

RATING METHODOLOGY - TELECOM TOWERS

July 2023



[Click to Provide Feedback](#)

Table of Contents:

Overview	1
Industry Risk Assessment	3
Financial Risk Assessment.....	6
Other Elements of Credit Risk Assessment.....	9
Management Quality & Corporate Governance Assessment.....	10
Assessment of Environmental, Social and Governance (ESG) Risks	11
Summing Up	12
ANNEXURE.....	13

ANALYST CONTACTS

Sabyasachi Majumdar

Senior Vice President & Group Head
+91-124-4545 304
sabyasachi@icraindia.com

Prashant Vasisht

Senior Vice President & Co-Group-Head
+91-124-4545 322
prashant.vasisht@icraindia.com

Ankit Jain

Vice President & Sector Head
+91-145-4545 865
ankit.jain@icraindia.com

This rating methodology updates and supersedes ICRA's earlier methodology document on this subject, published in July 2021. While this revised version incorporates a few modifications, ICRA's overall approach towards rating telecom tower infrastructure providers remains materially similar. Also, a section has been added to provide a broad perspective on how environmental, social and governance (ESG) risks are incorporated by ICRA in its credit assessments.

Overview

Entities in telecom tower infrastructure industry include players that build and operate telecom towers, which are leased to the telecom service providers (telcos), usually on long-term contracts called master service agreements (MSA). Typically, with the addition of more tenants on a tower, the tower company (towerco) draws operating leverage benefits, boosting profitability. Thus, the business potential of the tower industry remains linked to the growth of the telecom services industry as the demand for towers is a function of the network rollout plans of telcos.

Over the past few years, the end consumer industry - telecom services industry - has been witnessing several headwinds. Intensified competition in the industry has challenged the positions of erstwhile market leaders and forced the weaker telcos to exit, driving consolidation. This resulted in significant tenancy losses for the towercos. Despite losses, the Indian telecom tower industry is one of the largest in the world with around 6,00,000 towers and around 8,20,000 tenancies as on March 31, 2023.

This rating methodology explains ICRA's approach to assessing the business and financial risk profiles of telecom tower infrastructure providers. It aims to help issuers, investors and other interested market participants understand ICRA's approach to analysing the quantitative and qualitative risks that are likely to affect rating outcomes in this sector. The list of rating drivers covered in this methodology is not exhaustive by itself but provides an overall perspective on the rating considerations that are usually considered the most important. For analytical convenience, the key factors are grouped under the following broad heads— Industry Risk Assessment, Business Risk Assessment, Financial Risk Assessment, Strength of Promoters, Event Risk, and Management Quality & Corporate Governance Assessment.

Industry Risk Assessment

- Demand Drivers
- Competition
- Regulatory/ Approval Risk

Business Risk Assessment

- Scale
- Competitive Position
- Geographical Diversification
- Customer Profile
- Strength of MSAs

Financial Risk Assessment

- Profitability Metrics
- Leverage and Coverage indicators
- Cash Flows and Liquidity Profile
- Capital Expenditure and Investment Plans
- Tenure Mismatches and Risks Relating to Interest Rates and Refinancing
- Foreign Currency Risk

Other Elements of Credit Risk Assessment

- Parentage/ Group Support
- Financial Flexibility
- Debt Servicing Track Record
- Contingent Liabilities and Off-balance Sheet Exposures
- Event Risk

Management Quality**Assessment of Environmental, Social and Governance (ESG) Risks**

- Environmental (E) and Social (S) Risks
- Governance Practices

Industry Risk Assessment

Demand Drivers

The growth in the telecom tower industry is directly linked to the network rollout plans of the telecom service providers. Over the past few years, stress and consolidation in the telecom services sector manifested into sizeable tenancy losses leading to revenue loss and debtors' write-offs for the tower industry. With the stabilisation of telecom services industry structure, while further tenancy losses have been curtailed, the weak credit profile of some of the telecom service providers continues to weigh on the potential of the tenancy growth for tower companies, apart from elongating their receivable cycle.

The increasing data demand over the medium to long term points to the need for more active network expansion by the telecom industry and thus additional tenancies for the tower industry. However, the telcos are looking at more innovative solutions, like small cells and loadings, instead of outright new tenancies, limiting the revenue growth of the industry.

