

Company update

Telecom

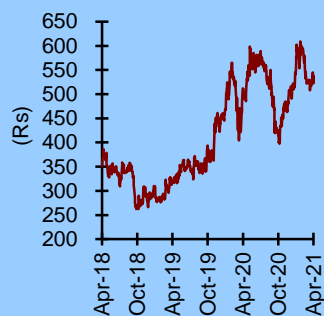
Target price: Rs723

Shareholding pattern

	Jun '20	Sep '20	Dec '20
Promoters	56.2	56.2	56.2
Institutional investors	38.5	39.3	39.6
MFs and others	12.8	14.4	14.0
Insurance Cos.	5.2	5.6	5.8
FII's	20.5	19.3	19.8
Others	5.3	4.5	4.2

Source: NSE

Price chart



Research Analysts:

Sanjesh Jainsanjesh.jain@icicisecurities.com
+91 22 6637 7153**Sameer Pardikar**sameer.pardikar@icicisecurities.com
+91 22 2277 7637

Bharti Airtel

BUY
Maintained

Restructuring aimed at digital biz, AGR-tax efficiency

Rs536

Bharti Airtel (Bharti) has announced a new corporate structure wherein digital assets, and infrastructure assets (fiber and tower [via Nettle Infrastructure]) will be pushed up into the parent entity, and telecom business will be pushed down to the wholly-owned subsidiary. The new structure is aimed at 1) bringing all digital assets under one entity and focusing on growing it fast; and 2) by pushing telecom business at bottom, it will make the entire organisation AGR-tax efficient. Clearly, the new structure indicates no immediate monetisation plans of digital assets, and rightfully so, as it is yet to exploit the potential from the business. However, in future, when business becomes large, it can always restructure efficiently to monetise the digital asset.

► **Bharti Airtel has announced a new corporate structure.** The new structure is aimed at merging Airtel Digital Ltd, a wholly-owned subsidiary, with the parent entity. Eventually, it plans to house digital assets including *Wynk Music*, *Airtel X stream*, *Airtel Thanks*, *Mitra Payments* (platform used by retailers), *Airtel Ads*, *Airtel IQ*, *Airtel Secure*, *Airtel Cloud* and all future digital products and services at parent-entity level.

India telecom services, including mobile broadband and enterprise business, will be placed in Airtel Ltd, which will be the wholly-owned subsidiary of Bharti Airtel Ltd (parent). It looks like regulated business, which attracts license fee and other regulatory levies are pushed at the bottom, a structure similar to Reliance Jio Infocomm, a part of Jio Platforms. Bharti Telemedia (DTH) and Bharti Hexocom will be under Airtel Ltd, which are eventually planned to be merged with Airtel Ltd.

All **international assets** including Airtel Africa, Network i2i, Bharti Airtel Lanka and Robi Axiata will sit in international business. The third segment will house **infrastructure assets**, which includes Nextra Data (Data centers) and Indus Towers.

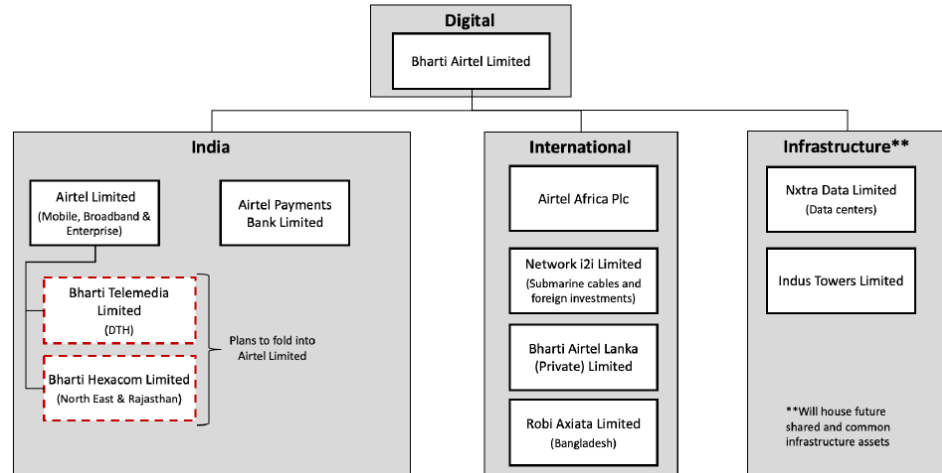
► **What has changed from the existing structure?** In the new structure, digital business has been pushed at the top at parent entity, but no separate digital entity has been created which can be monetised without taking exposure to Bharti telecom's business for now. But it can always do another restructuring to monetise digital assets at the right time. The new structure ensures digital business is not exposed to any licence fees and spectrum usage charges liabilities in future. Telecom business is housed in a separate entity with no non-telecom business as subsidiary, thus making it AGR-tax efficient.

