May 30, 2023

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	4,423.00	2,888.50	[ICRA]AA+ (Stable); reaffirmed
Fund based/Non-fund based limits	4700.00	6,200.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Unallocated limits	2,377.00	2,411.50	[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 exceptional financial flexibility and strong operational metrics. Indus had 192,874 towers in its portfolio and 342,831 tenants as on March 31, 2023. It had an average revenue per tower per month of more than Rs. 70,000 and an average revenue per tenancy per month of Rs. 41,201 for FY2023, which is the highest in the industry. The company's operating margins are expected to remain healthy, going forward, despite the provisions towards doubtful receivables. Moreover, it has a healthy leverage profile with comfortable net debt levels (estimated net gearing of 0.91 times as on March 31, 2023, including lease liabilities in debt; 0.22 times excluding the same).

In FY2023, the debt coverage indicators were impacted by the sizeable provisions towards the doubtful receivables of a major customer, reflected in net debt/OPBDITA of 1.98 times (including lease liabilities) and interest coverage of 6.65 times. The provisions are expected to moderate, going forward, improving the debt coverage metrics. Despite the annual capex and dividend outflows, the debt coverage metrics would remain comfortable.

Moreover, the liquidity remains strong with a steady cash flow from operations along with exceptional financial flexibility and availability of undrawn bank lines. Moreover, in the absence of any further exits, the committed revenue profile remains healthy with an average balance lock-in period of more than six years as on March 31, 2023.

However, the ratings are constrained by the pressure on the tenancy ratio as the number of telecom service providers has now reduced to four (three private players and state owned BSNL+MTNL). Apart from the tenancy exits, one stressed key customer has impacted Indus and elongated the payment cycle (receivable days more than 60 days as on March 31, 2023). Despite the risks arising from the sole stressed customer, the business derives strength from the inherent high client stickiness, given the challenges in network reorganisation and the master service agreements (MSAs) with the telcos.

ICRA also takes note of the capital-intensive operations as the company has to make constant investments for the maintenance and upgradation of the towers at the established sites. The capital-intensive operations along with the 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, although the capital structure is likely to remain comfortable. Moreover, the collection efficiency from the vulnerable customer remains the key monitorable.

As on March 31, 2023, the promoters held 69% equity stake in the company, of which 21.05% held by Vodafone promoters is indirectly encumbered/pledged, which could weigh on the company's financial flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its leadership position and generate adequate cash flows to keep its credit profile comfortable.

Key rating drivers and their description

Credit strengths

Established position in Indian tower industry – The company has a pan-India presence with 1,92,874 towers as on March 31, 2023, and a tenancy ratio of 1.78 times. The company is estimated to have a tower market share of more than 30% and a tenancy market share of more than 40%, making it the market leader.

Strong financial profile with exceptional financial flexibility and 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 0.22 times as on March 31, 2023. While the profitability was impacted in FY2023 owing to the sizeable provisions, it reported healthy coverage indicators, indicated by a net debt/OPBDITA of 1.98 times (excluding leases from debt) and interest coverage of 6.65 times for FY2023. If there are no further tenancy 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 six years, indicating healthy revenue visibility. Moreover, there are sizeable tenancies that are currently being renewed, 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. A steady demand for towers can be expected in the long run as the strong telcos are likely to expand their network, especially for data services. Moreover, Indus has a strong promoter profile with Bharti Airtel Limited and Vodafone Plc as its majority shareholders.

Credit challenges

Weak credit profile of a key customer; increased receivables cycle and sizeable dividend outflow – The credit profile of one of the key customers – Vodafone Indea Ltd (VIL) - has remained weak. This has elongated the receivable cycle, exerting pressure on Indus's cash flow position to some extent. The collection efficiency was not 100% for the monthly billings of VIL till Q3 FY2023, but improved afterwards to close to 100%. This remains the key monitorable going forward.

Capital-intensive operations – The telecom tower industry is capital-intensive 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.

Environmental and Social Risks

Telecom towers inherently have high power requirements to enable a high uptime for active telecom equipment. Tower sites use batteries and diesel generators along with grid power to meet power requirements. Indus Towers has made a commitment

towards net-zero emissions by 2050. As on March 31, 2022, Indus had around 78,667 green sites and also plans to install renewable energy sources on a large number of its sites. Thus, from a longer-term perspective, focus on renewable sources and improving grid availability is likely to mitigate the environmental risks that Indus remains exposed to.
The telecom sector is capital intensive and is exposed to frequent changes in technology. However, the services have become essential and operators need to maintain high service quality.

Liquidity position: Strong

The cash/liquid investments as on March 31, 2023, stood at around Rs. 298 crore, while the total debt stood at around Rs. 4,690 crore (excluding lease liabilities). The cash flow from operations is expected to remain comfortable, notwithstanding the increased working capital intensity. Overall, the liquidity remains strong with sizeable undrawn bank limits and the company's exceptional financial flexibility provides a fillip to the same.

Rating sensitivities

Positive factors – The ratings can be upgraded if 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 a sizeable 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, 2023, the company had a tower portfolio of 1,92,874 towers with a tenancy ratio of 1.78 times.

Key financial indicators

	FY2021	FY2022	FY2023P^
Operating income (Rs. crore)*	16,369	17,607	17,432
PAT (Rs. crore)	4,975	6,373	2,040
OPBDIT/OI (%)	80.0%	84.6%	55.5%
PAT/OI (%)	30.4%	36.2%	11.7%
Total outside liabilities/Tangible net worth (times)	1.83	1.17	1.15
Total debt/OPBDIT (times)	1.65	1.32	1.98
Interest coverage (times)	9.34	9.95	6.65

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation ^Provisional Financial Figures

** - Adjusted for energy margins*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating on	Date & rating in FY2023		Date & rating in FY2022				Date & rating in FY2021
					May 30, 2023	February 03, 2023	June 3, 2022	August 27,2021	June 21,2021	May 10,2021	April 9, 2021	Sep 9, 2020
1	**Commercial paper**	Short-Term	6,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	**NCD**	Long-Term	2,500.0	1,500.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	**Term loans**	Long-Term	2,888.5	2,760.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[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	6,200.0	929.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-		
6	**Unallocated limits**	Long-Term /Short-Term	2,411.5	-	[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+	[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)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial paper	Very Simple
NCD	Very Simple
Term loans	Simple
FB/NFB limits	Simple
Unallocated limits	NA

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 analysing 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 are available on ICRA's 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
-	**Commercial paper***	NA	NA	7-365 days	6,000	[ICRA]A1+
INE121J08020	**Non-convertible debenture**	07 Dec 2022	8.20%	07 Dec 2025	375.0	[ICRA]AA+ (Stable)
INE121J08038	**Non-convertible debenture**	07 Dec 2022	8.20%	07 Jun 2025	375.0	[ICRA]AA+ (Stable)
INE121J08046	**Non-convertible debenture**	07 Dec 2022	8.20%	07 Dec 2024	750.0	[ICRA]AA+ (Stable)
-	**Non-convertible debenture***	NA	NA	NA	1,000.0	[ICRA]AA+ (Stable)
-	**Term loans**	FY2022- FY2023	5.2%-6.3%	FY2024-FY2026	2,888.5	[ICRA]AA+ (Stable)
-	**Fund based/Non-fund based limits**	NA	NA	NA	6,200	[ICRA]AA+ (Stable) /[ICRA]A1+
-	**Unallocated**	NA	NA	NA	2,411.5	[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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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.

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