Bharti Airtel Limited

May 09, 2018

Summary of Rated Instrument:

Instrument	Current Rated Amount (Rs. crore)	Rating Outstanding
Commercial Paper	6,000.00	[ICRA]A1+
Issuer Rating	NA	[ICRA]AA+(Stable)
Term Loans	4,600.00	[ICRA]AA+(Stable)
Working Capital Limits (rated on long term scale)	2,250.00	[ICRA]AA+(Stable)
Working Capital Limits (rated on short term scale)	250.00	[ICRA]A1+

Material Event

Bharti Airtel Limited (Bharti) has announced its quarterly results (Q4 FY2018) on April 24, 2018. The company reported operating income of Rs. 19,634 crore and OPBDITA of Rs. 7,005 crore in Q4 FY2018 as compared to operating income of Rs. 21,935 crore and OPBDITA of Rs. 7,906 crore in Q4 FY2017. The company has also reported increase in net debt to Rs. 95,229 crore as on March 31, 2018 from Rs. 91,400 crore as on March 31, 2017.

Impact of the Material Event

The rating remains unchanged at the earlier rating of [ICRA]AA+(Stable)/[ICRA]A1+ as the pressure on debt coverage metrics of the company is expected to be addressed over medium to long term by inorganic deleveraging initiatives underway. Going forward, trend of company's pricing and EBITDA generation, along with progress on the existing and new deleveraging initiatives would be key rating sensitivities.

ICRA takes note of the pressure on the company's India operations as the Indian telecom sector continues to face intense competition and weak pricing power. For Bharti, this, along with the adverse impact of reduction in Interconnect Usage Charges and International Termination Charges, have led to steady down-trending of ARPU in India mobile operations to Rs. 116 in Q4 FY2018 from Rs. 158 in Q4 FY2017. This has offset the healthy subscriber addition, translating into YoY decline in revenues and OPBDITA. At the same time, the capex has increased significantly (to Rs. 26,818 crore in FY2018 from Rs. 19,875 crore in FY2017) and is guided to remain high as the company has intensified its network expansion and upgradation in India. Consequently, the debt coverage metrics of the company have moderated with Net Debt / EBITDA at 3.13x as on March 31, 2018 as against 2.63x as on March 2017. Nevertheless, ICRA takes note of the sizeable inorganic deleveraging options being explored by the company including dilution of stake in the merged Bharti Infratel Limited (BIL) and Indus Towers Limited (Indus) over the next 12-18 months; and monetisation of stake in Africa operations. On the conclusion of the proposed BIL – Indus merger, Bharti would hold between 33.8% and 37.2% in the combined entity, with potential valuation (on basis of company's release for merger of BIL and Indus) of around Rs. 36,000 Crore. The ratings also take into consideration the improvement in Africa operations over the last few quarters, with operating margins improving from 25.9% in Q4Y2017 to 36.0% in Q4FY2018 on the back of various cost-control initiatives, customer additions, reducing churn and focus on ARPU accretion. Performance of Africa operations along with cost control initiatives in India are expected to provide support to the consolidated EBITDA. The longer-term uptick in EBITDA would hinge on improvement in industry pricing power on the back of a consolidated structure and firm data usage by the subscribers.

The ratings continue to take 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 39.5% effective ownership[1] 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. ICRA also takes note of the steady improvement in performance of non-mobile India operations as well as Africa operations, which contributed 29% and 22% of consolidated EBITDA respectively in FY2018.

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

[1] *Singapore Telecommunications Limited (SingTel) invested Rs. 2,649 crore in BAL's parent Bharti Telecom Limited through preferential allotment of shares in March 2018 thereby raising its effective stake in BAL to 39.5%.*

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