



RCom and GTL's M&A deal

Event: RCom has stated that they will demerge its tower assets into GTL infrastructure that will help it reduce debt to the tune of Rs.18,000cr. The combined entity is projected as the largest independent tower company with an EV of Rs.50,000cr and will consist of 80,000 towers. Though the complete nitty-gritty related to the deal is not known it is expected that the deal will involve both cash as well as equity transactions.

Our view: We believe that the proposed deal will result in value unlocking in the tower business of RCOM and will go a long way in de-leveraging its current balance sheet position which in turn is expected to increase RCom's valuation. This will further help the company to garner a better deal in case it goes ahead with its 26 per cent stake sale.

However, we believe this is only a short-term trigger. Our longer term view on the sector continue to remain bearish more so for RCom because of the following reasons:

- 1.RCom has access to poor quality 1800Mhz spectrum as compared to high quality 900MHz spectrum owned by Airtel which will make it difficult to face upto the competition that it may face from Indus towers.
2. RCom's finances are still under a cloud owing to the audit ordered by the DoT on the number of subscribers added by it. Till the final result of the same is not out in the open we would advise investors to remain underweight.
3. The quality of subscribers that RCom has been adding in the recent times has deteriorated as its revenue per subscriber has come down substantially. Going ahead also we do not see much improvement in it even with the 3G spectrum in its hands.

We would therefore advise our investors to maintain UNDERWEIGHT on the whole telecom sector, though one may look for short-term trading opportunities in RCom.

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