

MOODY'S

RATINGS

Rating Action: Moody's Ratings changes Bharti Airtel's outlook to positive; affirms Baa3 ratings

22 Jan 2025

Singapore, January 22, 2025 -- Moody's Ratings (Moody's) has affirmed Bharti Airtel Ltd.'s (Bharti) Baa3 issuer rating. We have also affirmed the Baa3 senior unsecured debt rating on the bonds issued by Bharti.

At the same time, we have changed Bharti's outlook to positive from stable.

"The change in outlook to positive reflects a significant improvement in Bharti's financial profile and its steadily increasing market share, supported by structural changes in India's fast growing mobile sector. Easing competitive intensity and our expectations of a relatively supportive regulatory environment also contribute to the positive outlook," says Nidhi Dhruv, Moody's Ratings Vice President and Senior Credit Officer.

"Bharti's established market position in the resilient Indian telecom industry, solid financial profile with leverage trending towards 2.0x, demonstrated access to capital markets and supportive shareholders position it well to be rated above India's sovereign rating," adds Dhruv, who is also our lead analyst for Bharti Airtel. "However, the linkages with the Indian economy constrain Bharti to be rated no more than one notch above the sovereign."

RATINGS RATIONALE

The affirmation of Bharti's Baa3 ratings reflects its position as one of the two leading operators in India's (India, Government of, Baa3 stable) high-growth mobile market given the favorable demographics, its pan-India network and large spectrum holdings. Bharti is also one of the three largest telecom service operators globally in terms of subscribers (563 million).

Bharti's prudent financial policies are reflective of the sustained improvement in its leverage through debt reduction. In particular, the repayment of higher cost deferred spectrum liabilities from cash surpluses has accelerated its deleveraging targets. With prepayment of INR200 billion (\$2.4 billion) of spectrum liabilities during the fiscal year

ending 31 March 2025 (FY24-25) alone, Bharti's company's consolidated leverage as measured by adjusted debt/EBITDA will improve to 2.6x at March 2025.

Improving earnings and scheduled debt repayments will further pave the way for leverage to improve to 2.2x by March 2026.

Bharti's subscriber market share has steadily grown to 37% in September 2024 from 33% in March 2020 as the company continues to take market share from the third operator, Vodafone Idea Limited. Bharti's revenue market share will be higher at around 39%.

During the first half (1H) of FY24-25, Bharti recorded a year-on-year (YoY) revenue growth of 7% to INR800 billion and a 6% growth in EBITDA to INR420 billion. This growth was primarily driven by the outperformance of its Indian operations, which contributed approximately 75-80% of both revenue and earnings.

While Bharti will remain exposed to evolving regulatory frameworks and emerging market risks in the countries where it operates, we acknowledge that the regulatory environment in India has been relatively stable following the settlement of the Aggregate Gross Revenue (AGR) issue in 2021 and we expect the regulator will remain supportive of the three-player telco market.

Meanwhile, the company is exposed to more volatility in Sub-Saharan Africa through its operations in 14 countries including East Africa and Francophone Africa. However, the breadth of Bharti's African business and its financial discipline partially mitigate foreign exchange volatility, and regulatory and operational uncertainties in any one country. 56.1% owned subsidiary, Airtel Africa contributes only about 20% of Bharti's consolidated EBITDA.

LIQUIDITY

Bharti's liquidity is excellent with a well staggered debt maturity profile, and around 60% of its debt (excluding leases) maturing beyond March 2029. The company also retains very strong access to domestic and international bank and capital markets.

OUTLOOK

The positive outlook reflects the sustained improvement in Bharti's credit profile on the back of relative stability in India's competitive landscape and a stable regulatory environment for telcos, that position it well for a possible upgrade to Baa2.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We could upgrade Bharti's rating to Baa2 if there is sustained improvement in the company's profitability, and there are no adverse changes in the regulatory environment in its key operating countries.

Credit metrics indicative of a higher rating level include (1) adjusted consolidated debt/EBITDA leverage remaining below 2.5x, and (2) retained cash flow/adjusted debt remaining above 30%.

The outlook would return to stable if the recent improvement in the company's profitability is not sustained or if liquidity deteriorates significantly.

Material adverse changes in the competitive or regulatory environments that derail the continued improvement in profitability, cash flow and leverage, would also premise stabilization of the outlook. Credit metrics indicative of such deterioration include (1) leverage above 2.5x or (2) retained cash flow/adjusted debt below 30%. A downgrade of India's sovereign rating will also return the outlook to stable.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in November 2023 and available at <https://ratings.moodys.com/rmc-documents/411275>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Founded in 1994, Bharti Airtel Ltd. is one of the three largest telecommunications service providers globally, based on total number of subscribers. As of 30 September 2024, it had around 563 million customers across operations in 15 countries in South Asia and Africa.

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