

GTL Infra acquires Aircel tower biz for Rs 8,400 cr

TOWERING OVER



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- The deal will make GTL the world's largest tower company, replacing ATC
- GTL will pump in another Rs 600-800 crore to upgrade the acquired business

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GTL Infrastructure, a provider of passive telecom infrastructure, has announced the acquisition of Aircel Cellular's tower business in a Rs 8,400-crore all-cash deal.

"We will fund the transaction through fresh equity of Rs 3,400 crore from our group companies, while Rs 5,000-crore debt is funded by a SBI Capital consortium. GTL chairman Manoj Tirolkar said at a press conference in Mumbai on Thursday.

The transaction will see Aircel spinning off its tower business with 17,500 towers into a special purpose vehicle (SPV), which will be acquired by GTL. The deal, which is expected to be completed by May, will make GTL the world's largest tower company, replacing American Tower Corporation. The GTL stock gained 4% to close at Rs 44.65 in a flat Mumbai market on Thursday.

Post the deal, GTL will pump in another Rs 600-800 crore to upgrade the acquired business. The SPV may be merged with GTL at a later date, said

an industry analyst. GTL will invest Rs 1,750 crore from internal accruals, while the rest will come from GTL and other group companies. "We are not contemplating raising any new equity or FCCBs," he said. GTL's debt equity ratio now stands at 1.21. GTL will pay 11% interest on the Rs 5,000-crore eight-year loan for the first year.

GTL will roll out another 20,000 towers over the next three years, and will enjoy the right of first refusal to service Aircel. In other words, Aircel can go to any other tower company, if GTL fails to service Aircel's requirements. "Post this transaction, we expect to have an annual recurring revenue base of Rs 1,800 crore with an EBITDA of more than Rs 1,200 crore from FY11," said Mr Tirolkar, adding that Aircel will contribute not more than 30% of GTL's revenue going forward.

Flush with funds from the transaction, Aircel will now complete its pan-India footprint by June, becoming a national operator. "We are targeting 100-million users by 2010 and hope to double our base stations to 80,000 by then. This money will go towards meeting those targets," Aircel COO Gur-

deep Singh said. Aircel's promoters, Malaysia's Maxis Communications and Chennai-based Apollo group, have pumped in \$5 billion in the company till now. "Another \$5 billion will be invested by FY13. We are fully funded," Mr Singh added. GTL currently has 15,000 towers and combined with Aircel's 17,500, the company will have 32,500 towers by May. The combined tenancy of the two is an average 1.17 per tower. "If our tenancy crosses two (operators per tower) next year, we can start generating cash flows," said Mr Tirolkar, adding that Aircel's towers come at a "reasonable" valuation for GTL. The per tower cost works out to Rs 48 lakh. GTL is targeting a tower base of over 50,000 by FY13.

Tata Teleservices' towers were valued at Rs 61 lakh each when it merged its towers with Quippo Telecom Infrastructure in January last year. In March 2009, American Tower Corporation (ATC) had paid \$90,000 (Rs 41 lakh) per tower for Xcel Telecom's 1,700. Bharti Infratel had received Rs 1.75 crore per tower when it sold stake to a consortium of investors.

Per-second billing unsustainable: Aircel

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AIRCEL Cellular, promoted by Malaysia's Maxis Communications, on Thursday said it was targeting 100 million users by 2012, over three-fold increase from the current base of 31 million. However, Aircel's strategy for subscriber addition will be data driven and not tariff driven.

"Per-second billing is unsustainable. It constrains EBITDA margins. We will see these tariffs for another year-and-a-half after which consolidation will set in," Aircel COO Gurdeep Singh said after announcing an



agreement with GTL Infrastructure to sell its towers. He pointed out that for operators, the cost per minute is 40 paise and tariffs below 50 paise per minute did not make a business case. "With tariffs hitting all time low, only value-added services could increase revenues," he said.

Currently, data services constitute 7% of Aircel's revenues and the company is targeting to take that to 11% by 2012. "Differentiation can come through only value-added services," he said.

The company is targeting to complete pan-India footprint by June this year. It is currently present in 18 out of the 23 telecom circles.

Tower utilisation holds key to earnings growth

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GTL INFRA

Tower utilisation holds key to earnings growth

Ranjit Shinde

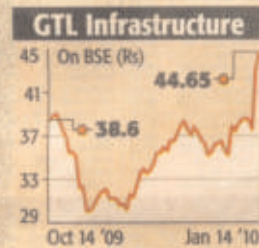
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THE acquisition of Aircel's tower business has catapulted GTL Infrastructure (GIL) to the top slot in the domestic telecom infrastructure space. However, the key to its success is how effectively GIL increases utilisation of its telecom towers.

The GIL management has indicated that the valuation of the all cash deal worth Rs 8,400 crore to purchase 17,500 towers is among the cheapest in the sector. Its enterprise value stands at Rs 48 lakh per tower. For Tata Teleservices' tower business that was merged with Qipco Telecom earlier last year, EV/tower hovers at Rs 52 lakh, whereas for Bharti Infratel, it is close to Rs 2 crore. Another key parameter is tenancy ratio or the average number of tenants per tower. At Rs 35 lakh, GIL-Aircel's EV per tenant is lower than Bharti's Rs 1.3 crore, Reliance Infratel's Rs 59 lakh and Tata-Qipco's Rs 39 lakh.

Based on these parameters, the deal between GIL and Aircel looks reasonably priced. However, analysts have expressed concern over GIL's ability to improve tenancy ratio for the merged business. The average tenancy ratio

or TR is close to 1.2. At this tenancy level, GIL would take over 10 years to break-even on its investment. GIL's management is hopeful of increasing TR to 2.3 by FY13, which would reduce the break-even period to six years. However, analysts are sceptical



since GIL may find it difficult to attract tenants.

GIL is betting on the business from new telecom operators who would find it more feasible to outsource tower infrastructure for faster roll-out of their services. However, most of them have tied up with other tower companies. For instance, Uninor will use Tata Qipco's towers and Reliance Infratel will provide its towers to S Tel and Swan Telecom. This makes GIL's task to improve TR all the more challenging. Rising rural penetration offers some comfort. With urban circles hitting saturation, telcos are targeting remote rural areas and GIL enjoys a good presence in the hinterland.

At the current TR, GIL is expected to earn over Rs 700 crore in revenue per annum for 15 years from the deal. Aircel has committed for 20,000 more towers in near future, which would double the topline. Its operating margin is expected to be better since three-fourth of its towers are ground-based that attract higher rent than roof-top towers. GIL has accumulated a loss of over Rs 110 crore as of September '09. The deal may help GIL post a net profit next year. The stock has risen by 19% after media reports about the deal. However, a lot would depend upon how well GIL improves per tower utilisation. MNCs such as ATC and Crown Castle command TRs of 3-3.5. It needs to be seen whether GIL is able to achieve these levels though experts caution against such a comparison due to difference in market conditions in India.

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