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Fitch Ratings: Rising Tariffs, Asset Sales Support Bharti's Outlook

Fitch Ratings-Singapore-03 February 2019: Bharti Airtel Ltd's (BBB-/Stable) planned asset sales, including a potential initial public offer of its African entity and the sale of its stake in the Indus-Infratel tower company, as well as an imminent mobile tariff recovery in India are likely to help ease pressure on leverage and support its Stable Outlook, says Fitch Ratings.

We expect Bharti to raise at least USD3 billion from these asset sales in the next 12 months, which would relieve pressure on its FFO-adjusted net leverage, which is nearing the 2.5x threshold above which we will consider negative rating action. We expect that the incumbent operators' introduction of a minimum mobile tariff of INR35 (USD0.50) a month, higher data usage and easing competition from newcomer Reliance Jio will drive an increase in average industry tariff by at least 10% to USD1.60 in 2019.

We forecast Bharti's revenue and EBITDA for the financial year to March 2020 (FY20) to rebound as data usage and tariffs rise. It reported blended 3Q average revenue per user (ARPU) of INR104 compared with INR100 a quarter earlier, but more importantly, ARPU was INR118 in December as its minimum mobile tariff started to take effect. We estimate that a significant portion of 100 million subscribers who spend less than USD0.50 a month will spend more on mobile services, which will support tariff recovery.

We believe Bharti's management is committed to maintaining an investment-grade rating and is seeking to deleverage the company's balance sheet. We think Bharti will raise about USD1.1 billion-1.2 billion through an initial public offering of its African entity in mid-2019, after raising about USD1.45 billion through a private placement in 2HFY19. We also expect it to raise additional funds through the sale of its stake in the merged tower entity of Indus-Infratel. The tower companies are in the process of merging, subject to regulatory approval expected before April 2019. Further, Bharti announced in December 2018, that its board is considering various fund raising options to deleverage the balance sheet.

Bharti's African business has performed better than we expected, and we forecast FY19 revenue and EBITDA to increase by around 10% and 30%, respectively, driven by stable tariffs, rising data usage and growing adoption of e-wallet services. We expect Bharti to further strengthen its market position in some smaller African markets, after having achieved number one or a number two in 12 out of its 14 markets.

Our stable outlook on the sector reflects expectations of ARPU recovery as Reliance Jio would have less incentive to keep tariffs low once it achieves revenue market share of around 30% by mid-2019, similar to Bharti's share of around 32%-33%. The market share of the other incumbent operator, Vodafone-Idea, is likely to fall below 30% in 2019. Indian consumers can afford to spend more on mobile services. This is evident from average monthly user data consumption increasing 10 times since Jio's market entry, even though average industry tariff declined by over 50%. Data consumption has been driven by the cheaper tariff and proliferation of more affordable Chinese smartphones.

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