

December 31, 2019

## Bharti Enterprises (Holding) Private Limited: Rating reaffirmed, watch with negative implications continues

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	2300.0	2300.0	[ICRA]A1+@ reaffirmed, watch with negative implications continues
<b>Total</b>	<b>2300.0</b>	<b>2300.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA had placed the rating of Commercial Paper programme of Bharti Enterprises (Holding) Private Limited (BEHPL) on watch with negative implications consequent to the moderation in credit profile and resultant downgrade of rating of its key investee company Bharti Airtel Limited (Bharti Airtel) to [ICRA]AA-@/ [ICRA]A1+@ from [ICRA]AA@/ [ICRA]A1+@ held through Bharti Telecom Limited (BTL, rated [ICRA]A1+@). The rating action on Bharti Airtel followed recognition of Rs. 34250 crore liability towards license fee and spectrum usage charges on Adjusted Gross Revenues (AGR) that was earlier expected to be funded partly through borrowings. Notwithstanding the significant AGR liability, there have been favourable developments that include recent upward revision in tariff by telecom companies and deferment of spectrum dues by two years by the government. Further, Bharti Airtel's board approved a US\$ 3 billion funding raising plan. In light of management guidance of completing the equity and equity linked instruments fund raising by early to mid-January coupled with available liquidity (around Rs. 18,473 crore as on September 30, 2019 on a consolidated basis), ICRA expects dependence on debt likely to be minimal for Bharti Airtel for funding any shortfall in AGR payout. Nevertheless, ICRA would continue to monitor the developments on equity and fund mobilisation as well as payout of AGR liability and resolve the rating watch on holding company as well on conclusion of these events.

The rating reaffirmation favorably factors in BEHPL's status as the majority shareholder of BTL which in turn is the holding company of Bharti Airtel, a leading player in the Indian telecommunications industry. The company enjoys financial flexibility on account of its economic interest of around 20.8%<sup>1</sup> in Bharti Airtel (market value at around Rs. 48,938 crore as on December 24, 2019). In addition, the rating derives comfort from BEHPL's reputed promoters – the Bharti Mittal family (the Bharti Group). The company's current debt profile is characterised largely by intragroup borrowings with Rs. 400 crore as external debt (Commercial Paper) supported by cash and liquid investments of around Rs. 700 crore.

However, the rating continues to factor in significant concentration of investment portfolio on one listed company (although held indirectly)- Bharti Airtel with balance towards group's insurance business, advances to real estate entities as well as shares held in a non-group retail company. With modest operating cash flows, the company remains dependent on intra group advances or promoter loans/ equity to meet its funding requirements. ICRA, however, notes

<sup>1</sup> earlier 25.6% stake as on March 31, 2019

that the promoters have demonstrated a conservative approach by addressing rising indebtedness in holding companies through equity infusion in the past. Moreover, in the current fiscal, while the promoters have supported funding requirements in the group's insurance joint ventures through other holding entities of the group, with no large investments by BEHPL in group entities in the short term as guided by the management.

## Key rating drivers and their description

### Credit strengths

**Ultimate holding company symbolising Bharti family ownership of Bharti Airtel** – BEHPL holds 20.85% economic interest in Bharti Airtel (through BTL), a leading telecom service provider in India. The market value of this economic interest is at around Rs. 48,938 crore (as on December 24, 2019). The company's economic interest in Bharti Airtel lends financial flexibility to BEHPL.

**Part of a reputed group** – The company is part of the reputed Bharti group which has interests in telecom space in India and Africa, apart from other domestic business segments like real estate, insurance, retail and agribusiness among others.

### Credit challenges

**Investment concentration in Bharti Airtel through BTL, negligible additional investments expected in the short-term** – BEHPL's investment portfolio is concentrated on Bharti Airtel, though indirectly through its stake in BTL. While BTL constitutes 74% of BEHPL's investments, the balance is towards the group's other businesses like insurance and retail and a non-group retail entity. Moreover, BEHPL has also advanced funds to the group's realty entities. However, in the short term, no large investments by BEHPL are expected as guided by management. Notably, in the current fiscal, the promoters have infused funds into the insurance entities through other holding entities of the group.

**Negligible operating cash flows results in dependence on group companies for servicing external debt:** - BEHPL has limited operations and derives income mainly from royalty and management fees<sup>2</sup> resulting in weak operating cashflows. As on March 31, 2019, BEHPL had a total debt of Rs. 2039 crore which was entirely from group companies or directors. BEHPL's debt is repayable on demand similar to the advances extended by it to group companies. Given its weak operating cashflows, BEHPL remains dependent on timely refinancing and recovery of group advances for its debt servicing. However as most of the debt is from group companies, flexibility exists in terms of repayment scheduling if required. At present, the company has external debt of Rs. 400 crore in the form of commercial paper against which it holds cash and liquid investments of around Rs. 700 crore.

**Vulnerability to market risks-** BEHPL's financing ability can be vulnerable to share price performance of Bharti Airtel and thus remains exposed to market risks.

### Liquidity position: Adequate

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<sup>2</sup> In FY2019, BEHPL generated a net loss of Rs. 1161 crore mainly owing to share upside sharing arrangement with respect to shares held in Future Retail Ltd. However, including fair value gains on the same, the company's total comprehensive income stood at Rs. 488 crore.

The company does not have any major operations of its own and primarily derives income from royalty and management fee. Thus, it remains dependent on group or external funding to maintain its liquidity position. ICRA believes that given the reputed promoters, BEHPL has the ability to arrange funds at short notice through other promoter group companies. ICRA expects BEHPL's liquidity to remain adequate given the current liquid investments of ~Rs. 700 crore and relatively lower outstanding external debt.

## Rating sensitivities

**Positive triggers** – Not applicable.

**Negative triggers** – Pressure on rating could arise if there is a significant decline in market capitalization of Bharti Airtel impacting BEHPL's financial flexibility. The rating could also be revised downwards if there is downward revision in rating of key investee company, BTL. Further, a sustained increase in external debt owing to large funding requirements in investee companies or group entities, could also be a rating trigger.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for holding companies</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

BEHPL is part of the Bharti Enterprises group which has been promoted by Mr. Sunil Bharti Mittal in 1976. BEHPL is a holding company and its primary investment includes stake in BTL which has further investments in BAL. In FY2018, four group companies namely Bharti Enterprises Limited, Cedar Support Services Limited, Bharti Insurance Holding Private Limited and Bharti Support Services Private Limited were amalgamated in BEHPL with a view to simplify the group structure. Apart from telecom business, BEHPL holds investments in holding companies of group's other interests like insurance.

## Key financial indicators (Audited)

	FY2018 <sup>^</sup>	FY2019
Operating Income (Rs. crore)	27	16
PAT (Rs. crore)	-34	-1161
OPBDIT/OI (%)	9.1%	-7272.1%
RoCE (%)		
Total Debt/TNW (times)	0.48	0.34
Total Debt/OPBDITA (times)	1044.12	-1.80
Interest Coverage (times)	0.07	-20.71

Source: BEHPL's annual reports

Amounts in Rs. crore, <sup>^</sup>revised financials post amalgamation of group entities with BEHPL

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for past three years**

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2019	
					31-Dec 2019	25-Nov 2019	30-Nov 2018	
1	Commercial paper	Short Term	2300.0	400.0*	[ICRA]A1+@	[ICRA]A1+@	[ICRA]A1+	

*Amount in Rs. crore, \*as on December 31, 2019*

**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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	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	2300.00	[ICRA]A1+@

Source: BEHPL

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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