

Bharti Airtel Limited Revised

August 06, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	6,000.00	[ICRA]A1+; reaffirmed
Issuer Rating	NA	[ICRA]AA+ (Negative); rating reaffirmed and outlook revised from Stable
Term Loans	4,600.00	[ICRA]AA+ (Negative); rating reaffirmed and outlook revised from Stable
Working Capital Limits (rated on long term scale)	2,250.00	[ICRA]AA+ (Negative); rating reaffirmed and outlook revised from Stable
Working Capital Limits (rated on short term scale)	250.00	[ICRA]A1+; reaffirmed

Rating action

ICRA has Reaffirmed the long-term rating at [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 the issuer rating at [ICRA]AA+ (pronounced ICRA double A plus) for Bharti. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 250-crore bank limits and Rs. 6,000-crore of Commercial paper programme of Bharti. ICRA has revised the outlook on long-term rating to Negative from Stable.

Rationale

The change in outlook takes into consideration continued pressure on the company's India mobile operations, which along with the sizeable capex requirements has impacted the cashflow generation. The Indian telecom sector continues to face competitive pressures and subdued pricing power. Consequently, the debt coverage metrics of the company have moved with Net Debt / EBITDA at 3.61 times as on June 30, 2018 as against 2.67 times as on June 30, 2017. For Bharti, this has led to steady down-trending of ARPU in India mobile operations to Rs. 105 in Q1 FY2019 (ARPU adjusted for Telenor subscribers addition stands at Rs. 109 in Q1 FY2019) from Rs. 154 in Q1 FY2018 and Rs. 116 in Q4 FY2018. This has offset the healthy subscriber addition by the company, translating into YoY decline in revenues and OPBDITA in Indian mobile business over the last five quarters.

The ratings also take into consideration the fact that Bharti's debt remains elevated [gross debt (including deferred spectrum liability) has increased to Rs. 115,282 crore as on June 30, 2018 from Rs. 97,273 crore as on June 30, 2017] primarily on account of higher capex intensity (also including acquired debt for Telenor, Tikona etc) . The capex, which has increased significantly (to Rs. 26,818 crore in FY2018 from Rs. 19,875 crore in FY2017) is guided to remain high in FY2019 as the company continues its focus on 4G network rollout and network improvement in India. This reduces the scope of organic deleveraging in medium term.

However, ICRA takes note that the company is exploring potential deleveraging options which may include dilution of stake in the (to be merged) Bharti Infratel Limited (BIL) and Indus Towers Limited (Indus) over the next 12-18 months;

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

and monetisation of partial stake in Africa operations. Bharti would hold between 33.8% and 37.2% in the BIL – Indus combined (merger is underway), with potential valuation (on basis of company's release for merger of BIL and Indus) of around Rs. 32,600–Rs. 35,900 Crore. Funds from these transactions are to be utilised for debt reduction which could give some respite till the time cash flows improve organically. ICRA also takes note of strong growth in usage in both voice and data which provide possible growth opportunity. In addition, Bharti generates healthy revenue and EBITDA contribution from non-mobile India operations, which contributed 35% of consolidated EBITDA in Q1 FY2019, although these are exposed to increase in competition. Further, there has been healthy growth in revenue and profitability improvement in Africa operations, which contributed 28% of consolidated EBITDA in Q1 FY2019. Over the last few quarters, Africa operating margins have improved materially to 36.4% in Q1 FY2019 from 28.8% in Q1 FY2018 and 25.9% for Q4FY17 on the back of revenue growth and various cost-control initiatives. This, along with the relatively lower capex has resulted in healthier cashflow generation in Africa.

The ratings continue 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 39.5% effective ownership¹ 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. ICRA also takes note of the longer maturity profile of the company's debt, which provides some financial flexibility.

Outlook: Negative

Improvement in credit metrics hinges on uptick in operating performance. This will follow from improvement in pricing power given a consolidated structure and firm increase in data usage by the subscribers. Till such time, the deleveraging transactions can provide cushion. The timing and quantum (may be significant) of these deleveraging plans remains to be seen, which will also help improve credit metrics. The rating faces downward pressure in case the operating performance deteriorates or deleveraging plans get delayed.

