

December 11, 2017

Bharti Airtel Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Issuer Rating	NA	[ICRA]AA+(Stable); Reaffirmed
Term Loans	4,600.00	[ICRA]AA+(Stable); Reaffirmed
Working Capital Limits (rated on long term scale)	2,250.00	[ICRA]AA+(Stable); Reaffirmed
Working Capital Limits (rated on short term scale)	250.00	[ICRA]A1+; Reaffirmed
Commercial Paper	4,500.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]AA+ (pronounced ICRA double A plus) for the Rs. 4,600 crore term loans and Rs. 2,250 crore bank facilities of Bharti Airtel Limited (Bharti)[†]. ICRA also has reaffirmed issuer rating of [ICRA]AA+ (pronounced ICRA double A plus). The outlook on the long term rating and Issuer rating is Stable. ICRA has also reaffirmed the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 250 crore bank limits of Bharti and Rs. 4,500 crore of commercial paper programme of Bharti.

Rationale

The ratings reaffirmation continues 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 38.6% effective ownership 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. Bharti has acquired operations from Telenor (India) Communications Private Limited (Telenor), spectrum from Videocon Limited, Aircel Limited, Tikona Digital Networks (Tikona) and is in the process to acquire wireless business of Tata Teleservices Limited which has 33.1 million active subscribers as on September 30, 2017. The ratings also factor in company's efforts to deleverage its balance sheet, primarily by steadily selling its stake in subsidiary Bharti Infratel Limited (BIL). Further stake sale in BIL remains a source of financial flexibility for the company.

Till Q2FY2017, Bharti's India operations had reported healthy growth in revenues and profitability primarily on the back of steady subscriber addition, healthy volume of minutes and growth in data revenues. However, with the launch of services by Reliance Jio Infocomm Limited (RJio) from September 2016, with introductory free offerings, the competition in the industry intensified significantly. This resulted in steady deterioration in the pricing power in the industry. Bharti reported decline in revenue in India operations to Rs. 35,048 crore in H2FY2017 from Rs. 36,022 crore in H2FY2016 and weakening of operating margins to 39.8% from 41.4% during the same period. RJio started pricing its services from April 2017 and since then has gradually increased its prices, however even the current pricing regime remains lower than the levels prior to RJio launch. The industry has witnessed expedited consolidation over the last one year which is reducing the number of operators. Over a longer term, this is expected to improve the pricing power of the industry thereby allowing for better profitability.

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

The ratings also take into consideration the improving performance in Bharti's Africa operations. Bharti has presence in 15 countries (after sale of operation in 2 countries during FY2017) in Africa which contributed around 22% to consolidated revenue and around 19% to consolidated EBITDA in H1FY2018. Over the last few quarters, Bharti has reported improvement in its revenue and EBITDA margins - from 22.9% in Q2Y2017 to 32.2% in Q2FY2018 on the back of various cost-control initiatives and focus on ARPU accretion. This, along with the relatively lower capex has resulted in healthier cashflow generation in Africa. Further, weakening of African currencies (against \$) has impacted the reported financials of Africa operations.

The ratings also take into consideration the fact that the debt of the company remains elevated thereby adversely impacting the debt coverage metrics. The net debt/EBITDA stood at 2.95 times (annualized) for Q2FY2018 (net debt/EBITDA of 2.20 times for Q2FY2017), with addition of deferred spectrum payouts and currency fluctuation impact partly offsetting the deleveraging initiatives. The company's net debt (including deferred spectrum liability) increased to Rs. 91,480 crore as on September 30, 2017 from Rs. 81,480 crore as on September 30, 2016. A significant part of the increase has been on account of deferred spectrum liabilities which have increased to 46,079 crore from Rs. 37,865 crore, while the non-spectrum debt has declined to 53,894 crore from Rs. 55,066 crore during same period. In the near term, the profitability and cashflows of the company would continue to be impacted by the competitive intensity in the industry and the reduction in Interconnect Usage Charges (IUC) which came into effect from October 1, 2017. Further, the increased capex requirement reduces the scope of significant organic deleveraging. 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, and undrawn bank facilities. While 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, the same has reduced significantly with the decline in proportion of non-INR or non-LCY debt.

