

### Best of both worlds

- Bharti's consolidated revenue/EBITDA grew by 4.3/5.3% QoQ; marginally above estimates led by beat in Africa. Operating performance was subdued in India wireless led by Covid with flat subscriber base QoQ and 5mn 4G additions (avg 14mn over Q2-Q4FY21). We believe this is transitional. ARPU increased by modest ~0.6% QoQ. Performance was better than covid impacted Q1FY20. Jio reported 14mn net adds and flat ARPU QoQ.
- We see Bharti as a structural growth story for the next 4-5 years. This growth in our view will be a 2-phase process. In the first phase it would be a combination of subscriber growth and ARPU uptick (8-10% CAGR) over next 2-3 years. ARPU CAGR could be higher for a three-private player market structure to sustain. In parallel, we expect Bharti to capitalize on alternate revenue streams viz. FTTH, enterprise, content, payment, healthcare, education etc either in partnership with other players that ride on the telcos infrastructure or by competing them. Reiterate BUY with TP of Rs 758 @ 10/6x Jun-23E EV/EBITDA for India Wireless/Africa (vs. Rs 698 @ FY23E EV/E).

### Operating and Financial highlights – Subdued but transitional

**Consolidated revenues** were at Rs 268.5bn, +4.3% QoQ. EBITDA at Rs 129.8bn, +5.3% QoQ. Margin stood at healthy 48.3%. **India business** revenue at Rs 188.3bn was +2.7% QoQ and EBITDA at Rs 92.7bn is +3.4%. **India wireless business** revenue/EBITDA grew by 1.6/5.1% QoQ. ARPU at Rs 146 was +0.5% QoQ whereas subscribers were flat. Data usage at 19GB/mth grew by healthy 13.7/12.4% YoY/QoQ. **Africa** revenue/EBITDA grew by healthy +7.6/+8.3% QoQ.

**Capex** was Rs 66bn (India Rs 58bn) and Mobile business Rs 44bn. FY21 capex stood at Rs 242bn. **Operating FCF** (EBITDA less capex) was Rs 66bn and FCF ~Rs 45bn. **Net debt** stands at Rs 1.6tn viz. +Rs 11k QoQ due to acquisition of spectrum in auctions.

### Q1FY22 Result (Rs Mn)

| Particulars       | Q1FY22  | Q1FY21    | YoY (%) | Q4FY21  | QoQ (%) |
|-------------------|---------|-----------|---------|---------|---------|
| Revenue           | 268,536 | 232,903   | 15.3    | 257,473 | 4.3     |
| Total Expense     | 138,733 | 133,732   | 3.7     | 134,154 | 3.4     |
| EBITDA            | 129,803 | 99,171    | 30.9    | 123,319 | 5.3     |
| Depreciation      | 77,137  | 71,132    | 8.4     | 75,019  | 2.8     |
| EBIT              | 52,666  | 28,039    | 87.8    | 48,300  | 9.0     |
| Other Income      | 2,098   | 4,066     | (48.4)  | 839     | 150.0   |
| Interest          | 42,257  | 34,671    | 21.9    | 38,606  | 9.5     |
| EBT               | 12,812  | (120,022) | (110.7) | 14,938  | (14.2)  |
| Tax               | 8,345   | 37,022    | (77.5)  | 5,101   | 63.6    |
| RPAT              | 9,414   | (158,114) | (106.0) | 15,111  | (37.7)  |
| APAT              | 9,414   | (158,114) | (106.0) | 15,111  | (37.7)  |
|                   |         |           | (bps)   |         | (bps)   |
| Gross Margin (%)  | 94.0    | 88.0      | 601     | 93.9    | 6       |
| EBITDA Margin (%) | 48.3    | 42.6      | 576     | 47.9    | 44      |
| NPM (%)           | 3.5     | (67.9)    | 7139    | 5.9     | (236)   |
| Tax Rate (%)      | 65.1    | (30.8)    | 9598    | 34.1    | 3099    |
| EBIT Margin (%)   | 19.6    | 12.0      | 757     | 18.8    | 85      |

|                 |              |
|-----------------|--------------|
| CMP             | Rs 574       |
| Target / Upside | Rs 758 / 32% |
| NIFTY           | 16,131       |

### Scrip Details

|                   |                    |     |      |
|-------------------|--------------------|-----|------|
| Equity / FV       | Rs 27,278mn / Rs 5 |     |      |
| Market Cap        | Rs 3,134bn         |     |      |
|                   | USD 42bn           |     |      |
| 52-week High/Low  | Rs 623/ 394        |     |      |
| Avg. Volume (no)  | 10,638,800         |     |      |
| Bloom Code        | BHARTI IN          |     |      |
| Price Performance | 1M                 | 3M  | 12M  |
| Absolute (%)      | 9                  | 4   | 5    |
| Rel to NIFTY (%)  | 6                  | (9) | (39) |

### Shareholding Pattern

|                 | Dec'20 | Mar'21 | Jun'21 |
|-----------------|--------|--------|--------|
| Promoters       | 56.2   | 56.2   | 55.9   |
| MF/Banks/FIs    | 20.1   | 20.4   | 20.7   |
| FIIIs           | 17.8   | 18.6   | 18.1   |
| Public / Others | 5.9    | 4.9    | 5.4    |

### Valuation (x)

|           | FY22E | FY23E | FY24E |
|-----------|-------|-------|-------|
| P/E       | 71.1  | 25.8  | 14.2  |
| EV/EBITDA | 8.2   | 6.6   | 5.3   |
| ROE (%)   | 7.3   | 17.5  | 25.6  |
| RoACE (%) | 8.0   | 10.1  | 12.7  |

### Estimates (Rs mn)

|           | FY22E     | FY23E     | FY24E     |
|-----------|-----------|-----------|-----------|
| Revenue   | 1,135,692 | 1,312,039 | 1,508,514 |
| EBITDA    | 556,048   | 659,909   | 777,623   |
| PAT       | 44,091    | 121,463   | 221,291   |
| EPS (Rs.) | 8.1       | 22.3      | 40.6      |

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**Exhibit 1: Actual vs. Estimates**

| (Rs Mn)           | Actual   | Estimate | Var %    | Remarks   |
|-------------------|----------|----------|----------|---|
| Net Sales         | 2,68,536 | 2,63,474 | 1.9      | Modest beat vs. estimates largely led by Africa |
| EBITDA            | 1,29,803 | 1,29,128 | 0.5      |   |
| EBITDA Margin (%) | 48.3     | 49.0     | (67 bps) |   |
| PBT               | 17,454   | 16,708   | 4.5      |   |

