

Project Unnati

Opportunities for growth and operational improvement

Towers Business, BSNL

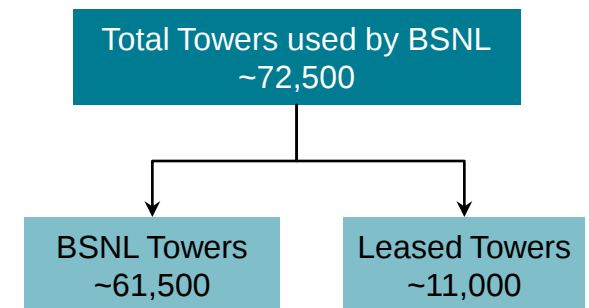
March 2014

Agenda

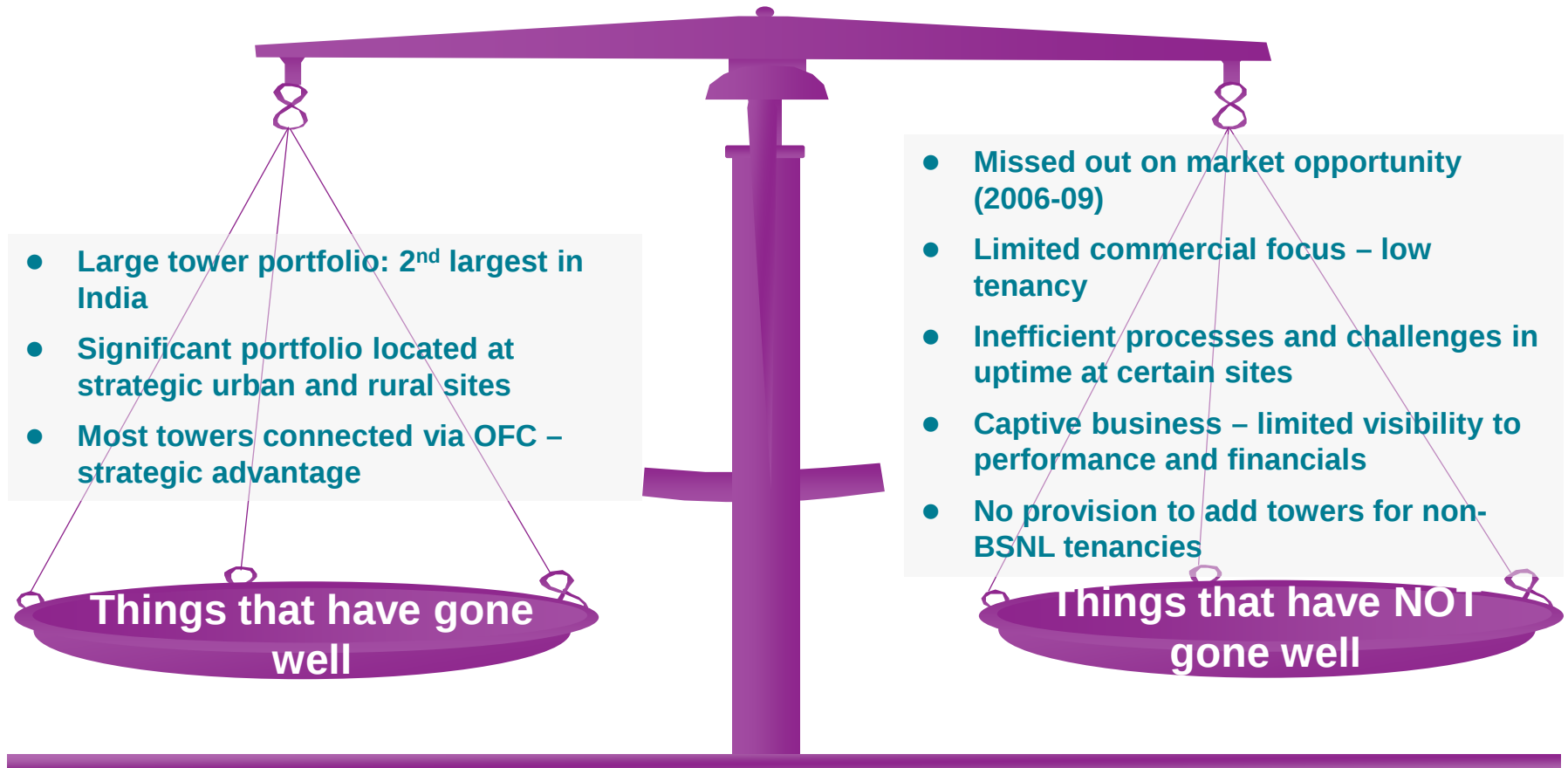
- Overview of BSNL tower business and current challenges
- Proposed option and structure of Towers business
- Process for implementation of proposed option
- Impact on employees
- Addressing employee queries and concerns

