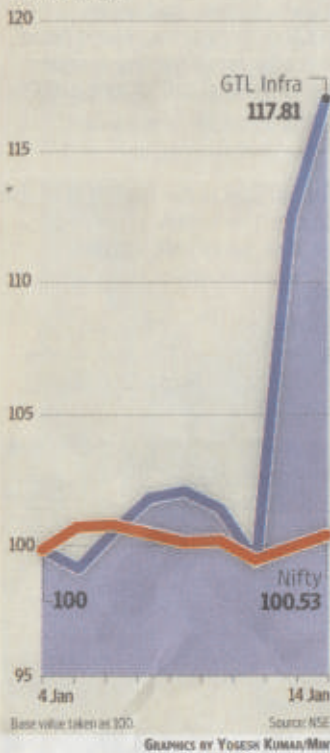


GTL Infra will need funds to grow

ON A HIGH

Markets have reacted positively to the Aircel deal.



The country's largest independent passive telecom infrastructure company, **GTL Infrastructure Ltd**, is set to more than double in size after the acquisition of **Aircel Ltd**'s passive infrastructure. But in the process, it may stretch itself financially.

The Rs8,400 crore acquisition is being done through a special purpose vehicle, in which GTL Infra will have a 51% stake. The balance will be held by **GTL Ltd**, a group company and **Global Holding Corp. Pvt. Ltd**, the group's holding company. Around three-fifths of the total cost, Rs5,000 crore, is being funded through debt.

GTL Infrastructure's share in the equity component of the deal works out to Rs1,750 crore. The company had a cash balance of Rs1,365 crore at the end of March 2009, of which Rs458 crore was pledged towards a debt service reserve account, margin money for letters of credit, bank guarantees, and as security for borrowings by capital goods

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vendors and sales tax authorities. In FY09 it incurred capital expenditure of Rs1,440 crore, and assuming that capex this year was in a similar range, it should have exhausted most of its funds. At the end of March 2009, it also had a debt-equity ratio of 2.6:1, which means that raising additional debt to fund the Aircel deal as well as for recurring capex needs would be difficult. And recurring capex is likely to be high. The company has committed to set up 20,000 towers over the next three years to meet Aircel's needs.

What's positive about the deal is that GTL Infra has also got an anchor tenant in Aircel. But it would need to increase its tenancy ratio (number of tenants per tower) considerably from current levels of 1.2 times for the deal to make sense. In a presentation to analysts, the firm has said that it expects the tenancy ratio to

rise to 2.3 times in the next three years. But this seems ambitious especially given the large capacity in the system and the presence of a number of large passive infrastructure providers such as **Indus Towers Ltd**, **Reliance Infratel Ltd**, **Bharti Infratel Ltd** and **Quippo Telecom Infrastructure Ltd**. The markets, however, seem to be gung-ho about the prospects for the company after the deal—GTL Infra's stock has risen by 18% in the past two trading sessions.

For the telecom sector as a whole, this move of consolidation spells further bad news. On the one hand, Aircel gets much-needed funding, which will cause it to roll out capacity at an increased speed. This will add to the overcapacity in the system. On the other hand, even profitability of the passive infrastructure segment is likely to be affected with one more large player to contend with. The spate of bad news for the telecom sector just doesn't seem to end.