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SATISH PENDSE, CIO, HCC

Fragmented Dream

SAARC as a unified region remains a dream, and reasons are much more than political

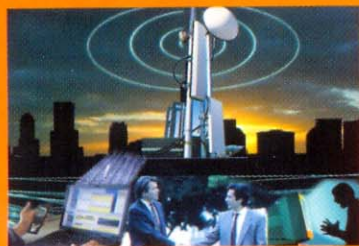
The Party Begins

The DTH opportunity has prompted Bharti, Reliance, Videocon, and SunTV to foray into DTH. What are their plans?



The Profit Maximizer

Mobile operators and ISPs believe that WiMax is capable of delivering higher revenues and healthy profit



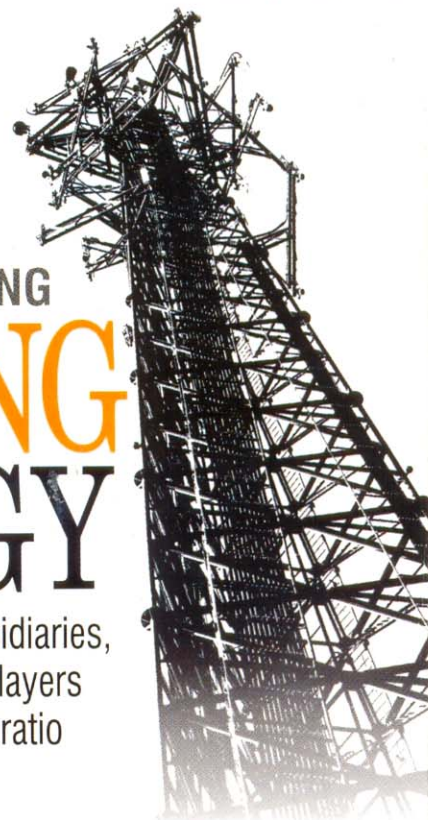
Funds Flow

Private equity deals in the Indian communications sector are on the rise. Will this trend continue?



INFRASTRUCTURE SHARING A WINNING STRATEGY

Independent operations of tower subsidiaries, and fast scaling up and QoS of IP-1 players will be the key for increasing tenancy ratio



RETAIL Goes Hi-Tech

To offer better customer experience, Indian retailers are banking heavily on technology



NOW
CIRCULATED IN
SAARC

Today, infrastructure sharing is hogging the limelight, thanks to Reliance Telecom Infrastructure (RTIL), a subsidiary of Reliance Communications. The company recently placed a 5% equity stake with a group of leading institutional investors across the US, Europe, and Asia for \$337.5 mn, helping RTIL, which is valued at \$6.75 bn. It is a big achievement considering the fact that RTIL's valuation is around 22.5% of Reliance Communications' valuation, ie, Rs 120,000 crore in July 2007. And, the company is eyeing a valuation of \$9 bn for RTIL by March 2008.

With this announcement things have started moving on the infrastructure-sharing plank.

Idea has recently announced that its Board of Directors has decided to de-merge the passive infrastructure of the company into a wholly owned subsidiary, subject to all regulatory approvals. And, it is expected that within six months we might see the Idea subsidiary getting a complete go ahead for a separate subsidiary.

Bharti Infratel is one step ahead of Idea Cellular in this respect. Recently, a court-convened meeting of all the shareholders took place. "Things are on track and the whole de-merger process will be legally completed within two months," says Akhil Gupta, group managing director, Bharti Enterprises.

Tata Teleservices has floated a tender for commissioning of 3,000 new towers under infrastructure sharing in existing and new circles through shared platform, and is in the process of finalizing partners for the purpose. The company has already shortlisted partners and will soon take a call in this regard. Spice has already given orders to TowerVision India and Quipo Telecom Infrastructure (QTIL). Even BSNL has plans to share towers through the USO project for which work has already started. However, there are some operators who are still undecided, but are expected to take a final call this fiscal.

