Project Unnati

Opportunities for growth and operational improvement

Towers Business, BSNL

March 2014

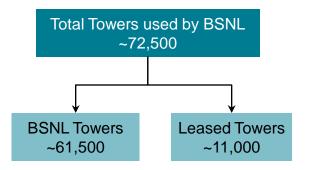
Agenda

- 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

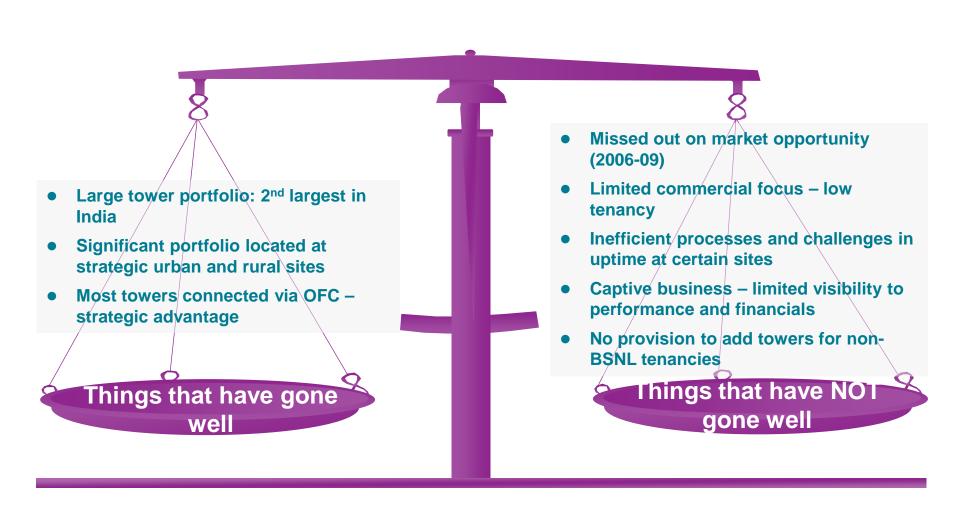
BSNL Towers Business

- 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





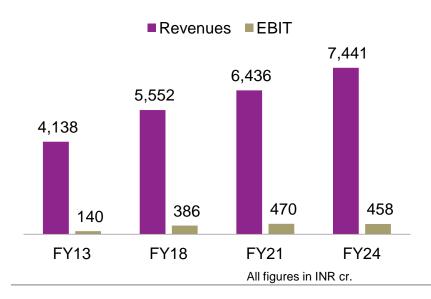
BSNL Tower Business – Current State



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

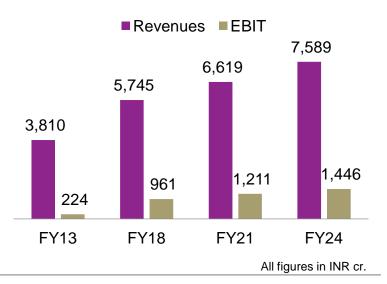
Current Scenario

- 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



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



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

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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	29,88
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

