Time for Consolidation

Downturn signals rise in passive infrastructure sharing

With telecom service providers expanding into low-margin areas, 3G and Wi-Max around the corner, and new licensees rolling out networks, the passive infrastructure sharing business is likely to gain significant traction in the coming years. This trend is likely to be strengthened by the ongoing financial crisis, as cutting costs will be instrumental for businesses to remain competitive in such challenging circumstances.

Of course, while the financial crisis has given reason to operators to share infrastructure, it has also created an air of uncertainty. Not only is there a dearth of liquidity in the economy, but corporates are also experiencing a fall in valuations across the board. According to reports, while tower valuations were earlier based on the "market multiple" method (the valuation of a tower was compared with similar deals that took place in the past), financial analysts now calculate valuations based on cash flows and revenue per tower. This has led to a reduction in valuation figures and consequently, many infrastructure companies like Indus Towers, Bharti Infratel and Reliance Infratel have postponed their listing plans. Some companies such as Essar Telecom Infrastructure are actually slowing down their tower expansion rates. The company, which was expected to have 6,000 operational telecom towers by the end of 2008-09, currently has only around 4,000 towers.

There has also been a noticeable lack of interest among private operators for putting up infrastructure in rural areas. The Universal Service Obligation Fund's second phase of rural rollouts, which involves setting up 11,000 towers, has been delayed by over six months due to poor operator response. The Department of Telecommunications (DoT) had invited expressions of interest from infrastructure companies in August 2008, but had to extend the deadline to January 5, 2009.

The problem is that most infrastructure companies are still setting up towers that were scheduled for the first phase of the project. Only 2,000 of the targeted 8,000 towers have been constructed so far. Operators have cited several reasons for this slow progress. These include an increase in the price of steel, which constitutes more than 80 per cent of the tower cost, increased threats from Naxalites, poor weather and tough terrain.

In order to improve the situation, however, the Telecom Regulatory Authority of India (TRAI) is encouraging operators to share infrastructure in rural areas. It has suggested that mobile towers should be designed to have the capacity to accommodate at least three service providers in order to be eligible for availing of subsidy.

These concerns notwithstanding, companies are still entering into tie-ups, expanding operations and raising finance for future needs. Analysts expect that at the end of 2008-09, the total number of towers owned by operators and standalone companies would cross 250,000. However, TRAI has stated that the industry needs only about 300,000 towers by 2010-11. In fact, if this projection is accurate, India could end up with more towers than it requires.

tele.net takes a look at the key developments in the passive infrastructure-sharing domain...

Forming tie-ups

Consolidation in the tower industry received a big boost with Tata Teleservices Limited (TTSL) merging its telecom tower subsidiary, Wireless Tata Telecom Infrastructure Limited (WTTIL), with pure- play tower company Quippo Telecom Infrastructure Limited (QTIL). Under the deal, QTIL will transfer its 5,000 towers to WTTIL and pay Rs 24 billion to TTSL to acquire a 49 per cent stake in and management control of the merged tower portfolio, consisting of 18,000 towers. Both companies will have equal representation on the board of directors. The merged company is expected to be valued at $2.4 billion. This is in contrast to its earlier valuation of $3-$3.5 billion, which has decreased due to the uncertain financial climate. Recently, Unitech Wireless signed agreements with Wireless-TT Infoservices and Quippo Telecom to lease telecom towers. The move will help the former to roll out its GSM services by the second half of 2009.

