Ascend Telecom Infrastructure Private Limited

May 13, 2022

Ratings

Facilities*	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	810.00 (Reduced from 813.00)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Short-term Bank Facilities	15.00	CARE A1 (A One)	Assigned
Total Bank Facilities	**825.00 (Rs. Eight hundred twenty-five crore only)**		

* Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of Ascend Telecom Infrastructure Private Limited (ATIPL) factors in the change in its ownership, successful refinancing of its term loans and Optionally Convertible Debentures (OCDs) at competitive interest rates leading to improvement in the debt coverage ratios and traction in recoveries from telecommunications service providers (TSPs) with weak financial risk profile. With TSPs willing to expand their network base, amidst a favourable industry outlook, including 4G and 5G roll outs, is likely to augur well for towercos (tower companies) including ATIPL with enhanced tenancies. As conveyed by ATIPL's management, its growth capex to cope with the increased demand shall be consciously funded at a low DER (debt to equity ratio). Thus, the ability of the company to maintain its capital structure and operational metrics while increasing its market share and recover its long outstanding dues combined with timely realisations on a sustained basis constitute the key rating monitorable.

Furthermore, the ratings remain underpinned by ATIPL's established track record of operations in the passive telecom infrastructure space, consistent improvement in the operational performance over the years, revenue visibility due to long term master service agreements (MSA) with a healthy mix of major TSPs having embedded lock-ins, escalations and early termination penalties. The ratings also derive strength from ATIPL's comfortable financial risk profile and healthy liquidity with an expected improvement in the credit profile of its clientele i.e. TSPs, amidst a favourable industry scenario.

The aforementioned rating strengths are, 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. Furthermore, the ratings also remain tempered by the elongated collection periods, albeit improved, with ~82% of the receivables from Bharat Sanchar Nigam Limited (BSNL, CARE AAA (CE); Stable) and Vodafone Idea Limited (VIL, CARE B+, Stable) as on March 31, 2022.

Rating Sensitivities

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

- Sustained efficiency of 100% in monthly collections
- Steady growth of 10%-15% in the total revenues with stable tenancy ratio of $\geq$ 1.75x
- Improvement in the leverage (Total debt/ PBILDT) to < 2.5x

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

- Decline in tenancy ratio to below 1.50x
- Significant deterioration in the collection efficiencies resulting in a stretched liquidity profile
- Large debt funded capex/inorganic growth leading into deterioration in the leverage (Total debt/ PBILDT) beyond 3x

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated operational track record with a strong private equity (PE) investor profile

ATIPL has a presence in the telecom tower business for nearly two decades, 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 7,051 towers and 12,203 tenants as on March 31, 2022.

As on March 23, 2022, New Silk Route (NSR) exited and 100% stake in ATIPL is now held by Global Infrastructure Partners India LLP (GIP) through India Infrastructure Fund II (IIF-II) and GIP EM Ascend Pte Ltd. Thus, the company has a strong parentage in GIP which is one of the world's largest infrastructure investors investing in core infrastructure sub-sectors including transport, energy and utilities, telecommunications infrastructure and urban infrastructure. Backed by a strong investor with 100% ownership, ATIPL enjoys greater financial flexibility to raise funds from the capital markets or banking system. Furthermore, the company is managed by a team of professional and experienced personnel. Dr. Sushil Kumar Chaturvedi, the CEO of ATIPL since 2012, has over three decades of experience in the telecom industry, wherein, he has served as a Director of BSNL and recipient of the President's Medal for his distinguished Telecom services.

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

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 (CAGR of around 5% from FY18 to FY22) and tenancies (CAGR of around 3% from FY18 to FY22), except decline in tenancies post FY17. The decline in tenancies was on account of consolidation in the telecom industry resulting in the exit of weak TSPs. This was partially offset by the entry of Reliance Jio Infocomm Limited (Jio, CARE AAA; Stable/ CARE A1+) and the network expansion programme by 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 like telecom towers. However, the ability of the company to increase its market share while maintaining stable tenancy ratio will remain a key monitorable, going forward.
The total tower base of ATIPL displayed a growth of 7.42% from 6,564 towers as on March 31, 2021, to 7,051 towers as on March 31, 2022, with an increase of tenants from 11,435 as on March 31, 2021, to 12,203 as on March 31, 2022. Further, the tenancy ratio of ATIPL remained stable at 1.73x (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, VIL, 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 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 further increase going forward, 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. As informed by the management, the company has registered a TOI of Rs.900 crore during FY22 (provisional).
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.

