September 09, 2022

Space Teleinfra Private Limited: Rating upgraded to [ICRA]AA+; removed from watch with positive implications and Stable outlook assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-fund based-overdraft	-	10.00	[ICRA]AA+ (Stable); assigned
Long term-fund based-term loan	50.0	161.97	[ICRA]AA+ (Stable); upgraded from [ICRA]A- %; and rating removed from watch with positive implications and stable outlook assigned; assigned for enhanced limits
Long term-interchangeable-bank guarantee	(20.0)	0.00	-
Long term-interchangeable-overdraft	(5.0)	0.00	-
Long term-interchangeable-working capital term loan	(20.0)	0.00	-
Long term-non-fund based-bank guarantee	-	25.00	[ICRA]AA+ (Stable); assigned
Long term-unallocated	-	2.29	[ICRA]AA+ (Stable); assigned
Total	**50.00**	**199.26**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the rating for the bank facilities of Space Teleinfra Private Limited (STPL) takes into account a favourable change in the ownership after being acquired by Brookfield-owned infrastructure investment trust (InvIT) - Data Infrastructure Trust - which lends exceptional financial flexibility to the company. The rating upgrade also factors in the consistent growth in operations, demonstrated by the healthy addition in the number of sites in both in-building solutions (IBS) and small cells (SC), translating into revenue growth. The rating also factors in STPL's strong presence at some of the major institutional sites like metros, airports, major commercial establishments, etc, which have healthy revenue potential, in addition to the company securing new metro projects.

The rating derives comfort from the inherent business strength as infrastructure is the backbone of the telecom services industry and it is expected that small cell sites will grow exponentially to support 5G deployment, resulting in healthy demand prospects. The rating also factors in the relatively low payback period for the site capex vis-à-vis the long lock-in period with the telecom operators. The business model of the infrastructure providers allows them stability of cash flows from the existing customers, given the lock-ins, committed rentals and exit penalties, resulting in healthy cash flow generation. This has translated into a healthy financial profile for the company, as indicated in the robust profitability and cash flow generation.

ICRA, however, has also taken note of the relatively small scale of operations and the capital-intensive nature of operations, necessitating constant investment in network for the expansion of the sites. The debt levels are expected to increase, going forward, as the entire capex will be debt funded, leading to a moderation in the leverage and coverage metrics, although these will continue to be comfortable. The rating also factors in the moderation in the operating margins in FY2022 owing to delays in commencement of a few sites, elevated employee expenses and some transaction related one-time expenses. Going forward, the profit margins are likely to improve with the increase in the scale of operations.

Overall, risks and concerns emanate from the stress in the telecom industry (which is the sole customer). Nevertheless, the business derives strength from the inherently high client stickiness, given the challenges in network reorganisation as well as the master service agreements (MSAs) with the telcos.

Key rating drivers and their description

Credit strengths

Strong parentage of Brookfield Asset Management-backed Data Infrastructure Trust – Data infrastructure Trust has acquired 100% shareholding of STPL. Data Infrastructure Trust is a Brookfield-owned InvIT whose primary asset is Summit Digitel Infrastructure Limited. Although STPL contributes to only 2-3% of the InvIT's valuation as on March 31, 2022, it is strategically important to the InvIT and derives value from its presence in the small cells industry which has a long-term growth potential.

Inherent business strength and long-term growth potential, especially with 5G launch on the cards – The business has inherent strengths of high client stickiness given the five to seven-year MSAs with the telcos, which provide revenue visibility and allow exit penalties, annual rental escalation, steady upfront deposits and timely payments from tenants. Further, the infrastructure industry remains critical for the telecom service provider industry. With the advent of 5G, small cell sites are expected to grow exponentially, translating into healthy demand prospects for the company.

Exit penalties and lock-ins in MSAs provide revenue cushion – The MSAs signed between telcos and infrastructure providers have lock-ins, which provide committed revenue visibility over the lock-in period. The average committed lock-in period for the company is around five to six years as of now, which indicates healthy revenue visibility. Moreover, there are exit penalties, which cover for revenue loss on account of tenancy exits. Further, the payback period is 24-27 months and the contract with the telcos is quite long.

Comfortable debt coverage metrics – As on March 31, 2022, there was limited debt on the company's books, translating into a strong capital structure and healthy debt coverage metrics. With the likely debt-funded capex, the capital structure is expected to moderate, going forward.

