

Towering biz in telecom

With India Needing 3.3 Lakh Towers To Meet 5m Telecom Subscriber Target, Strategic Investors & PEs Are Flocking To Tower Cos

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TOWER companies are finally getting their due in the telecom space. After being behind-the-scene players for long, they are now the object of huge interest from strategic investors and private equity firms. Strong returns on investments and fast growth have made the business more interesting.

The large number of towers needed in India over the next few years, make it the most lucrative segment in the telecom sector. There are currently about 1 lakh telecom towers in the country. It is estimated that upto 3.3 lakh towers would be needed to support the targeted 500 m subscribers by 2012.

While the larger operators are spinning off the towers into wholly-owned subsidiaries, others like Quipo Telecom Infrastructure, TVS Interconnect Systems, GTL Infrastructure, the Essar group, Quipo Infrastructure Equipment (QIEL) and Xcel Telecom are investing in standalone tower businesses to profit from growing demand for ready infrastructure.

Both types of companies have seen fund infusions from PE players. Also, smaller tower companies are being eyed by bigger ones. "There are many small companies with around 50 to 100 towers. They are good buyout targets," Xcel Telecom CEO Sandip Basu told ET. The company is looking at acquisition of two-three smaller tower companies this fiscal.

Texas-based Q Investment has committed \$500 million to Xcel Telecom to set up telecom towers. The company, set up in October last year, has lined up \$2 billion for acquisitions and new tower rollouts in the next three years. "There is a reasonable surety about the prospects

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- **With every new user, the cost of a tower co rises 10% while income jumps 80%**
- **Big players are eying small cos with 50-100 towers**
- **Large telcos are spinning off their tower business to wholly-owned subsidiaries**
- **A number of standalone tower cos have come up to cash in on the opportunity**

of the business. Valuations are excellent, giving good returns on investments," Mr Basu said.

QIEL, a member of the Srei Group, has raised Rs 150 crore of equity from IDFC Private Equity Fund 11, and GIC Special Investments of Singapore. The two investors bought 15.5% stake each in the company earlier this year.

Tower firms build two types of cell sites—ground-based or those mounted on rooftops. The former costs Rs 30 lakh while the latter costs around Rs 18 lakh. While the pay back period for telecom operators is 12-13 years, it is only 5-6 years for tower companies because several operators share one site.

They adopt three business models: built-to-suit sites, greenfield sites and buying sites from operators and leasing them out. Industry experts say they are 10% more capex-efficient than the operators because this is their core business. The monthly rent

ranges from Rs 40,000 in rural areas to upwards of Rs 1 lakh in metros.

According to Gartner principal research analyst Nareshchandra Singh, recent recommendations by TRAI to encourage infrastructure sharing have boosted tower company prospects. The more the number of operators on a tower, the higher the rent. "With every increasing tenant, while incremental costs go up only 10%, revenues increase by 80%. This makes towers a high returns business," said an analyst.

The rent charged from subsequent operators is only slightly less than that of the first tenant, also called the anchor tenant. "Most of the money is made by the tower company when it adds an operator to an existing tower," said an official with a tower company. Also rentals are revised annually, ensuring that returns do not diminish, he added.