May 30, 2023

# ATC Telecom Infrastructure Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Fund-based limits** | 596.0 | 596.0 | [ICRA]AA- (Stable); reaffirmed |
| **Total** | **596.0** | **596.0** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation continues to factor in the established position of ATCTIPL in the telecom tower industry as a large independent tower infrastructure provider with a tower market share of around 16%, and its pan-India presence. The tenancy ratio also remains comfortable at around 1.5 times as on December 31, 2022. Moreover, the liquidity position remains strong with a steady cash flow from operations, undrawn working capital limits, limited medium-term debt repayment commitments and cash balances. While the cash balances have declined post the exercise of the call option on a non-convertible debenture, the liquidity position continues to be strong.

The rating derives comfort from the company's inherent business strength as the tower industry is the backbone of telecom service providers. Further, the long-term business prospects draw support from rising data consumption and technology upgradation that would continue to drive demand for tower infrastructure.

The ratings are, however, constrained by the elevated receivables position owing to delays in payments made by a few customers. This has increased the working capital requirements of the business. However, the company has subscribed to optionally convertible debentures (OCD) issued by one such customer, amounting to Rs. 1,600 crore, a part of which was utilised to clear the past outstanding from the said customer. The ability of the customer to pay these dues along with collection efficiency on the regular monthly payments to ATC remains a key monitorable. ATCTIPL's tenancy dependence on the relatively weak customers was around 44% as on December 31, 2022.

ICRA also takes note of the capital-intensive operations, necessitating constant investment in the tower network to expand the tower base, while the maintenance capex at the established sites remains relatively low. Overall, while there are risks due to the stress in the telecom industry (which is the sole customer), the tower business derives strength from the high client stickiness owing to the challenges in network reorganisation and the master service agreements (MSAs) with the telcos.

ATCTIPL has also exercised a call option on its Rs. 4,200-crore NCD and redeemed the entire amount along with interest in the last fiscal. While this has reduced the debt levels, it has also moderated the company's liquidity position, though it continues to be strong.

ATCTIPL's total debt/OPBDITA stood at 3.37 times as on March 31, 2022 (2.54 times adjusting the debt for lease liabilities). The debt/OPBDITA has increased in FY2023 owing to a sizeable provision undertaken by the company on its fixed assets and intangibles, although the same is expected to improve to less than 3x, going forward. Nevertheless, some comfort is derived from the fact that the debt is majorly from the promoter Group and has a relatively long maturity profile with limited repayment obligations in the medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will be able to generate adequate cash flows, keeping the credit profile comfortable.

## Key rating drivers and their description

### Credit strengths

**Established position in Indian tower industry –** ATCTIPL has an established market position as a large tower infrastructure provider in the country, with an approximate market share of 16%. It has a diversified pan-India presence and a sizeable portfolio of 77,648 towers and tenancy ratio of 1.54x as on December 31, 2022.

**Strong liquidity position –** The liquidity profile remains strong due to the availability of free cash balances (lower than historical highs due to the exercise of the call option on NCD) and unutilised fund-based limits, along with healthy cash flow generation.

**Inherent business strength and long-term growth potential –** The business has inherent strengths of high client stickiness, given the challenges in network reorganisation and the terms of the MSAs with the telcos. The MSAs give revenue visibility and allow for exit penalties, annual rental escalation, steady upfront deposits and ensure timely payments from customers. Further, the tower industry is critical for telecom service providers. The strong telcos are expected to expand their network, especially for data services, ensuring a healthy demand for towers in the long run.

**Financial flexibility due to parentage –** ATCTIPL enjoys financial flexibility as majority of the debt on the books of ATCTIPL is from its parent American Tower Corporation, which is a global telecom tower infrastructure service provider. This gives ATC a covenant light and long maturity debt profile and access to the banking system, if the need arises.

