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STRATAGEM

RELIANCE COMMUNICATIONS: CDMA STRATEGY

At the crossroads of destiny

With its GSM plans being delayed, RCOM is now back to announcing large scale CDMA expansions



When many laid their wagers against the 'shining' future of El Dorado, they jeopardised a mighty fortune & put their future to perils, just like the Anil Ambani-led CDMA major Reliance Communications (RCOM) would feel at the moment! Indeed the company had made a killing on the CDMA edge when it commenced operations, in a market led by GSM. But was it right in moving on with this strategic plan?

The question obviously arises as GSM has proved itself superior – both in terms of quality of service & growth. Also, the growth in CDMA traffic in India over the past year of 48.1% (its base touching 46.8 million as on May 31, 2007) pales as compared to the scintillating 73.44% appreciation in GSM user-base (to reach a mammoth 130.6 million). During the same period, the proportion of GSM users in India has also increased from 70.44% to 73.62%.

Quite creditably, RCOM has managed a colossal 27.2 million in subscriber base (May 2007, accounting for 57% of CDMA space). And it continues to retain tremendous confidence in CDMA – a formidable proof being its joining hands with Taiwan's Cal-Comp Electronics on June 30 to manufacture CDMA handsets. In addition, on July 7, the company announced a tie up with QUALCOMM to develop the CDMA 2000 technology in India. Stated Chairman, Anil Ambani, "...with QUALCOMM, our leadership in domestic market will strengthen even further." RCOM plans to expand the CDMA 2000 network to 20,000 towns across India. Sumit Modi, Telecom Analyst, Emkay Shares avers, "RCOM can definitely get more revenue by pushing their own handsets..."

But is that genuine bullishness on CDMA potential or the disappointment of not getting the GSM spectrum so far? Surely, bundling 'cheap handset-selling strategy' is still an incredible strategy for price-sensitive Indians. Anukrat Jain, Associate, Indus View Advisors, feels, "With saturation in metros, all telecom providers are resorting to slash-entry point to make a mark in tier-III cities & rural India..." However, the issue is network. Currently, RCOM operates GSM in 8 circles & is investing \$740 million to add 17 million new lines to its existing networks in these areas (covering 9,000 towns & 30,000 villages). But for the 15 circles where it wanted to enter through GSM, it's a 'No Entry' situation for now.

There lies the El Dorado situation for Anil Ambani as of now. Without the necessary approval to operate GSM on a pan-India basis, RCOM could either fully give up on the GSM strategy & continue large scale network expansion on the not-so-fashionable CDMA platform, or continue to lobby for GSM spectrum & lose on precious opportunity. Either way, there's something to lose! **B&E**

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(Pro)fit when young

Quarterly net profits (\$ million) figures for RCOM



| Quarter | Quarterly net profits (\$ million) |
|---------|------------------------------------|
| Mar 06 | 3.7 |
| Jun 06 | 2.1 |
| Sep 06 | 121.3 |
| Dec 06 | 108.1 |
| Mar 07 | 107.5 |

Source: Company reports

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