The huge numbers on the tower front is throwing up new opportunities for IP-1 (infrastructure provider-1) players. And, less the tower subsidiaries, the better it is for IP-1 players, as they can get more towers under their belt. It is good to know that lowering of Capex as well as Opex will help opera-

A Winning Strategy

Independent operations of tower subsidiaries, and fast scaling up and QoS of IP-1 players will be the key for increasing tenancy ratio in infrastructure sharing

tors to focus more on marketing and customer services, which need a lot of attention from senior management. And, these services will get complicated once operator crosses 100 mn mobile connections by 2010.

On the IP-1 front, there is a long list of companies of which majority are Indian. There is also a mix of players focusing on pan-India operations and players with limited coverage. There are some who are early starters, and some others who are still studying the Indian market and chalking out strategies for the future. The IP-1 players focusing on India include GTL Infrastructure (GIL), Essar Telecom Infrastructure, QTIL, TowerVision, American Tower, XCEL Telecom, TVSICS, Aster Infrastructure, Independent Mobile Infrastructure (IMIL), and others. Of this majority have telecom turnkey or investor background, whereas only Aster Infrastructure comes from a manufacturing background.

The IP-1 Players

American Tower is one of the very late entrants in the country, though they have been a leader in owning and operating wireless and broadcast com-

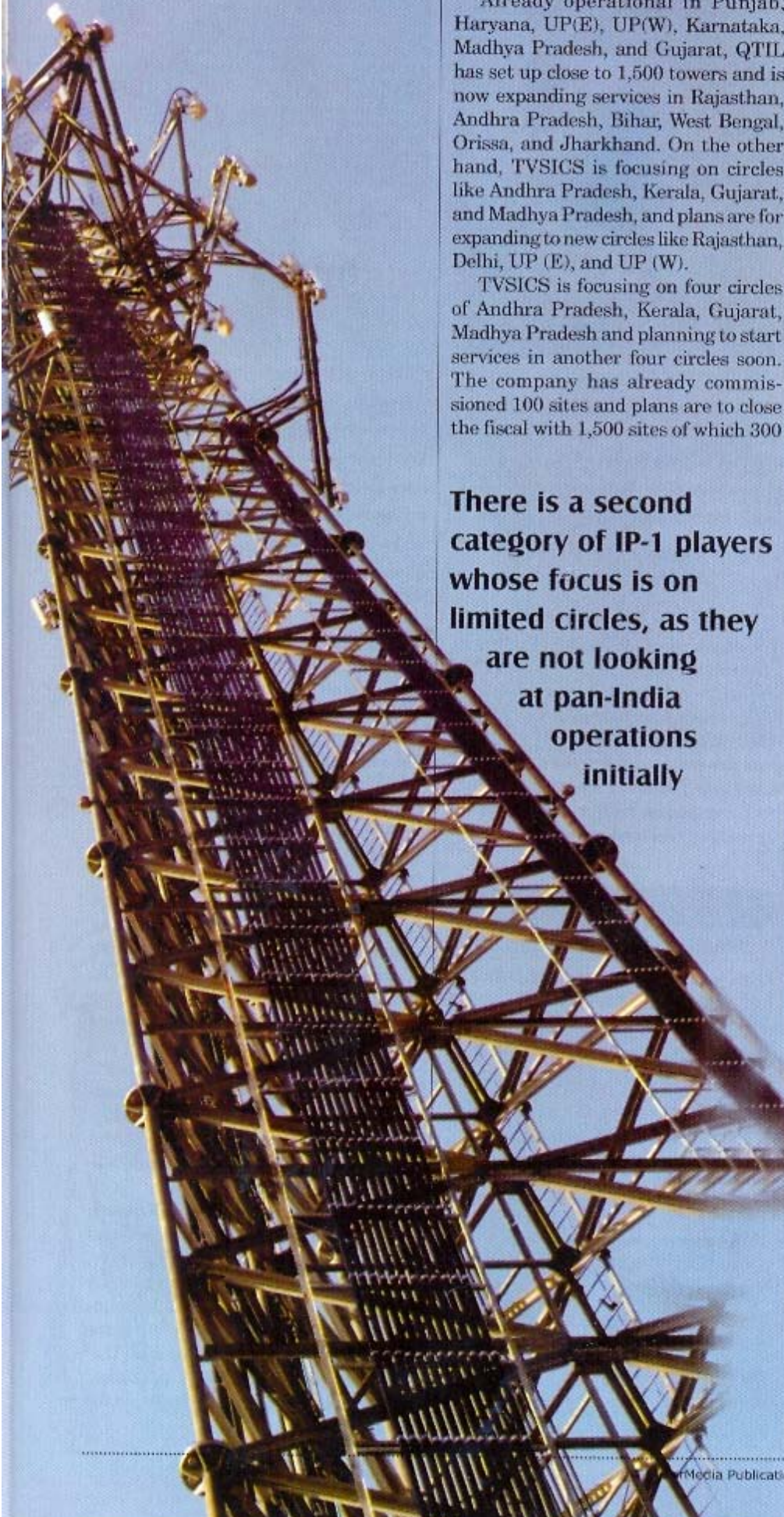
munication sites in North America. Recently, the company has set up a subsidiary in India. Worldwide, the company has a portfolio of over 22,000 communications sites of which 20,000 towers are in the US, and over 2,800 in Mexico and Brazil. In addition to these the company also offers access to over 10,000 rooftop and tower sites in the US that they manage for third parties.