Key rating drivers

Credit strengths

- **Market leadership position** – Bharti enjoys market leadership position in the telecom industry in India (with a revenue market share² of 27.6% in Q4 FY2018 and subscriber market share of 30.5% as on May 31, 2018). 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] (yet to be concluded). Bharti's spectrum holding stands at 869.5 MHz (including spectrum of Telenor, Tikona and Liberalised spectrum of Tata Group) across bands with strong

¹ Singapore Telecommunications Limited (SingTel) invested Rs. 2,649 crore in BAL's parent Bharti Telecom Limited through preferential allotment of shares in March 2018 thereby raising its effective stake in BAL to 39.5%.

² Based on Adjusted Gross Revenue (AGR) reported by Telecom Regulatory Authority of India (TRAI)

capability to provide 2G, 3G and 4G services. Moreover, Bharti does not have any spectrum/license expiry till FY2022 thereby providing long term visibility.

- **Diversified operations; and improvement in Africa performance** - Bharti enjoys diversified presence across geographies with non-India operations (primarily Africa) contributing 26% to the consolidated revenues in Q1 FY2019. In addition, the company generates around 28% (Q1 FY2019) of consolidated revenues from India non-mobile operations. With 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 to 26.3% in Q1 FY2019 from 34.3% in Q1 FY2018, whereas the decline in consolidated EBITDA margin was to 34.0% from 35.6% during the same period

Credit challenges

- **Persisting high competitive intensity in the industry** – the competitive intensity in the Indian telecommunications industry has remained elevated over the last few years leading to pressure on realisations for all players. For Bharti, the ARPU in India mobile operations has declined to Rs. 105 in Q1 FY2019 (decoupled for impact of Telenor ARPU at Rs 109) from Rs. 154 in Q1 FY2018, which has even offset the steady growth in the subscriber base to 344.6 million from 280.6 million during the same period. Further, some of the other business verticals such as Home and Digital TV also face risk of higher competition going forward.
- **Pressures on EBITDA generation in India Mobile Services:** with the persisting competitive pressures and resultant decline in ARPU, the India mobile operations have witnessed decline in revenue and profitability. The EBITDA margin in India operations has declined to 32.9% in Q1 FY2019 from 37.5% in Q1 FY2018. This has primarily been led by decline in EBITDA margins in India mobile business, which has declined to 26.3% from 34.3% in the same period.
- **Moderate debt coverage** – amid pressures on operating cashflow generations, the company faces high capex requirements, thereby keeping the debt level elevated. Consequently, the net debt/EBITDA stood at 3.61 times as on June 30, 2018 up from 2.67 times as on June 30, 2017. Given the need for continued capex and pressures on cashflow generation in the medium term, organic deleveraging remains challenging. Inorganic deleveraging plans may materially reduce the debt and improve leverage

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

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 14 countries in Africa.

For FY2018, on consolidated basis company has reported revenues of Rs. 83,937 crore and profit after tax of Rs. 2,184 crore as against revenues of Rs. 95,589 crore and profit after tax of Rs. 4,241 crore in FY2017.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	95,589	83,937
PAT (Rs. crore)	4,241	2,183
OPBDIT/OI (%)	37.1%	36.1%
RoCE (%)	9.4%	6.5%
Total Debt/TNW (times)	1.37	1.36
Total Debt/OPBDIT (times)	2.87	3.51
Interest Coverage (times)	4.51	3.72

Source: Bharti's annual and quarterly reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date rating & Aug 2018	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016	
1	Commercial Paper	6,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	
2	Issuer rating	NA	-	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	Term Loans	4,600.0	^	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
4	Working Capital Limits	2,250.0	-	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
5	Working Capital Limits	250.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

*Earlier amount of CP rated was lower

^- Not available

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	6,000.0	[ICRA]A1+
NA	Issuer Rating	-	-	-	NA	[ICRA]AA+(Negative)
NA	Term Loans	*	*	*	4,600.0	[ICRA]AA+(Negative)
NA	Working Capital Limits (rated on long term scale)	-	-	-	2,250.0	[ICRA]AA+(Negative)
NA	Working Capital Limits (rated on short term scale)	-	-	-	250.0	[ICRA]A1+

Source: Bharti Airtel Limited

* Not available

Corrigendum

Document dated August 6, 2018 has been corrected with revisions as detailed below:

- Revision in section related to the “Rating History for last three years” on page 4: FY2017 (corresponding to April 2017 in chronology) has been modified as FY2018

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