While evaluating the credit profile of the tower industry, ICRA borrows from its assessment of the telecom services industry. The financial profile and capex plans of telcos indicate the potential for growth in the demand for telecom towers.

Competition

Typically, any tower company has a degree of immunity from competition for the already built towers, as a limited number of tenants makes it uneconomical for other towercos to set up new towers in the vicinity at various locations. Nevertheless, competition among the tower companies remains intense, especially for the incremental business growth, given that the number of telcos has reduced. Intense competition can lead to pressure on rentals and lower incremental growth for the towerco. With consolidation in the telecom tower industry, the competitive intensity has moderated to some extent, however, with only four end customers available for the industry, generally competitive pressures will continue to play their part.

Regulatory/ Approval Risk

Though regulatory oversight of the operations of a tower company is not excessive, the industry faces significant permission/right-of-way risks for setting up towers. Given the concerns on the potential harm caused by the radiations emitted from the equipment on a telecom tower, there are strict guidelines by the regulatory authorities for setting up a tower. The approval process can be time-consuming and the risk of not getting permissions remains high, impacting the growth plans of a tower company.

Business Risk Assessment

The main factors that determine a towerco's business position are its scale and market position, operating parameters like tenancy ratio and average revenue per tower, customer profile, geographic diversification and strength of MSAs.

Scale

Typically, each tower is an individual revenue and cost head. Hence, the profitability of a towerco is more dependent on the average tenancies than on the number of towers, making the industry profitability largely agnostic to scale. Nevertheless, a towerco's scale of operations, as reflected in its tower portfolio base and its presence across telecom circles determines its market position and ability to cope with competition. A towerco with a larger tower portfolio can be preferred by the telcos on account of the following factors:

- Large tower companies offer wider coverage, which helps the telcos avoid dealing with multiple tower companies and makes the network rollout easier; this reduces the administrative costs
- Telcos can benefit from volume discounts that come with entering into contracts for a larger number of towers

- Each incremental tenancy on a given tower lowers the rental for all the tenants while increasing the overall revenue and profitability for a tower company; the larger tower companies could have higher average tenancies, enabling higher cost amortisation and becoming more attractive for telcos

Competitive Position

The competitive position of a tower company is measured by its key operating parameters like average tenancy ratio and average revenue per tower per month (ARPT). As the telecom tower industry is highly capital intensive, the tenancy ratio (average number of tenants per tower) has a strong bearing on the profitability and return potential, as it adds to the revenues at a relatively lower incremental cost. Since incremental tenancies result in lowering of rental for all the telcos at a predetermined rate, more tenancies are preferred by telcos too. However, with consolidation and consequent reduction in the number of telecom service providers, the overall industry tenancy ratio has come down.

Apart from the tenancy ratio, the nature of tenancies impacts the revenues and profitability of a towerco. Incremental tenancies could be in the form a full tenant that takes up the space for antenna, electronic equipment and other active infrastructure; or it may be an add-on/loading tenancy, wherein an existing tenant takes up relatively lesser than full tenancy space to install equipment such as base transceiver station for new technology. This results in the addition of relatively lower revenue than a full tenancy. Thus, the impact of add-on/loading tenancies is better estimated through ARPT.

While how a towerco defines a tenancy (full vs add-on) may vary, which can alter the tenancy ratio and ARPT across towercos, each towerco would overall look to increase its ARPT which becomes a key measure of the return potential. For instance, increasing tenancies on a single tower site may result in a decline in average revenue per tenant, however, it should lead to improved ARPT. Moreover, a weak demand scenario and/or financial stress in the telecom service industry can see MSAs get renegotiated. Trend in these metrics are important determinants of the credit profile of a towerco.

Geographical Diversification

Dealing with a towerco that has a large tower portfolio that is geographically well-diversified, provides benefits to telcos in terms of enabling them to in turn achieve a wider geographical reach. In addition to supporting business growth, geographical diversification of a towerco overlaps with asset diversification and thus also supports risk mitigation while making the overall operations less fragile and more resilient to localised business disruptions. Thus, a towerco with a geographically well spread out network is viewed favourably from a credit perspective.

Customer Profile

The customer mix of a towerco is an important rating driver. Since the telecom industry has been largely consolidated, the customer base of towercos has reduced. In such a case, the business dependence of a towerco on a given telco could be high, implying significant impact on its profitability and liquidity in the event of loss of business from the telco. Nevertheless, given that towers are critical to the smooth functioning of a telco, and it could be challenging to shift tower sites in a short period of time without disrupting service quality, the tower industry enjoys high customer stickiness. Overall, the credit profile of tower companies draws from the strength of its tenants as it influences not only the future growth potential of the tower company, but also has a bearing on the timeliness of lease rental receipts.

