

April 22, 2021

Bharti Hexacom Limited: Rating reaffirmed at [ICRA]A1+ and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	2,500.0	2,500.0	[ICRA]A1+; reaffirmed and withdrawn
Total	2,500.0	2,500.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Bharti Hexacom Limited (BHL) with its parent Bharti Airtel Limited (BAL – rated [ICRA]AA-(Stable)/[ICRA]A1+) and both are together referred to as BAL Group. BAL holds 70% stake in BHL and balance 30% stake is held by Telecommunications Consultants India Limited (TCIL), a Government of India enterprise.

The reaffirmation of the ratings factors in BAL's established market position in the telecom industry in India, its integrated telecommunications operations, its diversified presence across geographies and business verticals, and economies of scale with presence in large telecom markets like India and Africa. ICRA also notes that the company had 31.7% effective ownership by Singapore Telecommunications Limited¹. ICRA also notes the sustained improvement in operating metrics as demonstrated by improvement in Average Revenue per User (ARPU) to Rs. 166 for Q3 FY2021 from Rs. 135 in Q3 FY2020 on the back of tariff hikes implemented in December 2019 as well as consistent upgradation of subscribers to 4G from 2G, along with healthy increase in usage of services. This has resulted in consistent improvement in OPBDITA which stood at around Rs. 33,000 crore for 9M FY2021 as against Rs. 24,600 crore for 9M FY2020.

ICRA also takes into consideration BAL's recent acquisition of spectrum which consolidates its spectrum holding and provides a healthy pan India network. In addition, improvement in Africa operations and consistent healthy performance of the non-telecom business in India also provides a comfort. Further, a business restructuring exercise is being proposed to assist in higher focus on the digital business. ICRA also notes the healthy liquidity position aided by availability of sizeable cash balances of more than Rs. 10,400 crore as on December 31, 2020, which in addition to allowance of staggered payment terms towards AGR liabilities, improvement in cash flow generation and strong financial flexibility provides a fillip to the overall liquidity position.

The ratings, however remain constrained by the elevated debt levels of the company. Despite the sizeable deleveraging done in the past, the debt continues to remain high as reflected by gross debt of around Rs. 158,000 crore as on December 31, 2020 (including finance lease obligations and AGR liabilities), which has kept the debt coverage indicators moderate as indicated by gross debt/OPBDITA of 3.58 times (annualised for 9MFY2021). Further, the company spent around Rs. 18,700 crore in the recently concluded auctions which is expected to result in further addition in debt. Moreover, the company acquired additional stakes in Indus Towers Limited as well as Bharti Telemedia Limited which also resulted in higher net debt levels. Further, ICRA also takes into consideration that despite the moderation in the capex intensity, the business remains capital intensive with consistent requirement of high capital investment. Moreover, ICRA also notes that the telecom industry is susceptible to regulatory and technological changes.

The ratings have been withdrawn on the request of the company and in accordance to ICRA's withdrawal policy.

¹ Rated A1(Stable) by Moody's Investor Services

Key rating drivers and their description

Credit strengths

Established market position –BAL enjoys established market position in the telecom industry in India (with a revenue market share² of 31.7% in Q3 FY2021 and subscriber market share of 29.7% as on January 31, 2021, as per TRAI reports). In addition, its integrated telecommunications operations and economies of scale provide the company a distinct competitive advantage.

Robust spectrum portfolio - Over the years, BAL has shored up its spectrum holding by acquiring spectrum through auctions. In addition, the company has been active outside of auctions in acquisition of data centric spectrum [such as spectrum acquisition from Videocon, Aircel and Tikona and through acquisition of Telenor, and consumer mobile business (CMB) of the Tata Group]. Further, in the recently concluded auctions, BAL acquired sub-GHz spectrum which improves the overall network coverage. BAL's spectrum holding is robust and spread across different bands with strong capability to provide 2G, 3G and 4G services.

Diversified operations - Bharti enjoys diversified presence across geographies with non-India operations (primarily Africa) contributing 28% to the consolidated revenues in 9M FY2021. In addition, the company generates a sizeable revenue from India non-mobile operations. Both, Africa operations and India non-mobile operations provide cushion against the weak cash flows from operations, though improving, in the India mobile operations.

Improvement in Africa performance – The company has reported steady improvement in performance of African operations over last few quarters driven by growth in data uptick and several cost optimisation initiatives by the company. This along with improvement in non-mobile India operations has negated the overall adverse impact of intense competition in the Indian mobile operations on its EBITDA to some extent, although the competitive intensity has reduced to some extent over the last one year.

Healthy financial flexibility – Over the last 4-6 quarters, the company has raised a sizeable quantum of funds in the form of equity and equity linked instruments, along with monetisation of stake in some businesses. The company also has an extensive access to financial markets and has a demonstrated track record of raising funds as and when needed.

Credit challenges

Elevated debt levels and moderate debt coverage – Despite debt reduction followed by deleveraging attempts, the debt levels continue to remain high. As on December 31, 2020 the total debt stood at around Rs. 158,000 crore which witnessed an increase with the addition of AGR liabilities. Moreover, with the participation in the auctions, the debt levels are expected to go up further. With the high debt levels, the coverage metrics continue to remain moderate as reflected by gross debt/OPBDITA of 3.58 times (annualised for 9M FY2021).

Cash generation for Indian mobility business remains low, though improving - The competitive intensity in the Indian telecommunications industry remained elevated over the last few years leading to pressure on realisations for all players, leading to decline in ARPU levels. For BAL, the ARPU in India mobile operations declined to Rs. 101 in Q2 FY2019 from Rs. 142 in Q2 FY2018, however, it started showing signs of reversal since then and increased to Rs. 166 for Q3 FY2021. While competitive intensity is alleviating and ARPU is showing signs of improvement, the cash flow generation is improving.

Exposure to regulatory changes and technological risks - The telecom industry remains susceptible to regulatory and technological changes. Moreover, presence in multiple geographies exposes the company to international regulatory risks.

² Based on sum of Adjusted Gross Revenue (AGR), National Long Distance (NLD) revenue, International Long Distance (ILD) revenue and Internet Service Provider (ISP) revenue reported by Telecom Regulatory Authority of India (TRAI)

Liquidity position: Strong

Availability of strong cash balances of around Rs. 10,448 crore as on December 31, 2020, which is mostly unencumbered. Moreover, capex intensity is expected to moderate from previous high levels. The staggered payment plan allowed by SC in the payment of AGR dues also ease the liquidity. Additionally, BAL has a strong access to capital markets.

Rating sensitivities

Positive factors – NA

Negative factors – Lower than expected improvement in operating metrics leading to lower cash accrual generation along with delays in deleveraging plans, keeping the net debt/OPBDITA more than 3.0 times on a sustained basis. Moreover, larger than expected debt-funded capex or spectrum acquisition can also push the rating downwards.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mobile Service Providers Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

Bharti Airtel Limited (BAL) is one of India's leading integrated telecommunication service providers. For its Indian operations, BAL has different strategic business units (SBUs)— mobile services, home services, airtel business, and digital TV services. The mobile services group provides global system for mobile communications (GSM) mobile services in all 22 telecommunication circles across India, while the home services group provides broadband and wireline services. The airtel business group provides long distance services and services to corporates. Furthermore, the company also provides mobile services in Sri Lanka, Bangladesh and 14 countries in Africa.

Key financial indicators (audited)

Bharti Airtel Limited (Consolidated)	FY2019	FY2020*	9MFY21 Provisional
Operating Income (Rs. crore)	81,071	87,864	74,869
PAT (Rs. crore)	1,687	-30,664	-24,312
OPBDIT/OI (%)	32.2%	42.0%	44.1%
PAT/OI (%)	2.1%	-34.9%	-32.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.13	2.27	3.01
Total Debt/OPBDIT (times)	4.62	4.01	3.59
Interest Coverage (times)	2.60	2.95	2.94

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

* - FY2020 onwards the impact of AS116 has resulted in changes in OPBDITA and Debt and thus the numbers are not comparable to previous financials