► **Sharpening the focus and likely value unlocking.** Digital business is growing very fast, and the market opportunity is rising multi-fold. Bharti had digital assets sitting in multiple entities and thus, it was missing a united push and an opportunity to cross-sell services. A separate digital entity is expected to bring focus to business and united efforts are intended at sharpening the execution.

Market Cap	Rs2,944bn/US\$39.9bn
Reuters/Bloomberg	BRTI.BO / BHARTI IN
Shares Outstanding (mn)	5,455.6
52-week Range (Rs)	623/394
Free Float (%)	43.8
FII (%)	19.8
Daily Volume (US\$/'000)	150,229
Absolute Return 3m (%)	(7.3)
Absolute Return 12m (%)	4.7
Sensex Return 3m (%)	(1.8)
Sensex Return 12m (%)	59.9

Year to Mar	FY20	FY21E	FY22E	FY23E
Revenue (Rs bn)	875	1,019	1,155	1,277
Net Income (Rs bn)	(56)	43	135	167
EPS (Rs)	(59.0)	7.9	24.7	30.5
% Chg YoY	(1,945.2)	(113.4)	212.1	23.4
P/E (x)	(9.1)	67.7	21.7	17.6
CEPS (Rs)	31.7	50.4	67.0	78.3
EV/E (x)	10.3	8.1	6.3	5.8
Dividend Yield (%)	0.4	0.4	1.8	2.8
RoCE (%)	4.6	9.7	16.3	18.0
RoE (%)	(43.3)	5.5	16.0	18.0

Chart 1: Bharti Airtel new corporate structure



Source: Company

Financial summary

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	875,390	1,019,263	1,155,072	1,276,891
Operating Expenses	509,295	552,260	568,954	612,697
EBITDA	366,095	467,003	586,118	664,194
% margins	41.8	45.8	50.7	52.0
Depreciation & Amortisation	276,896	281,228	281,508	312,929
Net Interest	139,918	115,692	108,048	110,615
Other Income	18,074	-	-	-
Recurring PBT	(26,121)	76,890	204,597	250,565
Add: Extraordinaries	-	-	-	-
Less: Taxes	(121,823)	19,971	52,770	64,678
- Current tax	(121,823)	19,971	52,770	64,678
- Deferred tax	-	-	-	-
Less: Minority Interest	15,190	13,670	16,860	19,289
Net Income (Reported)	(321,832)	43,249	134,966	166,598
Recurring Net Income	(56,285)	43,249	134,966	166,598

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	747,488	723,568	730,470	670,111
of which cash & cash eqv.	158,927	215,445	210,088	139,357
Total Current Liabilities & Provisions	1,087,338	1,000,868	983,139	965,904
Net Current Assets	(339,850)	(277,299)	(252,669)	(295,793)
Investments	254,765	117,086	117,086	117,086
of which				
Strategic/Group	96,808	96,808	96,808	96,808
Other Marketable	157,957	20,278	20,278	20,278
Net Fixed Assets	1,989,186	2,004,599	1,997,836	2,271,032
Goodwill	346,192	346,192	346,192	346,192
Total Assets	2,250,293	2,190,577	2,208,445	2,438,517
Liabilities				
Borrowings	1,482,281	1,382,281	1,282,281	1,382,281
Deferred tax liability	(253,283)	(245,337)	(208,449)	(161,676)
Minority Interest	249,847	249,847	249,847	249,847
Equity Share Capital	27,278	27,278	27,278	27,278
Face Value per share(Rs)	5.0	5.0	5.0	5.0
Reserves & Surplus	744,170	776,508	857,488	940,787
Net Worth	771,448	803,786	884,766	968,065
Total Liabilities	2,250,293	2,190,577	2,208,445	2,438,517

