

Ratings

Rating Rationale

November 01, 2019 | Mumbai

Bharti Airtel Limited

Long term rating placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	Rs.20000 Crore
Long Term Rating	CRISIL AA (Placed on 'Rating Watch with Negative Implications')

Rs.3000 Crore Non Convertible Debentures	CRISIL AA (Placed on 'Rating Watch with Negative Implications')
Rs.272.5 Crore Non Convertible Debentures	CRISIL AA (Placed on 'Rating Watch with Negative Implications')
Rs.15000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has placed its rating on the long-term bank facilities and non-convertible debentures of Bharti Airtel Limited (Bharti Airtel) on '**Rating Watch with Negative Implications**'. The rating on the commercial paper has been reaffirmed at 'CRISIL A1+'.

The rating action follows the Supreme Court's ruling against telecommunication (telecom) operators (including Bharti Airtel) in a long-pending dispute with the Department of Telecommunications (DoT), Government of India (GoI). The company's financial risk profile could deteriorate on account of a potential payout. It is in discussion with DoT to assess the amount of payment and timelines, and is evaluating various options to address the situation.

The Supreme Court has upheld DoT's definition of adjusted gross revenue (AGR). AGR forms the basis for revenue-sharing arrangements between telecom operators and the government, such as licence fee and spectrum usage charges. As per DoT's demand raised during the proceedings of the case, Bharti Airtel may be required to pay in excess of Rs 21,600 crore (including licence fee, interest, penalty, and interest on penalty). While the judgement has made clear the definition of AGR, clarity is awaited regarding the exact liability and the payment terms. The Supreme Court has further clarified that telecom operators have three months to comply with the judgement. These operators have approached the GoI for elongated payment terms, waiver of interest and penalty amounts, among others. The GoI has set up a committee of secretaries to examine all aspects of financial stress being faced by the telecom industry and suggest mitigation steps. Moreover, telecom operators may also contemplate various remedial options, including filing a review petition.

CRISIL will remove the rating from watch and take a final rating action once clarity emerges about the amount of dues, payment terms, and the company's funding plan to meet such liability.

The ratings continue to reflect a strong market position in the mobile telephone segment in India, healthy and diversified operations in Africa and non-mobility businesses in India, and high financial flexibility. These strengths are partially offset by continued intense competition on account of pricing pressure in the India mobile segment, moderate debt protection metrics, and exposure to regulatory changes and technological risks.

CRISIL has not factored in any material outgo towards the proposed 5G spectrum auction; any significant payout towards the auction will continue to be monitored.

Analytical Approach

For arriving at the ratings, CRISIL has combined the business and financial risk profiles of Bharti Airtel's India, South Asia, and Africa operations, and of Bharti Infratel. That's because all these entities are under a common management and have strong business and financial linkages.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths:

* **Strong market position in the mobile telephone segment in India:** The market position is backed by a healthy subscriber and revenue market share with a pan-India network. The active wireless subscriber base was 306 million as of August 2019 (market share of 31.6%), as compared with 341 million as of August 2018 (33.6%). AGR market share (including national and international long distance) was 28.9% (30.6% including Tata Teleservices Ltd) for the quarter ended June 30, 2019. The company has large spectrum spread across 900 megahertz (MHz), 1,800 MHz, 2,100 MHz, and 2,300 MHz bands; this fortifies the market position and enables it to offer 2G, 3G, and 4G data services across India. Robust brand equity and quick response to changing conditions have helped to maintain a strong market position, despite intense price competition.

* **Healthy and diversified operations in Africa and non-mobile businesses in India:** Improvement in Africa operations was substantial, as demonstrated by the increase in the EBITDA (earnings before interest, tax, depreciation, and amortisation) margin to 44.1% in the quarter ended September 30, 2019, from 43.2% in the corresponding period of the previous fiscal. Operating performance of other businesses - digital TV, broadband, and fixed line, and Airtel business services - have also remained strong with

a healthy EBITDA margin. Performance in these businesses should remain stable, thereby partially supporting cash accrual against pricing pressure in the India mobility business.

*** Healthy financial flexibility:** Financial flexibility is driven by investments in healthy businesses, including telecom towers (Bharti Infratel) and the Africa mobility business (housed under BAIN BV) as well as strong promoters. Initiatives such as sale of stakes in the African subsidiary, Bharti Infratel, and Bharti Telemedia have helped to contain debt. Bharti Airtel has wide access to financial markets, as demonstrated by its track record of raising significant funds at competitive rates across domestic and international markets. It has also adhered to its de-leveraging plan. Furthermore, the shareholders - the Mittal family and SingTel - have a strong reputation.

