

April 06, 2017

Bharti Airtel Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Commercial Paper	1,500	Assigned [ICRA]A1+
Commercial Paper	3,000	Outstanding [ICRA]A1+
Issuer Rating	NA	Outstanding IrAA+ (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+

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned [ICRA]A1+ (pronounced ICRA A one plus) rating for Rs. 1,500 crore commercial paper programme of Bharti Airtel Limited (Bharti)[†]. ICRA also has outstanding rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 3,000 crore of Commercial paper programme of 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 IrAA+ (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.

Rationale

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 30.8% in Q3FY2017), 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. ICRA also takes into consideration the steps taken by the company over the last two years to consolidate its market positioning and its spectrum holding, through acquisition of data centric spectrum (such as spectrum acquisition from Videocon Limited and Aircel Limited apart from auctions) and recently through acquisition of Telenor (India) Communications Private Limited. Bharti now has the largest spectrum holding of 979.4 MHz (including spectrum of Telenor which is being acquired by Bharti) across bands with strong capability to provide 2G, 3G and 4G services. Moreover it does not have any spectrum/license expiry till FY2022 thereby providing long term visibility. Further the company has undertaken initiatives such as sale of tower assets and operations in two African geographies, to deleverage its balance sheet.

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

Till Q2FY2017, the company had reported healthy growth in revenues and profitability primarily on the back of improvement in performance in Indian operations with steady subscriber addition, healthy volume of minutes and growth in data revenues. However, the scenario has changed post launch of services by Reliance Jio Infocomm Limited (RJio) in September 2016 which heightened the competitive intensity in the industry. The free service offerings by RJio dented the data and voice usage of other telcos including Bharti and exerted pressure on realisations. Further the ban on use of specified bank notes (demonetisation) impacted the recharges in the prepaid segment and limited the revenue growth. Consequently company witnessed decline in ARPU to Rs. 172 in Q3FY2017 from Rs. 188 in Q2FY2017. The company reported decline in revenue to Rs. 23,364 crore in Q3FY2017 from Rs. 24,672 crore in Q2FY2017 and weakening of operating margins to 36.5% from 38.4% during same period. The price competition is expected to continue in the medium term which would exert pressures on ARPU, however some uplift is expected from higher usage.

The rating also takes into consideration the moderate, though improving performance in Bharti's Africa operations. Bharti has presence in 15 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 improvement in constant currency basis with revenue in Q3FY2017 witnessing 5.4% y-o-y growth (9.7% y-o-y de-growth in reported currency terms) and the EBITDA margins growing from 20.0% to 24.4% during this period. In a few countries, Bharti faces market-specific challenges and macroeconomic factors in some of the African operations which have exerted pressures on realizations. Further, weakening of African currencies has impacted the reported financials.

The ratings also take into consideration the moderate debt coverage metrics of the company. The net debt/EBITDA stood at 2.91 times (annualized) for Q3FY2017 (net debt/EBITDA of 2.22 times for Q2FY2017), with addition of deferred spectrum payouts and currency fluctuation impact partly offsetting the deleveraging initiatives, with net debt (including deferred spectrum liability) increasing to Rs. 97,395 crore as on December 31, 2016 from Rs. 78,452 crore as on December 31, 2015. A significant part of the increase has been on account of deferred spectrum liabilities which have increased from Rs. 30,159 crore to Rs. 45,430 crore, while the non-spectrum debt has increased from Rs. 58,682 crore to Rs. 62,650 crore during same period. Nevertheless, ICRA takes note of the elongated maturity profile of the debt and company's strong financial flexibility, as demonstrated by its ability to raise funds to meet maturing liabilities, undrawn bank facilities, 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.

Key rating drivers

Credit Strengths

- Integrated telecommunications operations with diversified presence across geographies and business lines.
- Leadership position in the Indian mobile telecommunications market with highest subscriber market share and revenue market share
- Strengths arising from strong management team and promoters, including equity participation from Singapore Telecommunications Limited (a leading telecommunication service provider in Asia), which is rated Aa3(Stable) by Moody's Investor Service.
- Strong spectrum holding across bands with capability to provide 2G, 3G and 4G services. Furthermore the next spectrum expiry falls in FY2022, thereby mitigating spectrum renewal risk.

