November 04, 2019

Bharti Hexacom Limited: Rating of [ICRA]A1+ placed under watch with negative implications

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1,000.00	1,000.00	[ICRA]A1+ @; placed under watch with negative implications

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 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 around 8% of BAL's AGR in FY2018) and derive operational and financial synergies with BAL.

Material Event

The honourable Supreme Court has come out with its judgement on October 24, 2019 on the definition for calculation of adjusted gross revenue (AGR) and has mandated the telecom operators to pay the license fee basis the revised AGR, along with interest and penalties on the same.

Impact of material event

ICRA has placed the ratings on rating watch with negative implications following the judgement by honourable Supreme Court pertaining to dispute regarding calculation of adjusted gross revenue (AGR). As per the judgment which was passed on October 24, 2019, the telcom service providers (telcos) are required to include other sources of revenues as part of the AGR (as stipulated in the New Telecom Policy 1999). The inclusion of these non-core revenues in AGR which the operators were not including while depositing the revenue share may result in increase in the total levies payable, which along with the interest and penalties on the past dues may result in sizeable payables for the telcos. However, the clarity on exact amount payable and the payment terms is still awaited. Nevertheless, any material liability on the company in this respect has the potential to impact the debt levels and could result in deterioration of debt protection metrics.

Pursuant to the SC ruling and subsequent requests by telecom operators for relief measures, the Government of India has appointed a Committee of Secretaries to analyse the current situation, the outcome of which will be a key monitorable.

ICRA will continue to monitor the developments with respect to the actual amounts and timing of payments to assess the impact on credit metrics of the company.

The previous detailed rating rationale is available on the following link: Click here

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About ICRA Limited:

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