bharti

September 28, 2021

National Stock Exchange of India Limited
Exchange Plaza, C-1 Block G
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051, India

Ref: Bharti Hexacom Limited

Sub: Intimation w.r.t. upward revision in the Credit rating under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations')

Dear Sir/Madam,

In terms of the provisions of Regulation 51 of Listing Regulations, we hereby inform the following revision in the Credit Rating for the Company:

Credit Rating Agency	Type of Credit Rating	Existing Credit Rating	Revised Credit Rating
CRISIL Ratings Limited	Long Term Rating	'CRISIL AA/Stable'	'CRISIL AA+/Stable'

The report from the Credit Rating Agency covering the rationale for revision in Credit Rating, is enclosed.

Kindly take the same on record.

Thanking you,
Sincerely yours,

For Bharti Hexacom Limited

Swati Batra
Company Secretary

Bharti Hexacom Limited
(A Bharti enterprise)
[CIN: U74899DL1995PLC067527]
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Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

September 28, 2021 | Mumbai

Bharti Hexacom Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; short term rating reaffirmed

Rating Action

Rs.2000 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Stable')**
Rs.1500 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Stable')**
Rs.3500 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the non-convertible debentures of Bharti Hexacom Limited (BHL) to **'CRISIL AA+/Stable'** from 'CRISIL AA/Stable'. The commercial paper has been reaffirmed at 'CRISIL A1+'.

The rating action follows similar rating action on the company's parent, Bharti Airtel Ltd (BAL, 'CRISIL AA+/Stable/CRISIL A1+) and reflects continued improvement in BAL's operating metrics resulting in healthy financial risk profile. CRISIL Ratings expects further improvement in the overall credit risk profile of the company over the near to medium term on the back of improving cash accruals, deleveraging plans including rights issue, notwithstanding adjusted gross revenue (AGR) dues and additional expenditure done for acquiring spectrum at the auction held in March 2021.

BAL's consolidated earnings before interest, tax, depreciation and amortization (EBITDA; including impact of Ind-AS 116 and excluding other income) grew by ~22% on-year to Rs 12,980 crore in the first quarter of fiscal 2022, aided by healthy subscriber addition of mobility business over the past few quarters and improving average revenue per user (ARPU). Over the last four quarters ended June 2021, BAL has added around 4.6 crore 4G customers. The company has the highest ARPU for India mobile services in the industry, at Rs 146 during the quarter through June 2021. Moreover, the EBITDA margins of the India and Africa mobile service businesses improved by over 850 basis points (bps) on-year to ~49% and ~400 bps on-year to ~48% respectively during the quarter. CRISIL Ratings expects the ARPUs to improve, aided by recent revisions in some plans and up-trading by subscribers, resulting in further improvement in operating revenue and profit. CRISIL Ratings also believes that a broad based tariff hike as was last seen in December 2019, is likely within next 6-9 months.

BAL acquired 355.45 MHz spectrum across sub-GHz, mid-band and 2,300 MHz bands for Rs 18,699 crore in the latest spectrum auction that concluded on March 2, 2021. The company has made upfront payment of Rs 6,983 crore and will pay the remaining in 16 years after a moratorium of 2 years.

BAL has been able to maintain its leverage (net Debt to EBITDA[1]) at around 3 times as of June 30, 2021 despite AGR dues and additional spectrum liabilities, on account of rapidly improving business performance and deleveraging measures undertaken.

BAL's management has been proactive in taking deleveraging measures including fund raising, stake sales and monetization of assets. For instance, Airtel Africa Plc has sold its stake worth USD 500 million in Airtel Money this fiscal. Furthermore, it also sold its tower portfolio belonging to Airtel Tanzania and entered into agreements for sale of its tower assets in Madagascar, Malawi, Chad and Gabon subject to customary closing conditions including required regulatory approvals as applicable.

Moreover, on August 29, 2021, BAL's board approved raising funds through rights issue of up to Rs 21,000 crore. Of this, ~25% will be raised in October 2021 and the balance in two additional tranches in the next 24 to 36 months. Thus, leverage is likely to improve to below 2.5 times by end of fiscal 2022, aided by continuing healthy operating performance and deleveraging plans.