Strength of MSA

ICRA endeavours to review the key terms of MSAs entered into by a towerco with its major tenants to assess aspects including the lock-in period, renewal terms, escalation clause, and penalties payable on premature termination. All these are critical to assess the certainty of revenues, the likely impact in case of volatility in tenancies, recourse available to a towerco in case of exits by tenants, etc. The average residual life of leases on the tower portfolio provides a measure of the revenue visibility. Further, towercos having MSAs with strong compensation clauses in the event of termination are viewed favourably as such clauses incentivise greater stickiness as well as bring about adequate termination compensation.

While assessing this parameter, ICRA evaluates the average balance lock-in period available in the MSAs.

Summary of the Salient Business Risk Factors

	Strongest		Weakest
Scale	The entity has large scale of operations with more than 80,000 towers	➔	The entity is a small player in the industry with less than 7,500 towers
Operational Parameters	A high tenancy ratio (more than 1.8x) indicates efficient utilisation of tower assets along with favorable location of the same. Additionally, an average revenue per tower > Rs. 75,000 reflect superior pricing power	➔	A low tenancy ratio (less than 1.4x) indicates sub-optimal utilisation of the tower assets and in turn result in lower profitability. Moreover, average revenue per tower < Rs. 50,000 would reflect weak business position
Customer Profile	Majority of the revenues are derived from customers with healthy credit profile	➔	Majority of the revenues are derived from customers with weak credit profile
Geographic diversification	Presence in greater number of circles (more than 16) imparts geographical diversification and presents greater growth aspects for a tower company	➔	A regional tower company, with presence in less than 6 circles, will have limited bargaining power and growth prospects
Strength of MSAs	Apart from looking at other terms of MSAs, an average lock-in period of more than 6 years provide higher revenue visibility	➔	Shorter lock-in period of less than 3 years might expose the tower company to renewal risks and thus impact revenue visibility

Financial Risk Assessment

While assessing the financial risk profile of a telecom tower infrastructure provider, ICRA evaluates its profitability and cash flow-generating ability, balance sheet strength and the sources of financial flexibility, all in relation to various committed and contingent obligations. ICRA analyses past financial performance trends as well as estimates future financial performance to assess the financial risk exposure of an entity. The financial metrics provide a useful reference not only to evaluate the performance trends of an entity over a given time horizon, but also enable a comparison with its peers. This document provides a summary of some critical ratios that ICRA considers important in its assessment. For a more detailed description, readers may refer to the note titled Approach for Financial Ratio Analysis published on ICRA's website. Some of the key metrics analysed are discussed below. To factor the uncertainty around how the various credit drivers could evolve in the future, ICRA also carries out sensitivity analysis to assess the impact of the key variables on the various financial metrics.

Profitability

A company's profitability levels remain key factors while evaluating its credit quality. Profitability metrics are a measure of an entity's efficiency and return on investments. It is imperative for most businesses to invest regularly in physical assets, product development, marketing, and human capital so as to sustain or improve their competitive position. Entities that have superior profitability are able to do so through internally-generated resources with low dependence on external financing. Moreover, such entities are able to generate sufficient surplus for not only meeting debt servicing obligations but also to reward equity investors. This in turn improves their ability to attract fresh capital for future business requirements. In addition, entities with higher profitability are more likely to generate adequate internal resources for re-investment and debt servicing.

Profitability can be influenced by multiple factors, including those that are company-specific, such as tenancy ratio, energy efficiency, cost structure, etc, or those that are related to the industry, economy, or regulations. From a rating perspective, both the level as well as the stability in profitability metrics matter.

The entities in the telecom tower industry undertake upfront capex and expect to earn a steady rental income on the assets and hence have a long payback period. Given such capital-intensive nature, a telecom tower entity benefits substantially from operating leverage. The increase in utilisation of tower assets through sharing brings more revenues to the entity at lower incremental costs and helps it register improvement in profitability. Consequently, the profitability of a tower company is directly linked to the growth in tenancies.

