

Term Loan for a Telecom Infrastructure Provider

Case Study #3

Introduction

In today's case study, we explore a term loan (TL) transaction where Vivriti acted as the lender/financier to the client, which we are referring as ABC Ltd, to finance their capital expenditure for a telecom project that was undertaken.

Below we present the key findings of the diligence process about the company and argue in favour of ABC for term financing.

Company background



History

Headquartered in a Tier-1 metro city, ABC Ltd is one of India's leading telecom infrastructure providers offering an extensive collection of solutions for telecom operators and internet service providers (ISPs). Specializing in executing optical fibre cables (OFC) laying projects and owning OFC networks across India, the company also offers network leasing and maintenance services.

With nearly two decades of industry presence across the country, the company operates as a family-managed business, with its shares closely held within the promoter group and no external shareholders. The company has recently expanded its operations through the creation of several subsidiaries to expand its offerings and services.



Industry

India's telecom industry ranks as the world's second largest, with a subscriber base of about 1 billion as of December 2023, encompassing both wireless and wireline users. With an overall tele-density of 85%, the rural market presents untapped potential with a tele-density of 58%, while the urban market stands at 134%.

Contributing about 7% to the nation's GDP, the telecom sector generated a gross revenue of ~INR 86,000 crores in the final quarter of FY23. Encompassing infrastructure, equipment, mobile virtual network operators (MVNOs), and more, the industry's growth is fueled by affordable tariffs, enhanced coverage, mobile number portability (MNP), and government initiatives supporting domestic telecom manufacturing.

Crucial for economic development, the telecom sector empowers masses, drives employment, attracts foreign direct investment (FDI), and fosters digital transformation in education, healthcare, and finance

We hold a favourable outlook on the sector given its strengths and opportunities.



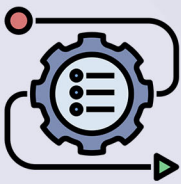
Credit Profile

The company has a successful track record of raising debt capital primarily for long-term and short-term borrowings from existing lenders, which includes some leading private sector banks and non-banking financial companies (NBFCs). The promoters have also consistently infused equity funds as and when required.



Credit Rating

ABC Ltd has the internal and external credit ratings of BBB given the positive factors like its revenue growth, favourable trend in operating cycle days and being cautious about its gearing ratio, trend in operating cash flow, among other factors.



Other Factors

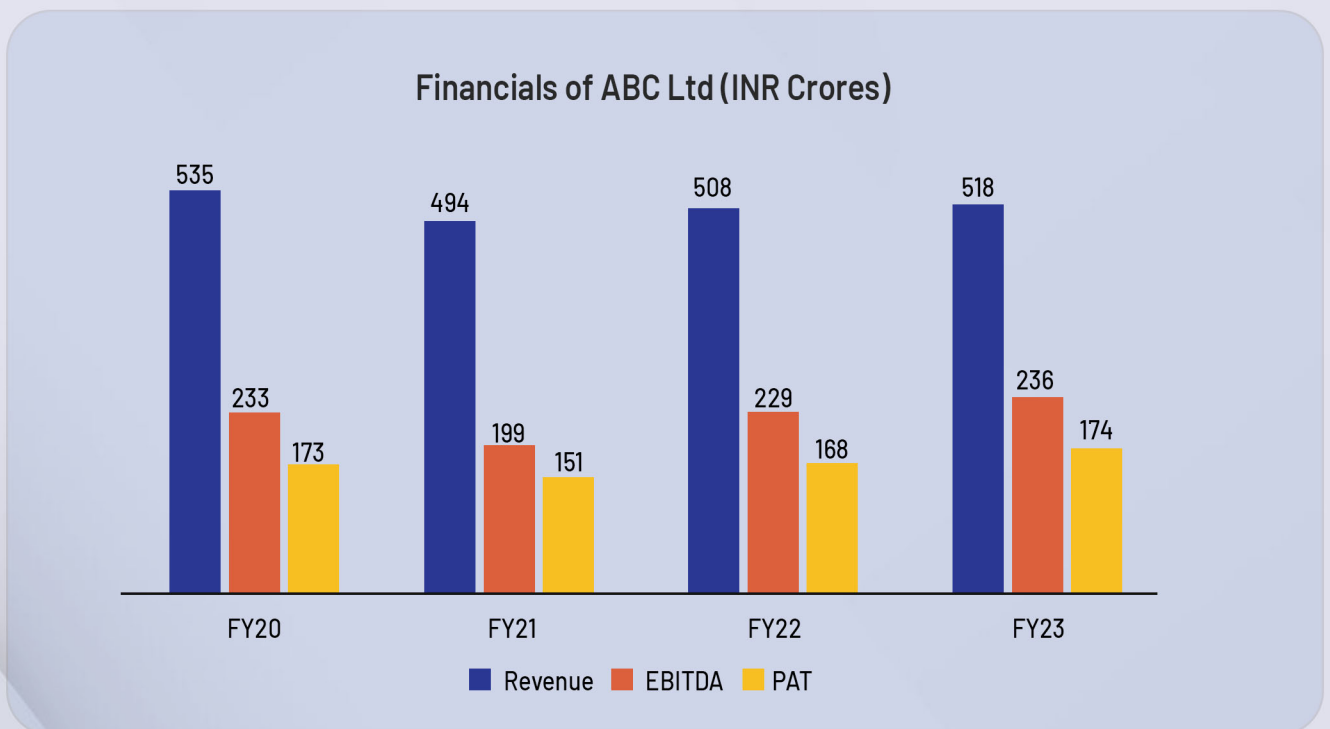
The company has also been considered in positive light for the following reasons:

- Experience and established track record of promoters.
Healthy order book.
- Consistent profitability margins on a year-to-year basis.
- Comfortable capitalization levels.
- Strong client profile which includes a presence of some of the leading telecom service providers and long-term relationship with them.

Why ABC Ltd was chosen?

After the company qualified all the key profiling criteria, Vivriti Capital considered to explore term financing with ABC based on the following conditions:

- The company maintained healthy earnings before interest, taxes, depreciation, and amortization (EBITDA) margin of 30-35% and profit after tax (PAT) margin of 15-20% on an annual basis.
- Maintaining sales, which is consistently around INR 500 crores over the last few years (FY20 to FY23).



Conclusion

Vivriti Capital has considered ABC Ltd for term financing and the proposed amount is towards the higher limit of loan ticket size set internally.

This is based on several parameters as discussed above that include the promoter's credibility in the telecom market, the company's ability in maintaining profitability margins, and the industry's exponential growth over the last few years.