May 29, 2024 (Revised)

Indus Towers Limited (formerly Bharti Infratel Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Non-convertible debenture	2,500.00	2,500.00	[ICRA]AA+ (Stable); reaffirmed
Long term –fund based -Term loans	2,550.00	1,685.00	[ICRA]AA+ (Stable); reaffirmed
Long-term/Short-term-Fund based/Non fund-based limits	6,150.00	6,150.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term-Unallocated limits	2,800.00	3,665.00	[ICRA]AA+ (Stable)/[ICRA]A1+; reaffirmed
Total	**20,000.00**	**20,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers Indus Towers Limited's (Indus) leadership position in the telecom tower industry, its pan-India presence, exceptional financial flexibility and strong operational metrics. Indus had 2,19,736 towers in its portfolio and 3,68,588 tenants as on March 31, 2024. In FY2024, it had an average revenue of more than Rs. 70,000 per tower per month and Rs. 41,198 per tenancy per month, which is the highest in the industry. The company's operating margins are expected to remain healthy going forward, as no additional provisions towards doubtful receivables are expected. A large customer was not paying 100% of its dues earlier, which led to sizeable provisioning in FY2023. However, the customer has been at 100% of its current dues. The said customer concluded a large fund-raising exercise which ensures payments to Indus are likely to remain timely, along with possibility of clearing of the old dues as well. Moreover, Indus has a healthy leverage profile with comfortable net debt levels (estimated net gearing of 0.91 times as on March 31, 2024, including lease liabilities in debt; 0.22 times excluding the same).

In FY2024, the debt coverage indicators remained at comfortable level, reflected in DSCR of 2.16 times (including lease liabilities) and interest coverage of 6.90 times. Despite the annual capex and dividend outflows, the debt coverage metrics are likely to remain comfortable, going forward as well. Moreover, despite incurring very high capex of around Rs. 9,700 crore, the company was able to reduce the external net debt levels as on March 31, 2024 vis-à-vis March 31, 2023 by around Rs. 400 crore.

Moreover, the liquidity remains strong with a steady cash flow from operations along with exceptional financial flexibility and availability of undrawn bank lines. Moreover, in the absence of any further exits, the committed revenue profile remains healthy with an average balance lock-in period of more than six years as on March 31, 2024.

However, the ratings are constrained by the pressure on the tenancy ratio, as the total number of telecom service providers reduced to four (three private players and state-owned BSNL+MTNL). Moreover, the company's return metrics and tenancy ratio was impacted in FY2024 due to incremental tower addition at single tenancy. Despite the risks arising from the stressed liquidity of one customer, the business derives strength from the inherent high client stickiness, given the challenges in network reorganisation and master service agreements (MSAs) with the telcos.

ICRA also takes note of the company's capital-intensive operations as it has to make constant investments for the maintenance and upgradation of the towers. Moreover, the collection efficiency from the vulnerable customer remains the key monitorable and any elongation in the receivables cycle can also impact the cash flow generation.

As on March 31, 2024, the promoters held a 69% equity stake in the company, of which 21.05% held by Vodafone promoters is indirectly encumbered/pledged, which could weigh on the company's financial flexibility.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its leadership position and generate adequate cash flows to keep its credit profile comfortable.

Key rating drivers and their description

Credit strengths

Established position in Indian tower industry – The company has a pan-India presence with 2,19,736 towers as on March 31, 2024, and a tenancy ratio of 1.68 times. The company is estimated to have market share of more than 30% in tower and more than 40% in tenancy, thus making it the market leader.

Strong financial profile and healthy liquidity position – The business model of tower companies ensures stable cash flows from existing tenants, given the lock-ins and committed rentals. Thus, Indus has a healthy financial profile with low debt levels and a strong capital structure, marked by net gearing (excluding lease liabilities) of 0.22 times as on March 31, 2024. The company reported healthy coverage indicators, indicated by a net debt/OPBDITA of 0.47 times (excluding leases from debt) and interest coverage of 6.90 times for FY2024. If there are no further tenancy exits, the coverage indicators are expected to remain healthy, going forward.

Exit penalties and lock-ins in MSAs provide revenue cushion – The MSAs signed between telcos and tower companies have lock-ins, which provide committed revenue visibility over the lock-in period. In the absence of no further exits, the average committed lock-in period for the company was more than six years as on March 31, 2024, indicating healthy revenue visibility. Further, the exit penalties cover for some revenue loss on account of the tenancy exits.

