

Company update and
earnings revision

Telecom

Target price: Rs712

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.3	↑ 0.3
EBITDA	↓ 2.6	↓ 3.1
PAT	↓ 40.0	↓ 26.8

Target price revision

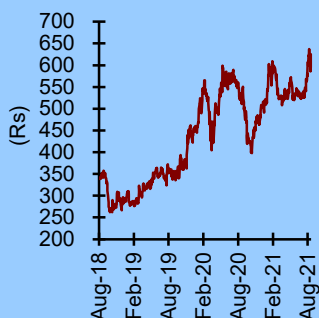
Rs712 from Rs675

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	56.2	55.9	55.9
Institutional investors	39.6	38.9	37.8
MFs and others	14.0	12.8	12.9
Insurance Cos.	5.8	5.9	6.0
FIs	19.8	20.2	18.9
Others	4.2	5.2	6.3

Source: NSE

Price chart



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INDIA

Bharti Airtel

BUY
Maintained

Fund raise aimed at accelerating growth

Rs620

Mr Sunil Mittal, promoter and chairman, attending investor call to interact with investors is big confidence booster. Bharti sees huge opportunities, and fresh capital infusion will support company's balance sheet in investment to accelerate growth. It does not see any capital allocation in non-core business. However, capex investment in 5G spectrum (which the company believes will happen early next year), fibre and data centre are its priorities. It does not see any requirement of spectrum after 5G provides long-term FCF visibility. Digital investment has been slow, but is shaping good; monetisation will be only at Bharti Airtel level, which could lead to value maximisation, in our view. It sees net debt to EBITDA at 2x soon supported by asset monetisation and FCF. Bharti expecting ARPU at Rs200 in FY22 is ambitious, but should provide comfort on revenue and FCF growth. We have cut our EBITDA estimates by ~3% for FY22/FY23E on annual report updation. However, we have increased the target price to Rs712 (from Rs675) as per realigned debt and Ind AS-116 impact. Maintain BUY.

- **Rights proceeds to fund future growth and deleverage.** Bharti has announced rights issue of Rs210bn. Issue is priced at Rs535 (10% discount to Friday closing price) and rights entitlement of 1 share for every 14 shares held on record date. Payment will be paid in three tranches with 25% upfront, and another two calls will be made based on business requirements in next 36 months. It said the fund will be utilised to grab 'once in a life time opportunities' in mobile business (5G and fibre), FTTH (expand homepass) and data centre. The company clarified no fund will be diverted to buy stake in Indus Towers and other related group entities. Investment in India entity of OneWeb will be limited to US\$7-8mn. Additional 5% equity stake in Indus Towers has given Bharti one extra Board seat, giving more control over Indus Towers, which is a critical asset for mobile business.
- **Capex in mobile business to be stable to slightly higher.** The company believes 5G auction will happen early next year with rollout starting H2CY22 onwards in large cities and towns, along with gradual penetration in 2023/24. However, excluding spectrum, company do not see much rise in network capex due to completion of 4G capex and modular BTS rollout and investments in core. It wants DoT to price 5G spectrum at reasonable price for take-off of 5G. It sees fibre investment to accelerate for strengthening backhaul and support FTTH business. Apart from 5G spectrum, Bharti does not see any requirement for more spectrum in near future.
- **Digital investment slow, but progressing well.** Bharti believes digital investment has been slow, but businesses have shaped well such as Wynk, Airtel IQ etc. The company's restructuring plan will put all digital assets in parent entity, and it has committed separate digital revenue disclosure in future. Bharti does not want to divest stake only in digital entity, and any strategic investment will have exposure to all businesses, which we believe could lead to value maximisation for shareholders

Market Cap	Rs3408bn/US\$46.4bn
Reuters/Bloomberg	BRTI.BO / BHARTI IN
Shares Outstanding (mn)	5,492.0
52-week Range (Rs)	637/398
Free Float (%)	44.1
FII (%)	18.9
Daily Volume (US\$/'000)	1,01,461
Absolute Return 3m (%)	18.5
Absolute Return 12m (%)	18.5
Sensex Return 3m (%)	11.3
Sensex Return 12m (%)	45.7

Year to Mar	FY20	FY21	FY22E	FY23E
Revenue (Rs bn)	875	1,006	1,134	1,289
Net Income (Rs bn)	(56)	119	44	90
EPS (Rs)	(10.3)	21.6	8.1	16.4
% Chg YoY	529.6	(309.8)	(62.7)	103.2
P/E (x)	(10.5)	(22.6)	76.7	37.8
CEPS (Rs)	31.7	63.5	52.4	64.4
EV/E (x)	11.6	12.4	10.2	8.8
Dividend Yield (%)	0.3	0.3	0.5	1.3
RoCE (%)	3.4	(43.8)	6.8	9.2
RoE (%)	(43.3)	(22.2)	7.4	14.1