Source: DART, Company

**Exhibit 2: Change in estimates**

| Particulars (Rs mn)   | FY22E |       |        | FY23E |       |        | Remarks  |
|-----------------------|-------|-------|--------|-------|-------|--------|--|
|                       | Old   | New   | Chg %  | Old   | New   | Chg %  |  |
| <b>India Wireless</b> |       |       |        |       |       |        |  |
| Subscribers (Mn)      | 354   | 349   | (1.5)  | 384   | 379   | (1.4)  | Reduction in ARPU estimates is to factor the delay in tariff hikes                 |
| ARPU (Rs)             | 158   | 153   | (3.4)  | 174   | 170   | (2.5)  |  |
| Revenue (Rs Bn)       | 639   | 614   | (4.0)  | 770   | 740   | (3.9)  |  |
| <b>Consolidated</b>   |       |       |        |       |       |        |  |
| Net Sales (Rs Bn)     | 1,132 | 1,136 | 0.3    | 1,279 | 1,312 | 2.6    | We marginally increase estimates to factor Q1FY22 performance especially in Africa |
| EBITDA (Rs Bn)        | 554   | 556   | 0.4    | 632   | 660   | 4.4    |  |
| EBITDA Margin (%)     | 49.0  | 49.0  | -4 bps | 49.4  | 50.3  | 90 bps |  |
| APAT (Rs Bn)          | 52    | 44    | (14.6) | 113   | 121   | 7.5    |  |
| AEPS (Rs)             | 9.5   | 8.1   | (14.9) | 20.7  | 22.1  | 6.8    |  |

Source: DART, Company

## Con-call Highlights

### Drivers of subscriber growth

- Bharti's relentless focus on provide best-quality services at affordable prices through omni-channels, lower costs has been key. Bharti highlighted of gaining market share from competition. It also stated of its revenue market share being again at life-time high over 35%.

### Tariff hikes

- Significant scope for growth of ARPU due to low tariffs and ~140mn low-ARPU 2G users.
- Bharti remains cognizant of industry need of higher ARPU of atleast Rs 200 and then Rs 300. But it is more of a competitive issue than affordability issue. Bucket of pricing is essential to drive the ARPUs.

### Airtel Black

- One Airtel Plan that brings the mobile, DTH and broadband under one umbrella was launched was in beta platform six months ago. There were teething issues which have been fixed and the revamped plan has been launched as Airtel Black. Currently there are ~0.7mn customers under this plans with an average account level ARPU of Rs 650.

### Home Broadband at the cusp of hyper-growth

- Post the tariff corrections in end Q2FY21, Bharti witnessed a healthy subscriber addition in Home broadband business with drop in ARPU. However, it envisages no further dilution in ARPU with healthy mix of customers across plans with Rs 799 being most attractive plan.

- Mgmt highlighted that its market share has increased from 23% in Dec'18 to 31% in Dec'20 as per Frost & Sullivan.
- Management expects to shutdown copper led broadband business in a year and switch to better-technology fiber route. No of cities reached increased significantly. It targets to reach ~2,000 cities in 3-4 years. Bharti would roll-out in top cities on its own and in-conjunction with cable partners in smaller cities.
- Airtel management highlighted that its target to reach ~35mn home passes in 3-4 years. Further, the costs of reaching out through LCO model is lower by 20-25%.

### **Airtel Enterprise – stupendous growth opportunity**

- Core connectivity business is ~Rs 40kcr industry size. Non-connectivity business market size is even larger at ~Rs 50kcr. Non-connectivity business includes services like Cloud which has three parts – public cloud, private cloud, telco edge cloud, Cyber security, IOT etc. The enablers to capture the market are – GTM / channels to distribute, products expertise, features etc Airtel partners with the key players in the space with it bringing value additions, trusts, access to customers etc with a win-win proposition for all.
- Airtel management targets the non-wireless revenue piece to be a significant growth driver besides the core telecom business.
- Currently, 20% of the customer's account for 80% of revenues. There is significant opportunities for hunting (new customers) and farming (higher wallet share) of customers.
- With the intent of increasing the focus of Enterprise business, Airtel has in-housed its SME channel sales force vs. outsource model earlier.
- Airtel's market share has increased from ~23% in Dec'18 to 31% in Dec'20 as per Frost & Sullivan.

### **Spectrum**

- Bharti expanded its foot-print in <1GHz band across circles in recent auctions. It also added a healthy quantum of capacity spectrum in 4G (1800/2300 MHz bands). Bharti has ~33% spectrum share on pan India basis.

### **DTH business outlook**

- Contrary to West, Bharti sees strong growth opportunity in the DTH business. This is on account of low TV and C&S household penetration, low fixed-line broadband penetration, high costs of data and streaming services vs. significantly cheaper linear content. Streaming is a niche industry in India as dependent on broadband penetration and content pricing. Additionally, it also sees opportunity in conversion of digital/terrestrial cable customers to DTH due to inferior services from the former.
- Bharti is now strong number 2 player in DTH business. Market share increased from 18% in Dec'18 to 27% in Dec'20. It has gained highest market share amongst all the players.
- The decline in subscribers and revenue in Q4FY21 is transitional. Bharti witnessed healthy subscriber additions in Apr'21 reversing the loss of Q4FY21.

## Capex

- FY22 capex to be similar to FY21 i.e. ~Rs 240bn. Composition of capex to change with higher amount being spent on transport network viz. broadband, enterprise (data center) as company gears up for 5G. 4G radio capex will begin to moderate. Non-wireless revenues and thus capex will be an important driver.