BSNL Towers Business

- Telecom towers are required to transmit and receive radio signals for mobile telephony
- BSNL mobile telephony business uses (a) own towers and (b) leased towers for transmitting and receiving signals
- Currently BSNL owns and operates ~61,500 towers in India
- Some of these towers are also leased to other operators for a fee



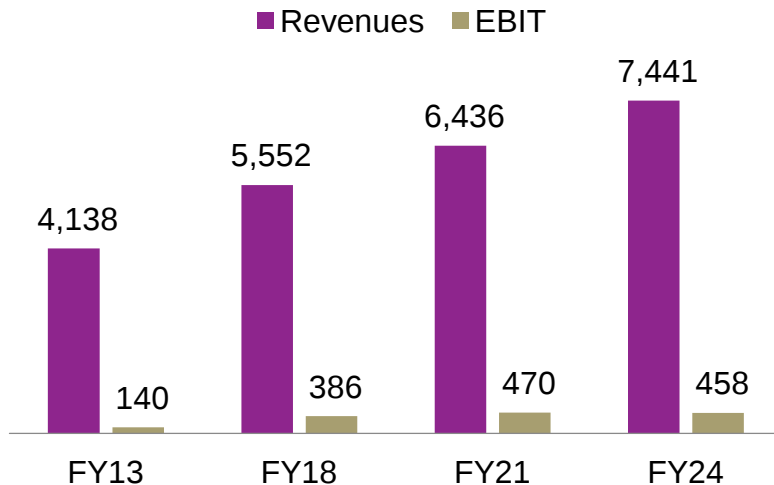
BSNL Tower Business – Current State



BSNL financials are under stress. Improved performance of the tower business could add to BSNL finances significantly

Current Scenario

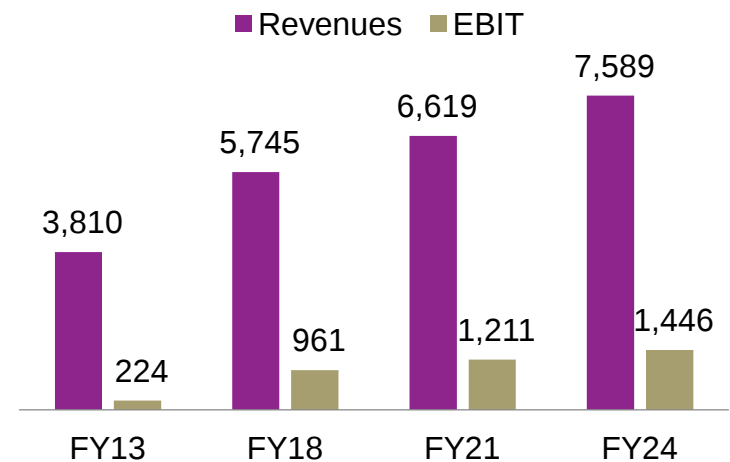
- Missed out on market opportunity (2006-09)
- Limited commercial focus – low tenancy
- Inefficient processes and challenges in uptime at certain sites
- Captive business – limited visibility to performance and financials



All figures in INR cr.

Potential Scenario

- Market opportunity for 26-28,000 tenancies over FY14-FY18
- Higher tenancy ratio with right pricing and focus on sales
- Efficient operations with high site uptime
- Separate financials and performance indicators



All figures in INR cr.

