

**BUY**

## Capital boosts = Growth acceleration

Bharti Airtel board approved capital raise of Rs 210bn through rights issue @ Rs 535/sh with 25% upfront payment and balance within 36 months. It would amount to ~7.1% dilution and 14% discount to today's share price. These would be 4<sup>th</sup> dilution by Bharti in 2.5 years.

Promoter Sunil Bharti Mittal (SBM) addressed investors (nearly after a decade) concern on persistent capital raise highlighting of significant opportunities available for growth acceleration in 5G, broadband, fiber etc and thus it would be better capitalized then regret later on losing opportunities. Bharti Airtel call imbibes confidence on growth, governance, promoter vision, team's execution and consequent business and financial trajectory.

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. Capital raise to provide addition ammunition to seize this opportunity. Reiterate BUY with TP of Rs 762 @ 10/6x Sep-23E EV/E for India Wireless/Africa.

## ARPU of Rs 200 by end of FY22 – this will be significantly positive

Promoter stated that it has been his long-standing position of Rs 200 ARPU in short-term and Rs 300 in medium term is inevitable. He reiterated that ARPUs shall reach Rs 200 before end of FY22 (we have assumed Rs 160 in Q4FY22 and Rs 194 in exit Q4FY24).

If ARPU hits Rs 200 sooner than expected, it would be significantly for all the three-private players. All else equal, every Rs 10 ARPU alters our TP by ~Rs 50/sh. Airtel wouldn't shy from taking the lead in tariff increase. Despite being at premium, it ran out of patience and took lead on entry package in prepaid and Corporate postpaid plans. ARPU growth would enable telco to invest and drive alternate revenue streams. Promoter further highlighted that while telecom golden days of 30%+ ROCE's are difficult but high teens (vs. current 3-4%) in couple of years is feasible.

CMP	Rs 620
Target / Upside	Rs 762 / 23%
NIFTY	16,931

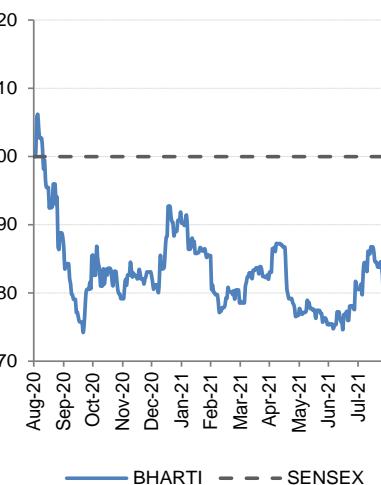
## Scrip Details

Equity / FV	Rs 29,501mn / Rs 5
Market Cap	Rs 3,385bn
	USD 46.2bn
52-week High/Low	Rs 644/ 394
Avg. Volume (no)	12,671,500
Bloom Code	BHARTI IN
<b>Price Performance</b>	<b>1M</b> <b>3M</b> <b>12M</b>
Absolute (%)	10 18 19
Rel to NIFTY (%)	2 8 (26)

## Shareholding Pattern

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

## BHARTI Relative to SENSEX



## FINANCIALS (Rs Mn)

Particulars	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	862,315	1,006,158	1,135,692	1,312,039	1,508,514
Growth(%)	6.4	16.7	12.9	15.5	15.0
EBITDA	354,830	453,717	556,048	659,909	777,623
OPM(%)	41.1	45.1	49.0	50.3	51.5
PAT	(31,145)	(58,019)	44,948	127,018	227,416
Growth(%)	(860.6)	86.3	(177.5)	182.6	79.0
EPS(Rs.)	(5.7)	(10.6)	8.2	23.3	41.7
Growth(%)	(860.6)	86.3	(177.5)	182.6	79.0
PER(x)	(108.7)	(58.3)	75.3	26.6	14.9
ROANW(%)	(44.1)	(37.3)	6.6	14.4	21.0
ROACE(%)	9.0	2.9	7.7	9.2	11.4

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## Business as usual vs. growth acceleration

Airtel Promoter stated that while company is reasonably funded for business as usual, growth acceleration in 5G, broadband, data center etc and high leverage on account of acquired spectrum and AGR warrants cushion. Digital world is a reality and growing at an exponential pace. Rate of adoption has surprised all of us. Pandemic has accelerated this journey. For perspective, Airtel added 650k Home Broadband subscribers in FY21 vs. 465k cumulatively over FY16-20.

Capital raise in that backdrop will be supportive. Promoter categorically highlighted of doing right thing for business then being too opportunistic/greedy wrt pricing/timing. There are operators struggling in absence of capital raise. Bharti's erstwhile timely rights issue, QIP and FCCBs has enabled it to combat hyper-competition, grow and outdo peers.

## Net debt/EBITDA <2x

Sunil Mittal highlighted that both Promoters and investors prefer lower leverage and it is ideal. With asset monetisation (Indus Towers, Fiber, Data Centre - non consumer facing etc) and industry repair it should reach this target in 2-3 years. However, asset monetisation would be at opportune time with appropriate pricing and structure.

