Emkay Research

29th June 2006

GTL Limited

Initiating

Networking, the next big thing ...

BUY

Price	Target Price
Rs147	Rs213

Sensex - 10,162

Price Performance

(%)	1M	3M	6M	12M
Absolute	(9)	5	40	52
Rel. to Sensex	(2)	14	31	9

Source: Capitaline

Stock Details

Sector	Telecom
Reuters	GLBL.BO
Bloomberg	GTS@IN
Equity Capital	Rs821mn
Face Value	Rs10
52 Week H/L	Rs181/95
Market Cap	Rs15.29bn
Daily Avg Volume (No of shares)	1460425
Daily Avg Turnover (US$)	4572753

Shareholding Pattern (%)
(31st Mar.'06)

Promoters	29.74
FII/NRI	32.31
Institutions	2.22
Private Corp.	8.39
Public	27.34

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We initiate coverage on GTL with a BUY. GTL is primarily engaged in the businesses of converged network solutions and wire-line & wireless network for telecom infrastructure. We estimate GTL's revenues to grow at a CAGR of 29% from Rs 7.5bn for 12month period March 2006 to Rs12.5bn for FY2008. In its restructuring exercise, GTL has decided to split its businesses into two listed companies, a) GTL Limited focused towards network services and b) GIL (GTL Infrastructure Limited) which will provide passive infrastructure services to telecom & BPO operators on a shared basis. While GIL will primarily be a financing model, the turnkey orders for setting up such infrastructure will be with GTL. We expect GTL's EPS to grow at a CAGR of 92% over the next two years from Rs 3.7 for 12months period March 2006 to Rs13.8 in FY 2008. We recommend a BUY with a price target of Rs 213.

Growth in telecom industry to drive the revenue growth

Domestic wireless telecom subscribers grew by a robust 90% CAGR over the last 5 years. Currently there are ~85000 cell sites in the country and the number is expected to double in the next 2-3 years. With the rapidly increasing subscriber base, the service providers are expected to spend over Rs 800bn on capex in the next 3 years. We expect the size of the opportunity for GTL at Rs 240bn. Apart from the domestic telecom industry, GTL is geared up to leverage on its global presence and alliances with leading OEM's to cater to the global telecom industry.

Subsidiary, an undiscovered opportunity

The telecom industry is witnessing intense competition, with reduced tariff rates and higher subscriber growth, leading to a significant reduction in the average revenue per subscriber (ARPU). We believe that, with given very high capex requirements, the service providers are expected to outsource more & more of their capex and move to a use & pay model. This creates a significant opportunity for GIL to provide the passive network infrastructure (towers, shelters, DG sets) on a shared basis thereby reduce the operator's cost and time to market. GIL already has orders in hand for over 1200 cell sites with anchor tenants. As a part of the ongoing de-merger process, the shareholders will get one share of GIL for every one share held in GTL.

Attractive valuations

Our sum of parts valuation includes value of GIL (Rs 22/ share of GTL), cash & cash equivalents of Rs 67/ share & the business of GTL at a multiple of 10x FY2008E thus arriving at a fair price of Rs213 per share. We expect the net sales to grow at a CAGR of 29% from Rs 7.5mn for 12-month period March 2006 to Rs 12.5bn for FY2008. We expect the EPS to grow at a CAGR of 92% from Rs 3.7 for 12-month period March 2006 to Rs 13.8 for FY2008 on a fully diluted basis.

Key financials

	Net sales (Rs mn)	EBITDA (Core)	EBITDA (%)	PAT (Rs mn)	ROE (%)	EV/ EBITDA	P/BV (x)	Div Yld (%)	EPS (Rs)	P/E (x)
FY05	7,564	2,101	28	1,175	7.9	4.0	1.1	1.2	11.3	13.7
15m Jun06E	9,594	1,658	17	563	4.1	6.6	1.2	1.0	4.3	35.8
9m Mar07E	7,688	1,139	15	737	4.4	6.0	1.0	1.3	9.4	16.4
FY08E	12,494	2,165	17	1,430	8.0	4.0	0.9	1.3	13.8	11.3

Investment Rationale

Enterprise Solutions – a significant growth opportunity

GTL is engaged in the business of Enterprise solutions, which consists of

- Converged network solutions (voice, data & video)
- Contact center solutions (call center solutions)
- Disaster recovery & BCP (Business continuity planning)
- Professional services

GTL provides end-to-end services, which includes planning, designing, consulting, integration, audit and maintenance of the above solutions.

According to the voice & data estimates, the enterprise solutions market grew by 31% YoY for FY2006 to Rs 79bn. It is further estimated to maintain a similar growth of over 30% for the next 3 years. Due to the established presence of the company and strategic relationships with the OEM's, we expect GTL's revenues in the enterprise networking business to grow faster than the industry.

Wireless network expansion - a key revenue driver

GTL has an established presence in setting up the wire-line and wireless infrastructure for telecom operators and enterprises. GTL provides turnkey telecom services, which include planning, designing, site survey, deployment, equipment installation & testing, commissioning, integration and maintenance of telecom infrastructure.

Considering the ongoing robust growth in the telecom subscribers, the Indian telecom sector will continue its explosive spend. The telecom operators will not only continue to spend on expanding their existing network infrastructure but also put in capacities in newer geographies.We estimate the telecom operators to spend over Rs 745bn on capex for expanding their networks, in the next three years. Out of the total estimated capex, we estimate the size of the opportunity for GTL at Rs 240bn. We also estimate that the outsourcing of passive infrastructure requirements by telecom service providers will gain prominence, as more and more operators are likely to outsource the passive infrastructure requirements. This would give a huge opportunity for GIL who in turn will outsource the network deployment contracts to GTL.