Energy costs: The largest cost head for a towerco, apart from site rentals¹, is the power and fuel expenditure incurred on running towers. The industry largely works on a model of recovery of these costs from the telco, over and above the tower rental. These energy expenses are a pass-through and are reimbursed on actual power consumption. However, it leads to reconciliation issues and thus creates receivables outstanding. ICRA looks at the tower entities' profitability, taking into consideration the net gain/loss on power and fuel reimbursements, while excluding the absolute values.

Other costs: Apart from this, employee and administrative expenses are the other major cost heads and indicators of the operating efficiency of the towerco. Receivable write-offs can depress the profitability of a towerco in case of stress in the telecom industry.

The high capital intensity in the telecom tower industry mandates high operating efficiencies for towercos to be able to maintain stable profitability.

The operating margins of the towercos range between 60%-80% (taking only the net energy margins in revenues and costs, as applicable), while the reported RoCE remains at around 15-20% (held back to some extent due to sizeable cash balances held by most towercos).

¹ As per IndAS116, site rentals are capitalised

Leverage and Coverage indicators

Leverage ratios measure the indebtedness of an entity. Entities that pursue an aggressive financial policy, including heavy reliance on debt financing, are likely to be more vulnerable to adverse changes in operating environment than entities who employ conservative financial leverage in their business. Besides protecting the cash flows of players by imposing a lower debt service burden, especially during periods of operating stress, lower leverage also imparts greater financial flexibility to raise incremental external capital (debt or equity) for re-investment in business or to tide over temporary funding shortfalls.

ICRA assesses the financial policies followed by the company to determine the risk appetite of the management and the impact of the same on the financial performance of the company. ICRA also notes that the extent to which an entity leverages its balance sheet is, in addition to business requirements, also a function of the philosophy of the management towards growth and funding mix.

The capital intensity of the tower industry is high as the entire capex is incurred upfront, while the revenues are generated over a period of time. Thus, typical of other infrastructure sectors, a significant portion of the capex in the tower industry is debt funded.

The extent of leveraging and, hence, financial flexibility, are reflected by leverage ratios like Total Outside Liabilities/Tangible Net Worth, Total Debt/OPBDIT and Net Cash Accruals (NCA)/Total Debt. Low leverage ratios reflect low reliance on debt funding, and better ability to raise funds from varied sources in times of need.

Apart from the capital structure, ICRA also pays attention to coverage indicators like Interest Coverage and Debt Service Coverage Ratio (DSCR) reflect the ability of the company to service its external borrowings after meeting its expenses. ICRA evaluates the coverage indicators of the company to determine how comfortably it can service its debt obligations through accruals from its business.

Assessment of Leverage

[Indicative Metrics²]

	Strongest		Weakest
Debt to Equity Ratio	<=0.9x	➔	>3.5x
Debt to Profit Ratio	<=1.0x		>3.8x

Assessment of Coverage

[Indicative Metrics]

	Strongest		Weakest
Interest Coverage	>=7.5x	➔	<2.5x
DSCR	>=4.5x		<1.8x

Cash Flows and Liquidity Profile

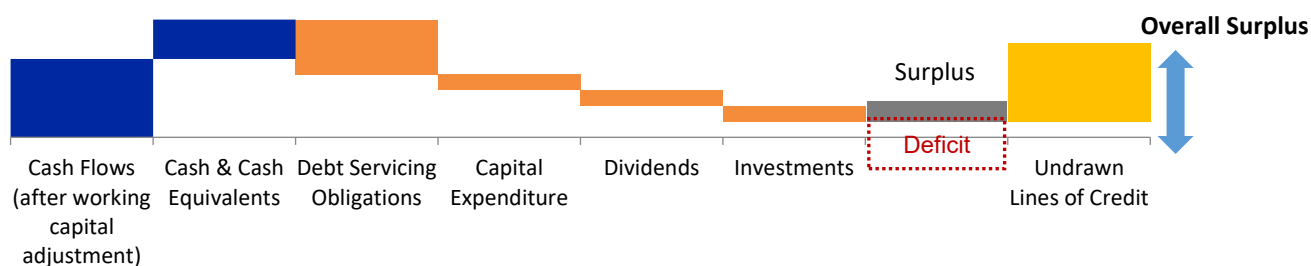
The rating exercise is primarily focused on assessing the future debt servicing capability of a company. Since it is cash that is required to service the debt obligations, it is imperative that a cash flow analysis is undertaken to evaluate the external funding

