August 16, 2007

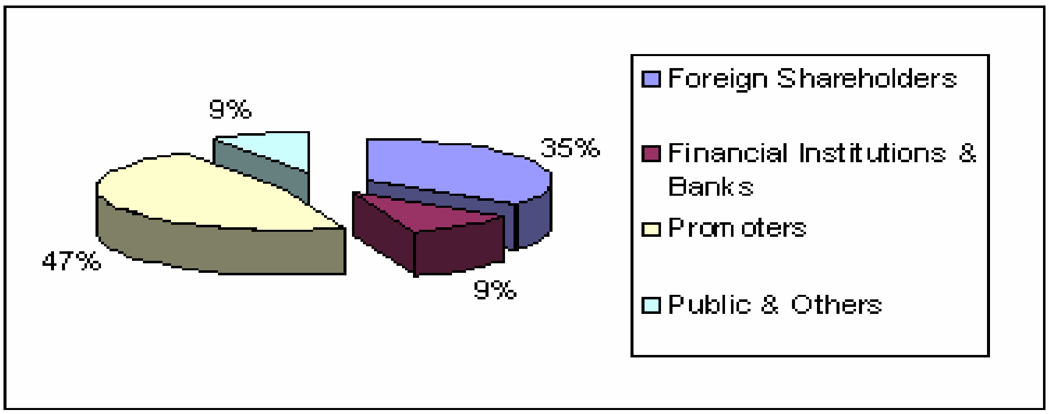
GTL INFRASTRUCTURE LTD. (Rs.33) TARGET: Rs. 70

Mkt.Cap.:	Group: B1	Sensex:	52 weeks H/L:	Sector:
1098 crs.	2 weeks Avg. Trading Volume: 766520	14,433.60	62.10/30.05	Telecommunications

ABOUT THE COMPANY:

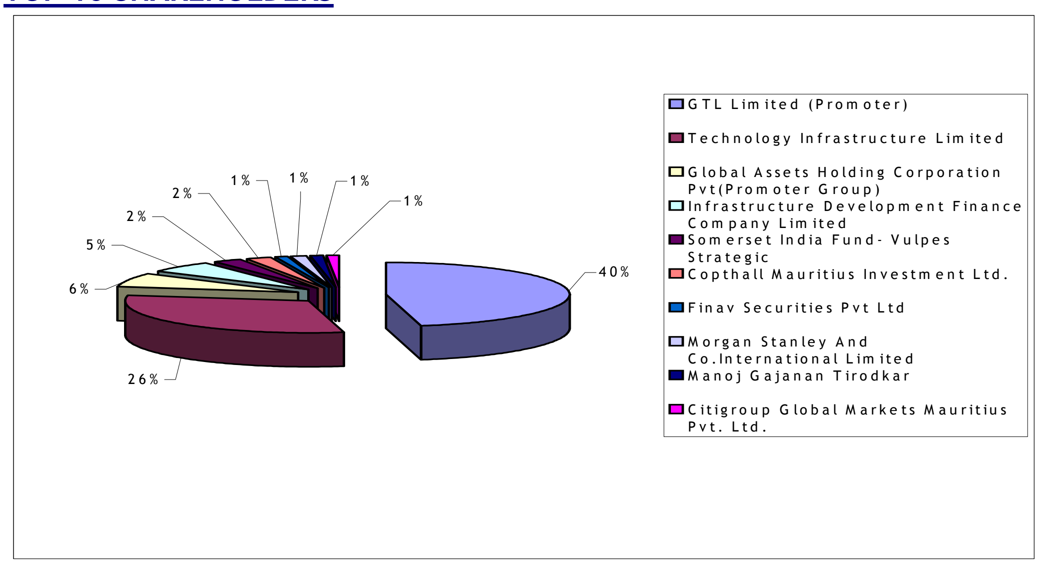
GTL Infrastructure Limited (GIL), a pioneer in shared infrastructure services for wireless operators in India, was created in February 2004 by de-merging GTL's shared multiple telecom operator infrastructure services. GTL Infrastructure Limited is in the business of providing shared Passive Telecom Infrastructure on a Build, Own & Operate (BOO) model basis. GTL Infrastructure Limited takes care of the entire spectrum of activities including the design, construction and maintenance of the passive telecom infrastructure.

SHAREHOLDING PATTERN



Source: Capital Line

TOP 10 SHAREHOLDERS



Source: Company Report

INDUSTRY OVERVIEW

With a wireless subscriber base of over 16.6 crore in FY07, the Indian telecom industry has emerged as the third largest telecom market in the world, only behind giants like the USA and China. The Indian telecom industry is also the fastest growing wireless market with more than 0.6 crore net subscriber additions per month. At this pace, the industry is well poised to surpass the 20 crore wireless subscribers target set by Telecom Regulatory Authority of India (TRAI) in 2007. 'B' & 'C' class circles have contributed significantly towards this growth with an average monthly net-additions of more than 6%.

➢ STATISTICS OF INDIAN TELECOM INDUSTRY

Total Subscriber Base	20.683 crore
Total Tele-density	18.31 %
Wireless Subscriber Base	16.605 crore
% Net-additions/month in Metro	3.33 %
% Net-additions/month in Class A Circle	3.77 %
% Net-additions/month in Class B Circle	6.01 %
% Net-additions/month in Class C Circle	8.73 %

Source: Telecom Regulatory Authority of India

➢ INDUSTRY STRUCTURE & DEVELOPMENT

The telecom infrastructure consists of **active (electronic) components** such as microwave radio equipment, switches, antennas, etc used for telecom signal processing and transmission; and **passive (non-electronic) components** including the tower, shelter, air-conditioning equipment, diesel electric generator, etc. Infrastructure sharing is viewed as an effective means of cutting costs and increasing coverage in unserviced areas. Existing TRAI regulations restrict active infrastructure sharing for telecom companies and allow only passive infrastructure sharing. With passive infrastructure sharing each operator can save 15-20% on capex and 20-30% on operating expenditure as well.

➢ TOWER SHARING AND OUTSOURCING SCENARIO IN INDIA

As of July 2007, about 90,000 towers cater to 13.6 crore wireless subscribers. The Government of India has targeted 25 crore subscribers by December 2007 and 50 crores by 2010. In order to achieve this target, approximately 1,35,000 towers would be required by 2007 and 3,30,000 by 2010.

As per the Lehman Brothers sector report of 2006, Hutch India is sharing 25-30% of its sites with competitors like Bharti, Aircel and Idea. For the passive infrastructure, Hutch is already sub-contracting to companies for DG maintenance, shelters, etc.

Bharti Airtel is sharing 30% of its towers with players like Hutch and Idea and intends to increase its tower sharing to 50% with other players like TATA and Reliance Communications planning to follow suit.

Tata Tele-Services Limited is looking forward for outsourcing its tower infrastructure as well as relying on third-party towers to expand into newer areas. TATA has already come out with a Request for Proposal (RFP) for outsourcing the management of its 4,500 existing sites to tower companies and which involve an eventual hive-off of tower infrastructure assets. TATA has also issued another Request for Proposal for rollout of 2,000 sites on a build-operate- lease basis.

Spice Telecom has been particularly active in relying on tower companies to expand its network. The Company has signed for 200 new towers with GIL on a build-operate-lease basis in Punjab and Karnataka circles.

Reliance has so far stayed away from infrastructure sharing. However, with its GSM rollout plans in various parts of India, Reliance would consider both operator-sharing as well as leasing from tower companies. Reliance already confirmed its plans to do so for its GSM India expansion as well as offering its existing GSM infrastructure to other players expanding into these 'C' circles. Further, Reliance Communications has demerged its passive infrastructure to its subsidiary which aims at 40,000 established cell sites by the end of FY08.

BSNL has been reluctant to share its network in order to retain its competitive advantage in rural coverage. However, the telecom ministry is now in favor of BSNL sharing its passive infrastructure with the private operators.

DRIVERS FOR SHARING PASSIVE INFRASTRUCTURE	
Burgeoning subscriber base	The exponential growth of the subscriber base leading to increasing wireless traffic.
Emerging technology	High investment requirements in technologies like EDGE and 3G.
Sharply rising site rentals	Along with real-estate prices, site rentals have also seen a sharp increase. Site owners are aware of relatively large number of players desiring to rollout in urban or semi urban areas. Hence the demand for tower sites and rentals are expected to increase sharply.
Need for denser coverage due to spectrum constraints	According to the spectrum allocation criteria operators get only 10 MHz spectrum for as many as 2mn Subscribers. Hence operators need to have much denser tower locations to ensure minimum quality standards.
Regulatory and planning authorities	Installation of cell sites has become a cumbersome process as there are a number of clearances required and involves labour-intensive micro management. Passive infrastructure sharing will speed up the process and trim time to market.
New Tower Restrictions	Both the urban planning ministries and municipal corporations are now starting to place restrictions on new tower construction on the grounds that they pose a health hazard and congest the skyline.

Source: Express Computer

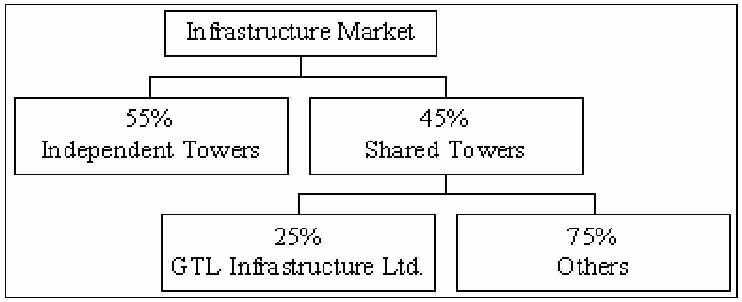
COMPETITORS OF GIL

Established global players like American Towers have made their foray into the Indian market. Essar Group has created a company Essar Infrastructure for its planned entry into sector. A Joint Venture between Ericsson & a local co. and Ex Director of Goldman Sachs (Mr.Jedhai) are shortly to start a company into this field. Quipo funded by SREI finance is also a player in this field. National operators like Bharti, Reliance are spinning off their subsidiaries in the telecom infrastructure sharing industry.

INVESTMENT RATIONALE

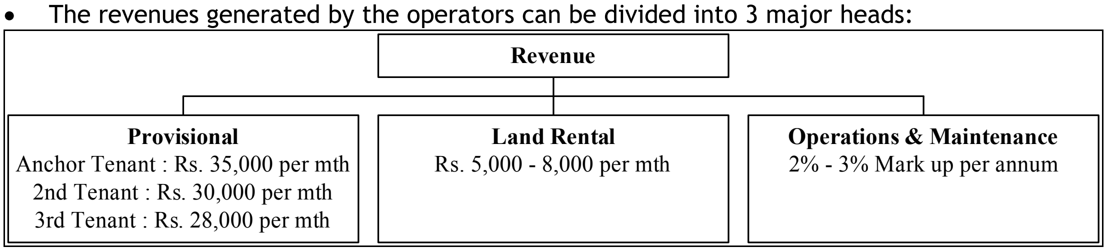
- GTL Infrastructure Limited was able to rollout 1200 cell sites by FY07, which can be shared among multiple telecom operators.
- GTL Infrastructure Limited signed Master Services Agreement (MSA) with two national level and one regional level operators. These contracts are for a period of 10-15 years.
- GTL Infrastructure Limited emerged as the market leader amongst the Third Party Neutral players by securing 421 cell sites in 4 clusters of Andhra Pradesh, Uttar Pradesh(E) in the recently concluded bidding process for rolling out towers under the Department of Telecommunication’s Rural Mobile Telephony. DoT has assured 3 anchor tenants on each of the Cell-sites. This project will receive subsidy from the Universal Services Obligation (USO) fund.

- GTL Infrastructure Limited received Letter of Intent (LOI) from one national level operator and signed term sheet with another national level operator. GTL Infrastructure Limited expects to convert these into a Master Service Agreement in FY08
- GTL Infrastructure Limited expects to capture 25% market share in the Shared Infrastructure market:



Source: Company

- The revenues generated by the operators can be divided into 3 major heads:



Source:Company

- In addition to the principal business of telecom infrastructure, GTL Infrastructure Ltd. is also building the Related Infrastructure required for operating and maintaining the cell sites based on the Service Level Agreements (SLAs) with the operators. The Related Infrastructure facilitates centralized monitoring of the passive infrastructure components through a Network Operating Centre (NOC) facility, which would ensure timely fault detection, speedy and effective resolution.

RECENT DEVELOPMENTS

- GTL Infrastructure Ltd (GTL Infra) has completed 1,200 sites and another 2,500 sites are under construction as of FY07.
- With a view to accelerate the pace of roll-out of cell sites, the Company in Q42007 announced 1:1 rights issue at par. Once subscribed, the diluted equity share capital of the Company would go upto Rs. 694 crores. The issue will get listed by September 2007.

CAPEX PLANS

- GTL Infrastructure Ltd is rolling out 6,700 cell-sites and related Network Infrastructure in Phase I of the project by FY08 with a capital investment of Rs.2,030 crores. GTL Infrastructure Ltd proposes to setup these cell-sites in Class B & Class C cities and in rural areas.
- GTL Infrastructure also plans to set up a network of 24,000 transmission towers in the second phase beginning April 2008.
- GTL Infrastructure Ltd. also plans to build and provide 3,000-seater Network Infrastructure facilities at Pune and Mumbai to provide plug and play infrastructure for various BPO and call centre activities.

The Shared User Infrastructure rollout plan can be summarized as follows:

Particulars	As on December 31, 2006	Additions during January 1, 2007 to March 31, 2007	As of FY07	Planned Additions during FY08	As on FY08 (E)
Number of Cell Sites	948	252	1200	5500	6700

Source: Company

METHODS OF RAISING FUNDS FOR CAPEX

The proceeds of the right issue will be used for funding the Capex plan of rolling out 6700 cell sites by FY08. Further, GTL Infrastructure Ltd. has a tied up debt of Rs. 1,485 crores which will also be utilized towards rolling out these cell sites under Phase I of the Capex plan.

SWOT ANALYSIS:

STRENGTHS:	WEAKNESSES:
• India's first 3rd party Shared User Telecom Infrastructure Provider • Business model with Long-term visibility in contracts leading to predictable cash flows & margins • In-built escalations clause in site management fees ranging from 2%-3% per annum • One stop shop for various passive telecom infrastructure needs of telecom service providers • Primarily cater to the Telecom industry, which is in a high growth phase • Established Market Leader • Low probability of customers switching • Low risk of technology obsolescence • Low maintenance capital expenditure • Leverages on the expertise, market knowledge, business relationships and technology alliances of its promoter company, GTL ltd. • Enter into hedging contracts on rupee denominated borrowings to protect against interest rate fluctuations	• Only one area of operations and the risk is not diversified. • Dependence on a few customers • Competition is likely to intensify, both from domestic as well as overseas players. • Petitions filed against installation of towers near residential areas due to Concerns about adverse health effects of Electromagnetic Radiation emanating from the towers.
OPPORTUNITIES:	**THREATS:**
• TRAI's move of making passive infrastructure sharing mandatory (to be initiated in Delhi & Mumbai on trial basis & across India on success of these trials) will bring immense opportunities. • TRAI's recommendation on 3G spectrum allocation will increase the traffic on the existing network resulting in increase in the need for passive infrastructure in the form of cell sites. • To meet the requirements of growing subscriber base and MoU (Minutes of Usage), the cellular operators will need to outsource their passive infrastructure needs to maintain their network's performance in areas they currently cover and to extend service to new areas. • Increasing competition amongst telecom service providers will require them to cut costs and thus opt for passive infrastructure sharing. • Large coverage requirements in urban and rural areas as well as highways	• A few large operators may enter into sharing arrangements with one another to keep out a third-party vendor • Operators convinced with the business model of passive infrastructure sharing might also set up their own independent infrastructure company. • Extensive reliance on IT systems to provide connectivity across business functions can adversely affect operations in case of any IT system failures or loss of data or connectivity • New technologies may result in subscribers' demands being met by capacity enhancement rather than coverage enhancement, hence reducing the need for cell sites.

VALUATIONS & RECOMMENDATION

					Rs in crores
Particulars	**FY06**	**FY07**	**FY08P**	**FY09P**	**FY10P**
SALES	17	50	161	637	1407
COST OF SALES & SERVICES	2	1	4	11	16
EMPLOYEE COST	2	6	21	37	46
ADMINISTRATION & OTHER EXPENSES	5	11	50	96	104
OPERATING PROFIT	8	32	86	493	1241
OTHER INCOME	0	10	1	4	6
PBIDT	8	42	87	497	1247
DEPRECIATION	19	33	118	426	703
PBIT	(11)	9	(31)	71	544
INTEREST	1	10	12	12	12
PBT	(12)	(1)	(43)	59	531
TAX	(1)	22	0	19	175
PAT	(11)	(23)	(43)	40	356
EQUITY	311	333	694	694	694
EPS (Rs.)	(0.35)	(0.70)	(0.62)	0.57	5.13
CMP(Rs)			33.00		
P/E	(94.29)	(47.14)	(59.92)	57.89	6.43
MCAP			1098		

The company is trading at (51.70) x P/E of FY 2007 EPS of Rs. (0.70). The EPS is expected to grow in FY 10 to Rs. 5.13. In view of the strong fundamentals of the company and the future growth prospects, we feel the stock should command a P/E of at least 13X FY 10.Hence, we recommend a LONG-term price target of Rs. 70.

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