LSE Securities

GTL Infrastructure - Buy

GTL Infrastructure, a Global Group company was incorporated in 2004 is now the largest independent mobile tower companies in India. It is the pioneer in Shared Telecom Infrastructure in India. GTL Infrastructure offers ready to use passive infrastructure to wireless telecom operators.

The company is registered with the Department of Telecommunications as an Infrastructure Provider in Category I (IP-I). The Company builds, owns, operates and maintains passive network infrastructure on a shared basis in order to cater to the rapidly growing infrastructure needs of cellular telecom operators.

GTL Infra has built around 9950 towers across India thus providing telecom providers an unparallel strategic access to one of the fastest growing mobile market of the world, India. GTL Infra's tower portfolio is located in 20 out of 22 circles of India. The company has its towers in the rural and semi urban areas across these circles.

Management

The management of the company is led by Manoj G Tirodkar -Chairman. While other board of directors includes Deepak Vaidya, Prakash Samant, Charudatta Naik, Vishwas Pathak, Prakash Ranjalkar, Anand Patkar, N. Balasubramanian and Vivek Kulkarni.

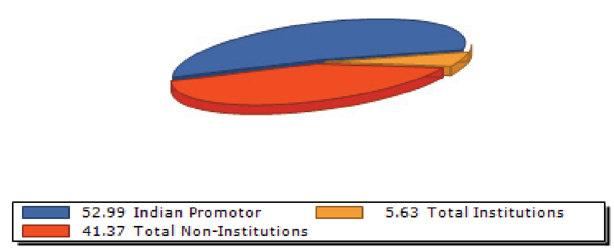
Business Overview

GTL Infra serves as a single window one-stop-shop provider of infrastructure and services to telecom operators by undertaking the full range of responsibilities in building and maintaining the sites. Its expertise lies in providing robust passive infrastructure solutions to telecom service providers thus adding value to their service by optimizing cost structure and enhancing reach.

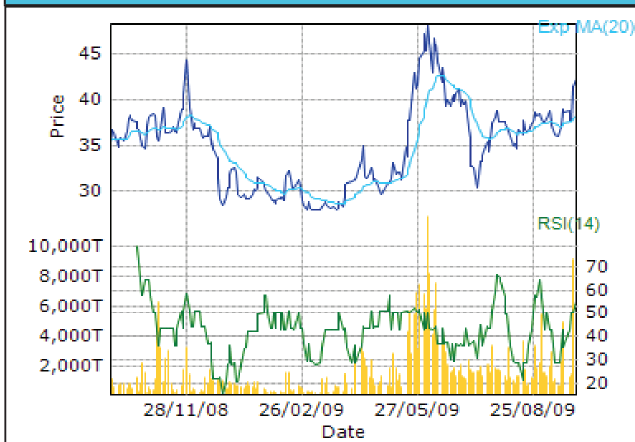
The business model of infrastructure sharing of the

Stock Data	30/09/09
Current Mkt Price (Rs)	42.15
52 Week High	49.70
52 Week Low	27.60
Mkt Cap (Rs. in Million)	39939.95
Return in last one Month (%)	9.77

Share Holding



Performance in last one year



Y-o-Y Performance

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	2462.84	1245.82	97.69
Other Income	1419.86	484.63	192.97
Total Expenditure	2153.80	726.11	196.62
Operating Profit	1728.90	1004.34	72.14
Interest	1025.14	379.77	169.94
Profits After Tax	28.45	-594.70	-104.78
Reserve & Surplus	3935.34	1039.35	278.64
Reported EPS(Rs)	0.04	-0.81	-104.94
Core EBITDA Margin (%)	70.20	80.62	-12.92

company is based on building, owning, operating and maintaining passive telecom infrastructure sites capable of hosting multiple service providers (CMSPs, Wireless Broadband).

The model enables the operators to convert their capital expenditure to a fixed and predictable operational expenditure allowing them to divert precious capital towards core activities.

GTL Infra's expertise lies in providing robust passive infrastructure solutions to telecom service providers thus adding value to their service by optimizing cost structure and enhancing reach. In India, presently, the company has a portfolio of 9951 towers in 20 circles. By March 2011, it aims to erect 23,700 towers across India across all 22 telecom circles.

The services help the operators in the start up phase to build quick coverage, and also enable them to implement comprehensive and cost effective coverage in Class B and C circles where telecom infrastructure is scarce. These growth areas have registered higher growth in wireless subscriber base in the range of 11-13%, and are expected to drive the next level of subscriber growth for the operators.

Latest result analysis

- The quarter ended June 30, 2009 was a turnaround quarter for the company and it reported a net profit of Rs 18.70 crore after reporting loss for four consecutive quarters.
- The Sales reported an increase of 57.26% to Rs 71.97 crore compared to Rs 45.77 crore in the same quarter last year.
- Total income of the company increased by 13.30% to Rs 85.50 crore from Rs 75.47 crore.
- Other income reported a handsome rise of 2639% to Rs 13.57 crore compared to Rs 0.49 crore in the June 2008 quarter.