² The indicative financial metrics mentioned here and elsewhere in the document are intended to provide a broad overview to the readers regarding what ICRA generally considers as 'relatively strong' or 'relatively weak' metrics. It is, however, possible that an entity has relatively weaker metrics on one or more financial parameters, but its credit risk is assessed to be low because of other mitigating factors, including (but not limited to) stronger metrics on other financial parameters, a healthy business risk profile, strong financial flexibility or a strong promoter group that is willing to extend distress support to it.

requirements and likely financial position of the company, going forward. A cash flow statement represents the sources from which cash is generated, as well as its deployment. Analysed here are the trends in an entity’s funds flow from operations, cash consumed to fund the working capital, the retained cash flows after paying out dividends or carrying out share buybacks, and the free cash flows after meeting debt repayment obligations and capital expenditure needs.

ICRA also evaluates the liquidity profile of the company to assess its ability to meet short-term fund requirements from various internal and external sources. The existence of adequate buffers of liquid assets and bank lines are viewed as a credit positive, and the same is evaluated alongside the drawing power available with the company to assess its ability to meet temporary shortfalls in funding requirements. ICRA notes that an entity with strong liquidity can mitigate the impact of any short-term exigencies or events that might adversely impact cash flows in the interim. While evaluating the liquidity profile of a company, ICRA takes into consideration the unencumbered cash balances and liquid investments available to the company, unutilised bank/credit limits available, and its internal cash generation capability. ICRA evaluates the free cash flows of the company and its variability to determine its ability to meet cash obligations like debt repayments and investments from its own internal cash flows. Higher the cushion available between the resources available (especially internal resources) and the obligations, better is the liquidity profile of an entity. ICRA also notes that the liquidity available with an entity may be for a temporary period and, hence, its overall policy towards maintaining adequate liquidity (given the trade-off between returns and liquidity) is accorded due importance in the analytical approach.

Liquidity snapshot over any defined period



Capital Expenditure and Investment Plans

ICRA assesses the capex philosophy of a towerco. It may follow the anticipatory roll-out (i.e. tower roll-out in anticipation of potential demand) approach or may choose to roll out based on at least one confirmed tenant. The latter lowers the risk for a tower company as it provides assured minimum rental at the outset and improves asset utilisation. Thus, built-to-demand tower erection is considered favourably compared to anticipatory development of towers. The capex plans of a tower company for the next few years and the funding plan thereof are considered among other variables to estimate the future cash flows.

Typically, capex for a telecom tower operator can be classified into two segments – tower build capex and maintenance capex. Over the years, with reduction in number of telcos from more than 14 to 4 now, the steel structure has become leaner along with evolution of the structure over the years, which has brought the capex cost down from more than Rs. 20 lakh per tower on an average to around Rs. 12-15 lakh per tower. Apart from this, the towerco needs to incur maintenance capex on its towers which includes replacement of batteries, ACs, diesel gensets, sheds, etc.

Tenure Mismatches and Risks Relating to Interest Rates and Refinancing

Tenure mismatches, like funding of long-term investments through short-term borrowings, expose a company to refinancing risks. Such risks are especially significant in periods of tight liquidity. ICRA takes into consideration the adequacy of long-term funds in meeting the long-term funding requirements, measured by the current ratio, with a higher ratio signifying lower mismatch between tenure of assets and borrowings. While evaluating the adequacy of future cash flows, ICRA also takes into

account the impact of movement in interest rates on the cash flows of the company, and the extent to which the debt servicing ability of the tower operator would be impacted by the same.

Foreign Currency-Related Risk

The vulnerability of a tower operator to fluctuations in foreign currency rates is a function of its foreign currency borrowings. While majority of the towercos' debt is in Indian currency with minimal imports and revenue generation is also in local currency, there are a few towercos with foreign currency debt. Foreign currency risk for an entity could thus arise from unhedged net liabilities. ICRA's analytical focus is on assessing a company's hedging policy and the magnitude of such exposure relative to the entity's profits.

Consolidated Financial Analysis

Wherever towercos have some assets in other subsidiaries, it is necessary to analyse their consolidated and group level financial indicators. Various parameters such as capital structure, debt coverage indicators and future funding requirements are assessed at a consolidated level, which provides a better picture of the company's financial risk profile.