BSNL financials are under stress. Improved performance of the tower business could add to BSNL finances significantly

Current Scenario

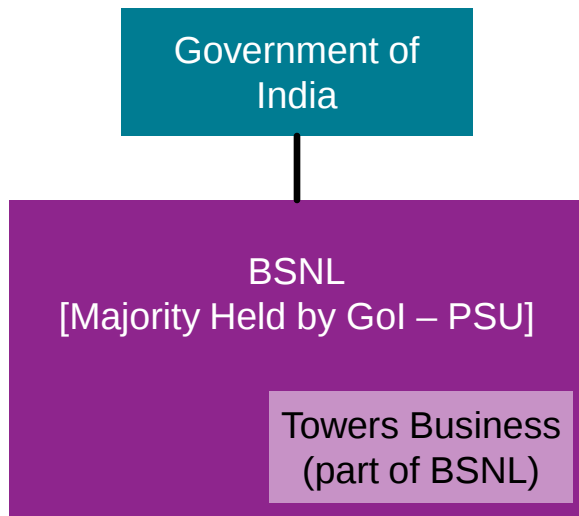
Profit and loss account				
Particulars (INR million)	FY13	FY18	FY21	FY24
Leasing revenue	26,341	34,537	39,270	44,527
Power and fuel revenue	15,039	20,989	25,086	29,881
Revenue	41,380	55,526	64,357	74,408
Direct costs				
Site Rentals				
- BSNL	1,385	1,534	1,678	1,836
- Non-BSNL	2,020	2,767	3,307	3,926
Rental for co-located assets	1,043	1,148	1,179	1,564
Power and fuel cost	15,039	20,989	25,086	29,881
O & M Cost	5,597	8,214	10,099	12,373
Maintenance Expenses	3,439	4,448	5,055	5,719
Total Direct Costs	28,523	39,099	46,404	55,299
Gross Margins	12,857	16,427	17,952	19,109
Other administrative cost	1,054	1,381	1,571	1,781
Employee cost	922	1,177	1,362	1,577
Provision for bad debts	1,241	1,666	1,931	2,232
Total indirect cost	3,217	4,224	4,864	5,590
EBITDA	9,640	12,203	13,089	13,519
Depreciation	8,235	8,342	8,393	8,940
EBIT	1,405	3,861	4,696	4,579
As a % of Leasing Revenue				
Gross Margin %	49%	48%	46%	43%
EBITDA %	37%	35%	33%	30%
Dep as a % of revenue	31%	24%	21%	20%
EBIT%	5%	11%	12%	10%

Potential Scenario

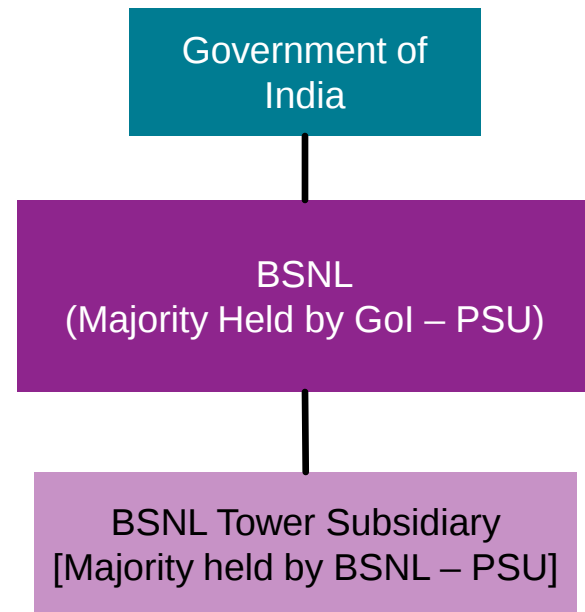
Profit and loss account				
Particulars (INR million)	FY13	FY18	FY21	FY24
Leasing revenue	24,401	37,758	43,253	49,371
Power and fuel revenue	13,699	19,787	22,937	26,517
Revenue	38,099	57,545	66,190	75,888
Direct costs				
Site Rentals				
BSNL	1,558	1,730	1,889	2,063
Non-BSNL	2,233	3,054	3,631	4,290
Rental for co-located assets	1,043	1,529	1,520	1,570
Power and fuel cost	13,699	19,787	22,937	26,517
O & M Cost	1,533	2,252	2,759	3,369
Security Guard charges	2,494	3,651	4,466	5,447
Maintenance Expenses	2,091	2,657	2,983	3,340
Total Direct Costs	24,651	34,660	40,186	46,597
Gross Margins	13,449	22,885	26,005	29,291
Other administrative cost	976	1,510	1,730	1,975
Employee cost	854	1,090	1,262	1,461
Provision for bad debts	1,143	1,726	1,986	2,277
Total indirect cost	2,973	4,327	4,978	5,712
EBITDA	10,476	18,558	21,027	23,579
Depreciation	8,235	8,943	8,916	9,115
EBIT	2,241	9,615	12,111	14,464
As a % of Tenancy Revenue				
Gross Margin %	55%	61%	60%	59%
EBITDA %	43%	49%	49%	48%
Dep as a % of revenue	34%	24%	21%	18%
EBIT%	9%	25%	28%	29%