According to the industry sources, the telecom engineering and turnkey services business grew by 25% for FY2006. Given the capex plans of the operators, we expect this trend to continue over the next three years. GTL being the largest player in the telecom engineering business will be the prime beneficiary of the ongoing expansion.

GIL, the shared infrastructure business model

From the time the mobile telephone services commenced and till now, the telecom service providers have built their own network infrastructure making large investments for capex requirements. With the competition getting intense, and in the state of falling ARPU's the service providers are looking at increasing the subscriber base in order to increase their market share.

The decreasing ARPU's and increasing capex has resulted in an increased capex per subscriber and reduced profitability leading to an overall decrease in the ROCE. Hence sharing the infrastructure would be a viable option for the service providers, as it would reduce their cost and time to market the service and also increase the overall profitability.

GIL is a category I infrastructure provider engaged in the business of providing passive infrastructure for telecom and BPO operators on a shared basis. The company provides infrastructure facilities on a build own and operate (BOO) model, where it will lease out the facilities and also operate and maintain them on behalf of the service providers. GIL's business comprises of long-term contracts, with a minimum of 5 years and a maximum of 20 years, which would provide stability and consistency in the revenue growth of the company.

Restructuring to realign the business focus

The company is currently undergoing a restructuring process, as a part of which it has decided to split the existing business into two separate listed entities, GTL and GIL (GTL Infrastructure Limited), focused on network services business and shared infrastructure services business respectively. GIL will be de-merged into a separate company as per the scheme of arrangement, by virtue of which, every shareholder of GTL will receive one share of GIL as on the record date set to be July 14, 2006.

GTL has realigned its business focus towards network services business, and has decided to hive-off the BPO business, which may result into a cash inflow of Rs 500mn.

As a part of restructuring, the company has decided to write-off underutilized assets (related to the software and ISP business) worth Rs 45bn and transfer assets worth Rs21.5bn to the subsidiary GIL for cash. This move will reduce the asset size from the balance sheet and will lead to a proportionate reduction in depreciation expense and increase the ROCE.

Surplus cash earmarked for inorganic growth

GTL has net cash and cash equivalents of approximately Rs 7bn, and we expect an additional inflow of Rs 500mn from the sale of BPO business. Hence the cash with GTL amounts to Rs 67 per share.

Part of the reserves, Rs 3bn has been earmarked for an overseas acquisition. The company management is evaluating few target companies in the network services business having presence in the US, the UK and Europe, for acquisition. The overseas acquisition is expected to enhance the company's geographical reach and would add on to the high-end technical skills.If the acquisition plan becomes unsuccessful, the earmarked cash may be utilized to buyback shares or distribute to the shareholders as a one time special dividend.

Strong client relationships

GTL has expertise in a large portfolio of products from leading OEM's like Nortel, Nokia, Cisco, Juniper, Ericsson, Alcatel, and Concerto among others to provide complete network integration services. GTL enjoys a status of preferred partner with leading OEM's, which gives an added advantage to the company in securing bulk orders from the OEM's.The clients include large enterprises like HSBC, ICICI one-source, Dell, HP, LG, Singapore Airlines, Citibank, Standard Chartered, Deloitte, and Ford among others. We expect the company to maintain good relationships with the OEM's and enterprises and also acquire new clients.

Valuations

Since the business is expected to be split into two companies GTL and GIL, we thought that some of parts valuation combined with earnings multiple would be appropriate. Our sum of parts valuation includes, value of the holding in subsidiary GIL (Rs 22/ share of GTL), cash & cash equivalents of Rs 67/ share & the business of GTL at a multiple of 10x EPS (core) Rs 12.4 for FY2008E, thus aggregating a value of Rs 213 per share. We expect GTL's net profit to grow at a CAGR of 92% over the next two years from Rs 385m for 12-month period March 2006 to Rs 1430m for FY2008.

