

Rating Rationale

January 13, 2020 | Mumbai

Bharti Telecom Limited

Long-term rating removed from 'Watch Negative'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL AA+/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)

Rs.6000 Crore Non Convertible Debentures	CRISIL AA+/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)
Rs.200 Crore Non Convertible Debentures	CRISIL AA+/Stable (Removed from 'Rating Watch with Negative Implications'; Rating Reaffirmed)
Rs.7000 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has removed its rating on the long-term bank facilities and non-convertible debentures of Bharti Telecom Limited (BTL) from 'Rating Watch with Negative Implications', while reaffirming the rating at '**CRISIL AA+**' and assigning a '**Stable**' outlook; rating on the commercial paper has been reaffirmed at '**CRISIL A1+**'.

The watch resolution for BTL follows resolution of rating watch on Bharti Airtel Ltd (BAL; 'CRISIL AA/Stable/CRISIL A1+').

CRISIL had placed BTL's as well as BAL's long-term rating on watch with negative implications following the Supreme Court's ruling against telecommunication operators (telcos; including Bharti Airtel) over the adjusted gross revenue (AGR) issue, on November 1, 2019. BAL's financial risk profile was earlier expected to deteriorate on account of a potential payout.

The resolution of watch factors in CRISIL's expectation of BAL sustaining its financial risk profile, despite the potential payout of AGR related liability. BAL had provided for Rs 34,260 crore [includes both licence fees (LF) and spectrum usage charges (SUC)] under the AGR related liability. CRISIL understands from the company that no AGR liabilities are likely on BAL pertaining to BAL's transactions with Tata Teleservices Ltd, Tata Teleservices (Maharashtra) Ltd, Telenor (India) Communications Pvt Ltd, Videocon Telecommunications Ltd and Aircel Ltd. BAL had liquidity of more than Rs 18,000 crore at September 30, 2019. It plans to raise USD 2 billion (approx. Rs 14,400 crore) of fresh equity through qualified institutional placement and up to USD 1 billion (approx. Rs 7200 crore) through a mix of Foreign Currency Convertible Bonds and NCDs. The plan for the fund raise has already been approved by BAL's board and its shareholders. In our analysis, we have assumed entire payout of Rs 34,260 crore towards the AGR liability, which if required to be paid may require BAL to undertake additional borrowings or use its liquidity to meet any shortfall.

Furthermore, the recent industry wide tariff hikes should support the improvement in Earnings before interest, tax, depreciation, and amortisation (EBITDA). CRISIL expects the average revenue per user (ARPU) of BAL to increase to Rs 140-145 in fiscal 2021 from Rs 128 for the quarter ended September 30, 2019. CRISIL, therefore, expects BAL to continue with its prudent approach, and maintain net debt to EBITDA¹ (leverage) ratio at below 3 times for fiscal 2021. Any delay in the execution of company's equity raise plan and consequent impact on leverage will be a key rating sensitivity factor.

The ratings of BTL continue to reflect the company's robust financial flexibility, driven by strong market value to debt cover, moderate credit risk profile of BAL, and the healthy reputation of the promoters: the Bharti group (shareholding through Bharti Enterprises Holding Pvt Ltd [BEHPL; 'CRISIL A1+']) and Singapore Telecommunications Ltd (Singtel; rated 'A+/Negative/A-1' by S&P Global Ratings). These strengths are partially offset by the exposure to market-related risks.

Analytical Approach

CRISIL has followed the holding company approach for analysing BTL's credit risk profile. CRISIL has considered the combined net debt of BTL and BEHPL for calculating the market value to debt cover.

Key Rating Drivers & Detailed Description

Strengths

* Strong market value to debt cover

BTL's majority direct holding of 41.24% in BAL was worth Rs 94,800 crore as on January 7, 2020. The market value is substantial in relation to the total outstanding net debt of around Rs 7,835 crore and provides a healthy cover. BTL remains the largest shareholder in BAL, which has a healthy business risk profile, supported by a sizeable customer base, strong market position in the Indian telecommunication industry and diversified operations in the non-mobile segments and mobility business in Africa. The promoter shareholding in BAL is unencumbered. The combined external net debt of BTL and

BEHPL is expected to remain below Rs 8,100 crore over the medium term.

* Robust financial flexibility

In addition to the strong market value to debt cover, BTL enjoys robust financial flexibility owing to the healthy reputation of the promoters. The Bharti group has a well-established management track record. Singtel is a Singapore-based telecommunication company, with 711 million mobile customers in 21 countries across Asia, Australia, Africa and the United States of America as of September 2019.

Weakness

* Exposure to market risks

Financial flexibility, in terms of cover available, will depend on prevailing market sentiments and the share price of BAL. Any increase in systemic risks or a sharp decline in the share price are rating sensitivity factors. However, these risks are partially mitigated by the healthy cover maintained by BTL.