Please refer to important disclosures at the end of this report

- **Sees net debt to EBITDA at 2x.** Company remains confident of reaching net debt to EBITDA of 2x in near term helped by healthy FCF generation and asset monetisation. Bharti believes it has three non-assets, which it would like to monetise at right time and value – stake in Indus Towers, fibre assets and real-estate.
- **ARPU to grow to Rs200 in FY22.** Bharti believes ARPU should rise to Rs200 (vs Rs146 in Q1FY22) in FY22 itself. It has already taken tariff intervention in corporate postpaid category and prepaid base pack; however, most popular prepaid 4G tariff remain unchanged. We note Reliance Jio has recently launched *Freedom* plan where it has cut data allowance by 45% which is moving towards tariff hike. Tariff hike has been anticipated for long now, but competitive intensity has kept tariffs stagnant since Dec'19.
- **Promoters' stake in Bharti to remain stable.** Bharti promoters have diluted their stakes in the past wherein SingTel renounced its previous rights entitlement to GIC; and Bharti Telecom, holding company, sold stake to deleverage its balance sheet. Promoters do not see any need for future stake dilution as Bharti Telecom remains debt free and SingTel has also agreed to subscribe the entire issue.

Table 1: Earnings estimates revision

(Rs mn)	Revised		Earlier		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
India KPIs						
Subs (mn)	333	345	333	345	-	-
ARPU (Rs)	165	187	165	187	0.0	0.0
India financial						
Revenue	8,32,665	9,56,059	8,23,943	9,46,285	1.1	1.0
EBITDA	4,00,564	4,83,846	4,07,433	4,97,246	(1.7)	(2.7)
EBITDA margin (%)	48.1	50.6	49.4	52.5		
PAT	43,243	81,196	32,334	73,700	33.7	10.2
Africa financial (US\$ mn)						
Revenue	4,377	4,815	4,378	4,816	(0.0)	(0.0)
EBITDA	2,065	2,286	2,062	2,282	0.2	0.2
EBITDA margin (%)	47.2	47.5	47.1	47.4		
PAT	587	693	523	629	12.2	10.2
Bharti Airtel Consolidated						
Revenue	11,33,564	12,89,347	11,30,683	12,85,422	0.3	0.3
EBITDA	5,41,708	6,41,340	5,56,028	6,62,165	(2.6)	(3.1)
EBITDA margin (%)	47.8	49.7	49.2	51.5		
PAT	44,377	90,187	73,999	1,23,186	(40.0)	(26.8)
EPS (Rs)	8.1	16.4	13.6	22.6		

Source: Company data, I-Sec research

Table 2: Bharti's SoTP-based valuation

Rs mn	FY23E
India business (ex Tower)	
EBITDA (adj IND AS 116)	4,13,235
<i>Multiple (x)</i>	11.0
EV	45,45,582
Less net debt	13,27,086
Equity value...(a)	32,18,496
Tower business (DCF from Indus model)	
EV	8,22,988
Less net debt	(6,644)
Equity value	8,29,632
Stake (%)	42
Attributable Equity value...(b)	3,46,206
Airtel Africa	
EBITDA (adj IND AS 116)	1,46,821
<i>Multiple (x)</i>	5.0
EV	7,34,107
Less net debt	83,416
Equity value	6,50,691
Stake (%)	53
Bharti attributable Equity value...(c)	3,46,168
Bharti Airtel Equity value	39,10,869
<i>Outstanding shares (mn)</i>	5,492
Equity value per share (Rs)	712
Equity value per share (Rs)	712

Source: Company data, I-Sec research

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	8,75,390	10,06,158	11,33,564	12,89,347
Operating Expenses	5,09,295	5,52,441	5,91,855	6,48,007
EBITDA	3,66,095	4,53,717	5,41,708	6,41,340
% margins	41.8	45.1	47.8	49.7
Depreciation & Amortisation	2,76,896	2,94,044	3,09,559	3,31,454
Net Interest	1,39,918	1,50,910	1,33,573	1,45,580
Other Income	6,524	(928)	13,957	16,076
Recurring PBT	(26,121)	14,263	1,12,533	1,80,382
Add: Extraordinaries	7,931	1,59,145	4,02,344	1,10,567
Less: Taxes	(1,21,823)	89,325	48,933	68,368
- Current tax				
- Deferred tax				
Less: Minority Interest	15,190	27,195	19,223	21,827
Net Income (Reported)	(3,21,832)	(1,50,835)	44,377	90,187
Recurring Net Income	(56,285)	1,18,877	44,377	90,187

