April 9, 2021 Revised

Indus Towers Limited: Ratings reaffirmed at [ICRA]AA+/A1+; outlook revised to Stable from Negative and ratings withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2,500.0	2,500.0	[ICRA]A1+; reaffirmed and withdrawn
Non-Convertible Debentures	2,500.0	2,500.0	[ICRA]AA+ (Stable); reaffirmed, outlook revised to Stable and withdrawn
Term Loans	4,000.0	4,000.0	[ICRA]AA+ (Stable); reaffirmed, outlook revised to Stable and withdrawn
Fund based/Non Fund based limits	3,550.0	3,550.0	[ICRA]AA+ (Stable); reaffirmed, outlook revised to Stable and withdrawn
Unallocated limits	3,950.0	3,950.0	[ICRA]AA+ (Stable)/A1+; reaffirmed, outlook revised to Stable and withdrawn
Total	**16,500**	**16,500**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA had considered the merged profile of Bharti Infratel Limited (BIL) and Indus Towers Limited (Indus) while assigning the ratings earlier. Further, following the completion of merger between the two entities, the limits from the erstwhile Indus have been transferred to BIL, the merged entity, which was later renamed as Indus Towers Limited (formerly Bharti Infratel Limited) or the company.

The revision in rating outlook to Stable factors in the anticipation of sustenance of the financial risk profile of the company through implementation of the security package for the receivables of one of the key tenants. The outlook revision also considers the receipt of a sizeable proportion of the outstanding dues from the same tenant. While the receivable position continues to be high, the security package implemented as part of the merger exercise should act as a barrier against further increase in the same.

The security package includes prepayment of Rs. 2,400 crore by VIL to the company towards its future obligations; a primary pledge over shares owned by Vodafone Plc in the company with a value of Rs. 4,000 crore as on agreement date; and a secondary pledge over shares owned by Vodafone Plc in the company with a maximum liability cap of Rs. 4,250 crore. This package protects the company against delays/non-payments of dues by VIL.

The rating reaffirmation takes into account the company's leadership position in the telecom tower industry (with a combined portfolio of 1,75,510 towers and 3,18,310 tenants as on December 31, 2020), its pan-India presence, its robust financial profile and strong operational metrics (average revenue per tower per month of more than Rs. 82,000 and average revenue per tenancy per month of Rs. 44,845 for Q3 FY2021, which is the highest in the industry). Notwithstanding the weakening tenancy levels owing to consolidation in the end-user industry, the operating margin of the company remains healthy. Moreover, it enjoys healthy leverage profile with low net debt levels (estimated net gearing of 0.73 times as on December 31, 2019, including lease liabilities in debt; 0.06 times excluding the same) with heathy coverage indicators as indicated by net debt/OPBDITA (including lease debt) of less than 1.1 times and interest coverage of 7.9 times for 9M FY2021, notwithstanding the sizeable dividend payouts as well as the buyout of VIL's stake. Moreover, the liquidity remains strong with steady cash flow from operations and healthy cash balances of more than Rs. 3,000 crore as on December 31, 2020, along with strong financial flexibility. The debt coverage metrics of the company are expected to remain strong in the medium term amid steady cash flow generation. Moreover, in the absence of any further exits, the committed revenue profile remains healthy with average balance lock-in period of more than four years as on December 31, 2020.

However, the ratings are constrained by pressure on tenancy ratio as the number of telecom service providers has now reduced to four from a much higher number earlier. Apart from the tenancy exits, stress on a few of the clients of the company has impacted it by way of elongation in payment cycle, as witnessed in the past (debtor days[1] increased to more than two months as on December 31, 2020 from around a month as on March 31, 2018). Moreover, consistent upstreaming of dividends to shareholders has exerted pressure on the company's cash flows. ICRA also takes note of the capital-intensive nature of the operations, necessitating constant investment in the tower network for maintenance and improvements at established sites. As on December 31, 2020, the promoters held a 69.85% equity stake in the company, of which 40.26% was pledged, which could weigh on the company's financial flexibility.

Overall, the risks emanate from the stress on the sole customer, telecom industry, although alleviating to some extent. At the same time, the business derives strength from the inherent high client stickiness, given the challenges in network reorganisation as well as the master service agreements (MSAs) with the telcos.

Key rating drivers and their description

Credit strengths

Market leadership position – The company has a pan-India presence with 1,75,510 towers as on December 31, 2020 with tenancy ratio of 1.81 times. The company is estimated to have a tower market share of 31% and tenancy market share of 42%, making it the market leader.

Robust financial risk profile – The business model of tower companies allows them stability of cash flows from the existing tenants, given the lock-ins and committed rentals, resulting in healthy cash flow generation. This has translated into a healthy financial profile for the merged entity, indicated by low debt levels, resulting in a strong capital structure marked by net gearing (adjusting for AS116 impact) of 0.06 times as on December 31, 2020 with heathy coverage indicators as indicated by net debt/OPBDITA of less than 0.1 times (excluding leases from debt) and interest coverage of 7.9 times for 9M FY2021. In case of no exits, the coverage indicators are expected to remain healthy going forward.

Exit penalties and lock-ins in MSAs provide revenue cushion – The MSAs signed between telcos and tower companies have lock-ins, which provide committed revenue visibility over the lock-in period. In case of no further exits, the average committed lock-in period for the company is more than four years, indicating healthy revenue visibility. Moreover, there are exit penalties that cover for some revenue loss on account of tenancy exits.

Inherent business strength and long-term growth potential – The business has inherent strengths of high client stickiness, given the challenges in network re-organisation as well as the terms of the MSAs with the telcos, which give revenue visibility and allow for exit penalties, annual rental escalation, steady upfront deposits and timely payments from tenants. Further, the tower industry remains critical for the telecom service provider industry. With the strong telcos expected to expand their network, especially for data services, a healthy demand for towers can be expected in the long run.

