

## Reliance Communication Update

Reliance Infratel gets SEBI Nod for IPO.

According to news reports, Reliance Infratel got SEBI Nod for its IPO. It plans to dilute 10% stake for Rs5000 – Rs6000 cr. Reliance communication holds 95% stake in Infratel. This pegged Reliance Infratel equity valuation to US\$12bn. In July 2007, several international investors agreed to buy 5% stake in Reliance Infratel for US\$337m.

Reliance communication demerged its tower business and formed a company Reliance Infratel Ltd (RIL). RIL is basically a passive Infrastructure company having an asset base of 37000 towers, which it plans to scale up to 60,000 by FY09 and 70,000 by FY10. The main objective of the issue is to install 16,000 new sites at an estimated cost of Rs4600 cr.

## Industry Overview

India is currently having 260mn wireless subscribers with 1,70,000 towers and according to TRAI estimates India will require 3,10,000 towers for a subscriber base of 400mn. TRAI last year allowed Passive Infrastructure and recently also allowed Active Infrastructure sharing (Excluding sharing of Spectrum). After Active Infrastructure sharing, now 70-80% of the network infrastructure cost can be shared among the telecom service providers. Infrastructure sharing is the new theme in India where we recently witnessed large telecom players joining hands for passive sharing. Indus tower – Company formed by Bharti, Vodafone and Idea where Bharti and Vodafone will hold 42% each and Idea will hold remaining 16% is the move in this direction. Infrastructure sharing is an old concept in developed markets like US where there are large companies like American Tower providing Passive Infrastructure sharing services. If we look at individual independent companies providing infrastructure sharing in US they constitute 60% of total sharing while in India still the ratio is inverse where wireless operators provide major Infrastructure sharing services.

## Latest Development

Indus Tower – World's largest tower company was recently in news where there is a rumour that one of the partners, Idea, is thinking of separating from the Joint Venture. According to our understanding it will be very tough for wireless operators to form a cartel for this kind of services, as there are lot of issues involved. For eg, In a 40mt tower it will be very difficult to decide who will get above 36mtr slot and who will take lower frequency. There are other issues too where wireless operators have to share crucial information with their partners which they might not be willing to disclose.

## HOW TO VALUE TOWER COMPANY

There is a myth in the market where telecom tower companies are valued by no. of towers under their asset base. But the right way to value a Tower company is by their tenancy ratio.

No. of towers	1000	1000	1000
Tenancy Ratio	1	2	3
Rent/Month	31000	31000	31000
Rental Income (Rs Mn)	372	744	949
EBIDTA (Rs Mn)	156	528	733
PAT (Rs Mn)	-311	61	176

1.8 – 1.9x is the tenancy ratio for a tower company to make profit. In India tenancy ratio currently is 1.8x, which is expected to improve to 3x by FY10. Globally too if we look at US, current tenancy ratio is at 2x.

Active Infrastructure sharing was recently allowed by Trai where Antennas, Feeder Cables, Radio Access Networks (RAN) can be shared except allocated spectrum. Passive Infrastructure results into 60% of Network cost and rest constitutes of Active Infrastructure cost. But Globally Active Infrastructure sharing has not worked that successfully because of lot of issues involved. All the recent move on Infrastructure sharing is towards fast roll out of services by new entrants who recently got LOIs. Going forward we will see lot of consolidation in Infrastructure sharing space because at the end what will really have an impact will be the size and asset base of companies.

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