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	7,47,488	6,91,849	7,13,491	7,33,608
of which cash & cash eqv.	1,58,927	1,34,661	1,41,890	1,37,020
Total Current Liabilities & Provisions	10,87,338	10,04,053	9,96,396	10,16,533
Net Current Assets	(3,39,850)	(3,12,204)	(2,82,904)	(2,82,925)
Investments	2,54,765	2,75,504	2,34,723	2,34,723
of which				
Strategic/Group	96,808	2,34,346	2,34,346	2,34,346
Other Marketable	1,57,957	41,158	377	377
Net Fixed Assets	19,89,186	19,62,997	20,65,863	23,38,989
Goodwill	3,46,192	3,29,064	3,29,064	3,29,064
Total Assets	22,50,293	22,55,361	23,46,746	26,19,851
Liabilities				
Borrowings	14,82,281	16,27,852	16,77,852	18,77,852
Deferred tax liability	(2,53,283)	(1,84,757)	(1,69,998)	(1,41,987)
Minority Interest	2,49,847	2,22,739	2,22,739	2,22,739
Equity Share Capital	27,278	27,460	27,460	27,460
Face Value per share(Rs)	5.0	5.0	5.0	5.0
Reserves & Surplus	7,44,170	5,62,067	5,88,693	6,33,787
Net Worth	7,71,448	5,89,527	6,16,153	6,61,247
Total Liabilities	22,50,293	22,55,361	23,46,746	26,19,851

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-20	Dec-20	Mar-21	Jun-21
Net sales	2,57,850	2,65,178	2,57,473	2,68,536
% growth (YoY)	21.6	20.4	8.1	12.2
EBITDA	1,16,420	1,20,530	1,23,319	1,29,803
Margin (%)	45.2	45.5	47.9	48.3
Other income	(1,673)	(440)	7,177	7,268
Add: Extraordinaries	(493)	52,502	4,404	305
Net profit	(7,632)	8,536	7,592	2,835

Source: Company data

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	3,47,251	4,51,618	5,02,268	5,95,232
Working Capital Changes	(1,65,964)	30,432	(22,071)	(4,849)
Capital Commitments	(2,23,937)	(3,35,816)	(3,46,406)	(5,36,626)
Free Cashflow	(42,650)	1,46,234	1,33,791	53,757
Cashflow from Investing Activities	(80,982)	66,932	40,781	-
Issue of Share Capital	3,91,322	9	-	-
Buyback of shares				
Inc (Dec) in Borrowings	(1,79,553)	(75,335)	50,000	2,00,000
Dividend paid	(20,325)	(1,73,777)	(2,17,343)	(2,58,627)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	67,812	(35,937)	7,229	(4,870)

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Recurring EPS	(10.3)	21.6	8.1	16.4
Reported EPS	(59.0)	(27.5)	8.1	16.4
Recurring Cash EPS	31.7	63.5	52.4	64.4
Dividend per share (DPS)	1.9	2.0	3.2	8.2
Book Value per share (BV)	141.4	107.3	112.2	120.4
Growth Ratios (%)				
Operating Income	8.4	14.9	12.7	13.7
EBITDA	41.8	23.9	19.4	18.4
Recurring Net Income	759.3	(311.2)	(62.7)	103.2
Diluted Recurring EPS	529.6	(309.8)	(62.7)	103.2
Diluted Recurring CEPS	(38.8)	100.4	(17.4)	22.8
Valuation Ratios (% YoY)				
P/E	(10.5)	(22.6)	76.7	37.8
P/CEPS	19.6	9.8	11.8	9.6
P/BV	4.4	5.8	5.5	5.1
EV / EBITDA (incl Indus)	11.6	12.4	10.2	8.8
EV / Operating Income	4.8	4.5	4.1	3.7
EV / Operating FCF	47.6	28.4	19.9	15.5
Operating Ratios				
Other Income / PBT (%)	(25.0)	(6.5)	12.4	8.9
Effective Tax Rate (%)	466.4	626.3	43.5	37.9
NWC / Total Assets (%)	(15.1)	(13.8)	(12.1)	(10.8)
Inventory Turnover (days)	-	-	-	-
Receivables (days)	19.2	13.2	12.5	11.7
Payables (days)	174.5	174.1	152.2	137.6
Net Debt/EBITDA Ratio (x)	2.3	2.5	2.2	2.2
Capex % of sales	25.4	33.4	30.6	41.6
Profitability Ratios (%)				
Rec. Net Income Margins	(6.4)	11.8	3.9	7.0
RoCE	3.4	(43.8)	6.8	9.2
RoIC	5.2	9.6	13.1	15.9
RoNW	(43.3)	(22.2)	7.4	14.1
Dividend Yield	0.3	0.3	0.5	1.3
EBITDA Margins	41.8	45.1	47.8	49.7

Source: Company data, I-Sec research

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