

# Double whammy for smaller tower players

## Credit crunch, asset-price decline hurting small players

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With money becoming dearer, many stand-alone telecom tower companies that had plans of rolling out nationwide networks of mobile phone towers are caught between the devil and the deep sea. Many such players, with 1,000-3,000 towers across the country, are on the block but are unable to find buyers.

Arun Kapur, president and managing director of one of the larger independent tower companies Quipo Telecom Infrastructure, said, "You have to ask - why would we want to buy something valued at Rs 50 lakh if we can put it up for Rs 25 lakh?"

Three years ago, the country had only 65,000 mobile phone towers. The wireless business was booming and the government was pressurising operators to share their tower assets to conserve resources and reduce 'eyesores'. Telecom operators, too, announced plans to spin off their towers into 'independent' companies and allow competitors to use them even though many felt that like in the US, operators would prefer doing business with unaffiliated tower companies.

Since then, the number of towers has trebled to around 200,000. Yet, independent tower companies such as GTL Infrastructure Ltd (GIL) and Essar Telecom Infrastructure account for barely 15,000. The biggest, GIL, has an estimated 7,500-8,500 towers. Nearly all have stopped their expansions and are waiting to be bought out. "Potential customers

have mostly been tied up by the bigger players," said Kapur, who perhaps saw the crunch coming and bought off the towers of Spice Telecom before merging with Wireless Tata Tele Infra, the tower company owned by the Tatas. Kapur, whose combined entity will now have around 21,000 towers, is not very optimistic about smaller tower companies.

"The model that has succeeded abroad is that of the independent tower company, not those owned by operators. But the window of opportunity is now and the independent players just don't have scale. You need at least 20,000 towers across the country for a decent roll-out and a complete coverage needs 60,000-65,000 towers," he added.

Kapur claims to have already tied up expansion contracts for Telenor, Aircel, Tata GSM, Swan-Etisalat and Systema, leaving very little to others. As for existing mobile phone operators, they are giving business to their own captive tower companies like Reliance Telecom Infra and Indus Towers.

While the logical route for small players with 1,000-3,000 towers would be to sell their assets to bigger companies, negotiations have been complicated by the credit crisis and metal price declines. The price of steel, the main raw material used for setting up a tower, has declined from \$1,150 per tonne in July to around \$550 now.

A GIL official said, "Valuations are coming down... towers used to quote at Rs 50 lakh. Deals are not happening because of the price

### Tall story

Independent tower companies

Company	Number of towers
GTL Infra	8,300
Essar Tele Infra	4,000
Quipo Tele Infra*	3,500
Xcel Tele**	1,500
Aster Infra	1,000
ITIL**	1,000
Tower Vision	900
IMIL**	400
KEC	400

\*Merging with Wireless Tata Tele Infra  
\*\*PE-backed players  
Source: Analysts' estimates



correction." GIL, which was lucky to have raised enough cash from the overseas market before the bubble burst, plans to take its total tower count to 23,700 in two years. "We have achieved financial closure for that many towers," said the official, adding that India is likely to require at least 1,00,000 towers over the next two years. Another reason for the absence of deals is the insistence by the promoters to sell out completely in return for cash, said the official. So mergers and other arrangements are not happening much.

The average rental for a tower is Rs 25,000-60,000 per month depending on the number of tenants, while the cost of construction used to be around Rs 30 lakh per tower. On the condition of anonymity, a telecom analyst with a Mumbai brokerage said, "You make money only if there are at least two tenants (operators) on each tower. But the average tenancy ratio for these towers is less than 1. So, with a 10-15% depreciation, private equity firms are seeing their investments erode every year."

Quipo's Kapur said as deals are stuck, companies are exploring other options. "If someone already has a tower in an area we are interested in, it will be a waste to put up another. So we're exploring revenue-sharing deals."