### Exhibit 3: Consolidated Quarterly Financials

| Rs Bn                    | Q1FY21         | Q2FY21       | Q3FY21        | Q4FY21       | Q1FY22       | % YoY          | % QoQ         |
|--------------------------|----------------|--------------|---------------|--------------|--------------|----------------|---------------|
| <b>Revenues</b>          | <b>232.9</b>   | <b>250.6</b> | <b>265.2</b>  | <b>257.5</b> | <b>268.5</b> | <b>15.3</b>    | <b>4.3</b>    |
| Access charges           | 28.0           | 29.2         | 30.6          | 15.6         | 16.2         | (42.3)         | 3.3           |
| <b>Net revenue</b>       | <b>204.9</b>   | <b>221.4</b> | <b>234.5</b>  | <b>241.8</b> | <b>252.4</b> | <b>23.2</b>    | <b>4.4</b>    |
| License fees             | 20.8           | 22.4         | 23.0          | 25.0         | 26.5         | 27.4           | 5.8           |
| Network costs            | 51.0           | 54.2         | 55.5          | 59.2         | 58.0         | 13.8           | (2.0)         |
| Employee Costs           | 10.7           | 10.2         | 10.3          | 10.0         | 10.3         | (3.5)          | 3.6           |
| SG&A                     | 23.3           | 24.0         | 25.3          | 24.3         | 27.8         | 19.5           | 14.3          |
| Total Opex               | 105.7          | 110.7        | 114.0         | 118.5        | 122.6        | 15.9           | 3.4           |
| <b>EBITDA</b>            | <b>99.2</b>    | <b>110.7</b> | <b>120.5</b>  | <b>123.3</b> | <b>129.8</b> | <b>30.9</b>    | <b>5.3</b>    |
| D&A                      | 71.1           | 72.9         | 75.0          | 75.0         | 77.1         | 8.4            | 2.8           |
| <b>EBIT</b>              | <b>28.0</b>    | <b>37.8</b>  | <b>45.5</b>   | <b>48.3</b>  | <b>52.7</b>  | <b>87.8</b>    | <b>9.0</b>    |
| Finance cost (net)       | 34.7           | 37.9         | 39.7          | 38.6         | 42.3         | 21.9           | 9.5           |
| JV/Assc gain/(loss)      | (1.1)          | (2.9)        | (2.2)         | 5.3          | 4.9          | (562.2)        | (6.2)         |
| Other (inc)/exp          | 3.0            | (1.9)        | (1.7)         | 6.1          | 7.0          | 135.2          | 15.2          |
| <b>Profit before Tax</b> | <b>(3.6)</b>   | <b>(2.0)</b> | <b>4.1</b>    | <b>15.8</b>  | <b>17.5</b>  | <b>(580.1)</b> | <b>10.4</b>   |
| Tax expense              | 37.0           | 4.1          | 43.1          | 5.1          | 8.3          | (77.5)         | 63.6          |
| Xo (gain)/loss           | 117.5          | 0.5          | 45.6          | (4.4)        | (0.3)        | (100.3)        | (93.1)        |
| <b>PAT (after Xo)</b>    | <b>(158.1)</b> | <b>(6.6)</b> | <b>(84.6)</b> | <b>15.1</b>  | <b>9.4</b>   | <b>(106.0)</b> | <b>(37.7)</b> |

Source: DART, Company

### Exhibit 4: Margin Analysis (%)

| Margin Analysis   | Q1FY21      | Q2FY21      | Q3FY21      | Q4FY21      | Q1FY22      | YoY (bps)  | QoQ (bps) |
|-------------------|-------------|-------------|-------------|-------------|-------------|------------|-----------|
| Access charges    | 12.0        | 11.7        | 11.6        | 6.1         | 6.0         | (601)      | (6)       |
| License fees      | 8.9         | 8.9         | 8.7         | 9.7         | 9.9         | 94         | 14        |
| Network costs     | 21.9        | 21.6        | 20.9        | 23.0        | 21.6        | (29)       | (140)     |
| Employee costs    | 4.6         | 4.1         | 3.9         | 3.9         | 3.9         | (75)       | (3)       |
| SG&A              | 10.0        | 9.6         | 9.6         | 9.4         | 10.4        | 36         | 90        |
| Total Opex        | 45.4        | 44.2        | 43.0        | 46.0        | 45.6        | 25         | (38)      |
| <b>EBITDA</b>     | <b>42.6</b> | <b>44.2</b> | <b>45.5</b> | <b>47.9</b> | <b>48.3</b> | <b>576</b> | <b>44</b> |
| D&A               | 30.5        | 29.1        | 28.3        | 29.1        | 28.7        | (182)      | (41)      |
| <b>EBIT</b>       | <b>12.0</b> | <b>15.1</b> | <b>17.2</b> | <b>18.8</b> | <b>19.6</b> | <b>757</b> | <b>85</b> |
| Finance costs     | 14.9        | 15.1        | 15.0        | 15.0        | 15.7        | 85         | 74        |
| Profit before Tax | (1.6)       | (0.8)       | 1.5         | 6.1         | 6.5         | 806        | 36        |
| Net Income        | (68.4)      | (3.0)       | 3.2         | 2.9         | 1.1         | 6947       | (189)     |

Source: DART, Company

**Exhibit 5: Segment-wise Revenues**

| Rs Bn                     | Q1FY21       | Q2FY21       | Q3FY21       | Q4FY21       | Q1FY22       | % YoY       | % QoQ      |
|---------------------------|--------------|--------------|--------------|--------------|--------------|-------------|------------|
| Mobile                    | 128.8        | 138.3        | 147.8        | 140.8        | 143.1        | 11.1        | 1.6        |
| Home                      | 5.8          | 5.9          | 5.7          | 6.0          | 6.5          | 12.9        | 8.7        |
| Digital                   | 7.4          | 7.5          | 7.9          | 7.7          | 8.1          | 8.7         | 5.5        |
| Business                  | 35.0         | 35.8         | 36.2         | 37.0         | 37.9         | 8.2         | 2.4        |
| Others/Intersegment       | (7.6)        | (7.3)        | (7.5)        | (8.1)        | (7.3)        | (4.2)       | (10.2)     |
| <b>India</b>              | <b>169.4</b> | <b>180.2</b> | <b>190.1</b> | <b>183.4</b> | <b>188.3</b> | <b>11.1</b> | <b>2.7</b> |
| South Asia                | 1.1          | 1.1          | 1.1          | 1.0          | 1.0          | (12.5)      | (3.1)      |
| Africa                    | 64.5         | 71.7         | 76.4         | 76.0         | 81.8         | 26.8        | 7.6        |
| (-) Intersegment          | (1.0)        | (1.3)        | (1.3)        | (1.9)        | (1.5)        | 49.1        | (20.9)     |
| <b>Consolidated Total</b> | <b>232.9</b> | <b>250.6</b> | <b>265.2</b> | <b>257.5</b> | <b>268.5</b> | <b>15.3</b> | <b>4.3</b> |

