Tower Vision India Private Limited

April 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	650.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to long-term bank facilities of Tower Vision India Private Limited (TVIPL) principally factors the initiation of the company amalgamating with its parent entity, Ascend Telecom Infrastructure Private Limited (ATIPL). Considering the likely amalgamation, CARE Ratings Limited (CARE Ratings) has combined operational and financial parameters of TVIPL and ATIPL (together referred as Ascend group or group hereafter) for arriving at the rating of TVIPL, while factoring linkages with its ultimate private equity (PE) parent, funds managed by Global Infrastructure Partners (GIP).

TVIPL was acquired by ATIPL in June 2023 through a mix of debt and equity from ATIPL's holding company (holdco) and utilising its existing liquidity. Post acquisition, ATIPL holds about 93% shareholding in TVIPL and the balance of about 7% is held by GIP EM Ascend 2 Pte Ltd (among the holding entities of ATIPL). With about 18,000 towers and about 30,000 tenants, the acquisition has positioned the Ascend group as the fourth-largest player in the passive infrastructure telecom industry with a relatively superior tenancy ratio of 1.66x. Going forward, CARE Ratings expects the Ascend group to capitalise on operational synergies, resulting in enhanced cost-efficiency.

Rating is underpinned by the Ascend group's established operational track record, consistently improving operational performance, revenue visibility due to long-term master service agreements (MSAs) with telecommunication service providers (TSPs) having embedded lock-ins, escalations and early termination penalties, and an improved mix of operator's credit profile. Rating also derives strength from the group's strong liquidity position; however, the company's collection period appears to be elongated due to delays from a key customer.

Rating also factors the 100% shareholding of the group by funds managed by GIP, thus strengthening financial flexibility and stable demand outlook for the industry on 4G and 5G rollouts. The presence of minimum cash balances over and above a debt service reserve account (DSRA) covering three months' interest and repayment obligations for bank facilities are other credit positives.

Post acquisition, there has been an increase in ATIPL's borrowings through acquisition debt, which has increased the leverage of the Ascend group. This debt has been raised from foreign lenders at the holdco level and infused in ATIPL as non-convertible debentures (NCDs), with terms mirroring the foreign debt. As NCDs have significant bullet repayment at maturity, the group is exposed to refinancing risk. Thus, significant dividend payments from cashflows beyond envisaged levels of the Ascend group will be a key monitorable. However, the asset's longer useful life, healthy tenancy ratio, and GIP's strong parentage mitigate the refinancing risk to an extent. Post amalgamation, term loans raised by the Ascend group have priority in debt-servicing over NCDs, providing additional strength to TVIPL's rating.

Rating strengths are tempered by capital-intensive operations, moderately leveraged capital structure, and exposure to TSPs with weak financial risk profile, further elevated by the group's elongated collection period with a significant chunk of receivables from TSPs of weaker credit profile as on December 31, 2023.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainably improving operations and significantly improving leverage while a maintaining healthy tenancy ratio.
- Sustaining efficiency of 100% in monthly collections of all customers.

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

Negative factors

- Declining tenancy ratio to below 1.50x on a sustained basis.
- Significantly deteriorating collection efficiencies, resulting in a stretched liquidity profile.
- Not adhering to debt covenants by ATIPL and TVIPL.
- Increasing debt (excluding lease liabilities)/profit before interest, lease rentals, depreciation and taxation (PBILDT) (including lease as expenses) beyond 3.5x on sustained basis.
- Weakening in support philosophy of GIP to platform.

Analytical approach: Standalone

CARE Ratings has adopted a standalone approach for rating TVIPL. CARE Ratings has also taken a credit view considering the eminent amalgamation of TVIPL with ATIPL, due to which financial and operational parameters have also been combined, going forward.

Outlook: Stable

The 'Stable' outlook reflects TVIPL's likely amalgamation with ATIPL and the expectation for Ascend group to maintain stability in its operating performance with a healthy business risk profile and sustained liquidity.

Detailed description of key rating drivers

Key strengths

Robust operating performance

TVIPL's overall operating metrics have been consistently improving over past years, with sustained growth in the company's tower base and tenancies. The successful completion of the 5G spectrum auction in August 2022 has intensified competition among TSPs to gain market share through 5G and 4G rollouts, thus increasing coverage and capacity. This trend bodes well for tower companies (towercos). Additionally, the advent of 5G technology, driven by ever-rising data requirements, has opened up new business opportunities for towercos.

As on December 31, 2023, the Ascend group's tower base stood at 18,114 (including 8,580 towers for ATIPL) with about 30,000 tenants. Notably, the Ascend group's tenancy profile is well diversified, with stronger TSPs constituting a major portion of total tenancies as on December 31, 2023.