Weaknesses:

*** Continued competitive intensity in the domestic mobile services segment:** With the entry of Reliance Jio in September 2016, price competition in the domestic mobile services segment has intensified. This, along with reduction in call termination charges, led to a decline in ARPU (average revenue per user) to Rs 101 in the quarter ended September 30, 2018, from Rs 188 in the quarter ended September 30, 2016. Revenue from the Indian mobile services segment cumulatively declined 26.6% over fiscals 2018 and 2019.

Through measures like introduction of minimum recharge packs, company has been able to improve upon its ARPU to Rs 128 for the quarter ended September 2019 however this has led to increase in subscriber churn with loss of around 517 lakh subscribers over the 12 months through September 2019. On an overall basis, these steps have helped company increase its revenue and EBITDA by Rs 678 crore and Rs 568 crore respectively in the India mobility business over last couple of quarters. Ability to maintain ARPU growth and thereby improve operating revenue and profits in the India mobility business will remain a key monitorable.

*** Moderate debt protection metrics:** Intense competition in the India wireless telecom business has constrained profitability and cash accrual. Furthermore, significant capital expenditure (capex) for enhancing network capabilities has increased debt (including deferred spectrum payments), leading to subdued debt protection metrics: the interest coverage ratio was 2.43 times in fiscal 2019. Gross leverage was 5.08 times as on March 31, 2019 (net leverage of 4.5 times).

Company has however undertaken deleveraging since March 2019 through rights issue of Rs 25,000 crore. As a result, company's net debt was Rs 93,095 crore at June 30, 2019 and its net debt to annualized EBITDA ratio was 3.43 times for the quarter ended June 30, 2019 as compared to Rs 3.95 times a year ago. Company has also received USD 680 million and has issued perpetual securities of USD 750 million since June 2019. Further initiatives to deleverage and to grow operating profit will continue to be monitored closely.

*** Exposure to regulatory changes and technological risks:** The telecom industry remains susceptible to regulatory and technological changes. New technology could necessitate fresh investments or require existing networks to be overhauled.

Furthermore, telecom is a highly regulated market. Government reduced call termination charges for domestic calls to 6 paisa from 14 paisa, and for international calls to 30 paisa from 53 paisa; this constrained profitability of large incumbent players. Moreover, presence in multiple geographies exposes the company to international regulatory risks. In Africa alone, operations are spread across 14 markets, with the top five countries accounting for 60% of total revenue. Each market has its own regulatory environment and distinct consumer behaviour patterns.

Liquidity: Strong

There was a liquid surplus of more than Rs 13,000 crore as on June 30, 2019, a large part of which is likely to have been unencumbered. Company also received USD 680 million in July 2019 from the listing of its Africa business. Cash accrual, though weakened, should remain sufficient to meet repayment obligation of Rs 7,000 crore and Rs 13,900 crore falling due in fiscals 2020 and 2021, respectively. Capex requirement is likely to be moderate at Rs 22,000-24,000 crore per fiscal from fiscal 2020. However, the recent Supreme Court ruling could potentially impact liquidity if the company is required to pay in the short term. Liquidity will be further supported by deleveraging plans including stake sale in Indus Towers Ltd ('CRISIL AA+/Stable/CRISIL A1+'), amongst others.

Rating sensitivity factor

Upward factor

- * Net leverage sustaining below 2.75 times, led by increase in cash accrual and timely execution of de-leveraging plans
- * Sustained improvement in operating profits for India mobile segment while performance in other businesses remained steady

Downward factor

- * Further decline in operating profit or material delay in execution of deleveraging plans, leading to net leverage of above 4 times on a sustained basis
- * Larger-than-expected capex due to technological changes or debt-funded spectrum acquisition, constraining the financial risk profile

About the Company

Bharti Airtel is an integrated telecom service operator that provides mobile, broadband, fixed-line telephone, DTH (direct-to-home), and enterprise services. Mobile telephone services are offered in all 22 telecom circles in India. The company had 304.7 million subscribers in India as on September 30, 2019 across mobile, DTH, and enterprise services. It had another 104 million subscribers in Africa and is therefore the third largest telecom operator in the world by number of subscribers.

It acquired Zain Africa BV in March 2010 through which it operates in 15 countries in Africa; it later set up operations in Rwanda. In fiscal 2017, the company sold its operations in two African countries - Burkina Faso and Sierra Leone to Orange SA. Bharti Airtel also operates in Sri Lanka. During fiscal 2017, it merged the Bangladesh operations with Robi Axiata Ltd, a unit of Axiata Group Berhad, and holds 25% stake in the merged entity.