Key rating drivers

Credit strengths

- **Market leadership position** – Bharti enjoys market leadership position in the telecom industry in India (with a revenue market share of 27.7% in Q2 FY2018 and subscriber market share of 23.8% as on September 30, 2017). In addition its integrated telecommunications operations and economies of scale provide the company a distinct competitive advantage.
- **Robust spectrum portfolio** - Over the years, Bharti has shored up its spectrum holding by acquiring spectrum through auctions. In addition the company has been active outside of auctions in acquisition of data centric spectrum (such as spectrum acquisition from Videocon, Aircel and Tikona and through acquisition of Telenor, and consumer mobile business (CMB) of the Tata Group. Bharti's spectrum holding stands at 869.5 MHz (including spectrum of Telenor, Tikona and Liberalised spectrum of Tata Group) across bands with strong capability to provide 2G, 3G and 4G services. Moreover, Bharti does not have any spectrum/license expiry till FY2022 thereby providing long term visibility.
- **Strengthening market share with inorganic acquisitions** – despite intense competition, the company has been gaining subscribers steadily in past few months. In addition it has strengthened its market share through acquisitions of operations of Telenor (3.1% active subscribers' market share as on September 30, 2017). The company is in the process of acquiring wireless operations of Tata Group (3.3% active subscribers market share as on September 30, 2017). These acquisitions when completed are expected to boost the market share of the company.

- **Diversified operations** - Bharti enjoys diversified presence across geographies with non-India operations (primarily Africa) contributing 22% to the consolidated revenues in H1FY2018. In addition, the company generates around 20% (H1FY2018) of consolidated revenues from India non-mobile operations. The steady improvement in performance of African operations and other non-mobile operations, the overall adverse impact of intense competition in the Indian mobile operations on its EBITDA has been negated to some extent. The company reported decline in EBITDA margins in India mobile business in H1FY2018 to 34.3% from 42.4% in H1FY2017, whereas the decline in consolidated EBITDA margin was to 36.1% from 38.0% during the same period.

Credit weaknesses

- **Moderated Pricing Power** – the telecommunications industry has witnessed increased competitive intensity post the launch of services by RJIL. This led to pressure on realisations in the industry thereby adversely impacting the financial health of the industry. Consequently the telecom industry witnessed merger of some telcos and exit of some telcos. With the ongoing consolidation in the industry the numbers of telcos has gradually reduced, however the competitive intensity continues to remain high. The industry is evolving to fewer but financially stronger players which would make it difficult to achieve a healthy improvement in average revenue per user (ARPU) from current levels.
- **High leverage** – the company continues to undertake various steps to deleverage its balance sheet including sale of operations in some geographies in Africa, sale of tower assets in Africa and sale of stake in its subsidiary Bharti Infratel Limited. This has helped the company repay a sizeable part of its borrowings; however with the addition of deferred spectrum liabilities, its debt continues to remain at elevated level. Its net debt/EBITDA (annualised) stood at 2.95 times in Q2FY2018. The company is expected to continue efforts towards improving its EBITDA and lowering its debt levels in order to deleverage its balance sheet.

Analytical approach

For arriving at the rating, ICRA has applied its rating methodologies as indicated below and has considered the consolidated financial profile of the company.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[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, BIL and joint venture – Indus Towers Limited. Furthermore, the company also provides mobile services in Sri Lanka, Bangladesh and 15 countries in Africa.

As per audited financials of FY2017, on consolidated basis company has reported revenues of Rs. 95,588.9 crore and profit after tax of Rs. 4,241.3 as against revenues of Rs. 96,619.2 crore and profit after tax of Rs. 6,893.0 during FY2016.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	96,619.2	95,588.9
PAT (Rs. crore)	6,893.0	4,241.3
OPBDIT/ OI (%)	35.3%	37.1%
RoCE (%)	13.7%	9.2%
Total Debt/ TNW (times)	1.31	1.37
Total Debt/ OPBDIT (times)	2.78	2.87
Interest Coverage (times)	4.93	4.61
NWC*/ OI (%)	-19.3%	-25.5%

*excluding cash and equivalents

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 FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				December 2017	Mar 2017	Dec 2016*	Sep 2016	May 2015	-
1	Commercial Paper	Short-term	4,500.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	-	-	-
2	Issuer rating	Long-term	NA	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
3	Term Loans	Long-term	4,600.00	[ICRA] A+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)
4	Working Capital Limits	Long-term	2,250.00	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] AA+ (Stable)	[ICRA] A+ (Stable)	[ICRA] AA+ (Stable)
5	Working Capital Limits	Short-term	250.00	[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
Instrument Details**

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	-	-	-	-	[ICRA]AA+ (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

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

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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- 6606 9999; 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