### Credit challenges

**Elevated receivable levels** – The credit profile of two of the key customers – VIL and BSNL - has remained weak. This has elongated the receivable cycle, exerting pressure on the company's cash flow position to some extent as these customers constitute around 44% of the total tenancies as on December 31, 2022. While a part of the past receivables from VIL has been converted into optionally convertible debentures, the ability of the customer to make these payments on time remains a key monitorable.

**Stagnant tower and tenancy levels in the past –** The tenancy levels of tower firms have contracted because of the consolidation in the telecom industry that resulted in the exit of some playersand the merger of Vodafone and Idea. The tower base and tenancies have remained stagnant in the past; however, some traction was witnessed in the previous fiscal.

**High leverage –** Over the years, the company has repaid/prepaid its debt from healthy internal accruals. However, in FY2018, it raised debt to fund the acquisition of the tower assets of Vodafone and Idea. This increased the company's leverage. Nevertheless, comfort was drawn from the fact that the acquisition debt was raised from the promoter Group and had a long maturity profile. The company recently prepaid Rs. 4,200-crore of this debt and availed an external debt of Rs. 1,000 crore as capex reimbursement debt. While the total debt reduced, there was no material change in the net debt position.

## Liquidity position: Strong

ATCTIPL's liquidity is strong, supported by free cash levels of ~Rs. 800 crore as on date along with almost unutilised fund-based limits. The liquidity also gets a boost from a comfortable cash flow position and limited debt repayment commitments in the near to medium term, despite the elongated receivable cycle.

## Rating sensitivities

**Positive factors –** The rating can be upgraded in case of a significant increase in tenancy levels and material improvement in the receivable position.

**Negative factors –** Sizeable decline in tenancy levels or/and elongation in receivables cycle; significant upstreaming of funds to the parent, or any acquisition, materially impacting the liquidity position, can result in a rating revision.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Telecom Tower Infrastructure Providers |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The ratings are based on the standalone financial profile of the company |

## About the company

ATCTIPL 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. As on date, it is entirely held by ATC Asia Pacific Pte Limited. The company is an independent tower infrastructure provider with pan-Indian operations. The company's towers are well spread across circles with healthy presence in metro and category A circles. As on December 31, 2022, the company had a portfolio of 77,648 towers and a tenancy ratio of 1.54 times. The Group's towers are well spread across circles.

### Key financial indicators

| | FY2021 | FY2022 |
|---|---|---|
| **Operating income (Rs. crore)** | 5323.3 | 5644.6 |
| **PAT (Rs. crore)** | 448.9 | 639.9 |
| **OPBDIT/OI (%)** | 74.7% | 74.4% |
| **PAT/OI (%)** | 8.4% | 11.3% |
| **Total outside liabilities/Tangible net worth (times)** | 1.98 | 1.83 |
| **Total debt/OPBDIT (times)** | 3.58 | 3.37 |
| **Interest coverage (times)** | 3.16 | 3.39 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

## 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 FY2022 | | Date & rating in FY2021 | Date & rating in FY2020 | |
| | | | | | May 30, 2023 | Mar 10, 2022 | Aug 27, 2021 | Jan 15, 2021 | Mar 27, 2020 | Aug 30, 2019 |
| 1 | **Fund-based limits** | Long-term | 596.0 | NA | [ICRA]AA-(Stable) | [ICRA]AA-(Stable) | [ICRA]AA-(Negative) | [ICRA]AA-(Negative) | [ICRA]AA-(Negative) | [ICRA]AA-(Stable) |
| 2 | **Term loans** | Long-term | - | - | - | | | - | - | - |
| 3 | **Non-fund based limits** | Long-term | - | - | - | | | - | - | - |
| 4 | **Fund-based limits** | Short-term | - | - | - | | | - | - | [ICRA]A1+ (withdrawn) |

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| **Fund-based 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 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 |
|---|---|---|---|---|---|---|
| - | **Fund-based limits** | NA | NA | NA | 596.0 | [ICRA]AA-(Stable) |

***Source:*** *Company*

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

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| **NA** | NA | NA |

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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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## ICRA Limited

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