

March 10, 2022

ATC Telecom Infrastructure Private Limited: Rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	596.0	596.0	[ICRA]AA- (Stable); reaffirmed; outlook revised to Stable from Negative
Total	596.0	596.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook factors in ATCTIPL's sustained strong liquidity position, despite the elongated receivables. Further, the end-user industry - telecom services - has benefited from the tailwinds in the recent past, aided by the relief package offered by the Government of India and the tariff hikes by the telecom operators. These are expected to improve the cash flow generation and provide liquidity breather to the telecom operators. This is likely to benefit the tower companies through improved receivables and healthy demand prospects in the form of increased tenancies for 4G network expansion and 5G rollouts.

The rating reaffirmation continues to factor in the established position of ATCTIPL in the telecom tower industry as a large independent tower infrastructure provider with a market share of around 13% as on September 30, 2021, its pan-India presence and a robust financial profile. Moreover, the liquidity position remains strong with a steady cash flow from operations, undrawn working capital limits, limited medium-term debt repayment commitments and sizeable cash balances. The rating derives comfort from the company's inherent business strength, given that it is a backbone for the telecom services industry. Further, the long-term business prospects draw support from rising data consumption and technology upgradation that would continue to drive demand for tower infrastructure. Moreover, the rollout by two of the operators is likely to gain pace post the developments in the last few months, which is likely to improve the prospects of the tower industry in general and ATCTIPL in particular.

While the tailwinds certainly help in improving the profile of the telecom operators, the receivables continue to remain elevated as a few operators have been stretching the payments. The tenancy dependence on relatively weak telcos remains high at around 46%, which along with a high number of single occupied towers can exert pressure on the tenancy ratio, which was around 1.51 times as on September 30, 2021.

ICRA also takes note of the capital-intensive nature of operations, necessitating constant investment in the tower network to expand the tower base, while the maintenance capex at the established sites remains relatively low. Overall, while there are risks due to the stress in the telecom industry (which is the sole customer), the tower business derives strength from the high client stickiness owing to the challenges in network reorganisation and the master service agreements (MSAs) with the telcos. Besides, the company's overall indebtedness remains high, considering the debt availed for the acquisition of tower assets of erstwhile Vodafone India Limited (Vodafone) and Idea Cellular Limited (Idea). ATCTIPL's total debt/OPBDITA stood at 3.30 times as on September 30, 2021 (1.97 times adjusting the debt for lease liabilities). Nevertheless, comfort is derived from the fact that the debt is entirely from the promoter Group and has a relatively long maturity profile with limited repayment obligations in the medium term. Moreover, while the liquidity remains strong, the utilisation of the available free cash for any large-sized investments/acquisitions poses an event risk.

Key rating drivers and their description

Credit strengths

Established position in Indian tower industry – ATCTIPL has an established market position as a large tower infrastructure provider in the country, with an approximate tower market share of 13% and tenancy market share of 15% as on September 30, 2021. It has a diversified pan-India presence and a sizeable tower portfolio of 75,673 towers and tenancy ratio of 1.51x as on September 30, 2021.

Healthy financial risk profile – The business model of the tower companies allows them stable cash flows from existing customers, given the lock-ins and committed rentals, resulting in healthy cash flow generation. This has translated into a healthy financial profile for the company, as indicated in its healthy profitability and cash flows. In case of no further exits, the average company's committed lock-in period indicates adequate revenue visibility, and its profitability is also expected to remain healthy. Moreover, there are exit penalties, which cover for revenue loss on account of tenancy exits.

Strong liquidity position – The liquidity profile remains strong due to the availability of sizeable free cash balances as on September 30, 2021 and unutilised fund-based limits, along with healthy cash flow generation.

Inherent business strength and long-term growth potential – The business has inherent strengths of high client stickiness, given the challenges in network reorganisation and the terms of the MSAs with the telcos. The MSAs give revenue visibility and allow for exit penalties, annual rental escalation, steady upfront deposits and ensure timely payments from customers. Further, the tower industry is critical for the telecom service providers. The strong telcos are expected to expand their network, especially for data services, ensuring a healthy demand for towers in the long run.