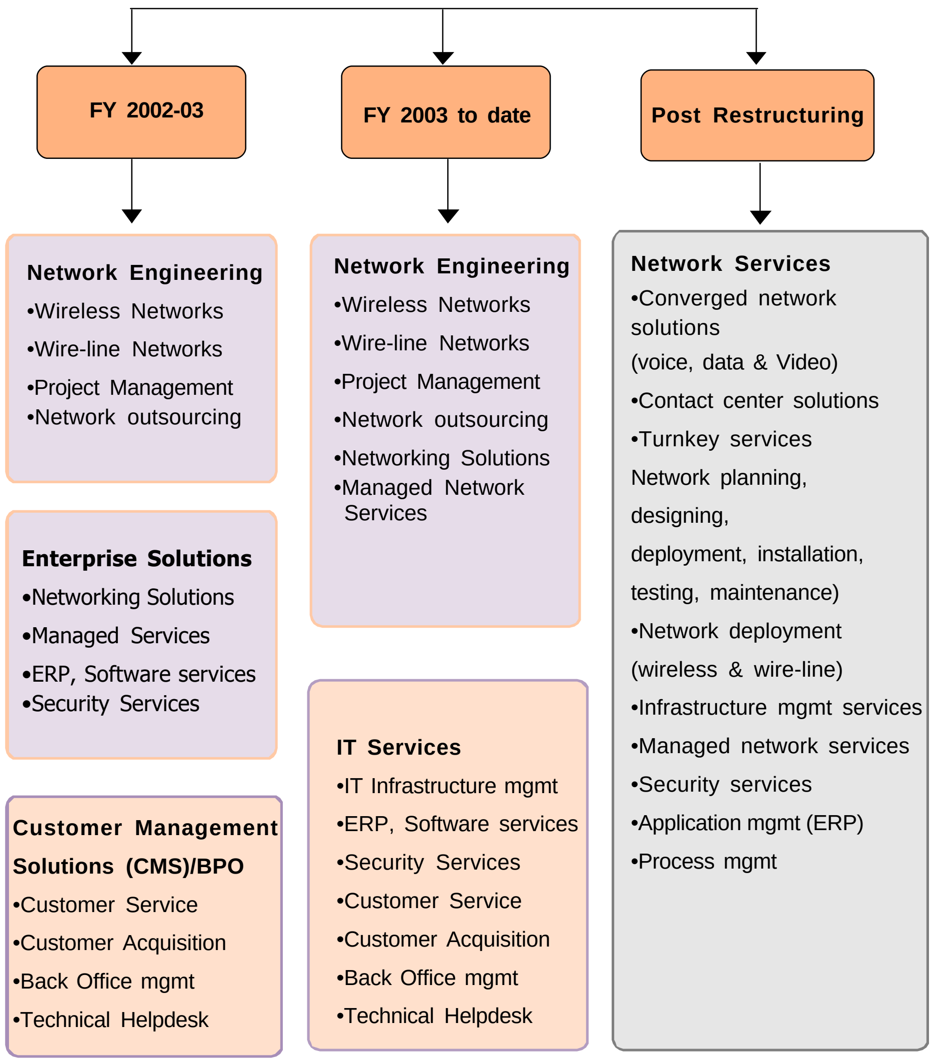
GTL – Background

GTL Limited, formerly known as Global Tele-systems, began its commercial operations in 1987. Right from its inception, GTL has experienced many shifts in its business. Starting from single line phones, fax machines, multi channel voice recorders, video conferencing equipment and Computer peripherals to e-commerce, software development and Internet services. GTL operates across 21 locations in India and has a presence in 25 countries including the US, the UK, Germany, Singapore, Middle East, Mauritius, Srilanka, Saudi Arabia, New Zealand, and Australia among others.

In FY2004, the company's business was classified into three business divisions, network engineering, enterprise solutions and customer management solutions with revenues of Rs 2280mn, Rs 2340mn and Rs 1440mn respectively. In FY2005, the enterprise solutions division was merged into network engineering, and the CMS division was reclassified as IT Services division, with services like BPO, ERP and managed services.

Under the current restructuring program, the company has realigned its business towards Network Services and has decided to hive-off its non-core business, i.e. BPO business. Post closure of the extended accounting period for 15 months ending June 2006, the company's business will be reclassified into a single business segment, namely, "Network Services".

GTL's Evolution



GTL – Business overview

GTL derives its revenues broadly from the following business segments

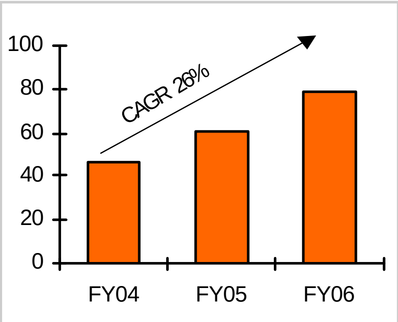
- Enterprise solutions
- Telecom engineering
- Oracle practice
- BPO / Call center
- Managed services

Going forward all the above business segments will be clubbed under a single business segment – Network Services, except BPO / call center which is expected to be hived off.

A. Enterprise solutions

The enterprise solutions market has grown by 31% from Rs60bn in FY2005 to Rs79bn in FY2006 (Source: Voice & data). The Enterprise solutions market is broadly classified as under.

Enterprise solutions market



Source: Voice& Data estimates

Enterprise solutions market	2004–05	2005-06	Growth
Switches	13.02	15.87	22%
Network Security	**3.59**	**5.39**	**50%**
Router	8.49	10.47	23%
Structured Cabling	4.17	5.74	38%
Modem	2.07	2.70	30%
WLAN	0.83	1.04	25%
Voice Solutions	**8.32**	**11.02**	**32%**
Network Storage	4.30	5.59	30%
Audio-Video Conferencing	**0.43**	**0.74**	**72%**
Network Integration Services	**7.50**	**9.05**	**21%**
Network management services	**2.93**	**5.26**	**80%**
Others	4.72	6.14	30%
Grand Total	**60.37**	**79.01**	**31%**

Source: Voice& Data estimates

The Enterprise solutions market is driven largely by products like routers, switches, modem, etc. GTL does not manufacture the equipments, but in order to provide turnkey solutions to the enterprises, it sources the products and equipments from the OEM's. We expect this business to maintain a growth of 25-30% for the next three years.

Preferred partner status - GTL enjoys the status of a preferred partner from leading OEM's like Nortel, Nokia, Cisco, Concerto, and Juniper among others. As a preferred partner, GTL works along with the OEM's to provide solutions to the enterprises on a turnkey basis. GTL's clients include HSBC, ICICI one-source, Dell, HP, LG, Singapore Airlines, Citibank, Standard Chartered and Deloitte among others.

