

The telecom infrastructure industry in India moved a step closer to consolidation with the American Tower Company (ATC) signing a definitive agreement with Tata Teleservices Limited (TTSL), Srei Infrastructure Finance and several other minority holders to acquire 51 per cent stake in Viom Networks. The combined entity will become the third major player in the industry, with a total of around 56,000 telecom towers across the country. Valued at Rs 76 billion, this is ATC's largest acquisition in India, as well as the largest foreign direct investment in the Indian telecom sector in 2015-16. The deal had been under discussion for over a year, as Viom Networks was exploring several options, including an initial public offering, to survive in the competitive telecom market amidst heavy operational expenditure.

tele.net takes stock of the ATC-Viom merger, the key specifications of the deal, its impact on stakeholders, as well as its implications on the telecom infrastructure industry...

Key specifications

Prior to the deal, TTSL held a 54 per cent stake in Viom Networks, while the Srei Group held 18.5 per cent. The remaining 27.5 per cent was owned by a group of financial investors, including IDFC Private Equity, SBI Macquarie, Funderburk Mauritius Limited (Oman Investment Fund) and GIC Investments Pte Limited (Singapore). ATC is acquiring the entire 18.5 per cent stake held by the Srei Group, while TTSL's stake will come down to 34 per cent. Going forward, TTSL may sell additional stake, retaining up to 26 per cent stake as assurance that the merged entity will receive tower leasing contracts from TTSL on a preferential basis.

Amongst the minority investors in Viom, IDFC's holding will come down from the current 6.23 per cent to 3.18 per cent. The Oman Investment Fund and GIC Investments are also likely to offload stake in the company. The financial advisory to the transaction was handled by Kotak Investment Bank-Evercore and Citi while Luthra & Luthra was the legal adviser for the deal. Once the deal receives regulatory approvals, ATC will merge its existing Indian operations with Viom, taking its stake in the merged entity to nearly 65 per cent. The balance 35 per cent will be held by TTSL, Macquarie SBI Infrastructure Investments, SBI Macquarie Infrastructure Trust and IDFC Private Equity Fund III.

Impact on key stakeholders

For ATC, the merger catapults it to the forefront of the segment, joining companies like Indus Towers and Bharti Infratel. Since its entry into the Indian market in 2007, ATC has been expanding its tower footprint largely through acquisitions. In 2009, the company acquired 1,657 telecom towers from Xcel Telecom and 327 towers from Transcend Infrastructure. In 2010, it acquired 4,629 towers from Essar Telecom. Its fourth acquisition came in May 2015, when it acquired the telecom tower assets of KEC International Limited in Chhattisgarh, Meghalaya and Mizoram, which augmented its total tower portfolio to around 13,000. Merging with Viom will allow the company to nearly triple its footprint and tap the opportunity presented by the deployment of 3G and 4G technology by various operators.

The consolidation brought about by ATC over the years was much needed in a sector where high energy expenses and increased instances of tower sealing have left small independent players in debt. In fact, it is because of the issues faced by the telecom infrastructure industry that the Srei Group wanted to exit the company and focus on its core infrastructure financing business and improve its profitability. The company will receive about Rs 30 billion through its stake sale, which includes a Rs 3.4 billion non-compete fee.

Meanwhile, TTSL has been considering selling stake in Viom Networks as a means of reducing its debt burden, which stood at Rs 346 billion as of March 2015. While the company has received around Rs 45 billion from the parent company, Tata Sons, in the past two financial years, it has been looking at other avenues to repay its loans. The purchase of spectrum in the March 2015 spectrum auctions and the heavy investment in 3G infrastructure have added to TTSL's debt. Thus, the merger will allow the operator to reduce its interest payments as ATC will also take over Viom's debt, which stands at Rs 58.12 billion at present.

Implications on the telecom tower industry

The ATC-Viom merger has set the stage for further consolidation in the industry. Reliance Communications, for instance, is looking to completely exit the telecom tower business in order to focus on its core wireless business and reduce its debt burden. Farallon Capital, the Carlyle Group, Tillman Capital and ATC have reportedly shown interest in buying stake in the company's tower unit, Reliance Infratel. Meanwhile, the cabinet approved a proposal to hive off state-run Bharat Sanchar Nigam Limited's (BSNL) telecom towers into a separate company in order to unlock value from these assets. The decision was made in light of the lack of revenue generation from the sharing of BSNL's assets. Thus, consolidation is the only way in which the telecom infrastructure industry can survive in the current regulatory landscape. With these

Major Acquisition: ATC picks up majority stake in Viom Networks

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possible stake sales, the industry is set to reorganise itself and improve cost efficiencies as well as meet the surging demand for the deployment of next-generation technologies.

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