CRISIL Ratings believes participation in the 5G spectrum auction (as and when announced) could be limited at current reserve prices. Besides, capex to build 5G network should not materially change capex outgo from the current levels. Any significant increase in investments towards 5G roll-out will be cushioned by the already announced rights issue. Hence, net leverage will sustain below 2.5 times.

BAL, along with other telecommunication companies (telcos), had filed a review petition in the Supreme Court contesting an arithmetical error made by the department of telecommunications in computing the AGR dues. On July 23, 2021, the Supreme Court pronounced its judgment/order, whereby the applications filed by the telcos for correction of errors were dismissed. The Company had then filed a review petition against the order/judgment which is pending adjudication as on date. Outcome of the same will be monitored. In the meanwhile, CRISIL Ratings has factored in full liability, as provisioned by BAL.

The ratings continue to reflect the strong operational, financial and managerial support to Bharti Hexacom from BAL and its healthy market position in Rajasthan and Northeast telecom circles. These strengths are partially offset by improving, though modest, financial risk profile and company's exposure to regulatory as well as technological risks.

On September 15, 2021, the Union Cabinet approved several structural and process reforms in the telecom sector and provided various relief measures to telcos. While the finer details of these measures are awaited, CRISIL Ratings believes that these reform and relief measures will ease out cash flows and will ensure optimal usage of resources, increase their accessibility and enable accelerated investments in the telecom sector.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of Bharti Hexacom. CRISIL Ratings has also factored in the parent notch-up criteria to factor in the company's high strategic importance to, and strong operational and financial linkages with, the parent, BAL

Key Rating Drivers & Detailed Description

Strengths:

Strong operational, financial and managerial support from the parent

Bharti Hexacom accounted for about 8% of BAL's total subscriber base as of July 2021, as per data from TRAI (Telecom Regulatory Authority of India). It provides flagship wireless services under the Airtel brand in Rajasthan and the Northeast. These circles are key to BAL's overall business strategy of being a pan-India player. The parent exercises management control over the company and the full integration of operations, including common brand, products, operations and common treasury, strengthens credit risk profile.

Healthy market position in Rajasthan and Northeast telecom circles

Bharti Hexacom enjoys a strong market position, with a subscriber market share of ~35% as on July 31, 2021. Overall, the company has shown resilience against competitive pressures by holding a subscriber base of about 2.71 crore as on July 31, 2021 (as per TRAI).

Weaknesses:

Improving, yet modest, financial risk profile

Profitability was severely impacted during fiscals 2018 and 2019 due to heightened competitive intensity. However, profitability has improved over last one year, on account of improvement in ARPU (average revenue per user).

Low profitability and continued capex over the past few fiscals constrained debt protection metrics. Financial risk profile should improve over the medium term with further increase in margin and lower capex intensity. The company will, however, continue to benefit from financial flexibility arising from strong linkage with BAL.

Exposure to regulatory and technological risks

Regulatory and policy changes have played a central role in defining the risk characteristics of the Indian telecom sector. The sector is extremely dynamic structurally and therefore the risks pertaining to regulatory intervention will persist.

The telecom industry also remains susceptible to technological changes. New technology in the telecom industry could necessitate fresh investments or overhaul of existing networks. The advent of 4G, for instance, has seen operators investing substantially in upgrading infrastructure even before they had made significant gains on investments in 3G. However, with the transition to 5G, players may need to incur significant capex for acquiring spectrum, though with the advanced technology incremental expenditure on network equipment is expected be limited. CRISIL Ratings understands that BAL had already started investing towards 5G capabilities including fibre and networks. Thus, 5G rollout shouldn't see significant rise in capex requirements from the current levels.

Liquidity: Strong

Liquidity was around Rs 60 crore as on March 31, 2021. However, the company should be able to meet debt obligation largely through healthy cash accrual expected over the medium term. Besides, high financial flexibility enables it to raise short- and long-term debt from banks and capital markets at competitive rates to service debt or capex, whenever required.

