

Research Update:

Bharti Airtel Outlook Revised To Positive On Earnings Strength; 'BBB-' Rating Affirmed

November 22, 2024

Rating Action Overview

- Bharti Airtel's earnings and cash flows are set to rise over the next 24 months, benefitting from the industry-wide hike in mobile tariffs in India.
- We expect Bharti Airtel's leverage to therefore improve beyond our threshold for a higher stand-alone credit profile (SACP) in fiscal 2026. Capital expenditure at the India-based telecommunications company is also likely to ease during the period.
- On Nov. 22, 2024, S&P Global Ratings revised its rating outlook on Bharti Airtel to positive from stable. At the same time, we affirmed our 'BBB-' long-term issuer credit rating on the company. We also affirmed our ratings on the debt the company issued or guarantees.
- The positive outlook reflects the likelihood of an improvement in Bharti Airtel's SACP owing to its healthy earnings and easing leverage. However, an upgrade of the company could remain contingent on a similar action on the sovereign rating on India.

Rating Action Rationale

Bharti Airtel's India earnings will see strong growth over the next 24 months. This will be largely driven by a hike in mobile tariffs in the country earlier this year. Prices of the company's mobile plans were up 10%-21% effective July 4, 2024.

We project EBITDA from Bharti Airtel's Indian operations will rise 18%-20% in fiscal 2025 (year ending March 31, 2025), and by a further 12%-15% in fiscal 2026. Most of this growth will come from the mobile segment. We also anticipate higher earnings from Bharti Airtel's home and enterprise segments owing to increased uptake of home broadband and enterprise digitalization.

Most of the benefit of the tariff hike will likely materialize within the next two quarters as existing plans play out their remaining validity periods. In our view, telecom companies (telcos) will likely lose some subscribers after the tariff hike because the higher costs will push some consumers to reduce the number of SIMs they hold. But trading down to lower-priced plans with smaller data allowances will likely be minimal because data consumption habits are sticky.

Some of the gains from the tariff hike are already reflected in Bharti Airtel's performance in the

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quarter ended Sept. 30, 2024. The company's average revenue per user (ARPU) for the quarter was Indian rupee (INR) 233, up 10.4% from the previous quarter, while net subscriber loss was less than 1%.

The strength in Bharti Airtel's Indian operations will more than offset a currency-led decline in the Africa segment. The value of the Nigerian naira--the currency in the telco's largest Africa market--has depreciated to less than 30% of what it was against the rupee 18-24 months ago. The contribution of Nigeria's mobile services to Bharti Airtel's Africa business therefore fell to 30% in fiscal 2024 from about 40% a year earlier. We therefore expect the Africa operations to account for about 20% of Bharti Airtel's consolidated reported EBITDA through fiscal 2027, down from 25% in fiscal 2024 and more than 30% at its peak.

Even with the African operations weighing down earnings, we project Bharti Airtel's adjusted consolidated EBITDA will rise 13%-15% in fiscal 2025 and by a further 8%-11% in fiscal 2026.

Bharti Airtel's rising earnings and cash flows will help it deleverage. In our base case, Bharti Airtel's ratio of funds from operations (FFO) to debt will be 27%-30% in fiscal 2025 and exceed our 30% trigger for a higher SACP in fiscal 2026. This compares with about 25% in fiscal 2024.

In our view, the risk of expensive spectrum purchases by Bharti Airtel in the next 18-24 months has dissipated. Telcos in India are unlikely to pour significantly more resources into 5G until more returns can be reaped. This could happen in case of large, monetizable enterprise use cases for 5G, beyond the current use cases of fixed-wireless access and faster mobile connections. Such a stance was reflected in the June 2024 spectrum auction, where Bharti Airtel spent INR69 billion, just 16% of the INR431 billion it spent in the August 2022 edition.

Bharti Airtel's capital expenditure (capex) will likely ease slightly from a peak in fiscal 2024 (that was to support an accelerated pan-India 5G network rollout). While headline capex numbers have dipped in recent quarters, it is yet to manifest in actual cash capex outflow, which has remained elevated. We expect Bharti Airtel's cash capex to be INR360 billion-INR380 billion in fiscal 2025, similar to the level in fiscal 2024, before dipping to INR350 billion-INR370 billion in fiscal 2026.

