Ascend Telecom Infrastructure Private Limited

May 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	1,350.00	CARE A+; Stable	Assigned
Long-term bank facilities	810.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	15.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings of the bank facilities and the assignment of the rating to the proposed non-convertible debenture (NCD) issue of Ascend Telecom Infrastructure Private Limited (ATIPL) factors in the 100% ownership of the company by Global Infrastructure Partners India LLP (GIP), thereby providing strong financial flexibility, and a favourable demand outlook for the industry on account of 4G and 5G rollouts.

The ratings also factor in the imminent acquisition of a passive infrastructure provider (hereafter referred to as 'the target company') to strengthen business risk profile.

The company entered into a definite purchase agreement to acquire the target company during January 2023. The acquisition will be funded through mix of debt, equity and utilisation of the existing liquidity at ATIPL. The target company is of a larger scale and similar operational metrics, and the acquisition is thus, expected to provide synergistic benefits to ATIPL and the target company (hereafter referred to as the 'combined entity'). The combined entity is expected to have around 17,000 towers and 29,000 tenants, consolidating the tower industry and making it the fourth-largest player with a market share of around 4%. While the scale of ATIPL is set to increase with the aforementioned acquisition, it would remain significantly lower than the closest competitor, which operates more than 75,000 towers. Thus, the ability of the combined entity to further increase its market share while maintaining a stable tenancy ratio and successful integration of operations with discernible synergistic benefits would constitute the key rating monitorable.

Furthermore, the ratings continue to remain underpinned by ATIPL's established track record of operations, consistent improvement in the operational performance, revenue visibility due to long-term master service agreements (MSA) with telecommunication service providers (TSPs) having embedded lock-ins, escalations and early termination penalties, and a moderate mix of operator's credit profile. The ratings also derive strength from ATIPL's strong liquidity position and sustained improvement in collections from Bharat Sanchar Nigam Limited (BSNL) with gradual recovery of past dues; however, the collection period of the company has elongated on account of delays from Vodafone Idea Limited (VIL).

Although the acquisition is expected to improve the operational markers, increasing liability in the form of acquisition debt is expected to moderate the leverage of the combined entity. The debt is envisaged to be raised from foreign lenders at parent level and infused in ATIPL as NCDs, with terms mirroring the foreign debt. As the NCDs have significant bullet repayment at the end of five years, the company will also be exposed to the refinancing risk. Thus, any significant dividend payments from cash flows beyond envisaged levels of the combined entity will remain a key monitorable. However, longer useful life of the asset, moderate leverage, healthy tenancy ratio and strong parentage of GIP mitigate the refinancing risk to an extent.

Additionally, the rating strengths are also tempered by the capital-intensive nature of operations, moderately leveraged capital structure and substantial exposure to TSPs with weak financial risk profile elevated by elongated collection period, with 85% of the receivables from BSNL and VIL as on December 31, 2022.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in the collection efficiency and tenancy mix with higher proportion of tenancies from counterparties with strong credit profile.
- Significant improvement in the leverage.

Negative factors

- Decline in the tenancy ratio to below 1.50x on a sustained basis.
- Significant deterioration in the collection efficiencies.
- Significant dividend payouts/ upstreaming of cash flows beyond envisaged thereby compromising the debt protection metrics.

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

Analytical approach: Combined

CARE Ratings Limited (CARE Ratings) has combined the financials of ATIPL and the target company for the purpose of analysis, as ATIPL has entered into definite purchase agreement with the target during January 2023. Furthermore, CARE Ratings also factors in linkages of ATIPL with the PE parent (GIP).

The analytical approach has been changed from consolidated (taking into account ATIPL's consolidated financials) to combined (combined financials of ATIPL and the target company) on account of the definite purchase agreement entered into by ATIPL during January 2023.

Outlook: Stable

The 'Stable' outlook reflects that the combined entity is likely to maintain stability in its operating performance with a healthy business risk profile and sustained liquidity. While the tenancies are likely to increase on the back of a healthy demand scenario, delays in collection from VIL are expected over the medium term which remains an industry-wide phenomenon.

Key strengths

Strong investor profile and a demonstrated track record of operations

ATIPL has had a presence in the telecom tower business for more than two decades, with a proven track record of operational performance. Post inorganic expansion during 2012, the company has steadily increased its footprint to a tower base of more than 7,500 towers and more than 12,500 tenants.

With the exit of New Silk Route (NSR) during March 2022, 100% stake in the company is held by GIP [through India Infrastructure Fund II (IIF-II) and GIP EM Ascend Pte Ltd], which is one of the world's largest infrastructure investors with more than USD 87 billion assets under management. The private equity (PE) firm invests in core infrastructure sub-sectors, including transport, energy and utilities, telecommunications infrastructure and urban infrastructure. The 100% ownership has brought in high financial flexibility in raising fund, greater efficiency in the decision-making process, and strategic support from the experienced partners of GIP which are nominee directors in the company. Furthermore, the company is managed by a team of professional and experienced personnel. Dr Sushil Kumar Chaturvedi, the chief executive officer (CEO) of ATIPL since 2012, has over three decades of experience in the telecom industry, wherein, he has served as a Director of BSNL.

