

JANUARY 15, 2010

UPDATE

BSE-30: 17,585

Aircel tower sale to GTLI has negative connotations for the sector. GTL Infrastructure (GTLI) has signed a deal to acquire Aircel's 17,500 towers in an all-cash deal for Rs84 bn. The deal implies an EV Rs4.8 mn per tower—we find the deal valuations at ~2X EV/GCI on the higher side. The deal has multiple negative connotations for the listed incumbents including (1) it strengthens Aircel's balance sheet for the 2G battle and 3G auctions, (2) lowers the benchmark on tower deals, and (3) makes GTLI a sizable passive infrastructure player. Reiterate Cautious coverage view.

Tower valuations cooling down: deal valuations all depend on quality of towers

GTL Infrastructure has agreed to acquire Aircel's 17,500 towers (current tenancy of 1.2X) in an all-cash deal for Rs84 bn. The deal implies an EV of Rs4.8 mn per tower, lower than the implied valuations in some of the other deals in the past; however, implied EV/GCI of ~2X at tenancy of 1.2 is on the higher side, in our view. We discuss other key aspects of the deal below –

- ▶ A special purpose vehicle (SPV) would be set to buy Aircel's towers—GTL Infra (51%), GTL Limited (30%), and other unlisted group companies of the promoter group (19%) would invest a sum of Rs34 bn as equity in the SPV. The remaining payout (Rs50 bn) would be funded by debt raised at the SPV level.
- ▶ GTLI and Aircel have signed a 15-year leasing contract for the 17,500 towers with GBT rentals of Rs31,500 per month and RTT rentals of Rs21,000 per month—these are lower than the rentals implied in Bharti's disclosures on Bharti Infratel.
- ▶ Aircel indicated that it expects to complete its pan-India rollout by end-June 2010—the company is present in 17/22 circles currently. Aircel shared a target of 80,000 cell sites by end-CY2012E from ~40,000 currently. The deal offers GTLI Right of First Refusal on the next 20,000 sites that Aircel will roll out.
- ▶ The deal is expected to be closed by end-May, 2010.

Deal negative for the listed incumbents in our view

We view this development as negative from the listed incumbent's perspective on four counts –

- ▶ Strengthens Aircel's balance sheet—enhancing the company's ability to raise further debt; this would help the company fight the ongoing 2G battle (pricing wars) more effectively.
- ▶ Raises the 'serious and capable 3G bidders' count by 1.
- ▶ Lowers the benchmark on tower valuations a tad; we highlight that some of earlier deals were done at higher valuations—for example, Quippo-WTTIL deal was done at an implied EV/tower of Rs6.1 mn, while Providence' investment in ABTL (Idea's subsidiary holding its stake in Indus) implied an EV/tower of ~Rs9 mn.
- ▶ Makes GTL Infra a formidable player in the tower leasing space.

We reiterate our Cautious coverage view on the sector.

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Indian telecom companies valuation analysis, March fiscal year-ends, 2008-2012E

	Price (Rs)	Target price	P/E (X)					EV/EBITDA (X)				
	14-Jan-10	(Rs)	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	318	300	18.0	14.2	13.4	14.7	13.1	11.0	8.4	7.9	7.7	6.6
Idea	60	45	15.2	20.6	30.4	49.1	33.5	10.9	7.9	8.0	8.3	7.3
MTNL	86	50	12.0	35.8	(35.9)	(27.1)	(44.0)	2.8	3.6	(13.3)	(11.4)	54.1
RCOM	183	150	6.9	5.8	11.6	12.9	9.5	7.6	8.1	9.8	9.0	6.4
TCOM	367	400	33.5	27.0	26.2	24.2	23.4	17.4	13.3	11.9	10.9	9.2

	KS rating	Market cap.	Revenues (Rs bn)					EBITDA (Rs bn)				
		(US\$ bn)	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	REDUCE	26.5	270	370	391	423	473	113	152	159	157	176
Idea	REDUCE	4.1	67	101	117	141	162	23	28	31	32	38
MTNL	SELL	1.2	47	45	38	37	39	7	2	(1)	(1)	0
RCOM	SELL	8.3	191	229	224	249	291	82	93	77	84	105
TCOM	REDUCE	2.3	33	38	42	46	49	6	8	9	10	10

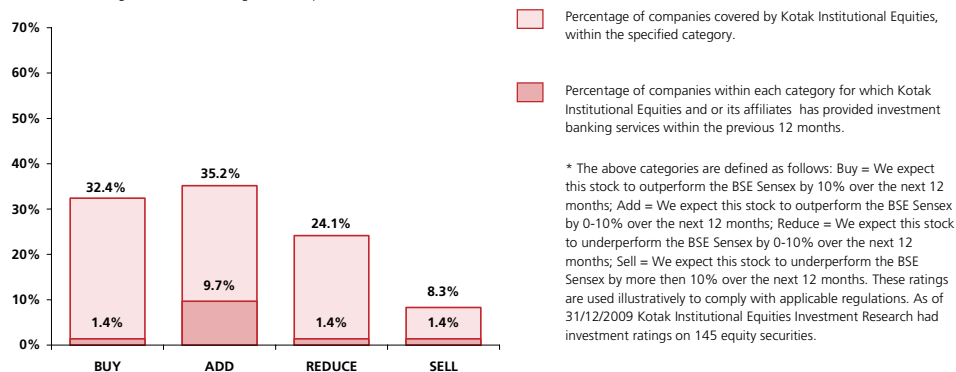
	Net Income (Rs bn)					EPS (Rs)				
	2008	2009	2010E	2011E	2012E	2008	2009	2010E	2011E	2012E
Bharti	66	84	89	80	89	17.7	22.3	23.8	21.7	24.2
Idea	10	9	6	4	6	3.9	2.9	2.0	1.2	1.8
MTNL	4	1	(2)	(2)	(1)	7.1	2.4	(2.4)	(3.2)	(2.0)
RCOM	56	67	34	30	41	26.5	31.6	15.7	14.2	19.2
TCOM	3	4	4	4	4	10.9	13.6	14.0	15.2	15.7

Source: Bloomberg, Kotak Institutional Equities estimates

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Source: Kotak Institutional Equities

As of December 31, 2009

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