Net loss was Rs 2,392 crore on revenue of Rs 20,738 crore in the quarter ended June 30, 2019, against net profit of Rs 480 crore on revenue of Rs 19,799 crore in the corresponding period in the previous fiscal.

Key Financial Indicators

As on / for the period ended March 31	Units	2019	2018
Operating revenue	Rs crore	81,071	83,937

Adjusted PAT	Rs crore	1,688	2,184
Adjusted PAT margin	%	2.1	2.6
Adjusted debt/adjusted networkth	Times	1.55	2.20
Interest coverage	Times	2.43	3.48

Above numbers are adjusted for CRISIL's analytical treatment and do not represent the numbers reported by the company.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Debenture*	NA	NA	NA	272.5	CRISIL AA/Watch Negative
INE397D08029	Debenture	13-Mar-18	8.25%	20-Apr-20	1500	CRISIL AA/Watch Negative
INE397D08037	Debenture	13-Mar-18	8.35%	20-Apr-21	1500	CRISIL AA/Watch Negative
NA	Commercial paper	NA	NA	7-365 days	15000	CRISIL A1+
NA	Proposed Long Term Loan	NA	NA	NA	20000	CRISIL AA/Watch Negative

* Yet to be placed

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Airtel Payments Bank Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel (France) SAS	Fully consolidated	Strong financial and business linkages
Bharti Airtel (Hong Kong) Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel (Japan) Private Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Services Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel (UK) Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel (USA) Limited	Fully consolidated	Strong financial and business linkages
Bharti International (Singapore) Pte Ltd	Fully consolidated	Strong financial and business linkages
Bharti Airtel International (Mauritius) Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Lanka (Private) Limited	Fully consolidated	Strong financial and business linkages
Bharti Hexacom Limited	Fully consolidated	Strong financial and business linkages
Indo Teleports Limited	Fully consolidated	Strong financial and business linkages
Bharti Infratel Limited	Fully consolidated	Strong financial and business linkages
Smatrx Services Limited	Fully consolidated	Strong financial and business linkages
Bharti Telemedia Limited	Fully consolidated	Strong financial and business linkages
Network i2i Limited	Fully consolidated	Strong financial and business linkages
Telesonic Networks Limited	Fully consolidated	Strong financial and business linkages
Nxtra Data Limited	Fully consolidated	Strong financial and business linkages
Wynk Limited	Fully consolidated	Strong financial and business linkages
Nettle Infrastructure Investments Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel International (Mauritius) Investments Limited	Fully consolidated	Strong financial and business linkages
Bharti Digital Networks Private Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel International (Netherlands) B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Africa B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Burkina Faso Holdings B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Chad Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Tchad S.A.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Gabon Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Gabon S.A.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Congo Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Congo S.A.	Fully consolidated	Strong financial and business linkages
Bharti Airtel RDC Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Congo (RDC) S.A.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Mali Holdings B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Kenya Holdings B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Kenya B.V.	Fully consolidated	Strong financial and business linkages
Airtel Networks Kenya Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Malawi Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Malawi Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Niger Holdings B.V.	Fully consolidated	Strong financial and business linkages
Celtel Niger S.A.	Fully consolidated	Strong financial and business linkages
Airtel Networks Zambia Plc	Fully consolidated	Strong financial and business linkages
Bharti Airtel Uganda Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Uganda Limited	Fully consolidated	Strong financial and business linkages