Consistent improvement in the operating performance with expected scale-up through acquisition

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 at a compounded annual growth rate (CAGR) of around 5% since FY20. With the successful completion of the 5G spectrum auction in August 2022, the TSPs compete to gain market share through 5G/4G rollouts, increasing coverage and capacity, leading to a healthy demand outlook for the tower companies (towercos). Furthermore, 5G technology, on the back of ever-rising data requirements, has brought in new business opportunities for towercos which augurs well for the company. The tower base of ATIPL stood at 7,734 with 12,693 tenants as on December 31, 2022, resulting in a tenancy ratio of 1.64 which is one of the highest in the industry. The tenancy profile of the company is well diversified with all TSPs contributing almost equally with a bias towards stronger TSPs.

The acquisition of the target company will lead to the augmentation of the tower and tenant base to more than 2x and bolster the operating metrics of the combined entity. With this, the company will have access to markets in all 22 circles and the improved size will provide greater negotiating capacity and rollout efficiencies. The combined entity will have a well-diversified geographical presence and tenant profile. Despite higher share from stronger TSPs, significant exposure to weaker TSPs will remain, which is an industry-wide phenomenon. However, the tenancy ratio of the combined entity is expected to be more than 1.65x, which will remain the second highest in the industry.

Revenue visibility due to long-term MSAs albeit renegotiation risk

Due to the inherent nature of the tower industry, ATIPL has entered into MSAs with all major TSPs including Reliance Jio Infocomm (RJio), Bharti Airtel Limited (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 3-4 years extended by the customer stickiness due to high switching costs. However, towercos also face renegotiation risk at the time of contract renewal, which may impact the revenues and profitability of the towercos. The tenancy profile is well distributed over various lock-in maturity tenures with stronger TSPs having higher proportion in the 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 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 operations and maintenance (O&M) efficiency, and makes network rollouts faster with ease of migration to the latest technologies. Furthermore, 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 FY22, the total operating income (TOI) of ATIPL increased to ₹903 crore by around 10% in line with CARE Ratings expectations, on the back of a positive demand scenario. The revenue is expected to increase further on account of rollouts based on capex plans of the TSPs for 5G/4G services, and for increasing network penetration and coverage to gain subscribers. The PBILDT of ATIPL remained healthy at ₹436 crore (PY: ₹395 crore; PBILDT margin: 48.24%) and profit after tax (PAT) of ₹123 crore (PY: ₹71 crore; PAT margin: 13.61%) during FY22.

Towercos with a relatively large portfolio of towers offer certain advantages to the TSPs, including rapid rollout over a large area and tenancy-driven discounts. Furthermore, 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 the limited bargaining power with customers. Despite having a minuscule market share of around 2%, the company has superior operating metrics, making it attractive for the telecom operators. While ATIPL's size is relatively small, it has shown consistent growth in revenue and the market share of the company has increased, though marginally, over the past few years. As per management, the company's major selling point remains better service, lower operational costs, minimum network downtimes and fast turnaround time for tower rollouts.

Furthermore, with the acquisition of the target company, the combined entity will have a market share of 4% providing better negotiating leverage with the customers, access to pan India market, improved synergies and better execution pace to rollout towers.

Favourable industry outlook
Post consolidation of the telecom industry in FY16-FY17, the TSPs rationalised their passive infrastructure and in the process, cut down overlapping cell sites, reducing the overall tenancies. There was further decrease in the 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 the TSPs compete to increase their subscriber base, by increasing coverage.

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 gain subscribers. 5G/4G rollouts are expected to increase the demand for passive infrastructure in FY24. The growth is supported by the expectation of 4G rollout by BSNL starting March 2023, and even though the TSPs are moving forward with the implementation of non-standalone 5G network (NSA), in a bid to lower initial capex costs, the demand is positively set to increase.

The medium-term liquidity relief through the telecom reforms has resulted in better collection efficiencies by the towercos; however, as the credit profile of VIL remains constrained, resulting in delays in payments, collection efficiencies w.r.t VIL will remain a key monitorable. Going forward, 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. The tower companies 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, fiberisation, etc. Furthermore, forward looking and enabling policies by the government will be the enablers for the telecom infrastructure in the coming years playing a pivotal role for the telecom industry.

Key weaknesses
Capital intensive nature of operations
The passive infrastructure business is highly capital intensive due to the significant initial setup cost the towercos have to incur to build sites, with a gestation period of about 1-2 months before the revenues from addition of tenancies start to kick in. Furthermore, tower companies also have to incur routine maintenance, upgradation 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. Furthermore, ATIPL has been able to reduce its capex costs per tower through design rationalisation providing cost efficiencies.