Source: DART, Company

**Exhibit 6: Segment-wise EBITDA**

| Rs Bn                     | Q1FY21      | Q2FY21       | Q3FY21       | Q4FY21       | Q1FY22       | % YoY       | % QoQ      |
|---------------------------|-------------|--------------|--------------|--------------|--------------|-------------|------------|
| Mobile                    | 52.2        | 58.9         | 64.6         | 66.9         | 70.3         | 34.7        | 5.1        |
| Home                      | 3.5         | 3.4          | 3.2          | 3.3          | 3.2          | (8.1)       | (3.4)      |
| Digital                   | 5.0         | 5.4          | 5.3          | 5.1          | 5.4          | 7.5         | 6.2        |
| Business                  | 12.7        | 13.4         | 14.0         | 14.9         | 14.7         | 15.5        | (1.2)      |
| Others                    | (0.8)       | (1.0)        | (1.2)        | (0.5)        | (0.9)        | 12.9        | 83.2       |
| <b>India</b>              | <b>72.7</b> | <b>80.0</b>  | <b>85.9</b>  | <b>89.7</b>  | <b>92.7</b>  | <b>27.6</b> | <b>3.4</b> |
| South Asia                | 0.1         | 0.1          | 0.0          | (0.1)        | (0.1)        | (212.7)     | (9.0)      |
| Africa                    | 28.4        | 32.5         | 35.9         | 36.3         | 39.3         | 38.2        | 8.3        |
| (-) Intersegment          | (2.0)       | (1.9)        | (1.2)        | (2.5)        | (2.1)        | 3.8         | (16.6)     |
| <b>Consolidated Total</b> | <b>99.2</b> | <b>110.7</b> | <b>120.5</b> | <b>123.3</b> | <b>129.8</b> | <b>30.9</b> | <b>5.3</b> |

Source: DART, Company

**Exhibit 7: Margin Analysis**

| (%)            | Q1FY21      | Q2FY21      | Q3FY21      | Q4FY21      | Q1FY22      | YoY (bps)  | QoQ (bps) |
|----------------|-------------|-------------|-------------|-------------|-------------|------------|-----------|
| Mobile         | 40.6        | 42.6        | 43.7        | 47.5        | 49.2        | 861        | 165       |
| Home           | 60.7        | 58.3        | 57.2        | 58.8        | 58.1        | (264)      | (66)      |
| Digital        | 67.7        | 70.9        | 66.3        | 68.3        | 68.5        | 83         | 21        |
| Business       | 36.3        | 37.3        | 37.8        | 37.2        | 37.4        | 115        | 29        |
| <b>India</b>   | <b>42.9</b> | <b>44.4</b> | <b>45.2</b> | <b>48.9</b> | <b>49.3</b> | <b>636</b> | <b>34</b> |
| South Asia     | 9.0         | 10.4        | 3.7         | (12.4)      | (11.6)      | (2067)     | 75        |
| <b>Africa</b>  | <b>44.1</b> | <b>45.3</b> | <b>46.9</b> | <b>47.7</b> | <b>48.0</b> | <b>397</b> | <b>34</b> |
| <b>Blended</b> | <b>42.6</b> | <b>44.2</b> | <b>45.5</b> | <b>47.9</b> | <b>48.3</b> | <b>576</b> | <b>44</b> |

Source: DART, Company

**Exhibit 8: India Opex trend**

| (Rs Bn)            | Q1FY21      | Q2FY21       | Q3FY21       | Q4FY21      | Q1FY22      | % YoY        | % QoQ      |
|--------------------|-------------|--------------|--------------|-------------|-------------|--------------|------------|
| Access charges     | 23.2        | 24.0         | 24.8         | 11.2        | 10.6        | (54.2)       | (5.3)      |
| License fees       | 16.3        | 17.9         | 19.0         | 19.6        | 21.3        | 31.2         | 9.0        |
| Network costs      | 39.2        | 41.5         | 42.2         | 45.4        | 43.5        | 11.0         | (4.3)      |
| Cost of goods sold | 1.0         | 1.0          | 1.2          | 1.4         | 1.7         | 74.0         | 25.1       |
| Employee costs     | 5.9         | 5.0          | 5.4          | 5.2         | 5.4         | (8.6)        | 3.9        |
| SG&A expenses      | 12.3        | 11.8         | 12.6         | 12.0        | 14.0        | 13.9         | 16.4       |
| <b>Total</b>       | <b>97.8</b> | <b>101.2</b> | <b>105.3</b> | <b>94.8</b> | <b>96.6</b> | <b>(1.2)</b> | <b>1.8</b> |

Source: DART, Company

*Strong revenue growth across business segment especially Home BB, digital and Africa*

**Exhibit 9: Operating Performance**

|                            | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | % YoY     | % QoQ    |
|----------------------------|--------|--------|--------|--------|--------|-----------|----------|
| <b>India Wireless KPIs</b> |        |        |        |        |        |           |          |
| Customers (Mn)             | 279.9  | 293.7  | 307.9  | 321.4  | 321.2  | 14.8      | 0.0      |
| Net Adds (Mn)              | (3.8)  | 13.9   | 14.2   | 13.4   | (0.1)  | (96.4)    | (101.0)  |
| Churn (%)                  | 2.2    | 1.7    | 1.9    | 2.2    | 2.8    | 59 bps    | 55 bps   |
| Reported ARPU (Rs)         | 156.8  | 162.2  | 166.1  | 145.2  | 146.1  | -6.8      | 0.6      |
| Computed ARPU (Rs)         | 152.3  | 160.8  | 163.7  | 149.2  | 148.4  | (2.6)     | (0.5)    |
| MOU/Subs                   | 994    | 1,005  | 1,027  | 1,053  | 1,044  | 5.1       | -0.8     |
| MOUs (Bn mins)             | 820    | 861    | 925    | 997    | 1,002  | 22.2      | 0.5      |
| <b>Data KPIs</b>           |        |        |        |        |        |           |          |
| Data subs (Mn)             | 149.1  | 162.2  | 174.7  | 188.6  | 192.9  | 29.4      | 2.3      |
| - MBB                      | 138.3  | 152.7  | 165.6  | 179.3  | 184.4  | 33.4      | 2.9      |
| As % of Total              | 53.3   | 55.2   | 56.7   | 58.7   | 60.1   | 679 bps   | 136 bps  |
| Total MBs (Mn GBs)         | 7,240  | 7,640  | 8,454  | 9,207  | 10,771 | 48.8      | 17.0     |
| GBs/month                  | 16.7   | 16.4   | 16.8   | 16.8   | 18.9   | 13.7      | 12.4     |
| <b>DTH</b>                 |        |        |        |        |        |           |          |
| Customers (Mn)             | 16.8   | 17.4   | 17.9   | 17.7   | 18.0   | 6.9       | 1.6      |
| Net Adds (000s)            | 226    | 549    | 485    | -156   | 282    | 25.1      | -280.9   |
| Churn (%)                  | 1.3    | 1.5    | 1.4    | 2.2    | 1.4    | 3 bps     | -80 bps  |
| ARPU (Rs)                  | 149    | 148    | 149    | 144    | 151    | 1.3       | 4.8      |
| <b>Africa</b>              |        |        |        |        |        |           |          |
| Customers (Mn)             | 111.5  | 116.4  | 118.9  | 118.2  | 120.8  | 8.4       | 2.2      |
| Net Adds (Mn)              | 0.9    | 4.9    | 2.5    | -0.7   | 2.6    | 203.9     | (466.2)  |
| Churn (%)                  | 5.7    | 5.3    | 5.0    | 3.9    | 3.6    | (212 bps) | (26 bps) |
| ARPU (USD)                 | 2.6    | 2.8    | 2.9    | 3.0    | 3.1    | 19.3      | 3.4      |
| MOU/Subs                   | 218    | 235    | 241    | 240    | 249    | 14.3      | 3.6      |
| MOUs (Bn mins)             | 71.9   | 80.4   | 85.7   | 85.0   | 89.0   | 23.8      | 4.8      |

