ATC Telecom Infrastructure Private Limited (Revised)

April 18, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the non-convertible debenture (NCD) issue of ATC Telecom Infrastructure Private Limited (ATC TIPL) with immediate effect, as the company has repaid the aforementioned NCD issue in full and there is no amount outstanding under the issue as on date. The company exercised the call option for the early redemption of ₹4,200 crore non-convertible debentures (NCDs) and redeemed the same as on March 29, 2023, through existing liquidity and cash accruals, reducing the overall debt. However, the company maintains sufficient liquidity and enjoys financial flexibility due to a strong parentage. Furthermore, Vodafone Idea Limited (VIL, rated CARE B+; Positive/CARE A4) has issued optionally-convertible debentures (OCDs) to ATC TIPL, aggregating ₹1,600 crore, part of which has been utilised to pay dues to ATC TIPL as per master lease agreements, and the balance towards general corporate purposes of VIL.

The rating assigned to the long-term bank facilities of ATC TIPL takes into account the visibility in recovery of past dues from a key customer and a favourable demand outlook for the industry on account of 4G and 5G rollouts expected for FY24. The rating continues to derive comfort from ATC TIPL's strong parentage with 100% stake held by American Tower Corporation (ATC), and the financial and managerial support extended by ATC. Furthermore, the rating also factors in the strong market position of ATC TIPL emanating from its large tower portfolio with a well-distributed geographical presence, revenue visibility due to long-term master service agreements (MSAs) and its strong liquidity position.

The rating is, however, tempered by the capital-intensive nature of operations, expected moderation in operating profit margin on account of likely provisions to be created for receivables from weaker TSPs, leveraged capital structure, revenue concentration with a telecommunications service provider (TSP) having weak financial profile and its moderate tenancy ratio. Going forward, the ability of the company to improve its tenancy ratio while maintaining its profitability margins, recovery of long pending dues along with timely realisations on a sustained basis shall remain the key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance/ improvement in the market share with increase in the tenancy ratio beyond 1.65x.
- Sustained efficiency of 100% in monthly collections

Negative factors

- Significant decline in the tenancy ratio.
- Any deterioration in the collection efficiencies on account of deterioration in financial health of the key tenants resulting in a stretched liquidity profile.

Analytical approach: Standalone.

The rating also factors in the operational and financial support extended by its promoter group companies.

Outlook: Positive

The outlook for the rating of ATC TIPL has been revised from Stable to Positive on account of expected visibility in recovery of past dues from a key customer and a favourable demand outlook for the industry leading to improvement in tenancies. The outlook may be revised to stable if the company is unable to increase its tenancies or is unable to recover past dues along with slow realisations.

Key strengths

Large tower portfolio with pan-India presence

ATC TIPL is the third-largest independent telecom tower company in India, both in terms of number of towers and tenants, with a pan-India presence and a well-positioned portfolio with a significant presence in all the telecom circles. Over the years, the company has acquired several towers to increase its footprints in India along with its market share. Since launching of the operations in India in 2007, ATC TIPL's portfolio has now expanded to over 77,000 sites and has a considerable tower market share of around 17%. These towers are well-distributed geographically across all major circles in India.

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

Visibility in recovery of old dues

During FY22, the total operating income (TOI) increased by 7% to ₹9,066 crore as against ₹8,682.29 crore in FY21, on account of increase in the number of tenants. However, the PBILDT margin declined and stood at 45.91% in FY22 (PY: 48.31%) on account of increased power costs and higher provisions created for doubtful receivables.

9MFY22 Performance: The TOI of the company decreased by about 9% on a y-o-y basis from ₹6,828 crore in 9MFY22 to ₹6,212 crore in 9MFY23. The same has been on account of deferment of revenue recognition for a key tenant due to shortfall in the payment from the same. While the profitability of the company was impacted due to impairment losses due to revaluation of intangible assets, there has been no impact on cash accruals. Going forward, the financial performance of the company is expected to improve due to a healthy demand outlook and accelerated capex plan of TSPs for 4G and 5G rollouts. Additionally, OCDs issued by VIL have provided visibility in the recovery of past dues for ATC TIPL due to the fixed repayment schedule of the OCDs.

