Industry Overview

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Key takeaways - Infrastructure meet

Merrill Lynch

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We present below key takeaways from a widely attended industry discussion on infrastructure sharing. Key participants included the Dept. of Telecom, several leading telecom operators, and leading infrastructure providers. The industry's bullishness on infrastructure sharing was palpable, but it is still very early days to quantify the profit outlook.

Bharti affirms challenges on legacy sites; bullish outlook

Bharti indicated that ground based towers constitute about 48% of its existing 40,000 tower portfolio and about 65% of its new buildout plan. It expects a high level of infrastructure sharing in the industry but foresees challenges with sharing existing/legacy sites for three key reasons: 1) area of existing sites may be small i.e. cannot accommodate more shelters, etc; 2) in many cases towers were not built to bear higher loads consequent to sharing; 3) landlords may seek significantly higher rent on renegotiation for new tenants. Longer term, even in a shared environment, Bharti foresees continued network buildout by operators due to both capacity and 3G requirements.

Phase-II of USO (rural) tender likely to be launched soon

The USO-Administrator said that the government is working towards its second rural tender, following the recent success of its first tender. Phase-II will cover smaller villages vs phase-I. Final agreement with successful bidders of phase-I will be signed over the next few days.

Reduction in USO levy unlikely

The USO-Administrator hinted that any cut in USO levy (5% of AGR) is unlikely, as the scope of USO funding is expanding to cover more services. In contrast, the industry commented that high competition, as evidenced in the recent rural tender, obviates the need for subsidy mechanism or levy.

BSNL foresees USO challenges; moving towards sharing?

BSNL, which won the largest number of clusters in the recent USO tender, said that purchase or hiring of land from villagers in rural areas could present a key challenge to timely rollout of USO-linked towers. BSNL hinted that its policy for infrastructure sharing at a broader level is now in place (note, so far BSNL does not share its mobile towers).

Stiff competition for independent tower operators

Independent tower operators confirmed stiff pricing pressure in the existing environment where service providers are well-versed with various rollout aspects. Compensation for risk of future tenancy is currently the only major return driver for independent tower operators. They acknowledged that their team processes, supply partnerships, and financial muscle currently lag those of operator-led tower companies.

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