

May 10, 2021

## Indus Towers Limited (formerly Bharti Infratel Limited): Ratings reaffirmed at [ICRA]AA+ (Stable)/[ICRA]A1+; Issuer rating reaffirmed and placed on notice of withdrawal for one month

### Summary of rating action

| Instrument*                      | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action   |
|----------------------------------|-----------------------------------|----------------------------------|---|
| Issuer Rating                    | -                                 | -                                | [ICRA]AA+ (Stable); reaffirmed and placed on notice of withdrawal for one month |
| Commercial Paper                 | 6,000.0                           | 6,000.0                          | [ICRA]A1+; reaffirmed   |
| Non-Convertible Debentures       | 2,500.0                           | 2,500.0                          | [ICRA]AA+ (Stable); reaffirmed  |
| Term Loans                       | 5,000.0                           | 5,000.0                          | [ICRA]AA+ (Stable); reaffirmed  |
| Fund based/Non Fund based limits | 5,500.0                           | 5,500.0                          | [ICRA]AA+ (Stable); reaffirmed  |
| Unallocated limits               | 1,000.0                           | 1,000.0                          | [ICRA]AA+ (Stable)/A1+; reaffirmed  |
| <b>Total</b>                     | <b>20,000.0</b>                   | <b>20,000.0</b>                  |   |

\*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 rating action 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 and 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 1,79,225 towers and 3,22,438 tenants as on March 31, 2021), its pan-India presence, its robust financial profile and strong operational metrics (average revenue per tower per month of more than Rs. 77,800 and average revenue per tenancy per month of Rs. 42,477 for Q4 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 (net gearing of 1.21 times as on March 31, 2021, including lease liabilities in debt; 0.37 times excluding the same) with healthy coverage indicators as indicated by net debt/OPBDITA (including lease debt) of 1.5 times and interest coverage of 8.1 times for 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 around Rs. 2,300 crore as on March 31, 2021, 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 around four years.

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<sup>1</sup> increased to around two months as on March 31, 2021 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 March 31, 2021, 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 1,79,225 towers as on March 31, 2021 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 0.37 times as on March 31, 2021 with healthy coverage indicators as indicated by net debt/OPBDITA of 0.44 times (excluding leases from debt) and interest coverage of 8.1 times for 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.

### 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.

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<sup>1</sup> Debtors days calculation includes energy reimbursements in the revenues since debtors include receivables for energy charges also.

**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 March 31, 2021 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 March 31, 2021 stood at around Rs. 2,300 crore, while the total debt stood at around Rs. 8100 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 | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Telecom Tower Infrastructure Providers</a>   |
| 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 the present one. It is a tower infrastructure company with pan-India operations. As on March 31, 2021, the company had a tower portfolio of ~179,000 towers with tenancy ratio of 1.81 times.

### Key financial indicators (audited)

| <b>Indus Towers Limited (Consolidated) #</b>         | <b>FY2019</b> | <b>FY2020*</b> | <b>FY2021</b> |
|--|---------------|----------------|---------------|
| Operating Income (Rs. crore) ^                       | 15,444        | 15,924         | 16,369        |
| PAT (Rs. crore)                                      | 4,160         | 5,034          | 4,975         |
| OPBDIT/OI (%)  | 64.9%         | 79.2%          | 81.0%         |
| PAT/OI (%)   | 26.9%         | 31.6%          | 30.4%         |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.67          | 1.24           | 1.83          |
| Total Debt/OPBDIT (times)                            | 0.56          | 1.52           | 1.45          |
| Interest Coverage (times)                            | 15.29         | 7.92           | 8.1           |

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

FY2021 provisional financials based on pro-forma consolidated financials quoted in the Quarterly investor report