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Mar-20	Jun-20	Sep-20	Dec-20
Net sales	238,221	239,387	257,850	265,178
% growth (YoY)	15.3	15.0	21.6	20.4
EBITDA	102,646	104,079	116,420	120,530
Margin (%)	43.1	43.5	45.2	45.5
Other income	4,245	4,371	1,673	440
Add: Extraordinaries	(70,040)	(117,457)	(493)	52,502
Net profit	(52,370)	(159,331)	(7,632)	8,536

Source: Company data

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	347,251	448,116	561,410	636,915
Working Capital				
Changes	(165,964)	(6,033)	(29,988)	(27,607)
Capital Commitments	(223,937)	(247,142)	(223,936)	(533,972)
Free Cashflow	(42,650)	194,941	307,486	75,336
Cashflow from Investing Activities	(80,982)	137,679	-	-
Issue of Share Capital	391,322	-	-	-
Buyback of shares	141,826	-	-	-
Inc (Dec) in Borrowings	(556,953)	(100,000)	(100,000)	100,000
Dividend paid	(18,263)	(10,911)	(53,987)	(83,299)
Extraordinary Items	233,512	(165,191)	(158,856)	(162,768)
Chg. in Cash & Bank balance	67,812	56,518	(5,357)	(70,731)

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Recurring EPS	(59.0)	7.9	24.7	30.5
Reported EPS	(10.3)	7.9	24.7	30.5
Recurring Cash EPS	31.7	50.4	67.0	78.3
Dividend per share (DPS)	1.9	2.0	9.9	15.3
Book Value per share (BV)	141.4	147.3	162.2	177.4
Growth Ratios (%)				
Operating Income	8.4	16.4	13.3	10.5
EBITDA	41.8	27.6	25.5	13.3
Recurring Net Income	759.3	(176.8)	212.1	23.4
Diluted Recurring EPS	(1,945.2)	(113.4)	212.1	23.4
Diluted Recurring CEPS	(38.8)	59.1	33.0	16.9
Valuation Ratios (% YoY)				
P/E	(9.1)	67.7	21.7	17.6
P/CEPS	16.9	10.7	8.0	6.9
P/BV	3.8	3.6	3.3	3.0
EV / EBITDA (incl Indus)	10.3	8.1	6.3	5.8
EV / Operating Income	4.9	4.0	3.5	3.3
EV / Operating FCF	(99.7)	21.0	13.0	55.4
Operating Ratios				
Other Income / PBT (%)	(69.2)	-	-	-
Effective Tax Rate (%)	466.4	26.0	25.8	25.8
NWC / Total Assets (%)	(15.1)	(12.7)	(11.4)	(12.1)
Inventory Turnover (days)	-	-	-	-
Receivables (days)	19.2	18.5	17.7	17.0
Payables (days)	174.5	145.3	123.4	108.8
Net Debt/EBITDA Ratio (x)	2.3	1.8	1.3	1.4
Capex % of sales	25.4	24.2	19.4	41.8
Profitability Ratios (%)				
Rec. Net Income Margins	(6.4)	4.2	11.7	13.0
RoCE	4.6	9.7	16.3	18.0
RoIC	5.2	11.3	18.6	20.0
RoNW	(43.3)	5.5	16.0	18.0
Dividend Yield	0.4	0.4	1.8	2.8
EBITDA Margins	41.8	45.8	50.7	52.0

Source: Company data, I-Sec research

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