Bharti Infratel Limited

October 22, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	Reaffirmed at [ICRA]AA+(Stable)
Total	**NA**	

**Instrument details are given 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 rating is Stable.

Rationale

The rating reaffirmation takes into account BIL's established position in the telecom tower industry, its healthy revenue growth in FY2018 and robust profitability metrics. The rating also factors in BIL's strategic investment (42% stake) in Indus Towers Limited (Indus), India's largest telecom tower company with strong operating metrics. Moreover, BIL and Indus are in the process of merging their operations, which will create the largest tower company in India with pan-India coverage and a sizeable tower portfolio of over 163,000 towers (as on March 31, 2018). Further, the business has steady outlook over the longer term with rising data usage expected to drive demand for tower infrastructure. This is expected to translate into steady cashflow generation. ICRA also continues to take into consideration the strong financial profile of the company as reflected by its nil debt status as on March 31, 2018, and sizeable cash and cash equivalents of around Rs. 6,800 crore as on March 31, 2018.

ICRA also takes note that it is a subsidiary of Bharti Airtel Limited (Bharti; rated [ICRA]AA+ (Negative)/A1+) and enjoys healthy tenancies from Bharti, Vodafone-Idea Limited (VIL; merged entity)[1] and Reliance Jio Infocomm Limited (Rjio). However, given the ongoing consolidation in the telecom industry, the weaker telecom operators (telcos) have exited the industry, which has resulted in loss of tenancies for tower companies, including BIL. The company had relatively limited exposure to weaker telcos, which helped to contain the tenancy losses faced by it. Moreover, the tenancy losses largely occurred in H2 FY2018 and hence, the impact on revenues in FY2018 was limited. Its tenancy ratio stood at 2.20 times as on June 30, 2018 compared with 2.38 times as on June 30, 2017.

VIL has also communicated to BIL its tenancy exit plans upon completion of the said merger, which stands at 27,447 tenancies on a consolidated basis. This is 13.7% of the total consolidated tenancies of BIL as on June 30, 2018 and it is expected to result in consolidated service revenue loss of Rs. 60-65 crore per month. Nevertheless, BIL is expected to recover some exit penalties from VIL as per the agreement to compensate for the revenue loss. Apart from revenue loss from tenancy exits, the ongoing pressure on revenue generation and profitability of the telecom sector and its efforts towards cost optimisation can adversely impact the rentals charged by the tower companies. 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

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

1 *The merger of Vodafone India Limited and Idea Cellular Limited has also got completed and the combined entity is named Vodafone-Idea Limited*

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.

Outlook: Stable

ICRA believes that BIL will benefit from the expected improvement in the demand for tenancy growth in the long term and will be able to maintain a healthy revenue growth trajectory. The outlook may be revised to Positive if there is an improvement in outlook of the end-use industry, i.e. telecom sector, which would also relieve the pressure on the tower industry. The outlook may be revised to Negative if the company reports more-than-anticipated tenancy losses or if any major capital expenditure/acquisition weakens its liquidity.

Key rating drivers

Credit strengths

- **Established position** – BIL has an established market position with a standalone tower portfolio of 39,719 towers as on June 30, 2018, spread across 11 circles. In addition, it has a 42% stake in Indus, the largest telecom tower company in the country which provides for a huge upside potential (reflected by the sizeable dividend income from Indus).
- **Merger with Indus to increase scale and coverage –** BIL and Indus have announced their plans to merge operations and the process is underway. Some regulatory approvals have already been received and others are in the process. The merger of the two entities with complementary operations will create a pan-India tower company with over 163,000 towers and 367,000 tenancies (as on March 31, 2018). Also, given the minimal overlaps, the merged company faces low risk of tenancy losses due to redundancies.
- **Steady growth in tenancies from Bharti and RJio** – Despite the challenges faced by the telecom industry in general that have resulted in tenancy losses, BIL has been able to steadily add more tenancies from Bharti and RJio. This helped to contain the impact of tenancy losses. Its tenancy ratio, however, has declined to 2.20 times as on June 30, 2018 from 2.38 times as on June 30, 2017.
- **Robust financial risk profile** – Given the 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 zero debt and sizeable cash and cash equivalents of around Rs. 6,800 crore as on March 31, 20018.
- **Inherent business strength and long-term growth potential** – The business has inherent strengths of high client stickiness given the challenges in network reorganisation as well as the terms of the master service agreements with the telcos, which give revenue visibility and allow for exit penalties, annual rental escalation, steady upfront deposits, and timely payments from tenants. Further, the telecom industry is expected to be left with a few strong players that are expected to expand their network, especially for data services. This is likely to result in healthy demand for towers and sharing going forward.

Credit weaknesses

- **Stress in telecom industry** – Increased competition in the telecommunications industry has impacted the financial position of the telcos. This has already translated into exits or curtailment of operations by certain telcos and consolidation among others. Further, pressures on tower rentals remains a risk for the tower industry. Given the high operating leverage of the business, adverse impact on the revenues materially impacts the EBITDA.
- **Capital intensive operations** – The telecom tower industry is capital intensive in nature as the players need to incur sizeable capex for setting up towers. The tenancies, however, come at a later stage and there is a long gestation period in recovering the investments. While BIL generally undertakes new tower installation with an anchor tenant

and with a reasonable visibility of additional tenancies, accelerated rollout in anticipation of tenancies addition can impact liquidity.

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 Telecom Tower Infrastructure Providers

About the company

BIL 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 11 telecom circles (22 telecom circles on consolidated basis). It also holds 42% stake in Indus, which is the largest telecom tower company in the country. Further, BIL and Indus are in the process of merging their operations. On a standalone basis BIL had tower portfolio of 39,719 towers with closing tenancy ratio of 2.20 times as on June 30, 2018. On consolidated basis, it had a tower portfolio of 91,759 towers with closing tenancy ratio of 2.22 times as on June 30, 2018.

BIL reported a profit after tax (PAT) of Rs. 2,416 crore in FY2018 on an operating income (OI; excluding energy cost reimbursements) of Rs. 4,342 crore as against a PAT of Rs. 2,714 crore on an OI of Rs. 3,977 crore in FY2017.

Key financial indicators (Audited - Standalone)

	FY2017	FY2018
Operating Income (Rs. crore)#	3,977	4,342
PAT (Rs. crore)	2,714	2,416
OPBDIT/OI (%)	71.2%	72.8%
RoCE (%)	19.0%	19.2%
Total Debt/TNW (times)	0.02	0.00
TD/OPBDITA (times)	0.10	NM
Interest Coverage (times)*	71.88	67.99

Source: BIL's annual reports, ICRA research
#excludes energy cost recoveries
NM – not meaningful
**primarily takes into consideration unwinding of discount on security deposits*

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 Oct 2018	Date & Rating May 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 Oct 2015
1	Issuer Rating	Long-term	Not applicable	Not applicable	[ICRA]AA+ (Stable)	[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-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]AA+ (Stable)

Source: BIL

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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.

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