<b>Bombay Stock Exchange Ticker</b>	532712
<b>Luxembourg Stock Exchange Ticker</b>	US75945T2050
<b>National Stock Exchange Ticker</b>	RCOM

## SWOT ANALYSIS

Reliance Communications Limited (RCOM or “the company”) is an integrated and converged telecommunications service provider in India. The company's well integrated operations can prove to be a competitive advantage by allowing it to maintain control on quality of services delivery and to expand its offerings. However, intense competition may impact the company's market share in the coming years.

<b>Strengths</b>	<b>Weaknesses</b>
Integrated operations Strong market position Well established network	Voice volume growth below industry levels
<b>Opportunities</b>	<b>Threats</b>
Increasing adoption of cloud computing Positive outlook for DTH and IPTV markets in India Increasing demand for data to drive growth both in the Indian markets and global wholesale markets	Intense competition Alternate technologies may impact the company's business MNP impacts customer base

### Strengths

#### Integrated operations

RCOM is an integrated and converged telecommunications service provider in India. The company's operations encompass wireless, wireline voice, data, video, internet and information technology (IT) infrastructure services. As of FY2014, it has established a pan-India, next generation, integrated (wireless and wireline), convergent (voice, data and video) digital network that is capable of supporting services spanning the entire communications value chain, covering over 21,000 cities and towns and 400,000 villages. RCOM also owns and operates the world's largest next generation internet protocol (IP) enabled connectivity infrastructure, comprising over 280,000 kilometers of fiber optic cable systems in India, the US, Europe, Middle East and the Asia Pacific regions. The company has a customer base of about 118 million including over 2.6 million individual overseas retail customers.

The company's national networks are integrated with its international networks. It has relationship with over 290 global, regional and domestic carriers. The company through Global Cloud Exchange delivers managed services to more than 160 countries. In addition, RCOM's consumer and small and medium enterprise (SME) offerings are supported by one of the extensive distribution networks

in India. The company's infrastructure businesses are mainly handled by Global Cloud Xchange. It operates owned and leased terrestrial networks with a total length of 83,432 route kilometers (rkm) in over 34 metropolitan areas across 14 countries covering major business centers.

It also has global IP and multi-protocol label switching (MPLS) network that provides over 27 diverse owned and leased international subsea and terrestrial cable routes with 836 direct inter-connections to 342 third party networks. In addition, it operates a managed network services platform that connects approximately 27,000 sites in 158 countries through a combination of leased and owned infrastructure offered through a dedicated secure IP network. The company's established infrastructure made it the only player in India offering both GSM and CDMA services on a nationwide basis, as well as significantly reduced the capital required to establish infrastructure for launch.

RCOM's integrated operations provide several synergies. The company is present across the telecom market and is well poised to launch several new services to diversify its portfolio. Further, the company is able to offer all these diverse services on its network allowing greater control on quality of service delivery. These factors equip the company with several competitive advantages.

#### Strong market position

The company has established itself as a significant player in the Indian telecom market. It is one of the largest private integrated telecom companies in India and is among the top 10 wireless operator in terms of customer base. The company is one of the six players in the DTH segment with a market share of 8%. The company is one of the leading providers of wireless communications services in India and had a market share of 12.3% at the end of March 2014. In addition, RCOM is one of the largest internet service providers in India with a market share of 14.9% in FY2014. The company serves over 39,000 Indian and multinational corporations including small and medium enterprises and over 290 global, regional and domestic carriers. The enterprise customer base of the company includes 880 of the top 1,000 enterprises in India.

It is also the largest carrier of international voice minutes with a market share of 30% for international long distance (ILD) wholesale inbound traffic. The company has a strong and rapidly growing enterprise business segment outside India as well. Moreover, RCOM is world's largest private submarine cable system owner and capacity provider. In addition, Reliance IDC is one of the largest players among the 10 data centers in India.

Significant market position provides RCOM with a strong base to exploit the growth prospects across the telecom industry.

#### Well established network

Reliance has a well established network over which it offers data services. RCOM is the leading player in the data card market with a market share of 12.3% in the wireless market. The company offers its services to 37.4 million data customers, including 12.9 million 3G customers. The company has its network in 1,624 towns across the country, including key metros. This includes 334 towns in 13 circles (including Delhi, Mumbai and Kolkata) in 3G. The company has also launched 3G services

in additional five circles namely Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and Uttar Pradesh (East), through Intra Circle Roaming arrangements and expanded its 3G coverage to 18 circles.

