FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Bharti Airtel at 'BBB-'; Outlook Negative

Thu 25 Nov, 2021 - 3:45 AM ET

Fitch Ratings - Singapore/Hong Kong - 25 Nov 2021: 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 Negative. Fitch also affirmed Bharti Airtel International (Netherlands) B.V.'s senior unsecured guaranteed bonds at 'BBB-' and Network i2i Limited's subordinated perpetual bond at 'BB'.

Network i2i's subordinated perpetual note is 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.

The Negative Outlook does not reflect our view of Bharti's underlying credit profile - which has been improving on strong growth in Indian and African wireless operations - but rather the heightened probability that India's (BBB-/Negative) Country Ceiling of 'BBB-' could be lowered to 'BB+'. Such an action would constrain Bharti's IDR and senior issue ratings to 'BB+'.

KEY RATING DRIVERS

Outlook Driven by Sovereign: The Negative Outlook reflects the Outlook on India's Long-Term Foreign- and Local-Currency IDRs, which were revised to Negative from Stable on 18 June 2020. Bharti's IDR and senior issue ratings are not directly constrained by the sovereign rating but cannot exceed the Country Ceiling, which reflects the transfer and convertibility risks associated with foreign-currency obligations.

Robust Growth: We forecast Bharti's FY22 funds from operations (FFO) net leverage to be 1.8x-2.0x in the financial year end-March 2022 (FY22), well below the threshold of 2.5x beyond which we will take negative rating action. We expect Bharti's FY22 revenue to rise by 10%-12% and EBITDA by 20%-22%, on improvement in the Indian wireless market and strong growth in the African markets. In 1HFY22 consolidated revenue and EBITDA rose by 14% and 32% yoy, respectively, defying the Covid-19 slowdown as it added 30 million subscriber additions.

Commitment to Investment-Grade Rating: Management is committed to an investment-grade rating and raised about USD11.3 billion in equity in aggregate in 2019 to 2021: USD2.8 billion rights issue in October 2021, USD3.5 billion rights issue in 2020, equity sale in Airtel Africa of USD1.5 billion, IPO of Airtel Africa for USD680 million and another USD2 billion through an equity injection in 2020. It also completed issuance of a 5.65% USD1 billion subordinated perpetual bond in 2020 and another 3.975% USD500 million subordinated perpetual bond, on which Fitch assigns 50% equity credit.

Bharti also raised about USD1 billion in 2021 through the sale of spectrum to Reliance Jio for USD210 million, sale of 25% stake in data centre entity Nxtra for USD235 million and sale of a stake in Airtel Money for USD500 million.

More Industry Consolidation: We expect Jio and Bharti to increase their combined revenue market share for private telecom operators to 80%-82% in 2022, from around 77%-78% in June 2021. Rival Vodafone Idea has rapidly lost market share because of its weak balance sheet and limited financial flexibility. It has lost about 180 million subscribers in the past three years. It had 253 million subscribers at end-September 2021.

Higher Tariffs in Indian Market: We expect the FY22 Indian wireless EBITDA to increase by 30%-33%, led by 15 million subscriber additions and tariff improvement of around 15%. Bharti increased headline tariff by 20%-25% on prepaid plans effective from 26 November 2021. In 1HFY22 Indian mobile revenue increased by 10% yoy and EBITDA 40%, on a pre-Ind AS 116 basis, supported by a 7% rise in monthly average revenue per user (ARPU) to INR153 (USD2.1) and high monthly data usage of around 19 GB per user, one of the highest globally.

Regulatory Risk Improving: The Indian government has taken several reforms leading to lower regulatory risk for Indian telcos: the decision to defer AGR and spectrum dues for four years, the prospective exclusion of non-telecom revenue from the definition of AGR, the abolition of spectrum usage charges on future spectrum auctions and the increased tenor of future spectrum assets to 30 years instead of 20 years. These regulatory actions will boost Bharti's cash flow.

Higher Capex: Fitch forecasts Bharti's capex to increase to about USD5 billion in FY22 (FY21: USD4.6 billion), of which USD1.5 billion is likely to be paid upfront to acquire 5G spectrum assets. We believe the company will also seek to strengthen its fibre infrastructure - connecting towers with fibre and backhaul infrastructure to prepare its network to launch 5G services in 2022-2023.

We believe that capex on 5G infrastructure in 2022-2023 will replace current 4G capex, as 4G coverage is largely complete. Barring a one-time 5G spectrum payment, Bharti is likely to generate positive free cash flow in FY22 on higher EBITDA generation, which should be sufficient to fund higher core capex, interest costs and taxes.

Solid African Growth: We forecast African FY22 revenue and EBITDA to rise by 12%-15%, on growth in subscribers, mobile data and mobile-money services. African revenue rose by 23% yoy in 1HFY22 and EBITDA 36%. We expect mobile data and mobile money segment to increase by 10%-15%, which together contribute around 40% of group revenue. We forecast the FY22 EBITDA margin to expand to 42%-43% (post-IFRS-16 of 48%) on growing contribution from higher-margin 4G services and mobile money will offset foreign-exchange losses.

