Ascend Telecom Infrastructure Private Limited

April 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	591.60 (Enhanced from 437.10)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	591.60 (Rs. Five Hundred Ninety-One Crore and Sixty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating of long term bank facilities of Ascend Telecom Infrastructure Private Limited (ATIPL) factors in the established track record of operations of ATIPL in the passive telecom infrastructure space, experienced PE (private equity) investor, stable growth trajectory in operational performance metrics over the years albeit stress in the telecom industry, revenue visibility due to long term master service agreements (MSA) with healthy mix of major telecom operators with embedded lock in, escalations and early termination penalties. The ratings also derive comfort from the expected recovery in the financial risk profile of telecom service providers in light of recent Hon'ble Supreme Court judgment regarding adjusted gross revenues (AGR) dues, expectations of tariff hikes and adoption of 5G technology along with rising data consumption.

The company also has refinanced portion of its existing term loan and partially repaid Optionally Convertible Debentures (OCD) on March 31, 2021.

The rating is however constrained by relatively moderate scale of operations of ATIPL in the tower industry given a miniscule market share of ~1%, capital intensive nature of operations, leveraged capital structure and debt protection metrics, high exposure to telecom operators with weak financial risk profile and regulatory uncertainties. The rating is also constrained by significant pile up of receivables from BSNL, wherein payments are being realized to the extent of 70-75% of monthly invoiced amount. Although BSNL has stepped up its monthly payments and has received ad-hoc payment of Rs.36 crore in March 2021, the ability to clear its past outstanding dues along with timely payments and maintain consistency on full clearing of invoices on sustainable basis will be critical.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in financial risk profile of key tenants (telecom operators)
- 100% efficiency in monthly collections from BSNL on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any further weakening of overall financial risk profile of customers and financial stress in telecom industry
- Any further deterioration in collection period from BSNL resulting in stretch in liquidity profile
- Any major debt funded capex resulting in deterioration in overall gearing more than 2.50x and Total Debt/EBIDTA of more than 2.75x going forward
- Conversion of optionally convertible debentures (OCD) into senior debt resulting into any deterioration in debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated operational track record with strong PE investor profile:

ATIPL has a presence in the telecom tower business since nearly two decades with proven track record of operational performance. During January 2012, ATIPL undertook inorganic expansion by acquiring another towerco, India Telecom Infra Private Limited (ITIPL) which resulted in addition of 2500 towers and 4000 tenants to the combined entity. The parentage of the company is marked by strong investors like New Silk Route (NSR) which holds 67.13% and India Infrastructure Fund II which holds 32.87%. The company is managed by a professional and experienced management team.

Stable growth trajectory in operating performance over the past few years

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

The operational performance of ATIPL has been on upward trend over the past 6-7 years with steady growth in tower/tenancy base and scale of operations. However, post FY17, tenancy ratio has declined from 2.01x due to intense competition from new entrant Reliance Jio Infocomm (rated CARE AAA/stable, CARE A1+) in telecom space leading to financial stress in incumbent telcos. The decline was partially offset with the entry of Reliance Jio Infocomm and network expansion of Bharti Airtel. The tenant base of ATIPL has increased from 8,769 tenants in FY2015 to 11,024 tenants in FY2020 resulting in CAGR growth of 2.92%, further tower base has also increased from 4,843 towers in FY15 to 6,316 towers in FY20 resulting in CAGR growth of 7.6%. The growth was supported by consistent tower additions over the past few years to cater to the expansion of network rollouts by Telcos led by 3G and 4G technology adaption and growing data consumption needs. Tenancy ratio has picked up in FY20 post regulatory clarity on payment of AGR dues following the Supreme Court decision. Further, ARPU (Average revenue per user) and ARPT (Average Revenue per tower) have also been increasing steadily over the past 5 years due to higher tenancy addition followed by improvement in lease rental rates.
During 9MFY21, the company has achieved revenue of Rs.601.42 crore and PAT of Rs.65.56 crore.

Revenue visibility due to long term MSA's in place with healthy mix of major telecom operators
Due to inherent nature of the tower infrastructure sharing business, ATIPL has entered into master service agreements with telecom operators including BSNL, Bharti Airtel Limited, Vodafone Idea Limited and Reliance Jio for leasing of its tower portfolio on a long term basis. The MSAs have lock in period embedded in the contract with escalation clauses for the IP (Infrastructure provisioning) fees, P&F (Power and fuel) recovery, lease rentals, exit penalties in case of early termination of contracts and upfront deposits to be maintained by Telco. Thus, the long term MSA provides revenue visibility over the next 8-10 years for the lease contract with Telcos. Further, the tenancy profile is well distributed over various lock-in maturity tenures as per respective contracts with the telcos with ~57% of total tenancies locked in as on September 30, 2020. Reliance Jio has the highest share of locked in tenancies with ~87% of total tenancies under RJIO, while BSNL has the highest proportion of long term lock in of more than 5 years at ~22.8% of total tenancies under BSNL.