The Ascend group has market access to all 22 circles and metros, with integration of companies providing greater negotiating capacity and rollout efficiencies to the group. The group boasts of a well-diversified geographical presence and tenant profile. Significant greenfield demand from a single customer has fuelled the tower base growth, although the absence of shared colocations has hindered the tenancy ratio.

Revenue visibility due to long-term MSAs, although renegotiation risk

Due to the inherent nature of the tower industry, the Ascend group has signed MSAs with major TSPs for leasing its tower portfolio on a long-term basis. MSAs have lock-in periods embedded in the contract with escalation clauses for infrastructure provisioning (IP) fees, power and fuel recovery and lease rentals, with exit penalties in case of early termination of contracts and upfront deposits to be maintained by TSPs. Thus, these MSAs provide revenue visibility over the medium term extended by customer stickiness due to high switching costs. However, towercos also face renegotiation risk at the time of contract renewal, which may impact revenues and profitability of towercos. The tenancy profile is well-distributed over lock-in maturity tenures, with stronger TSPs having higher proportion in locked-in tenancies.

Pivotal role of passive infrastructure for TSPs; rising demand for data to support growth

Passive infrastructure providers play a vital role in smooth operations of TSPs and their growth is directly linked to the performance and outlook for the telecommunication industry. Over past few 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 TSPs, including improvement in coverage and better penetration at lower rental costs, decreases deployment time, increases operations and maintenance (O&M) efficiency, and makes network rollouts faster with ease of migration to latest technologies. Rising data consumption by consumers requiring better coverage, combined with the introduction of 5G technology, is expected to support business growth.

Comfortable financial risk profile, although relatively low market share

In FY23, the TVIPL's total operating income (TOI) stood at ₹1,143 crore and with the proposed amalgamation with ATIPL, the group's revenue is likely to exceed ₹2,000 crore for FY24. Revenue is expected to increase further on the back of rollouts based on capex plans of TSPs for 5G and 4G services, and for increasing network penetration and coverage to gain subscribers.

Towercos with a relatively large portfolio of towers offer certain advantages to TSPs, including rapid rollout over a large area and tenancy-driven discounts. Large towercos can access capital markets better for funding growth. These advantages make it somewhat difficult for smaller towercos to grow with the limited bargaining power with customers. The group, despite having a small market share of about 4% (Standalone market share: 2%), has superior operating metrics, making it attractive for telecom operators. While the group's size is relatively small, both companies have shown consistent growth in revenue and market shares of companies have also increased, although marginally, over past few years. Per the management, the group's core competencies are better service, lower operational costs, minimum network downtimes, and fast turnaround time for tower rollouts.

Strong investor profile and demonstrated operational track record

The Ascend group has maintained a presence in the telecom tower business for more than two decades, demonstrating a proven track record of operational excellence. In March 2022, New Silk Route (NSR) exited from ATIPL, resulting in 100% ownership of ATIPL by GIP (through entities such as India Infrastructure Fund II [IIF-II], GIP EM Ascend 2 Pte Ltd, and GIP EM Ascend Pte Ltd). ATIPL with GIP now holds 100% stake in TVIPL.

GIP is among the world's largest infrastructure investors with more than US$ 100 billion assets under management (AUM). The PE firm focuses on core infrastructure sub-sectors, including transport, energy and utilities, telecommunications infrastructure, and urban infrastructure. The complete ownership structure has provided the group with enhanced financial flexibility in raising funds, streamlined decision-making process, and strategic support from the experienced GIP partners who serve as nominee directors, with experienced industry professionals as independent directors. The group is led by a team of seasoned professionals, bringing decades of telecom industry experience.

Favourable industry outlook

Post consolidation of the telecom industry in FY16-FY17, TSPs rationalised their passive infrastructure and in the process, cut down overlapping cell sites, reducing overall tenancies. There was A further decrease in tenancies due to exit of weak players, which was somewhat offset by the entry of RJio. Currently, only a few big players having a dominant market share remain, with smaller players capturing a minuscule share. However, as the telecom industry has stabilised, so has the tower industry. While there is intense competition in the telecom industry, it bodes well for the tower industry, as TSPs compete to increase their subscriber base by increasing coverage.

Post announcement of telecom reforms by the Government of India (GoI) in September 2021 and the liquidity relief for the medium term, TSPs have increased their capex spending to comply with 4G and 5G rollout obligations and gain subscribers. 5G and 4G rollouts have increased the demand for passive infrastructure in FY24. Further network penetration in hinterlands is expected to continue boosting this demand. The growth is also likely supported by the anticipated 4G rollout by BSNL, which was expected to be realised much earlier, however, appears to be delayed.