DERIVATION SUMMARY

Bharti has stronger business profile than Indonesian telcos PT Indosat Tbk (BBB/Rating Watch Negative; Standalone Credit Profile (SCP): bb) and PT XL Axiata Tbk (XL, BBB/Stable; SCP: bb+), given its larger scale, better market position and integrated operations. Both Indosat and XL have a weaker market position with sub-20% revenue market share, as they compete with a much financially and operationally stronger leader - PT Telekomunikasi Selular, which has 50% market share. Bharti has raised significant equity in the past two years and improved cash generation. It now has a similar Fitch-forecast FY22 FFO net leverage of 1.8x-2.0x as Indosat's 2.1x-2.3x in 2022 and XL's 1.9x-2.0x in 2022.

Singapore Telecommunications Ltd (SingTel, A/Stable; SCP: a-) has a stronger business risk profile than Bharti, given its position as an integrated telecom service provider with market leadership in Singapore, the second position in Australia via SingTel Optus Pty Limited

(A-/Stable) 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. SingTel faces competitive pressure in its core Singapore and Australian markets, while it will have to spend more on capex to launch 5G services in Singapore. Fitch forecasts SingTel's FY22 FFO net leverage to be slightly weaker than Bharti's at 2.1x-2.3x.

CK Hutchison Group Telecom Holdings Limited (CKHT, BBB+/Stable; SCP: bbb-) is a diversified telco in Europe. Its SCP of 'bbb-' reflects cash flow diversification, moderated by a weak market position in highly competitive mobile markets in Italy and the UK. Fitch uses a top-down rating approach, with CKHT's IDR notched down once from that of the parent, CK Hutchison Holdings Limited (A-/Stable) to reflect the strong ties. Fitch forecasts CKHT's 2022 FFO net leverage - 2.5x-2.6x - to be higher than that of Bharti.

KEY ASSUMPTIONS

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

- Revenue to increase by 10%-12% in both FY22 and FY23, driven by subscriber additions and higher blended ARPU;

- Indian mobile blended ARPU to increase by around 15% in FY22 and another 10% in FY23 (1HFY22: INR153);

- Subscriber additions of 15 million in both FY22 and FY23;

- Consolidated operating EBITDA margin to expand to 43%-45% (FY21: 41%) on higher ARPU and subscriber additions in Indian and African markets (the EBITDA margin is based on pre-Indian accounting standard 116 accounting adjustments);

- FY22 capex/revenue to increase to 38%-40% (FY21: 33%), with the FY22 capex assumption including a 5G spectrum payment of USD1.5 billion; We have assumed that 5G spectrum auction will happen in FY22;

- Deferral of AGR and spectrum dues during FY22-FY25;

- African revenue to rise by 12%-15% in FY22, driven by growth is subscribers and the mobile data and mobile money segments. Operating EBITDA margin to expand to 43%-44% (FY21: 43%) on higher profitability in data and mobile money segment;

- Effective interest rate of 5.5%-6.0%;

- Assumed INR210 billion (USD2.8 billion) of rights issue to be received in three yearly instalments of INR53 billion in FY22 and INR79 billion each in FY23 and FY24; Bharti can demand the balance equity of INR158 billion at any point;

- Assumed one-time spectrum charge of INR55 billion as an off-balance-sheet debt.

RATING SENSITIVITIES

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

- A revision of the Outlook on the Indian sovereign to Stable would indicate that the Country Ceiling is likely to remain at 'BBB-' and therefore our Outlook on Bharti would be stabilised, provided that Bharti's FFO net leverage remains below 2.5x on a sustained basis.

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 FFO net leverage remaining above 2.5x for a sustained period.

Rating Sensitivities for the Indian sovereign from the press release published on 16 November 2021:

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

- Public Finances: Failure to put the general government debt/GDP ratio on a downward trajectory, for instance, from insufficient fiscal consolidation.

- Macro: A structurally weaker real GDP growth outlook, for instance, due to continued financial-sector weakness or reform implementation that is lacking, further weighing 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 post-pandemic general government debt down toward 'BBB' category peers levels.

- 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.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Bharti had cash and equivalents of INR130 billion (USD1.7 billion) at end-September 2021 and undrawn committed facilities, which were sufficient to pay the short-term debt maturities of INR156 billion (USD2.1 billion). Liquidity was further boosted by completion of fully subscribed USD2.8 billion equity rights issue, of which 25% was called in October 2021. The rights issue is fully underwritten by the promoter group.

Revolving facilities account for a large part of the short-term debt. Bharti has strong access to Indian and multinational banks and capital markets, as evident from its issuance of around USD9 billion of senior and perpetual bonds over the previous seven years in US dollars, euros and Swiss francs.

ISSUER PROFILE

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

SUMMARY OF FINANCIAL ADJUSTMENTS

We have excluded deferred spectrum costs from debt, as we treat such costs as capital commitments. We include annual spectrum payments in our capex forecast.

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

Should the Indian sovereign's IDRs be downgraded, the Country Ceiling may also be revised down in tandem, which would constrain Bharti's IDR and senior issue ratings to 'BB+'. If the Outlook on the sovereign's Long-Term IDRs is stabilised, the Country Ceiling is likely to remain at 'BBB-' and therefore the Outlook on Bharti's IDR will be stabilised.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

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

subordinated	LT	BB	Affirmed	BB

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria - Effective from 26 August 2020 to 1 December 2021 (pub. 26 Aug 2020)

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

Country-Specific Treatment of Recovery Ratings Criteria (pub. 05 Jan 2021)

Non-Financial Corporates Exceeding the Country Ceiling Rating Criteria (pub. 09 Jan 2021)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 16 Oct 2021) (including rating assumption sensitivity)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 16 Oct 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (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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