

# Extensive Expansion

Growing interest in telecom infrastructure segment

**W**ith over 500 companies submitting applications for a unified access service licence, it looks like the booming telecom infrastructure segment is about to receive a further shot in the arm. As new telecom companies set up operations and existing operators expand their networks, the demand for towers, shelters, generation sets, power systems, etc. is slated to skyrocket. The Telecom Regulatory Authority of India has estimated that 330,000 towers will be required by 2010.

Companies are gearing up to meet these needs. Both standalone infrastructure companies as well as tower subsidiaries of existing service providers are in expansion mode, exploring options like mergers or offloading stake to finance their capacity addition plans. Moreover, foreign firms like US-based American Tower Company (ATC) and Crown Castle International, and Israel-based TowerVision are setting up shop in India to service the increasing demand in the segment.

The companies are arranging a huge corpus of funds for their future growth plans. Reliance Communications' (RCOM) tower subsidiary Reliance Infratel proposed initial public offering (IPO) to raise Rs 50-60 billion, and the mega merger of Bharti Airtel, Vodafone Essar and Idea Cellular's

tower companies are just two examples of the significant deals in the telecom infrastructure sector.

Telecom operators like Bharti Airtel and RCOM entered the fray in 2007, when they hived off their infrastructure operations into subsidiaries. The move was aimed at lowering capex and unlocking shareholder value in the midst of rising cement, steel and property prices. It was estimated that passive infrastructure sharing could decrease capex by up to 30 per cent. Moreover, according to a government directive, companies planning to hive off their tower business before March 31, 2007 could avail themselves of tax benefits.

These tower subsidiaries are now generating healthy streams of revenue for their holding companies. Towers generate monthly rents varying from Rs 40,000 to Rs 100,000, depending on the location. The rents generally increase on an annual basis. As far as the cost-benefit trade-off is concerned, incremental costs go up by approximately 10 per cent annually while revenues generally increase by 80 per cent. These benefits have provided companies with an impetus to get involved in the telecom infrastructure segment in a big way. *tele.net* takes a look at some of the significant developments in this sector.

Bharti Airtel, Vodafone Essar and Idea Cellular merged their infrastructure arms in December 2007 to form the world's largest "independent" tower company, Indus Towers. While Bharti and Vodafone Essar each contributed 29,400 towers and got 42 per cent stake apiece in the merged entity, Idea's 11,200 towers fetched the company 16 per cent stake. Indus Towers operates in 16 circles and has about 70,000 tower units.

US-based private equity firm Kohlberg Kravis Roberts (KKR) has reportedly bought 2-2.5 per cent stake in Bharti Airtel's tower firm, Bharti Infratel, for \$250 million. This takes the total private placement made by Bharti Infratel to \$1.25 billion. In December 2007, Bharti Infratel divested 8-10 per cent stake for \$1 billion to a group of international investors including Temasek Holdings, Goldman Sachs, Macquarie, Citigroup, Investment Corporation of Dubai, AIF Capital and India Equity Partners. The company received an enterprise valuation in the range of \$10-12.5 billion. The final valuation will be determined through Bharti Infratel's actual operating performance in financial year 2008-09.

Bharti Infratel's divestment in December followed that of the tower subsidiaries



## Key players

Company	Existing towers	Expansion and capacity addition plans
Indus Towers	70,000	Set up in December 2007, the company aims to provide non-discriminatory passive infrastructure services to all telecom companies in India.
Bharti Infratel	20,000	Divested 8-10 per cent stake to international investors for \$10-12.5 billion.
Reliance	24,000	Divested 5 per cent stake to overseas investors in July 2007 for \$337.5 million. There are plans to raise Rs 50-60 million via an IPO. There are also plans to increase the tower count to 100,000 by 2010.
TTSL	8,000+	Will sell 40 per cent stake, for which Essar Telecom, ATC, Carlyle, etc. have been shortlisted.
BSNL	37,500	There are plans to form a separate telecom tower company. It also intends to lease out 40,000 towers to private players. The company plans to add 30,000 towers within one year. Tenders have been floated for 6,000 more towers.
BPL Mobile	1,100	May hive off tower operations into a separate subsidiary. The company plans to add 600 towers by the end of 2008.
GIL	4,500	Has offloaded stake for Rs 12 billion, and has raised \$300 million and \$700 million through FCCB issue and loans respectively. There are plans to increase the tower count to 6,700 by March 2008, and to 25,000 in the next three years.
Quipo	1,200	Bought Spice Communications' 875-strong tower portfolio for Rs 67.5 billion. Intends to raise \$100 million from private equity funds. Has plans to increase tower count to 5,000 by March 2008, and to 25,000 by 2011.
TowerVision	1,000+	Has offloaded stake to Morgan Stanley and other global investors for \$300 million. The company has plans to set up 20,000-25,000 towers in the next five years.

