March 27, 2020 Revised

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

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based limits	596.0	596.0	[ICRA]AA-(Negative); reaffirmed, outlook revised to negative

Rationale

The revision in rating outlook factors in weakening of the credit profile of one of the key tenants of ATC Telecom Infrastructure Private Limited (ATCTIPL). With the Supreme Court verdict regarding payment of sizeable adjusted gross revenues (AGR) dues (along with interest and penalties), the credit quality of one of the key tenants, which accounts for significant tenancies of ATCTIPL, has deteriorated further. In the backdrop of the headwinds faced by the telecom service provider industry and the resultant moderation in tenancies of the company, the revision in outlook reflects ICRA's expectation of moderation in the profitability and cash flow from operations of the company, although they are expected to remain comfortable. Moreover, ICRA also notes that the company's borrowings are largely from its parent (American Tower Corporation) and the debt has longer tenure for repayment.

The rating reaffirmation factors in the established position of ATC Telecom Infrastructure Private Limited (ATCTIPL) in the telecom tower industry as one of the largest independent tower infrastructure providers with tower market share of around 14% as on December 31, 2019, its pan India presence and its robust financial profile. Notwithstanding the weakening revenue prospects amid declining tenancies, the operating margins of the company have remained healthy. Moreover, the liquidity position remains strong with steady cash flow from operations, un-drawn working capital limits, limited debt repayment commitments in the medium term and large cash balances. The rating also continues to derive comfort from the inherent business strength given that it is a backbone for the telecom services industry. The ratings also factor in the operational and financial synergies derived by the company driven from its parentage with American Tower Corporation holding around 79% stake. Further, the long-term business prospects draw support from rising data usage in the telecom services industry that would continue to drive demand for tower infrastructure, which is expected to result in steady cashflow generation.

However, the rating takes into consideration the pressure on tenancy levels of the company to consolidation in the telecom service provider industry. Overall, there has been a decline in the tenancy levels of the company following exit of many telecom service providers and consolidation in the sector, as evident from current tenancy of 1.48x in December 2019 as against 1.62x in December 2018. Apart from the tenancy exits, the prevailing stress on the telecom sector can also impact the company in ways such as elongation in payment cycle. ICRA takes note of the capital-intensive nature of operations, necessitating constant investment in the tower network for maintenance and improvements at established sites. Overall, while the risk and concerns emanate from the stress in the telecom industry which is the sole customer; at the same time, the business derives strength from inherent high client stickiness given the challenges in network reorganisation as well as the master service agreements (MSAs) with the telcos.

Besides, the company's overall indebtedness remains high given the debt availed for the acquisition of tower assets of Vodafone and Idea. The company's Total Debt/OPBDITA stood at 3.34 times as on December 31, 2019. Nevertheless, comfort is derived from the fact that the debt is entirely from promoter group and has a long maturity profile with limited repayment obligations in the medium-term. Moreover, utilisation of available free cash towards any large size investment/acquisition cannot be ruled out, thereby posing an event risk.

Key rating drivers

Credit strengths

Established position in the 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 14% and tenancy market share of 15%. It has diversified pan India presence and a sizeable tower portfolio of 74,712 towers and tenancy ratio of 1.48 times as on December 31, 2019.

Healthy financial risk profile – The business model of the tower companies allows them stability of cash flows from 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 company as indicated by healthy profitability and cash flow generation. In case of no further exits, profitability is expected to continue to remain healthy.

Healthy liquidity position – The liquidity profile remains strong, given the availability of free cash balances of more than Rs. 2300 crore as on December 31, 2019 and unutilised fund-based limits of around Rs. 600 crore, along with healthy cash flow generation.

Exit penalties and lock-ins in the 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 around 3.5 years which indicate adequate revenue visibility. Moreover, there are exit penalties too, which cover for 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 reorganisation 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 and with the strong telcos expected to expand their network, especially for data services, a healthy demand for towers can be expected going forward in the long run.

