

Airtel may buy Tata Tele: UK research firm

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NEW DELHI: Bharti Airtel is the most likely acquirer of the struggling Tata Teleservices as the Indian telecom sector consolidates into a four-operator market in the next three years, according to a just-published report by London-based CCS Insight, a global mobile and wireless market information and intelligence provider.

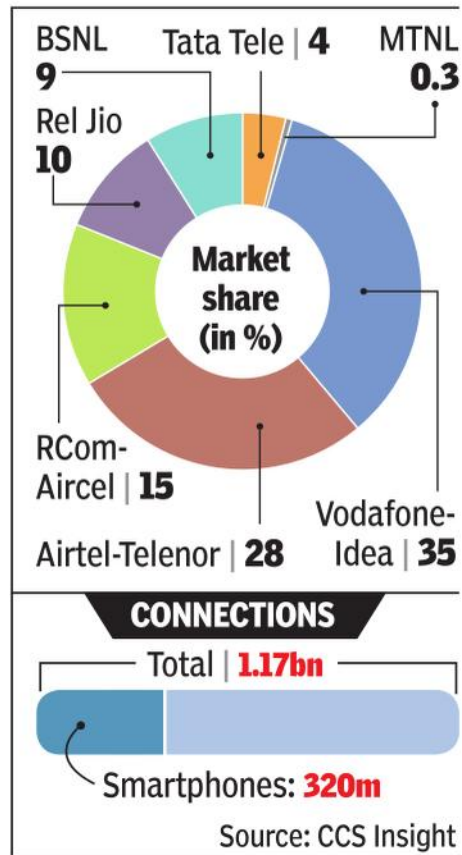
The report titled 'Halcyon Days Ahead in a Four-Operator Market' — published after a survey with 57 telecom M&A influencers — also details an "intriguing" alternative in Tata Tele merging with state-run BSNL, providing the latter a route to privatization.

The survey said 68% of the experts (bankers, lawyers and telecom executives with deal-making experience) thought a four-operator market would prevail by 2020. This scenario will have three private providers each with more than 300 million subscribers and one state-owned operator with over 100 million. CCS envisages Tata Tele finding home and the Ambani brothers finally agreeing to combine their two businesses, Reliance Jio and Reliance Communications.

The report coincides with speculation in recent months about Bharti Airtel accelerating bolt-on acquisition talks after a merger-in-progress between Vodafone and Idea Cellular dislodged it from the top slot in the Indian market. But a section of the analysts argued there is "little business sense" for Airtel to buy the loss-making Tata Tele. "The only reason for Airtel to consider a deal with the Tatas will be to maintain leadership in revenue market share. The deal between Vodafone and Idea threatens to take Airtel's leadership here, and thus Sunil Mittal may counter this through such deals if they come at an attractive price," a top industry analyst said, requesting anonymity.

Tata Tele has revenues of around Rs 9,500 crore, but these as well as subscribers are fast depleting. On top of this, the annual payout towards debt servicing is around Rs 2,500 crore on total outstanding borrowings of nearly Rs 30,000 crore. Almost half of the respondents in CCS survey said Tata Tele is likely to be subsumed by Bharti Airtel, 22% said a deal with BSNL was possible and 32% said it could merge with another network operator. "From structuring and approval perspectives, the easiest transaction would be for Tata Teleservices to be subsumed by Bharti Airtel. Our view is that the main alternative is a tie-up with BSNL, but other combinations exist, such as a complex merger with the Reliance Communications-Aircel business," said the report authored by Tony Worthington, a former Standard Chartered and ABN AMRO banker, who has been involved with Indian telecom industry since 1995.

TIME TO RING IN CONSOLIDATION?



"Tata Group has history with state-owned Indian telecom companies. Tata Communications, its international voice and data arm, previously acquired Videsh Sanchar Nigam, a state-owned equivalent company," the report said, while adding that a union with Tata Teleservices would also be an elegant method of facilitating BSNL's privatisation.

Worthington wrote that Reliance Jio's impact on other mobile operators has been startling, with its assertive moves since launch doing little to subdue the chaos of the Indian market. "Given the current state of the market, coupled with the trend toward consolidation, an acquisition by Jio looks inevitable. The newly-merged Reliance Communications-Aircel is the obvious choice. But we are dealing with a complex relationship between two siblings. This emotional factor will be the principal element in any future transaction," the report mentioned.

It will be a spectacular process of consolidation, if the market turns out to be a four-operator play, as predicted by most experts, down from 15 licensed providers in 2010.