Subsidiarisation Structure

It is proposed that all tower business related assets, liabilities and operations be transferred to a subsidiary owned by BSNL



Current Structure



Proposed Structure

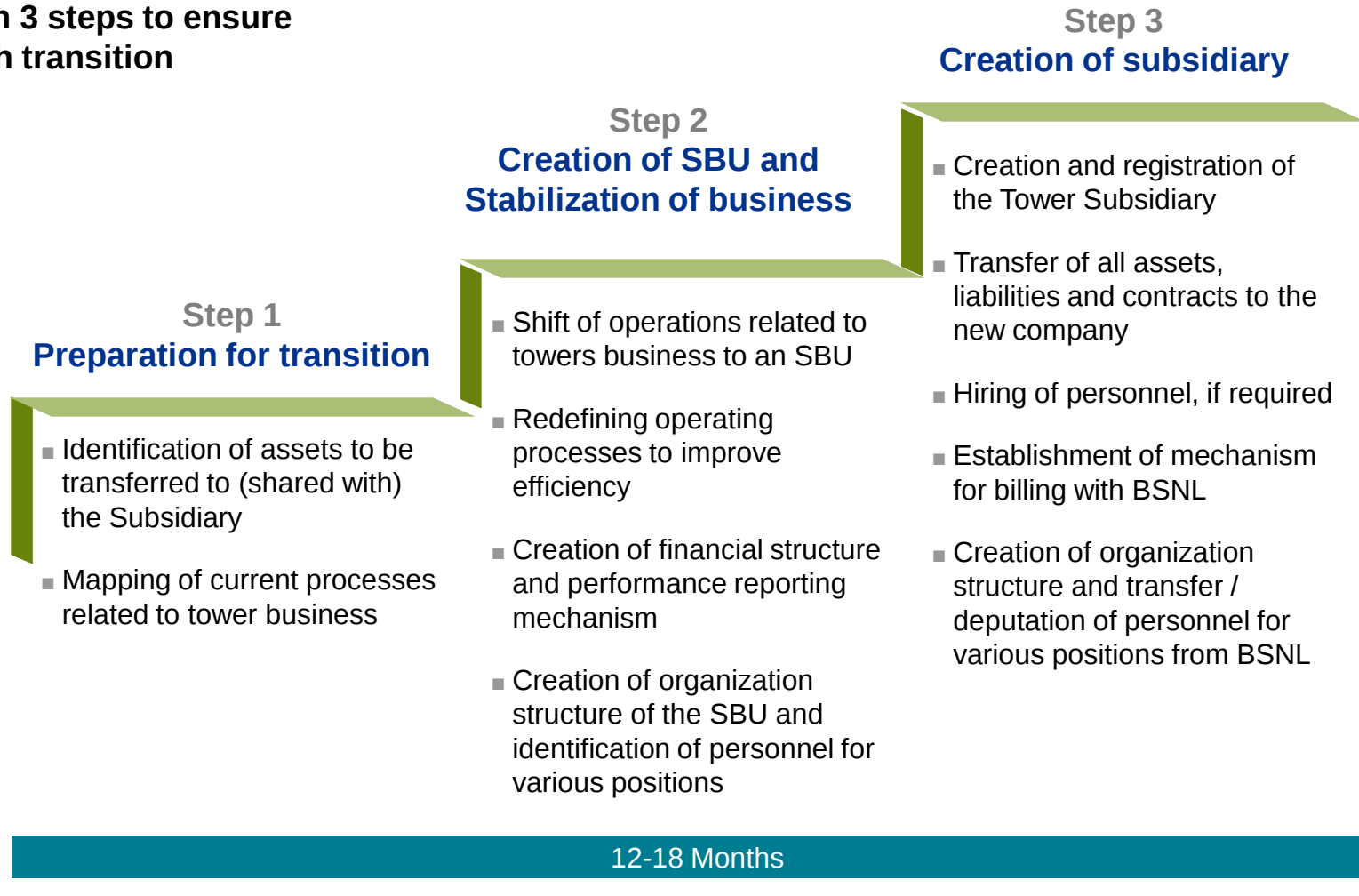
Because BSNL (a PSU) will hold majority stake in the subsidiary, the subsidiary will also be a PSU, and will follow all rules and guidelines applicable for PSUs