Bharti Airtel Tanzania B.V.	Fully consolidated	Strong financial and business linkages
Airtel Tanzania Public Company Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Madagascar Holdings B.V.	Fully consolidated	Strong financial and business linkages
Channel Sea Management Company (Mauritius) Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Rwanda Holdings Limited	Fully consolidated	Strong financial and business linkages
Montana International	Fully consolidated	Strong financial and business linkages
Airtel Madagascar S.A.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Nigeria Holdings II B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Nigeria B.V.	Fully consolidated	Strong financial and business linkages
Bharti Airtel Services B.V.	Fully consolidated	Strong financial and business linkages
Airtel Networks Limited	Fully consolidated	Strong financial and business linkages
Bharti Airtel Zambia Holdings B.V.	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce (Kenya) Limited	Fully consolidated	Strong financial and business linkages
Celtel (Mauritius) Holdings Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Zambia Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Tchad S.a.r.l.	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce B.V.	Fully consolidated	Strong financial and business linkages
Airtel Money S.A. (Gabon)	Fully consolidated	Strong financial and business linkages
Malawi Towers Limited	Fully consolidated	Strong financial and business linkages
Airtel Money Niger S.A.	Fully consolidated	Strong financial and business linkages
Societe Malgache de Telephone Cellulaire S.A.	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Holdings B.V.	Fully consolidated	Strong financial and business linkages
Indian Ocean Telecom Limited	Fully consolidated	Strong financial and business linkages
Airtel (Seychelles) Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce (Tanzania) Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Uganda Limited	Fully consolidated	Strong financial and business linkages
Africa Towers N.V.	Fully consolidated	Strong financial and business linkages
Madagascar Towers S.A.	Fully consolidated	Strong financial and business linkages
Mobile Commerce Congo S.A.	Fully consolidated	Strong financial and business linkages
Tanzania Towers Limited	Fully consolidated	Strong financial and business linkages
Airtel Money (RDC) S.A.	Fully consolidated	Strong financial and business linkages
Congo RDC Towers S.A.	Fully consolidated	Strong financial and business linkages
Gabon Towers S.A.	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Madagascar S.A.	Fully consolidated	Strong financial and business linkages
Airtel Rwanda Limited	Fully consolidated	Strong financial and business linkages
Africa Towers Services Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Rwanda Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce (Seychelles) Limited	Fully consolidated	Strong financial and business linkages
Airtel Money Tanzania Limited	Fully consolidated	Strong financial and business linkages
Tigo Rwanda Limited	Fully consolidated	Strong financial and business linkages
Airtel Mobile Commerce Nigeria Limited	Fully consolidated	Strong financial and business linkages
Juggernaut Books Private Limited	Fully consolidated	Strong financial and business linkages
Mobile Financial Services Limited	Fully consolidated	Strong financial and business linkages
Millicom Ghana Company Limited	Fully consolidated	Strong financial and business linkages
Robi Axiata Limited	Equity method	Proportionate consolidation
Seynse Technologies Private Limited	Equity method	Proportionate consolidation
Seychelles Cable Systems Company Limited	Equity method	Proportionate consolidation
Bridge Mobile Pte Limited	Equity method	Proportionate consolidation
Indus Towers Limited	Equity method	Proportionate consolidation
FireFly Networks Limited	Equity method	Proportionate consolidation
Bharti Airtel Ghana Holdings B.V.	Equity method	Proportionate consolidation
Airtel Mobile Commerce (Ghana) Limited	Equity method	Proportionate consolidation
Airtel Ghana Limited	Equity method	Proportionate consolidation

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	15000.00	CRISIL A1+	05-03-19	CRISIL A1+	22-11-18	CRISIL A1+	25-10-17	CRISIL A1+	28-12-16	CRISIL A1+	CRISIL A1+
						15-11-18	CRISIL A1+			18-03-16	CRISIL A1+	
						22-05-18	CRISIL A1+					
						09-03-18	CRISIL A1+					
						08-01-18	CRISIL A1+					
Non Convertible Debentures	LT	3272.50 01-11-19	CRISIL AA/(Watch) Negative	05-03-19	CRISIL AA/Stable	22-11-18	CRISIL AA/Stable	25-10-17	CRISIL AA+/Stable	28-12-16	CRISIL AA+/Stable	CRISIL AA+/Stable

						15-11-18	CRISIL AA/Stable			18-03-16	CRISIL AA+/Stable		
						22-05-18	CRISIL AA+/Negative						
						09-03-18	CRISIL AA+/Stable						
						08-01-18	CRISIL AA+/Stable						
Fund-based Bank Facilities	LT/ST	20000.00	CRISIL AA/(Watch) Negative	05-03-19	CRISIL AA/Stable	22-11-18	CRISIL AA/Stable	25-10-17	CRISIL AA+/Stable/ CRISIL A1+	28-12-16	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+
						15-11-18	CRISIL AA/Stable			18-03-16	CRISIL AA+/Stable/ CRISIL A1+		
						22-05-18	CRISIL AA+/Negative						
						09-03-18	CRISIL AA+/Stable						
						08-01-18	CRISIL AA+/Stable						
Non Fund- based Bank Facilities	LT/ST		--		--		--	25-10-17	CRISIL AA+/Stable/ CRISIL A1+	28-12-16	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+	CRISIL AA+/Stable/ CRISIL A1+
										18-03-16	CRISIL AA+/Stable/ CRISIL A1+		

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Proposed Long Term Bank Loan Facility	20000	CRISIL AA/Watch Negative	Proposed Long Term Bank Loan Facility	20000	CRISIL AA/Stable
Total	20000	--	Total	20000	--

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[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Mobile Telephony Services](#)

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