FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Bharti at 'BBB-'; Outlook Stable

Thu 09 Nov, 2023 - 1:07 AM ET

Fitch Ratings - Singapore - 09 Nov 2023: Fitch Ratings has affirmed India-based Bharti Airtel Limited's (Bharti) Long-Term Foreign-Currency Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Outlook on the IDR is Stable. Fitch also affirmed Bharti Airtel International (Netherlands) B.V.'s senior unsecured guaranteed bonds at 'BBB-' and Network i2i Limited's subordinated perpetual notes at 'BB'.

The Stable Outlook reflects Fitch's expectations that Bharti's EBITDA net leverage will continue to improve on cash flow growth, which will be sufficient to fund high 5G-related capex and shareholder returns. Rating headroom remains high, supported by a strong, growing position in the fast-consolidating Indian wireless market and African markets.

Bharti's foreign-currency ratings are not directly constrained by India's sovereign rating (BBB-/Stable), but cannot exceed the Country Ceiling (BBB-), which reflects the transfer and convertibility risks on foreign-currency obligations. If India's Country Ceiling were to be raised to 'BBB', we are likely to upgrade Bharti's IDR to 'BBB', reflecting our view of the underlying credit quality of Bharti.

Network i2i's subordinated perpetual notes are rated two notches below Bharti's IDR. This reflects the notes' deeply subordinated nature, ranking junior to all debt obligations and senior only to Bharti's ordinary shares. This is in line with Fitch's Corporate Hybrids Treatment and Notching Criteria.

KEY RATING DRIVERS

High Rating Headroom: We expect Bharti's EBITDA net leverage to improve to around 1.2x in the financial year ending March 2024 (FY24) and around 1.0x by FY25 (FY23: 1.4x), led by sufficient cash generation to fund capex and shareholder returns. The balance sheet is supported by strong EBITDA growth, conversion of foreign-currency convertible debt of around USD417 million so far in FY24 and the ability to call INR158 billion (USD1.9 billion) in a fully underwritten rights issue before October 2024. Management is committed to retaining the balance-sheet strength.

Slower Growth, Still Robust: We forecast Bharti's FY24 consolidated EBITDA growth to slow to 7%-9% (FY23: 25%), as strong growth in the Indian mobile business is likely to be offset by slower growth in the African segment due to a severe depreciation of the Nigerian naira in 1HFY24. We expect FY25 EBITDA growth to recover to 10%-11%.

Stable EBITDA Margin: The consolidated FY24-FY25 EBITDA margin will remain stable at around 43%-44% (FY23: 43%) on higher Indian mobile monthly average revenue per user (ARPU) and lower costs as 5G drives cost efficiencies. In 1HFY24, consolidated revenue and EBITDA rose by 11% and 15% yoy, respectively, as the Indian mobile subscriber base rose by 4% yoy to 342 million, while ARPU improved by 7% yoy to INR203.

Consolidating Wireless Market: We expect Bharti and wireless market leader Reliance Jio, a subsidiary of Reliance Industries Ltd (BBB/Stable, Local-Currency IDR: BBB+/Stable), to consolidate revenue market share as they will garner 83%-85% (FY23: 80%-82%) of the revenue of private telcos during FY24-FY25. Jio led the market with around 39% subscriber share at end-July 2023, followed by Bharti's 33% and Vodafone Idea's 20%, according to the Indian telecom regulator.

Rising Subscribers, Data Consumption: We forecast Bharti's Indian mobile business to add 10 million subscribers and increase ARPU by 8%-10% annually in FY24-FY25 on limited competition. ARPU is likely to rise on higher monthly data consumption per subscriber, which expanded by 7% to 22GB, one of the highest in the Asia-Pacific, in September 2023. Management aims to add post-paid subscribers, which were about 6% of the 342 million subscribers at end-September 2023, as ARPU doubles when a customer moves to post-paid from pre-paid.

High Capex: We expect capex, including core capex, regular and prepayments of spectrum payments to remain high at around 30%-33% over our base case. However, 5G capex intensity should ease slowly as Bharti would largely invest in 5G coverage by March 2024 and capacity investments on 5G will continue to replace 4G capex. We believe that Bharti will prepay some of the deferred spectrum liabilities over the next few years.