Other Elements of Credit Risk Assessment

Parentage/ Group Support

Apart from the financial strength of the towerco being rated, an assessment of the financial strength of the parent/sponsor/parent group (referred to as promoter hereafter) is also important. While earlier, the tower companies were owned by telecom service providers, the same has witnessed a steady shift towards independent tower companies with telcos monetising these assets. The Indian telecom tower industry is characterised by companies owned by foreign promoters and private equity funds, as well as domestic promoters.

A towerco's capacity to raise debt, in addition to its own financial soundness, is also dependent on the promoters' credit profile and on credit enhancements from sponsors in the form of guarantees. ICRA, therefore, assesses the ability and willingness of the promoters to support the towerco by assessing their financial strength and evaluating the importance of the towerco in the promoters' overall business plans.

If the promoters' credit profile is relatively stronger than the rated entity, ICRA assesses the ability and the likelihood of the promoter extending extraordinary support to the entity in the form of loans, equity, extended credit period and advances in times of credit or liquidity stress faced by the entity. If the promoter's credit profile is relatively weaker than the rated entity, the entity's rating may be lower than what its standalone credit profile assessment would have merited, given the possibility that the entity may at some point of time be bound to extend financial support to its weaker parent, possibly to the detriment of its own credit profile³.

Financial Flexibility

An entity's financial flexibility (or the lack thereof) is reflected in its ability to access capital or money markets at short notice and enjoy the confidence of banks, financial institutions, and intermediaries. A strong financial flexibility allows an entity to raise fresh borrowings or refinance existing ones in quick time, whenever required. Financial flexibility could arise from factors such as an entity's large scale of operations with strong financials, large, unencumbered cash flows, unencumbered assets and the flexibility to borrow against such assets, or strong parentage or linkages with a strong group.

³ For more details on this, readers may refer to the document titled, "Impact of Parent or Group Support on an entity's Credit rating", available on ICRA's website

In contrast, among the various measures of an entity's depleting financial flexibility, one relates to a high share of pledged promoter shareholding. A sign such as this may imply that the entity might be persuaded to distribute high dividends or support the promoter group through other means to the detriment of its own credit profile. If the promoters fail to repay their loans (availed by pledging of shares) or top up collateral when required, the lenders could sell the pledged shares. In some cases, this could trigger a change-of-control clause in the rated entity's bond indentures or loan documents and require it to redeem its debt ahead of schedule, creating a liquidity squeeze, besides affecting fresh capital-raising ability.

Debt Servicing Track Record

The debt servicing track record of the company forms an important rating consideration. Any history of past delays or defaults in meeting interest and principal repayment obligations reduces the comfort level with respect to the company's future debt servicing capability and willingness. Nevertheless, the reasons behind past defaults are also analysed, which could also be due to adverse industry scenario. The company's ability to honour its debt obligations during the period of operating stress is also factored in.

Contingent Liabilities and Off-balance Sheet Exposures

ICRA reviews the contingent liabilities and off-balance sheet exposures as disclosed by the entity in its Annual Report and evaluates the likelihood of their devolvement and the financial implications of the same.

Event Risk

ICRA recognises the possibility of events, such as unrelated diversification, mergers and acquisitions, business restructuring, asset sales and spin offs, capital restructuring; and litigations, which could have a material impact on the credit profile of a company. Incorporating the impact of such discrete events in the credit rating, from the beginning, is often difficult. Depending on whether and when such events occur, the rating opinion could be substantially different. To take rating decisions in such cases, ICRA applies its analytical judgment based on the rated entity's track record, the credibility of the management and the experience of having seen similar situations play out in other entities. However, given the nature of such events, it is possible that the rating may undergo a material change later, upon the occurrence of the event.

Management Quality

In addition to the business and financial risk analysis, all debt ratings incorporate an assessment of the quality of the entity's management and its financial policies. An experienced management are considered positive factors.

In addition, the likely cash flow impact on the rated entity, from the possible need to support other group entities are of importance, in case the rated entity is among the stronger entities within the group. Usually, a detailed discussion is held with the management of the rated entity to understand its business objectives, plans and strategies, and views on past performance, besides the outlook on the rated entity's industry.

Some of the points assessed are:

- Experience of the promoter/ management in the industry
- Commitment of the promoter/ management to the concerned line of business
- Risk appetite of the promoter/ management and risk mitigation plans
- The rated entity's plans regarding new projects, acquisitions, and investment in non-core business segments
- The rated entity's policies on leveraging, interest risk and currency risks

Periodic interactions with the management also help to estimate the possibility of the management's tendency to deviate from its core philosophy in times of stress.