A longer record of operating at a lower leverage, coupled with a supportive leverage tolerance, could support a higher SACP. Bharti Airtel's leverage tolerance will be crucial for its credit profile, in our view. The company has been focused on deleveraging, aiming to pare debt before increasing shareholder returns.

However, there are signs of dividends rising. Bharti Airtel's final dividend for fiscal 2024 was INR8 per share, double the amount for fiscal 2023. That said, our projected annual dividend outflow from the company through fiscal 2026 remains small at INR70 billion-INR90 billion. This compares with annual adjusted discretionary cash flow (DCF) that we estimate will average about INR300 billion over the same period.

Rising debt load at Bharti Airtel's parent could weigh on the telco's credit profile. Borrowings at Bharti Telecom Ltd., the immediate parent of Bharti Airtel, have been increasing. We estimate net debt at Bharti Telecom was about INR250 billion as of March 31, 2024. This is about 10% of Bharti Airtel's adjusted debt on the same date, and up from INR10 billion-INR20 billion in fiscals 2021 and 2022.

A higher debt load at Bharti Telecom carries the risk of the company depending on dividends from Bharti Airtel to service its debt. This is given the investment in Bharti Airtel is Bharti Telecom's largest asset. We will also consider the use of debt at the Bharti Telecom level--whether it is used to borrow on behalf of Bharti Airtel or to increase its stake in the secondary markets.

Outlook

The positive rating outlook reflects our expectation that Bharti Airtel's improving earnings and commitment to deleveraging will result in improved financial flexibility over the next 12-24 months. We forecast the company's FFO-to-debt ratio will improve to well beyond 30% over the period. Our outlook also reflects our expectation that Bharti Airtel will maintain its competitive position.

Downside scenario

We could revise our outlook on Bharti Airtel to stable if we believe the company's deleveraging trend is unlikely to stay, such that we no longer expect the FFO-to-debt ratio to improve to, and stay above, 30%. This may happen due to: (1) the company undertaking debt-funded investments, capex, and dividends that are beyond our expectations; or (2) its improvement in performance is less than we forecast.

In addition, we will consider the debt load at the Bharti Telecom stand-alone level. Increasing debt at that level can weigh on Bharti Airtel, since Bharti Telecom may depend on dividends from the subsidiary to service its debt.

A negative rating action on the sovereign rating of India (BBB-/Positive/A-3) may also result in the same on Bharti Airtel.

Upside scenario

An upgrade of Bharti Airtel would likely be contingent on a similar action on the sovereign rating on India.

However, we may revise upward our assessment of Bharti Airtel's SACP if we expect the company to continue deleveraging such that its ratio of FFO to debt remains comfortably above 30%.

Company Description

Bharti Airtel is the second-largest provider of telecom services in India. The company has a diversified presence in 15 countries across Asia and Africa. In addition, it has a joint venture in Bangladesh. Bharti Airtel completed the sale of its Sri Lanka operations--which accounted for less than 1% of the group's revenues in fiscal 2024--in June 2024.

The promoter group, the India-based Mittal family and Singapore Telecommunications Ltd. (Singtel), jointly own 53.2% of Bharti Airtel. Singtel has an effective stake of 29.4% while the Mittal family has an effective stake of 23.7%.

Our Base-Case Scenario

Assumptions

- India's real GDP to grow 6.8% in fiscal 2024 and 6.9% in fiscal 2025.
- The performance of the telecommunications sector is moderately linked to GDP growth. We

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believe local competitive dynamics and the regulatory landscape play a bigger role in Bharti Airtel's performance in its respective markets.

- Bharti Airtel's adjusted revenue to rise 10%-12% in fiscal 2025 and by 6%-9% in fiscal 2026. We expect revenues from India to increase by 15%-17% in fiscal 2025 and by 10%-12% in fiscal 2026. While this will be mainly driven by the Indian mobile segment, we project earnings growth across all other segments in India. Overall topline growth, however, will be weighed down by currency-driven declines in the African operations.
- Strong topline growth to lead an improvement in the company's adjusted EBITDA margin to 54%-56% through fiscal 2025.
- Cash capex to be INR360 billion-INR380 billion in fiscal 2025, and INR350 billion-INR370 billion in fiscal 2026.
- Annual dividend payout to be INR70 billion-INR90 billion.

