Fitch assigns BBB(ind)'/'F3(ind) to Quippo Telecom

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Fitch Ratings has today assigned India-based Quippo Telecom Infrastructure Limited (QTIL) a National Long-term rating of 'BBB(ind)'. Simultaneously, the agency has assigned ratings of 'BBB(ind)' to QTIL's outstanding term loans aggregating INR5551m, 'BBB(ind)'/'F3(ind)' to its fund based working capital limits amounting INR12m, and 'BBB(ind)'/'F3(ind)' to its non-fund based working capital limits amounting INR70m. The Outlook is Stable.

QTIL's ratings reflect the visibility and stability of cash flows (on account of its long-term lease agreements with cellular operators to provide shared telecom towers with stiff exit clauses), a build- to-suit model that reduces tenancy risks, strong credit profiles of its counterparties and a favourable environment for telecom towers, both from a demand and regulatory perspective. QTIL presently has long-term contracts with Bharti Airtel Limited ('BBB-'(BBB minus)/Stable), Idea Cellular Limited, Spice Communications Ltd (Spice, 'BBB(ind)'/Stable/'F2(ind)'), Bharat Sanchar Nigam Limited, Vodafone Essar Limited and Tata Tele Services Limited, among others. The ratings also reflect that QTIL has tied up the equity for the capex finalised until now, and has relatively better tenancy ratio than other independent tower companies.

Key ratings concerns emanate from the company's limited operational history, high financial leverage, strong competition from other tower companies (including bigger players backed by telecom operators), high pressure to improve tenancy ratios and a significant amount of debt required for capex which still remains untied.

With just three years of operational history, QTIL is currently in the growth stage of its lifecycle. For the year ending March 2008, the company earned INR754m in revenues with its EBITDA and Net Income standing at INR358m and INR31m, respectively. The company maintained its EBITDA margins at close to 48% over the last two years, which is expected to improve with an improvement in the tenancy ratio. Its financial leverage (Total Adjusted Debt Net of Cash/Operating EBITDAR) stood at 6.29x for FY08, and is expected to increase due to the substantial use of debt in its capex plans. The debt to equity ratio for FY08 stood at around 1.55x.

Bharti Airtel

	BSE	NSE
Price	721.55	725.00
Change	1.55%	2.09%

QTIL had 2417 towers at FYE08 and has an expansion plan to roll out an additional 9000 towers in FY09 and FY10. The company also acquired 988 towers from Spice in April-May 2008 and estimates a total cost of INR34100m for this combined project. A substantial expansion in the tower portfolio will significantly improve the company's standing among tower companies, but the large front-ended capex could put high pressure on its cash flows if the tenancy ratio is not significantly improved. The agency also notes that several other telecom companies, including those affiliated to telecom operators, have significant expansion plans.

QTIL's consolidation with other major tower companies, leading to captive demand from a cellular operator and a much larger tower portfolio, without deteriorating its financial profile, could be a positive ratings trigger. A substantial reduction in financial leverage through higher earnings or further equity infusion, and significant improvement in portfolio level tenancy ratio are other positive ratings triggers. A substantial decrease in tenancy ratio, significant deterioration in financial leverage, due to excessive use of debt to fund its capex plans, and any restrictive regulatory action leading to reduced profitability, could be negative ratings triggers.

Incorporated in July 2005, QTIL has an Infrastructure Provider I license from the Government of India's Department of Telecom, to provide shared passive infrastructure to cellular service providers. As of August 31 2008, the company had 3917 operational towers, spread over 19 telecom circles, with a portfolio level tenancy ratio of 1.3x.

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