Ascend Telecom Infrastructure Private Limited

January 07, 2022

Ratings

Facilities*	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	813.00 (Enhanced from 616.60)	CARE A-; Positive (Single A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	**813.00 (Rs. Eight Hundred Thirteen Crore Only)**		

* Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the long term bank facilities of Ascend Telecom Infrastructure Private Limited (ATIPL) factors in the company's established track record of operations in the passive telecom infrastructure space, experienced PE (private equity) investors, consistent improvement in the operational performance of the company, revenue visibility due to long term master service agreements (MSA) with a healthy mix of major telecommunications service providers (TSPs) having embedded lock-ins, escalations and early termination penalties. The rating also derives strength from the comfortable financial risk profile and healthy liquidity of the company and the expected improvement in the credit profile of its clientele i.e. TSPs, amidst a favourable industry scenario.

The rating is, however, tempered by the company's relatively modest scale of operations and a low market share of around 2%, capital intensive nature of operations, leveraged capital structure and relatively high exposure to TSPs with weak financial risk profile. Further, the rating also remains tempered by the elongated collection periods with ~86% of the receivables from Bharat Sanchar Nigam Limited (BSNL, CARE AAA (CE); Stable and Vodafone Idea Limited (VIL, CARE B-, Under Credit Watch with Negative Implications) as on September 30, 2021, wherein, the recoveries are yet to show traction. The company's ability to recover its past outstanding dues along with timely realisations on a sustained basis will remain a key rating sensitivity.

Rating Sensitivities

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

- Improved efficiency in monthly collections on a continual basis
- Sustained growth of 10%-15% in the total revenues with stable tenancy ratio of $\geq$ 1.75x
- Improvement in capital structure / or reduction in interest costs of the company leading to comfortable coverage indicators

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

- Decline in tenancy ratio to below 1.50x
- Any deterioration in the collection efficiencies resulting in a stretched liquidity profile
- Deterioration in the leverage (Total debt/ PBILDT) to beyond 3x

Outlook: Positive

The outlook for the long-term facilities of ATIPL has been revised from Stable to Positive on account of expected improvement in the credit profile of TSPs, amidst a favourable industry outlook post recent telecom reforms announced by the GoI in September 2021, imparting better collection efficiencies for towercos (tower companies). Furthermore, with TSPs willing to expand their network base post the telecom reforms, including 4G and 5G roll outs, a healthy demand for towers can be expected, which is going to benefit the towercos including ATIPL with increased tenancies. As conveyed by the company management, the capex for expanding the tower base to cope with the increased demand shall be funded at a low DER (debt to equity ratio). Additionally, as articulated by the management, ATIPL is exploring to refinance its existing term loans and Optionally Convertible Debentures (OCDs) at competitive interest rates, which if materialised is expected to improve its debt coverage ratios. The outlook may be revised to stable if the company is unable to improve its capital structure/ coverage ratios or pursues aggressive growth capex, majorly funded by debt, at a low tenancy ratio.

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated operational track record with a strong PE investor profile

ATIPL has a presence in the telecom tower business for nearly two decades now, with a 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 the addition of 2,500 towers and 4,000 tenants to the combined entity. Subsequently, with a steady increase in rollout of telecommunication services in India, the total tower base of the company has grown to 6,685 towers and 11,668 tenants as on September 30, 2021.

The parentage of ATIPL is marked by strong investors like New Silk Route (NSR), which holds 67.13% and India Infrastructure Fund II (IIF-II), which holds 32.87% as on September 30, 2021. The company is managed by a team of professional and experienced personnel. Dr. Sushil Kumar Chaturvedi is the CEO of ATIPL, leading since 2012. He is an accomplished Telecom

[1]Complete definitions of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

professional with over 3 decades of experience having served as Director of BSNL and recipient of the President's Medal for his distinguished Telecom services.

Consistent improvement in operating performance

The overall operating metrics of ATIPL have displayed consistent improvement over the past years, with sustained growth in the company's tower base and tenancies, except decline in tenancies post FY17. The decline in tenancies was on account of consolidation in the telecom industry and the exit of weak TSPs, partially offset with the entry of Reliance Jio Infocomm Limited (Jio, CARE AAA; Stable/ CARE A1+) and the network expansion of Bharti Airtel Limited (BAL). With the stabilisation of the industry and the latest announcement of telecom reforms by the Government of India (GoI), TSPs are expected to increase their capex spends, resulting in increased demand for passive infrastructure. The tower base and corresponding tenancies are expected to rise, based on the increased demand of infrastructure by the TSPs; however, the ability of the company to maintain a stable tenancy ratio will remain a key monitorable, going forward.

The total tower base of ATIPL displayed a growth of 5.84% from 6,316 towers as on March 31, 2020, to 6,685 towers as on September 30, 2021, with an increase of tenants from 11,024 as on March 31, 2020 to 11,668 as on September, 2021. Further, the tenancy ratio of the company remained stable at 1.75x (one of the highest in the tower industry), with a steady increase in average revenue per tower and average revenue per tenant, on the back of improvement in lease rentals.