Outlook: Stable

Bharti Hexacom will continue to benefit from its strong operational, managerial and financial linkages with BAL and high financial flexibility it derives from the parentage.

Rating Sensitivity Factors

Upward factors

- Improvement in operating profit for the mobile segment in India and Africa amidst steady performance in other businesses
- Sustenance of BAL's net leverage at below 2 times, led by increase in cash accrual and timely execution of funding and deleveraging plans

Downward factors

- Decline in operating profit leading to BAL's leverage remaining above 2.5 times
- Larger-than-expected capex because of technological changes or debt-funded spectrum acquisition constraining the financial risk profile

About the Company

Incorporated in 1995, Bharti Hexacom, a subsidiary of BAL, provides wireless services in Rajasthan and Northeast India. The parent acquired a 68.5% stake in Bharti Hexacom in fiscal 2004 and increased the share to 70% in fiscal 2009. The remaining 30% is owned by Telecom Consultants of India, a wholly owned undertaking of the Government of India. Bharti Hexacom had about 2.71 crore subscribers as on July 31, 2021.

About the Group

Headquartered in India, BAL is a global communications solutions provider with over 474 Mn customers in 18 countries across South Asia and Africa. The company ranks amongst the top three mobile operators globally and its networks cover over two billion people. Airtel is India's largest integrated communications solutions provider and the second largest mobile operator in Africa. Airtel's retail portfolio includes high speed 4G/4.5G mobile broadband, Airtel Xstream Fiber with convergence across linear and on-demand entertainment, streaming services spanning music and video, digital payments and financial services. For enterprise customers, Airtel offers a gamut of solutions that includes secure connectivity, cloud and data centre services, cyber security, IoT, Ad Tech and cloud based communication.

The company had 32.1 crore mobile subscribers in India as on June 30, 2021, and 12.1 crore in Africa. In fiscal 2017, the company merged its Bangladesh operations with Robi Axiata Ltd, a unit of Axiata Group Berhad; the former holds 28.2% stake in the merged entity.

[1] *Net debt is calculated on the basis of gross debt including lease obligations minus cash and equivalents. Net debt to EBITDA is calculated based on last quarter annualised EBITDA.*

Key Financial Indicators

Particulars	Units	2021	2020
Operating income	Rs.Crore	4602	3874
Profit After Tax (PAT)	Rs.Crore	-1034	-2716
PAT Margin	%	-22.4	-70.1
Adjusted debt/adjusted networth	Times	2.9	1.6
Adjusted Interest coverage	Times	2.5	2.7

Note: Above numbers are adjusted for CRISIL Ratings analytical treatment and may not represent the numbers reported by the company.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	3500.00	Simple	CRISIL A1+
INE343G08026	Non-convertible debentures	23-Aug-2021	5.9% p.a.	30-Apr-2024	2000.00	Simple	CRISIL AA+/Stable
INE343G08018	Non-convertible debentures	21-Jan-2021	6% p.a.	19-Jan-2024	1500.00	Simple	CRISIL AA+/Stable

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	3500.0	CRISIL A1+	16-08-21	CRISIL A1+	23-12-20	CRISIL A1+	22-11-19	CRISIL A1+		--	--
			--	12-01-21	CRISIL A1+	25-09-20	CRISIL A1+	01-11-19	CRISIL A1+		--	--
			--		--	24-02-20	CRISIL A1+	15-01-19	CRISIL A1+		--	--
			--		--	17-01-20	CRISIL A1+		--		--	--
			--		--	13-01-20	CRISIL A1+		--		--	--
Non Convertible Debentures	LT	3500.0	CRISIL AA+/Stable	16-08-21	CRISIL AA/Stable		--		--		--	--
			--	12-01-21	CRISIL AA/Stable		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Mobile Telephony Services
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ("CRISIL Ratings") is a wholly-owned subsidiary of CRISIL Limited ("CRISIL"). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011 to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratiings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: www.crisil.com/ratings/credit-rating-scale.html