8,235

1,405

49%

37%

31%

5%

8,342

3,861

48%

35%

24%

11%

8,393

4,696

46%

33%

21%

12%

8,940

4,579

43%

30%

20%

10%

Depreciation

EBITDA %

EBIT%

Gross Margin %

Dep as a % of revenue

As a % of Leasing Revenue

EBIT

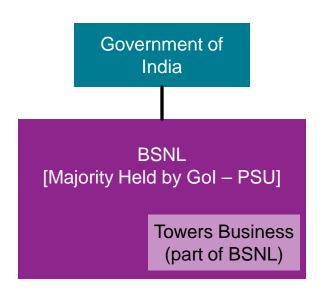
Current Scenario

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Profit and lo	ss account				
Particulars (INR million)	FY13	FY18	FY21	FY24
Leasing rever	nue	24,401	37,758	43,253	49,371
Power and fu	el 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 fu	el cost	13,699	19,787	22,937	26,517
O & M Cost		1,533	2,252	2,759	3,369
Security Gua	rd 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 Margi	ns	13,449	22,885	26,005	29,291
Other adminis		976	1,510	1,730	
Employee co		854	1,090	1,262	
Provision for		1,143	1,726	1,986	
Total indirec	t cost	2,973	4,327	4,978	5,712
EBITDA		10,476	18,558	21,027	23,579
LBITDA		10,470	10,550	21,021	23,313
Depreciation		8,235	8,943	8,916	9,115
EBIT		2,241	9,615	12,111	14,464
As a % of Te	nancy Revenue	,	,	•	,
Gross Margin	· %	55%	61%	60%	59%
EBITDA %		43%	49%	49%	48%
Dep as a % o	f revenue	34%	24%	21%	18%
EBIT%		9%	25%	28%	29%

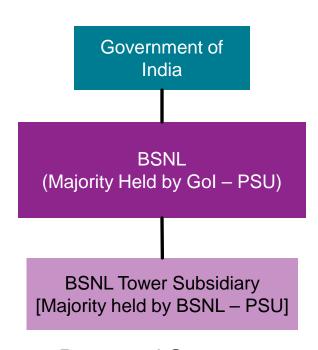
Potential Scenario

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	 Growth of tower business will not be affected by shortage of funds in BSNL 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

Step 1 Preparation for transition

- Identification of assets to be transferred to (shared with) the Subsidiary
- Mapping of current processes related to tower business

Step 2 Creation of SBU and Stabilization of business

- Shift of operations related to towers business to an SBU
- Redefining operating processes to improve efficiency
- Creation of financial structure and performance reporting mechanism
- Creation of organization structure of the SBU and identification of personnel for various positions

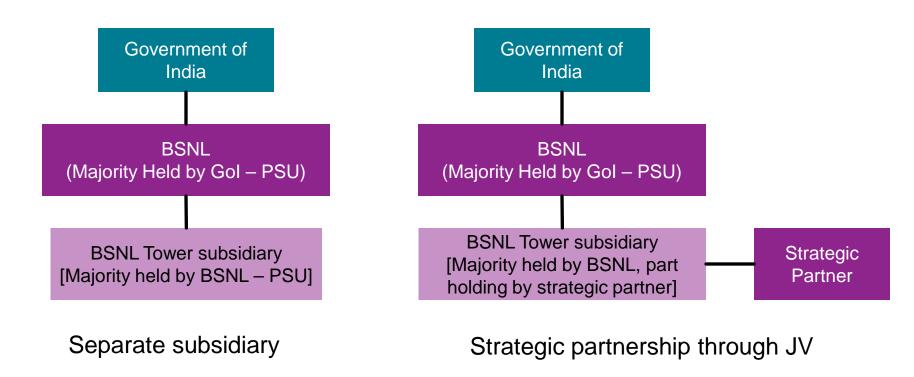
Step 3 Creation of subsidiary

- Creation and registration of the Tower Subsidiary
- Transfer of all assets, liabilities and contracts to the new company
- Hiring of personnel, if required
- Establishment of mechanism for billing with BSNL
- Creation of organization structure and transfer / deputation of personnel for various positions from BSNL

12-18 Months

Induction of strategic partner into the subsidiary

Post subsidiarisation, BSNL will have the option of inducting 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

Step 1 Preparation for transition

- Decision on equity to be shared with strategic partner
- Decision on management and operating structure of the JV

Step 2 Identification of partner(s)

- Identification of potential partners with requisite technical and financial strength
- Due diligence of the business by potential partner(s)
- Valuation of tower business by partners, and selection of most suitable partner(s)

Step 3 Creation of Joint Venture

- Complete the investment of strategic partner into the subsidiary through a JV process
- Handover of agreed control and operations to the strategic partner(s)

6-8 Months

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