

Bharti Airtel Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore ¹	August 2016
Issuer Rating	NA	IrAA+ (stable) reaffirmed
Term Loans	4600.0	[ICRA]AA+ (stable) reaffirmed
Working Capital Limits (rated on long term scale)	2250.0	[ICRA]AA+ (stable) reaffirmed
Working Capital Limits (rated on short term scale)	250.0	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus) rating for the Rs. 4,600 crore term loans and Rs. 2,250 crore bank facilities of Bharti Airtel Limited (Bharti)[†]. The outlook on the long term rating is stable. ICRA has also reaffirmed [ICRA]A1+ (pronounced ICRA A one plus) rating for Rs. 250 crore bank limits of Bharti. Further, the issuer rating of IrAA+ (pronounced I R double A plus) with a stable outlook has also been reaffirmed.

The rating reaffirmation takes into account Bharti's established market position in the telecom industry in India (market leader with a revenue market share of 32.7% in Q1FY2017) which is also reflected in steady revenue growth (from Rs. 92,039 crore in FY2015 to Rs. 96,532 crore in FY2016), and increased penetration of data services which has resulted in an improvement in profitability indicators (operating margin of 35.4% in FY2016 as against operating margin of 34.2% in FY2015). ICRA also takes into note of the steps taken by the company to consolidate its spectrum holding through acquisition of data centric spectrum and initiatives such as sale of tower assets and operations in two African geographies, to deleverage its balance sheet.

Bharti has focused on acquiring data centric spectrum in last few months; this includes acquisition of 30 MHz spectrum in 1800 MHz band from Videocon Telecom Limited and 160.0 MHz spectrum in 2300 MHz band from Aircel Limited. Consequently Bharti now has sizeable spectrum holding of 763.5 MHz across bands with strong spectrum capability to provide 2G, 3G and 4G services. Moreover, these acquisitions also safeguards Bharti from aggressive participation in upcoming auctions. Moreover it does not have any spectrum/license expiry till FY2022 thereby providing long term visibility. Bharti has also launched its 4G services in 463 towns across the country.

The ratings also derive comfort from the company's deleveraging efforts during the last one year wherein it has sold around 8800 telecom towers spread across different geographies in Africa and sale of additional towers is in pipeline. The company has garnered around \$ 1.8 bn (around Rs. 12,000 crore) from the sale of towers and the amount has been used to repay existing debt and sale of its operations in two countries (Burkina Faso and Sierra Leone) in Africa.

Over the last few quarters, the company has reported healthy growth in revenues and profitability primarily on the back of improvement in performance in Indian operations wherein the company has reported steady subscriber addition, healthy volume of minutes and growth in data revenues, though the realizations in both voice and data segment have remained under pressure. In the voice segment, the RPM declined from 36.2 paisa in Q4FY2015 to 33.3 paisa in Q4 FY2016 (a large part is on account of regulatory changes namely reduction in Inter Connect Usage charges and roaming charges), Nevertheless on the back of growth in total minutes on network by 8.5% in FY2016 the voice revenues in India has held firm thereby providing stability to total revenue generation. In the data segment the data ARMB has declined from 27.5 paisa in FY2015 to 24.6 paisa in FY2016. However, this was offset by the improvement in usage leading to the strong growth in data revenue (India) - from Rs. 2,361 crore in Q4FY2015 to Rs. 3,414 crore in Q4FY2016 (Rs. 12,228 crore in FY2016 as against Rs. 7,907 crore in FY2015) and its contribution to mobile revenues has increased from 17.6% to 23.3% during this period. This has led to steady improvement in operating margins of the India mobile business (from 38.6% in Q4FY2015 to 39.9% in Q4FY2016). Going forward, the data business has significant headroom in terms of subscriber addition and volume growth, given the current levels of penetration. However,

¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

any impact of price elasticity remains to be seen. While Bharti's strong market position is a competitive advantage, entry and impact of RJio would remain a key monitorable, especially its impact on subscriber growth and pricing – both in voice and data markets. Any adverse pricing movements can adversely impact Bharti's strong Indian operations. Bharti's ratings continue to favorably take into account 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 Singapore Telecommunications Limited's (rated Aa3(stable) by Moody's Investor Services) 33.0% effective ownership.

The ratings however remain constrained by the continued moderate performance in Bharti's Africa operations, which partly offsets the improvement in India performance. Bharti has presence in 15 countries (accounting for sale of operations in two countries) in Africa which contributed around 26% to consolidated revenue and around 15% to consolidated EBITDA in FY2016. Over the last one year, while Bharti has reported some improvement in constant currency basis, the performance largely remains subdued. The revenue in constant currency in Q4FY2016 witnessed 4.5% y-o-y growth (4.7% y-o-y de-growth in Q4FY2016 in reported currency terms) and the EBITDA margins improved from 20.7% to 22.1%. In a few countries, Bharti faces market-specific challenges and macroeconomic factors which have translated into slowdown in subscriber addition and pressures on voice RPM (declined to 2.1 cents in Q4FY2016 from 2.4 cents in Q4FY2016 in constant currency). Further, weakening of African currencies have impacted the reported financials.

The ratings also take into consideration the high leverage of the company. The net gearing (net debt to funded equity) of the company stands at 1.28x and net debt/EBITDA is 2.39 times (annualized) for Q4FY2016 (net gearing of 1.08x and net debt/EBITDA of 2.06 times for FY2015). Addition of deferred spectrum payouts and currency fluctuation impact have offset the impact of deleveraging initiatives highlighted above, with net debt in INR increasing to Rs. 83,888 crore as on March 31, 2016 from Rs. 66,842 crore as on March 31, 2015. Out of this, the deferred spectrum liabilities have increased from Rs. 14,317 crore to Rs. 34,142 crore and the non-spectrum debt has moved from Rs. 52,525 crore to Rs. 49,746 crore during same period. Nevertheless, ICRA takes note of the elongated maturity profile of the debt and company's financial flexibility, as demonstrated by its ability to raise funds to meet maturing liabilities as well as asset monetization totaling to 3.25 billion USD through the tower sales and the sale of its operations in two African Countries.

Further 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. However the risk has reduced with reduction in proportion of non LCY debt. Further, ICRA takes note of the steps taken by the company to address the forex risk which include hedging the repayment commitments of next one year and partially for longer tenors as well, and refinancing of debt to align the cashflows. Nevertheless, improvement in cashflows of Africa operations is important to mitigate the currency risk in the longer term.

Company Profile:

Bharti Airtel is one of India's leading integrated telecommunication service providers. For its Indian operations, Bharti Airtel has five strategic business units (SBUs) - Mobile Services, Telemedia Services, Enterprise Services, Digital TV Services and Passive Infrastructure. The Mobile Services group provides GSM (Global System for Mobile Communications) mobile services in all 22 telecom circles across India, while the Telemedia business group provides broadband and telephone services. The Enterprise Services group has two sub-units - carriers (long distance services) and services to corporates. Bharti Airtel also provides Digital TV Services, which is available across the country. The company also provides passive infrastructure services through its subsidiary, Bharti Infratel and Joint Venture – Indus Towers. Further, the company provides mobile services in Sri Lanka, Bangladesh and 15 countries in Africa (accounting for sale of operations in two countries).

Recent Results

For FY2016, Bharti reported consolidated revenues of Rs. 96,619 crore and profit after tax of Rs. 6,134 crore. For FY2015, Bharti reported revenues of Rs. 92,135 crore and profit after tax of Rs. 5,308 crore on a consolidated basis.

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