Investor Interest

Financing scenario post-crisis

The sub-prime crisis began to unfold in August 2007 and the Indian markets started to get impacted in January 2008. However, though there was growing pressure on companies across sectors like banking and financial services, real estate, IT and pharmaceuticals, the telecom sector remained relatively insulated.

In the telecom infrastructure space, merger and acquisition activity continued unabated while interest from private equity remained undiminished. Post-January 2008, the Indian telecom infrastructure space witnessed some major deals. In February 2008, US-based private equity firm Kohlberg Kravis Roberts (KKR) bought a 2-2.5 per cent stake in Bharti Airtel's tower firm, Bharti Infratel, for $250 million. In August 2008, the Oman Investment Fund decided to pick up 18.74 per cent stake in Quippo Telecom for $96 million.

In January 2009, Reliance Infratel offloaded stake to a PE consortium for $338 million while in the same month, Tata Teleservices Limited (TTSL) merged its telecom tower subsidiary, Wireless Tata Telecom Infrastructure (WTTI), with pure-play tower company Quippo Telecom Infrastructure Limited (QTIL) in a deal valued at $2.6 billion.

Most recently, the American Tower Corporation (ATC) acquired telecom infrastructure firm XCEL Telecom for $137 million.

Background

The Indian telecom sector is the second largest and the fastest growing mobile market in the world. Its significant rate of expansion (compounded annual growth rate of 74 per cent over the past 10 years) has been aided by increasing network coverage, declining tariffs and reducing handset prices. Given India's present moderate mobile penetration levels of around 27 per cent (compared to countries such as France, Malaysia and Spain, which have mobile penetration levels of 91 per cent, 94 per cent and 110 per cent respectively), the mobile segment's growth is expected to continue in the coming years.

KPMG estimates that the mobile subscriber base will grow to 650 million by March 2012. With licences being granted to some of the existing operators such as Idea Cellular, Aircel, Loop, Shyam and Himachal Futuristic Communications Limited for new circles as well as to new entrants such as Datacom, Unitech, S Tel and Swan Telecom, competition in the sector is expected to intensify significantly. This poses an urgent need for telecom companies to expand their coverage and focus on core operations to sustain and improve market share, which has given the telecom infrastructure sector a major boost.

The telecom infrastructure sector has assumed the status of an independent industry during the past few years. Currently, there are around 259,000 telecom towers in India. Their ownership can be classified as follows: operator owned, tower infrastructure subsidiaries and independent tower infrastructure companies.

Operator-owned businesses, such as those of Bharat Sanchar Nigam Limited (BSNL), Mahanagar Telephone Nigam Limited (MTNL) and Aircel, are largely funded through internal resources as the tower business belongs to the same entity as the wireless operations business.

Independent tower businesses, which are run by an independent party that does not provide wireless services like GTL, receive funding from the market or strategic investors as is the case with XCEL Telecom (ATC has acquired XCEL).

Financing trends

Over the past few years, the industry has witnessed substantial consolidation with the players attempting to realise economies of scale. Quippo, for instance, acquired the telecom tower business of Spice Communications. The industry has also attracted interest from private equity players. HSBC, New Silk Route and others have invested $337.5 million in Reliance Infratel. KKR, Goldman Sachs, Citigroup, Temasek, etc. have invested $1.2 billion in Bharti Infratel. Morgan Stanley has invested $300 million in Tower Vision which has about 3,000 towers. And GIC, IDFC and others have invested $190 million in Quippo.

The road ahead

With the wireless subscriber base expected to reach 549 million by 2011, translating into a demand for an additional 237,000 towers, capex requirements may reach $10 billion. This may go up as the demand for towers will be augmented due to emerging technologies such as 3G and Wi-Max. The $10 billion capex on passive infrastructure is expected to be funded as follows:

- Around $1 billion is expected to come from the Government of India, which has created a Universal Service Obligation (USO) Fund to promote telecom operations in rural areas and award telecom sites to infrastructure players on a build-own-operate basis. The winner receives subsidy from the USO Fund for a period of five years.
- About $3 billion is expected to be injected into the industry from equity sources. Since the quantum of funds required is large, players will raise equity through group companies and private equity consortiums. International strategic players will look at entering India and consolidating their position through investments in existing players.
- The largest quantum of funds, $5-$6 billion, is likely to be raised via debt. Given the high capital investments required in the business, tower companies will leverage their fixed asset base. The debt-equity ratio is currently 2:1, but this may shift. ▲

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