CARE Research

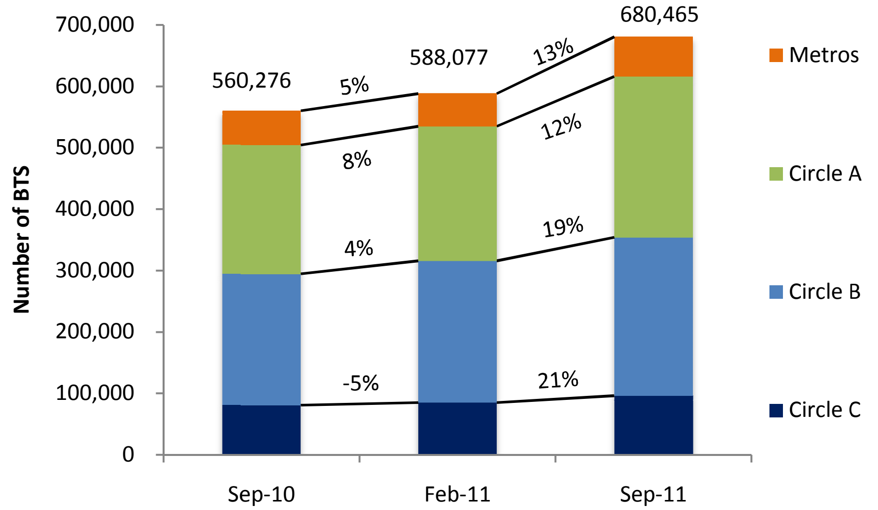
Indian Telecom Tower Industry – Towering Dreams & Ground Realities

Telecom sector in India has emerged as one of the biggest success stories of corporate India post-liberalisation of the economy in early 90s. As the wireless telecom grew at a breathtaking speed in India, telecom tower industry surfaced as a thriving business model riding the wave of telecom success. Tower industry witnessed growth rate of beyond 30% for the 5 year post 2006, expanding the telecom tower base to ~400,000 towers today. This highly capital intensive sector attracted investments from parent telecom service providers, independent tower companies and even private equity investors built on demand expected to come from 2G subscriber growth (happening at a CAGR of more than 50%), network expansion from new players who received licences in 2008 and expected roll out of 3G and 4G services.

The tower industry started feeling the heat in FY 2011 as it added less than 10,000 towers in a year due to oversupply of towers in urban areas and viability issues in rural areas. Cut-throat competition in the telecom wireless segment brought down tariffs and hence the profitability of the players. Also, the stretched balance sheets on account of the Rs. 1,000 billion 3G-BWA auction payment left little room for telecom service providers to go all out for network expansion. Meanwhile, the tower industry shifted its focus from building more towers to increasing tenancies as single-tenant towers are not viable and tower sharing proved to augment industry profitability.

Base Transceiver Station (BTS) deployment by telecom service providers in India stands at 680,465 as on September 2011, grown over 20% from September 2010. BTS expansion in FY 2011 was limited to metro and category A circles whereas post FY 2011, telecom service providers moved towards untapped rural markets. CARE Research estimates that % growth in number of BTS in India will be more than double the % growth in number of towers, which will grow at mid-single digit over next two years. According to Revati Kasture, Head – CARE Research, “Faster growth in number of BTS as compared to the towers will enhance the tenancy ratios for tower companies from current 1.6x to 1.9x due to increased sharing of towers by FY 2014.” Urban areas will see improvement in tenancies as additional BTS will be mounted on the existing tower network which has excess capacity whereas new towers need to be erected in rural areas for adding more BTS as the expansion will mostly happen in uncovered, smaller villages. Main drivers for BTS growth will be congestion in urban areas due to 2G subscriber growth and increased data usage as telephony in India moves from voice to data, rural subscriber growth and planned roll-outs of 3G and 4G services, adds Ms. Kasture.

BTS Deployment – Circle wise



Source: Ministry of Communications and CARE Research

As more than 70% of towers in India receive grid power for less than 12 hours a day, tower companies are compelled to switch to power from diesel generators, costing Rs. 16 per unit, almost triple the cost of grid power. This elevates the network operating expenses of telecom providers consuming upto 30% of total networking operating costs as tower companies pass on the power costs to their tenants. Diesel pilferage which accounts for 15-20% of the total diesel consumption further adds to the overall cost.

One of the major hurdles in the expansion of telecom towers is backhaul connectivity. India's 1,000,000 km Optical Fibre Cable (OFC) network is predominantly limited to urban areas and bigger villages, leaving microwave connectivity as the next best alternative. Microwave connectivity will have its limitations as urban areas embrace data intensive 3G and 4G services. Government has proposed Rs. 20 billion plan for constructing National Optical Fibre Network for countrywide broadband building OFC network of 250,000 km providing last mile connectivity to small villages, though it will take time to materialize the benefits.

There are some regulatory concerns with regard to bringing Infrastructure Provider – I category under the umbrella of Unified License which might result into 6% license fees for IP-I players as a part of revenue sharing and lowering of FDI limit to 74% from current 100%. According to D R Dogra, MD and CEO, CARE Ltd, "Government should take proactive steps like providing subsidies to promote renewable energy for towers, providing backhaul connectivity and channelizing more funds from Universal Services Obligations Fund to encourage investments in rural areas. Also the increased uncertainty in the end-user telecom services industry after cancellation of 122 licenses by the Supreme Court in February 2012 is hurting the expansion plans of telecom tower sector badly."

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