Talking about India strategy, Amit Sharma, executive vice president, president-Asia, American Tower, says, "The focus is to acquire a small portfolio of towers for service providers, and to build nationwide marketing of towers whereby existing towers are managed by others. The company is focusing on countries where there is tremendous growth and multiple operators. Currently the focus is on SAARC, Vietnam, Malaysia, Indonesia, and the Philippines."

According to Prakash Ranjalkar, COO, GIL (operational in fourteen circles), the company is planning to close the fiscal with 6,700 sites, and plans are to add around 7,000 sites every year for the next two years. The company's strategy is to focus on geographies where no operator has any towers.

And, this gives them an edge over other IP-1 players. Apart from this, the company is also focusing on having 30% towers on a proactive basis, so that they can do their own radio planning and then approach operators for infrastructure sharing for that location, thereby providing increased coverage and quality to operators in those geographies.

The huge numbers on the tower front is throwing up new opportunities for IP-1 players



Already operational in Punjab, Haryana, UP(E), UP(W), Karnataka, Madhya Pradesh, and Gujarat, QUIL has set up close to 1,500 towers and is now expanding services in Rajasthan, Andhra Pradesh, Bihar, West Bengal, Orissa, and Jharkhand. On the other hand, TVSICS is focusing on circles like Andhra Pradesh, Kerala, Gujarat, and Madhya Pradesh, and plans are for expanding to new circles like Rajasthan, Delhi, UP (E), and UP (W).

TVSICS is focusing on four circles of Andhra Pradesh, Kerala, Gujarat, Madhya Pradesh and planning to start services in another four circles soon. The company has already commissioned 100 sites and plans are to close the fiscal with 1,500 sites of which 300

There is a second category of IP-1 players whose focus is on limited circles, as they are not looking at pan-India operations initially

will be proactive sites (sites where they will set up towers on their own and then populate it with operators).

With a pan-India play, Essar Telecom Infrastructure has completed around 2,000 sites and plans are to complete 6,000 by FY '08. "The company is focusing on circles like Maharashtra, Mumbai, Gujarat, Tamil Nadu, Kerala, Andhra Pradesh, Madhya Pradesh, UP (E), UP (W), Bihar, Orissa, and Rajasthan," says Ajay Madan, CEO, Essar Telecom Infrastructure.

IMIL is a part of Independent Mobile Infrastructure, Mauritius. The company has a two-fold strategy for the Indian market. The first strategy is to own, operate, and lease passive infrastructure, and the second, to acquire passive infrastructure and lease it back.