Credit Weakness

- The performance of Africa remains sluggish with tepid turnover growth and pressures on profitability as Bharti continues to face country specific challenges in a few operations.
- Heightened price competitive intensity in the industry which reflected in pressure on revenue growth and profitability during Q3FY2017
- Despite the debt prepayment and deleveraging by the company, addition of deferred spectrum payouts and forex fluctuation impact have led to the debt levels remaining sizeable; and debt coverage indicators remaining moderate with Net Debt/EBIDTA of 2.9 times as on December 31, 2016.
- Exposure to foreign exchange fluctuation risk (though reduced) on account of mismatch between currencies in which cashflow is generated (INR and local currencies of countries of operations in Africa (LCY)) and the currencies in which debt is denominated

Description of key rating drivers highlighted above:

Bharti has a diversified presence across geographies and business verticals with operations spread across 18 countries and a subscriber base of 365 million as on December 2016, making it one of the largest telecommunication operators in the world. Bharti operates in two distinct geographies– the Indian sub-continent and Africa with each having distinct features in terms of the geo-political scenario, cultural traits, competitive intensity, pricing levels, tele-density and regulatory scenario. Moreover, the company offers a variety of telecommunication services, including mobile services, wire-line services, enterprise connectivity solutions, domestic and international long distance services, digital television services, m-commerce, passive infrastructure services, etc. This enables Bharti to derive benefits of economies of scale, cross-selling opportunities, and cost synergies.

Further Bharti has shored up sizeable data centric spectrum across bands. Bharti now has the largest spectrum holding of 979.4 MHz (including spectrum of Telenor which is being acquired by Bharti) across bands with strong spectrum capability to provide 2G, 3G and 4G services. The company has witnessed steady growth in its data revenues over last few quarters driven by increasing utilisation though the realisations had been under pressure. However during Q3FY2017 company has witnessed decline in its revenues in both voice and data segments owing to decline in usage as the customers opted to avail free services offered by RJio. During Q3FY2017 company has reported decline of 5% q-o-q in its revenues and decline of 10% q-o-q in its Earnings before Interest Tax and Depreciation (EBITDA). The company has also reported decline in its ARPU to Rs. 172 in Q3FY2017 from Rs. 188 in Q2FY2017. The pressure on profitability coupled with sizeable debt levels of the company has exerted pressure on its debt coverage metrics too during Q3FY2017.

Analytical approach:

Analysts have considered the consolidated financial profile of the company

Links to applicable Criteria

Rating Methodology for Mobile Service Providers

About the Company:

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.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years:
Table: Rating History

S. No	Name of Instrument	Current Rating					Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & rating	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014	
1	Commercial Paper	Short term	4,500	April 2017 [ICRA]A1+	Dec 2016* [ICRA]A1+	Sep 2016 NA	May 2015 NA	- NA	Dec 2013* NA	
2	Issuer Rating	Long term	NA	IrAA+(Stable)	IrAA+ (Stable)	IrAA+ (Stable)	IrAA+ (Stable)	IrAA+ (Stable)	IrAA+(Stable)	
3	Term Loans	Long term	4,600	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
4	Working Capital Limits	Long term	2,250	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
5	Working Capital Limits	Short term	250	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

**In Dec 2016 the amount of CP was Rs. 3,000 crore*

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

**Annexure-1
Details of Instruments**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Commercial Paper	*	*	*	4,500	[ICRA]A1+
Issuer Rating	-	-	-	-	IrAA+ (Stable)
Term Loans	*	*	*	4,600	[ICRA]AA+ (Stable)
Working Capital Limits (rated on long term scale)	-	-	-	2,250	[ICRA]AA+ (Stable)
Working Capital Limits (rated on short term scale)	-	-	-	250	[ICRA]A1+

** Not available as the company has not provided issuance wise details*

Source: Bharti Airtel Limited

Name and Contact Details of the Rating Analyst(s):

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Mr. Harsh Jagnani
+91 124 4545 394
harshj@icraindia.com

Mr. Sachin Sachdeva
+91 124 4545 307
Sachin.sachdeva@icraindia.com

Name and Contact Details of Relationship Contacts:

Mr. L Shivakumar
+91 22 61143406
shivakumar@icraindia.com



About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500