

March 21, 2022

## Tower Vision India Private Limited: Rating upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	890.00	665.70	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
<b>Total</b>	<b>890.00</b>	<b>665.70</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade factors in Tower Vision India Private Limited's (TVIPL) sustained its 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, which in turn is likely to support tower companies and may result in improvement in receivables. Further, demand prospects remain healthy in the form of increased 4G-macro tenancies and or loading for the purpose of 4G network expansion and expected 5G rollouts from all operators.

There has been consistent improvement in TVIPL's operating and financial profile driven by its profitability, liquidity position and steady improvement in tenancy levels. Further, debt refinancing has helped bring down TVIPL's total external debt (except long term lease liability) to Rs. 666 crore as on December 31, 2021 from Rs. 854 crore as on March 31, 2021. As a result debt metrics improved as reflected by net debt/OPBIDTA of 1.8 times in 9M FY2022 against 2.7 times in FY2021. This is expected to strengthen further and remain lower than 2 times going forward with steady growth in operating profit and reduced borrowings due to scheduled repayment.

The company's operating income (OI) reported a steady growth on the back of net tenancy addition and higher loading revenues. Further, its operating profit margins (OPM) has remained at around 83% in FY2021. A steady growth and improved collection has resulted in healthy cash flow from operations, which has improved TVIPL's overall liquidity profile.

The rating continues to derive comfort from the inherent business strength, given that telecom towers are the backbone of the telecom services industry and TVIPL's diversified portfolio across telecom circles. The rating notes the net tenancy additions for the company over the past 18 months, led mainly by additions from Bharti Airtel Limited (BAL) and Reliance Jio Infocomm Limited (RJIL). Further, in the medium to longer term, it should benefit from the network expansion requirements of the telecom sector, given the expected roll outs and 4G upgradation of VIL and BSNL, the rising demand for data services in the country as well and the upcoming technologies.

While the tailwinds certainly help in improving the profile of the telecom operators, the receivables remain elevated as a few operators have been stretching the payments. The tenancy dependence on relatively weaker telcos remains high at around 41%, which along with single-occupied towers can exert pressure on the tenancy ratio, which was around 1.66 times (1.74 based on revenue generating towers) as on December 31, 2021. Nevertheless, the cash flow generation and available cash balances can comfortably service the repayment obligations of TVIPL's external debt, providing comfort. Moreover, while the liquidity remains strong, the utilisation of the available free cash for any large-sized investments/acquisitions poses an event risk, notwithstanding any additional cash-flows/diversification in revenues on account of the said investment. ICRA also takes note of the capital-intensive nature of operations, necessitating constant investment in the tower network to expand and maintain the tower base. 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 need of the operators to use good locations that caters its end users demand.

## Key rating drivers and their description

### Credit strengths

**Inherent business strength; MSA terms provide revenue cushion** – The business has inherent strengths with stability of cash flows as well as the terms of the master service agreements (MSAs) with the telcos, which give revenue visibility, lock-in period and allow for exit penalties and annual rental escalation. Further, the tower industry remains critical for the telecom service provider industry. With the strong telcos willing to expand their network, especially for data services, a healthy demand for towers can be expected in the long run. In case of no further exits, the average committed lock-in period for TVIPL is around 3.1-3.2 years, which indicate adequate revenue visibility.

**Diversified tower portfolio** – TVIPL has a diversified tower portfolio with a good presence in category A and B circles, where the intensity of service requirements is high, along with presence in metro cities.

**Improved credit profile due to ramp-up in operations and lower debt** – TVIPL reported an OI of Rs. 677 crore in FY2021 and Rs. 509 crore in 9M FY2022, respectively, with an OPM of around 80-83%. The tenancy levels improved to 15,053 tenants as on December 31, 2021 from 14,717 tenants as on March 31, 2021. Higher operating profits, coupled with lower debt levels and strong liquidity, resulted in improved net debt/OPBIDTA to 1.8 times in 9M FY202 against 2.7 times in FY2021. This is likely to strengthen further and remain lower than 2 times going forward, with steady growth in operating profit and reduced borrowings due to scheduled debt repayments.

**Strong liquidity position** – The company's liquidity remained strong despite the built-up of receivables and prepayment of debt, reflected in its sizeable cash and bank balance. The available cash balances and healthy cash accruals are expected to be sufficient to meet its debt servicing and capex requirements in the medium term.

### Credit challenges

**Elevated receivable levels**– Increased competition in the telecom industry has 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 has elongated the company's receivable cycle to around 100-120 days. Though the recent tailwinds are expected to improve the liquidity and cash flow of telecom operators, the impact on the receivables of tower companies will be a key monitorable.

**Capital intensive operations resulting in modest return metrics** – The telecom tower industry is capital intensive in nature as the players need to incur sizeable capex to set up towers. The multi tenancies, however, come at a later stage and there is a gestation period in recovering the investments. While the capex requirements are expected to remain high for tower companies in the medium term owing to the movement of telcos towards 4G/5G technology, the company's liquidity profile is expected to remain strong.

**Moderate position in tower industry** – TVIPL has a relatively small tower portfolio with a market share of around 2-3% in the telecom tower industry. Unlike the large-scale players with telecom lineage, TVIPL remains a small player with limited bargaining power with the telcos.

### Liquidity position: Strong

The company's liquidity position is **strong**, despite the built-up of receivables and prepayment of term loan of Rs. 146 crores at the time of debt refinancing in the current fiscal reflected in its sizeable cash and bank balance of around Rs. 400 crore as on date. It has term loans with a long repayment schedule till FY2029. The available cash balances and expected healthy cash accruals would be sufficient to meet its debt servicing and capex requirements.

## Rating sensitivities

**Positive factors** – The ratings can be upgraded in case of significant increase in tenancy levels<sup>1</sup> and material improvement in the receivables position.

**Negative factors** – Sizeable decline in tenancy levels or/and further elongation in receivables cycle; DSCR<1.8 times or any upstreaming of funds to promoters/sizeable acquisition which materially impacts the liquidity position can result in rating revision.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Telecom Tower Infrastructure Providers</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

TVIPL was incorporated in CY2006 by the Tower Vision Limited Partnership (holding and investment arm) of Israel. The management is headed by Mr. Amit Ganani (an Israeli national and founding member of the company). Over the years, the company has received equity infusion from private equity (PE) players. At present, the effective shareholding includes the Quadrangle Group (PE player) holding around 57% stake, followed by other institutional investors holding the balance. TVIPL provides telecom tower infrastructure services to telcos with 9,086 towers as on December 2021. The company has presence across telecom circles with sizeable portfolio in category A and category B circles.

## Key financial indicators (Audited)

TVIPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)*	627.70	677.40
PAT (Rs. crore)	26.10	147.70
OPBDIT/OI (%)	82.00%	83.00%
PAT/OI (%)	4.16%	21.80%
Total Outside Liabilities/Tangible Net Worth (times)	2.61	2.34
Total Debt/OPBDIT (times)	3.86	3.49
Interest Coverage (times)	2.26	2.57

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

\* - Operating income excludes pass through energy revenues.

Source: Company, ICRA research; All ratios as per ICRA's calculations

<sup>1</sup> Including loadings

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of December 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						March 21, 2022	August 27, 2021		
1	Term Loans	Long-term	665.7	665.7	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	Dec,13 2019	Oct 24, 2018

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	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	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2022	~8.90%	FY2029	665.70	[ICRA]A+(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 : Not Applicable**

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