Revenue visibility due to long-term MSAs albeit revenue concentration with a weak TSP

ATC TIPL has entered into MSAs with all the major telecom operators, for leasing its tower portfolio on a long-term basis. The MSAs have a lock-in period embedded in the contract with escalation clauses and exit penalties in case of early termination of contracts. While the long-term MSAs provide revenue visibility over the next 3-5 years, almost one-third of the revenue is concentrated with one of the TSPs having weak financial profile, which remains a key rating monitorable.

Pivotal role of passive infrastructure 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. CARE Ratings expects the rising data consumption by the consumers requiring better coverage, combined with the introduction of 5G technology to support the growth in the business. Furthermore, due to the critical nature of passive infrastructure for the operations of TSPs, the revenue of towercos is relatively insulated with high customer stickiness in the industry due to high replacement costs, reducing renewal risk on MSAs.

Experienced and resourceful promoters

ATC TIPL is a wholly-owned subsidiary of ATC Asia Pacific Pte Ltd (ATC Singapore), which in turn is a step-down subsidiary of ATC. Headquartered in Boston, USA, the ultimate parent of ATC TIPL, ATC, is one of the largest global tower companies and a leading independent owner, operator and developer of wireless and broadcast communications real estate. It started operations in 1995 with a tower portfolio of 2,700 towers and currently has a portfolio of approximately 225,000+ towers. The promoter group also extended financial support [in the form of external commercial borrowings (ECBs) and NCDs], for funding the acquisition of towers of Vodafone and Idea in 2018. Backed by strong sponsor, ATC TIPL enjoys financial flexibility and the ability to raise funds from the capital market or banking system, if the need arises. The company is driven by professionals with extensive experience in the telecom sector. The Group's India operations are looked after by Sanjay Goel (ATC's Executive Vice President and President, Asia-Pacific), who heads the group's initiatives in the Asia-Pacific region. He joined ATC in March 2021 and has an experience of over 20 years in the telecom industry.

Favourable industry outlook

Post announcement of the telecom reforms by the GoI in September 2021 and the liquidity relief for the medium term, the TSPs have increased their capex spending to comply with 4G and 5G rollout obligations and compete to gain subscribers by increasing coverage. 5G rollouts are expected to increase the demand for passive infrastructure in FY24 and will also be supported by the expected rollout of 4G by BSNL starting March 2023. Although the TSPs are moving forward with the implementation of non-standalone architecture (NSA) for 5G network, in a bid to lower initial capex spending, the demand is positively set to increase.

Furthermore, the liquidity relief for medium term to the TSPs has also resulted 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 and changing technologies. The towercos will look beyond traditional business models and capitalise on opportunities in areas, such as WiFi Hotspots, Fiberisation, 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 weaknesses

Moderate tenancy ratio with expected improvement

The tenancy ratio of the company marginally improved to 1.54x as on December 31, 2022, as against 1.51x as on September 30, 2021, on account of increasing number of tenants, which stood at 119,922 as on December 31, 2022, as against 114,046 as on

September 30, 2021. 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 improve its tenancy ratio will remain a key monitorable, going forward.

Capital intensive nature of operations

The passive infrastructure business is highly capital intensive on account of the significant initial setup costs that the 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. Furthermore, tower companies also have to incur routine maintenance and replacement costs for its existing tower base. However, these risks are partly mitigated for ATC TIPL due to its strong parentage providing easy access to capital markets. Furthermore, ATC TIPL has been able to reduce its capex costs per tower through design rationalisation over the years and deploys third-party vendors for the maintenance of towers which also helps in mitigating the risk to some extent.