Bharti Airtel Ltd.--Forecast summary

(Mil. INR)	--Fiscal year ended March 31--			
	2023a	2024a	2025f	2026f
Revenue	1,391,448	1,499,824	1,672,102	1,796,957
EBITDA	747,465	804,492	914,545	1,005,234
Funds from operations (FFO)	617,527	611,484	697,134	817,274
Debt	2,547,156	2,486,486	2,440,159	2,220,760
Adjusted ratios				
Debt/EBITDA (x)	3.4	3.1	2.7	2.2
FFO/debt (%)	24.2	24.6	28.6	36.8

All figures include S&P Global Ratings adjustments unless stated as reported. a--Actual. e--Estimate. f--Forecast. INR--Indian rupee.

Liquidity

We assess Bharti Airtel's liquidity as adequate. We expect the company's liquidity sources to be enough to cover uses by at least 1.2x over the 12 months ending Sept. 30, 2025. Net sources of liquidity should remain positive even if EBITDA declines by 15% from our base case.

Bharti Airtel has good access to banks and capital markets in India and abroad, as evident from its consistent capital raising over the past three years. We also view positively management's ability and record of raising equity capital when the company faced large funding needs. Bharti Airtel's financial flexibility is also supported by its strategic relationship with, and significant ownership by, Singtel.

Principal liquidity sources:

- Cash and cash equivalents of INR50 billion as of Sept. 30, 2024.
- Cash FFO that we project at INR700 billion-INR720 billion in the 12 months to Sept. 30, 2025.

Principal liquidity uses

- Short-term maturities of about INR298 billion as of Sept. 30, 2024.
- Capex that we estimate at INR360 billion-INR380 billion over the 12 months to Sept. 30, 2025. We expect Bharti can substantially cut capex in times of liquidity stress.
- Working capital outflow of INR5 billion-INR10 billion over the 12 months to Sept. 30, 2025.
- Cash dividends that we estimate to be INR70 billion-INR90 billion over the same period. We expect Bharti to not pay dividends in times of liquidity stress.

Covenants

The company's borrowings are not subject to any financial covenants.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2024, Bharti Airtel's reported borrowings of INR2.2 trillion were unsecured. These include deferred payment liabilities of INR1 trillion, capitalized lease obligations of INR637 billion, senior unsecured notes issued by Bharti Airtel (US\$1 billion due 2025, US\$338 million of 1.5% convertible bonds due 2025, and US\$750 million due 2031), and senior unsecured notes of US\$550 million due 2024 that Bharti Airtel International (Netherlands) B.V. issued and Bharti Airtel guarantees.

Since then, the US\$550 million notes have matured in May 2024. Additionally, the outstanding amount of the 1.5% convertible bond stands at about US\$55.7 million following further conversions after March 31, 2024.

Analytical conclusions

We equalize our issue ratings on the senior unsecured notes due 2025 and 2031 that Bharti Airtel issued with our 'BBB-' issuer credit rating on the company. As Bharti Airtel's assets and operations are substantially based in India, we believe India is the relevant jurisdiction for our issuance analysis.

In our assessment, the high proportion of revenue at Bharti Airtel's stand-alone level mitigates potential structural subordination risk. The company's priority debt ratio (consolidated secured debt and unsecured debt at subsidiaries, as a proportion of total consolidated debt) is above 50%, a threshold beyond which that we believe could indicate potential structural subordination risk. The calculation of this ratio does not consider debt-like liabilities such as deferred payment liabilities and lease obligations.

We rate the subordinated perpetual securities 'BB' because we notch the rating down by one notch each for contractual subordination and unrestricted coupon deferability.

Ratings Score Snapshot

Issuer Credit Rating	BBB-/Positive/--
Business risk:	Satisfactory
Country risk	Moderately high
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk:	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile:	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

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- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Indian Telcos Eye Next Phase Of Market Repair, July 11, 2024

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bharti Airtel Ltd.		
Issuer Credit Rating	BBB-/Positive/--	BBB-/Stable/--

Ratings Affirmed

Bharti Airtel Ltd.		
Senior Unsecured	BBB-	BBB-
Network i2i Ltd.		
Subordinated	BB	BB
Junior Subordinated	BB	BB

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