Source: Company, DART

*Decline in ARPU due to IUC abolition wef 1<sup>st</sup> Jan'21*



**Exhibit 10: Key Model Assumptions**

| Particulars                | FY15 | FY16  | FY17  | FY18  | FY19   | FY20 | FY21  | FY22E | FY23E | FY24E |
|----------------------------|------|-------|-------|-------|--------|------|-------|-------|-------|-------|
| <b>India Wireless</b>      |      |       |       |       |        |      |       |       |       |       |
| Subs (Mn)                  | 226  | 251   | 274   | 304   | 278    | 284  | 321   | 349   | 379   | 409   |
| Net Adds (Mn)              | 20.5 | 25.2  | 22.4  | 30.5  | (25.8) | 5.3  | 37.7  | 27.4  | 30.0  | 30.0  |
| Implied ARPU (Rs)*         | 201  | 196   | 180   | 133   | 119    | 136  | 153   | 153   | 170   | 187   |
| Like-to-Like Con. ARPU(Rs) | 170  | 164   | 148   | 111   | 97     | 122  | 141   | 150   | 169   | 174   |
| Revenue (Rs Bn)            | 520  | 561   | 566   | 463   | 416    | 460  | 556   | 614   | 740   | 883   |
| Inc. Rev (Rs Bn)           | 53   | 41    | 5     | (103) | (47)   | 44   | 96    | 58    | 127   | 143   |
| EBITDA (Rs Bn)             | 195  | 219   | 228   | 151   | 94     | 170  | 243   | 312   | 394   | 487   |
| Inc. EBITDA (Rs Bn)        | 37   | 25    | 8     | (77)  | (57)   | 75   | 73    | 69    | 82    | 93    |
| EBITDA Margin (%)          | 37.5 | 39.1  | 40.3  | 32.6  | 22.7   | 36.9 | 43.7  | 50.9  | 53.2  | 55.2  |
| <b>Africa</b>              |      |       |       |       |        |      |       |       |       |       |
| Subs (Mn)                  | 76   | 75    | 80    | 89    | 99     | 111  | 118   | 125   | 131   | 137   |
| Net Adds (Mn)              | 7    | (2)   | 5     | 9     | 10     | 12   | 8     | 7     | 6     | 6     |
| Implied ARPU (Rs)          | 308  | 278   | 236   | 196   | 198    | 193  | 210   | 231   | 239   | 248   |
| Revenue (Rs Bn)            | 269  | 251   | 220   | 199   | 223    | 242  | 289   | 336   | 366   | 399   |
| Incremental Rev (Rs Bn)    | (3)  | (18)  | (32)  | (20)  | 24     | 19   | 46    | 48    | 30    | 33    |
| EBITDA (Rs Bn)             | 61   | 47    | 50    | 66    | 84     | 107  | 133   | 158   | 169   | 182   |
| Inc. EBITDA (Rs Bn)        | (10) | (14)  | 4     | 16    | 18     | 24   | 26    | 25    | 11    | 12    |
| EBITDA Margin (%)          | 22.7 | 18.7  | 23.0  | 33.2  | 37.4   | 44.3 | 46.1  | 47.1  | 46.2  | 45.5  |
| <b>Revenue (Rs bn)</b>     |      |       |       |       |        |      |       |       |       |       |
| India Wireless             | 520  | 561   | 566   | 463   | 416    | 460  | 556   | 614   | 740   | 883   |
| Home Broadband             | 44   | 25    | 28    | 25    | 22     | 22   | 23    | 29    | 39    | 50    |
| Digital                    | 25   | 29    | 34    | 38    | 41     | 29   | 31    | 34    | 39    | 45    |
| Enterprise                 | 67   | 97    | 109   | 114   | 125    | 132  | 144   | 155   | 165   | 175   |
| Passive Infra              | 54   | 56    | 61    | 66    | 68     | 34   | 0     | 0     | 0     | 0     |
| Others                     | 3    | 3     | 4     | 3     | 1      | 0    | 0     | 0     | 0     | 0     |
| India Business             | 713  | 771   | 801   | 708   | 673    | 678  | 754   | 832   | 983   | 1,154 |
| South Asia                 | 16   | 16    | 12    | 4     | 4      | 5    | 4     | 4     | 4     | 4     |
| Wireless - Africa          | 269  | 251   | 220   | 199   | 223    | 242  | 289   | 336   | 366   | 399   |
| Gross revenues             | 998  | 1,039 | 1,033 | 912   | 900    | 924  | 1,047 | 1,172 | 1,353 | 1,557 |
| (-) Intersegment           | (62) | (57)  | (66)  | (73)  | (80)   | (57) | (32)  | (35)  | (41)  | (49)  |
| Net revenues               | 936  | 982   | 966   | 839   | 821    | 867  | 1,015 | 1,138 | 1,312 | 1,509 |
| Intersegment %             | 6.2  | 5.5   | 6.4   | 8.0   | 8.9    | 6.2  | 3.0   | 3.0   | 3.1   | 3.1   |
| <b>EBITDA (Rs bn)</b>      |      |       |       |       |        |      |       |       |       |       |
| India Wireless             | 195  | 219   | 228   | 151   | 94     | 170  | 243   | 312   | 394   | 487   |
| Home Broadband             | 18   | 11    | 13    | 12    | 11     | 11   | 13    | 16    | 23    | 29    |
| Digital                    | 7    | 10    | 12    | 14    | 16     | 20   | 21    | 24    | 28    | 33    |
| Enterprise                 | 14   | 30    | 34    | 42    | 41     | 43   | 55    | 59    | 62    | 65    |
| Passive Infra              | 26   | 26    | 29    | 33    | 32     | 19   | 0     | 0     | 0     | 0     |
| Others                     | (6)  | (7)   | (12)  | (14)  | (15)   | (10) | (4)   | (3)   | (3)   | (3)   |
| India Business             | 253  | 289   | 304   | 238   | 179    | 252  | 328   | 408   | 503   | 611   |
| South Asia                 | (0)  | (1)   | 0     | 0     | 0      | 0    | 0     | (0)   | (0)   | (0)   |
| Wireless - Africa          | 61   | 47    | 50    | 66    | 84     | 107  | 133   | 158   | 169   | 182   |
| Gross EBITDA               | 314  | 336   | 354   | 304   | 263    | 360  | 461   | 566   | 672   | 793   |
| (-) Intersegment           | (2)  | 4     | (1)   | (3)   | (5)    | (5)  | (8)   | (10)  | (12)  | (15)  |
| Net EBITDA                 | 312  | 340   | 353   | 301   | 258    | 355  | 454   | 556   | 660   | 778   |
| Intersegment %             | 0.8  | (1.3) | 0.3   | 1.1   | 1.8    | 1.4  | 1.7   | 1.7   | 1.8   | 1.9   |