IMIL is actively supported by investment bankers, private equity players, and high networth individuals. It is actively looking at a pan-India play, but is not willing to share its plan and strategy.

There is a second category of IP-1 players whose focus is on limited circles, as they are not looking at pan-India operations initially. The companies include TowerVision, Aster Infrastructure, and XCEL Telecom. TowerVision is focusing only on three circles—Karnataka, Haryana, and Punjab. "The company has built up around 800 sites and plans are on to build around 1,200 by December 2007," says Amit Ganani, CEO, TowerVision. Aster Infrastructure is also focusing on three circles—Karnataka, Punjab, and Andhra Pradesh. As per industry information, New Silk Route Private Equity (NSR), Mauritius has bought 72.5% stake in Aster Infrastructure for Rs 232.58 crore. NSR is picking up stake in three tranches. In the first tranche, the company has bought 32% and the other two tranches will be 17% and 23.5% respectively. It is also one of the seven buyers that bought 5% stake in RTIL for \$337.5 mn.

XCEL Telecom is presently operational in two circles and the third circle is expected to be operational in a month's time. Sandip Basu, managing director and CEO, XCEL Telecom, says that to start with, the company is planning to have a run rate of 50 towers per

circles a month, and plans are to scale it to 100 towers per circle a month in the next three months.

The Success Mantra

The Indian market is big. But, is it big enough to accommodate more than a dozen players? If one looks at the market, there are three tower subsidiaries of which two are already formed, whereas the third is in its formation stage. There will be some more additions on the tower subsidiary front.

To be successful in the Indian market, both tower subsidiaries and IP-1 players have to focus on significant reduction of Capex and Opex for the given set of towers vis-à-vis operators' Capex and Opex on a standalone basis. Not only this, operators have to share towers with as many operators as possible to keep rentals significantly lower vis-à-vis standalone players.

It is good to know that Reliance Telecom Infrastructure and Bharti Infratel have been formed for creating value. Both these companies will start with a large number of towers under their belt. For instance, on day one, RTIL had 14,000 towers, whereas Bharti Infratel will have around 50,000 towers when the company comes into existence. And, by the end of this fiscal, RTIL will have around 40,000 towers whereas Bharti Infratel will have around 65,000 towers. The numbers



“With the focus on newer technologies, the quality of IP-1 towers is significantly higher (as they do not have any legacy network)”

—Arun Kapur, group president and CEO, QTIL



“We will keep an arm’s length, and the contract between RTIL and Reliance Communications would be the same vis-à-vis other operators and RTIL”

—Ramesh Venkat, group president, Finance and Treasury, Reliance ADA Group

are impressive and will take Bharti Infratel and RTIL to be the number one and number two players worldwide, since the number one player, American Tower, has only 22,000 plus towers. In order to be at par with American Tower on the tenancy front, both companies have to focus a lot on increasing the tenancy ratio, and this

would not be easy considering the fact that they come from the operator background, where neutrality is a big question mark. It would be interesting to see how the two will ensure independent operations without divesting majority shareholding in the beginning. Divestment is the only path both companies can follow, since more independence means more prosperity for tower subsidiary. And, the earlier they do, the better it is in terms of tenancy ratio and better valuation for tower subsidiary. Since the barometer of success of any player working in the infrastructure sharing space is its tenancy ratio, the greater the tenancy ratio, higher the valuation.

“To provide independence to Bharti Infratel, we will have a minority position by diluting our equity and induction of private investors,” says Akhil Gupta. “Within 2-3 years, we would like to list the company,” he adds.

Speaking on neutrality, Ramesh Venkat, group president, Finance and Treasury, Reliance ADA Group says, “We will keep an arm’s length, and the contract between RTIL and Reliance Communications would be the same vis-à-vis other operators and RTIL.” The company says that it is neutral and independent, and will increase the tenancy ratio.