of other key service providers such as RCOM and Tata Teleservices Limited (TTSL). Earlier, in July 2007, RCOM divested 5 per cent stake in Reliance Infratel to a group of seven overseas investors for \$337.5 million in a deal that valued the company at \$6.75 billion. RCOM is reportedly planning to sell another 5 per cent stake in Reliance Infratel, for which JP Morgan, Reliance Infratel's financial adviser for the transaction, has invited bids.

Reliance Infratel is also gearing up to raise Rs 50 to 60 billion via an IPO. The company, which recently decided to file its draft red herring prospectus, will sell nearly 10 per cent of its post-issue share capital. Going forward, the company is planning to increase its tower count to 100,000 by 2010-11. According to analysts, divesting stake is a lucrative proposition as India is the fastest growing mobile industry in the world and telecom assets are fetching increasingly high valuations. Reliance Infratel's valuation, for instance, has doubled since it first offloaded stake in July.

Rival CDMA operator TTSL has also firmed up plans to sell about 40 per cent

stake in its telecom infrastructure subsidiary that owns and operates about 8,000 towers. TTSL has shortlisted five companies, including Essar Telecom, ATC and Carlyle, for selling the stake.

Spice Communications, meanwhile, has sold off its entire portfolio of 875 towers to Quipo Telecom Infrastructure for approximately Rs 6 billion. The towers have a tenancy rate of about 1.7 operators per tower, and Quipo will offer them on a shared basis. It is speculated that the move is part of Spice's efforts to raise \$800 million to fund its expansion plans.

Interestingly, state-owned Bharat Sanchar Nigam Limited (BSNL), which was previously not in favour of infrastructure sharing, is now planning to join the bandwagon. It recently announced its intentions of forming a separate telecom tower company. In order to generate additional revenue, it also intends to lease out almost 40,000 towers to private operators like Spice Communications and Idea Cellular, which have expressed their preference of sharing infrastructure as they expand into Tier II towns in the country.

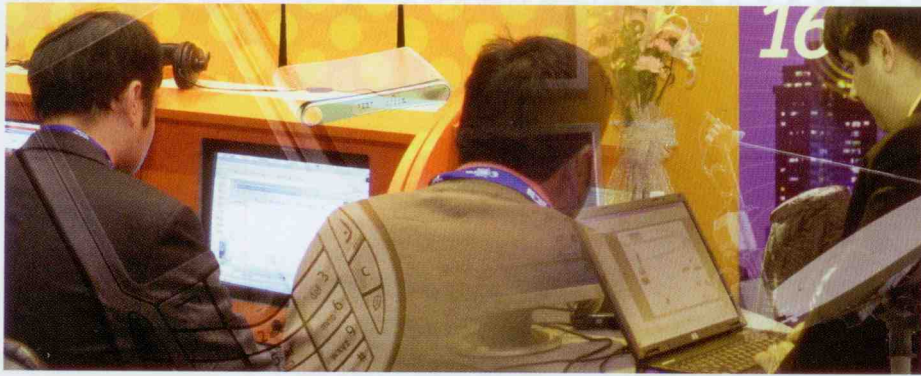
The public sector unit has also invited bids from both independent telecom

tower firms and the tower subsidiaries of Bharti Airtel and Reliance for leasing out passive infrastructure in over 500 locations across the country for a period of 15 years (extendable by five years on mutual agreement). This is the first time that BSNL has sought any infrastructural support from other telecom companies.

Standalone infrastructure providers like GTL Infrastructure Limited (GIL) and Quipo are similarly reaping the benefits of the increased activity in the telecom sector. With their order books full, they are accumulating funds with which to make rapid capacity additions.

GIL, which is India's largest standalone tower and telecom infrastructure company, recently offloaded stake to a clutch of private equity investors for Rs 12 billion. The company also raised \$300 million through a foreign currency convertible bond issue, and has been sanctioned a \$700 million loan by domestic and international banks.

