

Bharti Airtel Limited

December 17, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	10,000.00	10,000.00	[ICRA]A1+; reaffirmed
Issuer Rating	NA	NA	[ICRA]AA(Stable); rating revised from [ICRA]AA+(Negative)
Term Loans	4,600.00	4,600.00	[ICRA]AA(Stable); rating revised from [ICRA]AA+(Negative)
Working Capital Limits (rated on long term scale)	2,250.00	2,250.00	[ICRA]AA(Stable); rating revised from [ICRA]AA+(Negative)
Working Capital Limits (rated on short term scale)	250.00	250.00	[ICRA]A1+; reaffirmed

Rationale

The rating action takes into consideration the continued pressure on the debt coverage metrics of the company driven by persisting weakness in the India mobile operations, high capex and consequent high debt levels. The Indian telecom sector continues to face competitive pressures and subdued pricing power. Bharti has witnessed steady down-trending of ARPU in India mobile operations to Rs. 101 in Q2 FY2019 from Rs. 106 in Q1 FY2019 and Rs. 142 in Q2 FY2018. This has translated into YoY decline in revenues and OPBDITA in Indian mobile business over the last eight quarters. The ratings also take into consideration the fact that Bharti's debt remains elevated [gross debt at Rs. 123,216 crore as on September 30, 2018 as against Rs. 115,282 crore as on June 30, 2018] primarily because of upfronting of capex (including acquired debt for Telenor India Communications Private Limited and Tikona Digital networks). The capex has increased significantly (to Rs. 26,818 crore in FY2018 from Rs. 19,875 crore in FY2017) as the company continues its focus on 4G network rollout and network enhancement in India. Thus the scope of organic deleveraging in the medium term remains limited.

However, ICRA takes note that the company continues to take steps to deleverage. It recently raised 1.25 bn USD through private placement in Africa operations which has been used towards reduction of debt. It continues to evaluate further opportunities, which include dilution of stake in the (to be merged) Bharti Infratel Limited (BIL) and Indus Towers Limited (Indus), IPO of its Africa operations and other transactions. 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 may be utilised for debt reduction. Nevertheless, uptick in organic cash flows is critical for sustainable improvement in the debt coverage metrics.

ICRA has taken note of the 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 32% of consolidated EBITDA in H1 FY2019, although some of these segments may be exposed to increase in competition. Further, there has been strong growth in revenue and profitability in Africa operations, which contributed 30% of consolidated EBITDA in H1 FY2019. Over the last few quarters, Africa operating margins have improved materially to 37.1% in Q2 FY2019 from 33.2% in Q2 FY2018 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. ICRA also takes note of the longer maturity profile of the company's debt with 36% of its debt comprising deferred spectrum liabilities, which provides financial flexibility.

Outlook: Stable

ICRA expects most of the deleveraging transactions to be concluded, which will aid improvement in leverage profile and coverage metrics. This will provide cushion against the expectation of persisting weak pricing power, which may limit the improvement in credit metrics. The outlook may be revised to positive if the company witnesses material improvement in its operating performance and/or better than anticipated leverage profile. The outlook may be revised to negative in case the operating performance deteriorates further, and/or the debt continues to increase.

Key rating drivers

Credit strengths

- **Established market position** – Bharti enjoys established market position in the telecom industry in India (with a revenue market share² of 30.8% in Q1 FY2019 and subscriber market share of 29.4% as on September 30, 2018). It has been the market leader prior to merger of Vodafone India Limited and Idea Cellular Limited, however post their merger it has declined to second position. 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 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** - Bharti enjoys diversified presence across geographies with non-India operations (primarily Africa) contributing 27% to the consolidated revenues in H1 FY2019. In addition, the company generates around 23% (H1 FY2019) of consolidated revenues from India non-mobile operations. Both, Africa operations and India non-mobile operations provide cushion against the weak cash flows from operations in the India mobile operations.
- **Improvement in Africa performance** – The company has reported steady improvement in performance of African operations over last few quarters driven by growth in data uptick and several cost optimisation initiatives by the company. This along with improvement in non-mobile India operations has negated the overall adverse impact of

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 sum of Adjusted Gross Revenue (AGR), National Long Distance (NLD) revenue, International Long Distance (ILD) revenue and Internet Service Provider (ISP) revenue reported by Telecom Regulatory Authority of India (TRAI)

intense competition in the Indian mobile operations on its EBITDA to some extent. The company reported decline in EBITDA margins in India mobile business to 20.9% in Q2 FY2019 from 34.4% in Q2 FY2018, whereas the decline in consolidated EBITDA margin was to 31.1% from 36.8% 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. 101 in Q2 FY2019 from Rs. 142 in Q2 FY2018, which has even offset the steady growth in the subscriber base to 329.7 million from 288.2 million during the same period. Further, some of the other business verticals such as Home and Digital TV may 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 28.5% in Q2 FY2019 from 37.8% in Q2 FY2018. This has primarily been led by decline in EBITDA margins in India mobile business, which has declined to 20.9% from 34.4% in the same period.
- **Moderate debt coverage** – amid pressures on operating cashflow generations and consistent capex requirements, the debt levels of the company have remained elevated. Consequently, the net debt/EBITDA (LTM) stood at 4.25 times as on September 30, 2018 up from 2.91 times as on September 30, 2017. In the medium term, organic deleveraging remains challenging. However, inorganic deleveraging plans are expected to reduce debt and improve leverage.