Revenue visibility due to long term MSAs and a healthy mix of major TSPs

Due to the inherent nature of the tower industry, ATIPL has entered into MSAs with all major telecom operators including Jio, BAL, Vodafone Idea Limited (VIL, CARE B-, Under Credit Watch with Negative Implications), and BSNL, for leasing its tower portfolio on a long-term basis. The MSAs have lock-in periods embedded in the contract with escalation clauses for the IP (Infrastructure provisioning) fees, P&F (Power and fuel) recovery and lease rentals, with exit penalties in case of early termination of contracts and upfront deposits to be maintained by the TSPs. Thus, these long term MSAs provide revenue visibility over the next 8-10 years extended by the customer stickiness due to high switching costs.

Further, the tenancy profile of ATIPL is diversified with the major TSPs contributing almost equally to the total tenancies of the company with various lock-in maturity tenures as per respective contracts with the TSPs. Around 52% of the total tenancies are locked-in as on September 30, 2021.

Pivotal role of Passive infrastructure (towers) for the operations of TSPs; rising demand for data to support growth

Passive infrastructure providers play a vital role in the smooth operations of the TSPs and their growth is directly linked to the performance and outlook for the telecommunication industry. Over the past couple of years, major telecom operators have been shifting their tower assets from their business, to reduce capex intensity and have been sharing infrastructure to decrease rental costs. Infrastructure sharing provides significant benefits to the TSPs including improvement in coverage and better penetration at lower rental costs, and also decreases deployment time, increases O&M efficiency, and makes network rollouts faster with ease of migration to the latest technologies. Further, the rising data consumption by consumers requiring better coverage, combined with the introduction of 5G technology is expected to support the growth in the business.

Comfortable financial risk profile albeit relatively moderate scale of operations and low market share

During FY21, the total operating income of ATIPL increased by 5.80% to Rs.834.70 crore despite the pandemic, wherein, the TSPs deferred their capex plans. The revenue is expected to increase further, on account of expected capex plans of TSPs post telecom reforms, rollout of 5G services, and BSNL's rollout of 4G services beginning September 2022. Furthermore, with majority TSPs availing moratorium on adjusted gross revenue (AGR) related liabilities, the collection efficiencies of towercos is also expected to improve. The PBILDT of ATIPL remained healthy at Rs.406.70 crore (PBILDT margin: 48.72%) and PAT of Rs.71.30 crore (PAT margin: 8.54%) during FY21.

Towercos with relatively large portfolio of towers offer certain advantages to the TSPs, 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 smaller towercos to grow along with limited bargaining power with customers. While ATIPL's size is relatively small with a market share of around 2%, the company has strong parentage along with superior operating metrics with uptimes up to 99.89% and high tenancy ratio. However, post consolidation of the TSPs, competitive intensity has increased in the tower business with new captive towers being set up by the respective towercos.

Favourable Industry outlook

In a much-awaited relief for the telecom sector, the GoI announced major reforms aimed at addressing the liquidity issue of the TSPs, encouraging investment and to promote healthy competition in the industry. As per CARE Edge Reports, moratorium up to four years in payment of AGR and spectrum dues is expected to free up cash of about Rs.45,000 crore annually for the TSPs along with release of Bank Guarantee (BG) limits aggregating ~Rs.30,000-32,000 crore. Besides reduction in BG requirement towards License Fee (LF) & other levies (estimated to release non-fund-based limits of TSPs by ~Rs.10,000 crore) and allowance of 100% Foreign Direct Investment (FDI) are bound to resurrect the confidence of the stakeholders in the medium term. As per the reforms, majority TSPs have availed the 4-year moratorium on AGR related dues and BGs are expected to be released, freeing up liquidity in the medium term for the capex plans of the TSPs. Further, the TSPs have taken tariff hikes of around 25% which will increase the ARPUs and provide liquidity for network expansion and 5G rollout plans.

As the telecom industry has stabilized, so has the tower industry. While there is intense competition in the telecom industry, it bodes well for the tower industry, as the TSPs compete to increase their subscriber base, by increasing coverage. The demand for passive infrastructure is thus expected to surge on the back of network expansion plans, and rollout expectations of 5G and 4G by TSPs, supporting growth in the tower industry for the coming years. Further, the liquidity relief for medium term to the

TSPs is also expected to result in better collection efficiencies by the towercos. Going ahead, prospects of growth for the Indian telecom industry are healthy with the telecom operators upgrading and expanding their network to meet demand for rising data growth with the evolution of new revenue streams. Various Government programs such as Digital India, Smart Cities & BharatNet project will be the enablers for telecom infrastructure in the coming years. The tower companies will look beyond traditional business models and capitalize on opportunities in areas such as WiFi Hotspots, Fiberization, etc., and forward looking and enabling policies by the GoI will play a pivotal role in faster rollout of telecom infrastructure thereby establishing connectivity.

