GTL Infra gears up for sale as tower biz consolidates

After a merger with associate company Chennai Network, banks will convert debt to equity and exit under SDR

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It's raining mergers and acquisitions (M&As) in the Indian telecom tower sector. Within days of Bharti Infratel selling a 10.3 per cent stake for ₹6,200 crore to a private equity fund and a pension investor, BSE-listed GTL Infrastructure is getting ready for a sale at an estimated equity valuation upwards of ₹10,000 crore, after a merger with its associate company Chennai Network Infrastructure (CNIL).

The valuation takes into account recent M&A transactions in the sector and its own earnings estimates for 2017-18, say bankers involved in the deal.

GTL Infra went for strategic debt restructuring (SDR) last September. Lenders will convert loans worth ₹4,500 crore into equity, and all stakeholders, including promoters, are expected to exit from the company through the share sale.

The company has hired EY and Tap Advisors, a New York investment banking firm, for the sale and is betting that its higher Ebitda (earnings before interest, tax, depreciation and amortisation) of ₹1,400 crore for 2017-18 in the merged entity would fetch better valuations.

The firm expects the total debt to fall from ₹8,200 crore, following the conversion of debt to equity by banks, to ₹4,200 crore by March next year.

The enterprise value (EV) would be ₹14,200 crore, taking the debt of the merged entity into account, which works out to an EV/Ebitda multiple of 10 times.

BUY & SELL

- 2010 — GTL Infrastructure buys Aircel's towers in a ₹8,000-cr deal
- 2011 — GTL Infra enters Corporate Debt Restructuring
- 2012 — The Supreme Court cancels telecom spectrum licences
- 2013
- 2014
- 2015 — GTL Infra enters SDR, lenders to convert loans into equity
- 2016 — Lenders, promoters agree to sell tower company
- 2017

STANDALONE FIGURES (₹crore)

	Net sales	PAT
FY10	348.0	-2.6
FY11	490.4	-139.3
FY12	550.6	-370.8
FY13	634.7	-686.6
FY14	649.3	-551.2
FY15	599.7	-514.7
FY16	619.3	-547.3
FY17*	792.0	-309.7

* 9 months as per unaudited filing
Compiled by BS Research Bureau
Source: Capitaline

"This is the first time ever that in an SDR case, banks have gone for rightsizing the capital of a company due to good underlying business and then sell it to investors," said Abizer Diwanji, partner, EY.

Telecom tower companies are currently witnessing consolidation, with India's largest tower company, Indus Towers, which owns 122,000 towers, expected to see a deal at $12 billion (₹79,000 crore) as both Vodafone and Idea sell their stake. In 2015, American Tower Corporation had bought stake from Srei Infrastructure and Tata Teleservices in Viom Networks, which had 42,000 towers. Last month, Bharti Airtel sold a 10.3 per cent stake in Bharti Infratel, with 39,000 towers, to private equity firm KKR and Canadian pension fund CPPIB for ₹6,200 crore at an EV/Ebitda valuation of 11 times.

Deal gone bad

GTL Infrastructure had bought CNIL from Aircel in 2010 in a ₹8,000 crore transaction. In 2012, the cancellation of telecom licences by the Supreme Court hit the entire sector hard and pulled down the company's revenue and profit. The high debt taken to buy Aircel's towers resulted in the company's financial metrics deteriorating significantly. A planned merger with Anil Ambani group's Reliance Infratel also did not go through.

Last September, GTL Infra, with 28,000 towers, had entered into a SDR scheme after it failed to service its debt. "Our objective is that as and when the process of SDR is completed, the debt would come down to sustainable levels. Like many Indian businesses, particularly in telecom, we have gone through difficult times. In our turnaround strategy, tenancy growth, high network uptime and growing the cash flow through innovative cost cuts have been the key," said Manoj Tirodkar, chairman of the GTL group.

From peak debt of ₹19,574 crore in financial year 2010-11, it would fall to ₹5,571 crore by end of 2017-18 and ₹3,840 crore by 2018-19, according to the company's estimates. For the financial year that ended on March 31, CNIL's revenue was up to ₹1,240 crore, while GTL Infra's revenue was ₹932 crore.

According to the plan, foreign currency bondholders would also take a haircut and hence the liability will fall to $100 million from $253 million. The promoters stake in the merged entity will also fall from 90 per cent to 19 per cent after the debt restructuring.

In order to oversee the merger and find a suitable buyer, the board has appointed a three-member advisory committee consisting of former RBI deputy governor K C Chakravarty, former Sebi Chairman G N Bajpai, and noted chartered accountant Shailesh Haribhakti. The promoters have agreed to dilute stake in the merged entity and move out of the management once the new investor comes in.