Credit challenges

Moderate scale of operations – STPL added a lot of sites during the last two to three years, resulting in a healthy growth in turnover in FY2022. However, the scale of operations remains moderate, though growth is expected, going forward. Moreover, unlike the large scale of other infrastructure players with a telecom lineage, STPL remains a smaller player.

Incrementally, capex likely to be debt funded and excess cash will be distributed as dividends to the InvIT – STPL has sizeable capex plans which are likely to be debt-funded. This is expected to moderate the leverage and coverage metrics, although these will continue to be healthy.

Liquidity position: Adequate

ICRA expects STPL's liquidity to remain adequate amid healthy cash accruals which are expected to remain comfortable vis-à-vis the debt servicing. The company will be availing debt to fund its capex and after meeting these requirements, 90% of the net distributable cash flow will have to be upstreamed to the InvIT.

Rating sensitivities

Positive factors – The rating can be upgraded if the entity demonstrates a consistent and strong growth in turnover, along with improvement in profitability and debt protection metrics.

Negative factors – The rating can be downgraded in case of a decline in revenue or a material decline in profitability. Further, sizeable debt-funded capex and/or sizeable dividends/upstreaming of funds to the parent may materially impact the company's liquidity position and credit metrics and can lead to a downgrade. Moreover, weakening in the credit quality of DIT can lead to rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group support	Parent Company: Data Infrastructure Trust ICRA expects STPL's parent to be willing to extend financial and operational support to it, if required, given the strategic importance of STPL to the InvIT
Consolidation/Standalone	Standalone

About the company

STPL, incorporated in April 2016, is a neutral host provider (IP-1), deploying digital indoor solutions by providing 2G/3G/4G network through a common shared infrastructure. The company is mainly in the business of owning and operating shared in-building communications infrastructure, which is used by wireless carriers, broadcasters and other communications companies to provide services to the end-users. The company offers solutions, including built to suit in-building solution (IBS), outdoor small cells solution, etc. In March 2022, Data Infrastructure Trust (formerly known as Tower Infrastructure Trust, sponsored by Brookfield and its affiliates) acquired STPL for Rs. 900 crore.

Key financial indicators (audited)

STPL Standalone	FY2021	FY2022
Operating income	133.1	166.8
PAT	19.0	13.8
OPBDIT/OI	56.5%	45.0%
PAT/OI	14.3%	8.3%
Total outside liabilities/Tangible net worth (times)	5.1	4.1
Total debt/OPBDIT (times)	1.4	1.6
Interest coverage (times)	3.9	3.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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 Sept 09, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					September 09, 2022	January 14, 2022	-	-
1	Term Loans	Long-term	161.97	46.97	[ICRA]AA+ (Stable)	[ICRA]A- %	NA	NA
2	Working Capital Facilities	Long-term	-	-	-	[ICRA]A- %	NA	NA
3	Overdraft Facilities	Long-term	-	-	-	[ICRA]A- %	NA	NA
4	Non fund-based limits (Bank Guarantee)	Long-term	-	-	-	[ICRA]A- %	NA	NA
6	Long Term-Fund Based-Overdraft	Long-term	10.0	-	[ICRA]AA+ (Stable)	-	NA	NA
7	Long Term-Non-Fund Based-Bank Guarantee	Long-term	25.0	-	[ICRA]AA+ (Stable)	-	NA	NA
8	Long Term-Unallocated	Long-term	2.29	-	[ICRA]AA+ (Stable)	-	NA	NA

%= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Overdraft	Simple
Long Term-Fund Based-Term Loan	Simple
Long Term-Non-Fund Based-Bank Guarantee	Very Simple
Long Term-Unallocated	Not Applicable

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term-Fund Based-Overdraft	-	-	-	10.00	[ICRA]AA+ (Stable)
	Long Term-Fund Based-Term Loan-1	Sept-21	7.2%	Aug-27	46.97	[ICRA]AA+ (Stable)
-	Long Term-Fund Based-Term Loan-2	FY2023	-	FY2029	115.00	[ICRA]AA+ (Stable)
-	Long Term-Non-Fund Based-Bank Guarantee	-	-	-	25.00	[ICRA]AA+ (Stable)
-	Long Term-Unallocated	-	-	-	2.29	[ICRA]AA+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis –

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: *STPL*

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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