For Quippo, this is the second major

Key players

Company	Number of towers	Expansion plans and expected capacity additions
Indus Towers Limited	93,000	Bharti Airtel is planning to invest around $1 billion for expanding Indus Towers. The company was earlier planning to list itself on the capital markets but has postponed its plans for two-three years due to the current market conditions.
Reliance Infratel	46,000	Reliance Communications will consolidate its optical fibre infrastructure business with Reliance Infratel. Reliance Infratel is finalising talks with Etisalat for a passive infrastructure agreement, which will bring in Rs 15 billion per year for the next 15 years. The company is also in talks with US-based American Tower Corporation and Crown Castle International to divest 5-10 per cent stake for $500 million.
Bharat Sanchar Nigam Limited (BSNL)	34,000	In September 2008, BSNL announced plans to erect 19,000 mobile towers in rural areas in two phases. It also plans to hive off its infrastructure business into a separate subsidiary worth up to $10 billion and has invited operators for infrastructure-sharing talks. It was close to signing the same with Swan Telecom; talks, however, failed due to opposition from employee unions.
Bharti Infratel	30,000	Bharti Infratel has finalised a Rs 25 billion plan to expand capacity in India and intends to expand its overseas operations as well. It is also building additional tele com towers across Himachal Pradesh, Assam, Jammu & Kashmir, Madhya Pradesh, Orissa, Bihar and the Northeast, and intends to increase the number of towers to 40,000 next year.
Quippo-Tata combine	18,000	Quippo Telecom Infrastructure Limited (QTIL) and Wireless TT Info Services Limited (WTTIL) have merged their tower portfolios. QTIL will transfer 5,000 towers to WTTIL to form an 18,000-tower portfolio company. Quippo will hold 49 per cent stake in the new entity and control management. Unitech Wireless has signed an infrastructure-sharing agreement with WTTIL.
GTL Infrastructure Limited (GIL)	8,300	GIL plans to triple its telecom towers to 25,000 by March 2011, for which it envisages an investment of Rs 2 billion. However, it is experiencing some slowdown as it has cut its revenue growth guidance from 11-12 per cent to 6-7 per cent for 2008-09, citing increased pressure on pricing and slower network rollout by telecom operators.
Essar Telecom Infrastructure Private Limited	4,000	In early 2008, Essar was in talks with companies like Quippo Infrastructure, GIL and Aster Infrastructure for a possible merger. The company was planning to set up 6,000 towers but has reportedly slowed down its expansion plans.

consolidation move. The company acquired Spice Communications' 875-strong tower portfolio in 2008. Since then, it has been on an aggressive expansion drive. It is planning to invest around Rs 60 billion over the next two-three years for expanding its telecom tower business. There have also been reports that the Ruias-led Essar Group was in talks with Quippo for a possible merger of its telecom tower business arm Essar Telecom Infrastructure Private Limited.

Meanwhile, new telecom players eager to start services are entering into infrastructure-sharing talks with other operators. For instance, Reliance Telecom Infrastructure Limited (RTIL) and Swan Telecom are in advanced talks for a multi-year infrastructure sharing deal, which will enable Swan to launch services in the country using RTIL's infrastructure. If the deal goes through, RTIL could earn between Rs 1.3 billion and Rs 2.25 billion per month as rent from Swan, leading to earnings of over Rs 15 billion in a year.

Swan had earlier signed an infrastructure sharing agreement with Bharat Sanchar Nigam Limited (BSNL) to use the state-owned telecom operator's networks on a national basis. However, the deal hit a major roadblock when existing operators and several members of Parliament intervened on the grounds that the public sector utility had never opened its networks to anyone in the past. They questioned the reason behind the move, especially given the fact that Swan does not have any subscribers or network presence yet. DoT is reportedly probing the matter.

In early 2008, Sistema-Shyam Teleservices was reportedly at an advanced stage of negotiations with RTIL for a Rs 50 billion infrastructure-sharing deal spread over 10 years.

Expanding operations

Meanwhile, other companies are investing in ramping up their tower infrastructure.

Many of these operators have announced such plans in spite of the financial crisis.

In November 2008, BSNL announced that it was planning to invest around Rs 13 billion for procuring new equipment and setting up towers across the Tamil Nadu and Chennai circles. The PSU intends to install 1,010 and 600 towers, respectively, in these two circles. The company is also planning to invest over Rs 400 million for increasing the number of cellular towers in the Visakhapatnam telecom district from 88 to 133 by the end of 2008-09 and to about 300 by the end of 2009-10. Meanwhile, 10 standalone infrastructure companies including GTL, Nextra Telecom, ACME Telepower, Sujana Towers and KEC International, have submitted bids for setting up 19,000 towers for the PSU, to extend mobile phone connectivity to villages.

