

Reliance and Facebook: Seeking pathways to profit*

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As the times get tough, the big seem to thrive. At a time when economies world over reel under the sudden stop triggered by the Covid-19 pandemic, India's dominant business group Reliance Industries (RIL) and global social media major Facebook have announced a megadeal. Facebook has entered into a binding agreement to invest Rs. 43,574 crore (\$5.7 billion) to acquire a 9.99 per cent stake in Jio Platforms, a wholly owned subsidiary of RIL. That investment amounts to one fourth the size of the package announced by India's Finance Minister in response to the Covid-19 crisis. But this is money being spent with an eye to future profit. RIL has played the valuation game well, as the deal places the enterprise value of Jio Platforms at Rs. 4.62 lakh crore.

The deal with Facebook came as a bit of a surprise. But, it was known that RIL has been in negotiations to sell a share of equity in its different ventures ranging from oil and telecom to retail, as part of a strategy to pare its large debt burden and become a zero net debt company. According to reports, RIL's net debt on 31 December 2019 was in excess of Rs. 1,50,000 crore. The equity sale to Facebook will help retire a substantial chunk of that. Anshuman Thakur, Head of Strategy and Planning at Reliance Jio suggests that about Rs. 15,000 crore of the sum to be paid by Facebook will be invested by RIL, and the balance would be used to write down debt. Similar plans are afoot in the hydrocarbons area (possibly involving Saudi Arabia's Aramco). But the collapse in oil prices will delay, if not scupper that.

Overall, the benefits from the deal for RIL are obvious, but why this is the best strategy for Facebook is not all too clear. From the point of view of Reliance, the tie-up once successfully sealed will validate the three-phase path it has adopted to expand rapidly in traditional businesses and wholly new areas. The first is to rely heavily on debt (besides internal surpluses) to finance large investments and even engage in aggressive competition to take on incumbent firms and give the company a major presence in new markets. Nothing illustrates this more than the price war launched by Jio to quickly garner a large mobile subscriber base and dominance in the data business, transforming in the process the structure of the cellular industry that now has just three players of whom one (Vodafone-Idea) is facing a threat to its survival. The second is to wait for that strategy to raise market valuations of subsidiaries operating in different areas, making a minority stake sale an easy source of capital. And the third is use the sale of a minority shareholding as a means to wind down debt. Jio Platforms has successfully traversed this path, with obvious benefits.

The other benefit that RIL may reap from the new collaboration, which would see a Facebook nominee on the company's board, is access to a technology that may be crucial to its expansion plans in the retail area. RIL's decision to tie up with the social media giant makes sense given its retail ambitions, in which Reliance Jio's nationwide telecom infrastructure has a central role. In an annual general meeting held in July 2018, RIL had revealed its intention to establish an hybrid online-offline retail platform combining Reliance Jio's infrastructure with the brick-and-mortar facilities of Reliance Retail as well as a host of small and medium scale partners. The idea was to combine the more than 10,000 Reliance stores and numerous warehouses, with the

physical facilities of a vast number of dispersed unorganised retailing units that would be linked through Reliance Jio's network.

Now, Facebook's social media connect and experience and the wide and rapid spread of its WhatsApp messaging service is to be pressed into service to mediate between buyers and sellers and consolidate this hybrid platform. The ambitious "New Commerce" experiment involves a centralised e-commerce platform built on decentralized points of sale that would save on the cost of delivery. In sum, the expectation from the Facebook agreement is that the social media giant, and in particular the WhatsApp mobile application and messenger service it owns, can be suitably deployed to realise the goal of "seamlessly" folding India's large base of local retail outlets and neighbourhood stores into the Reliance retail empire. Announcing the deal Mukesh Ambani, Chairman, RIL declared: "In the very near future, JioMart – Jio's digital new commerce platform, and Whatsapp – will empower nearly 3 crore small Indian Kirana shops to digitally transact with every customer in their neighbourhood." This picture of leveraging the small shopkeeper helps whitewash the relentless rise of RIL into a conglomerate with oligopolistic or monopolistic positions in multiple areas. According to Ambani, the core of the partnership is the commitment that Mark Zuckerberg, founder of Facebook, and he share for the all-round digital transformation of India and for serving all Indians.

Facebook was not to be left behind. "Our goal is to enable new opportunities for businesses of all sizes, but especially for the more than 60 million small businesses across India. They account for the majority of jobs in the country, and form the heart and soul of rural and urban communities alike. In the face of the coronavirus, it is important that we both combat this global pandemic now, and lay the groundwork to help people and businesses in the years to come," the social media major said. It also made clear what was being leveraged, when it said: "India is a special country for us. Over the years, Facebook has invested in India to connect people and help businesses launch and grow. WhatsApp is so ingrained in Indian life that it has become a commonly used verb across many Indian languages and dialects. Facebook brings together friends and families, but moreover, it's one of the country's biggest enablers of growth for small businesses. And Instagram has grown dramatically in India in recent years as the place where people follow their interests and passions."

Hype aside, it is clear that, for Facebook, the tie up with RIL signals a change in its India strategy. Among its major efforts to find ways of extracting revenues from the large, even if on average poor, Indian market, was the pretend provision of 'free' access to the internet through its Free Basics service that would tie in users to Facebook. That drive was stymied by the Telecom Regulatory Authority of India in 2016 on the grounds that it violated the principle of net neutrality by charging "discriminatory tariffs on the basis of content." The second major effort was to use its access to loyal WhatsApp users to launch a digital payments service. That too ran up against roadblocks, on issues relating to data localisation and privacy. There was speculation that the government's policies in the e-commerce area was being influenced by the powerful domestic interests, including RIL. Given that background, Facebook's decision to partner RIL possibly signals the recognition that the best way to go to get a piece of India's huge digital and ecommerce cake that is potentially lucrative is to join hands with an influential conglomerate like RIL.

As cheaper smartphones percolate through sections of the Indian population that have the necessary means, and as internet use increases, expectations are that e-commerce will expand rapidly. Facebook is clearly betting on that, since it sees the collaboration as bringing together JioMart, Jio's small business initiative, with the power of WhatsApp, so as to "enable people to connect with businesses, shop and ultimately purchase products in a seamless mobile experience." A projection by Forrester Research sees Indian e-commerce sales rising from around \$27 billion in 2018 to \$68 billion in 2022. The Covid-19 pandemic may hasten that transition as social distancing requirements make offline shopping less pleasurable. The timing of the deal announcement in the midst of a nationwide lockdown may not be all coincidence. But clearly, the coming together of a domestic, telecommunications major and a global social media giant is motivated by a common strategy to leverage their respective endowments to dominate the e-commerce space. This thrust by Reliance Jio, which restructured the mobile telephony sector, could transform the retail space as well. But that also depends on for how long Zuckerberg will be happy having Mukesh Ambani playing big brother.

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