Inherent business strength and strong promoter profile – The business has the inherent strengths of high client stickiness, given the challenges in network re-organisation as well as the terms of the MSAs with the telcos. The MSAs offer revenue visibility and include terms for exit penalties, annual rental escalation, steady upfront deposits and timely payments from tenants. Further, the tower industry is critical for the telecom service provider industry. A steady demand for towers can be expected in the long run as the strong telcos are likely to expand their network, especially for data services. Moreover, Indus has a strong promoter profile with Bharti Airtel Limited and Vodafone Plc as its majority shareholders.

Credit challenges

Weak credit profile of a key customer; increased receivables cycle and sizeable dividend outflow – The credit profile of one of the key customers – Vodafone Idea Ltd (VIL) - has remained weak. However, the collection efficiency from VIL has remained at 100% for the monthly billings. This remains the key monitorable going forward. However, VIL's recent fund raise has improved its liquidity profile and the payments to Indus are likely to remain timely, along with the expected clearing of old outstanding dues as well.

Capital-intensive operations – The telecom tower industry is capital intensive as the players need to incur sizeable capex to set up towers. The tenancies, however, come at a later stage and there is a gestation period in recovering the investments.

Environmental and Social Risks

Environmental considerations: Telecom towers inherently have high power requirements to enable a high uptime for active telecom equipment. Tower sites use batteries and diesel generators along with grid power to meet power requirements.

Indus Towers has made a commitment towards net-zero emissions by 2050. The company plans to install renewable energy sources at a large number of its sites. Thus, in the longer term, focus on renewable sources and improving grid availability is likely to mitigate the environmental risks that Indus remains exposed to.

The telecom sector is capital intensive and is exposed to frequent changes in technology. However, the services have become essential, and operators need to maintain high service quality.

Liquidity position: Strong

The liquidity remains strong with sizeable undrawn bank limits and supported by the company's exceptional financial flexibility. Liquidity also remains supported by the healthy cash flow generation.

Rating sensitivities

Positive factors – The long-term rating can be upgraded, if there is a material improvement in the credit quality of the tenants. A consistent increase in revenue and operating margins, leading to a sustained improvement in ROCE beyond 30%, will trigger an upgrade.

Negative factors – A sizeable decline in tenancy levels, lowering the revenues and operating margins, may warrant a downgrade. Another trigger could be a material elongation in the receivable cycle, which will impact liquidity and result in a sizeable reliance on external debt, pushing the total debt/OPBDITA to more than 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Tower Infrastructure Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of Indus Towers Limited (formerly Bharti Infratel Limited)

About the company

Indus Towers Limited (formerly Bharti Infratel Limited) was formed post the merger of Indus Towers Limited with Bharti Infratel Limited. It is a tower infrastructure company with pan-India operations. As on March 31, 2024, Indus had a 2,19,736-tower portfolio with tenancy ratio of 1.68 times.

Key financial indicators

Consolidated	FY2023	FY2024
Operating income	17432	17731
PAT	2040	6036
OPBDIT/OI	55.5%	82.1%
PAT/OI	11.7%	34.0%
Total outside liabilities/Tangible net worth (times)	1.15	1.03
Total debt/OPBDIT (times)	1.98	1.41
Interest coverage (times)	6.65	19.79

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: The company also faces prepayment risk given the possibility of debt acceleration upon the breach of rating- linked covenants in its NCDs.

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years								
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022			
					May 29, 2024	Jan 18, 2024	May 30, 2023	Feb 03, 2023	Jun 3, 2022	Aug 27, 2021	Jun 21, 2021	May 10, 2021	Apr 9, 2021
1	Commercial paper	Short-term	6,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Non-convertible Debenture	Long-term	2,500.0	1,500.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Term loans	Long-term	1,685.0	2,811.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4	FB/NFB limits	Long-term	-	-	-	-	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	FB/NFB limits	Long-term/Short-term	6,150.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-	
6	Unallocated limits	Long-term/Short-term	3,665.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
7	Issuer rating	Long-term	-	-	-	-	-	-	-	-	[ICRA]AA+ (Stable) Withdrawn	[ICRA]AA+ (Stable) placed on notice of withdrawal for 1 month	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple
Non-convertible Debenture	Very Simple
Long term –fund based -Term loans	Simple
Long term/Short-term-Fund based/Non fund-based limits	Simple
Long term/Short-term-Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial paper*	NA	NA	7-365 days	6,000.00	[ICRA]A1+
INE121J08020	Non-convertible Debenture	07 Dec 2022	8.20%	07 Dec 2025	375.0	[ICRA]AA+(Stable)
INE121J08038	Non-convertible Debenture	07 Dec 2022	8.20%	07 Jun 2025	375.0	[ICRA]AA+(Stable)
INE121J08046	Non-convertible Debenture	07 Dec 2022	8.20%	07 Dec 2024	750.0	[ICRA]AA+(Stable)
-	Non-convertible Debenture*	NA	NA	NA	1,000.0	[ICRA]AA+(Stable)
-	Term loans	FY2022- FY2023	5.2%-6.3%	FY2024-FY2026	1,685.0	[ICRA]AA+(Stable)
-	Fund based/Non-fund based limits	NA	NA	NA	6,150.0	[ICRA]AA+ (Stable) /[ICRA]A1+
-	Unallocated	NA	NA	NA	3,665.0	[ICRA]AA+ (Stable) /[ICRA]A1+