Financial flexibility due to parentage – ATCTIPL enjoys financial flexibility as the entire debt on the books of ATCTIPL is from its parent American Tower Corporation, which is a global telecom tower infrastructure service provider. This gives ATC a covenant light and long maturity debt profile and access to the banking system, if the need arises.

Credit challenges

Elevated receivable levels – Increased competition in the telecom industry impacted the financial position of the telcos. This, coupled with the Supreme Court order which mandated the telcos to pay sizeable AGR dues, exerted pressure on the credit profile of a key customer. This elongated the company's receivable cycle to around 60 days as on September 30, 2021 (including energy charges) from around 38 days as on March 31, 2019. Though the recent tailwinds are expected to improve the liquidity and cash flow of the telecom operators, the impact on the receivables of the tower companies will be a key monitorable.

Stagnant tower and tenancy levels in the past – The consolidation in the telecom service provider industry that resulted in the exit of some players, coupled with the merger of Vodafone and Idea, has contracted the tenancy levels. The tower base and tenancies largely remained stagnant in the past; however, the tenancy levels witnessed some traction in the current fiscal.

High leverage – Over the years, the company has repaid/prepaid its debt from healthy internal accruals. However, in FY2018, it raised debt to fund the acquisition of the tower assets of Vodafone and Idea. This increased the company's leverage. Nevertheless, comfort is drawn from the fact that the acquisition debt has been raised from the promoter Group and has a long maturity profile.

Liquidity position: Strong

ATCTIPL's liquidity is strong supported by sizeable free cash levels as on September 30, 2021 along with almost unutilised fund-based limits. The liquidity also gets a boost from healthy cash flow and limited debt repayment commitments in the near to medium term, despite the elongated receivable cycle.

Rating sensitivities

Positive factors – The rating can be upgraded in case of significant increase in tenancy levels and material improvement in the receivables position.

Negative factors – Sizeable decline in tenancy levels or/and elongation in receivables cycle; significant upstreaming of funds to the parent, or any acquisition, materially impacting the liquidity position, can result in rating revision.

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	The ratings are based on the standalone financial profile of the company

About the company

ATCTIPL was incorporated in March 2004 as Tata Tele Info Limited (a 100% subsidiary of TTSL). Over the years, the company has witnessed changes in shareholding and accordingly changes in its name. As on date, it is entirely held by ATC Asia Pacific Pte Limited. The company is an independent tower infrastructure provider with pan-Indian operations. The company's towers are well spread across circles with healthy presence in metro and category A circles. As on September 30, 2021, the company had a tower portfolio of 75,673 towers with a tenancy ratio of 1.51x.

Key financial indicators (audited)

ATCTIPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	5,562	5,323
PAT (Rs. crore)	474	449
OPBDIT/OI (%)	72.2%	74.7%
PAT/OI (%)	8.5%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.10	1.98
Total Debt/OPBDIT (times)	3.61	3.58
Interest Coverage (times)	3.09	3.16

- excluding pass through energy revenues

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

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 Dec 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Mar 10, 2022	Aug 27, 2021	Jan 15, 2021	Mar 27, 2020	Aug 30, 2019	May 07, 2018
1	Fund based limits	Long-term	596.0	NA	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Term Loans	Long-term	-	-	-	-	-	-	-	[ICRA]AA-(Stable)
3	Non fund based limits	Long-term	-	-	-	-	-	-	-	[ICRA]AA-(Stable)
4	Fund based limits	Short-term	-	-	-	-	-	-	[ICRA]A1+ (withdrawn)	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based 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

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	NA	596.0	[ICRA]AA-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

Sabyasachi Majumdar

+91 145 4545 304

sabyasachi@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Ankit Jain

+91 124 4545 865

ankit.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +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

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 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.