Converged network solutions – Converged network solution involves a stream for transmission of voice, data and video communication through a single stream resulting in greater cost efficiencies and increased productivity. GTL provides services like LAN, WLAN, IP telephony, VOIP, VPN, intranet / extranet, etc.

Contact center solutions – Contact center solution involves the whole range of services right from the design to implementation of call centers. It also includes the migration to new technologies and upgrading & expanding the existing network.

GTL also provides professional services, which involves sourcing of trained and skilled manpower for operators and enterprises, and disaster recovery/ business continuity planning which involves end-to-end solutions required for the continuity of a business.

B. Telecom engineering

GTL enables the rollout of wire-line and wireless network infrastructure for telecom operators and enterprises. GTL provides turnkey services that include planning, designing, site survey, RF engineering, tower construction, equipment installation, testing & commissioning, integration, maintenance and management of the network infrastructure.

According to the Voice & Data estimates, the telecom turnkey business has grown by 27% from Rs 22.4bn in FY2005 to Rs 28.4bn in FY2006. Having deployed over 14000 cell sites, GTL is India's largest player in telecom engineering business.

-Buoyant growth in telecom industry

The telecom industry is experiencing an explosive growth largely driven by the wireless telecom. The mobile telecom subscriber base has grown from a mere 3.58 million in FY2001 to around 90 million in FY2006, a growth of over 90% CAGR in the past 5 years. Currently there are ~85000 cell sites in the country connecting the 100+ million mobile subscribers and we expect an equal number of cell sites to be added in the next three years.

Capex plans of telecom operators for next 3 years(Rs bn)

Telecom Operator	Wireless network	IPTV, broadband	Total capex
BSNL	215	53	268
Bharti Airtel	126	10	136
MTNL	21	12	33
Reliance	41	35	76
Tata tele	40	-	40
Hutch-Essar	102	-	102
Idea	22	-	22
VSNL	2	6	8
Others	50	10	60
Total	**619**	**126**	**745**

Source: Industry, Emkay research

According to the announcements by various service providers, we have estimated that the mobile operators would spend Rs 745bn on capex for expanding their existing networks as well as putting up additional capacities in newer geographies. Moreover, the problems like network congestion and increased call drops indicate that the current network infrastructure is not sufficient to address the connectivity requirements. Given such a huge plan for capex, we expect the target opportunity for GTL at Rs 240bn in the next three years.

-Strong business alliances

GTL has strong business alliances with leading OEM's such as Motorola, Ericsson, Alcatel, Nortel, Nokia, Siemens, and Cisco, which provides a competitive advantage in securing the bulk orders. Hence GTL, leveraging on its relationships with the OEM's, would be the prime beneficiary of the ongoing robust capex spend in the telecom sector.Apart from the OEM's, the customers for GTL in this business include Bharti, Hutch, BSNL, Tata Tele, MTNL, Etisalat (Dubai), BPL, Saudi Telecom, Cingular (US) along with the major OEM's stated above.A large proportion of the business in this segment comes from the OEM's. Typically, the operators outsource their entire network requirement to the OEM's who in-turn are mainly concerned about the supply of their equipments, and outsource the network designing, integration, installation and other value added services to companies like GTL.

C. Oracle Practice (ERP services)

GTL is a certified partner for Oracle e-business suite and Oracle technology products in the Europe, the Middle East, Africa and the Asia Pacific and the only authorized Oracle application-hosting partner for the Asia Pacific region. GTL provides consulting & professional services for Oracle e-business suite and core technology products both in a non-hosted and hosted environment.GTL provides a blend of onsite, offshore and hybrid delivery mechanisms to meet the requirements of its customers.

-GTL provides implementation of ERP services for the following modules

- Oracle Financials
- Oracle Distribution
- Oracle Manufacturing & Supply Chain Planning
- Oracle Human Resources and Projects

GTL has its own Frame Relay based Virtual Private Network spanning across more than 25 cities in India, thereby offering an end-to-end solution to its clients for consulting, implementing and hosting their Oracle applications.

D. BPO Services – on the way out

GTL is a leading player for contact center and Business Process Outsourcing (BPO) services focused on global corporations. GTL has been ranked among the top 10 third-party ITES-BPO service providers in India by Nasscom for FY2005. GTL has a installed capacity of 2000 seats, with 1500 seats at Mahape, Navi Mumbai and 500 seats at Pune.

GTL provides inbound and outbound call center services, Legal Processing services and Back office processing in verticals like Financial Services, Banking, Insurance and Telecom and also Knowledge Process Outsourcing (KPO) services like Company Research, Information management and Analytics, etc.

The BPO industry is experiencing huge attrition problems. The increasing competition, higher input costs and significant reduction in the revenue per seat ahs put the players service providers under pressure. Moreover, the BPO service providers are moving from voice based processing to data based processing

As a part of the restructuring process, the company has decided to hive off the business. The company is into serious discussions with few interested parties to sell off the business. We expect the sell off of the business to result in the cash inflow of Rs ~600mn.

E. Managed Services

The managed services business of the company provides remote IT infrastructure management services for companies with wide geographic presence. The services include

- Network management
- Server management
- Desktop management
- Security management
- Data center management
- Technical Helpdesk.