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018
					April 22, 2021	Jan 22, 2020	Nov 25, 2019	Nov 04, 2019	Jan 15, 2019	Feb 13, 2018
1	Commercial Paper	Short-Term	2,500.0	NA	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE343G14255	Commercial Paper [^]	15-Sep-2020	4.70%	14-Sep-2021	350	[ICRA]A1+; withdrawn
INE343G14271	Commercial Paper [^]	01-Oct-2020	4.68%	25-Aug-2021	100	[ICRA]A1+; withdrawn
INE343G14289	Commercial Paper [^]	10-Mar-2021	4.35%	09-Sep-2021	115	[ICRA]A1+; withdrawn
INE343G14297	Commercial Paper [^]	18-Mar-2021	4.35%	15-Oct-2021	400	[ICRA]A1+; withdrawn
NA	Commercial Paper [*]	NA	NA	NA	1,535	[ICRA]A1+; withdrawn

[^] - Not placed on ICRA rating

^{*} - Not placed

Source: Company

Annexure-2: List of entities considered for consolidated analysis of Bharti Airtel Limited, which includes BHL as its subsidiary

Company Name	Ownership (March 31, 2020)	Consolidation Approach
Bharti Hexacom Limited	70%	Full Consolidation
Bharti Airtel (France) SAS	100%	Full Consolidation
Bharti Airtel (Hong Kong) Limited	100%	Full Consolidation
Bharti Airtel (Japan) Private Limited	100%	Full Consolidation
Bharti Airtel Services Limited	100%	Full Consolidation
Bharti Airtel (UK) Limited	100%	Full Consolidation
Bharti Airtel (USA) Limited	100%	Full Consolidation
Bharti International (Singapore) Pte Ltd	100%	Full Consolidation
Bharti Airtel International (Mauritius) Limited	100%	Full Consolidation
Bharti Airtel Lanka (Private) Limited	100%	Full Consolidation
Indo Teleports Limited	100%	Full Consolidation
Bharti Infratel Limited	53.51%	Full Consolidation
Smartx Services Limited	53.51%	Full Consolidation
Bharti Telemedia Limited	80%	Full Consolidation
Network i2i Limited	100%	Full Consolidation
Telesonic Networks Limited	100%	Full Consolidation
Nxtra Data Limited	100%	Full Consolidation
Airtel Digital Limited (formerly known as Wink Limited)	100%	Full Consolidation
Nettle Infrastructure Investments Limited (formerly known as Nettle Developers Limited)	100%	Full Consolidation
Bharti Airtel International (Mauritius) Investments Limited	100%	Full Consolidation
Bharti Airtel Holding (Mauritius) Limited	100%	Full Consolidation
Bharti Airtel Overseas (Mauritius) Limited	100%	Full Consolidation
Airtel Africa Mauritius Limited	100%	Full Consolidation
Bharti Airtel International (Netherlands)	56.01%	Full Consolidation
Bharti Airtel Africa B.V.	56.01%	Full Consolidation
Bharti Airtel Chad Holdings B.V.	56.01%	Full Consolidation
Airtel Tchad S.A.	56.01%	Full Consolidation
Bharti Airtel Gabon Holdings B.V.	56.01%	Full Consolidation
Airtel Gabon S.A.	54.86%	Full Consolidation