Liquidity position

The debt levels of the company continue to remain high (gross debt of Rs 123,216 crore as on September 30, 2018) and cash flow from operations, after meeting capex and dividend are expected to be insufficient to meet debt servicing obligations (principal repayment and Interest payment). Nevertheless, the liquidity of the company remains comfortable with Rs. 11,813 crore of unrestricted cash and investments as on September 30, 2018. Further, the company continues to have healthy financial flexibility with access to capital markets and banks for refinancing. Moreover, it has already raised funds and signed committed bank lines for near-term debt repayments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Mobile Service Providers
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company

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 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	Date & rating	Date & rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2017	Date & Rating in FY2016		
			Dec 2018	Dec 2018	Aug 2018*	Feb 2018*	Dec 2017*	Apr 2017*	Dec 2016*	Sep 2016	May 2015		
1 Commercial Paper	Short-term	10,000.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
2 Issuer rating	Long-term	NA	-	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3 Term Loans	Long-term	4,600.0	^	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
4 Working Capital Limits	Long-term	2,250.0	-	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5 Working Capital Limits	Short-term	250.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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	10,000.0	[ICRA]A1+
NA	Issuer Rating	-	-	-	NA	[ICRA]AA(Stable)
NA	Term Loans	*	*	*	4,600.0	[ICRA]AA(Stable)
NA	Working Capital Limits (rated on long term scale)	-	-	-	2,250.0	[ICRA]AA(Stable)
NA	Working Capital Limits (rated on short term scale)	-	-	-	250.0	[ICRA]A1+

Source: Bharti Airtel Limited

* Not available

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership As on March 31, 2018	Consolidation Approach
Bharti Hexacom Limited	70%	Full Consolidation
Nxtra Data Limited	100%	Full Consolidation
Smartx Services Limited	53.5%	Full Consolidation
Telesonic Networks Limited	100%	Full Consolidation
Wynk Limited	100%	Full Consolidation
Bharti Digital Networks Private Limited (Formerly known as Tikona Digital Networks Private Limited; subsidiary w.e.f. August 24, 2017)	100%	Full Consolidation
Bharti Telemedia Limited	95%	Full Consolidation
Bharti Infratel Limited	53.5%	Full Consolidation
Nettle Infrastructure Investments Limited	100%	Full Consolidation
Airtel Payments Bank Limited	80.1%	Full Consolidation
Bharti Airtel Services Limited	100%	Full Consolidation
Indo Teleports Limited	100%	Full Consolidation
Airtel DTH Services Nigeria Limited	100%	Full Consolidation
Africa Towers Services Limited	100%	Full Consolidation
Bangladesh Infratel Networks Limited	100%	Full Consolidation
Bharti Infratel Lanka (Private) Limited	100%	Full Consolidation
Congo RDC Towers S.A.	100%	Full Consolidation
Gabon Towers S.A.	90%	Full Consolidation
Madagascar Towers S.A.	100%	Full Consolidation
Malawi Towers Limited	100%	Full Consolidation
Tanzania Towers Limited	60%	Full Consolidation
Towers Support Nigeria Limited	83.25%	Full Consolidation
Gabon Towers S.A.	90%	Full Consolidation
Africa Towers N.V.	100%	Full Consolidation
Airtel Mobile Commerce B.V.	100%	Full Consolidation
Airtel Mobile Commerce Holdings BV	100%	Full Consolidation
Bharti Airtel Africa B.V.	100%	Full Consolidation
Bharti Airtel Burkina Faso Holdings Bv	100%	Full Consolidation
Bharti Airtel Chad Holdings B.V.	100%	Full Consolidation
Bharti Airtel Congo Holdings B.	100%	Full Consolidation