Assessment of Environmental, Social and Governance (ESG) Risks

Environmental (E) and Social (S) Risks

As this methodology highlights, while undertaking credit assessment of entities, ICRA seeks to incorporate all relevant credit considerations into its rating decisions while taking a forward-looking view on the risks and the mitigants. The relevant credit considerations include (sometimes overtly, sometimes covertly) the E&S factors that could affect the rated entity/ transaction. While ICRA's analytical approach does not explicitly disaggregate these risks to assess their impact on the rating, these risks are often assessed broadly. Further, it is not always feasible to fully or precisely disaggregate the sub-components of E&S risks in credit analysis since these considerations often tend to overlap.

That said, the materiality of the E&S risks and the time horizon over which they are expected to crystallise differs widely across sectors and entities. In some cases, while the E&S risks could be material, their impact on the credit profile may be muted because of other fundamental strengths of the entity. In other cases, the adverse impact of the E&S risks is expected to play out in the distant future, and hence these considerations do not necessarily weigh on the rating today—with the expectation that when these risks manifest in the distant future, the rated entity by then would possibly adapt itself by realigning its business model.

While evaluating E&S risks, ICRA's objective is only to assess the direct and indirect risks that an entity faces and how it already is or is intending to mitigate the impact of such risks on its credit profile. As an example, ICRA only assesses whether an entity is exposed to physical climate risks, or carbon transition risks such as those arising from changes in regulations or other environmental and social risks; and seeks to understand the various mitigation and adaptation approaches that the entity is implementing to mollify these risks. Notwithstanding the above, as an example, it is possible that even if an entity A has a higher carbon footprint than entity B, it does not materially affect ICRA's credit opinion on entity A. This is because ICRA's credit opinion on an entity considers a wide gamut of credit-relevant factors, and the E&S factors are only one among those.

For towercos, power requirements remain high to enable a high uptime for the active telecom equipment mounted on the site. Tower sites use batteries and diesel generators along with grid power to meet power requirements. Sites which primarily rely on diesel generators have a higher cost of operations and result in significant CO² emissions. Nevertheless, with improvement in the availability of grid power, the towercos are reducing the use of diesel generators and also converting their sites into green sites by the use of solar/ other sources of renewable power, which, apart from a positive environmental impact, lowers the cost of operations. However, in case of possible tightening of emission norms from tower sites, the operating costs can witness an increase.

With respect to demographic and societal trends, tower companies remain exposed to changes in technology and potential obsolescence of the tower assets. However, since this risk would likely play out in the distant future, towercos would have a sufficiently long runway to implement adaptation strategies. Over the near to medium term, this risk is mitigated by the strong growth in data usage, which is driving the demand for towers. Moreover, the controversies related to mobile tower radiation and its impact on human health can lead to resistance in installing towers in residential areas. Overall, while the telecom sector is capital intensive and is exposed to frequent changes in technology, however, the services are now essential and operators need to maintain high service quality.

Governance Practices

A sound corporate governance structure attempts to make clear the distinction of power and responsibilities between the Board of Directors and the management. The constitution of an entity's Board and the Board's participation in strategy formulation, besides the entity's adherence to legal and statutory compliance requirements are factored in during credit assessments. ICRA seeks to gain a qualitative understanding of an entity's commitment to following transparent and credible practices by the way its financial statements are reported, level of disclosures, consistency in communication and openness in

sharing information during the credit rating exercise. Besides, the corporate group structure (whether simple or complex), the rated entity's related party transactions and instances of supporting group entities at the expense of debt holders are assessed.

Summing Up

ICRA's credit ratings are a symbolic representation of its opinion on the relative credit risk associated with the instrument being rated. This opinion is arrived at following a detailed evaluation of the entity's business and financial risks, its competitive strengths, its likely cash flows over the near-to-medium-term and the adequacy of such cash flows vis-à-vis its debt servicing obligations and other funding requirements. ICRA's approach to rating telecom tower infrastructure providers also incorporates the evaluation of various business risk parameters such as the company's scale and market position, geographical diversification, customer mix and strength of its MSAs. These factors apart, an evaluation is also made of the strategies that the tower company's management has for managing challenges in operating environment and of its overall approach to investment and growth.