Q-o-Q Performance

(Rs. in Million)

Particulars	Jun 2009	Jun 2008	Change(%)
Net Sales	719.71	457.67	57.26
Expenditure	-143.22	230.55	-162.12
Other Income	135.33	4.94	2639.47
EBITDA	998.26	232.06	330.17
Interest	347.74	151.64	129.32
Net Profit	186.96	-31.93	-685.53
EBITDA Margin (%)	1.39	0.51	173.55
NPM (%)	0.26	-0.07	-472.34
EPS	0.22	-0.04	-650.00

Profit & Loss

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Net Sales	2462.84	1245.82	97.69
Total Income	3882.69	1730.45	124.37
Total Expenditure	2153.80	726.11	196.62
Operating Profit	1728.90	1004.34	72.14
Profits After Tax	28.45	-594.70	-104.78

Balance Sheet

(Rs. in Million)

Particulars	Mar 2009	Mar 2008	Change(%)
Share Capital	8161.64	7342.64	11.15
Reserve & Surplus	3935.34	1039.35	278.64
Total Liabilities	48112.77	34086.05	41.15
Investments	0.33	663.36	-99.95
Current Liabilities	3811.73	2282.47	67.00
Net Current Assets	16070.10	14226.56	12.96
Total Assests	48112.77	34086.05	41.15

Key Ratios

Particulars	Mar 2009	Mar 2008
Reported EPS (Rs)	0.03	-0.81
Core EBITDA Margin (%)	70.20	80.62
EBIT Margin (%)	12.89	14.47
ROA (%)	0.06	-1.74
ROE (%)	0.24	-7.10
ROCE (%)	0.66	0.53
Price/Book (x)	1.99	4.06
Net Sales Growth (%)	97.69	149.36
EBIT Growth (%)	76.01	94.39
PAT Growth (%)	-104.78	156.83
Total Debt/Mcap (%)	1.47	0.73

- The company reported a PBIDT of Rs 99.83 crore compared to Rs 23.21 crore, up by 330% of corresponding previous quarter.
- Operating profit margin for the quarter increased by more than 210 basis points to 72.29 from 50.71 in quarter ended June 2008.

Industry Scenario

Telecom towers are the integral part of the telecom network infrastructure. In fact they are the most expensive to build and the valuations are heavy. The business has outgrown itself that most of the companies have hived off the tower business as its own entity.

Tower business is making news lately for the explosive growth and exponential investments involved. It requires a lot of investment to survive and the smaller companies are finding it difficult. There has been some consolidation which has happened already.

The telecom towers business in India is lucrative with long-term growth prospects. Growth in telecom subscribers, falling average revenue per user (ARPU) and increasing teledensity are driving growth of telecom towers in India. The market is expected to witness 17% p.a. growth from 2008-2015 with the estimated requirement of 554,000 towers by 2015.

Latest developments

GTL Infrastructure in August this year has bid for the tower operations of unlisted telecommunications operator Aircel Ltd.

GTL Infrastructure in October 2008 has raised nearly $2b of funding to set up 23,700 telecom towers across India in the next three years. The company earlier too had raised $726m via a rights issue, preferential warrants and overseas convertible bonds.

Recommendation Factors

Independent tower companies in India are having altogether around 20,000 towers as on June 2009, of which GTL Infra holds the maximum, about 9950 towers followed by 4000 by Essar, about 2000 by ATC - Xcel, about 1000 each from ITIL, Aster and Tower Vision while rest are held by few other small players.

The company out of its about 9950 towers, is having 8,237 RFIE towers and 1,714 WIP towers mainly present in the semi-urban and rural areas of Class A,B and C circles. The company with its plan to add about 14000 new towers at an estimated cost of Rs 7265 crore is aiming to meet around 10% of the demand for towers in India in the next three years.

New operators like Unitech-Telenor, Swan-Etisalat who are sufficiently capitalised and have received spectrum, are in final stages of their rollout and are most likely to raise the demand for the passive network infrastructure and as the initial indications suggests they are opting to lease passive infrastructure such as telecom towers to reduce costs and roll out services faster.

The other major demand driver could be the announcement by the largest state owned telecom company BSNL's agreement to occupy towers of Independent tower companies apart from this the PAN India rollout of GSM services by Reliance Tata Tele and Aircel too is likely to raise the demand for passive infrastructure many fold. (Tenancies from Aircel and BSNL for GIL grew by 26% and 24% during the Q1 FY10 on the same time TTSL, Idea and Vodafone contributed 38% of the total GIL tenancy additions in the quarter).

The scrip is currently trading at Rs 42 and EV/EBIDTA of 26.63. We would recommend a BUY with a price target of Rs 89 for a medium to long term outlook, keeping in view the rise in demand for the tower infrastructure in the recent future, ambitious plan and foresightedness of the company to mould itself according to the future demand.

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