| Particulars            | FY15        | FY16        | FY17        | FY18        | FY19        | FY20        | FY21        | FY22E       | FY23E       | FY24E       |
|------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>EBITDA Margin %</b> |             |             |             |             |             |             |             |             |             |             |
| India Wireless         | 37.5        | 39.1        | 40.3        | 32.6        | 22.7        | 36.9        | 43.7        | 50.9        | 53.2        | 55.2        |
| Home Broadband         | 40.7        | 42.5        | 47.2        | 46.7        | 48.3        | 50.4        | 57.6        | 56.2        | 58.2        | 58.2        |
| Digital                | 27.3        | 34.2        | 35.6        | 37.9        | 38.3        | 68.3        | 68.0        | 71.1        | 72.4        | 72.4        |
| Enterprise             | 20.9        | 31.3        | 31.0        | 37.4        | 32.6        | 32.2        | 38.2        | 37.8        | 37.4        | 37.4        |
| Passive Infra          | 47.4        | 47.1        | 48.0        | 49.1        | 47.6        | 56.9        | 0.0         | 0.0         | 0.0         | 0.0         |
| <b>India Business</b>  | <b>35.5</b> | <b>37.5</b> | <b>37.9</b> | <b>33.6</b> | <b>26.7</b> | <b>37.2</b> | <b>43.6</b> | <b>49.0</b> | <b>51.2</b> | <b>53.0</b> |
| Wireless - Africa      | 22.7        | 18.7        | 23.0        | 33.2        | 37.4        | 44.3        | 46.1        | 47.1        | 46.2        | 45.5        |
| <b>Net EBITDA</b>      | <b>33.3</b> | <b>34.6</b> | <b>36.6</b> | <b>35.9</b> | <b>31.5</b> | <b>40.9</b> | <b>44.7</b> | <b>48.9</b> | <b>50.3</b> | <b>51.5</b> |

Source: Company, DART \* Implied ARPU is inclusive of IUC revenue collected by Bharti from other operators. Due to change in IUC termination rate (20paise/minute before Mar-15, 14paise from Mar15-Oct17, 6paise Oct17-Dec20 and nil thereafter), the implied ARPU is not comparable to that extent.

#### Exhibit 11: Valuation Summary - SOTP

| Segments  | Jun-23E<br>EBITDA<br>(Rs Bn) | Jun-23E<br>EBITDA/<br>Share (Rs) | Multiple<br>(X) | Enterprise Value<br>(Rs Bn) | Value Per Share<br>(Rs) |
|---|------------------------------|----------------------------------|-----------------|-----------------------------|-------------------------|
| India Wireless  | 417.3                        | 76.0                             | 10.0            | 4,173                       | 760                     |
| Telemedia services                                      | 24.2                         | 4.4                              | 7.0             | 170                         | 31                      |
| Enterprise  | 62.5                         | 11.4                             | 7.0             | 438                         | 80                      |
| DTH   | 29.5                         | 5.4                              | 7.0             | 207                         | 38                      |
| Others*   | (16.0)                       | (2.9)                            | 10.0            | (160)                       | (29)                    |
| IndAS 116 impact  | (80.4)                       | (14.6)                           | 10.0            | (804)                       | (146)                   |
| <b>Sub-total</b>  | <b>437.2</b>                 | <b>79.6</b>                      | <b>9.2</b>      | <b>4,023</b>                | <b>732</b>              |
| (-) Net Debt excl IndAS 116 and Africa                  |                              |                                  |                 | (722)                       | (131)                   |
| Passive Infra**   |                              |                                  |                 | 183                         | 33                      |
| <b>India business value</b>                             |                              |                                  |                 | <b>2,728</b>                | <b>634</b>              |
| Africa Plc**  |                              |                                  |                 | 247                         | 45                      |
| Base case Value Per Share (Rs)                          |                              |                                  |                 | <b>2,974</b>                | <b>679</b>              |
| Incremental upside from positive industry developments* |                              |                                  |                 |                             | 79                      |
| <b>Target Price Share (Rs)</b>                          |                              |                                  |                 |                             | <b>758</b>              |
| CMP (Rs)  |                              |                                  |                 |                             | 580                     |
| <b>Upside/(Downside) %</b>                              |                              |                                  |                 |                             | <b>30.7%</b>            |

Source: DART, Company \* Others include South Asia, Corporate costs etc; \*\* Passive Infra is basis Indus Tower TP of Rs 206 for Bharti's 41.7% holding; \*\*\* Africa valuation is as under. We haven't valued Africa as per the listed entity Mcap as it trades at ~4x EV/EBITDA



**Exhibit 12: Valuation Summary - Africa**

|   | Remarks      |
|---|--------------|
| Africa EBITDA (Rs Bn)                     | 172.5        |
| IndAS 116 impact (Rs Bn)                  | 14.7         |
| Africa EBITDA net of IndAS impact (Rs Bn) | 157.8        |
| Target multiple (x)                       | 6.0          |
| Africa EV (Rs Bn)                         | 946.7        |
| (-) Net debt (Rs Bn)                      | 306.2        |
| <b>Equity Value (Rs Bn)</b>               | <b>640.5</b> |
| Bharti holding (%)                        | 55.0         |
| <b>Equity Value for Bharti (Rs Bn)</b>    | <b>352.3</b> |
| Hold Co discount (%)                      | 30%          |
| Africa Equity Value for Bharti (Rs Bn)    | 246.6        |
| <b>Value per share (Rs)</b>               | <b>45</b>    |

Source: DART, Company

**Exhibit 13: Potential upside/downside from scenarios that may pan out**

| Scenarios   | Impact/sh (Rs) | Probability (%) | Impact/sh (Rs) |
|---|----------------|-----------------|----------------|
| <b>Assuming Voda-Idea shut-down</b>                     |                |                 |                |
| Upside from Idea subs (viz. 40% or 100mn)               | 200            | 20%             | 40             |
| Value loss in Indus Tower                               | (50)           | 20%             | (10)           |
| Higher than expected ARPU by Rs 20 in FY24 viz. ~Rs 210 | 122            | 40%             | 49             |
| <b>Incremental impact</b>                               | <b>272</b>     |                 | <b>79</b>      |

Source: DART

#### Profit and Loss Account

| (Rs Mn)                                | FY21A            | FY22E            | FY23E            | FY24E            |
|--|------------------|------------------|------------------|------------------|
| <b>Revenue</b>                         | <b>1,006,158</b> | <b>1,135,692</b> | <b>1,312,039</b> | <b>1,508,514</b> |
| <b>Total Expense</b>                   | <b>552,441</b>   | <b>579,644</b>   | <b>652,131</b>   | <b>730,891</b>   |
| COGS                                   | 103,521          | 67,479           | 74,040           | 80,609           |
| Employees Cost                         | 41,146           | 43,422           | 47,183           | 50,953           |
| Other expenses                         | 407,774          | 468,744          | 530,908          | 599,329          |
| <b>EBIDTA</b>                          | <b>453,717</b>   | <b>556,048</b>   | <b>659,909</b>   | <b>777,623</b>   |
| Depreciation                           | 294,044          | 309,253          | 310,924          | 288,016          |
| <b>EBIT</b>                            | <b>159,673</b>   | <b>246,794</b>   | <b>348,985</b>   | <b>489,607</b>   |
| Interest                               | 150,910          | 156,687          | 134,748          | 114,551          |
| Other Income                           | 6,428            | 6,976            | 6,730            | 6,715            |
| Exc. / E.O. items                      | (159,145)        | 305              | 0                | 0                |
| <b>EBT</b>                             | <b>(143,953)</b> | <b>97,388</b>    | <b>220,967</b>   | <b>381,770</b>   |
| Tax                                    | 89,325           | 42,461           | 82,061           | 137,191          |
| RPAT                                   | (253,652)        | 44,396           | 121,463          | 221,291          |
| Minority Interest                      | 19,446           | 28,376           | 30,935           | 33,492           |
| <b>Profit/Loss share of associates</b> | <b>(928)</b>     | <b>17,845</b>    | <b>13,492</b>    | <b>10,203</b>    |
| <b>APAT</b>                            | <b>(58,019)</b>  | <b>44,091</b>    | <b>121,463</b>   | <b>221,291</b>   |

#### Balance Sheet

| (Rs Mn)                       | FY21A            | FY22E            | FY23E            | FY24E            |
|-------------------------------|------------------|------------------|------------------|------------------|
| <b>Sources of Funds</b>       |                  |                  |                  |                  |
| Equity Capital                | 27,278           | 27,278           | 27,278           | 27,278           |
| Minority Interest             | 222,739          | 250,706          | 281,641          | 315,133          |
| Reserves & Surplus            | 562,249          | 606,317          | 727,780          | 949,072          |
| <b>Net Worth</b>              | <b>589,527</b>   | <b>633,595</b>   | <b>755,058</b>   | <b>976,349</b>   |
| Total Debt                    | 1,627,852        | 1,613,488        | 1,518,835        | 1,429,735        |
| Net Deferred Tax Liability    | 174,964          | 161,451          | 183,087          | 208,302          |
| <b>Total Capital Employed</b> | <b>2,615,082</b> | <b>2,659,240</b> | <b>2,738,622</b> | <b>2,929,520</b> |

#### Applications of Funds

|   |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| Net Block   | 2,292,061        | 2,417,279        | 2,339,110        | 2,283,977        |
| CWIP  | 0                | 0                | 0                | 0                |
| Investments                                       | 620,688          | 589,922          | 620,905          | 653,601          |
| <b>Current Assets, Loans &amp; Advances</b>       | <b>547,529</b>   | <b>593,475</b>   | <b>692,592</b>   | <b>871,755</b>   |
| Inventories                                       | 0                | 0                | 0                | 0                |
| Receivables                                       | 36,377           | 53,294           | 61,366           | 70,522           |
| Cash and Bank Balances                            | 175,442          | 199,464          | 285,745          | 448,348          |
| Loans and Advances                                | 0                | 0                | 0                | 0                |
| Other Current Assets                              | 335,710          | 340,717          | 345,481          | 352,884          |
| <b>Less: Current Liabilities &amp; Provisions</b> | <b>845,196</b>   | <b>941,436</b>   | <b>913,985</b>   | <b>879,812</b>   |
| Payables  | 278,721          | 323,582          | 298,462          | 275,292          |
| Other Current Liabilities                         | 566,475          | 617,853          | 615,523          | 604,520          |
| <i>sub total</i>                                  |                  |                  |                  |                  |
| Net Current Assets                                | (297,667)        | (347,961)        | (221,393)        | (8,057)          |
| <b>Total Assets</b>                               | <b>2,615,082</b> | <b>2,659,240</b> | <b>2,738,622</b> | <b>2,929,520</b> |