*Source: Company; * - Not placed*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Smartx Services Limited	100.00%	Full Consolidation

Corrigendum:

Document dated May 29, 2024, has been corrected with revisions as detailed below:

Revisions on page number 3 & 4 under “Liquidity Position” & “Any other information” respectively. Rating linked trigger was added in “Any other information” section and some amendments made in “Liquidity position” section due to typographical errors.

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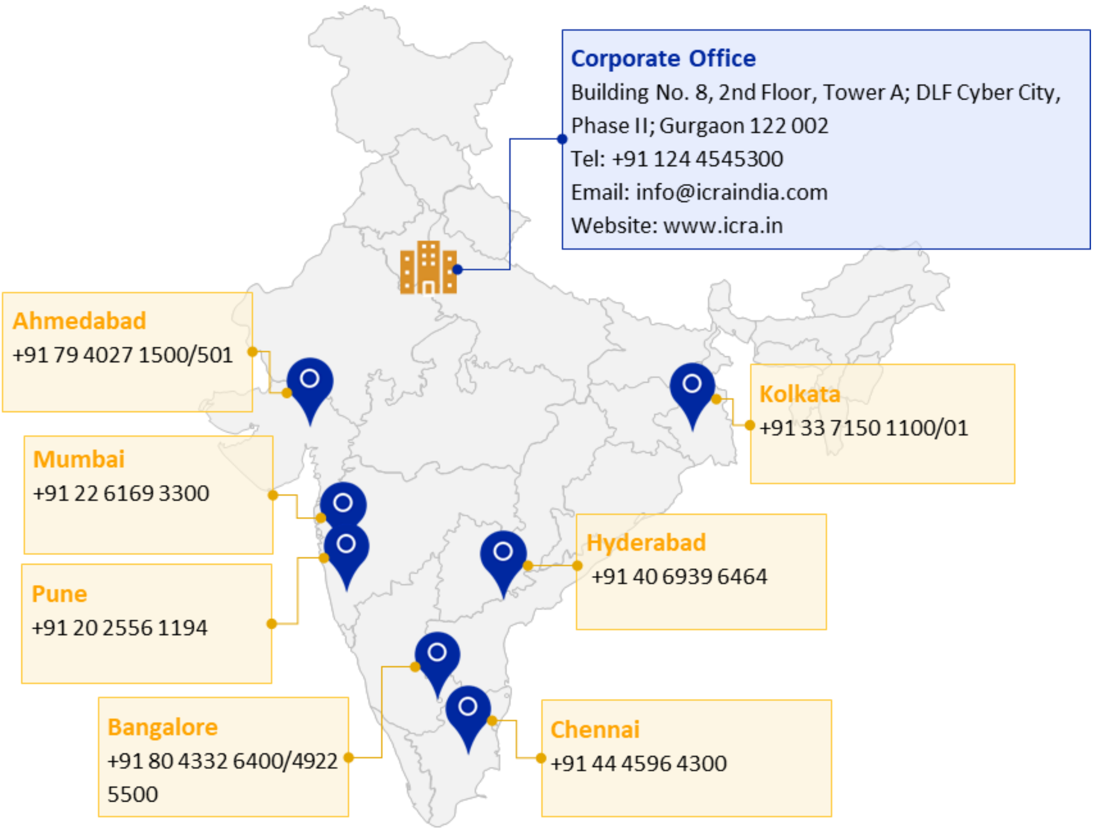

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