PRESS RELEASE
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Outlook for telecom tower industry revised to Stable from Negative with improvement in receivables: ICRA

- Timely payments from key customers, along with clearance of past overdues have eased the receivables cycle of the telecom tower companies
- Debtor days projected to remain between 45-60 days, going forward
- Invigorated capex plans of some of the customers along with continued 5G deployment to result in additional tenancies for the tower companies

ICRA has revised the outlook on the telecom tower industry to Stable from Negative, following healthy collections from customers along with receipt of overdue payments. The industry was earlier facing headwinds owing to elongated receivables, on account of delays in payments by some of the telecom service providers. However, the situation has improved materially with consistent timely payments to the tower companies resulting in reduction of receivable days to around 45-60 days, lower than the ICRA's negative outlook threshold of 80 days. This coupled with recovery of the past overdues has enhanced the liquidity profile of the telecom tower industry and moderated the reliance on external debt, which is likely to translate into improvement in the return metrics of the industry.

According to **Ankit Jain, Vice President and Sector Head, Corporate Ratings, ICRA Ltd:** *"Improvement in the credit profile of some key telecom service providers, who are the customers for tower companies, has eased the working capital cycle of tower companies. Moreover, there has been clearance of sizeable amount of past overdues, which has resulted in reversal of provisions made earlier in FY2023. This has augmented the cash flows and liquidity position of the industry as a whole. The collections are expected to remain timely, going forward, thereby restricting the industry debtor levels below 60 days. This will also result in reduction in external debt, with ICRA projecting net external debt/OPBDITA at around 3.4x for FY2026."*

With improvement in the credit quality of some of the customers and fund raise exercise concluded by a few of them, these customers are expected to re-initiate their capex plans. The demand for telecom services, especially data, is witnessing very strong growth in India, translating into consistent network expansion and upgradation by the telcos. This is keeping the demand for tower companies buoyant resulting in consistent addition in the tenancies. The tower companies over the last 2-3 years have expanded largely on single tenancy basis translating into moderation in the tenancy ratio for the industry. However, the invigorated capex plans of these customers is likely to add sizeable tenancies for the tower companies and is expected to arrest the decline in tenancy ratio to 1.35-1.40x for the industry.

ICRA expects the tower industry to report an operating income growth of 4-6% with operating margins (adjusting for energy revenues) at around 70-75% for FY2026. These along with easing of the working capital requirements is likely to boost the liquidity position with the cash balances of the industry increasing to around Rs. 5,500-6,000 crore, from Rs. 2,200-3,000 crore levels in the past.

Jain concludes: *"Technology upgrade to 5G and revived capex plans of some of the customers bring with itself a favourable demand outlook for the tower companies and their capex intensity is likely to remain elevated. ICRA expects annual capex to be in the range of Rs. 10,000-11,000 crore for the industry in FY2026. With expectations of increasing tenancies on existing towers, the return metrics of the tower industry are expected to recover with return on capital employed likely to improve to around 13-15% levels, from 6-7% in FY2023."*

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