

## RATING RATIONALE

14 Feb 2020

### ATC Telecom Infrastructure Pvt Ltd

#### Brickwork Ratings reaffirms the rating and places it under Watch with Developing Implications for the NCD Issue amounting to ₹ 4200 Crores of ATC Telecom Infrastructure Pvt Ltd

#### Particulars

Instrument**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Feb 2019)	Present
NCD Issue	4200	4200	Long Term	BWR AA-Stable	BWR AA- <i>Rating under Watch with Developing Implications</i>
<b>Total</b>	<b>4200</b>	<b>4200</b>	<b>INR Four Thousand and Two Hundred Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Instrument are provided in Annexure-I

#### Rating Action / Outlook

The rating assigned to the NCD Issue of ATC Telecom Infrastructure Pvt Ltd has been reaffirmed however, the rating has been placed under Watch with Developing Implications.

The rating continues to draw strength from the resourceful promoters with their demonstrated support to the company both in terms of equity and debt, experienced & professional management team, increased revenue & market share post acquisition of Vodafone and Idea's tower business, diversified tenant profile with pan-India coverage, relatively secured nature of revenues with exit penalties protecting the interests of passive infrastructure providers, comfortable liquidity position with generation of sufficient cash to ensure timely debt servicing and sustained profitability margins in a highly competitive industry.

The rating however, is constrained on account of considerable debt in the balance sheet although the same is from related parties, loss of tenancies coupled with reduced bargaining power of the passive infrastructure providers post consolidation in the telecom sector and significant exposure to Vodafone Idea Ltd which has a major share in the current tenancies.

Significant percentage of the company's tenancies come from Vodafone Idea Ltd (VIL) which is presently facing financial stress post the adverse verdict of the Supreme Court in the AGR matter. While, VIL has filed a modification plea for which the hearing is yet to happen, any negative outcome will have a bearing on ATC TIPL's performance as well considering VIL is its major customer. Based on the same, the rating has been placed under Watch with Developing Implications. BWR will continue to monitor the situation and will take appropriate rating actions as and when required.

## Key Rating Drivers

### Credit Strengths:

Resourceful Promoters with their Demonstrated Support to the Company: ATC TIPL is a subsidiary of ATC Asia Pacific Pte Ltd which in turn is a 100% subsidiary of American Tower Corporation (ATC), a leading telecom infrastructure provider. ATC currently holds ~ 79% stake in the company and has also subscribed to the Compulsorily Convertible Debentures (CCD) issued by the company for an amount of Rs.1053.96 Crs. In addition to this, the promoter group has provided debt to the company by way of ECBs and NCD aggregating Rs. 8850 Crs.

Diversified Tenant Profile with Pan-India Presence: ATC has pan-India coverage with presence across all the major circles. In terms of tenants also, the company is catering to all the current telecom players such as Bharti Airtel, Reliance Jio, Vodafone Idea and BSNL/MTNL. The tenancies, over the past one year, have seen a reduction due to consolidation in the industry, however, the company continues to add tenancies from Bharti Airtel and Reliance Jio. Going forward also, the company is expected to continue adding tenancies from these players with the increased roll-out of their 4G services requiring denser coverage and thus, more towers.

Secured Nature of Revenue: ATC TIPL is a passive infrastructure provider to the telecom companies for which it gets rental income from these customers. On account of the critical nature of this service for the telecom operators to run their business, the revenues of passive infrastructure providers are relatively secured with a priority over other expenses of telcos. In addition to this, the master lease agreements also provide for exit clause involving considerable penalty in case a telco wants to end the lease agreement.

Sufficient Cash Generation to Ensure Timely Debt Servicing: ATC TIPL has already prepaid all its external debt and currently has only ECBs and NCDs subscribed by the companies belonging to the ATC Group. Accordingly, the company's principal obligation has come down significantly to less than Rs. 180 Crs over the next three years. Against the said repayment obligation, the company has generated cash accruals of more than Rs. 1400 Crs during H1 FY20 indicating sufficiency of cash flows to meet the debt obligations.

### Credit Risks:

Moderation in the Tenancy Ratio: ATC TIPL's tenancy ratio has come down over the past two years from 2.28x as on Sep 30, 2017 to 1.46x as on Sep 30, 2019. Post consolidation in the telecom market, tenancies have reduced on account of curtailment of overlapping tenancies and exit of various smaller players from the industry. After the merger of Tata Teleservices Ltd (TTL) with Bharti Airtel, TTL terminated service agreements for certain regions resulting in loss of tenancies. However, the company has received a one time settlement amount of Rs. 2404 Crs which they have largely utilized for repayment of external loans. While, the company has been adding tenancies from Bharti Airtel and Reliance Jio, they were not enough to compensate for the reduction.