GTL has a remote data center and network-operating center located at Navi Mumbai to manage the clients IT infrastructure. The clients include fortune 500 majors like P&G, GE, Franklin Templeton, etc.The company's global presence together with the bundling of network services may result in the significant growth in managed services, especially the network management service.

According to the Voice & Data estimates, the network management business has grown by 80% from Rs 2930mn in FY2005 to Rs 5260mn in FY2006. More and more enterprises and operators are expected to outsource the management of their network infrastructure. With a market share of 12%, GTL is among the large players in the network management services in India.

The global IT infrastructure management industry is estimated at $86bn (source: Deutche Bank). According to the Gartner estimates, 60-70% of the infrastructure management services can be managed remotely. The increased focus of large MNC's to reduce cost by outsourcing the Infrastructure management services will result in rapid growth of India's share in the Global IT outsourcing pie.

Restructuring at GTL

1. Splitting the business

GTL is undergoing a restructuring process, as a part of which, it has decided to split the existing businesses into two separate listed companies, **a)** GTL – focused at network services and **b)**GIL – focused on shared infrastructure services.This restructuring involved the following

GTL had set up the 100% subsidiary GIL, with an investment of Rs 250mn in FY2005. GTL has further invested Rs 1080mn thereby increasing its equity to Rs 1330mn. Further, GIL has issued 86.22mn equity shares to Technology Infrastructure Ltd and 16mn shares to IDFC, thereby increasing its equity to Rs 2352mn. According to the scheme of arrangement, the shareholders of GTL would get one share in GIL for every share held in GTL. Hence, post de-merger, the investment of GTL would stand at 39.22% of the Rs 3200mn equity capital of GIL.

Shareholding of GIL after de-merger

Shareholders	% holding
GTL (promoter)	39%
Technology Infrastructure Ltd	25%
IDFC	5%
Shareholders of GTL (public)	31%
Total	**100%**

Source:Company

-Asset transfer

As a part of the restructuring exercise, GTL has transferred assets worth Rs 2146mn to its subsidiary, for cash. The assets transferred include mainly the infrastructure assets that were owned by GTL.

-Ratio of GTL shares to GIL shares

As per the scheme of arrangement and the de-merger process, the shareholders will receive one share of GIL for every share held in GTL. The record date for the allotment of GIL shares is fixed at July 14, 2006.

-Our valuation

We have valued the investment of GTL in its subsidiary GIL at the face value of GIL. Post de-merger, GTL and its shareholders wil hold 70% of the Rs 3200mn equity of GIL. Hence the holding of GTL in GIL translates to a value of Rs22 per share.

2. Reorganizing business

-Writing off assets

GTL has decided to write off assets worth Rs 4500mn against the reserves thereby reducing the size of the balance sheet on a whole. These assets are related to the subsidiary GECS, which was into ISP business and was eventually merged into GTL. The assets written off include software rights, passports, gateways and other network equipments mainly related to the ISP business.

- Hiving-off the BPO business

The BPO industry has been moving from the voice enabled services to the data enabled services. On a whole the industry has been facing severe margin pressure due to the shift in the pricing model. Moreover GTL has been focused more at providing network services to the operators and enterprises. Hence it has decided to sell-off the BPO business and realign the other businesses into a single segment ‘Network Services’. We expect the sell-off of the BPO business to result in a cash inflow of Rs 500mn.

-One single business segment

GTL is repositioning itself as a network services company as compared to the earlier, Network engineering and IT services company. With the sell-off of the BPO business, the other existing businesses (enterprise solutions, telecom engineering, ERP, managed services) would be re-classified under Network Services. Post completion of the restructuring exercise, the revenues of GTL will be declared under a single business head, Network Services.

GIL, a high growth Business model

GTL is in the process of de-merging its infrastructure subsidiary into a separate company, GTL Infrastructure Limited (GIL). As a result of the de-merger, every shareholder will receive one share of GIL for every share held in GTL.

GIL was incorporated in February 2004 as a wholly owned subsidiary of GTL. GIL is a category I infrastructure services provider for wireless telecom operators and BPO service providers. GIL's business model is similar to that of American Towers in the US. GIL provides infrastructure facilities to the telecom and BPO operators on a shared basis. GIL operates on a Build Own & Operate (BOO) model where it provides the infrastructure facilities on a lease basis and also operates, maintains and manages, the networks remotely.

The highlights of the business model are

- Growth based on wireless network expansion
- Long-term contract spread over 5 to 20 years
- Stable and growing revenue (due to long-term contracts and increased tenants per site)
- High incremental margins
- Relatively fixed operating costs
- Significant internally generated capital
- Predictable and growing free cash flows

GIL's business model consists

- Shared telecom infrastructure
- Shared BPO infrastructure

Shared telecom infrastructure

GIL provides passive infrastructure facilities to wireless telecom operators on a shared basis. While the company operates on a Build Own Operate (BOO) model, it provides services on a turnkey basis, where it not only owns, but also operates and maintains the network infrastructure. This opportunity allows the company to operate under the purview of regulations, which allows the sharing of passive infrastructure while restricts the sharing of active infrastructure facilities. Majority of the revenues (around 80%) would result from telecom infrastructure business.

What is passive infrastructure?

The passive telecom infrastructure consists of equipments like Cellular tower, Shelter, Diesel Generator, Battery, and Air-conditioner used in wireless connectivity. It also consists of land and building rooftop facility on which tower is constructed, depending on whether the tower is ground based or rooftop based.

What is active infrastructure?