Expected moderation in leverage

The leverage of the company improved during FY22 with a net debt (including lease liabilities)/PBILDT (as per IndAs 116) ratio of 1.93x (PY: 2.27x) as on March 31, 2022, on account of steady accretion of profits and scheduled repayment of debt. However, as the company looks for inorganic growth, the debt for the combined entity is expected to increase, moderating the leverage. The current debt of the combined entity is expected to be augmented with NCDs of ₹1,350 crore (for acquisition) and annual capex of around ₹400 crore, funded by a DER of 0.60x, which will moderate the leverage going forward. The net debt (including lease liabilities)/PBILDT of the combined entity is expected to moderate to around 3.36x post infusion of acquisition debt.

The total debt of ATIPL stood at ₹1,180 crore as on March 31, 2022, which includes term loans of ₹648 crore and lease liabilities of ₹532 crore, against a tangible net worth of ₹481 crore as on March 31, 2022. With the acquisition debt, the total debt of the combined entity will stand at ₹4,250 crore (including lease liabilities and capex debt). However, the company will be able to maintain its gross debt (excluding lease liabilities)/ PBILDT (pre IndAs 116) below 3.50x throughout the tenure of the acquisition debt as per the proposed financial covenants.

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 85% of the receivables are from VIL and BSNL as on December 31, 2022, which contribute to more than 40% of the total tenancies. While the collection efficiency from BSNL has significantly improved on a sustained basis with recovery of past dues as well, delays and lower collections w.r.t VIL have resulted in a stretched collection period for the company which was 86 days (PY: 77 days) as on March 31, 2022. Out of the total receivables, dues from BSNL stood at around 44% as on December 31, 2022, which have decreased as compared to previous periods. However, the proportion of VIL dues have increased to ₹114 crore as on December 31, 2022, as compared with ₹47 crore as on March 31, 2022. Thus, the ability of the company to maintain 100% collection efficiency for monthly billings on a sustained basis remains a key credit monitorable.

Liquidity: Strong

ATIPL had total balances of ₹420 crore as on December 31, 2022, including cash and cash equivalents of ₹11 crore, liquid investments in mutual funds of ₹409 crore (including DSRA of around ₹35 crore covering 1 quarter interest and repayment obligations) as against debt obligations of ₹15 crore for Q4FY23 (excluding lease liabilities of around ₹13 crore for Q4FY23) and ₹60 crore for FY24. Furthermore, the company has fund-based limits of ₹35 crore, for which the utilisation remains almost nil, providing additional liquidity buffer to the company and is also expected to have strong accruals going forward.

Post acquisition, the liquidity of the target company, which stood at around ₹467 crore as on December 31, 2022, will also be available to ATIPL; however, as per agreements with domestic lenders, out of the same, ₹300 crore will be utilised for either reducing leverage or for capex.

Assumptions/Covenants:

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I Debt Service Coverage Ratio (DSCR)	More than 1.30x
II Gross Debt/ EBITDA (EBITDA to be calculated on the basis of I-GAAP accounting method)	Less than 3.5x
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.

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

Applicable criteria

[Policy on default recognition]

[Consolidation]

[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non-financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[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

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 7,734 towers and 12,693 tenants as on December 31, 2022.

The company is 100% held by GIP as on March 31, 2022, which is one of the world's largest infrastructure investors, through IIF-II (managed by GIP) and GIP EM Ascend Pte Ltd (investing vehicle in Singapore). ATIPL is now set to acquire a passive infrastructure provider at a purchase consideration of ₹3,000 crore

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	823.40	903.90	722.30
PBILDT	395.40	436.00	359.60
PAT	71.30	123.00	158.50
Overall gearing (times)	3.18	2.45	NA
Interest coverage (times)	2.72	3.16	4.11

A: Audited UA: Unaudited; NA: Not available
Note: The above results are latest financial results available
Note: The financials have been reclassified as per CARE Ratings Ltd's Standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of the various instruments rated: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	-	60.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2032	750.00	CARE A+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	15.00	CARE A1+
Debentures- Non-Convertible Debentures	Proposed				1350.00	CARE A+; Stable

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-Bank Overdraft	LT	60.00	CARE A+; Stable	1)CARE A+; Stable (07-Apr-23)	1)CARE A; Stable (13-May-22)	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+; Stable (07-Apr-23)	1)CARE A; Stable (13-May-22)	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+	1)CARE A1+ (07-Apr-23)	1)CARE A1 (13-May-22)	-	-
4	Debentures-Non-Convertible Debentures	LT	1350.00	CARE A+; Stable	-	-	-	-

*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 the 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
4	Debentures – Non-Convertible Debentures	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:
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