In addition, with the company has its 1X data presence in over 19,000 towns, through which it offers high quality internet connectivity. In addition, the company has entered into 2G and 3G Intra-Circle Roaming arrangements with various operators that enabled it to expand its network coverage. In addition, in March 2015, RCOM launched long term evolution (LTE) nationwide on 800/850 MHz band in India, and became the only operator with nationwide footprint on 800/850 MHz spectrum. Through its well established network, RCOM is well positioned to take advantage of the expected rapid increase in data consumption across the country.

## **Weaknesses**

Voice volume growth below industry levels

The company has been witnessing a substantial decline in its customer base during the years. Its subscriber base has declined from a peak of 153 million in FY2012 to 111 million in FY2014 at a compound annual rate change (CARC) of 15% during 2012-14. This decline in customer base was due to weeding out of inactive customers, however, the active subscriber base declined at a quarter over quarter rate of 2% and reached 107.5 million in the third quarter of FY2015. Further, according to industry estimates, overall subscribers for the telecom sector increased from 812 million subscribers in FY2011 to about 903.3 million subscribers FY2014 at a compound annual growth rate (CAGR) of 4% during 2011-14. Further, the company's competitors, Idea Cellular and Bharti Airtel, had a strong subscriber base during the years. In FY2014, Idea Cellular and Bharti Airtel had a subscriber base of 136 million and 295.9 million, respectively. Similarly, the company's minutes of usage were significantly below its competitors volumes.

The voice calling market in the Indian telecommunications industry and the company's competitors operating in the same industry, reported a strong increase in customer base. However, RCOM reported a significant decline which would have an adverse impact on the market share of the company. It would also have a negative impact on the results of operations and the business of the company.

## **Opportunities**

Increasing adoption of cloud computing

The worldwide demand for cloud computing services is expected to record strong growth in coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). This reduces the upfront royalty or licensing payments, investment in hardware and other operating expenses. Several organizations around the world have been

realizing the potential benefits of cloud and are adopting these disruptive technologies to gain business advantage.

According to industry estimates, the public cloud services' spending is forecast to grow at a compound annual growth rate (CAGR) of 22.8% during 2014-18 and reach more than \$127 billion in 2018. In 2018, public IT cloud services will account for more than half of worldwide software, server, and storage spending growth. Industry estimates also suggest that global SaaS market is expected to be major contributor to the cloud computing market. In addition, the Indian cloud computing services market is expected to grow at a CAGR of 22% during 2015-20. Increased government spending on national optical fiber network (NOFN) and various e-governance portals, coupled with growing acceptance of cloud services in the small and medium enterprise (SME) segment is expected to drive the market for cloud computing. Further, SaaS market is expected to account for 40% of the market share by 2020.

The company, through Reliance IDC and through its Global Cloud Xchange, offers a range of cloud services. Reliance IDC offers a range of SaaS, PaaS and IaaS solutions for a range of products, including Maxima Host, Mail protect, virtual hosting, mail on demand, hosted exchange and hosted sharepoint. In addition, the company's Global Cloud XChange offers a range of enterprise class cloud switching infrastructure. Further, in addition, the company in partnership with Panasonic India has launched Cloud Video Intelli-Surveillance, an end-to-end video surveillance solution with advanced analytics for the enterprise segment.

Increased adoption and the company's focus on enhancing its presence in the cloud computing market will provide it with growth opportunities in future.

Positive outlook for DTH and IPTV markets in India

DTH and internet protocol television (IPTV) markets in India offer significant opportunities. The increased consumer spending power and the government's move to digitize cable networks will drive the growth of subscribers. The DTH market in India has been growing at a rapid pace. According to industry estimates, the DTH market in India is expected to reach \$4 billion by 2018 and \$5.5 billion by 2023 and its active subscriber base is expected to grow from 37 million in 2013 to 60 million in 2018 and 70 million by 2023. Similarly, Indian IPTV market is expected to grow at an annual growth rate of 11% and reach \$12.3 billion by 2018. It is further expected to reach \$16.4 billion by 2023.

RCOM is poised to benefit from the growing DTH and IPTV markets in India. The company launched its DTH services in 2009 under the brand name of Reliance Digital TV. Reliance Digital TV service offers over 250 channels and services, including five interactive services and subscription video-on-demand/pay-per-view offerings. Reliance Digital TV had 4.8 million DTH customers with a market share of over 8% in FY2014. The company also offers IPTV services powered by Microsoft Mediaroom, which is the preferred IPTV platform globally. RCOM's IPTV features include live TV, video-on-demand, digital video recorder, instant channel change, and time-shift television.

