February 12, 2021

Tower Vision India Private Limited: Rating upgraded; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term loans	1,170.0	890.0	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Negative
Total	**1,170.0**	**890.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the increase in the scale of operations of Tower Vision India Private Limited (TVIPL) with healthy profitability and steady reduction in debt levels, following scheduled amortisation. This has translated into improved credit metrics, which is expected to improve further in medium term. The company's operating income (OI) witnessed a healthy growth of 27% in FY2020 at Rs. 628 crore and further scaled up to Rs. 494 crore in 9M FY2021 on the back of net tenancies addition as well as higher loading revenues. Further, its operating profit margins (OPM) improved to around 63% (adjusted for Ind AS-116) in FY2020 from 50% in FY2019. This has resulted in healthy cash flow from operations, which has boosted the overall liquidity profile as reflected by sizable cash balances.

Further, with scheduled repayment of the outstanding debt, the company's total debt (except lease liability) declined to Rs. 876 crore as on December 31, 2020 as against Rs. 997 crore as on March 31, 2019. This coupled with healthy profit margins and accruals resulted in improvement in the debt metrics as reflected by net debt/OPBIDTA (adjusted for Ind AS-116) of 1.2x in 9M FY2021 against 1.7x in FY2020 (2.9x in FY2019). This is expected to strengthen further and remain lower than 1x in FY2022 with steady growth in operating profit and reduced borrowings on account of scheduled amortisation of debt.

The rating continues to derive comfort from inherent business strength, given that telecom towers are the backbone for 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 by additions from Bharti Airtel Limited (BAL) and Reliance Jio Infocomm Limited (RJIL), notwithstanding the exits from Vodafone Idea Limited (VIL). Further, in the longer term, it should benefit from the network expansion requirements of the telecom sector, given the rising demand for data services in the country as well as the upcoming technologies.

The rating, however, is constrained by the continued headwinds faced by most telecom companies (telcos), which are likely to have a cascading impact on independent tower companies, which was witnessed in elongation of receivable cycle of the tower companies. This elongation was primarily on account of the partial/delayed payments from Bharat Sanchar Nigam Limited (BSNL) emanating from its weak financial health. While the restructuring as well as the recent fund raising by BSNL are expected to improve its liquidity and some impact of the same was witnessed in terms of improvement in the monthly collections from BSNL, the timeliness in clearing dues, on a sustained basis, remains to be seen. Moreover, the payment plan for clearing the past overdues is still awaited. The ratings also factor in the significant dependence of TVIPL on relatively weaker telcos, viz. VIL and BSNL, and TVIPL being a comparatively small player in the telecom tower market with a tower market share and tenancy-wise market share of around 2% as on September 30, 2020.

While prolonged litigation pertaining to an adjusted gross revenues (AGR)-related issue was an overhang on the telecom services industry and resulted in moderation of the credit profile of the customers, clarity on the same has emerged post the Supreme Court judgement specifying a repayment pattern for the dues. Further, the operating metrics of the telecom industry are steadily improving, which can result in betterment of the credit profile of the industry participants that are also the key customers for tower companies in general and TVIPL in particular, which is reflected in the Stable outlook on the long-term rating.

Key rating drivers and their description

Credit strengths

Inherent business strength; exit penalties and lock-ins in MSAs provide revenue cushion – The business has inherent strengths of client stickiness given the challenges in network reorganisation 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, annual rental escalation, steady upfront deposits and timely payments from tenants. 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 4.4 years, which indicate adequate revenue visibility.

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

Improvement in scale of operations and decline in debt resulting in improved credit profile – TVIPL reported an OI of Rs. 628 crore and Rs. 494 crore in FY2020 and 9M FY2021, respectively, with OPM (adjusted for Ind AS 116) of around 63%-64%. The company has witnessed net tenancy additions that summarised to 14,514 tenants as on December 31, 2020 from 14,158 tenants as on March 31, 2020. Higher operating profits, coupled with lower debt levels and strong liquidity, resulted in improved net debt/OPBIDTA (adjusted for Ind AS 116) to 1.2x in 9M FY2021 against 1.7x in FY2020. This is likely to strengthen further and remain lower than 1x in FY2022 with steady growth in operating profit and reduced borrowings on account of scheduled amortisation of debt.

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

Credit challenges

Continued concerns on credit profile of customers – 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, has exerted pressure on the credit profile of one of its key tenants. This has resulted in elongation in the company's receivable cycle from around 46 days in FY2019 to 70 days in FY2020 and 79 days in 9M FY2021 (including energy charges). Further, the receivables are expected to continue to remain elevated in the medium term.

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 for setting up towers. The multi tenancies, however, come at a later stage and there is a gestation period in recovering the investments. This is evident from its moderate ROCE at 9% in FY2019, though the same has improved to 15% in 9M FY2021 with improved scale and higher tenancies. While capex requirements are expected to remain high for tower companies in medium term owing movement of telcos towards 4G/5G technology, the company's liquidity profile expected to remain comfortable.

Moderate positioning in tower industry – TVIPL has a relatively smaller tower portfolio with a market share of around 2% in the telecom tower industry. Unlike the large-scale players with a 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, as reflected by sizeable cash and bank balance of over Rs. 400 crore as on January 31, 2021. It has term loans with long repayment schedule till FY2029 with a ballooning structure. The available cash balances and expected healthy cash accruals would be sufficient to meet its debt servicing requirements and capex needs.

Rating sensitivities

Positive factors – ICRA could upgrade TVIPL's rating if the company demonstrates a steady improvement in its financial performance led by improvement in operating metrics and collection efficiency, resulting in sustained improvement in its overall credit profile.

Negative factors – Sizeable decline in tenancy levels or/and further elongation in receivables cycle or substantial reduction in liquidity can result in a 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	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 9,229 towers and around 2% tower market shares as on September 30, 2020. The company has presence across telecom circles with sizeable portfolio in category A and category B circles.

Key financial indicators (audited)

TVIPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)*	493.0	627.7
PAT (Rs. crore)	21.9	26.1
OPBDIT/OI (%)	50.5%	82.0%
PAT/OI (%)	4.4%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	2.6
Total Debt/OPBDIT (times)	4.0	3.9
Interest Coverage (times)	1.9	2.3

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

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 Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					Feb 12, 2021	Dec 13, 2019	Oct 24, 2018	Mar 9, 2018	May 19, 2017
1	Term Loans	Long-term	890.0	889.7	**[ICRA]A (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable)**

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	Term Loan	June 2014	9.8%	December 2028	890.0	[ICRA]A(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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