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[1] Debtors days calculation includes energy reimbursements in the revenues since debtors include receivables for energy charges also.

Credit challenges

Increase in receivables cycle and sizeable dividend outflow – The weakening of the credit profile of some of the customers resulted in elongation of the receivables cycle. This coupled with significant dividend outflows exerted pressure on the cash flow position of the merged entity. As part of the merger, a dividend of Rs. 4,800 crore was announced, which was paid out in February 2021. Going forward, dividend outflow is expected at around 90–95% of the profit generation and higher payout can impact the liquidity position.

Decline in tenancies – The consolidation in the telecom service provider industry resulting in the exit of some players, coupled with the merger of Vodafone and Idea, has resulted in a reduction in tenancies. The tenancy ratio for the company declined to 1.81 times as on December 31, 2020 from 2.25 times as on March 31, 2018, weakening the business profile to some extent. Nonetheless, the company continues to have the highest tenancy ratio in the industry and the financial profile continues to be strong.

Capital-intensive operations – The telecom tower industry is capital intensive in nature as the players need to incur sizeable capex for setting up towers. The tenancies, however, come at a later stage and there is a gestation period in recovering the investments. In addition, the merged entity needs to incur sizeable maintenance and replacement capex.

Liquidity position: Strong

On a merged basis, the cash position as on December 31, 2020 stood at around Rs. 3,100 crore, while the total debt stood at around Rs. 4,200 crore (excluding lease liabilities). The cash flow from operations remained healthy, notwithstanding the increased working capital intensity and are expected to be sufficient to meet the debt repayments and high capex requirements to the tune of Rs. 3,000–3,500 crore per annum. Overall, the liquidity position remains strong.

Rating sensitivities

Positive factors – Material improvement in the credit quality of the tenants, which along with consistent increase in revenue and operating margins, leading to sustained improvement in ROCE beyond 30% on a sustained basis.

Negative factors – Sizeable decline in tenancy levels leading to decline in revenues and operating margins; and higher than expected dividend payout resulting in reliance on external debt resulting in total debt/OPBDITA remaining higher than 2.0 times on a sustained basis

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Telecom Tower Infrastructure Providers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA had earlier considered the merged business and financial profile of the erstwhile Indus Towers Limited and the erstwhile Bharti Infratel Limited and now the merger is complete; further, the ratings are based on the consolidated financial profile of Indus Towers Limited (formerly Bharti Infratel Limited)

About the company

Indus Towers Limited (formerly Bharti Infratel Limited) was formed post the merger of Indus Towers Limited with Bharti Infratel Limited and subsequent change of name to present name. The company is a tower infrastructure company with pan India operations. As on December 31, 2020, the company had a tower portfolio of 175, 510 towers with tenancy ratio of 1.81 times. The erstwhile Indus Towers Limited was incorporated in November 2007 as a tower infrastructure company with operations in 15 telecom circles – Andhra Pradesh, Delhi, Gujarat, Kerala, Maharashtra, Rajasthan, Uttar Pradesh (East), Uttar Pradesh (West), Punjab, Haryana, Tamil Nadu, Karnataka, Kolkata, Mumbai, and West Bengal.

Key financial indicators (audited)

Indus Towers Limited (Consolidated) #	FY2019	FY2020*	9MFY21 Provisional
Operating Income (Rs. crore) ^	15,444	15,924	12,228
PAT (Rs. crore)	4,160	5,034	3,611
OPBDIT/OI (%)	64.9%	79.2%	79.2%
PAT/OI (%)	26.9%	31.6%	29.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.67	1.24	1.37
Total Debt/OPBDIT (times)	0.56	1.52	1.34
Interest Coverage (times)	15.29	7.92	7.88

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

^ - OI includes only infrastructure revenues along with energy margins, if any

 # - FY2019 and FY2020 – Adjusted merged financials

** - FY2020 onwards the impact of AS116 has resulted in changes in OPBDITA and Debt and thus the numbers are not comparable to previous financials*

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					April 9, 2021	Sep 9, 2020	Mar 23, 2020	Feb 22, 2019	May 7, 2018
2	Commercial Paper	Short-Term	2,500.0	NA	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	NCD	Long-Term	2,500.0	NA	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	Term Loans	Long-Term	4,000.0	NA	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	FB/NFB limits	Long-Term	3,550.0	NA	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
6	Unallocated limits	Long-Term /Short-Term	3,950.0	NA	[ICRA]AA+ (Stable)/ A1+; withdrawn	[ICRA]AA+ (Negative)/ A1+	[ICRA]AA+ (Negative)/ A1+	[ICRA]AA+ (Stable)/ A1+	[ICRA]AA+ (Stable)/ A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Commercial Paper*	NA	NA	NA	2,500	[ICRA]A1+; withdrawn
Not issued	Non Convertible Debenture	NA	NA	NA	2,500	[ICRA]AA+ (Stable); withdrawn
NA	Term Loans	NA	NA	NA	4,000	[ICRA]AA+ (Stable); withdrawn
NA	Fund based/ Non fund based limits	NA	NA	NA	3,550	[ICRA]AA+ (Stable); withdrawn
NA	Unallocated limits	NA	NA	NA	3,950	[ICRA]AA+ (Stable)/ [ICRA]A1+; withdrawn

** - Not placed*

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Smartx Services Limited	100%	Full Consolidation

Corrigendum

Document dated April 09, 2021 has been corrected for details as mentioned below:

1. Rating sensitivities on Page 3
2. Revised to correct the inadvertent typographical error earlier

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About ICRA Limited:

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