Infrastructure Sharing

Opportunities	Challenges
Huge numbers are throwing up new opportunities for IP-1 and tower subsidiaries	Is the market big enough to accommodate more than a dozen players?
There is a vast rural opportunity which needs to be tapped by the operator as we are presently covering only 60-65% geography	Tower subsidiaries and IP-1 players will have to focus on significant reduction of Capex and Opex
Lowering of Capex and Opex will help operators to focus more on marketing and customer services thereby outsourcing towers to infrastructure players	Tower subsidiaries and IP-1 players have to share towers with as many players as possible to keep rentals significantly lower
A pan-India presence will provide a lot of cost advantages vis-à-vis localized presence	Tower subsidiaries will face problems since mobile operators will not be comfortable sharing their business plan, and finally towers
Apart from organic growth, IP-1 players are also looking at inorganic growth	IP-1 players should constantly focus on quality of service and cost reduction
An open player policy in the mobile space will lead to more players resulting in more sharing	DoT is yet to give a final go ahead on backhaul sharing



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—Amit Sharma, executive vice president, president-Asia, American Tower



“To start with, the company is planning to have a run rate of 50 towers per circle a month, and plans are to scale it to 100 towers per circle a month in the next three months”

—Sandip Basu, managing director and CEO, XCEL Telecom



“To provide independence to Bharti Infratel, we will have a minority position by diluting our equity and induction of private investors; within 2-3 years we would also like to list the company”

—Akhil Gupta, group managing director, Bharti Enterprises

Knowing this limitation, Bharti and Vodafone wanted to play smart by signing an MoU. According to Akhil Gupta, the MoU had two parts: First, sharing of infrastructure without any equity linkages, and second a deliberate attempt should be made to merge both companies under one roof. But, some sources say the talks have failed, since the two companies have not been able to decide who will be the majority stakeholder in the JV company, and the economic benefit each party will get out of the final deal. And, it is not easy to understand the complications. But, if they patch up, it will be a big disadvantage to IP-1 players.

Tower subsidiaries do have problems. Other operators will not be comfortable sharing their business plan, as there is fear of passing competitive information to the parent company. Understanding this limitation, tower subsidiaries will initially focus more on setting up a large number of towers to gain competitive advantage in FY '09, and later they will focus on increasing tenants.

Speaking about the RTIL strategy, Ramesh Venkat says, “This year, there are not too many outside tenants. But

in FY '09 they will increase, depending upon the rollout plans of other operators.”

Being a tower subsidiary, the parent company will take an anchor tenant position in a majority of the towers, thereby taking prime slot. This is not beneficial for the number two and three tenants. The other question is how many existing towers can be shared since majority of the towers are deployed in urban areas, and majority are on rooftops where a maximum of two can share. Yet another question is: will existing ground-based towers support multiple tenants or do they need to be conditioned for multiple operators? And, the cost incurred and timeframe in conditioning these towers will not make them ready for day one with majority of towers.

On the other hand, IP-1 players have lot of advantage vis-à-vis operator subsidiaries. The IP-1 players have neither the network nor the tower to start with. But, they have an advantage vis-à-vis operator subsidiaries, as they are neutral and independent in nature. Apart from this, IP-1 players should constantly focus on quality of service and cost reduction, which can be fur-

ther passed on to operators. Plus they have to focus on fast rollout of services. Even pan-India presence will provide a lot of cost advantages vis-à-vis localized presence. So, a majority is looking at a pan-India presence.

According to Ajay Madan of Essar Infrastructure, the IP-1 players have an advantage as they will take care of timely delivery and also provide good uptime. Whereas Arun Kapur, group president and CEO, QTIL says, “With the focus on newer technologies, the quality of IP-1 towers is significantly higher (as they do not have any legacy network).” ST Rizvi, head, Business Development, TVSICS says, “We have to build in one year what service providers have built in 8-10 years.” So, there is a huge opportunity for IP-1 players.

Apart from organic growth, IP-1 players are also looking at inorganic growth. And, as and when these opportunities do come up for evaluation, IP-1 players would take up these opportunities to increase their dominance in their category, thereby helping them to grow at a fast pace in this fast growing Indian communications market.