

# Towering revenues in infrastructure?

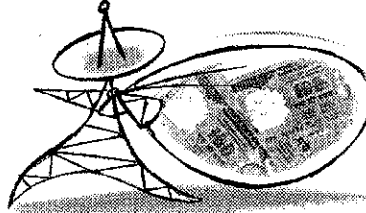
**T**HE industry is abuzz with reports that major telecom service providers — Reliance Infocomm, Bharti and Tata Tele-services — are likely to hive off their tower business into a separate entity to unlock the value of their assets, restructure their balancesheets and increase sharing of infrastructure. The sudden interest in the passive infrastructure industry is a function of the need of service providers to penetrate deeper into the Indian market to sustain the current growth levels as well as cater to the policy initiatives by the regulator — for instance the extension of funds available under the Universal Service Obligation (USO) to private telecom operators and independent passive infrastructure providers.

Hitherto infrastructure sharing has been limited largely to bipartite agreements between operators to reduce their capex and opex costs per site. Though this has brought down costs, the impact has not been substantial to provide the kind of fillip the industry needs to fuel rural roll out. Trai estimates indicate that subscriber base will hit the 500-million mark by 2010 and the number of towers will grow from the current 90,000 to approximately 310,000 by 2010. However, if one assumes the level of sharing remains constant (at the present levels) between operators the number of sites required to service a subscriber base of 500 million would be in the region of 400,000-450,000. Given the average cost of a tower is about Rs 2.2 million this translates into capital cost savings for the industry in excess of Rs 25,000 crore. In addition to this there would be savings in operating costs as well.

The future growth of service providers is dependent upon increasing penetration, which means even lower tariffs to appeal to the low income consumers. To maintain their profitability, service providers will have to effectively manage their cost structure, optimise their capital investment and enhance ARPU of the higher end segment of consumers. Savings from infrastructure sharing will facilitate roll out in rural areas, help service providers to further reduce tariffs and at the same time main-

## GUEST COLUMN

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tain a healthy level of profitability. All of this is likely to result in a tremendous boost to India's economic growth. A recent research report highlights that a 10% increase in penetration adds to \$2.3 billion to the end-user surplus and \$6.2 billion in service provider revenues.

Infrastructure sharing has already sprouted in India and it would be interesting to see how the tower business pans out in the ensuing months. Let us take the example of the US tower industry — which is now over a decade old. The industry started out with a large number of independent tower companies with as little as 200-300 sites. With the pattern of return on investment similar to utility companies with high initial capital outlays and extended period of return, most of the small companies had high levels of debt on their balancesheet with debt/EBITDA ratios of 9.0x-14.0x and debt/equity ratios of two to five times. The high debt made them sensitive to even slight downturns in roll-out by service providers. This led to a huge wave of consoli-

dation post the telecommunication bust in 2000-01 which reduced the number of players from over 10 to about four that included American Tower, Crown Castle, SBA Communications and Global Signal. In 2006, Crown Castle bought Global Signal for \$5.8 billion and it is believed that SBA Communications is also a takeover target which may leave just two large players in the US tower industry.

Similarly, in India we are seeing a large number of players that have evinced interest in the sector. Some of these include Quipo, GTL, Essar, TVS Interconnect Systems and Acme. International players like Crown Castle and American Towers have also indicated an interest in this market as well other proposed entities of the service providers. Telecom service providers are believed to be testing the waters and are handing out small site build-out projects to multiple tower companies such that they can assess the reliability and on ground expertise of these players to deliver on roll out timelines and up-time service level agreements.

In the medium term, the tower industry is likely to have two-three large national players with over 4,000 towers and a large number of smaller regional ones with 500-2,000 towers. The large ones will be the entities of the service providers or independent tower companies that have acquired existing assets. The biggest advantage entities with existing tower assets have is that they already have an anchor tenant and have to scout only for an additional tenant. Eventually, the need to achieve benefits of scale and meet the high level of investment and maintain a strong bargaining position with service providers, the Indian tower industry too will have to consolidate.

The future for the tower industry looks exciting for the sector as a whole with significant potential for upsides such as roll out of wireless broadband, 3G, FM and broadcasting services in addition to the surge in subscriber growth and minutes of usage. Translated into business triumph it's bound to be a towering success!

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