

Ratings

Rating Rationale

November 01, 2019 | Mumbai

Bharti Telecom Limited

Long term rating placed on 'Watch Negative'

Rating Action

Total Bank Loan Facilities Rated	Rs.1000 Crore
Long Term Rating	CRISIL AA+ (Placed on 'Rating Watch with Negative Implications')

Rs.6000 Crore Non Convertible Debentures	CRISIL AA+ (Placed on 'Rating Watch with Negative Implications')
Rs.200 Crore Non Convertible Debentures	CRISIL AA+ (Placed on 'Rating Watch with Negative Implications')
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 placed its rating on the long-term bank facilities and non-convertible debentures of Bharti Telecom Limited (BTL) on '**Rating Watch with Negative Implications**'. The rating on the commercial paper has been reaffirmed at 'CRISIL A1+'.

The rating action follows a similar rating action on the ratings of Bharti Airtel Ltd (BAL; CRISIL AA/Placed on 'Rating Watch with Negative Implications'/CRISIL A1+).

The rating action on BAL follows the Supreme Court's ruling against telecommunication (telecom) operators (including BAL) in a long pending dispute with the Department of Telecommunications (DoT), Government of India (GoI). BAL's financial risk profile could deteriorate on account of a potential payout. BAL is in discussion with DoT to assess the amount and payment timelines and 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, BAL 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 funding plan to meet such liability.

The ratings continue to reflect the company's robust financial flexibility driven by strong market value to debt cover, healthy credit risk profile of BAL, and the strong reputation of the promoters: the Bharti group (shareholding through Bharti Enterprises Holding Pvt Ltd [BEHPL; 'CRISIL A1+']) and Singapore Telecommunications Ltd (Singtel; rated 'A+/Stable/A-1' by S&P Global Ratings). These strengths are partially offset by 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 is worth Rs 79,165 crore as on November 1, 2019. The market value is substantial in relation to the total outstanding net debt of around Rs 7,100 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 on

account of the strong reputation of its promoters. The Bharti group has a well-established management track record. Singtel is a Singapore-based telecommunication company with 650 million mobile customers in 21 countries across Asia, Australia, Africa and the United States of America as of March 2018.

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 mitigated by the healthy cover maintained by BTL.

Liquidity: Strong

BTL enjoys healthy financial flexibility because of its shareholding in BAL, which is worth Rs 79,165 crore as on November 1, 2019. BTL's 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 requirements.

Rating sensitivity factors

Upward factor

* Upgrade in BAL's rating by 1 or more notches

* Significant and sustained expansion in debt cover either on account of lower borrowings or increase in market value

Downward factor

* Downgrade in BAL's rating by 1 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.

Key Financial Indicators

As on / for the period ended March 31	Units	2018	2017
Revenue	Rs crore	835.2	369.6
Profit after tax (PAT)	Rs crore	556.3	325.7
PAT margin	%	66.6	88.1
Adjusted debt/adjusted network	Times	0.59	Nil
Interest coverage	Times	3.34	NM

NM ' Not Meaningful

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	Commercial paper	NA	NA	7-365 days	7000	CRISIL A1+
INE403D08017	Debentures	20-Feb-18	8.5%	19-Feb-20	1500	CRISIL AA+/Watch Negative
INE403D08025	Debentures	20-Feb-18	8.6%	19-Feb-21	1160	CRISIL AA+/Watch Negative
INE403D08058	Debentures	15-May-19	9.85%	19-May-20	700	CRISIL AA+/Watch Negative
INE403D08033	Debentures	15-May-19	9.85%	22-May-20	1000	CRISIL AA+/Watch Negative
INE403D08041	Debentures	15-May-19	9.85%	29-May-20	1400	CRISIL AA+/Watch Negative
NA	Debentures*	NA	NA	NA	440	CRISIL AA+/Watch Negative
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1000	CRISIL AA+/Watch Negative

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating

Commercial Paper	ST	7000.00	CRISIL A1+/Watch Negative	28-05-19	CRISIL A1+	19-11-18	CRISIL A1+	22-12-17	CRISIL A1+	--	--
				30-04-19	CRISIL A1+	22-05-18	CRISIL A1+	30-10-17	CRISIL A1+		
						19-01-18	CRISIL A1+	31-08-17	CRISIL A1+		
						08-01-18	CRISIL A1+				
Non Convertible Debentures	LT	6200.00 01-11-19	CRISIL AA+/(Watch) Negative	28-05-19	CRISIL AA+/Negative	19-11-18	CRISIL AA+/Negative		--	--	--
				30-04-19	CRISIL AA+/Negative	22-05-18	CRISIL AA+/Negative				
						19-01-18	CRISIL AA+/Stable				
						08-01-18	CRISIL AA+/Stable				
Fund-based Bank Facilities	LT/ST	1000.00	CRISIL AA+/(Watch) Negative	28-05-19	CRISIL AA+/Negative	19-11-18	CRISIL AA+/Negative		--	--	--
				30-04-19	CRISIL AA+/Negative	22-05-18	CRISIL AA+/Negative				
						19-01-18	CRISIL AA+/Stable				
						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+/Watch Negative	Proposed Long Term Bank Loan Facility	1000	CRISIL AA+/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>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-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 B: +91 22 3342 3000 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>

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