## Africa – healthy catch up, long way to go

Africa is in 11<sup>th</sup> year of operations post acquisition. It took longer to deliver but last 4 years' journey has been enticing with healthy market share gains, robust margins and FCF across markets. It doesn't burden India operations wrt cash requirement.

Valuations of Africa Money has been similar to the entire entity at the time of stake sale. Just a couple of months back, Airtel Africa had sold stake to three strategic investors for \$2.7bn valuation in Africa Money. There is significant growth opportunity and consequently value creation. Promoter would evaluate monetisation, if any but only once it hits \$10-20bn (Africa Plc current market cap is ~\$4.8bn USD).

## Capex intensity to be stable; well-positioned from capacity perspective

With the exception of 5G spectrum, Airtel expects the capex on India wireless to remain stable. It expects that the peak 4G capex is behind. It doesn't envisage the GB/subscriber (16GB) to rise materially from here-on as it is already significantly higher vs. global benchmarks. Thus technological improvements, additional spectrum acquisition and capacity expansion should suffice to incorporate the incremental 4G customers organically or even in case of shut-down of weaker operator. Additionally, even on 5G, management foresees it as a replacement of 4G capex. Airtel has modest spectrum expiring in FY23-24 and the renewal of same shouldn't be a strain on Balance sheet.

## 5G on the cards

Management believes the 5G auction are likely by end of FY22 and the roll-out of network to pick-up pace from H2CY22 or H2FY23. Currently, 15% of the devices shipment are 5G enabled and by next year this would be significantly higher. Management further believes that government needs to be supportive of industry with light-touch regulation, fair pricing of spectrum, reduced license fees and spectrum usage charges etc to push-forward its own agenda of digital India.

## Dilution by the Promoters – Unlikely

Promoter highlighted that the erstwhile stake sale by Promoters was not perceived well by the investors. However, it was to repay the debt taken at Promoter entity 'Bharti Telecom' to fund the rights issue when it was most needed. Additionally, there was pressure from rating agencies to downgrade by incorporating Promoter debt for calculations. Entire funds from stake sale were used to repay debt rather than to encash and utilize elsewhere.

Promoter entity is debt free as on date and may not need debt to fund the rights issue. It has never resorted to pledging of shares etc Promoters don't envisage any further stake sale in the foreseeable future.

## Bharti family stake in Bharti Airtel

Sunil Mittal categorically highlighted that Bharti Enterprises owns 36% and is controlled by family. Additionally, they own 6% directly in Bharti Airtel. Further, SingTel is a long-term (20 years+) and committed partner classified as Promoter and thus the Promoter holding (56%) needs to be looked into entirely than of family stake alone. As per us, Singtel's effective ownership stands at 31.5% and that of Sunil Mittal family at 24.5%.

## Why rights issue in tranches?

Sunil Mittal highlighted that capital cushion will be supportive but to accommodate investors and considering the timing of requirements it felt the staggered raise would be advisable. It also highlighted of couple of other large peer groups like Reliance, Tata's etc raising capital in similar form and is fair and recommendable s.t. needs of utilization.

### Exhibit 1: Change in estimates

Particulars (Rs mn)	FY22E			FY23E			Remarks
	Old	New	Chg %	Old	New	Chg %	
<b>India Wireless</b>							
Subscribers (Mn)	349	349	(0.1)	379	379	(0.1)	Increase in our PAT estimate is due to lower interest outgo
ARPU (Rs)	153	153	(0.2)	170	170	(0.2)	
Revenue (Rs Bn)	614	614	(0.0)	740	740	0.0	
<b>Consolidated</b>							
Net Sales (Rs Bn)	1,136	1,136	(0.0)	1,312	1,312	0.0	Decline in EPS is on account of dilution led by rights issue and conversion of FCCBs
EBITDA (Rs Bn)	556	556	0.0	660	660	(0.0)	
EBITDA Margin (%)	49.0	49.0	-4 bps	50.3	50.3	0 bps	
APAT (Rs Bn)	44	45	2.8	121	127	5.0	
AEPS (Rs)	8.1	7.5	(7.4)	22.1	21.0	(4.8)	

Source: DART, Company

**Exhibit 2: 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	154	169	187
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 3: Valuation Summary - SOTP

Segments	Sep-23E EBITDA (Rs Bn)	Sep-23E EBITDA/ Share (Rs)	Multiple (X)	Enterprise Value (Rs Bn)	Value Per Share (Rs)
India Wireless	440.6	80.0	10.0	4,406	730
Telemedia services	25.9	4.7	7.0	182	30
Enterprise	63.5	11.5	7.0	444	74
DTH	30.6	5.6	7.0	214	36
Others*	(16.0)	(2.9)	10.0	(160)	(27)
IndAS 116 impact	(89.0)	(16.2)	10.0	(890)	(147)
<b>Sub-total</b>	<b>455.6</b>	<b>82.7</b>	<b>9.2</b>	<b>4,196</b>	<b>695</b>
(-) Net Debt excl IndAS 116 and Africa				(457)	(76)
Passive Infra**				183	30
<b>India business value</b>				<b>3,086</b>	<b>650</b>
Africa Plc**				247	41
Base case Value Per Share (Rs)				<b>3,333</b>	<b>691</b>
Incremental upside from positive industry developments*					72
<b>Target Price Share (Rs)</b>					<b>762</b>
CMP (Rs)					622
<b>Upside/(Downside) %</b>					<b>22.6%</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