Reliance Communications (RCOM) is also building up its tower count to prepare for GSM, 3G and Wi-Max operations. Reliance Infratel, the tower subsidiary of RCOM, is targeting 100,000 towers by financial year 2010, up from its current 46,000 towers. Setting up of the additional towers will enable the company to increase its tenancy ratio to six operators per tower from the current 3.3.

Indus Towers, the telecom JV of Bharti Airtel, Vodafone Essar and Idea Cellular, is sailing on the same boat. In October 2008, the company announced its plans to add nearly 24,000 towers to its existing tower portfolio by the end of 2008-09. For this, the three JV partners in Indus are together learnt to be investing Rs 100-Rs 110 billion. Indus currently has around 90,000 towers compared to 60,000 at the time of its formation in December 2008. It is also likely to undertake a major part of the passive infrastructure expansion required by Bharti, Vodafone and Idea.

Financial remodelling

The year 2008 witnessed a continuation of the hiving off trend. In October 2008, BSNL, which had been losing market share, drew up a restructuring strategy to improve its financials. As part of this strategy, it plans to hive off its 34,000 towers into a separate company, which would be a 100 per cent subsidiary and would command a valuation of \$6-\$8 billion.

TRAI is encouraging operators to share infrastructure in rural areas. It has suggested that mobile towers should be designed to have the capacity to accommodate at least three service providers in order to be eligible for availing of subsidy.

Moreover, the company is likely to soon introduce its new infrastructure-sharing policy, enabling the state-owned operator to garner more revenues. The company is at the final stages of drawing up the policy guidelines, including the number of towers to be shared, the business model, the tower-tenant ratio and the time-frame for the sharing of towers.

Real estate company Unitech, which was recently awarded a pan-India telecom licence, is also planning to hive off its existing telecom infrastructure business, which involves manufacturing towers for various service providers, into a new entity. At a later stage, the company may consider listing the business on the stock exchange.

Similarly, Tata Teleservices (Maharashtra) Limited (TTML) has decided to hive off its tower business into a wholly owned subsidiary. The move will enable the company, which has around 3,500 towers, to focus more on the passive infrastructure business.

Meanwhile, other companies are tapping the debt market for funding their expansion plans. For instance, QTIL is in the process of raising around \$600 million through a combination of equity and debt. Of this, the company has already raised around \$185 million. Earlier in 2008, GIL raised around Rs 35 billion debt financing from international and national investors including the Asian Development Bank, State Bank of India, Bank of India, Bank of Baroda, the Life Insurance Corporation of India and Punjab National Bank.

Infrastructure solution providers

Telecom infrastructure solution providers such as Nu Tek India, Acme Telepower, Delta Energy Systems and HBL Nife Power Systems, offering products and services such as green shelters, power interface units, line conditioner units, heat exchangers, battery life enhancers, lightning and surge protectors, are also in expansion mode.

For instance, Nu Tek India, which provides end-to-end turnkey and installation services such as civil works and maintenance for infrastructure service providers, is on a growth spree. The company recently bagged a Rs 7 billion order from Indus Towers as well as contracts from Datacom for deploying 150 sites in Tamil Nadu. Shyam Telecom and Aircel have also placed orders with the company for its sites in Rajasthan and Delhi. Nu Tek, which launched a reasonably successful IPO in July 2008, has planned capital investments of Rs 230 million and is on the lookout to acquire a US-based company to boost its high-end engineering, 3G planning and sector management services, etc.

Meanwhile, power management solution providers are focusing on how to solve the power problem for base transceiver stations. Delta Energy Systems is planning to launch its multi-powered base station system in India, which can be operated using wind, solar and diesel energy. The organisation also intends to set up a research and development centre in India in 2009 at an estimated cost of \$70 million. Earlier in the year, Acme Telepower tied up with Nokia Siemens Networks to provide energy efficient radio cell site solutions to telecom operators. The two companies are also planning to establish a joint development lab in India to examine future opportunities such as remote energy monitoring solutions. Acme has also launched a complete range of environment-friendly options such as green shelters, nano cool shelters and filterless ACs.

Going forward

All in all, the future of the tower-sharing industry seems far from bleak. In fact, the need for operational fitness during the current financial scenario may provide just the impetus that operators need to significantly increase the scope of infrastructure sharing. ▲