Towering business

Independent operators set to meet increasing demand for towers

Providing towers to telecom operators has emerged as a big standalone business in the country. Analysts estimate that there is a need for more than one lakh towers in the country and private operators have stepped in to fill the gap. "So far, telecom firms have been the dominant players in owning or managing tower infrastructure companies. Such firms, like Indus Towers (in which Vodafone-Essar, Bharti Airtel and Idea Cellular are equity partners), Reliance Infratel and Bharti Infratel, currently command over 90 per cent share in the 200,000 tower market. But it seems that this business is going to see a shake-up with cash-rich and independent companies moving in with aggressive plans," says an industry analyst.

Essar Telecom Infrastructure is one of the largest independent telecom infrastructure service provisioning companies in the country. It builds telecom tower infrastructure and shares it with several telecom operators in India. It has already set up over 4,000 towers in India.

The industry estimates that at least 60 per cent of the demand for towers will be met by independent operators. The large independent players in this business include American Tower Corporation (ATC), Quippo Telecom and GTL Infrastructure.


Holding promise

Last year, many telecom operators spun off their tower business into a separate entity, to get better valuation for their assets. And with the government allowing sharing of towers to reduce telcos' capital expenditure, they saw potential in making money by renting out space in the towers to their competitors, as well as to the new licensees.

ATC, which commenced operations a few months ago, created news when it bought over infrastructure provider Xcel Telecom, that owns 1,700 towers, from a US-based hedge fund Q Investments Lp for a reported sum of Rs800 crore. ATC has already tied up with a new mobile operator to provide the services. "We will concentrate on some circles and provide quality service. We have $1 billion of cash, so greenfield expansions and acquisitions are both probable," says Amit Sharma, executive vice president, ATC.

Mumbai-based GTL, which currently owns 9,000 towers across the country, is putting in $1.8 billion to expand capacity nearly three-fold, to 25,000 towers by the end of 2011-12. And it has an ambitious target – to grab 15 per cent of the new business, which will be generated from the new operators.

Quippo Telecom Infrastructure Ltd (in which Tata Teleservices merged its tower infrastructure and took a 49 per cent stake) is upping the number of towers three-fold, from 21,000 to 60,000 by March 2011, with an investment of $1.7 billion. It has already grabbed contracts from the new players, Unitech-Telenor, Sistema-Shyam, STel, Etisalat-Swan Telecom and the Dhoot-controlled Datacom.

However, Gurgaon-based Independent Mobile that had 300 towers in 10 circles is reportedly exiting the business. Industry observers state that this was because the firm had followed a flawed business model and put up towers, hoping that once erected, they would automatically attract mobile operators to lease them. This is the exact opposite of what Xcel Telecom did: putting up towers only after it had customers for it.

The attraction for new players to

Falling down

Here is yet another piece of good news for mobile subscribers. Call rates, which have been falling consistently, are set to drop further. With the Telecom Regulatory Authority of India (TRAI) directing that the termination charges be reduced by up to 33 per cent (from the existing 30 paise per minute to 20 paise per minute), local calls and STD tariffs are set to come down by up to 20 per cent.

Termination fee is the charge one operator pays to another for the smooth flow of calls between their networks. For instance, if a Vodafone customer calls up an Airtel subscriber, the former has to pay the latter at the rate of 30 paise per minute as termination charges. A reduction in this charge, therefore, will lead to a reduction in call tariffs.

While new players such as Unitech and Datacom were demanding that the termination charges be reduced to anywhere in the range of 0-10 paise per minute, existing GSM service providers were not in favour of this, fearing a loss in revenues.

The Cellular Operators' Association of India (COAI), the industry body representing GSM operators in the country, expressed its discontent over the move.

COAI's director general T.V. Ramachandran argued that the drop in termination charges would inhibit rural telephony penetration as operators would now have to take another look at their strategies before tapping the rural geography, where low revenues may not be able to offset the huge operational costs.

Industry analysts believe major players such as Vodafone and Bharti will be adversely affected due to the cut in domestic termination charges since they were the net collectors of this fee, as opposed to others who were net payers.

Meanwhile, people wanting to call India from abroad will now have to shell out more, as overseas calls are expected to become more expensive.

In another direction to the telecom ministry, TRAI has given the green signal to Indian operators for charging foreign telecom companies more for terminating overseas calls on their networks in India.

From charging 30 paise per minute from foreign players for terminating calls on their networks, Indian operators can now charge them 40 paise per minute, which is a 33 per cent increase over previous rates.

"Termination charges for incoming international calls would be 40 paise per minute, against the existing charge of 30 paise per minute. The Authority expects that the service providers would pass on this benefit in the form of lower tariff for outgoing international calls," TRAI said in a statement.

Telecom operators have been saying that the high traffic of incoming calls from abroad should be leveraged to earn foreign exchange.

Domestic telecom players say that they will utilise the additional revenues thus generated to lower STD tariffs for Indian customers calling abroad. For every minute of STD call being made from India, there are three minutes of overseas calls.

TRAI has also reduced transit/carriage charges from level-II trunk automatic exchange to short distance charging area (SDCA) to 15 paise a minute, as against the existing charge of 20 paise a minute, while intra-SDCA transit charges will again be 15 paise a minute, down from 20 paise.

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seek independent tower operators is that the latter are ready to cater to their specific needs – building towers which suit a new roll-out, unlike telecom operators who cater to their own expansion. Operators say it is also cheaper to go to the independents than to the telco-led players.

"Since most of the new operators are GSM and operate on the same frequency, we have joint radio frequency planning that helps us lower our capex and optimise our cost, which automatically leads to a reduction in their (telcos) capex to the extent of 65-70 per cent," says Arun Kapur, managing director, Quippo Telecom.

But telco-controlled tower operators dispute all this. Apart from unmatched coverage (about 70 per cent of India), they say the built-to-suit model offered by the new operators is too expensive and does not work. Indus Towers, with over 70,000 towers, said it expected 40 per cent of its business to come from new operators and the rest from its stakeholders.

And it has enough space to offer others. "Our current towers can take about two players on an average, but the new towers that we are deploying right now can take up to five operators. No one wants the built-to-suit model, as it costs the operators twice as much, unless it is based in a strategic location," avers a spokesperson from Indus Towers.

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