Positive FCF in FY25: Free cash flow (FCF) generation is likely be negative in FY24, but the FCF margin will improve to 1%-3% starting FY25 on higher EBITDA generation. Our free cash flow calculation includes the deduction of the prepayments of deferred spectrum liabilities. We expect Bharti to increase its dividend payout to 40% of net income in our base case.

Slower 5G Adoption: We expect 5G adoption to remain slow in India, given a limited 5G business case in the short term, as most of the current applications are comfortably served by 4G speeds. The device ecosystem needs to evolve for higher 5G adoption in the price-sensitive Indian market, given low penetration of 5G devices. We expect telcos to price 5G at the same tariff as 4G and lure customers to consume more data to improve ARPU.

Diverging 5G Strategies: We believe that Bharti's and Jio's diverging 5G network strategies may create competitive and market share uncertainties in the medium to long term. Reliance Jio is investing USD13 billion-14 billion to roll out 5G on a standalone network, while Bharti is investing USD3 billion-4 billion on 5G, in addition to the USD5 billion of spectrum commitments made in 2022, based on a non-standalone network. Nevertheless, we expect Bharti to continue to add subscribers in the short term, mostly at the expense of weakening Vodafone Idea.

Management believes a non-standalone network is as efficient at providing good quality data services as a standalone network. A non-standalone network sits over the existing 4G network infrastructure, while a standalone network requires a new 5G network core, necessitating higher investment.

Slower African Growth: We forecast Airtel Africa's FY24 revenue and EBITDA to slow to a low single-digit percentage (FY23: 11%) on a reported currency basis. This will be due to a significant depreciation of the Nigerian naira in 1HFY24, despite robust growth in subscribers, mobile data and mobile-money business segments.

We forecast the Fitch-adjusted EBITDA margin to expand to 43%-44% (FY23: 42%) on subscriber growth of 7%-8% in FY24 and FY25, despite a flat ARPU in US dollar terms. We expect FY24 FCF generation of above USD400 million and EBITDA net leverage well below 1.0x during FY24-FY25.

DERIVATION SUMMARY

Bharti's credit profile is stronger than Indonesian telcos PT Indosat Tbk (BBB-/Stable) and PT XL Axiata Tbk (XL, BBB/Negative; Standalone Credit Profile (SCP): bb+), given its stronger market position, cash flow diversification, larger scale and integrated operations. Both Indosat and XL have weaker market positions relative to Bharti, as they compete with a financially and operationally much stronger leader in PT Telekomunikasi Indonesia Tbk

(BBB/Stable), which has about 50% market share. Bharti's FY24-FY25 EBITDA net leverage forecast of 1.0x-1.2x is similar to Indosat's 1.0x-1.2x and XL's 0.9x-1.2x.

Bharti's underlying credit profile is stronger than CK Hutchison Group Telecom Holdings Limited's (CKHT, A-/Stable) SCP of 'bbb-'. CKHGT's SCP reflects its mobile-focused operations in six European countries and in Hong Kong and Macao, smaller scale and weaker market position as the third or fourth largest operator in most of its markets as well as stiff competition in Italy and the UK, which accounted for 68% of EBITDA in 2022. However, the company's commitment to enhance its cost structure and maintain a prudent financial structure with its modest net leverage supports its SCP.

Fitch uses a top-down rating approach with CKHT's IDRs equalised with that of the parent, CK Hutchison Holdings Limited (A-/Stable), to reflect the strong ties. Fitch's forecast of CKHT's 2024 EBITDA net leverage of 1.8x is higher than our forecast for Bharti's 1.2x.

Singapore Telecommunications Limited (SingTel, A/Positive; SCP: a-) has a stronger business risk profile than Bharti, given its significantly better diversification, lower regulatory risk and a solid market position. SingTel's market position is strong with its market leadership in Singapore, the second position in Australia via SingTel Optus Pty Limited (BBB+/Positive) and leading positions in Indonesia, India, Thailand and the Philippines through its associates.