GIL will use the funds for setting up 25,000 shared telecom towers in the next three years at an investment of about \$1.8 billion. As part of its first phase of rollout, the company intends to increase its tower



count from 4,000 (as of November 2007) to 6,700 by March 2008. Moreover, GIL plans to expand operations to cover 10 more telecom circles.

The company has also signed a memorandum of understanding with IDFC's subsidiary, IDFC Project Equity, to form a special purpose vehicle that will scope out acquisition opportunities in the tower businesses of operators as well as other infrastructure companies.

Quipo has set a target to set up 25,000 telecom towers over the next two to three years at an investment of nearly Rs 67.5 billion. Buying out Spice's towers has brought it a step closer to the goal. Quipo expects the contribution of the tower business to revenues to rise to 60 per cent in the coming years. The company is planning to raise about \$100 million from private equity funds in early 2008. It intends to use two-thirds of the funds to increase its tower inventory from about 1,200 to over 10,000 in the next two years.

Essar group company Essar Telecom Infrastructure is also building up momentum. It has earmarked Rs 12 billion to set up 5,000 towers during 2007-08 and has already set up about 2,500 towers. The company, which leases out towers to Bharti, Vodafone Essar, Spice, TTSL and BPL, is reportedly in talks for buying out three small Indian tower companies. It is also eyeing markets abroad.

A relatively smaller player in the segment, Xcel Telecom is working to set up 2,000 towers. It intends to spend about \$50 million to acquire small tower companies possessing 50-100 towers. Xcel is also eyeing stakes in the hived-off infrastructure arms of TTSL, Bharti Airtel and RCOM.

The increased activity in the Indian telecom infrastructure space has generated substantial foreign interest as well.

TowerVision, in order to fund its expansion plans in India, recently offloaded stake for about \$300 million to Morgan Stanley and other global investors including the Investment Corporation of Dubai, Goldman Sachs, Macquarie, AIF Capital, Citigroup and India Equity Partners. The company intends to increase its tower count to 20-25,000 in the next five years. Meanwhile, ATC is exploring stake acquisition opportunities in India, and has been shortlisted for TTSL's stake sale.

The boom in the telecom infrastructure space has also meant growth for companies that are, strictly speaking, not involved in the telecom tower business but provide a whole range of passive infrastructure solutions including green shelters, power interface units, line conditioner units, heat exchangers, battery life enhancers, and lightning and surge protectors. These include companies such as Acme Telepower, Delta Energy Systems and HBL Nife Power Systems. For example, Acme Telepower, which is a Delhi-based telecom infrastructure and power solutions provider, recently announced plans to launch an IPO of 17.28 million equity shares to raise \$300-350 million.

**Tower subsidiaries are generating healthy streams of revenue. Towers generate monthly rents varying from Rs 40,000 to Rs 100,000. The rents generally increase on an annual basis. These benefits have provided companies with an impetus to get involved in the telecom infrastructure segment.**

The company has acquired Norway-based telecom infrastructure provider Reime Network Implementation and is considering other acquisitions and joint ventures in China and South America.

Infrastructure management providers have also gained in prominence. These companies, popular with cellular operators in the UK, offer telecom enterprise resource planning (ERP) solutions for managing site rollout and sharing, supply chains, operations and maintenance, assets, billing and management information systems. Quipo Telecom recently tied up with Tarantula.net for obtaining telecom ERP solutions through Site-share.com, for end-to-end management of mobile infrastructure and site rollout, sharing, as well as operations and maintenance management. The tie-up will enable Quipo to achieve significant time and cost savings. While just-in-time order and delivery will help the company to optimise operational assets and improve cash flow, the systematic and automated process will help manage quality of delivery through improved service level management.

#### Going forward...

The telecom infrastructure space is likely to receive a further boost as operators extend their footprint to the rural areas. The Department of Telecommunications has already initiated the second phase of its rural tower rollout plan by inviting proposals from all telecom operators and standalone tower companies to set up 11,000 mobile towers across the country. This phase of the project, which is estimated to cost between Rs 30 billion and Rs 40 billion, will be financed by the government from the Universal Service Obligation Fund.

The first phase of the project, under which 7,871 towers are being set up across 250,000 villages through government subsidy, has already been initiated. BSNL, GIL, Reliance Infratel and Vodafone Essar were among the successful bidders for this phase.

In the final analysis, it can be said that with the 3G spectrum policy in place and a plethora of new players getting into the 2G and 3G spaces, the telecom infrastructure segment will only be looking at busier times ahead. ▲