ANNEXURE

Summary of rating factors and an example to illustrate the key building blocks of a credit rating

		Strong			Comfortable			Adequate			Moderate			Weak		
Industry Risk	Industry Position															
	Scale															
Business Risk	Competitive Position															
	Customer Profile															
	Geographical Diversification															
	MSA Average Lock-in															
Financial Risk	Profitability and Earnings Stability															
	Leverage															
	Coverage															
		Enhance						Support/ Neutral					Hinder			
Diversification																
Do these factors enhance or hinder the credit profile?	Refinancing Dependence, Liquidity and Financial Flexibility															
	Currency Risk															
	Financial Policy															
	Management, Governance & Reporting															
		Very High				High				Moderate				Low		
Parent Support	Likelihood of support															
	Rating of parent	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B/C category	
	Final Rating	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B/ C category	

The above graphic is only for illustration purpose and does not represent a rating output from a formulaic model. The ratings assigned by ICRA are determined by Rating Committees based on both quantitative and qualitative considerations.

Contact us for any feedback or comments at: methodologies@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

+91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in and www.icraresearch.in

ICRA Limited



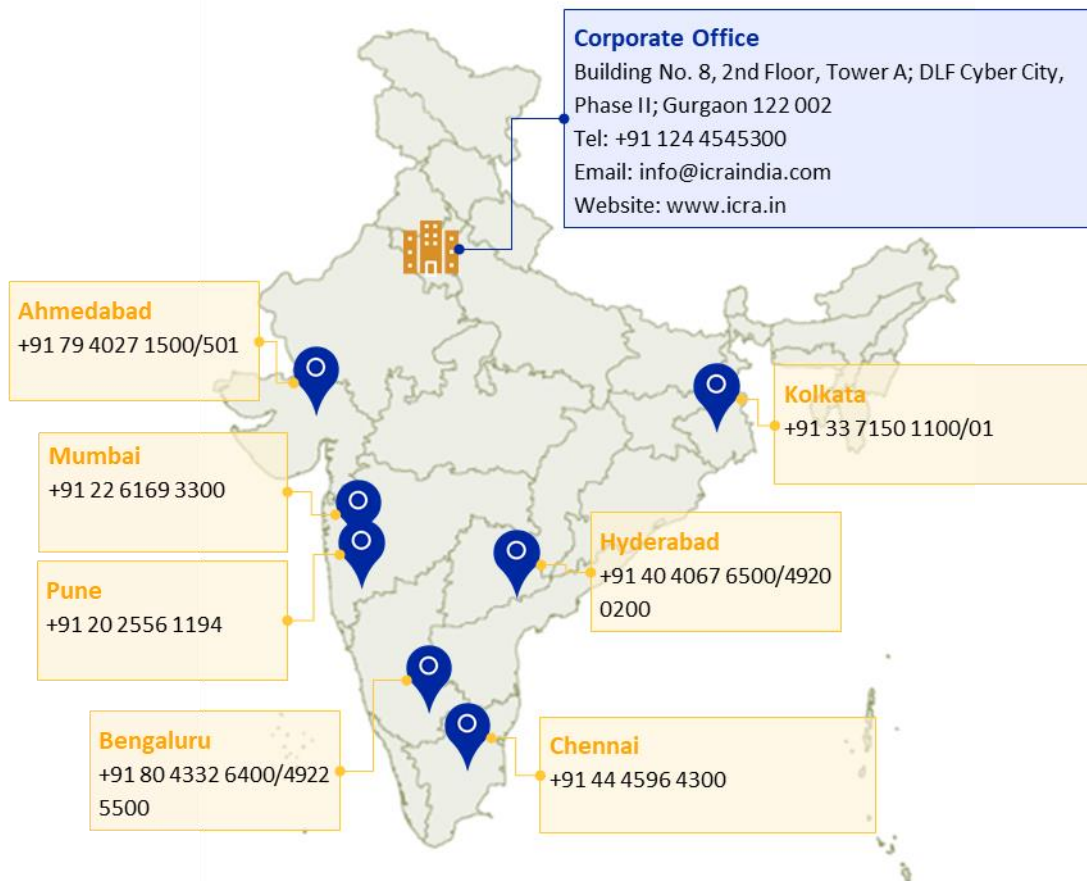
Registered Office

B-710, Statesman House 148, Barakhamba Road New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.