Advantages of proposed structure

Current Structure	Proposed Structure	Advantages
Performance and financials of tower business are merged with BSNL	Separate financials and performance metrics for tower business	Visibility of tower business performance to drive focus
Tower business depends on BSNL for expansion funding	Tower business to arrange funds independently to fuel its growth	1. Growth of tower business will not be affected by shortage of funds in BSNL 2. Tower business expansion will not burden BSNL's cashflows
BSNL pays an unnecessary license fee of ~8% on the external revenues of towers business as well	No license fee to be paid by the Tower Subsidiary	BSNL saves the unnecessary outgo of license fee on the external revenues of towers business

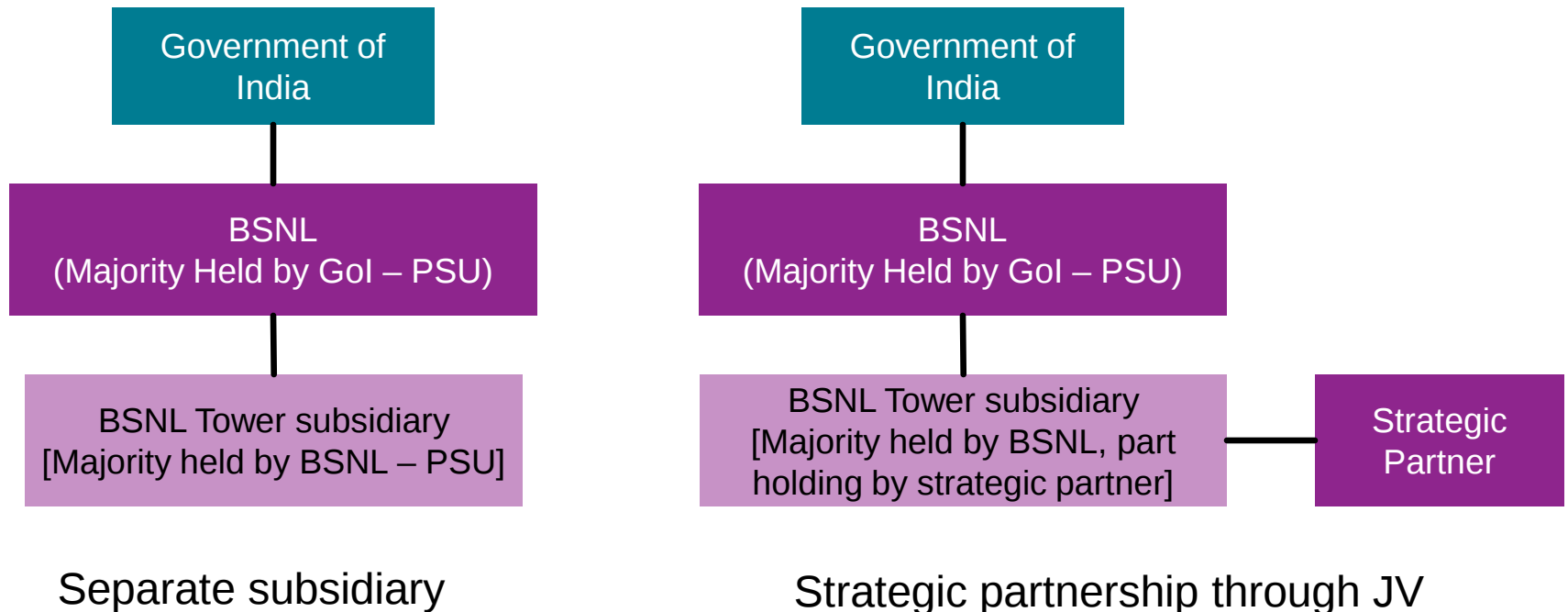
Subsidiarisation Process

The subsidiarisation will be done in 3 steps to ensure smooth transition



Induction of strategic partner into the subsidiary

Post subsidiarisation, BSNL will have the option of inducing a strategic partner to the towers business in order to raise funds, fuel business growth and to improve performance



Because BSNL (a PSU) will hold majority stake in the JV, the business will be governed by rules and guidelines applicable for PSUs

