

Bharti Hexacom Limited

February 13, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	500.00	[ICRA]A1+; Assigned

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus)[†] to the Rs. 500.00-crore commercial paper programme of Bharti Hexacom Limited(BHL).

Rationale

ICRA has taken a consolidated view of BHL with its parent Bharti Airtel Limited (BAL – rated [ICRA]AA+(Stable)/[ICRA]A1+) and both are together referred to as Bharti. BAL holds 70% stake in BHL and balance 30% stake is held by Telecommunications Consultants India Limited (TCIL), a Government of India enterprise. BHL operates mobile and telemedia services in two important telecom circles (Rajasthan and North East, which contributed 8.7% of BAL's AGR¹ in FY2017) and derive operational and financial synergies with BAL.

The rating takes into account Bharti's established market position in the telecom industry in India, its integrated telecommunications operations, its diversified presence across geographies and business verticals, economies of scale with presence in large telecom markets like India and Africa, and 38.6% effective ownership² by Singapore Telecommunications Limited's {rated A1(Stable) by Moody's Investor Services}. ICRA also takes into consideration the steps taken by the company over the last two years to consolidate its market position and its spectrum holding, through acquisition of data centric spectrum and through mergers and acquisition. Bharti has acquired operations from Telenor (India) Communications Private Limited (Telenor), spectrum from Videocon Limited, Aircel Limited, Tikona Digital Networks (Tikona) and is in the process to acquire wireless business of Tata Teleservices Limited which has 28.3 million active subscribers as on November 30, 2017. The rating also factors in Bharti's efforts to deleverage its balance sheet, primarily by steadily selling its stake in Bharti Infratel Limited (BIL). Further stake sale in BIL remains a source of financial flexibility for the company.

Till Q2FY2017, Bharti's India operations had reported healthy growth in revenues and profitability primarily on the back of steady subscriber addition, healthy volume of minutes and growth in data revenues. However, with the launch of services by Reliance Jio Infocomm Limited (RJio) from September 2016, with introductory free offerings, the competition in the industry intensified significantly. This resulted in steady deterioration in the pricing power in the industry. Bharti reported decline in revenue in India operations to Rs. 35,048 crore in H2FY2017 from Rs. 36,022 crore in H2FY2016 and weakening of operating margins to 39.8% from 41.4% during the same period. RJio started pricing its services from April 2017, however, even the current pricing regime remains lower than the levels prior to RJio launch. The industry has

[†] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

¹ Based on Adjusted Gross Revenue (AGR) reported by Telecom Regulatory Authority of India (TRAI)

² Singapore Telecommunications Limited (SingTel) is investing Rs. 2,649 crore in BAL's parent Bharti Telecom Limited through preferential allotment of shares. On completion of transaction, SingTel's effective stake in BAL will increase to 39.5%.

witnessed expedited consolidation over the last one year which is reducing the number of operators. Over a longer term, this is expected to improve the pricing power of the industry thereby allowing for better profitability.

ICRA also takes into consideration the improving performance in Bharti's Africa operations. Bharti has presence in 14 countries (after sale of operation in 2 countries during FY2017 and merger of its entity in one country with another telco) in Africa which contributed around 23% to consolidated revenue and around 21% to consolidated EBITDA in 9MFY2018. Over the last few quarters, Bharti (Africa operations) has reported improvement in its revenue and EBITDA margins - from 24.2% in Q3Y2017 to 35.5% in Q3FY2018 on the back of various cost-control initiatives and focus on ARPU accretion. This, along with the relatively lower capex has resulted in healthier cashflow generation in Africa. Further, weakening of African currencies (against \$) has impacted the reported financials of Africa operations.

The rating also takes into consideration the fact that Bharti's debt remains elevated thereby adversely impacting the debt coverage metrics. The net debt/EBITDA stood at 3.12 times (annualized) for Q3FY2018 (net debt/EBITDA of 2.93 times for Q3FY2017), with addition of deferred spectrum payouts and currency fluctuation impact partly offsetting the deleveraging initiatives. The company's net debt (including deferred spectrum liability) declined to Rs. 91,714 crore as on December 31, 2017 from Rs. 81,480 crore as on September 30, 2016. A significant part of the increase has been on account of deferred spectrum liabilities which have increased to 47,037 crore from Rs. 37,865 crore, while the non-spectrum debt has declined to 54,364 crore from Rs. 55,066 crore during same period. In the near term, Bharti's profitability and cashflows would continue to be impacted by the competitive intensity in the industry and the reduction in Interconnect Usage Charges (IUC) which came into effect from October 1, 2017. Further, the increased capex requirement reduces the scope of significant organic deleveraging. Nevertheless, ICRA takes note of the elongated maturity profile of the debt and Bharti's strong financial flexibility, as demonstrated by its ability to raise funds to meet maturing liabilities, and undrawn bank facilities. While Bharti faces currency risk given the mismatch between currencies in which cashflow is generated (INR and African local currency or LCY) and the currencies in which debt is denominated, the same has reduced significantly with the decline in proportion of non-INR or non-LCY debt.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Bharti will be able to maintain its strong market position with momentum of subscriber addition, diversified revenue generation; and benefit from the ongoing consolidation in the industry. With further monetisation of its assets/investments, it is expected to improve its leverage profile. The outlook may be revised to 'Positive' if growth in revenue and improvement in profitability is stronger than projected. The outlook may be revised to 'Negative' if the competitive intensity continues for longer than projected negatively impacting the revenue and profitability.

Key rating drivers

Credit strengths

- **Market leadership position** – Bharti enjoys market leadership position in the telecom industry in India (with a revenue market share³ of 27.7% in Q2 FY2018 and subscriber market share of 23.8% as on September 30, 2017). In addition, its integrated telecommunications operations and economies of scale provide the company a distinct competitive advantage.
- **Robust spectrum portfolio** - Over the years, Bharti 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). Bharti's spectrum holding stands at 869.5 MHz (including spectrum of Telenor, Tikona and Liberalised spectrum of Tata Group) across bands with strong capability to provide 2G, 3G and 4G services. Moreover, Bharti does not have any spectrum/license expiry till FY2022 thereby providing long term visibility.
- **Strengthening market share with inorganic acquisitions** – despite intense competition, the company has been gaining subscribers steadily in past few months. In addition, it has strengthened its market share through acquisitions of operations of Telenor (2.8% active subscribers' market share as on November 30, 2017). The company is in the process of acquiring wireless operations of Tata Group (2.8% active subscribers market share as on November 30, 2017). These acquisitions when completed are expected to boost the market share of the company.
- **Diversified operations** - Bharti enjoys diversified presence across geographies with non-India operations (primarily Africa) contributing 24% to the consolidated revenues in 9M FY2018. In addition, the company generates around 21% (9MFY2018) of consolidated revenues from India non-mobile operations. With steady improvement in performance of African operations and other non-mobile operations, the overall adverse impact of intense competition in the Indian mobile operations on its EBITDA has been negated to some extent. The company reported decline in EBITDA margins in India mobile business in 9MFY2018 to 33.8% from 41.0% in 9MFY2017, whereas the decline in consolidated EBITDA margin was to 36.4% from 37.5% during the same period

Credit challenges

- **Moderated Pricing Power** – the telecommunications industry has witnessed increased competitive intensity post the launch of services by RJio. This led to pressure on realisations in the industry thereby adversely impacting the financial health of the industry. Consequently, the telecom industry witnessed merger of some telcos and exit of some telcos. With the ongoing consolidation in the industry the numbers of telcos has gradually reduced, however, the competitive intensity continues to remain high. The industry is evolving to fewer but financially stronger players which would make it difficult to achieve a healthy improvement in average revenue per user (ARPU) from current levels.

³ Based on Adjusted Gross Revenue (AGR) reported by Telecom Regulatory Authority of India (TRAI)

- **High leverage** – Bharti continues to undertake various steps to deleverage its balance sheet including sale of operations in some geographies in Africa, sale of tower assets in Africa (monetising around 3.25 bn USD) and sale of stake in BIL (monetising around 1.9 bn USD). This has helped the company repay a sizeable part of its borrowings; however, with the addition of deferred spectrum liabilities (adjusted upwards for capitalisation of interest), its debt continues to remain at elevated level. Its net debt/EBITDA (annualised) stood at 3.12 times in Q3FY2018. The company is expected to continue efforts towards improving its EBITDA and lowering its debt levels to deleverage its balance sheet.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has also taken consolidated view of BHL with its parent BAL

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Mobile Service Providers](#)

About the company

BHL was initially incorporated in 1995 by TCIL, Shyam Telecom Limited (STL) group and others. The shareholding has changed over a period and in 2004, BAL acquired 68.5% stake in it, which was later increased to 70%. The remaining 30% is held by TCIL. BHL operates in two important telecom circles (Rajasthan and North East, which contributed 8.7% of BAL's AGR in FY2017) and derive operational and financial synergies with BAL. BHL had a subscriber base (Rajasthan and North East) of 26.0 mn as on November 30, 2017 commanding a combined subscribers market share of 33.2%.

For FY2017, BHL reported profit after tax of Rs. 660 crore on an operating income (OI) of Rs. 5,131 crore as against profit after tax of Rs. 1,029 crore on an OI of Rs. 5,192 crore in FY2016.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	5,192	5,131
PAT (Rs. crore)	1,029	660
OPBDIT/OI (%)	41.0%	38.2%
RoCE (%)	62.0%	19.1%
Total Debt/TNW (times)	0.15	0.22
Total Debt/OPBDIT (times)	0.43	0.74
Interest Coverage (times)	53.79	21.02
NWC/OI (%)	-11%	-12%

Source: BHL' annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Commercial Paper	Short-term	500.00	-	[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
NA	Commercial Paper	NA	NA	7-365 days	500.00	[ICRA]A1+
Source: Bharti Hexacom Limited						

ANALYST CONTACTS

Sabyasachi Majumdar

+91-124-4545304

Sabyasachi@icraindia.com

Harsh Jagnani

+91-124-4545394

harshj@icraindia.com

Sachin Sachdeva

+91-124-4545307

Sachin.sachdeva@icraindia.com

RELATIONSHIP CONTACT

Mr. L Shivakumar

+91 22 61143406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents