

## AircelCellular Limited

November 16, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	<b>17,479</b>	CARE D	Revised from CARE BB+ (SO); Negative (Double B Plus [Structured Obligation]; Outlook: Negative)
<b>Total</b>	<b>17,479</b> (Rupees Seventeen Thousand Four Hundred and Seventy Nine Crore Only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings are based on a consolidated view on the credit risk profiles of Aircel Limited (AL) and its wholly-owned subsidiaries, namely Aircel Cellular Limited (ACL), Dishnet Wireless Limited (DWL) and Aircel Smart Money Limited (ASML), as all the companies operate under common management and are characterized by high level of business integration. AL, ACL, DWL and ASML are hereinafter collectively referred to as "Aircel".

The revision in the ratings assigned to the bank facilities of Aircel take into account the delays in servicing of its debt obligations.

Going forward, the ability of the company to service its debt obligations in a timely manner, finalization of its new business plan after discussions with the lenders and any change in regulations affecting the business and the telecom industry shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### *Delays in servicing of debt obligations*

The company has delayed in repayment of interest on its debt obligations on account of its weak liquidity position as a result of its continuing weak operational performance in the hyper competitive telecom sector.

##### *Deterioration in the operational performance of Aircel*

The Indian telecom sector is witnessing intense competition with the launch of services by Jio. The competitive pressure has led to stress on the cash flows and profitability of the incumbents. Gross revenue of the telecom sector for the quarter ended on March 31, 2017 was moderated by around 7% on y-o-y basis. Although, Aircel has reported a 6% growth on y-o-y basis in the number of subscribers, Average Revenue per User (ARPU) and PBILDT margin have consistently shown a downward trend leading to deterioration in its financial risk profile.

PBILDT for CY16 moderated to Rs.598 crore as against Rs.1429 crore in CY15. Loss for CY16 doubled to Rs.4319 as against a loss of Rs.2215 crore in CY15. The ability of Aircel to improve its operational performance in the current industry scenario will be critical and will continue to be a key rating monitor.

##### *Highly competitive business environment and exposure to regulatory risk*

The Indian telecom sector is witnessing a lot of volatility for the past few quarters with the launch of commercial services by Jio. The sector has seen continuing and intensifying competition which has resulted in consolidation among the players, with a few of the minor players exiting the telecom business while some others merging their businesses with larger players. The data services bundled with free voice services offered by the newest entrant have cannibalized both

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

voice and data revenue stream of telecom service operators. With the ongoing tariff war among telecom service operators, ARPU's are showing a consistent downward trend. Revenue growth, as a result is also expected to be moderated, as telecom operators are offering very competitive service plans. This will also impact the government's share of revenue from the telecom sector as the government earns license fees based on the revenue of the telecom companies and taxes and levies.

### Key Rating Strengths

#### ***Long track record of the group***

Aircel started its operations with the launch of services in the Chennai circle in 1995. Since then, the company had expanded its operations and became a pan-India player. As on March 31, 2017, Aircel (AL, ACL and DWL) is present in 22 circles with a total subscriber base of around 90.9 million.

**Analytical approach:** The ratings consider a consolidated view on credit risk profiles of Aircel Limited and its wholly-owned subsidiaries namely Aircel Smart Money Limited, Aircel Cellular Limited and Dishnet Wireless Limited.

### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

AL, together with two of its wholly owned subsidiaries ACL and DWL, provides 2G wireless telecom services in all the 22 circles of India and 3G services in 13 circles. ASML, another wholly owned subsidiary of AL, provides mobile banking services. As on March 31, 2017, Aircel has a subscriber base of approximately 90.9 million.

MCB, through Global Communication Service Holdings Limited and Deccan Digital Networks Private Limited, effectively holds approximately 73.99% equity interest in AL.

Brief Financials (Rs. crore)	CY15 (A)	CY16 (A)
Total operating income	11433	11630
PBILDT	1429	598*
PAT	(2215)	(4319)
Overall gearing (times)	NM	NM
Interest coverage (times)	0.80	0.52

\*PBILDT arrived at Rs. 598 crore after including the BWA sale related regulatory payouts of Rs. 339 crore, excluding the same PBILDT comes out to Rs. 936 crore.

CY: Calendar Year, A: Audited, NM: Not Meaningful

### Status of non-cooperation with previous CRA:

Not Applicable

### Any other information:

Not Applicable

### Rating History for last three years:

Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-BG/LC	-	-	-	3750.00	CARE D
Term Loan-Long Term	-	-	FY 24	13729.00	CARE D

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT-BG/LC	LT	3750.00	CARE D	1)CARE BB+ (SO); Negative (11-Oct-17) 2)CARE BBB- (SO) (Under Credit watch with Negative Implications) (28-Aug-17) 3)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (07-Jul-17)	1)CARE A- (SO) (Under Credit Watch) (21-Sep-16) 2)CARE A- (SO) (15-Jul-16)	1)CARE A- (SO) (13-Jul-15)	1)CARE BBB+ (SO) (19-Aug-14)
2.	Term Loan-Long Term	LT	13729.00	CARE D	1)CARE BB+ (SO); Negative (11-Oct-17) 2)CARE BBB- (SO) (Under Credit watch with Negative Implications) (28-Aug-17) 3)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (07-Jul-17)	1)CARE A- (SO) (Under Credit Watch) (21-Sep-16) 2)CARE A- (SO) (15-Jul-16)	1)CARE A- (SO) (13-Jul-15)	1)CARE BBB+ (SO) (19-Aug-14)

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