Pivotal role of Passive infrastructure (towers) for operations of telecom operators; rising demand for data to support growth
Towers and telecom passive infrastructure play a vital role in the smooth operations of Telecom service providers. Over the past couple of years, major telecom operators have started giving off their tower assets from their business as move to reduce capex instensity and reduced lease costs by sharing infrastructure of Tower companies. Infrastructure sharing provides significant benefits to Telcos including better coverage & penetration, lower rental costs due to sharing, reduced deployment time, O&M efficiency, ease in migration to next-gen technologies and faster network rollout. Further, customer stickiness is quite high given the high switching costs of tenancy. The rising demand for data consumption coupled with introduction of 5G technology is expected to support the growth in the business of tower companies

Key Rating Weaknesses
Weak financial risk profile of telecom operators due to regulatory uncertainties and competition; improvement expected going forward
The Indian Telecom industry is facing a wave of challenges in terms of certain levies (license fee and SUC), higher spectrum prices, intense competition and AGR issues. The industry has been facing intense competition over the past 4-5 years which had resulted in significant decline in ARPUs of telcos and profitability margins followed by consolidation in the telecom industry resulting in shrinkage and significant tenancy losses for the tower industry till FY19 however has recovered in the past 20-24 months. Further, Hon'ble Supreme Court decision pertaining to AGR dues payment for spectrum fees is expected to further deteriorate the credit profile of telcos. The growth in revenue of ATIPL is linked to future network expansion and geographical penetration by tenants in the medium to long term resulting in higher tenancies for Tower companies. However, the constrained financial risk profile of tenants and any further pressure in the end user industry may have a significant influence on the operations of telecom tower players with regard to scale of network rollouts by telcos which drives the demand for towers and pressure on rental rates for towers due to limited bargaining power by smaller players, however considering the pivotal role of towers for operations of Telcos the risk is mitigated to some extent.
However, since most of the issues pertaining to the industry have now withered off, the financial profile of Telcos is expected to improve with recent tariff hikes, 5G technology adaption, staggered payment of AGR dues, which is expected to provide liquidity relief to the Telcos and modest growth prospects for tenancy addition.

Relatively moderate scale of operations with minuscule market share in the industry
Telecom tower companies with a relatively large portfolio of towers offer certain advantages to telcos, including rapid rollout over a large area and tenancy driven discounts. Further, large tower companies can access capital markets better to fund growth. These advantages make it somewhat difficult for the smaller tower companies to grow along with limited bargaining power with customers. ATIPL has a miniscule market share of ~1% in the tower industry thus resulting in limited bargaining

power with its tenants. Further, post consolidation of Telcos, competitive intensity has increased in the tower business for incremental business growth for new towers set up by the respective Towercos.

Leveraged Capital Structure and debt coverage metrics

The overall gearing of ATIPL (Including lease from finance liabilities) stood high at 4.09x as on March 31, 2020. The Net-worth base is moderate given the past accumulated losses leading to debit balance of Rs.431.40 crore and tangible Net-worth of Rs.284.5 crore as on March 31, 2020.

During March 2017, the company had issued Redeemable Optionally Convertible Debentures (unsecured) to India Infrastructure Fund II amounting to Rs.220 crore for the refinancing of Zero Coupon OCD of Rs.118 crore.

The debenture has a tenure of 5 years for redemption and carries an IRR of 14% out of which coupon of 7% shall be payable in semi-annual instalments and balance 7% to be accumulated and paid at the time of redemption on maturity. IIF 2 has the right to convert the OCD into equity based on trailing 12 months EBIDTA multiple conversion rate. As per confirmation received from company and investors, the OCD will not be redeemed without lender consent.

The company has also refinanced portion of existing term loan and partial repayment of OCD in order to reduce overall cost of borrowing.

Elongated collection of payments from BSNL

Out of the total receivables, dues from BSNL stood at around 67% as on September 30, 2020. Payments from BSNL are being realized with delay with around Rs.93 crore outstanding for more than 6 months (~54% of total dues from BSNL) BSNL has been making payments to the tune of 70-75% of monthly billing i.e. approximately Rs.8.5 crore per month and expected to step-up payments going forward. The primary objective of BSNL is to achieve 100% collection efficiency for monthly invoices and then gradually settle balance past dues over time. Going forward, with government revival package for BSNL, financial risk profile of BSNL is expected to improve. Outstanding amount from BSNL for more than 30 days as on September 30, 2020 stood at Rs.157 crore. However, excluding BSNL, outstanding receivables for major customers more than 30 days and less than 180 days stood at ~19%.

