GTL Infrastructure Ltd. - Con-call Notes

July 21, 2008

Price: Rs38.25	**52 week High/Low: 107 / 31**	**MCap: Rs28.2Bn ($660mn)**
BSE Sensex: 13850		**Rating: Not rated**

Company Background

GTL Infrastructure Ltd (GIL) is the largest third-party telecom infrastructure provider in India. It is in the shared user infrastructure business on Build Own and Operator basis, with 6,360 towers in its portfolio.

The company has a presence in 16 telecom circles viz., Maharashtra & Goa, Gujarat, Madhya Pradesh, Rajasthan, Karnataka, Kolkata, UP (E), Punjab, West Bengal, UP (W), Haryana, Bihar, Andhra Pradesh, Orissa, Tamil Nadu and Himachal Pradesh. In Q1FY08, the company entered Himachal Pradesh.

Customers of the company include 7 telecom operators and a Wi-Max operator. Customers enter into rental agreements with GIL with duration of 10-15 years. A cost escalation clause of 2.5% to 3% p.a. is included in the agreements.

Key Takeaways of the Con-call

- Robust revenue growth of 155% in Q1FY09, coupled with a 700bps EBITDA margin expansion from 42.6% to 49.6%.
- The improvement in profitability is attributable to control over the employee costs which increased by 18.6% only.
- Net loss of Rs3.19Cr due to higher interest and depreciation costs.
- In Q1FY09, the company added 350 towers to its portfolio. The sluggishness in tower additions is attributable to the sluggish demand during last 2 quarters.
- Pressure on pricing is evident from the decline in average tower rental from Rs38-40,000 to Rs33-36,000 in Q1FY09 y-o-y.
- GIL expects robust demand during Q3 and Q4 of FY09, as new players are entering the telecom verticals and several new services are likely to be offered.
- The company expects to reach the 10-12,000 towers mark by end-FY09, most of which is expected in Q3 and Q4.
- The company targets to reach 23,700 towers by end-FY11. The plan envisages an aggregate capex of around $1.9bn.
- Funding has already been tied up for the entire amount of capex. It includes fresh issue of equity and rights issue of $170mn, warrants to promoters and FIs of $260mn, FCCB of $300mn and debt of $1.2bn.

Our observations

- The telecom tower business is a highly capital intensive business with high gestation period. In the initial period after the installation of tower, the interest and depreciation costs dominate the entire costs structure.
- The robust telecom subscriber growth and the increasing capacity requirement augur well for the tower business. In the fast growth scenario, we believe the role of independent tower companies is crucial.
- Apart from increasing capacity requirements from existing players, new entrants (5 new players and 4 existing players in new circles) will drive demand as they require robust tower infrastructure in order to support a quick roll-out of their plans.
- In our view, the slowdown in demand in Q1FY08 is not indicative of any long term trend. We believe the telecom tower industry has many growth drivers such as new entrants and pressure on the telecom operator to improve quality of service.
- We expect GIL to post losses in the near future, as it is in the expansion phase and burdened with huge depreciation and interest costs.

Valuation

The stock trades at 60.6x FY08 EV/EBITDA and 22.6x FY08 sales.

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Financial Snapshot **(RsCr)**

Particulars	Q1FY08	Q1FY09	*Growth*	FY08
Income from Operations	**17.94**	**45.77**	***155.1%***	**124.58**
Expenditure				
Infrastructure O&M	1.60	11.73	*633.0%*	25.02
Employee Costs	3.56	4.22	*18.6%*	18.20
Other Expenditure	5.14	7.11	*38.3%*	16.69
Total Expenditure	**10.30**	**23.05**	***123.9%***	**59.91**
EBITDA	**7.64**	**22.71**	***197.2%***	**64.68**
Other Income	1.00	0.49	*-50.7%*	6.30
Interest	-26.36	15.16	-	8.52
PBDT	**35.00**	**8.04**	***-77.0%***	**62.46**
Depreciation	18.44	29.62	*60.6%*	82.40
Profit Before Tax	**16.56**	**-21.57**	**-**	**-19.94**
Tax	6.49	-18.38	*0%*	39.53
Profit After Tax	**10.07**	**-3.19**	**-**	**-59.47**
EBITDA margin	**42.6%**	**49.6%**	***7.0%***	**51.9%**
EPS (Rs)	0.30	-0.04	**-**	-0.81
Paid-up Equity Capital	**336.40**	**737.41**	***119%***	**734.26**

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Member

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Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

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