

October 05, 2017

Bharti Infratel Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Issuer Rating ¹	Not applicable	[ICRA]AA+(Stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the issuer rating of [ICRA]AA+ (pronounced ICRA double A plus)[†] for Bharti Infratel Limited (BIL). The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation factors in BIL's established position in the telecom tower industry; healthy tenancy additions from Bharti Airtel Ltd. (Bharti) and Reliance Jio Infocomm Ltd. (RJio) leading to growth in its net tenancy ratio (consolidated closing net tenancy of 2.40 times as on June 30, 2017 as against 2.20 times as on June 30, 2016) with resultant revenue growth and profitability improvement; its healthy customer mix with top three telecom operators (telcos) in the country namely Bharti, Vodafone India Limited (Vodafone) and Idea Cellular Services Limited (Idea) accounting for majority of its revenues. Further the rating factors in BIL's strategic investment (42% stake) in Indus Towers Limited (Indus) - India's largest telecom tower company with strong operating metrics. Further, the business has steady outlook over the longer term with rising data usage expected to drive demand for tower infrastructure. ICRA also continues to take into consideration the strong financial profile of the company as reflected by its negligible debt as on March 31, 2017, robust debt coverage metrics and sizeable cash and cash equivalents of around Rs. 7,900 crore as on March 31, 2017.

Bharti Infratel is a subsidiary of Bharti Airtel Limited which is the largest telco in the country (rated [ICRA]AA+ (Stable)/A1+) and has an established track record of setting-up and managing telecom towers. The company enjoys healthy tenancies from Bharti, Vodafone and Idea, however, it faces competition from other established tower infrastructure companies in the country. ICRA has also taken note of the weak outlook for the telecom industry in India which is witnessing high competitive intensity and pricing pressures. In addition, the telecom industry is going through consolidation amongst some telcos - BIL has healthy proportion of tenancies from Vodafone and Idea, which are under the process of merging their operations, this can translate into some loss of redundant tenancies and/or adverse impact on rentals. Given the high operating leverage of the business, adverse impact on the revenues can impact EBITDA. However, the business derives strength from inherent high client stickiness given the challenges in network reorganisation, as well as exit penalty clauses which are part of the master service agreements with the telcos. ICRA has taken note of the capital intensive nature of operations, necessitating constant investment in the tower network for maintenance and improvements at established sites.

¹ With effect from Sep 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details

[†] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

Key rating drivers

Credit strengths

- **Established position** – BIL has an established market position with a standalone tower portfolio of 39,211 towers as on June 30, 2017 spread across 11 circles. In addition it has 42% stake in Indus – the largest telecom tower company in the country which provides for a huge upside potential which is reflected in sizeable dividend income from Indus.
- **Steady growth in tenancies from Bharti and Reliance Jio Infocomm Limited (RJio)** – despite the challenges faced by the telecom industry in general, BIL has been able to steadily add more tenancies especially driven by 4G rollout by Bharti and RJio. Its tenancy ratio has improved to 2.38 times as on June 30, 2017 from 2.12 times as on June 30, 2016.
- **Robust financial risk profile** – Given limited capex requirements and healthy cash flow generation, the company enjoys robust liquidity. Though the company continues to declare sizeable dividends, it enjoys healthy financial profile with negligible debt and sizeable cash and cash equivalents of around Rs. 7,900 crore as on March 31, 2017.
- **Growth in tenancies** – the telecom industry is expected to be left with few strong players which are expected to expand their network especially for 4G data services. This is expected to result in healthy demand for towers going forward.

Credit weaknesses

- **Stress in Telecom Industry** – the telecommunications industry is witnessing increased competitive intensity which has impacted the financial position of the telcos. This is expected to exert pressure on the tower industry too in terms of pricing renegotiations and loss of tenancies from the telcos exiting the industry. In addition the telcos merging their operations are expected to reduce overlapping tenancies.
- **Capital intensive nature of operations** – the telecom tower industry is capital intensive in nature as the players need to incur sizeable capex of setting up towers whereas the tenancies come at a later stage and there is a long gestation period in recovering the investments. Nevertheless, BIL generally undertakes new tower installation with atleast one anchor tenancies in place. Moreover, since the growth is primarily coming as additional tenancies on existing towers, the capital outlay is reduced to that extent.
- **Planned Acquisition** – Given sizeable cash balance, the company may look to acquire other tower players in the industry and impact of same on the credit profile of the company will be seen.

Analytical approach

For arriving at the rating, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Telecom Tower Infrastructure Providers](#)

About the company

Bharti Infratel Limited is involved in setting up and managing telecom towers which are leased to telcos for their network rollout. It has a large tower portfolio spread over 22 telecom circles. In order to increase operational efficiencies, Bharti Infratel along with Vodafone India Limited and Idea Cellular Limited formed another Tower company – Indus Towers Limited to provide passive infrastructure services in 15 telecom circles of India. Bharti Infratel holds 42% stake in Indus Towers Limited. On a consolidated basis Bharti Infratel has a tower portfolio of 90,837 towers as on June 30, 2017 with net tenancy of 2.40 times.

As per audited financials of FY2017, on standalone basis company has reported revenues of Rs. 3,977 crore (net of power and fuel costs) and profit after tax of Rs. 2,714 as against revenues of Rs. 3,611 crore and profit after tax of Rs. 1,328 during FY2016.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	3,611	3,977
PAT (Rs. crore)	1,328	2,714
OPBDIT/ OI (%)	70.1%	71.2%
RoCE (%)	10.2%	19.0%
Total Debt/ TNW (times)	0.00	0.02
Total Debt/ OPBDIT (times)	0.0	0.10
Interest Coverage (times)	76.7	71.9
NWC/ OI (%)	-12.4%	-10.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated Amount (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				October 2017	August 2016	May 2015	-
1	Issuer rating	Long Term	Not applicable	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

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-
Instrument Details**

Instrument	Date of Issuance/ Sanction	Coupon rate	Maturity	Amount Rated (Rs. crore)	Current Rating
Issuer rating	-	-	-	-	[ICRA]AA+ (Stable)

Source: BIL

Contact Details

Analyst Contacts

Sabyasachi Majumdar

+91-124-4545304

Sabyasachi@icraindia.com

Harsh Jagnani

+91-124-4545394

harshj@icraindia.com

Sachin Sachdeva

+91-124-4545307

sachin.sachdeva@icraindia.com

Relationship Contact

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**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