Leveraged capital structure

The capital structure of the company remains leveraged with an overall gearing of 4.04x as on March 31, 2022, as against 5.77x as on March 31, 2021, which significantly improved on account of accretion of profits and decreasing debt due to scheduled repayments. The total debt of the company stood at ₹14,131 crore (including NCDs of ₹4,200 crore, ECBs of ₹4,155 crore, and lease liabilities of ₹5,776 crore) as on March 31, 2022. The term debt of the company aggregating ₹8,355 crore consists of debt from overseas group company only, with a long repayment tenure, and there was no external debt outstanding as on March 31, 2022. While the company exercised the call option for the early redemption of ₹4,200 crore NCDs and redeemed the same in full as on March 29, 2023, reducing the overall debt; the net debt to PBILDT (2.56x as on March 31, 2022) is expected to remain at similar levels due to redemption through existing liquidity and cash accruals. However, the company maintains sufficient liquidity buffer in the form of unutilised working capital limits and enjoys financial flexibility due to strong parentage.

Deteriorated credit profile of the key customer albeit some respite due to positive developments

The overall credit profile of the key customer of ATC TIPL has eroded and is incurring losses due to hyper competition in the telecom sector. However, there have been few developments which indicate movement in a positive direction for the key customer. Tariff hikes of up to 25% during November 2021, release of financial bank guarantees by the DoT, equity infusion by existing promoters, and the conversion of interest due to deferment of DoT obligations into equity, are some of the positive developments that took place for the key customer during FY22-23. However, the ability of the company to increase its collection efficiency w.r.t the key customer and recover past dues will remain a key rating monitorable.

Liquidity: Strong

The liquidity position of the company is strong with cash accruals of ₹2,460 crore during 9MFY23 sufficient to meet debt obligations of ₹177.20 crore for FY23 (already repaid ₹88.60 crore during 9MFY23) and general capex requirements. Furthermore, the company had free cash and bank balances of ₹3,925 crore as on January 31, 2023, parked majorly in FDs, and sanctioned fund-based working capital limits of ₹791.00 crore, which remained unutilised. However, the free cash & bank balance is relatively lower as on March 31, 2023, on account of redemption of NCDs through existing unencumbered liquidity. The company's reliance on external funding for day-to-day operations is very limited and there is sufficient liquidity backup available from the unutilised working capital limits. The debt (excluding lease liabilities) remaining in the company is from the overseas group companies only, with majority debt having scheduled repayments for a long tenure.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition]
[Factoring Linkages Parent Sub JV Group]
[Financial Ratios – Non-financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Infrastructure Sector Ratings]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Other Telecom Services

ATC TIPL (erstwhile Viom Networks Limited) is engaged in the deployment and commissioning of telecommunication towers across India to TSPs. It was renamed to the present name, ATC Telecom Infrastructure Pvt Ltd (ATC TIPL), in June 2016, after, ATC, a leading independent owner, operator and developer of wireless and broadcast communications, acquired 51% stake in Viom Networks Ltd. ATC through its step-down subsidiary, ATC Singapore, holds 100% stake in ATC TIPL as on December 31, 2022. The total number of towers of the company stood at 77,648 as on December 31, 2022.

Brief Financials* (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	9MFY23 (UA)
TOI	8,471.30	9,066.15	6,211.84
PBILDT	4,092.52	4,162.09	2,691.52
PAT	448.86	639.88	(2,220.76)
Overall gearing (times)	5.77	4.04	NA
Interest coverage (times)	3.25	3.37	2.93

A: Audited; UA: Unaudited; NA: Not available Note: 'the above results are latest financial results available'
Note: Financials have been classified as per CARE Ratings' internal 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE999J08052	05-02-2018	8.50	05-02-2026	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	791.00	CARE AA-; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	791.00	CARE AA-; Positive	-	1)CARE AA-; Positive (02-Mar-23)	1)CARE AA-; Stable (07-Feb-22)	1)CARE AA-; Negative (31-Mar-21) 2)CARE AA-; Negative (24-Apr-20)
2	Non-fund-based - LT-BG/LC	LT	-	-	-	-	-	1)Withdrawn (24-Apr-20)
3	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (24-Apr-20)
4	Debentures-Non-Convertible Debentures	LT	-	-	-	1)CARE AA-; Positive (02-Mar-23)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No	Name of instrument	Complexity level
1	Debentures-Non-Convertible Debentures	Simple
2	Fund-based - LT-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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