Active telecom infrastructure consists of equipments like Microwave equipment, Base Transceiver Station (BTS), etc. installed on the cellular towers for processing and transmitting the radio waves and wireless telecom signals.

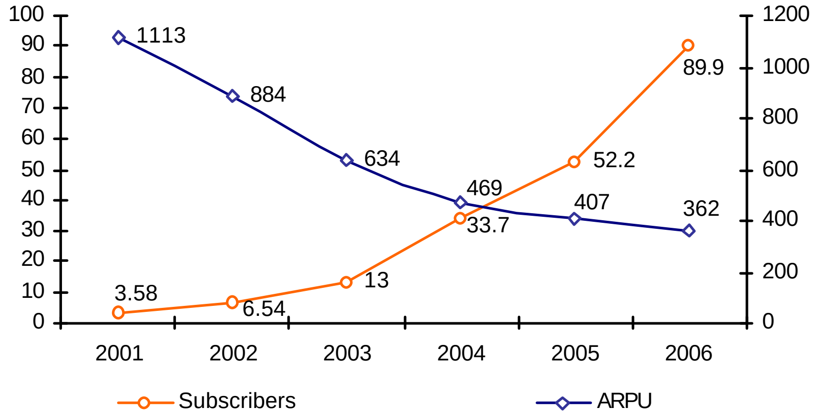
Shared BPO infrastructure

GIL provides infrastructure facilities to BPO operators on a shared basis. It would build large infrastructure facilities and lease it out to multiple BPO operators. The BPO service provider will be required to move into the facilities with only the employees and management team while the infrastructure would be managed by GIL itself.

Wireless telecom industry

The Indian wireless telecom industry has seen a robust growth from a mere 3.58 million subscribers in March 2001 to over 90 million in March 2006. The Mobile operators are adding around 4 million subscribers every month, a large addition of which is seen from the A & B circles, which caters to the rural and semi-urban areas.

Subscribers v/s ARPU



Source: TRAI, Emkay research

Why shared infrastructure makes sense?

Intense competition among the operators, higher subscriber growth in A, B & C circles, reduced tariff rates and introduction of lifetime connections are leading to a significant reduction in the ARPU. The ARPU in 2001 was over Rs1100 as compared to Rs362 for the quarter ended December 2005. The reduced ARPU will result in decreased revenue and profitability for the telecom operators, which would result in increased capital expenditure per subscriber. Therefore, sharing the infrastructure would be a viable option for the operators to reduce the capex and increase the profitability. The sharing of network infrastructure would also reduce the operator's time to market, as well as increase their ROCE.

Reasons that compel the operators to go for shared infrastructure

- Large capital expenditure
- Reducing ROCE and ROA
- Heavy balance sheet
- Time spent in deploying the networks
- Higher cost of maintaining the network infrastructure

Telecom infrastructure opportunity

In India the license regulations allows the sharing of passive infrastructure and restricts the sharing of active infrastructure. Around 40% of the total capex for the network expansion is spent on passive infrastructure.

GIL's Business Model

GIL is in the business of providing passive infrastructure for wireless telecom and BPO operators on a shared basis. GIL provides the infrastructure facilities on a Build own and operate (BOO) model and on a turnkey basis, which means it will not only lease the infrastructure facilities owned, but also operate and maintain them.

GIL has begun the operations by building the cellular towers, with order from at least one operator who would be the anchor tenant. It will continue to build its portfolio of towers either by constructing the towers or by acquiring the existing towers from the operators. In either of the cases GIL would operate with a commitment from at-least one operator called the anchor tenant.

The components of the company's revenues are

- Lease rent
- Operation & maintenance revenues
- Network management revenues

GIL has planned a strategy to rollout or acquire the cell sites with a commitment from an anchor tenant. The company's challenge lies in co-locating additional telecom operators at the existing infrastructure. When the company enters into a contract with second operator to share the existing infrastructure, the anchor tenant as per the contract, would be entitled for a discount of ~25% of his obligation. With the co-location of a third operator, the existing operators would be entitled for an additional discount of their obligations.

Illustrative revenue:

- **Contract with anchor tenant**

Total Revenue	100x

- **On co-location of second operator**

From anchor tenant	75x
From second operator	90x
Total revenue	**165x.**

- **On co-location with third operator,**

From anchor	68x
From second	81x
From third operator	90x
Total revenue	**239x.**

- With the co-location of subsequent tenants, the revenue rises significantly with minimal additional capital expenditure
- The operating margin on incremental revenue would be significantly higher because of the lower incremental operating expense

The rationale behind business model of GIL

- A strong sponsorship from the promoter company GTL having over a decade of experience in wireless networks
- Expertise from GTL in terms of the technical capabilities required for deploying the telecom and BPO infrastructure
- Strong business relationship of GTL with operators and OEM's
- Success of similar business model in developed countries like the US and the UK

GIL's target customers in shared telecom infrastructure include

- Telecom operators in GSM technology - Bharti Airtel, Hutch, Idea Cellular, BSNL, MTNL, Aircel, Spice Telecom, Reliance Telecom
- Telecom operators in CDMA technology – Tata tele-services, Reliance communications, Shyam telecom, HFCL

GIL business update

Telecom infrastructure

GIL is currently into its build out phase and would be deploying close to 3000 cell sites over the next 12 to 18 months. The company has already undergone a capex of Rs4bn. to deploy the cell sites, out of the Rs 16bn. of funds sanctioned collectively by 14 banks. The total capex in the next 4 years would amount close to Rs20bn. Initially the company would be deploying the cell sites with a commitment from at least one mobile operator as an anchor tenant. Thereafter the same cell sites would be rented to additional tenants, i.e. other cellular operators. A typical cell-site can be shared by GSM operators, CDMA operators, radio service providers and wi-max service providers.

