

Rating Action: Moody's upgrades Bharti to Baa3; Outlook stable

26 May 2022

Hong Kong, May 26, 2022 -- Moody's Investors Service has assigned a Baa3 issuer rating to Bharti Airtel Ltd. (Bharti). At the same time, Moody's has withdrawn the company's Ba1 corporate family rating (CFR).

Moody's has also upgraded to Baa3 from Ba1 the senior unsecured debt rating on the bonds issued by Bharti as well as on the backed senior unsecured notes issued by Bharti Airtel Int'l (Netherlands) B.V.

Moody's has changed the outlook on the ratings to stable from positive.

"The rating upgrade reflects the continued strengthening of Bharti's operational metrics as well as the stabilization of its financial profile, including lower leverage levels and improving profitability," says Annalisa Di Chiara, a Moody's Senior Vice President. "Moreover, we expect that these improvements can be sustained given Bharti's solid market position, rising profitability at its core Indian mobile business and prudent financial management."

RATINGS RATIONALE

Bharti's Baa3 rating considers the company's position as one of the largest telecom service operators globally in terms of subscribers (491 million), its solid market position in India's (Baa3 stable) high-growth mobile market and its large spectrum holdings. Bharti's proven ability to access capital markets and the benefits of its strong and supportive shareholder base are also reflected in the ratings.

The company reported over a 25% increase in its consolidated adjusted EBITDA to INR581 billion for the fiscal year ended 31 March 2022 compared with that in the prior year.

This reflects a growing proportional share in its 4G subscriber base and the further step-up in average revenue per user (ARPU) at the company's core Indian mobile services segment -- which contributes around 53% of consolidated EBITDA. The company's tariff increase in December 2021 helped drive ARPUs higher and supports Moody's expectation of a sustainable profitability level over the next 12-18 months.

Moody's expects a further 15%-20% increase in Bharti's consolidated adjusted EBITDA by the end of fiscal 2023, reflecting stable growth at its Indian operations and African operations, which are held through its 56%-owned subsidiary, Airtel Africa plc (Airtel Africa), and contribute around 30% of consolidated EBITDA.

While some uncertainty remains related to spectrum purchases and the funding for further 5G investments, Moody's still expects Bharti to maintain leverage measures that are consistent with an investment grade rating. This expectation is based on the trajectory of the company's profitability and the cash flow savings accruing from the moratorium of statutory dues payable to the government. The company's leverage, as measured by adjusted debt/EBITDA, also dropped to around 3.0x as of 31 March 2022 from 3.8x in 2021.

Moody's also expects investments in 5G spectrum, should an auction occur over the next few months, will not worsen the company's leverage profile. This is based on Moody's assumption that the company will largely fund its participation with cash and cash flow from operations and also has additional calls on its remaining balance under the rights issue (or up to INR158 billion). As a result, Moody's still expects consolidated leverage, to remain within the 2.5x-3.0x range in the year ending 31 March 2023.

Consolidated metrics include the full consolidation of Airtel Africa. As the subsidiary is less than wholly owned, Moody's also continues to monitor leverage and debt reduction at the Indian operations to assess the underlying operating performance of that business. Over the next 24 months, the agency expects leverage for the Indian operations on a standalone basis, as measured by adjusted debt/EBITDA, to remain below 3.5x.

OUTLOOK

The stable outlook reflects Bharti's improving operating profile credit metrics, including Moody's expectation of growing free cash flows and liquidity over the next 12-24 months, particularly at the core Indian operations. Moody's expects consolidated adjusted debt/EBITDA to remain stable or improve, even with investments in

5G spectrum, and that cash flow savings from the moratorium will continue to be redeployed to reduce debt permanently.

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

An upgrade is unlikely over the near term given the recent upgrade. However, credit metrics indicative of a higher rating level include (1) adjusted consolidated debt/EBITDA falling below 2.0x on a consistent basis, and (2) retained cash flow/adjusted debt remaining above 35% on a sustained basis. However, Bharti's ratings can be upgraded only if the sovereign rating is upgraded, because the company's ratings are capped at the sovereign's.

On the other hand, the rating could be downgraded if there is a reversal in the company's profitability, a significant deterioration in its liquidity position or any adverse changes in the competitive or regulatory environments that would derail the continued improvement in profitability, cash flows and leverage. Credit metrics that would indicate such deterioration include (1) adjusted consolidated debt/EBITDA sustaining above 3.0x or (2) retained cash flow/adjusted debt falling below 25% on a sustained basis. Moody's would also downgrade Bharti's rating if the Indian sovereign rating is downgraded.

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017 and available at <https://ratings.moody.com/api/rmc-documents/48906>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

Founded in 1994, Bharti Airtel Ltd. is the third-largest telecommunications service provider globally, based on total number of subscribers. As of 31 March 2022, it had around 491 million customers across operations in 17 countries in South Asia and Africa.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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