The positive outlook for the DTH and IPTV markets in India would provide the company the opportunity to further increase its market share and revenues in future.

Increasing demand for data to drive growth both in the Indian markets and global wholesale markets

Data is expected to drive the telecom industry growth in the near future. According to industry estimates, revenue contribution from data is expected to reach INR360 billion (\$6 billion) by 2016, from INR 120 billion (\$2 billion) in 2013 at an estimated CAGR of 85% during 2013-18. The growth in the demand for data drivers is fuelled by growth in the smartphone users in India. RCOM with its strong network is well poised to translate this growth into topline growth.

Further, this trend is witnessed across the globe which also bodes well for RCOM's global operations. Deployment of networks enabling high speed data services, including 3G and 4G technologies, would enhance the demand for passive infrastructure services. In addition, in March 2015, RCOM launched LTE nationwide on 800/850 MHz band in India, and became the only operator with nationwide footprint on 800/850 MHz spectrum. RCOM's Indian as well as global telecom operations is well poised to exploit a key trend in the telecom market which is the increased adoption of data.

## **Threats**

Intense competition

Despite easing of the competitive environment, the telecom markets in India are among the most competitive in the world. The company operates in a fiercely competitive and rapidly changing technology-based telecommunications industry. The focus of competition in many of its markets continues to shift from customer acquisition to customer retention as the market for mobile telecommunications has become increasingly penetrated.

RCOM competes with national and international players in various markets. Major competitors of the company include Vodafone, Tata Teleservices, Aircel, Mahanagar Telephone Nigam (MTNL), Bharti Airtel, Sistema Shyam TeleServices, Idea Cellular, and Bharat Sanchar Nigam (BSNL). In addition, the entrance of new competitors into the converged communication services market has threatened the competitive position of the company. Increased competition may put pressure on margins thereby adversely impacting the company's profitability and market share in coming years.

Alternate technologies may impact the company's business

The emerging alternative messaging and voice calling technologies may negatively impact the company's voice business. For instance, over the top (OTT) Voice over Internet Protocol (VoIP) services, such as WhatsApp and Viber, have been witnessing a strong growth due to the emergence of low cost smart phones and the emergence of cheap data plans. According to industry estimates, these messaging services may result in a loss of nearly \$3.1 million in text messaging revenue by 2016. In addition, these messaging services also offer calling features which would negatively impact the voice revenues of telecom operators. In addition, Skype, which has 280 million active users, may result in a loss of \$36.5 billion in revenue every year for the telecom operators.



Furthermore, these alternative technologies have led to a decline in outgoing billion minutes for IDL services offered by telecom operators. Furthermore, it is estimated that WhatsApp, which has a dominant share of the OTT market with 52% of mobile users, may result in a decline in the STD caller's subscriber base for telecom operators. In addition, the increasing proliferation of smartphones may lead to an increase in the demand for the alternative technologies. Though these alternative technologies generate data revenues for telecom operators, it would not enable the telecom operators suffice the decline in voice revenues.

These alternative technologies would also have an adverse effect on the revenues of RCOM, which generates nearly 63.6% of its total revenues from the voice segment. The growing usage of OTT technologies may lead to a decline in the company's voice customer base and negatively impact its market share and results of operations.

#### MNP impacts customer base

RCOM witnessed a significant decline in its subscriber base as a result of mobile number portability (MNP). The MNP service allows mobile subscribers to change their service provider while retaining their existing numbers. MNP was introduced in India in 2011 and was implemented in 2013. According to industry estimates, over 1.4 crore subscribers switched out of RCOM's network and only about 79.4 lakh subscribers joined through the MNP facility, resulting in a net loss of about 61.5 lakh customers till June 30. RCOM witnessed a significant loss in its subscriber base compared to other players operating in the Indian telecommunications industry. Further, Telecom Regulatory Authority of India (TRAI) issued amendments to enable inter and intra Licensed Service Area MNP in May 2015. This might lead to a further switch out of customers from RCOM's service networks. The significant loss in subscriber base would result in the declining average revenue per users (ARPU's) which would negatively impact the results of operations of the company. It would also have a negative impact on the market share of the company.

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