GIL has an order book of 1273 sites from cellular operators operating in Karnataka, Punjab, and other Northeastern states, and the sites are currently under deployment. The contracts entered by the company are in the range of 5 to 20 years. The company estimates a capex of Rs~2300mn for executing the received orders.

GIL is in advanced stages of discussions with major cellular operators like Hutch, Tata tele, etc for building an aggregate of over 6000 towers. The company management is actively approaching the cellular operators for bringing second and subsequent tenants on the towers operated by the company, which will increase the revenues and margins substantially with very less incremental cost. The company plans to build and lease out around 7000 cell sites over the next 3 years.

BPO infrastructure

In the BPO Infrastructure space, the company has an order book for building close to 2500 seats of which 1500 seats are being built in a SEZ in Goa for an animation company. The company is also building 550 seats for a BPO operator in Pune and 350 seats for a Multi media company in Mumbai. The aggregate value of the above orders is around Rs4100mn. and the duration of the contracts are in the range of 5 to 10 years. The capex for executing the orders of BPO Infrastructure is estimated at Rs 2400mn.

The company has been short-listed and is in advanced stages of discussions for building around 350 seats and 1500 seats for a BPO operator and for a captive center of a large international bank respectively.

Parameters	American Towers	Crown castle	SBA Comm
No of Cell sites owned	22174	12010	3304
Revenues for YE 2005 ($'000)	944,786	676,759	259,991
EBITDA ($'000)	588,680	315,115	120,039
EBITDA margin	62%	47%	46%
Net income ($'000)	(171,590)	(450,893)	(94,709)
Market Cap $Mn	12,739	7,130	2,390
Market Cap/ EBITDA	21.64	22.63	19.91
Market Cap/ Sales	13	11	9
Revenue per site	42610	56350	78690
Shares outstanding Mn	419.59	214.9	103.02
Price	30.36	33.18	23.20
Total Assets $ Mn	8,768,220	4,131,317	952,536

Source: Yahoo finance, Emkay research

Financials & Valuations

Net sales to grow at a CAGR of 29%

We expect GTL's net sales to grow at a CAGR of 29% over the next two years from Rs 7.5bn for 12 month period march 2006 to Rs 12.5bn for FY2008E

EBIDTA margins to recover

The EBITDA margins of GTL have reduced from 28% in FY2005 to 19% for 12-month period March 2006. This is on account of the reduction in margins in the BPO business, change in the revenue mix and the ongoing restructuring exercise. Going forward we expect the effect of restructuring to further reduce the EBITDA margins to 15% for FY2007E (9 months) due to the higher administration and employee cost. However we expect the margins to increase in FY2008E, to 17%, on account of the completion of restructuring resulting in the reduction in administration expense and employee cost.

Depreciation & interest expense to decline

We expect the Depreciation expense to reduce drastically from Rs 900mn for 12m ended March 2006 to Rs 300mn for FY2008E. This is on account of the reduction in the size of assets by write-off and by sale of under-utilized assets to the subsidiary company as per the restructuring. Going forward, we also expect a reduction in the interest expense of the company on the back of the repayment of large portion of debt.

PAT to grow at CAGR 92%

The growth in revenues and the reduction in the depreciation and interest expense will lead to a sharp rise in profitability of the company. We expect the PAT to grow from Rs 385mn for 12 month period march 2006 to Rs 1430mn for FY2008E a CAGR of 92%, translating into a fully diluted EPS of Rs13.8 for FY2008E as against Rs 3.7 for 12 month period march 2006.

FCCB issue conversion

GTL had raised an amount of 80mn Swiss Francs (Rs 2650mn) in FY2005. Out of this, as on March 31, 2006, the FCCB's worth 25.18mn Swiss Francs (Rs 834mn) have been converted into 9.1mn equity shares. The conversion price of the FCCB was Rs 103, which has been broken into GTL (at Rs 93) & GIL (at par value Rs 10) due to the de-merger.

The Open offer

The promoter of the company, after a public announcement had acquired 5% stake through creeping acquisition, from the open market, and had given an open offer for acquiring an additional 20% stake at Rs 151which ended on June 9, 2006.

Post open-offer, the shareholding of the promoter has increased from 28.22% to 33.64% of the issued share capital. On a fully diluted basis, the shareholding of the promoter stands at 27.49% as compared to 23.25% before the open offer.

Risks and Concerns

For GTL

- The company's margins and efficiency is based on the successful and timely completion of the projects. Any delays in completion of projects would impact the overall performance of the company.
- The growth of the business is largely dependent on the growth in the telecom industry. Any severe impact on the telecom industry and its growth can affect the performance of the company.

For GIL

- The growth of GIL depends on its ability to raise money for the capex at competitive interest rates.
- GIL depends on its promoter company GTL for executing the rollouts of the Telecom and BPO infrastructure.
- Any government policies or interruptions relating to the sharing of telecom towers can be an obstacle for the company's business
- The entry of large players like American Towers, Crown Castle, etc. from the developed countries like US can impact the business of GIL to a large extent.