**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	310,207	316,466	297,201
<b>EBIT</b>	<b>159,673</b>	<b>245,840</b>	<b>343,442</b>	<b>480,422</b>
Interest	150,910	154,415	120,658	95,944
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>98,706</b>	<b>229,514</b>	<b>391,193</b>
Tax	89,325	42,922	85,052	140,489
RPAT	(253,652)	45,253	127,018	227,416
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>44,948</b>	<b>127,018</b>	<b>227,416</b>

**Balance Sheet**

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
<b>Sources of Funds</b>				
Equity Capital	27,538	29,501	30,177	30,177
Minority Interest	222,739	250,706	281,641	315,133
Reserves & Surplus	561,989	762,442	941,281	1,168,697
<b>Net Worth</b>	<b>589,527</b>	<b>791,943</b>	<b>971,458</b>	<b>1,198,874</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>2,817,588</b>	<b>2,955,022</b>	<b>3,152,045</b>

**Applications of Funds**

Net Block	<b>2,292,061</b>	<b>2,431,325</b>	<b>2,367,614</b>	<b>2,323,295</b>
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>737,776</b>	<b>880,489</b>	<b>1,054,961</b>
Inventories	0	0	0	0
Receivables	36,377	53,294	61,366	70,522
Cash and Bank Balances	175,442	343,765	473,641	631,554
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)	(203,660)	(33,497)	175,149
<b>Total Assets</b>	<b>2,615,082</b>	<b>2,817,588</b>	<b>2,955,022</b>	<b>3,152,045</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	21.6	26.2	31.8
Tax rate	(62.1)	43.5	37.1	35.9
Net Profit Margin	(25.2)	4.0	9.7	15.1
<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	2.0	1.6	1.2
Interest Coverage	1.1	1.6	2.8	5.0
Inventory days	0	0	0	0
Debtors days	13	17	17	17
Average Cost of Debt	9.7	9.5	7.7	6.5
Payable days	101	104	83	67
Working Capital days	(108)	(65)	(9)	42
FA T/O	0.4	0.5	0.6	0.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	(10.6)	8.2	23.3	41.7
CEPS (Rs)	43.3	65.1	81.3	96.2
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	108.1	145.2	178.1	219.8
RoANW (%)	(37.3)	6.6	14.4	21.0
RoACE (%)	2.9	7.7	9.2	11.4
RoAIC (%)	6.7	10.0	13.9	19.2
<b>(E) Valuation Ratios</b>				
CMP (Rs)	620	620	620	620
P/E	(58.3)	75.3	26.6	14.9
Mcap (Rs Mn)	3,384,908	3,384,908	3,384,908	3,384,908
MCap/ Sales	3.4	3.0	2.6	2.2
EV	4,837,318	4,654,631	4,430,103	4,183,089
EV/Sales	4.8	4.1	3.4	2.8
EV/EBITDA	10.7	8.4	6.7	5.4
P/BV	5.7	4.3	3.5	2.8
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	54.0	39.7	39.9
PBT	(67.5)	(168.6)	132.5	70.4
APAT	86.3	(177.5)	182.6	79.0
EPS	86.3	(177.5)	182.6	79.0

**Cash Flow**

(Rs Mn)	FY21A	FY22E	FY23E	FY24E
CFO	166,618	612,567	554,791	603,320
CFI	(307,620)	(432,219)	(262,101)	(260,363)
CFF	19,839	(12,025)	(162,814)	(185,044)
FCFF	(84,109)	163,096	302,037	350,438
Opening Cash	296,606	175,442	343,765	473,641
Closing Cash	175,442	343,765	473,641	631,554

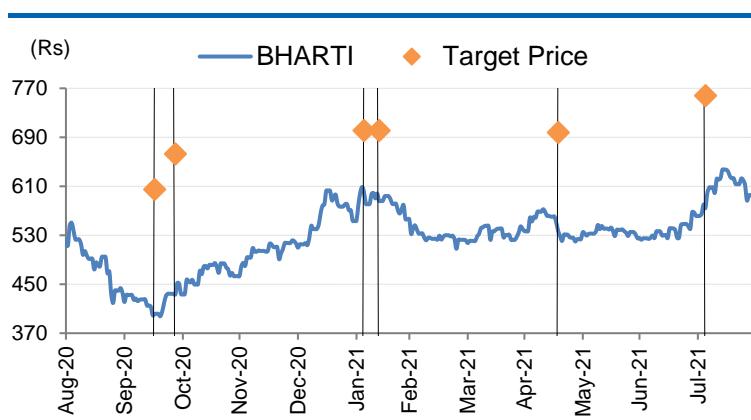
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

### 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
Aug-21	BUY	758	574

\*Price as on recommendation date

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