

Emtel Limited ("Emtel")
12 August 2021

Ratings

Facilities/Instruments	Amount (Mur Million)	Rating ¹	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
Total	2,150		

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 3 years and its exposure to regulatory and obsolescence risks.

Rating sensitivities

Positive factors that could, individually or collectively, lead to positive rating action/upgrade

- Improvement in operational & financial performance of company including overall gearing
- Steady increase in subscriber based both in Emtel and MC Vision.
- Higher dividend from EM Vision

Negative factors that could, individually or collectively, lead to negative rating action/downgrade

- Higher Quantum of Capex (than projected) required for improvement in services and its funding plan
- Higher than projected dividend payment
- Deterioration in profitability, overall gearing and Total Debt/EBIDTA

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 groups, the Currimjee Jeewanjee Group of Mauritius, and a

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

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 [Moody's – Ba1 rating with positive outlook in November 2021], 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 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 of 31st December 2021, Emtel had a mobile subscriber market share of approximately 34% of the mobile telecom sector in Mauritius (total mobile subscribers in Mauritius are 1.97 million). 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.

Performance in FY21: Emtel's performance was impacted by the pandemic and lockdown in FY21. Despite the slight increase in revenue from MUR 3,091 million in FY20 to MUR 3,129 in FY21, EBIDTA and PAT were lower at MUR 1,386 million and MUR 380 million respectively compared to FY20 with EBIDTA and PAT being at MUR 1,419 million and MUR 552 million respectively. This resulted from higher borrowing costs and higher depreciation charged for the year. Emtel witnessed a drop in revenue from voice and roaming while product sales were higher for the year. Nevertheless, the company's subscriber base witnessed an increase. Emtel received dividend income of MUR 47 million from EM Vision during the year.

Total debt/EBIDTA and Total debt/GCA were higher at 2.52x times and 3.17x times in FY21 (excluding the impact of finance lease) compared to 1.95x times and 2.34x times in FY20. In FY21, overall gearing increased to 2.43x times due to additional debt availed by Emtel on behalf of a 100% subsidiary for land acquisition. In February 2022, the subsidiary repaid the total amount to Emtel.

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(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

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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.

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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.

CRAF gets its technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings Limited on an ongoing basis. CARE Ratings Limited, with an established track record of rating companies over almost three decades, follows a robust and transparent rating process that leverages its domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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