E – Estimates

### Important Ratios

| Particulars                               | FY21A     | FY22E     | FY23E     | FY24E     |
|---|-----------|-----------|-----------|-----------|
| <b>(A) Margins (%)</b>                    |           |           |           |           |
| Gross Profit Margin                       | 89.7      | 94.1      | 94.4      | 94.7      |
| EBIDTA Margin                             | 45.1      | 49.0      | 50.3      | 51.5      |
| EBIT Margin                               | 15.9      | 21.7      | 26.6      | 32.5      |
| Tax rate                                  | (62.1)    | 43.6      | 37.1      | 35.9      |
| Net Profit Margin                         | (25.2)    | 3.9       | 9.3       | 14.7      |
| <b>(B) As Percentage of Net Sales (%)</b> |           |           |           |           |
| COGS                                      | 10.3      | 5.9       | 5.6       | 5.3       |
| Employee                                  | 4.1       | 3.8       | 3.6       | 3.4       |
| Other                                     | 40.5      | 41.3      | 40.5      | 39.7      |
| <b>(C) Measure of Financial Status</b>    |           |           |           |           |
| Gross Debt / Equity                       | 2.8       | 2.5       | 2.0       | 1.5       |
| Interest Coverage                         | 1.1       | 1.6       | 2.6       | 4.3       |
| Inventory days                            | 0         | 0         | 0         | 0         |
| Debtors days                              | 13        | 17        | 17        | 17        |
| Average Cost of Debt                      | 9.7       | 9.7       | 8.6       | 7.8       |
| Payable days                              | 101       | 104       | 83        | 67        |
| Working Capital days                      | (108)     | (112)     | (62)      | (2)       |
| FA T/O                                    | 0.4       | 0.5       | 0.6       | 0.7       |
| <b>(D) Measures of Investment</b>         |           |           |           |           |
| AEPS (Rs)                                 | (10.6)    | 8.1       | 22.3      | 40.6      |
| CEPS (Rs)                                 | 43.3      | 64.8      | 79.3      | 93.4      |
| DPS (Rs)                                  | 0.0       | 0.0       | 0.0       | 0.0       |
| Dividend Payout (%)                       | 0.0       | 0.0       | 0.0       | 0.0       |
| BVPS (Rs)                                 | 108.1     | 116.1     | 138.4     | 179.0     |
| RoANW (%)                                 | (37.3)    | 7.3       | 17.5      | 25.6      |
| RoACE (%)                                 | 2.9       | 8.0       | 10.1      | 12.7      |
| RoAIC (%)                                 | 6.7       | 10.1      | 14.2      | 19.8      |
| <b>(E) Valuation Ratios</b>               |           |           |           |           |
| CMP (Rs)                                  | 574       | 574       | 574       | 574       |
| P/E                                       | (54.0)    | 71.1      | 25.8      | 14.2      |
| Mcap (Rs Mn)                              | 3,133,679 | 3,133,679 | 3,133,679 | 3,133,679 |
| MCap/ Sales                               | 3.1       | 2.8       | 2.4       | 2.1       |
| EV  | 4,586,089 | 4,547,704 | 4,366,770 | 4,115,066 |
| EV/Sales                                  | 4.6       | 4.0       | 3.3       | 2.7       |
| EV/EBITDA                                 | 10.1      | 8.2       | 6.6       | 5.3       |
| P/BV                                      | 5.3       | 4.9       | 4.2       | 3.2       |
| Dividend Yield (%)                        | 0.0       | 0.0       | 0.0       | 0.0       |
| <b>(F) Growth Rate (%)</b>                |           |           |           |           |
| Revenue                                   | 16.7      | 12.9      | 15.5      | 15.0      |
| EBITDA                                    | 27.9      | 22.6      | 18.7      | 17.8      |
| EBIT                                      | 96.9      | 54.6      | 41.4      | 40.3      |
| PBT                                       | (67.5)    | (167.7)   | 126.9     | 72.8      |
| APAT                                      | 86.3      | (176.0)   | 175.5     | 82.2      |
| EPS                                       | 86.3      | (176.0)   | 175.5     | 82.2      |

### Cash Flow

| (Rs Mn)      | FY21A     | FY22E     | FY23E     | FY24E     |
|--------------|-----------|-----------|-----------|-----------|
| CFO          | 166,618   | 613,029   | 557,783   | 606,618   |
| CFI          | (307,620) | (417,219) | (242,101) | (240,363) |
| CF           | 19,839    | (171,788) | (229,401) | (203,651) |
| FCFF         | (84,109)  | 178,557   | 325,028   | 373,735   |
| Opening Cash | 296,606   | 175,442   | 199,464   | 285,745   |
| Closing Cash | 175,442   | 199,464   | 285,745   | 448,348   |

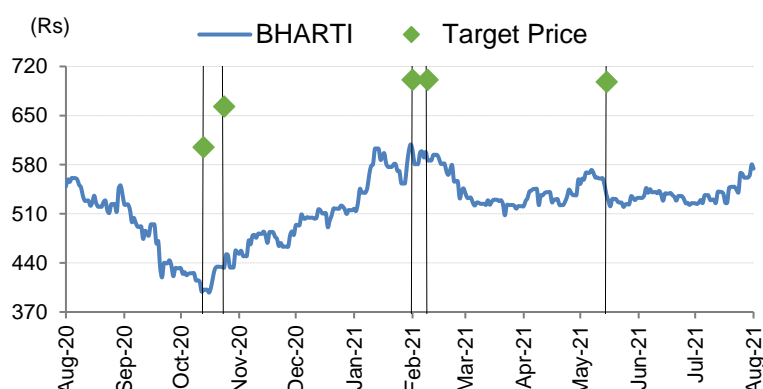
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

|                   |                  |
|-------------------|------------------|
| <b>Buy</b>        | <b>&gt; 20%</b>  |
| <b>Accumulate</b> | <b>10 to 20%</b> |
| <b>Reduce</b>     | <b>0 to 10%</b>  |
| <b>Sell</b>       | <b>&lt; 0%</b>   |

## Rating and Target Price History



| Month  | Rating | TP (Rs.) | Price (Rs.) |
|--------|--------|----------|-------------|
| Oct-20 | BUY    | 605      | 402         |
| Oct-20 | BUY    | 663      | 433         |
| Feb-21 | BUY    | 701      | 601         |
| Feb-21 | BUY    | 701      | 586         |
| May-21 | BUY    | 698      | 536         |

\*Price as on recommendation date

## DART Team

|                    |                          |                                |                        |
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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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