

# Towering Growth

With India's cellphone subscriber base expected to top the half-a-billion-mark in just about two years, demand for telecommunication towers will soar, writes **Nayantaraa Lama**. The huge opportunities in the sector have lured international investors, who are pouring money into the towering sector.



NDIAS buoyant telecommunications sector, which sees the addition of eight million new cell phone subscribers every month, is set to grow at a breathtaking pace over the next two years.

According to government projections, there will be over half a billion mobile phone subscribers by 2010. By the end of 2008, three-quarters of India's population will be under mobile network coverage.

Many of these new consumers to be covered by mobile networks live in rural districts with scarce health and education facilities. The government says boosting telecommunications use is the key to socio-economic development in these areas.

The massive expansion in mobile phone coverage has triggered off fast growth in the telecommunications infrastructure sector. According to industry estimates, about \$25 billion will be invested by telecom service providers over the next two years, in building new infrastructure, or upgrading existing facilities.

And a large chunk of this will be spent on expanding the network of mobile towers, from 125,000 at present to about 400,000 by 2010. Not surprisingly, international investors have started acquiring stakes in telecommunications infrastructure firms, including those spun off by some of the leading service providers.

"Broadly speaking, towers are like raw materials for mobile telephony," says Bhupesh Sharma, who specialises in the tower installation business. "And these towers take up most of the investment of any mobile operator."

According to him, with mobile penetration of 22 per cent there are about 125,000 towers in India. "By 2010 it is estimated that to cover the entire geographical area of the country a total of 400,000 towers will be needed," adds Sharma. His firms – The Liasioners and RealBiz Enterprises – have jointly acquired about 3,000 sites till date.



Since the towers make up the bulk of investments of a mobile operator, more and more operators are working towards sharing towers. This will reduce the costs drastically and as a result benefit the customer.

According to Sharma, instead of investing between \$60,000 and \$75,000 on a single tower, each operator will have to pay a rent of \$1,000 to \$1,250 a month to the company that owns the tower.

The Department of Telecommunications has also launched a scheme to provide support for setting up and managing 7,871 infrastructure sites (towers) spread over 500 districts for provision of mobile services in the specified rural and remote areas where there is no existing fixed, wireless or mobile coverage.

According to the Telecommunications Regulatory Authority of India (TRAI), India's wireless market is the fastest growing in the world. Expansion in this sector is also contributing significantly to economic growth of the country. As against a target of 250 million connections by December 2007, the total number of telephone connections reached 272.88 million. The overall tele-density is 23.89 per cent at the end of December 2007.

The industry expects robust demand for telecommunications infrastructure, especially in view of the new licences that have been awarded by the government to over half a dozen companies to operate services in several circles. The two CDMA (code division multiple access) service providers – subsidiaries of the Tata Group and the Anil Dhirubhai Ambani Group (ADAG) – will soon roll-out their GSM (global system for mobile phone) services, after having been given the licences.

Demand for mobile phone towers is set to rise, as a single operator, with an all-India licence, would need at least 10,000 towers, costing over \$600 million, to roll out the services.

Not surprisingly, the telecommunica-

tions infrastructure sector has started attracting the attention of international firms, which have started acquiring stakes in a few key companies, reinforcing their confidence in the Indian telecommunications sector.

Kohlberg Kravis Roberts & Co (KKR), a leading private equity firm, in February agreed to invest \$250 million in Bharti Infratel. This was on the back of a \$1 billion investment in the company by leading international investors including Temasek Holdings, the Investment Corporation of Dubai, Goldman Sachs, Macquarie, AIF Capital, Citigroup and India Equity Partners.

The enterprise valuation of Bharti Infratel – a subsidiary of Bharti Airtel, India's leading integrated telecom services provider – will be in the range of \$10 billion to \$12.5 billion (with the final valuation to be determined on the basis of its operating performance for fiscal 2008-09).

Bharti Infratel owns over 20,000 sites and has a 42 per cent stake in Indus Towers, a recently announced joint venture between Bharti, Vodafone and Idea, which has over 70,000 sites. Bharti Infratel and Indus Towers will provide passive infrastructure services to all wireless telecom operators in India on a non-discriminatory basis.

Reliance Infratel, the tower operating subsidiary of ADAG company Reliance Communications, is also planning to raise about \$1.5 billion with a sale of a 10 per cent stake in the company through an



initial public offer (IPO). Reliance Infratel, which currently has about 25,000 towers, hopes to expand this to 60,000 by March 2009.

Reliance Communications, which is investing \$1.3 billion for the nationwide roll-out of its GSM network, will also invest another \$2 billion in Reliance Infratel. International investors including HSBC Principal Investments, the Quantum Fund (managed by George Soros) and others have acquired a five per cent stake in Reliance Infratel for almost \$350 million.

Tata Teleservices has also decided to spin off its passive infrastructure division - primarily towers - as a separate company, in line with the global and domestic trend. It is also keen on selling off a large stake to investors. Several strategic and private equity investors have shown interest in acquiring a stake in the unit, including KKR, Goldman Sachs, Blackstone, Carlyle, American Tower, Excel Towers, Quip and the Essar group.

BPL Mobile, one of the first mobile phone service providers in India, plans to invest about \$2.5 billion initially to fund its expansion. The company has signed a letter of intent to expand its operations nationwide. According to S. Subramaniam, director and chief executive officer, BPL Mobile, the company plans to install about 600 new towers by the end of the year, taking the total to over 1,700.


Another domestic telecom infrastructure major, GTL – which recently got funding of about \$250 million from international investors – has entered into a strategic alliance with Ericsson, for

providing infrastructure services in the UK. Manoj Tirodkar, chairman and managing director, GTL, says the company – which is planning international acquisitions abroad – will provide passive site maintenance, engineering and remote management services to network operators and service providers in the UK. Tirodkar sees tremendous opportunities in the overseas markets, as international telecom operators look for cost arbitrage and economies of scale.

But international telecom infrastructure companies are also entering India in a big way. TowerVision, an independent tower management firm, promoted by British and Israeli investors, has raised nearly \$300 million by selling a part of its equity stake. Morgan Stanley is learnt to have contributed a substantial portion of the 'mezzanine investment' in the company, which operates in India.

According to Amit Ganani, ceo, TowerVision, the Morgan Stanley investment will help the company consolidate its position. It plans to expand its tower portfolio to 6,000.

Another international player having a presence in the telecom tower business is American Tower Corporation, which owns and operates over 20,000 towers in the US, Mexico and Brazil.

With India's telecommunication sector expected to grow at a rapid pace in the coming years, infrastructure companies will continue to install towers across the sub-continent to provide better connectivity to millions of cellphone users. 

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