Company Name	Ownership (March 31, 2020)	Consolidation Approach
Bharti Airtel Congo Holdings B.V.	56.01%	Full Consolidation
Airtel Congo S.A.	50.41%	Full Consolidation
Bharti Airtel RDC Holdings B.V.	56.01%	Full Consolidation
Airtel Congo (RDC) S.A.	55.17%	Full Consolidation
Bharti Airtel Mali Holdings B.V.	56.01%	Full Consolidation
Bharti Airtel Kenya Holdings B.V.	56.01%	Full Consolidation
Bharti Airtel Kenya B.V.	56.01%	Full Consolidation
Airtel Networks Kenya Limited #	56.01%	Full Consolidation
Bharti Airtel Malawi Holdings B.V.	56.01%	Full Consolidation
Airtel Malawi Plc	44.81%	Full Consolidation
Bharti Airtel Niger Holdings B.V.	56.01%	Full Consolidation
Celtel Niger S.A.	50.41%	Full Consolidation
Airtel Networks Zambia Plc	53.97%	Full Consolidation
Bharti Airtel Uganda Holdings B.V.	56.01%	Full Consolidation
Airtel Uganda Limited	56.01%	Full Consolidation
Bharti Airtel Tanzania B.V.	56.01%	Full Consolidation
Airtel Tanzania Public Limited Company (formerly known as Airtel Tanzania Limited)	28.57%	Full Consolidation
Bharti Airtel Madagascar Holdings B.V.	56.01%	Full Consolidation
Channel Sea Management Company (Mauritius) Limited	56.01%	Full Consolidation
Bharti Airtel Rwanda Holdings Limited	56.01%	Full Consolidation
Montana International	56.01%	Full Consolidation
Airtel Madagascar S.A.	56.01%	Full Consolidation
Bharti Airtel Nigeria Holdings II B.V.	56.01%	Full Consolidation
Bharti Airtel Nigeria B.V.	56.01%	Full Consolidation
Bharti Airtel Services B.V.	56.01%	Full Consolidation
Airtel Networks Limited	51.38%	Full Consolidation
Bharti Airtel Zambia Holdings B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce (Malawi) Limited	56.01%	Full Consolidation
Airtel Mobile Commerce (Kenya) Limited	56.01%	Full Consolidation
Celtel (Mauritius) Holdings Limited	56.01%	Full Consolidation
Airtel Mobile Commerce Zambia Limited	56.01%	Full Consolidation
Airtel Mobile Commerce Tchad S.a.r.l.	56.01%	Full Consolidation
Airtel Mobile Commerce B.V.	56.01%	Full Consolidation
Airtel Money S.A. (Gabon)	56.01%	Full Consolidation
Malawi Towers Limited	56.01%	Full Consolidation
Airtel Money Niger S.A.	50.41%	Full Consolidation
Société Malgache de Téléphone Cellulaire S.	56.01%	Full Consolidation
Airtel Mobile Commerce Holdings B.V.	56.01%	Full Consolidation
Indian Ocean Telecom Limited	56.01%	Full Consolidation
Airtel (Seychelles) Limited	56.01%	Full Consolidation
Airtel Mobile Commerce (Tanzania) Limited	56.01%	Full Consolidation
Airtel Mobile Commerce Uganda Limited	56.01%	Full Consolidation
Africa Towers N.V.	56.01%	Full Consolidation
Madagascar Towers S.A.	56.01%	Full Consolidation
Mobile Commerce Congo S.A.	56.01%	Full Consolidation
Tanzania Towers Limited	28.57%	Full Consolidation
Airtel Money (RDC) S.A.	55.17%	Full Consolidation
Congo RDC Towers S.A.	56.01%	Full Consolidation

Company Name	Ownership (March 31, 2020)	Consolidation Approach
Gabon Towers S.A. ##	54.86%	Full Consolidation
Airtel Mobile Commerce Madagascar S.A.	56.01%	Full Consolidation
Airtel Rwanda Limited	56.01%	Full Consolidation
Airtel Africa Plc	56.01%	Full Consolidation
Airtel Mobile Commerce (Rwanda) Limited	56.01%	Full Consolidation
Airtel Mobile Commerce (Seychelles) Limited	56.01%	Full Consolidation
Airtel Money Tanzania Limited	28.57%	Full Consolidation
Airtel Mobile Commerce Nigeria B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce (Nigeria) Limited	51.38%	Full Consolidation
Airtel Mobile Commerce (Seychelles) B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Congo B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Kenya B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Madagascar B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Malawi B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Rwanda B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Tchad B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Uganda B.V.	56.01%	Full Consolidation
Airtel Mobile Commerce Zambia B.V.	56.01%	Full Consolidation
Airtel Money Transfer Limited	56.01%	Full Consolidation
Airtel International LLP	56.01%	Full Consolidation
Seynse Technologies Private Limited	22.54%	Equity Method
Aban Green Power Private Limited	24.88%	Equity Method
Juggernaut Books Private Limited	18.75%	Equity Method
Greenenergy Wind Corporation Private Limited	20.33%	Equity Method
Editorji Technologies Private Limited	19.99%	Equity Method
Robi Axiata Limited	14.56%	Equity Method
RedDot Digital Limited	25%	Equity Method
Seychelles Cable Systems Company Limited	25%	Equity Method

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