Income Statement

Y/E, Mar (Rs. m)	FY05	15m06E	9m07E	FY08E
Net Sales	**7,564**	**9,594**	**7,688**	**12,494**
Growth (%) annualised	24.7	1.5	33.6	21.9
Expenses	5,463	7,936	6,550	10,329
Growth (%)	30.1	45.3	(17.5)	57.7
Cost of Sales and Services	2,977	4,935	4,613	7,247
% of sales	39.4	51.4	60.0	58.0
Employee Cost	1549.9	1,883	1,168	1,896
% of sales	20.5	19.6	15.2	15.2
Selling/Admin Cost	916	1,118	769	1,187
% of sales	12.1	11.6	10.0	9.5
Miscellaneous exp	18.9	-	-	-
EBIDTA	2,101	1,658	1139	2,165
Growth (%) annualised	12.6	(36.9)	14.4	42.6
EBIDTA %	27.8	17.3	14.8	17.3
Other income	102	(11)	98	143
Interest	20	124	90	120
Depreciation	924	990	225	400
PBT	1,259	533	921	1,788
Current tax	20	72	184	358
Deferred tax	64	(102)	-	-
PAT	1,175	563	737	1,430
Growth (%) annualised	26.6	(61.7)	118.2	45.6
Net Margin (%)	15.5	5.9	9.6	11.4

Source: Emkay research

Balance Sheet

Y/E, Mar (Rs. m)	FY05	15m06E	9m07E	FY08E
Equity share capital	741	920	1,040	1,040
Reserves & surplus	14,078	12,765	15,658	16,854
Networth	14,820	13,685	16,698	17,894
Preference Share Capital	-	-	-	-
Deferred tax liability	249	147	147	147
Loan Funds	4,472	1,894	984	984
Minority interest	4	4	4	4
Total Liabilities	19,545	15,731	17,833	19,029
Gross Block	8,698	2,768	2,968	3,368
Less: Depreciation	4,088	1,268	1,493	1,893
Net block	4,610	1,500	1,475	1,475
Capital work in progress	1,173	63	400	500
Investment	2,053	4,043	4,043	4,043
Inventories	1,741	381	562	685
Sundry debtors	2,477	2,523	3,651	4,108
Cash & bank balance	7,499	7,459	8,025	8,449
Loans & advances	2,407	2,103	2,528	3,081
Other assets	-	-	-	-
Current liabilities	2,361	2,187	2,616	3,077
Provisions	157	155	234	234
Net current assets	11,606	10,124	11,915	13,011
Miscellaneous expenditure	102	-	-	-
Total Assets	19,545	15,731	17,833	19,029

Source: Emkay research

Cash Flow

Y/E, Mar (Rs. m)	FY05	15m06E	9m07E	FY08E
Pre-tax profit	1,259	533	921	1,788
Depreciation	924	990	225	400
Interest & Fin charges	20	124	90	120
Chg in working cap	(691)	82	(1,225)	(672)
Tax paid	(20)	(72)	(184)	(358)
Others	(126)	-	-	-
Operating cash Inflow	1,367	1,657	(173)	1,279
(Inc)/Dec in fixed assets	(1,023)	(450)	(537)	(500)
(Inc)/Dec in investments	(1,984)	-	-	-
Free Cash Flow	(3,006)	(450)	(537)	(500)
Inc/ (Dec) in Share Capital	292	1,611	2,509	-
Loans Taken / (Repaid)	2,824	(2,578)	(910)	-
Interest & Fin Charges	(20)	(124)	(90)	(120)
Dividend (incl tax)	(157)	(155)	(234)	(234)
Others				
Net chg in cash	2,938	(1,247)	1,275	(354)
Total Cash Generated	1,299	(40)	565	425
Opening cash position	6,201	7,499	7,459	8,025
Closing cash position	7,499	7,459	8,025	8,449

Source: Emkay research

Ratio

Y/E, Mar (Rs. m)	FY05	15m06E	9m07E	FY08E
EPS (annualised)	11.3	4.3	9.4	13.8
Cash EPS (annualised)	20.3	11.9	12.3	17.6
Book Value (x)	143.1	131.6	160.6	172.1
PER (x)	13.7	35.8	16.4	11.3
Price / CEPS (x)	7.6	13.0	12.6	8.8
Price / BV (x)	1.1	1.2	1.0	0.9
EV / Sales (x)	1.7	1.4	0.9	0.7
EV / EBITDA (x)	4.0	6.6	6.0	4.0
DPS (Rs)	1.8	1.5	2.0	2.0
Dividend Yield (%)	1.2	1.0	1.3	1.3
RoCE (%)	11	8	9	11
RoE (%)	6	3	6	8
RoA (%)	6	3	6	8
EBITDA Margins (%)	28	17	15	17
Net Margin (%)	17	6	12	14
Debtors T/O	120	120	130	120
Creditors T/O	88	75	75	75
Working Capital T/O	560	481	424	380
Total Debt/Equity (x)	0.3	0.1	0.1	0.1

Source: Emkay research

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Emkay Rating Distribution

Ratings	Definition
BUY	Expected total return (%) of stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) of stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
REDUCE	Expected total return (%) of stock price appreciation and dividend yield) of below 10% within the next 12-18 months.
SELL	The stock is believed to under perform the broad market indices or its related universe within the next 12-18 months.
NEUTRAL	Analyst has no investment opinion on the stock under review.

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