Reliance on Vodafone Idea Ltd in terms of Tenancies and Revenues: Vodafone Idea Ltd (VIL) is the largest customer of ATC TIPL with a major share in the present tenancies. VIL, which is already



incurring losses due to hyper competition in the telecom sector, has shown financial stress post the negative AGR verdict by the Supreme Court in Oct 2019 which entailed immediate payment of a large amount of past dues of SUC and Licence Fee. While, the company has taken various measures including filing of a modification plea with the Supreme Court, any further deterioration in its credit profile in the eventuality of no relaxation from the Supreme Court will also have a bearing on ATC TIPL's performance also.

### **Analytical Approach And Applicable Rating Criteria**

For arriving at the rating, BWR has considered the consolidated profile of ATC TIPL and its 100% subsidiary ATC Infrastructure Services Pvt Ltd due to operational, financial and management linkages among both the entities. BWR has applied its methodology as highlighted in the criteria mentioned below.

### **Rating Sensitivities**

**Positive:** The watch can be removed and outlook can be revised to Stable if the company is able to diversify its customer concentration by adding tenancies from relatively better placed telcos and if the credit profile of its current major customer improves.

**Negative:** The rating can be revised downwards if the company suffers significant loss of tenancies and reduced revenue & profitability thereby impacting its cash generation due to weakening of the credit profile of its customers.

### **Liquidity Position: Strong**

The company has a strong liquidity position with reported cash & cash equivalents of Rs. 1842.27 Crs as on Sep 30, 2019. In addition to this, the company has sanctioned working capital limits of Rs. 596 Crs which have not been utilized by the company during the past one year as informed by the management. Thus, the company's reliance on external funding for day to day operations is very limited and there is sufficient liquidity backup available from the unutilized working capital limits. Additionally, the company has prepaid all the existing external debt and only debt from related parties remains in the company.

### **Company Profile**

ATC Telecom Infrastructure Pvt Ltd (ATC TIPL) (formerly Viom Networks Ltd) was incorporated in India on March 22, 2004. The company was renamed after American Tower Corporation (ATC) acquired 51% stake in Viom Networks Ltd in April 2016, which was an earlier joint venture of Tata Teleservices and SREI Infrastructure. Presently, ATC holds ~ 79% stake in the company through its 100% subsidiary. The Company is engaged in providing passive infrastructure involving deployment and commissioning of telecommunication towers across India to telecom service providers. Post acquisition of towers from Vodafone, merger of ATC Legacy companies (other smaller companies operated by ATC in India) and acquisition of 100% stake in erstwhile Idea Cellular Infrastructure Services Ltd, the company's consolidated tower portfolio stands at 75073 as on Sep 30, 2019.

## Key Financial Indicators

Particulars	Units	FY18 (A)	FY19 (A)
Revenue from Operations	Rs. Crs	7395.26	10928.26
EBITDA	Rs. Crs	2303.19	5140.07
PAT	Rs. Crs	513.31	1550.49
Operating Margin	%	31.14	47.03
Net Profit Margin	%	6.94	14.19
Total Debt	Rs. Crs	12112.45	8850.00
Tangible Net Worth	Rs. Crs	1709.37	674.45
Total Debt/TNW	Times	7.09	13.12

Note: Entire debt as on March 31, 2019 is from related parties. BWR has applied its methodology while calculating the key indicators.

## Key Terms Of The Instrument Rated:

- The issue was specifically raised to acquire 100% stake in Idea Cellular Infrastructure Services Ltd
- ATC International Financing BV is the investor in the instrument
- NCDs have a tenure of 8 years i. e. redeemable in 2026 with a put/call option after the expiry of 3 years 9 months from the deemed date of allotment
- Coupon rate is fixed at 8.50% payable semi-annually

**Non-cooperation With Previous Rating Agency If Any: NA**

## Rating History

Instrument	Current Rating			Rating History			
	Tenure	Amount (₹ Crs)	Rating	2019	2018	Nov 2017	July 2017
NCD Issue	Long Term	4200	BWR AA-/Rating under Watch with Developing Implications	BWR AA-/Stable	BWR AA-/Stable	BWR AA-/Ratings under Watch	BWR AA-/Stable
<b>Total</b>		<b>4200</b>	<b>INR Four Thousand Two Hundred Crores Only</b>				

## Complexity Levels Of The Instruments

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

## Hyperlink/Reference To Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)



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**ATC Telecom Infrastructure Pvt Ltd  
Annexure I**

**Details of NCD Issue**

Instrument	Issue Date	Amount (Rs. Crs)	Coupon	Maturity Date	ISIN	Rating
NCD	05-Feb-2018	4200	8.5%	05-Feb-2026	INE999J08052	BWR AA- <i>Rating under Watch with Developing Implications</i>

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