

Brief Rationale
Emtel Limited (“Emtel”)
CRAF reaffirms the rating assigned to the Bond Issues of Emtel.

Ratings

Instrument	Amount (MUR Million)	Rating	Rating Action
Bond Issue	1,000	CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Bond Issue	1,150	CARE MAU AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed

Rating Rationale

The rating continues to derive strength from the strong parentage of Currimjee group and Bharti group, extensive experience of both groups in the telecom sector, Emtel Limited’s (“Emtel”) strong brand presence with its position as the second largest player in the Mauritian telecommunication market, integrated telecommunications operations, additional income in the form of dividend from EMVision Ltd, economies of scale in procurement with the Bharti and Currimjee groups, established & reasonably large subscriber base, robust spectrum profile, strong distribution network allowing consistent growth in subscriber base and growth in usage of data and moderate financial position along with comfortable debt coverage & liquidity indicators. CRAF has also considered the very strong articulation by Emtel’s management to restrict dividend pay-out in future years.

The rating is constrained by increasing competition among existing service providers, capital intensive nature of the industry leading to significant capital expenditure, high exceptional dividend pay-out ratio leading to depletion in net worth for last 2 years and its exposure to regulatory and obsolescence risks.

In March 2020, Emtel acquired 90% stake in EMVISION Ltd., which holds 52.94% stake in MC Vision Ltd which is a debt free and cash generating company with a consistent dividend paying track record for last 5 years. The total cost of the acquisition of MUR 1,150 million, was funded by raising a Bond of MUR 1,150 million. This fully debt funded acquisition coupled with high dividend pay-out ratio will negatively impact the projected debt coverage ratios over next few years.

The rating is sensitive to the company’s ability to sustain profitability, maintain & increase market share in the Mauritian telecom market, improve its capital structure & net worth and timely execution of the projects within stipulated cost.

BACKGROUND

Emtel Limited (“Emtel”) was incorporated in July 1987 by the Currimjee group (currently owning 75% stake in Emtel). In May 1989, Emtel became the first operator to commercially launch mobile telephony in

CARE Ratings (Africa) Private Limited

Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius

BRN: C14127054

Telephone: +230 59553060/58626551

FSC License No.: CR14000001

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the whole southern Hemisphere as an international joint venture of the two groups, the Currimjee Jeewanjee Group of Mauritius and a Swedish company, Comvik which later went on to become Millicom International Cellular (MIC) S.A, a global telecommunications group based in Luxembourg. In 2014, the Currimjee group procured the entire stake of Millicom in Emtel. In 2015, Emtel partnered with Bharti Airtel Limited, India's leading provider with operations in 20 countries across Asia and Africa. As such, Indian Continent Investment Limited, (ICIL) a promoter entity owned by the Bharti group of India acquired 25% stake in Emtel. Emtel was also one of the founding partners of Bharti Cellular in India which is now branded as Airtel the third largest mobile operator in the world. Emtel signed a Technical Services Agreement with Bharti Airtel Limited to benefit from the technical and commercial knowhow and business support of Airtel in various areas.

The popularization of the mobile phone in Mauritius had a direct increase in demand for Emtel's services, it being the only mobile phone operator of the Island until 1996 (when Cellplus Mobile Communications Ltd belonging to Mauritius Telecom - GoM owned company, entered the market). Emtel has been in the forefront in technology and innovation.

Mauritius has 3 telecom service providers (MyT, Emtel and MTML) and Emtel is the second largest telecom service provider after MyT in the country. As on December 31, 2020, Emtel (as per Emtel's calculation based on traffic on the network and national numbering plan for mobile) had 42.3% market share of mobile subscribers in Mauritius (with an estimated total mobile subscriber in Mauritius at 1.54 million). However, as per the mobile telephony services data published in Information and Communication Technologies Authority ("ICTA") and Statistics of Mauritius website, total mobile cellular subscriptions of Mauritius were 1.91 million for 2020. Considering that data, Emtel's market share would be 34% for 2020.

Emtel has 23 showrooms across the Republic of Mauritius (including 1 in Rodrigues) and provides mobile telecom services (voice, SMS, mobile data to prepaid & post-paid subscribers), home broadband, fixed line, enterprise business solutions.

Management: Emtel is a professionally managed company. It is governed by a 7-member Board of Directors comprising of eminent industrialists and professionals.

Emtel has completed the acquisition of 90% stake in EMVision Ltd ("EMVISION") from its promoter Currimjee Jeewanjee & Co in March 2020. The balance 10% stake in EMVISION Ltd will remain with the existing shareholder, La Sentinelle Ltd. EMVision Ltd is an investment holding company which holds 52.94% stake in MC Vision Ltd ("MC Vision"), a cashflow generating company. EMVision does not hold any other investment and does not have any other business activity. It is a debt free company and only

source of income is in the form of dividends from MC Vision. To finance the acquisition, bonds worth MUR 1,150 million has been raised.

Emtel reported a satisfactory performance for the financial year 2020 following the pandemic and lockdown. The subscriber base decreased from 657,116 in FY19 to 648,521 in FY20. The decrease was mainly from the drop in prepaid customers from 568,922 in FY19 to 555,992 in FY20. Emtel's turnover decreased by 4.5% from MUR 3,238 million in FY19 to MUR 3,091 million in FY20. However, EBIDTA increased to MUR 1,419 million (MUR 1,378 million in FY19) and PAT to MUR 552 million in FY20 (MUR 477 million in FY19) due to dividend income of MUR 71 million from EM Vision and an exceptional income of MUR 40 million for solidarity levy following the judgement on the case MT vs MRA. During FY20, GCA was comfortable at Mur 1,184 million vis-a-vis annual debt repayment obligation of MUR 387 million. Total debt/EBIDTA and Total debt/GCA were also comfortable at 1.0-2.0x times excluding the impact of finance lease. The average fund based working capital utilization was at 23% during the last 12 months ended March 2021 and at 19% for the year 2020 (Jan 2020 till Dec 2020).

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facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure I

Long /Medium-term Instruments

<i>Symbols</i>	<i>Rating Definition</i>
CARE MAU AAA	Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU AA	Instruments with this rating are considered to have high degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry very low credit risk.
CARE MAU A	Instruments with this rating are considered to have adequate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU BBB	Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations, in Mauritius. Such instruments carry moderate credit risk.
CARE MAU BB	Instruments with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU B	Instruments with this rating are considered to have high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU C	Instruments with this rating are considered to have very high risk of default regarding timely servicing of financial obligations, in Mauritius.
CARE MAU D	Instruments with this rating are in default or are expected to be in default soon.

Modifiers {'+' (plus) / '-'(minus)} can be used with the rating symbols for the categories CARE MAU AA to CARE MAU C. The modifiers reflect the comparative standing within the category. A suffix of '(SO)' may be added to the rating indicating that the instrument / facility is a "Structured Obligation". A prefix of 'Provisional' may be added to a 'SO' rating indicating that the rating is subject to completion of certain conditions.

Rating Outlook

The rating outlook can be ‘Positive’, ‘Stable’ or ‘Negative’.

A ‘Positive’ outlook indicates an expected upgrade in the credit ratings in the medium term on account of expected positive impact on the credit risk profile of the entity in the medium term.

A ‘Negative’ outlook would indicate an expected downgrade in the credit ratings in the medium term on account of expected negative impact on the credit risk profile of the entity in the medium term.

A ‘Stable’ outlook would indicate expected stability (or retention) of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

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