

Emtel Limited ("Emtel")

CRAF assigns CARE MAU AA (Stable) rating to the Proposed Bond Issue of Emtel Limited ("Emtel") 6 June 2019

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	Rating Action
Bond Issue	1,000.00	CARE MAU AA; Stable [Double A; Outlook: Stable]	Assigned
Total	1,000.00		

Rating Rationale

The rating derives strength from the strong parentage of Currimjee group and Bharti group, extensive experience of both groups in the telecom sector, Emtel's strong brand presence with its position as the second largest player in the Mauritian telecommunication market, integrated telecommunications operations, economies of scale in procurement with the Bharti and Currimjee groups, with an established & reasonably large subscriber base, robust spectrum profile, strong distribution network allowing consistent growth in subscriber base and growth in usage of data and strong financial position along with comfortable debt coverage & strong liquidity indicators. CRAF has also taken into account the very strong articulation by Emtel's management to restrict dividend payout in future years.

The rating is, however, 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 network for last 2 years and its exposure to regulatory and obsolescence risks.

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 & network and timely execution of the projects within stipulated cost. Going forward, high dividend pay-out ratio leading to depletion of network and higher than envisaged overall gearing may trigger a rating downgrade scenario.

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 the whole southern Hemisphere as an international joint venture of the two pioneering groups, the Currimjee Jeewanjee Group of Mauritius and a Swedish company, Comvik which later 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 also 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.

Popularization of the mobile phone in Mauritius had a direct increase in demand for Emtel's services, it being the

¹Complete definitions of the ratings assigned are available at www.careratingsafrica.com.

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. As at 31st March 2019, Emtel with a mobile subscriber market share of some 40% occupies a revenue market share of 35% of the mobile telecom sector in Mauritius. Mauritius has 3 telecom service providers (Mauritius Telecom, Emtel and MTML, with Emtel being the second largest telecom service provider in Mauritius).

Emtel has 21 showrooms across the island including Rodrigues and provides mobile telecom services (voice, sms, VAS, Mobile data to prepaid & postpaid subscribers), home broadband, fixed line, enterprise business solutions. Emtel is a professionally managed company. It is governed by a 8 member Board of Directors comprising of eminent industrialists and professionals.

In FY18 (Jan 1 – Dec 31), Emtel posted a PAT of MUR 418 million (MUR 238 million in FY17) on a revenue of MUR 3,005 million (MUR 2,740 million in FY17). Interest coverage was 20.97x in FY18.

Overall gearing ratio has deteriorated over last three account closing dates (0.66 as on December 31, 2016 to 1.23 as on December 31, 2018) due to debt availed for capital expenditure and exceptionally high payment of dividend of MUR 616 million in FY18 (MUR 364 million in FY17) leading to decline in networth in FY18. During the projected period, the management has very strongly stated that the dividend payout ratio will be subject to availability of cash post debt repayment.

During FY16-FY18, GCA was comfortable in the range of MUR 870 -970 million vis-a-vis annual debt repayment obligation of MUR 300 million. GCA was MUR 977 million in FY18 vis-à-vis debt repayment obligation of MUR 287 million.

Total debt/EBIDTA was comfortable at 1.00x times. The average fund based working capital utilisation was at 45-50% during the last 12 months ended March 2019, as confirmed by the management.

Purpose of the proposed Bond issue: As on December 31, 2018, Emtel has long term debt of MUR 837 million and short-term debt of MUR 350 million from various banks. In June 2019, Emtel proposes to issue a Bond of MUR 1,000 million, the proceeds of which will be used to refinance its existing debt and for capital expenditure. The Bond is proposed to be repaid in two equal tranches of MUR 500 million in 2024 and 2026.

Disclaimer

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CARE Ratings (Africa) Private Limited

(Subsidiary of CARE Ratings Ltd.)
 Registered Office: 5th Floor, MTML Square, 63, Cyber City, Ebene, Mauritius
 Phone: +230 59553060/58626551 • www.careratingsafrica.com
 BRN: C14127054 • FSC License No.: CR14000001

Annexure I**Long / Medium-term Instruments**

Symbols	Rating Definition
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.

Short term Instruments

Symbols	Rating Definition
CARE MAU A1	Instruments with this rating are considered to have very strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry lowest credit risk.
CARE MAU A2	Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry low credit risk.
CARE MAU A3	Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry higher credit risk as compared to instruments rated in the two higher categories.
CARE MAU A4	Instruments with this rating are considered to have minimal degree of safety regarding timely payment of financial obligations, in Mauritius. Such instruments carry very high credit risk and are susceptible to default.
CARE MAU D	Instruments with this rating are in default or expected to be in default on maturity.

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE MAU A1 to CARE MAU A4. The modifiers reflect the comparative standing within the category.

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Contact us**Contact**

Name : Mr. Saurav Chatterjee
Title : Chief Executive Officer
Phone : + 230 5862 6551
E-mail : saurav.chatterjee@careratingsafrica.com

Analytical contact

Name : Mr. Vidhyasagar Lingesan
Title : Chief Rating Officer
Phone : +230 5955 3060
E-mail : vidhya.sagar@careratingsafrica.com

About CARE Ratings (Africa) Private Limited:

CARE Ratings (Africa) Private Limited (CRAF) is the first credit rating agency to be licensed by the Financial Services Commission of Mauritius in May 2015. It is also recognized by Bank of Mauritius as External Credit Assessment Institution (ECAI) from May 2016. CRAF is also licensed by Capital Markets Authority of Kenya to operate as a Credit Rating Agency in Kenya. CRAF intends to expand across other geographies in Africa with Mauritius as its hub of operations. With an equitable position in the Mauritius capital market, CARE Ratings (Africa) Private Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

CRAF's shareholders are CARE Ratings Limited, African Development Bank, MCB Equity Fund and SBM (NFC) Holdings Limited.

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CRAF's Rating Committee consist of full-time members comprising of Senior Rating officials from CARE Ratings Limited and a panel of experienced professionals from Mauritius and African Development Bank.

CRAF has had a pivotal role to play in developing bank debt and capital market instruments including MMIs, corporate bonds and structured credit.

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