

Rating Action: Moody's changes Bharti's outlook to negative; affirms Baa3 ratings

Global Credit Research - 23 May 2017

Hong Kong, May 23, 2017 -- Moody's Investors Service has affirmed Bharti Airtel Ltd.'s (Bharti) Baa3 issuer rating and senior unsecured debt ratings, as well as the Baa3 ratings on the senior unsecured notes issued by Bharti Airtel International (Netherlands) B.V., which are irrevocably and unconditionally guaranteed by Bharti.

At the same time, Moody's has changed the outlook on the ratings to negative from stable.

RATINGS RATIONALE

Moody's continues to expect intense price competition over the next several quarters in the Indian telecoms sector, as operators, such as Bharti, implement plans and tariffs to protect and grow their market shares.

This competition will occur even though ongoing and transformative consolidation in the sector and Reliance Jio Infocomm Limited's (RJio, unrated) tariff plan will help stabilize the industry's average revenue per user (ARPU) over the longer term.

"While Bharti recorded 4.3% growth in reported consolidated EBITDA year-over year at 31 March 2017, the effects of intense competition in the India mobile services segment were particularly evident in the fourth quarter, as revenues and reported EBITDA for its India mobile services segment fell 11% and 19%, respectively," says Annalisa Di Chiara, a Moody's Vice President and Senior Credit Officer.

"This was partially offset by the year-over-year EBITDA growth in non-mobile services in India as well as healthy EBITDA growth in Africa," added Di Chiara.

In addition, the company's total reported debt at 31 March 2017 was INR1,074 billion, a rise of around 6.9% year-on-year, and largely a result of higher spectrum liabilities (INR439 billion versus INR341 billion at year-end 2016).

"Leverage remained elevated at year-end, resulting in adjusted debt/EBITDA of 3.3x. We expect Bharti's profitability to remain under pressure as competition remains at heightened levels over the near-term; as such, we believe that a permanent reduction in leverage to levels more appropriate for the Baa3 rating -- such that adjusted debt/EBITDA trends to 3.0x by June 2017 -- is unlikely," adds Di Chiara, also Moody's Lead Analyst for Bharti.

For year-end 31 March 2017, the company's Indian mobile services segment contributed around 59% of consolidated revenues and 64% of reported consolidated EBITDA, and remained the key driver of profitability.

Intense competition will persist over the next 12 months as we expect RJio will remain aggressive in acquiring new subscribers and growing the data market. Bharti's ability to expand profitability for its core Indian mobile operations relies on the company retaining its higher ARPU subscribers, while increasing the pace of subscriber acquisitions organically and through acquisitions.

Bharti has been able to demonstrate increasing its revenue market share for its India mobile services from 33.1% at Dec 2017 from 31.6% as at Dec 2016, according to the Telecom Regulatory Authority of India.

Overall, we expect consolidated adjusted EBITDA to contract around 5% year-over-year, reflecting the competitive pressures existent in the Indian mobile segment and somewhat offset by the stable operating performance of its African operations and its other business segments in India.

As result, we expect Bharti's adjusted debt/EBITDA will increase to 3.5x-3.6x by 31 March 2018. Although, when considering the potential additional 10% stake sale in Bharti Infratel (Infratel, unrated) -- at a similar valuation to its recent stake sale and with proceeds used entirely for debt reduction -- we estimate adjusted debt/EBITDA of 3.4x, which remains at the higher tolerance range for the rating level.

Still the affirmation of Bharti's Baa3 rating continues to reflect the company's leading market position and

strong spectrum portfolio, although we remain cautious on operating performance over the next 6-12 months.

The Baa3 rating also reflects the company's execution of and ongoing commitment to debt reduction, as evidenced by a commitment to use the proceeds from any further stake sales in Infratel for debt reduction. The company already used proceeds from a 10.3% stake sale in Infratel stake in March 2017 to reduce debt. Management's commitment to a strong balance sheet remains an integral part of its investment grade rating.

In addition, the company had around INR88 billion in unrestricted cash, investments and receivables (related to the residual portion of tower sale proceeds to be received in coming quarters).

Downward rating pressure could arise if competition intensifies further in any of its key markets, but particularly for the Indian wireless business, such that its key operations and/or subsidiaries report contracting EBITDA or margins above our expectations.

We would seek evidence of this trend with consolidated debt/EBITDA remaining above 3.25x for a sustained period; consolidated retained cash flow/adjusted debt remaining below 20%; or adjusted EBITDA margins falling below 35%. Furthermore, any unexpected adverse regulatory developments in any of Bharti's key markets will also be negative for the rating.

We would also view negatively any event risk associated with a sizeable debt-financed acquisition or other corporate activity that negatively impacts the company's existing or targeted leverage ratios.

Upwards ratings pressure is unlikely, given the negative outlook. However, the outlook could be revised to stable if Bharti's overall credit profile strengthens, such that adjusted debt/EBITDA is sustained at, or below 3.0x.

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Founded in 1994, Bharti Airtel Ltd. is the third-largest operator globally, based on total number of subscribers. As of March 2017, it had 372 million customers across operations in 17 countries across South Asia and Africa. Bharti listed on the Bombay Stock Exchange and National Stock Exchange in 2002.

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