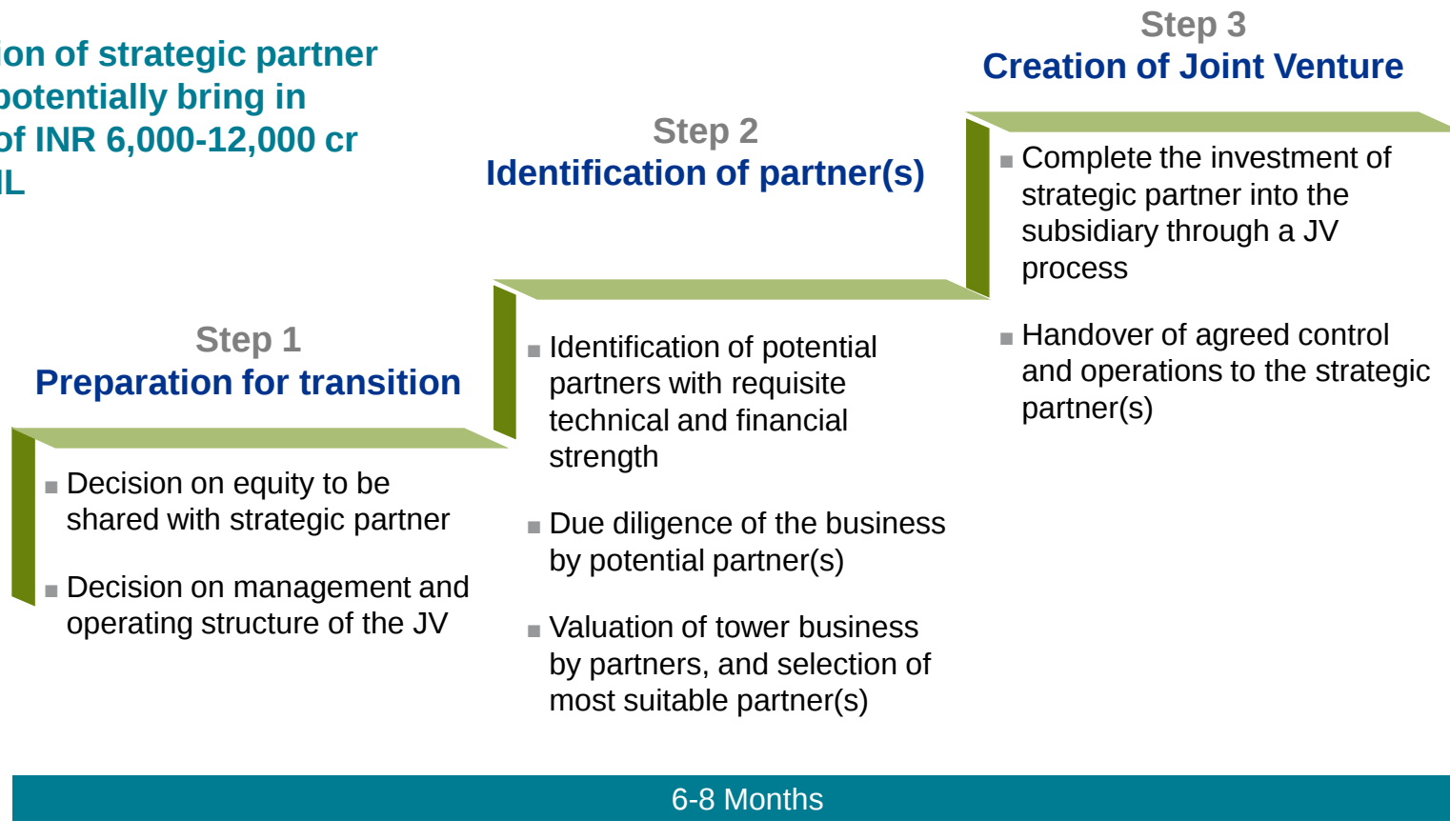
Advantages of strategic partner

Subsidiary	Joint Venture	Advantages
Operations controlled by BSNL	Management of operations with the strategic partner	Partner brings innovative and efficient processes to improve operations
Better profitability for BSNL with business focus and improved operations	Strategic partner invests in the tower business	Further funds brought into BSNL books

Process for induction of strategic partner

The induction will be done in 3 steps to ensure smooth transition

Induction of strategic partner could potentially bring in funds of INR 6,000-12,000 cr to BSNL



Impact of restructuring on employees

- No down-sizing of BSNL employees
- No change in salary structure for employees
- For employees transferred / deputed to Tower JV, same PSU guidelines for salary and retirements will be applicable
- More employees may be hired to handle specific functions in the Tower JV

Thank You