

All Set for Consolidation

The Rs 600 crore Quipo-Spice deal indicates further consolidation in the tower business

The telecom tower business has taken the centre stage of the communications sector in India. And the recent development that has excited everyone is the Quipo-Spice Telecom alliance.

Expansion plans of the existing operators and the proposed launch of new players following the resolution of the spectrum issue has thrown open new opportunities for telecom tower companies, and they are on an expansion—through organic and inorganic—spree.

Quipo Telecom Infrastructure's buyout of 875 telecom towers of Spice Telecom—for close to Rs 600 crore—spread over the two states of Punjab and Karnataka strongly indicates a move for consolidation in the segment.

It is significant that the all-cash deal will be funded through internal sources. As part of the agreement, the independent tower company, Quipo, will not only maintain and rent these towers, but also set up new towers to meet future requirements of Spice Telecom. Spice is actively looking at rolling out services in other telecom circles.

Following the takeover of towers, the number of towers of Quipo Telecom has gone up to approximately 4,000. During the 2008-09 fiscal, Quipo will look at both organic and inorganic expansion. It is earmarking around \$1.5 bn-\$2 bn for takeovers, and the funding will be through a combination of equity and debt. However, Quipo's main focus is on the Indian market, where all major telecom developments are happening currently.

Valuation

The main concern for any company, however, will be valuation of the tower business. Industry

experts feel that valuation is conservative at present. Since telecom operators are increasing their presence in the tower business, consolidation is bound to happen.

The deal came at a time when three leading telecom operators—Bharti Airtel, Vodafone Essar, and Idea Cellular—formed an independent tower company, Indus Towers, to offer passive infrastructure services to all the operators.

The formation of Indus Towers by the three rivals, a unique thing in the telecom industry, has toughened the competition. Independent tower companies are forced to look for operators

such as Spice, Aircel, BSNL, and MTNL for new businesses as cellular operators like Reliance Communications and Tata Teleservices have their own tower business.

For forming Indus Towers, the three competing companies have decided to merge their existing passive infrastructure in sixteen telecom circles—Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Kolkata, Maharashtra, Mumbai, Punjab, Rajasthan, Tamil Nadu, Chennai, West Bengal, and Uttar Pradesh (East and West).

The joint venture is expected to assist the operators to lower operating costs and capital costs. They are expected to become more profitable as compared to other operators.

Since the new independently managed and operated company, Indus Towers, which will have 70,000 cell sites across the country, also plans to undertake tower management of other telecom operators, independent

telecom tower companies are in a tight spot.

The consolidation is good for the industry if they pass a part of the benefit to consumers and expand in places where there is no telecom presence.



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