SingTel's rating benefits from a one-notch uplift for government support under Fitch's Government related entity criteria. The Positive Outlook on SingTel's IDR reflects our expectations that its EBITDA net leverage for FY24-FY25 will remain below 1.7x (FY23: 1.4x), the threshold below which Fitch will consider a rating upgrade.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue to grow by around 8% in FY24, driven by subscriber additions growth in blended ARPU;

- Indian wireless subscribers to grow by 3% in FY24 and 2% in FY25;

- Indian wireless mobile segment's ARPU to rise by 10% in FY24 and 8% in FY25;

- Fitch-adjusted EBITDA margin to remain stable at 43%-44% (FY23: 43%) on higher Indian mobile ARPU and lower costs as 5G drives cost efficiencies. The EBITDA margin is based on pre-Indian accounting standard 116 accounting adjustments;

- Overall Capex to average at 30%-33% of revenue during FY24-FY25. We assume Bharti to prepay some deferred spectrum liabilities during FY24-25.

- FY24 African revenue growth to slow to low-single-digit percentage on a reported currency basis due to significant depreciation of Nigerian Naira.

- African subscriber base to grow by 7%-8% during FY24-25. ARPU in US dollar terms to remain flat;

- Annual dividends pay-out ratio of 40% of the net income;

- No material debt-funded M&A.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An upward revision of the Country Ceiling would lead to the IDR upgraded to 'BBB'.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A downward revision of the Country Ceiling;

- Higher-than-expected regulatory dues, slower recovery in Indian operations or debt-funded M&A resulting in EBITDA net leverage rising above 2.5x for a sustained period.

India's Country Ceiling is not pegged to the sovereign rating, although an upgrade or downgrade in the sovereign rating would lead to a heightened probability that the Country Ceiling would be revised up or down, respectively. For the sovereign rating of India, the following sensitivities were outlined by Fitch in its ratings action commentary on 8 May 2023:

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Public Finances: Rising general government debt/GDP ratio, for instance, from insufficient fiscal consolidation.

- Macro: A structurally weaker real GDP growth outlook that further weighs on the debt trajectory.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Public Finances: Implementation of a credible medium-term fiscal strategy to bring general government debt and the interest/revenue ratio down towards the levels of 'BBB' category peers.

- Macro: Higher medium-term investment and growth rates without the creation of macroeconomic imbalances, such as from successful structural reform implementation and a healthier financial sector

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Bharti had cash and equivalents of INR103 billion (USD1.3 billion) and undrawn committed facilities at end-September 2023, which were sufficient to pay short-term debt maturities of INR162 billion (USD2 billion). Liquidity is supported by Bharti's ability to call additional fully under-written equity of USD1.9 billion at any point in time before October 2024. Revolving facilities account for a large part of the short-term debt.

Bharti has strong access to Indian and multinational banks and debt capital markets, as evident from its issuance of around USD3.25 billion of senior and perpetual bonds over the past five years in US dollars.

ISSUER PROFILE

Bharti is an Indian-based multinational integrated telecommunications company, providing a full range of services across fixed-line and mobile in India and 14 African markets.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Bharti's foreign-currency ratings are not directly constrained by India's sovereign rating, but cannot exceed the Country Ceiling, which reflects the transfer and convertibility risks on foreign-currency obligations. An upgrade or downgrade of India's Country Ceiling will have a corresponding impact on Bharti's Long-Term Foreign-Currency IDR.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Bharti Airtel Limited	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
senior unsecured	LT	BBB-	Affirmed	BBB-
Network i2i Limited				
subordinated	LT	BB	Affirmed	BB
Bharti Airtel International (Netherlands) B.V.				
senior unsecured	LT	BBB-	Affirmed	BBB-

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

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APPLICABLE CRITERIA

Corporate Hybrids Treatment and Notching Criteria (pub. 12 Nov 2020)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 04 Mar 2023)

Parent and Subsidiary Linkage Rating Criteria (pub. 17 Jun 2023)

Country Ceiling Criteria (pub. 24 Jul 2023)

Corporates Recovery Ratings and Instrument Ratings Criteria - Effective from 13 October 2023 to 2 August 2024 (pub. 14 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 04 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria - Effective from 3 November 2023 to 21 June 2024 (pub. 04 Nov 2023)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bharti Airtel International (Netherlands) B.V.	EU Endorsed, UK Endorsed
Bharti Airtel Limited	EU Endorsed, UK Endorsed
Network i2i Limited	EU Endorsed, UK Endorsed

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