

## Bharti Airtel Limited

Instrument	Amount Rated	Rating Action
	In Rs. Crore <sup>1</sup>	December 2016
Commercial Paper	3,000	Assigned [ICRA]A1+
Issuer Rating	NA	Outstanding IAA+ (stable)
Term Loans	4600.0	Outstanding [ICRA]AA+ (stable)
Working Capital Limits (rated on long term scale)	2250.0	Outstanding [ICRA]AA+ (stable)
Working Capital Limits (rated on short term scale)	250.0	Outstanding [ICRA]A1+

ICRA has assigned [ICRA]A1+ (pronounced ICRA A one plus) rating for Rs. 3,000 crore commercial paper programme of Bharti Airtel Limited (Bharti) †. ICRA also has outstanding long term rating of [ICRA]AA+ (pronounced ICRA double A plus) with Stable outlook for the Rs. 4,600 crore term loans and Rs. 2,250 crore bank facilities of Bharti. ICRA also has outstanding issuer rating of IAA+ (pronounced I R double A plus) with a stable outlook and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 250 crore bank limits of Bharti.

The assigned rating takes into account Bharti's established market position in the telecom industry in India (market leader with a revenue market share of 32.1% in Q2FY2017) 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 38.0% in H1FY2017 as against 35.4% in FY2016 and 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. The rating also takes into account Bharti's 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.

Bharti has focused on acquiring data centric spectrum and adding capacity layer of spectrum in last few months which includes acquisition of 174 MHz of spectrum in auctions held in October 2016. Prior to this Bharti had also acquired 30 MHz spectrum in 1800 MHz band from Videocon Telecom Limited and 160 MHz spectrum in 2300 MHz band from Aircel Limited. Consequently Bharti now has the largest spectrum holding of 936 MHz across bands with strong spectrum capability to provide 2G, 3G and 4G services. Moreover it does not have any spectrum/license expiry till FY2022 thereby providing long term visibility.

The ratings also derive comfort from the company's deleveraging efforts during the last two year wherein it has sold around 10,300 telecom towers across 11 countries in Africa and has divested two country telecom operations for a total consideration of \$3.25 bn (around Rs. 22,000 crore). The amount so garnered has been used to repay/prepay its existing borrowings.

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. The voice RPM declined from 33.3 paisa in Q4FY2016 to 32.4 paisa in Q2FY2017. The data ARMB has declined from 27.5 paisa in FY2015 to 24.6 paisa in FY2016 and further to 21.4 paisa in H1FY2017. However, this was more than offset by the improvement in usage leading to the strong growth in data revenue - from Rs. 3,414 crore in Q4FY2016 to Rs. 3,640 crore in Q2FY2017 and its contribution to mobile revenues has increased from 23.2% to 24.1% during this period. This has led to steady improvement in operating margins of the India mobile business (from 39.9% in Q4FY2016 to 42.4% in Q2FY2017). Going forward, the data business has significant headroom in terms of subscriber addition and volume growth, given the current levels of penetration. While Bharti's strong market position is a competitive advantage, launch of services by Reliance Jio Infocomm Limited (RJio) in September 2016 has

<sup>1</sup> 100 lakh = 1 crore = 10 million

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

heightened the competitive intensity in the industry. Subscriber growth and pricing of all the industry players may come under pressure.

The rating remains constrained by the moderate, though improving, performance in Bharti's Africa operations. Bharti has presence in 15 countries (after 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, Bharti has reported some improvement in constant currency basis with revenue in Q2FY2017 witnessing 3.7% y-o-y growth (12.4% y-o-y de-growth in reported currency terms) and the EBITDA margins improving from 19.6% to 23.5% during this period. In a few countries, Bharti faces market-specific challenges and macroeconomic factors in some of the African operations which have translated into slowdown in subscriber addition and pressures on voice RPM (declined to 1.7 cents in Q2FY2017 from 1.8 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 debt/EBITDA stood at 2.22 times (annualized) for Q2FY2017 (net debt/EBITDA of 2.38 times for FY2016), with addition of deferred spectrum payouts and currency fluctuation impact partly offsetting the deleveraging initiatives highlighted above, with net debt (including deferred spectrum liability) increasing to Rs. 81,480 crore as on September 30, 2016 from Rs. 70,390 crore as on September 30, 2015. Out of this, the deferred spectrum liabilities have increased from Rs. 20,228 crore to Rs. 37,865 crore and the non-spectrum debt has reduced from Rs. 52,414 crore to Rs. 47,425 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. While the risk has reduced with reduction in proportion of non-LCY debt, nevertheless, improvement in cashflows of Africa operations is important to mitigate the currency risk in the longer term.

#### **Company Profile:**

Bharti Airtel (Bharti) is one of India's leading integrated telecommunication service providers. For its Indian operations, Bharti has five strategic business units (SBUs)– Mobile Services, Home Services, Airtel Business, Tower Infrastructure and Digital TV services. The Mobile Services group provides Global System for Mobile Communications (GSM) mobile services in all 22 telecommunication circles across India, while the home services group provides broadband and wireline services. The Airtel business group provides long distance services and services to corporates. The company also provides passive infrastructure services through its subsidiary, Bharti Infratel and joint venture – Indus Towers. Furthermore, the company also provides mobile services in Sri Lanka, Bangladesh and 15 countries in Africa.

#### **Recent Results**

For H1FY2017, Bharti reported consolidated revenues of Rs. 50,198 crore and net income of Rs. 2,923 crore. For H1FY2016, Bharti reported consolidated revenues of Rs. 47,507 crore and net income of Rs. 3,649 crore.

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.

**December 2016**

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