Operational and financial synergies from parent – The company derives strong operational and financial synergies from its parent (American Tower Corporation), which is a global telecom tower infrastructure service provider. Further the company's entire borrowing is from its promoter group company, which gives it covenant light and long maturity debt profile.

Credit weaknesses

Weakening of the credit profile of the customers – Increased competition in the telecom industry has impacted the financial position of the telcos. This coupled with the October 24, 2019 Supreme Court order which mandated the telcos to pay sizeable AGR dues has exerted pressure on the credit profile of a key tenant of the company.

Decline in tenancies – The consolidation in the telecom service provider industry resulting in exit of some players, coupled with the merger of Vodafone and Idea has resulted in reduction in tenancies. The tenancy ratio for ATCTIPL has declined to 1.48x as on December 31, 2019 from 1.62x as on December 31, 2018.

Continuing stress in telecom sector – The key customer industry for the tower companies is the telecom service provider industry which is facing headwinds. This can lead to elongation in the receivables cycle.

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

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 maintenance and replacement capex, which is also sizeable in nature.

Liquidity position - Strong

Availability of free cash levels of more than Rs. 2300 crore as on December 31, 2019 along with unutilised fund-based limits of around Rs. 600 crore, which coupled with healthy cash flow generation and limited debt repayment commitments keeps the liquidity strong.

Rating sensitivities

Positive triggers – Unlikely in the near term; The outlook can be revised to stable in case of material improvement in the credit quality of the tenants and rise in tenancy levels resulting in higher profitability as well as accruals

Negative triggers – Sizeable decline in tenancy levels led by further consolidation in telecom service provider industry and elongation in receivables cycle can result in rating revision. Negative pressure on the rating could also arise if there is a deterioration in the linkages between the parent and ATCTIPL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Telecom Tower Infrastructure Providers
Parent/Group Support	Implicit support from parent American Tower Corporation (rated Baa3 by Moody's) given strong operational and financial linkages
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

ATC TIPL 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 also. As on March 31, 2019 its shareholders include ATC with around 79% stake, Tata group with around 13% stake and other investors with 8% stake. The company is an independent tower infrastructure provider with pan Indian operations. The Group's towers are well spread across circles with healthy presence in metro and category A circles. As on December 31, 2019, the Group had a tower portfolio of 74,712 towers with tenancy ratio of 1.48 times.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)*	4,803	5,415
PAT (Rs. crore)	534	1,569
OPBDIT/OI (%)	46.7%	51.9%
RoCE (%)	9.2%	19.4%
Total outside liabilities/TNW (times)	2.31	1.51
Total Debt/OPBDIT (times)	5.41	3.15
Interest Coverage (times)	4.82	2.78
DSCR (times)	2.32	3.36

Source: ATCTIPL's annual reports, ICRA research

* excluding pass through energy revenues

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018		FY2016
					27-Mar-20	30-Aug-19	07-May-18	22-Nov-17	17-Jul-17	21-Mar-16
1	Fund-based limits	Long Term	596.0	NA	[ICRA]AA- (Negative)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]A (Stable)
2	Term loans	Long Term	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]A (Stable)
3	Non fund-based limits	Long Term	-	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- &	[ICRA]AA- (Stable)	[ICRA]A (Stable)
4	Fund-based limits	Short Term	-	-	-	-	[ICRA]A1+	[ICRA]A1+ &	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website 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	Long term fund-based limits	NA	NA	NA	596.0	[ICRA]AA- (Negative)

Source: ATCTIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
ATC Infrastructure Services Private Limited	100%	Full Consolidation

Corrigendum

Document dated March 27, 2020 has been corrected with revisions as detailed below:

- Deleted tenancy and name of customer – Page 1 and Page 2
- Deleted cash balances – Page 1
- Change in tenancy ratio – Page 1 and Page 2
- Deleted “pressure on rentals” – Page 1 and Page 2 as rentals are committed

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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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