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. In line with the aforesaid reforms, majority TSPs have availed the 4-year moratorium on AGR related dues and significant quantum of BGs have also been 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 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 2022, ATIPL refinanced its entire term debt (Rs.510 crore) and raised additional term loans (Rs.140 crore) to retire balance OCDs, amounting to Rs.137.00 crore (Rs.92.80 crore OCDs and Rs.44.20 crore accrued interest) issued to IIF-II during March 2017. AITPL has further availed sanction of Rs.100.00 crore term loans, for the purposes of capital expenditure, which is available for drawdown till March 31, 2023. The refinanced debt has been availed at competitive rates for a longer repayment schedule which has resulted in lower interest costs and improved debt coverage ratios. Furthermore, the debt has been availed at an assortment of fixed and floating rates of interest which is expected to partially mitigate the risk arising out of interest rate fluctuations. The leverage level (Total debt/ PBILDT) has also improved from 3.51x at the end of FY19 to 2.79x at the end of FY21, which if the company continues to fund its growth capex majorly from internal accruals, is expected to remain comfortable. Any large debt funded capex/ inorganic growth leading to moderation in the leverage level (Total Debt/ PBILDT) beyond 3x, is a key rating sensitivity.

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 82% of the receivables are from BSNL and VIL as on March 31, 2022, which contribute to more than 40% 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). However, as per articulation by the management, the collection efficiency w.r.t these TSPs has improved with expectation of recovery of long-standing dues during FY23. Thus, the ability of the company to maintain 100% collection efficiency for monthly billing on a sustained basis remains a key credit monitorable.

Liquidity: Strong
ATIPL had total balances of Rs.336.90 crore as on March 31, 2022, which includes free cash and bank balances of Rs.36.90 crore and liquid investments in mutual funds of Rs.300 crore, including DSRA of Rs.55 crore for the refinanced debt, as against debt obligations of Rs.52.00 crore for FY23. Furthermore, it has fund-based bank limits of Rs.35 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, 2022
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
Short Term Instruments
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 7,051 towers and 12,203 tenants. NSR, a US based private equity fund, exited as on March 23, 2022, and 100% stake in ATIPL is now held by GIP, one of the world's largest infrastructure investors, through IIF-II (managed by GIP) and GIP EM Ascend Pte Ltd (investing vehicle in

Singapore). Thus, the company has a strong parentage in GIP which is investing in core infrastructure sub-sectors including transport, energy and utilities, telecommunications infrastructure and urban infrastructure.

Brief Financials (Consolidated) (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (UA)
Total operating income	788.90	834.70	900.03
PBILDT	404.80	406.70	NA
PAT	84.40	71.30	NA
Overall gearing (times)	4.09	3.18	NA
Interest coverage (times)	2.76	2.80	NA

A: Audited; UA: Unaudited; NA: Not Available
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	-	-	-	60.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	March 2032	750.00	CARE A; Stable
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A1

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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Bank Overdraft	LT	60.00	CARE A; Stable	-	1)CARE A-; Positive (07-Jan-22)	1)CARE A-; Stable (15-Jan-21)	-
2	Fund-based - LT-Term Loan	LT	750.00	CARE A; Stable	-	1)CARE A-; Positive (07-Jan-22) 2)CARE A-; Stable (06-Apr-21)	1)CARE A-; Stable (15-Jan-21)	-
3	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A1	-	-	-	-

LT / ST: Long Term / Short 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 Gross Debt/ EBITDA (EBITDA to be calculated on the basis of I-GAAP accounting method)	Less than 3.5x times
B. Non-financial covenants	
I Debt Service Reserve Account (DSRA)	The borrower shall open and maintain a DSRA to meet the debt service requirements for the amount equivalent to the ensuing 1 quarter's principal and interest payment obligations.

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
3	Non-fund-based - ST-Letter of credit	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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