June 03, 2022

Indus Towers Limited (formerly Bharti Infratel Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Non-Convertible Debentures	2,500.00	2,500.00	[ICRA]AA+ (Stable); reaffirmed
Term Loans	5,000.00	4,423.00	[ICRA]AA+ (Stable); reaffirmed
Fund Based/Non-Fund Based Limits	5,500.00	0.00	-
Fund Based/Non-Fund Based Limits	0.00	4,700.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Unallocated Limits	1,000.00	2,377.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	**20,000.00**	**20,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account Indus Towers Limited's (Indus) leadership position in the telecom tower industry, its pan-India presence, its robust financial profile and strong operational metrics. Indus had 1,85,447 towers in its portfolio and 3,35,791 tenants as on March 31, 2022. It had an average revenue per tower per month of more than Rs. 85,000 and an average revenue per tenancy per month of Rs. 47,148 for FY2022, which is the highest in the industry. The company's operating margin remains healthy despite the pressure on the tenancy ratio owing to the consolidation in the end-user industry. Moreover, it has a healthy leverage profile with low net debt levels (estimated net gearing of 0.89 times as on March 31, 2022, including lease liabilities in debt; 0.13 times excluding the same). The coverage indicators, too, have been healthy, indicated by a net debt/OPBDITA (excluding lease debt) of less than 0.9 times and interest coverage of 9.95 times for FY2022.

Moreover, the liquidity remains strong with a steady cash flow from operations and healthy cash balances of more than Rs. 2,632 crore as on March 31, 2022, along with strong financial flexibility. The debt coverage metrics are expected to remain strong in the medium term amid a steady cash flow generation, despite the dividend outflow and annual capex. Moreover, in the absence of any further exits, the committed revenue profile remains healthy with an average balance lock-in period of more than three years as on March 31, 2022; however, lock-in period is likely to increase as a sizeable proportion of the tenancies are under renewal.

However, the ratings are constrained by the pressure on the tenancy ratio as the number of telecom service providers has now reduced to four. Apart from the tenancy exits, stress on one of the key customers of the company has impacted Indus by way of elongation in payment cycle, as witnessed in the past (debtor days[1] has increased to more than three months as on March 31, 2022 from around 54 days as on March 31, 2021). ICRA also takes note of the capital-intensive nature of the operations which require constant investment in the tower network for maintenance and upgradation at the established sites. The capital-intensive operations along with the consistent upstreaming of dividends to shareholders and the elongation in the working capital cycle are likely to exert pressure on the cash flows, increasing the reliance on debt going forward.

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

The company's shareholding has undergone a change, in which the primary pledge on a 7.1% stake held by Vodafone Group Plc was released and this stake was sold partly to Bharti Airtel Limited (one of the other promoter) and partly in the open market. This money was infused in Vodafone Idea Limited (VIL) by Vodafone Group companies, which VIL used to clear some of the outstanding receivables of Indus in Q4 FY2022. VIL also agreed to make some minimum payments to Indus against the monthly billings. While the timing and the quantum of these payments remain uncertain, the receivable build-up in Indus will be contingent on the timely collection from VIL and remains a key rating sensitivity.

As on March 31, 2022, the promoters held 67.49% equity stake in the company, of which 21.04% held by Vodafone promoters is indirectly encumbered/pledged, which could weigh on the company's financial flexibility.

Overall, risks emanate from the stress on the sole customer, the 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 and 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 1,85,447 towers as on March 31, 2022 and a tenancy ratio of 1.8 times. The company is estimated to have a tower market share of 33% and a tenancy market share of 42%, making it the market leader.

Strong financial profile with healthy liquidity position – The business model of tower companies ensures stable cash flows from existing tenants, given the lock-ins and committed rentals, leading to a healthy cash flow generation. This has translated into a healthy financial profile for Indus with low debt levels and a strong capital structure, marked by net gearing (excluding lease liabilities) of 0.13 times as on March 31, 2022. It reported healthy coverage indicators, indicated by a net debt/OPBDITA of 0.86 times (excluding leases from debt) and interest coverage of 9.9 times for FY2022. If there are no further tenancy exits, the coverage indicators are expected to remain healthy going forward. Moreover, Indus' liquidity position remains strong, supported by healthy internal accrual generation and a cash/liquid investments balance of around Rs. 2,632 crore (as on March 31, 2022).

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 three years, indicating healthy revenue visibility. Moreover, there are sizeable tenancies which are under the renewal process, which is likely to increase the average lock-in going forward. Further, the exit penalties cover for some revenue loss on account of the tenancy exits.

Inherent business strength and strong promoter profile – The business has the inherent strengths of high client stickiness, given the challenges in network re-organisation as well as the terms of the MSAs with the telcos. The MSAs offer revenue visibility and include terms for exit penalties, annual rental escalation, steady upfront deposits and timely payments from tenants. Further, the tower industry is critical for the telecom service provider industry. With the strong telcos likely to expand their network, especially for data services, a steady demand for towers can be expected in the long run. Moreover, Indus has a strong promoter profile with Bharti Airtel Limited and Vodafone Plc as its majority shareholders.

Credit challenges

Weak credit profile of one of the key customers; increase in receivables cycle and sizeable dividend outflow – The credit profile of one of the key customers – VIL has remained weak. This has resulted in an elongation of the receivable cycle, which has exerted pressure on Indus's cash flow position to some extent. Going forward, while there is a committed payment from VIL towards the billings, the receivable cycle is likely to elongate further and will remain a key rating monitorable. While there was no dividend outflow in FY2022, the company declared a dividend of around Rs. 3,000 crore recently and has a policy of declaring dividend, the outflow of which is expected to remain close to the profit generation. These factors, coupled with the capex towards tower expansion and maintenance, are likely to increase the reliance on debt.

Steady growth in tenancies – The consolidation in the telecom industry has resulted in the exit of some players. The consolidation along with the merger of Vodafone and Idea has reduced the tenancies. The tenancy ratio for the company is now steady at 1.8 times, weakening the business profile to some extent. Nonetheless, the company continues to have the highest tenancy ratio in the industry and the financial profile remains strong.

Capital-intensive operations – The telecom tower industry is capital-intensive in nature as the players need to incur sizeable capex to set up towers. The tenancies, however, come at a later stage and there is a gestation period in recovering the investments.

Liquidity position: Strong

The cash/liquid investments as on March 31, 2022 stood at around Rs. 2,630 crore, while the total debt stood at around Rs. 5,487 crore (excluding lease liabilities). The cash flow from operations are expected to remain comfortable, notwithstanding the increased working capital intensity Overall, the liquidity remains strong and the company's exceptional financial flexibility provides a fillip to the same.

Rating sensitivities

Positive factors – The ratings can be upgraded is there is a material improvement in the credit quality of the tenants. Moreover, a consistent increase in revenue and operating margins, leading to a sustained improvement in ROCE beyond 30%, will trigger an upgrade.

Negative factors – A sizeable decline in tenancy levels, lowering the revenues and operating margins, may warrant a downgrade. Another trigger could be a material elongation in the receivable cycle, which will impact liquidity and result in reliance on external debt, pushing the total debt/OPBDITA to more 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	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. It is a tower infrastructure company with pan-India operations. As on March 31, 2022, the company had a tower portfolio of 185,447 towers with a tenancy ratio of 1.8 times.

Key financial indicators (audited)

Indus Towers Limited (Consolidated)	FY2021	FY2022
^Operating Income (Rs. crore)	16,369	17,607
PAT (Rs. crore)	4,975	6,373
OPBDIT/OI (%)	80.0%	84.6%
PAT/OI (%)	30.4%	36.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.83	1.17
Total Debt/OPBDIT (times)	1.65	1.32
Interest Coverage (times)	9.34	9.95

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

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

FY2022 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 (FY2023)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022				Date & Rating in FY2021	Date & Rating in FY2020	
					June 3, 2022	August 27,2021	June 21,2021	May 10,2021	April 9, 2021	Sep 9, 2020	Mar 23, 2020	Jul 3, 2019
1	Commercial Paper	Short-Term	6,000.0	900.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	NCD	Long-Term	2,500.0	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)			
3	Term Loans	Long-Term	4,423.0	4,564.8	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)			
4	FB/NFB limits	Long-Term	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)			
5	FB/NFB limits	Long-Term /Short-Term	4,700.0	22.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-				
6	Unallocated limits	Long-Term /Short-Term	2,377.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+			
7	Issuer Rating	Long-Term	-	-	-	-	[ICRA]AA+ (Stable) Withdrawn	[ICRA]AA+ (Stable) placed on notice of withdrawal for 1 month	[ICRA]AA+ (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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

Annexure-1: Instrument details

ISIN No	Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper*	NA	NA	7-365 days	6,000	[ICRA]A1+
Not issued	Non-Convertible Debenture	NA	NA	NA	2,500	[ICRA]AA+ (Stable)
NA	Term Loans	FY2021-FY2023	5.2%-6.3%	FY2023- FY2025	4,423	[ICRA]AA+ (Stable)
NA	Fund based/ Non-fund based limits	NA	NA	NA	4,700	[ICRA]AA+ (Stable) /[ICRA]A1+
NA	Unallocated	NA	NA	NA	2,377	[ICRA]AA+ (Stable)/[ICRA] A1+

Source: *Company*

** - Not placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Smartx Services Limited	100.00%	Full Consolidation

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