Liquidity Strong

BTL enjoys healthy financial flexibility because of its shareholding in BAL, which was worth about Rs 94,800 crore as on January 7, 2020. The financial flexibility also benefits from the parentage of strong promoters, the Bharti group and Singtel. Given its status as a holding company, BTL will remain dependent on dividend income (mostly from BAL), monetisation of investments, infusion of funds by the promoters, or refinancing for servicing debt. BTL has strong access to capital markets. It does not have any capital expenditure or significant working capital requirement.

Outlook: Stable

CRISIL believes BTL will continue to benefit from the strong financial flexibility it derives from its holding in BAL and the healthy cover maintained by the company.

Rating sensitivity factors

Upward Factors

- * Upgrade in BAL's rating by one or more notches
- * Significant and sustained expansion in debt cover either due to low borrowings or increase in market value

Downward Factors

- * Downgrade in BAL's rating by one or more notches
- * Any fall in BAL's market capitalisation, leading to a sustained decline in cover.

About the Company

BTL is jointly promoted by the Bharti group and Singtel. The company is a key shareholder in BAL.

¹EBITDA excluding adjustment on account of Ind-AS 116 for lease expenses for the last 12 months. Net debt is calculated on the basis of gross debt excluding lease obligations minus cash and cash equivalents.

Key Financial Indicators

As on/for the period ended March 31	Unit	2019	2018
Revenue	Rs crore	1015	835.2
Profit After Tax (PAT)	Rs crore	579.7	556.3
PAT Margin	%	57.1	66.6
Adjusted debt/adjusted networkth	Times	0.50	0.59
Interest coverage	Times	2.36	3.34

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Cr)	Rating assigned with outlook
N.A.	Commercial paper	N.A.	N.A.	7-365 days	7000	CRISIL A1+
INE403D08017	Debentures	20-Feb-18	8.5%	19-Feb-20	1500	CRISIL AA+/Stable
INE403D08025	Debentures	20-Feb-18	8.6%	19-Feb-21	1160	CRISIL AA+/Stable
INE403D08058	Debentures	15-May-19	9.85%	19-May-20	700	CRISIL AA+/Stable
INE403D08033	Debentures	15-May-19	9.85%	22-May-20	1000	CRISIL AA+/Stable
INE403D08041	Debentures	15-May-19	9.85%	29-May-20	1400	CRISIL AA+/Stable
NA	Debentures*	NA	NA	NA	440	CRISIL AA+/Stable
N.A.	Proposed Long Term Bank Loan Facility	NA	NA	NA	1000	CRISIL AA+/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

		Current		2020 (History)		2019		2018		2017		Start of 2017
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	7000.00	CRISIL A1+			22-11-19	CRISIL A1+	19-11-18	CRISIL A1+	22-12-17	CRISIL A1+	--
						01-11-19	CRISIL A1+	22-05-18	CRISIL A1+	30-10-17	CRISIL A1+	
						28-05-19	CRISIL A1+	19-01-18	CRISIL A1+	31-08-17	CRISIL A1+	
						30-04-19	CRISIL A1+	08-01-18	CRISIL A1+			
Non Convertible Debentures	LT	5760.00 31-01-20	CRISIL AA+/Stable			22-11-19	CRISIL AA+/Watch Negative	19-11-18	CRISIL AA+/Negative		--	--
						01-11-19	CRISIL AA+/Watch Negative	22-05-18	CRISIL AA+/Negative			
						28-05-19	CRISIL AA+/Negative	19-01-18	CRISIL AA+/Stable			
						30-04-19	CRISIL AA+/Negative	08-01-18	CRISIL AA+/Stable			
Fund-based Bank Facilities	LT/ST	1000.00	CRISIL AA+/Stable			22-11-19	CRISIL AA+/Watch Negative	19-11-18	CRISIL AA+/Negative		--	--
						01-11-19	CRISIL AA+/Watch Negative	22-05-18	CRISIL AA+/Negative			
						28-05-19	CRISIL AA+/Negative	19-01-18	CRISIL AA+/Stable			
						30-04-19	CRISIL AA+/Negative	08-01-18	CRISIL AA+/Stable			

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	1000	CRISIL AA+/Stable	Proposed Long Term Bank Loan Facility	1000	CRISIL AA+/Watch Negative
Total	1000	--	Total	1000	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[CRISILs Criteria for rating short term debt](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p>	<p>Sachin Gupta Senior Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3023 Sachin.Gupta@crisil.com</p> <p>Nitesh Jain Director - CRISIL Ratings CRISIL Limited D:+91 22 3342 3329 nitesh.jain@crisil.com</p> <p>ROUNAK AGARWAL Rating Analyst - CRISIL Ratings CRISIL Limited D:+91 22 3342 4261 ROUNAK.AGARWAL@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a leading agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 1,00,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 1,10,000 MSMEs have been rated by us.

CRISIL PRIVACY

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way. CRISIL or its associates may have other commercial transactions with the company/entity.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL