

August 10, 2010

CARE ASSIGNS 'CARE A' AND 'PR1' RATINGS, TO THE BANK FACILITIES OF QUIPPPO TELECOM INFRASTRUCTURE LTD AND PLACES THE RATINGS UNDER CREDIT WATCH

Ratings

| Facilities/Instruments | Amount (Rs. crore) | Ratings¹ | Remarks |
|-------------------------------|-------------------------------|---|----------------|
| Long-term Bank Facilities | 1,725.96 | 'CARE A' (Single A) (Under Credit Watch) | Assigned* |
| Short-term Bank Facilities | 25.00 | 'PR1' (PR One) (Under Credit Watch) | Assigned* |
| Total Facilities | 1,750.96 | | |

The ratings have been placed under 'Credit Watch' in view of the proposed demerger of passive infrastructure division (tower portfolio) of QTIL into Wireless TT Info Services Ltd. (WTTIL) to form a combined entity (WTTIL-QTIL), which is yet to be approved by Hon'ble High Courts of Delhi and Andhra Pradesh. The Scheme of demerger has been filed in the High Courts of Delhi and Andhra Pradesh by QTIL and WTTIL respectively and (once approved) would come into effect from the appointed date i.e. April 1, 2009. Further, in March 2010, WTTIL-QTIL has announced acquiring the entire stake in 21st Century Infra Tele Ltd. [TCITL, Rated CARE A(SO)].

CARE is in the process of evaluating the details of these acquisitions and their impact on the credit quality of QTIL. The final rating would be announced on completion of this evaluation.

*The ratings consider a consolidated view on the credit risk profile of the combined entity (WTTIL-QTIL), since both the companies are working as a combined entity under common management at present. However, a single legal entity would emerge only after the approvals from the respective High Courts are obtained.

Rating Rationale

The ratings derive strength from the strong market position of the combined entity emanating from a large tower portfolio with high tenancy ratio, high visibility of revenues and cash flows derived from the established telecom operators supported by long-term Master Service Agreements, preferred vendor status from Tata Tele Services Ltd. (TTSL), healthy operating margins as well as favourable industry outlook in short and medium term. The ratings also factor in the experienced and resourceful promoter in Tata Group (with majority shareholding in the combined entity) as well as experience of the Quippo group in managing independent tower business. The ratings are however constrained by large debt-funded expansion plans (including new tower roll-outs and acquisition of TCITL.) resulting in high overall gearing) and competitive nature of the industry which can exert pressures on margins.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Going forward, ability of WTTIL-QTIL to streamline and integrate operations post merger, improve profitability and generate adequate cash accruals as well as improvement in capital structure while maintaining growth shall be the key rating sensitivities.

Company Profile

QTIL, incorporated in July 2005, is promoted by Srei group through Quippo Infrastructure Equipment Limited (QIEL).

In January 2009, TTSL (through WTTIL) and Srei group (through QTIL) announced a two-phase amalgamation wherein passive infrastructure division (tower portfolio) of QTIL would be demerged into WTTIL in order to create an independent tower company - WTTIL-QTIL (combined entity). Tata group would hold 55.16%, whereas Srei and other financial investors of QTIL would hold the balance stake in the combined entity post the demerger. The Scheme of demerger is awaiting approval of High Courts of Delhi and Andhra Pradesh. Thus, at present, both the companies are working as a combined entity under common management, though a legal entity would emerge only after the conclusion of the transaction.

In March 2010, the combined entity has announced the acquisition of TCITL (rated CARE A(SO)), subsidiary of Tata Teleservices (Maharashtra) Ltd (rated CARE A and PR1), which is proposed to be completed in two phases by September 2010.

On a total income of Rs. 232 crore, QTIL incurred a net loss of Rs.100 crore in FY09. As per the provisional results for FY10, WTTIL-QTIL achieved total revenue of Rs.1,688 cr with PBILDT of Rs.868 cr.

Analyst Contact

Name: Kapil Sachdeva

Tel # 01123318701

Mobile # 9811404510

Email: kapil.sachdeva@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries /regulators or others are welcome to write to care@careratings.com for any clarifications.

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra

Managing Director

Cell : +91-98204 16002

E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi

Dy. Managing Director

Cell : +91-98204 16001

E-mail: rajesh.mokashi@careratings.com

Mr. Ankur Sachdeva

Head - Business Development

Cell : +91-9819698985

E-mail: ankur.sachdeva@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457

Website: www.careratings.com

OFFICES

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|---|--|
| <p>Mr.Mehul Pandya Regional Manager 32 TITANIUM Praladnagar Corporate Road, Satellite, Ahmedabad - 380 015. Tel – 079 4026 5656 Mobile - 98242 56265 E-mail: mehul.pandya@careratings.com</p> | <p>Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's PlaceNo. 6, Raja Ram Mohan Roy Road, Richmond Circle, Bangalore - 560 025. Tel – 080 2211 7140 Mobile – 98803 60878 E-mail: sundara.vathanan@careratings.com</p> |
| <p>Mr. Pradeep Kumar Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai 600 002 Tel: 044 2849 7812/2849 0811 Mobile – 98407 54521 E-mail : Pradeep.kumar@careratings.com</p> | <p>Mr. Ashwini Jani Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat Nagar Hyderabad - 500 029 Tel – 040 40102030 Mobile – 91766 47599 E-mail: ashwini.jani@careratings.com</p> |
| <p>Mr. Sukanta Nag Regional Manager 3rd Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani Kolkata - 700 071. Tel – 033 2283 1800/1803 Mobile – 98311 70075 E- mail: sukanta.nag@careratings.com</p> | <p>Ms.Swati Agrawal Regional Manager 710 Surya Kiran, 19 K.G. Road, New Delhi - 110 001. Tel – 011 2331 8701/2371 6199 Mobile – 98117 45677 E-mail : swati.agrawal@careratings.com</p> |