Clicking it Big

With the entry of new operators and astonishing growth of the Indian mobile base, the tower business is reaching new heights

In the present market landscape, telecom is one of the few sectors which is progressing at a steady pace. In the last few years, telecom infrastructure sector has undergone a phenomenal change. Ever since the concept of infrastructure sharing was introduced in India, the market is getting more and more competitive. With the entrance of new operators and astonishing growth of the Indian mobile base, this industry is sure to witness a huge leap in the years to come. The key players in the telecom tower business are Indus towers, Bharti Infratel, Essar, Reliance Infratel, Quippo and GTL. Besides this, Aircel has its own 7,000 towers.

As passive infrastructure providers have also forayed into the managed services space (by providing services to various network operators and service providers), the tower business is entering the next phase of development.

Major Shifts

In FY 2008-09, Quippo Telecom Infrastructure (QTIL) entered a strategic partnership with Tata Teleservices. Under this agreement, TTSL and QTIL will swap 51% and 49% stake, respectively, with Quippo Telecom having the management rights in Wireless-TT Info-Services Limited (WTTIL)—the tower arm of Tata Teleservices. Also, in spite of the slowdown blues, the company added six new customer accounts during the last fiscal. WTTIL had over 13,500 sites at the end of FY 2008-09. The company has bagged contracts from Unitech Wireless, Sistema Shyam Teleservices, Aircel, among others.

In another significant development, American Tower Company (ATC) has reportedly acquired Xcel Telecom's 1,700 towers for around Rs 700 crore. The other big player is Reliance Infratel. During the last quarter of FY 2008-09, the company added 5,000 telecom towers to its kitty. Therefore, it has now 48,000 towers in total. According to VOICE&DATA research, the company is planning to add over 7,000 towers by the mid of 2009. With operations in thirteen circles, Essar has around 4,000 towers. Its primary customers are Vodafone, Idea Cellular, Loop Mobile and Bharti Airtel. Considering the future requirements, Bharti Airtel has reportedly earmarked $1 bn for its tower business. The company is operating in the tower business space with wholly owned Bharti Infratel and Indus Towers, in which it has a 42% stake.

GTL has now 9,411 towers spanning across nineteen circles in India. The company is witnessing huge demand from operators with pan-India expansion plans, operators rolling out GSM networks, and the government owned operators. It has also signed a Master Services Agreements (MSA) with Sistema Shyam and Aircel for multi-year tenancies. During FY 2008-09 it has increased the tally of towers by over 56% and the number of tenants also increased by 77%. The company's revenue from provisioning of tower and allied infrastructure in FY 2008-09 was Rs 220.83 crore. It has most of the leading telecom operators and one WiMax operator as its tenant. Quippo on the other hand, has over 18,000 towers at present.

A major concern for the tower business in the country is the operational delay of new telecom service providers. Given the unclear picture of developments regarding WiMax and 3G, it's difficult to measure the actual demand of towers in the next three years.

Notably, in FY 2007-08, five new operators received pan-India

licenses, and out of these only Sistema Shyam was able to start its operations. Among others, Swan Telecom and Unitech Wireless have been able to get a strategic partner in place and are likely to launch their services by FY 2009-10.

While independent tower companies is largely dependent upon the growth of new operators, companies associated with their parent operators are likely to be in a better position. The key reason for this is the associated vision and support they get in a timely manner.

Expectations

With close to 10-15 mn net addition in cellular subscriber base every month, India is set to touch 600 mn subscribers by 2011. This means there are close to 1,50,000 more towers needed from the present base of roughly 2,58,000 in next two to three years. In addition, there is a strong possibility of an increase in the number of subscribers per tower.

Considering this, industry is gearing to witness immense competition and demand in the telecom tower space. According to industry experts, the competitive landscape for tower industry is still germinating and beginning to consolidate. In the next few years, substantial shift is expected in the overall structure of this sector.

For an operator, lower per subscriber profitability and higher cost of attaining full reach, as well as operating leverage required, justifies the need for infrastructure sharing in rural areas.

With overall teledensity still below 40%, the growth pyramid of Indian telecom sector is not going to end any day soon. There is still a huge untapped market that is encouraging operators to compete in an aggressive manner. During the last fiscal, many industry players have indicated high tower requirements spanning across years for their 2G/3G rollouts. In order to achieve effective coverage, 3G operators will need one 3G BTS for every two 2G BTS.

Key Players (FY 2008-09)

Company	Estimated Number of Towers
Indus Towers (JV between Bharti, Idea & Vodafone)	100,000
Reliance Infratel	48,000
BSNL	39,000
Bharti Infratel	27,548
Tata + Quippo	20,000
GTL	9,411
Aircel	7,000
Essar	4,500
Others	3,000
Total	**2,58,459**

The industry is heavily dependent upon the entry of new players and expansion plans of incumbent players. Industry analysis reflected that tower requirements of operators (with pan-India expansion plans and dual technology operators) are expected to be evenly split between their own towers, and towers from carrier-owned tower companies and independent ones.

At present, service providers are increasingly hiving off their towers into separate subsidiaries to unlock shareholder value and to focus on core competencies. In order to stay in the game for a longer duration, expanding the base in rural market would be the key priority for most of the operators. As marginal rural customers are being added at progressively lower ARPUs, the cost parity between owning a tower and leasing tower space becomes very disparate. The lower per subscriber profitability and higher cost of attaining full reach in rural areas will boost the need for infrastructure sharing in these areas.

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Rajesh Chharia
President, ISPAI, India