The medium-term liquidity relief through telecom reforms has resulted in better collection efficiencies by towercos. However, with the credit profile of a key customer remaining constrained, resulting in delays in payments, collection efficiencies from the same will be a key monitorable. Going forward, growth prospects for the Indian telecom industry are healthy, with telecom operators upgrading and expanding their network to meet demand for rising data growth with the evolution of new revenue streams. Towercos will look beyond traditional business models and capitalise on opportunities in areas such as high powered small-cells (HPSC), last-mile wireless connectivity for Internet service providers, WiFi hotspots and fiberisation, among others. Forward-looking and enabling policies by the government will be enablers for telecom infrastructure in coming years, playing a pivotal role for the telecom industry.

Key weaknesses

Capital-intensive operations

The passive infrastructure business is highly capital-intensive due to the significant initial setup cost that towercos have to incur to build sites, with a gestation period of about one to two months before revenues from addition of tenancies start to be realised. Towercos also have to incur routine maintenance, upgradation, and replacement costs for its existing tower base. However, these risks are partly mitigated for the Ascend group by it deploying third-party vendors for maintenance of towers and ensuring rollouts only on confirmed orders from anchor tenants, supported by presence of shared tenant for increased tenancy ratios, significantly mitigating revenue risk. The group has also been able to reduce its capex costs per tower through design rationalisation, providing cost-efficiencies. The integration of the two companies has also enabled to receive bulk discounts as procurement of supplies is now availed for larger orders.

Moderate leverage

On combining revenues and debt metrics of ATIPL and TVIPL for FY23, the leverage stood moderately high with a net debt (including lease liabilities)/PBILDT (per Ind As 116) ratio of 2.44x as on March 31, 2023.

Given that the tower industry is capex-intensive, especially amid improved demand prospects, there is likely additional debt incurred for capex. CARE Ratings believes the net debt (including lease liabilities)/PBILDT (per IndAs 116) for the group will be above 3x in the medium term.

The group's total debt (TD) stood at ₹4,925 crore as on December 31, 2023, including term loans of ₹1341 crore, NCDs of ₹1,236 crore, and lease liabilities of ₹2,348 crore, against tangible net worth (TNW) of ABOUT ₹3,000 crore as on December 31, 2023. However, the company will be able to maintain its gross debt (excluding lease liabilities)/PBILDT (excluding lease expenses from PBILDT) below 3.50x throughout the tenure of the acquisition debt, per financial covenants.

Elongated collection period with some key tenants

The group's tenancies are fairly distributed among all major TSPs. However, the exposure to TSPs with weak financials remains significant, despite reduction in their share of tenancies. At the group level, a sizeable share of receivables are from TSPs of weaker credit profiles as on December 31, 2023.

There has been a marginal reduction in tenancy exposure to weak TSPs for the group compared to FY23. This has been driven by higher addition of tenancies from strong TSPs. The company's ability to maintain 100% collection efficiency for monthly billings on a sustained basis remains a key credit monitorable.

Liquidity: Strong

On a consolidated basis, the Ascend group had total balance of more than ₹600 crore as on December 31, 2023 (including cash and bank, investments in mutual funds, and DSRA of about ₹35 crore and ₹32 crore for bank loans of ATIPL and TVIPL, respectively, and ₹45 crore for NCDs covering one quarter interest and principal obligations) as against debt repayments of ₹34 crore for Q4FY24 (excluding lease liabilities of about ₹14-15 crore for Q4FY24). Bank loan covenants also stipulate restricted payment conditions for ATIPL and TVIPL maintaining ₹50 crore and ₹70 crore cash surplus over and above the DSRA, respectively, and post TVIPL's amalgamation, incremental cash to be maintained of ₹120 crore in the merged entity over and above DSRA.

Assumption/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Telecommunication	Telecommunication	Telecom - Services	Telecom - Infrastructure

TVI was incorporated in 2006 in New Delhi and was the first tower management company in India to operate as an independent unit. TVIPL is engaged in the ownership, management, and operation of wireless communication towers of all types across the country, spread across all telecom operators. Formerly, New York-based Lavien group was indirectly the majority shareholder (through the holding company Tower Vision Mauritius Limited [TVML]), while the balance shareholding in TVML was held by other institutional investors. In June 2023, ATIPL with GIP acquired 100% stake in TVIPL, and as on date, TVIPL is a 93% subsidiary of ATIPL and the balance stake is held by GIP EM Ascend 2 Pte Ltd.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,071.80	1,142.70	937.70
PBILDT	549.20	523.00	403.89
PAT	144.70	161.50	101.94
Overall gearing (times)	2.22	1.90	NA
Interest coverage (times)	2.37	2.74	2.61

A: Audited; UA: Unaudited; NA: Not available. Note: These are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	NA	-	-	31-3-2028	650.00	CARE AA-; Stable

NA: Not applicable.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	650.00	CARE AA-; Stable				

LT: Long term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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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