Key Rating Weaknesses
Capital intensive nature of operations
The passive infrastructure business is highly capital intensive due to the significant initial setup costs towercos have to incur, to build sites, with a gestation period of about 1-2 months for the revenues from addition of tenancies to kick in. Further, tower companies also have to incur routine maintenance and replacement costs for its existing tower base. However, these risks are partly mitigated for ATIPL due to deployment of third-party vendors for the maintenance of towers and also as the company does rollouts only on confirmed orders from anchor tenants supported by presence of shared tenant for increased tenancy ratios, which significantly mitigates the revenue risk. Further, ATIPL has been able to reduce its capex costs per tower through design rationalization over the years, which would continue to be a key rating monitorable.

Leveraged capital structure albeit expected improvement in debt coverage metrics
The overall gearing (including lease liabilities) of ATIPL improved to 3.18x (PY: 4.09x) as on March 31, 2021 on account of increase in networth due to accretion of profits. While the networth remained moderate at Rs.357.20 crore as on March 31, 2021, the same is expected to increase with revenue visibility through MSAs and positive industry growth prospects.
During March 2017, the company issued Redeemable/ Optionally Convertible Debentures (Unsecured) to IIF-II amounting to Rs.220 crore for the refinancing of Zero Coupon OCDs of Rs.118.66 crore and accumulated outstanding premium of Rs.99.67 crores. The debentures raised have a tenure of 5 years for redemption (March 31, 2022) with 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-II has the right to convert the OCD into equity based on trailing 12 months EBIDTA multiple conversion rate.
During FY21, ATIPL raised term loans of Rs.370 crore, which were used to refinance portion its existing term loans and partly repay OCDs and its accrued interest amounting to Rs.170 crore. The same has resulted in lower interest costs which are expected to further decrease as the company plans to refinance its existing debt at reduced interest costs with a longer repayment schedule. As per confirmation received from the management, the balance OCDs shall also be refinanced. The leverage level (Total debt/ PBILDT) has also improved from 3.51x in FY19 to 2.79x in FY21, which if the company funds its growth capex majorly from internal accruals, is expected to remain comfortable.

Elongated collection periods with some of the key tenants
While the tenancies of the company are fairly distributed with all the major TSPs, the exposure to TSPs with weak financial risk profile continues to be significant. About 86% of the receivables are from BSNL and VIL as on September 30, 2021, which contribute to around 46% of the total tenancies. The collection efficiency of the company moderated in FY21 on account of the pandemic with delay in payment from customers resulting in a stretched collection period of 77 days (PY: 56 days). The ability of the company to significantly improve the collection efficiency remains a key credit monitorable.

Liquidity: Strong
ATIPL has total balances of Rs.311.94 crore as on November 30, 2021. This includes free cash and bank balances of Rs.35.11 crore, liquid investments in mutual funds of Rs.222.26 crore and DSRA of Rs.54.57 crore (covering 2 quarter interest and repayment obligations) as against debt obligations of Rs.38.00 crore for H2FY22 and Rs.89.90 crore for FY23. Further, it has fund-based bank limits of Rs.25 crore, for which the utilization remains low, providing additional liquidity buffer to the company.

Analytical approach: Consolidated approach has been adopted, wherein, the financials of ATIPL's 100% subsidiary, Demello Telepower Private Limited (DTPL), have been considered on account of similar business of the subsidiary in the Goa circle.

Name of subsidiary	% shareholding of ATIPL as on March 31, 2021
Demello Telepower Private Limited (DTPL)	100%

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Infrastructure Sector Ratings

About the Company
Incorporated on March 28, 2002, ATIPL (earlier known as Aster Infrastructure Private Limited, AIPL), holds a Category I infrastructure provider (IP-I) license issued by the GoI. 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 presence in 20 out of 22 telecom circles (excluding the metro circles of Mumbai and Kolkata) with a tower base of 6,685 towers and 11,668 tenants.

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, 2021, NSR PE has been the major investor in the company with a 67.13% stake along with IIF-II (32.87%). Furthermore, as per discussions with the management, entities managed by GIP have already entered into a share purchase agreement during December 2021 with NSR, for buy-out of entire stake. The transaction is expected to be consummated by March 2022.

Brief Financials (Consolidated) (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	788.90	834.70	437.30
PBILDT	404.80	406.70	203.70
PAT	84.40	71.30	53.40
Overall gearing (times)	4.09	3.18	2.71
Interest coverage (times)	2.76	2.80	3.15

A: Audited; UA: Unaudited
Note: The financials have been reclassified as per CARE Standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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-Bank Overdraft	-	-	-	25.00	CARE A-; Positive
Fund-based - LT-Term Loan	-	-	March 2029	788.00	CARE A-; Positive

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Bank Overdraft	LT	25.00	CARE A-; Positive	-	1)CARE A-; Stable (15-Jan-21)	-	-
2	Fund-based - LT-Term Loan	LT	788.00	CARE A-; Positive	1)CARE A-; Stable (06-Apr-21)	1)CARE A-; Stable (15-Jan-21)	-	-

LT: Long Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Debt Service Coverage Ratio (DSCR)	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/EBITDA (Total Debt [excl. NCD]/ EBITDA)	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 instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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