Industry Analysis – Telecom Tower Industry of India

The Indian telecom tower industry is highly concentrated in nature with a dominant market share by few players. Broadly tower companies can be categorized as: 1) Operator owned tower companies (for e.g. – Indus - Bharti Infratel (post-merger), Tower Infrastructure Trust (part of Brookfield & Reliance sponsored INVIT) 2) Independent tower companies (for e.g.- Tower Vision, Ascend, ATC & GTL Infra) 3) Towers owned by Government Operators (for e.g. - BSNL & MTNL).

However, going ahead the growth prospects for the Indian telecom industry are healthy with the telecom operators upgrading and expanding their network to meet rising data demand with the evolution of new revenue streams. The Indian tower industry is expected to grow with the expansion of 4G networks and rollout of 5G network. The various Government programs such as Digital India, Smart Cities & Bharat Net project will be the enablers for telecom infrastructure in the coming years. The tower companies are likely to look beyond traditional business models and capitalize on opportunities in areas such as Wi-Fi Hotspots, fiberization, etc. Implementing forward looking & enabling policies by the Government will play a pivotal role in faster roll-out of telecom infrastructure thereby establishing pervasive connectivity.

Liquidity: Adequate

The liquidity position of ATIPL is adequate with total cash and cash equivalents of Rs. 94.60 crore (Cash balance of Rs.27.6 crore and liquid investments in the form of mutual funds of Rs.67 crore) as on March 31, 2020 and Rs.233.33 crore (Cash balance of and liquid investments combined) as on February 28, 2021. The company has fund based limits of Rs.25 crore for its working capital requirement with low average utilization at 15% for 12 months ending October 2020. Further, the company is expected to generate total cash accruals of ~Rs.264 crore which are adequate to meet total debt obligations of Rs.161.10 crore in FY21.

Analytical approach: Consolidated approach has been taken since the 100% subsidiary, Demello Telepower Private Limited (DTPL) is engaged in similar business of telecom tower infrastructure in Goa circle.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation
Rating Methodology – Infrastructure Sector
Rating Methodology – Liquidity Analysis of Non-financial sector entities

About the Company
Incorporated on March 28, 2002, Ascend Telecom Infrastructure Private Limited, (ATIPL) (earlier known as Aster Infrastructure Private Limited, AIPL), holds a Category I infrastructure provider (IP-I) license issued by the Government of India. The company is mainly in the business of providing passive telecom infrastructure on lease to telecom operators and also offers allied services across India. The company has a total tower base of 6345 towers with over ~11,000 tenants and a presence in 19 out of 22 telecom circles (excluding 3 metro circles of Mumbai, Delhi and Kolkata). In March 2007, New Silk Route (NSR), a US based private equity fund made the first round of Investment into AIPL and subsequently acquired 100% stake in the company in April 2010 by buying out minority investors. In March 2012, pursuant to a scheme of arrangement, ATIPL completed a merger with India Telecom Infra Ltd. (ITIL) (which was jointly owned by TVS Interconnect Systems and IL&FS) for a cashless transaction, which effectively resulted in a large-sized towerco with total combined tower portfolio of 4000 towers.
During March 2017, India Infrastructure Fund II (IIF-II) (which was then managed by IDFC but now managed by Global Infrastructure Partners (GIP) India) acquired 32.87% stake in the company by buying out shares of IL&FS and TVS group and infusing additional equity. As on September 30, 2020, NSR PE has been the major promoter of the company with a 67.13% stake along with IIF-II (32.87%).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	698.20	788.90
PBILDT	351.60	404.80
PAT	146.50	84.40
Overall gearing (times)	6.20	4.09
Interest coverage (times)	2.46	2.76

A: Audited

Note: The financials have been reclassified as per CARE Standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	591.60	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Bank Overdraft	LT	25.00	CARE A-; Stable	1)CARE A-; Stable (15-Jan-21)	-	-	-

2.	Fund-based - LT-Term Loan	LT	591.60	CARE A-; Stable	1)CARE A-; Stable (15-Jan-21)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. DSCR (Debt Service Coverage Ratio)	More than 1.30x times
II. Interest Coverage Ratio (ICR)	More than 2.0x times
III. Fixed Asset Coverage Ratio (FACR)	More than 1.25x (for long term loans)
IV. TD/EBIDTA (Total Debt [excl. NCD] /EBIDTA)	Less Than 3.0x times
B. Non-financial covenants	
The Company shall undertake for infusion of fresh equity in case of any shortfall in projected revenue resulting in shortfall in debt servicing	
NCD/OCD to remain subordinated to the bank facilities	

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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