Company Name	Ownership As on March 31, 2018	Consolidation Approach
Bharti Airtel Developers Forum Limited	96.36%	Full Consolidation
Bharti Airtel DTH Holdings B.V. #	100%	Full Consolidation
Bharti Airtel Gabon Holdings B.V.	100%	Full Consolidation
Bharti Airtel Ghana Holdings B.V.	100%	Full Consolidation
Bharti Airtel International (Mauritius) Limited	100%	Full Consolidation
Bharti Airtel International (Netherlands) B.V.	100%	Full Consolidation
Bharti Airtel Kenya B.V.	100%	Full Consolidation
Bharti Airtel Kenya Holdings B.V.	100%	Full Consolidation
Bharti Airtel Madagascar Holdings BV	100%	Full Consolidation
Bharti Airtel Malawi Holdings B.V.	100%	Full Consolidation
Bharti Airtel Mali Holdings B.V.	100%	Full Consolidation
Bharti Airtel Niger Holdings B.V.	100%	Full Consolidation
Bharti Airtel Nigeria B.V.	100%	Full Consolidation
Bharti Airtel Nigeria Holdings B.V. #	100%	Full Consolidation
Bharti Airtel Nigeria Holdings II B.V.	100%	Full Consolidation
Bharti Airtel RDC Holdings B.V.	100%	Full Consolidation
Bharti Airtel Rwanda Holdings Limited	100%	Full Consolidation
Bharti Airtel Services B.V.	100%	Full Consolidation
Bharti Airtel Tanzania B.V.	100%	Full Consolidation
Bharti Airtel Uganda Holdings B.V.	100%	Full Consolidation
Bharti Airtel Zambia Holdings B.V.	100%	Full Consolidation
Celtel (Mauritius) Holdings Limited	100%	Full Consolidation
Channel Sea Management Company (Mauritius) Limited	100%	Full Consolidation
Indian Ocean Telecom Limited	100%	Full Consolidation
Montana International	100%	Full Consolidation
MSI-CelTel Nigeria Limited	100%	Full Consolidation
Partnership Investments Sprl	100%	Full Consolidation
Société Malgache de Téléphone Cellulaire S.A.	100%	Full Consolidation
Bharti Airtel International (Mauritius) Investments Limited (incorporated on March 26, 2018)	100%	Full Consolidation
Airtel Mobile Commerce (Ghana) Limited	99.89%	Full Consolidation
Airtel Mobile Commerce (Kenya) Limited	100%	Full Consolidation
Airtel Mobile Commerce (Seychelles) Limited	100%	Full Consolidation
Airtel Mobile Commerce (Tanzania) Limited	100%	Full Consolidation
Airtel Mobile Commerce Limited	100%	Full Consolidation
Airtel Mobile Commerce Madagascar S.A.	100%	Full Consolidation
Airtel Mobile Commerce Rwanda Limited	100%	Full Consolidation
Airtel Mobile Commerce Tchad S.a.r.l.	100%	Full Consolidation
Airtel Mobile Commerce Uganda Limited	100%	Full Consolidation
Airtel Mobile Commerce Zambia Limited	100%	Full Consolidation
Airtel Money (RDC) S.A.	100%	Full Consolidation
Airtel Money Niger S.A.	90%	Full Consolidation
Airtel Money S.A. (Gabon)	100%	Full Consolidation
Airtel Money Transfer Limited	100%	Full Consolidation
Mobile Commerce Congo S.A.	100%	Full Consolidation
Zap Trust Company Nigeria Limited	100%	Full Consolidation
Airtel Money Tanzania Limited	60.04%	Full Consolidation
Airtel Mobile Commerce Nigeria Limited (incorporated on August 31, 2017)	83.25%	Full Consolidation
Network i2i Limited	100%	Full Consolidation
Airtel (Seychelles) Limited	100%	Full Consolidation
Airtel Congo (RDC) S.A.	98.50%	Full Consolidation
Airtel Congo S.A.	90%	Full Consolidation

Company Name	Ownership As on March 31, 2018	Consolidation Approach
Airtel Gabon S.A.	90%	Full Consolidation
Airtel Ghana Limited	99.89%	Full Consolidation
Airtel Madagascar S.A.	100%	Full Consolidation
Airtel Malawi Limited	100%	Full Consolidation
Airtel Networks Kenya Limited @	100%	Full Consolidation
Airtel Networks Limited	91.66%	Full Consolidation
Airtel Rwanda Limited	100%	Full Consolidation
Airtel Tanzania Public Limited Company	60%	Full Consolidation
Airtel Tchad S.A.	100%	Full Consolidation
Airtel Uganda Limited	100%	Full Consolidation
Bharti Airtel (France) SAS	100%	Full Consolidation
Bharti Airtel (Hong Kong)	100%	Full Consolidation
Bharti Airtel (Japan) Private	100%	Full Consolidation
Bharti Airtel (UK) Limited	100%	Full Consolidation
Bharti Airtel (USA) Limited	100%	Full Consolidation
Bharti Airtel Lanka (Private) Limited	100%	Full Consolidation
Bharti International (Singapore) Pte. Ltd.	100%	Full Consolidation
Celtel Niger S.A.	90%	Full Consolidation
Airtel Networks Zambia Plc	96.36%	Full Consolidation
Tigo Rwanda Limited (Subsidiary w.e.f. January 31, 2018)	100%	Full Consolidation
Seynse Technologies Private Limited	22.54%	Equity Method
Juggernaut Books Private Limited (acquired on November 29, 2017)	10.71%	Equity Method
Seychelles Cable Systems Company Limited	26%	Equity Method
Robi Axiata Limited	25%	Equity Method
Indus Towers Limited	22.5%	Equity Method
FireFly Networks Limited	50%	Equity Method
Bridge Mobile Pte Limited	10%	Equity Method
Bharti Airtel Ghana Holdings B.V.	50%	Equity Method
Airtel Mobile Commerce (Ghana) Limited	49.95%	Equity Method
Mobile Financial Services Limited	50%	Equity Method
Airtel Ghana Limited	49.95%	Equity Method
Millicom Ghana Company Limited	49.95%	Equity Method

Source: Bharti's Annual Report

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