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 May 6, 2021 (Rs. crore) | Date & Rating in  | Date & Rating in                                  | Date & Rating in FY2021 | Date & Rating in FY2020 |                    | Date & Rating in FY2019 |                    |                    |
|   |                    |                         |                          |  | May 10, 2021  | April 9, 2021                                     | Sep 9, 2020             | Mar 23, 2020            | Jul 3, 2019        | Oct 22, 2018            | May 7, 2018        |                    |
| 1 | Issuer Rating      | Long-Term               | NA                       | NA   | [ICRA]AA+ (Stable) placed on notice of withdrawal for 1 month | [ICRA]AA+ (Stable)                                | [ICRA]AA+ (Negative)    | [ICRA]AA+ (Negative)    | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable)      | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 2 | Commercial Paper   | Short-Term              | 6,000.0                  | 1,600.0  | [ICRA]A1+   | [ICRA]A1+   | [ICRA]A1+               | [ICRA]A1+               | [ICRA]A1+          | -                       | -                  | -                  |
| 3 | NCD                | Long-Term               | 2,500.0                  | NA   | [ICRA]AA+ (Stable)  | [ICRA]AA+ (Stable)                                | -                       | -                       | -                  | -                       | -                  | -                  |
| 4 | Term Loans         | Long-Term               | 5,000.0                  | 2,874.5*   | [ICRA]AA+ (Stable)  | [ICRA]AA+ (Stable)                                | -                       | -                       | -                  | -                       | -                  | -                  |
| 5 | FB/NFB limits      | Long-Term               | 5,500.0                  | NA   | [ICRA]AA+ (Stable)  | [ICRA]AA+ (Stable)                                | -                       | -                       | -                  | -                       | -                  | -                  |
| 6 | Unallocated limits | Long-Term /Short-Term   | 1,000.0                  | NA   | [ICRA]AA+ (Stable)/ [ICRA]A1+                                 | [ICRA]AA+ (Stable)/ [ICRA]A1+                     | -                       | -                       | -                  | -                       | -                  | -                  |

\*as of February 28, 2021

## Complexity level of the rated instrument

| Instrument         | Complexity Indicator |
|--------------------|----------------------|
| Issuer Rating      | -                    |
| Commercial Paper   | Very Simple          |
| NCD                | Very Simple          |
| Term Loans         | Simple               |
| FB/NFB limits      | Simple               |
| Unallocated limits | Simple               |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**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           | Issuer Rating                     | NA                          | NA          | NA             | NA                       | [ICRA]AA+ (Stable) placed on notice of withdrawal for 1 month |
| INE121J14093 | Commercial Paper                  | 26-Apr-21                   | 3.54%       | 30-Jun-21      | 300                      | [ICRA]A1+   |
| INE121J14101 | Commercial Paper                  | 28-Apr-21                   | 3.55%       | 28-Jul-21      | 300                      | [ICRA]A1+   |
| INE121J14119 | Commercial Paper                  | 30-Apr-21                   | 3.55%       | 30-Jul-21      | 500                      | [ICRA]A1+   |
| INE121J14127 | Commercial Paper                  | 3-May-21                    | 3.49%       | 2-Aug-21       | 500                      | [ICRA]A1+   |
| NA           | Commercial Paper*                 | NA                          | NA          | 7-365 days     | 4400                     | [ICRA]A1+   |
| Not issued   | Non Convertible Debenture         | NA                          | NA          | NA             | 2500                     | [ICRA]AA+ (Stable)  |
| NA           | Term Loans                        | FY2020- FY2022              | NA          | FY2022- FY2025 | 5000                     | [ICRA]AA+ (Stable)  |
| NA           | Fund based/ Non fund based limits | NA                          | NA          | NA             | 5,500                    | [ICRA]AA+ (Stable)  |
| NA           | Unallocated limits                | NA                          | NA          | NA             | 1,000                    | [ICRA]AA+ (Stable)/ [ICRA]A1+                                 |

\* - Not placed **Source:** Company

**Annexure-2: List of entities considered for consolidated analysis**

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

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