

# Bharti Airtel

Refer to important disclosures at the end of this report

## All-round good performance

- Q1 was a steady quarter with a 5% qoq rise in EBITDA, outpacing our estimates by 4%, led by better-than-anticipated revenue performance across segments. India wireless margins expanded by 165bps qoq, partially aided by a 4% sequential fall in network opex.
- Sustained improvement in data subs base (60.1% vs. 53.3% in Q1FY21), the highest-ever home broadband subs adds and an increase in FCF generation to Rs47bn were the key positives. The rise in monthly churn for the 3<sup>rd</sup> consecutive quarter was a negative.
- The increase in net debt can be attributed to deferred spectrum obligations. Capex guidance for FY22 remains unchanged despite higher India spends in Q1. Potential pricing aggression with launch of JioPhone Next in Sept'21 will be a key event to watch out for.
- While the recent tariff hike was a step in the right direction, the same in the mass pre-paid segment continues to be the crucial lever for balance-sheet deleveraging and re-rating. Maintain Buy with a revised SoTP-based TP of Rs730 (roll forward valuation to Sept'23E).

### EBITDA surpasses expectations; data subs base continues to trend upward:

Consolidated revenues and EBITDA rose 4.3% and 5.3% qoq, beating our projections by 3% and 4%, respectively. In the wireless segment, India and Africa businesses delivered steady performance, with EBITDA increasing by 5% and 8% qoq, respectively. Margins for the India wireless segment saw a sequential expansion of 165bps, partially aided by a 4% dip in network opex, despite continued site expansion and fuel cost inflation. In the non-wireless segments, DTH was the sole business that saw an uptick in EBITDA, while the enterprise and home broadband segments saw sequential declines of 1% and 3%. RPAT of Rs2.8bn missed our expectations due to higher ETR and interest expenses. Data volumes jumped 17% qoq.

**Outlook:** Bharti continues to showcase its strength - even in an otherwise muted quarter - with healthy 4G adds, revenue mix improvement, highest-ever home broadband subscriber adds and healthy FCF generation. Although the recent tariff hike for selected customers is a clear positive, the same in the mass pre-paid segment remains key. Our FY22 estimates already bake in ~15% tariff increase apart from the above-stated changes. Launch of JioPhone Next in Sept'21 will be closely watched out for in terms of pricing aggression strategy. Bharti has a clear advantage to further gain high-quality subscribers in both pre-paid and post-paid categories, considering VIL's weak financial position. Despite high India capex in Q1, management reiterated its unchanged annual capex guidance of ~Rs241bn for FY22. We maintain our revenue and EBITDA estimates but cut PAT projection on account of higher ETR in Africa operations. **Key risks:** 1) adverse regulatory regime; 2) delay in tariff hikes; 3) currency depreciation in the African market; 4) market share loss in the mobile business; and 5) sooner-than-anticipated 5G capex.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 14\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	8,75,390	10,19,888	11,51,156	13,07,981	14,11,397
EBITDA	3,64,823	4,64,348	5,67,253	6,62,517	7,15,094
EBITDA Margin (%)	41.7	45.5	49.3	50.7	50.7
APAT	80,512	(90,387)	67,096	1,63,614	1,78,722
EPS (Rs)	14.8	(16.6)	12.3	30.0	32.8
EPS (% chg)	0.0	(212.3)	0.0	143.9	9.2
ROE (%)	8.2	(9.4)	7.0	15.3	14.6
P/E (x)	39.3	(35.0)	47.2	19.3	17.7
EV/EBITDA (x)	11.9	9.9	8.2	6.6	5.7
P/BV (x)	3.1	3.5	3.2	2.8	2.4

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 574</b> as of (August 4, 2021)	<b>Rs 730 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>27.1 %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	(11.6)/(5)
Target Price change (%)	6.5
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	12.3	30.0
Consensus	9.6	20.7
Mean Consensus TP (12M)	Rs 713	

### Stock Details

Bloomberg Code	BHARTI IN
Face Value (Rs)	5
Shares outstanding (mn)	5,492
52 Week H/L	639 / 394
M Cap (Rs bn/USD bn)	3,186 / 42.90
Daily Avg Volume (nos.)	1,10,40,530
Daily Avg Turnover (US\$ mn)	80.4

### Shareholding Pattern Jun '21

Promoters	55.9%
FIIIs	18.1%
DIIIs	20.7%
Public and Others	5.4%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	11	4	(5)	6
<b>Rel. to Nifty</b>	8	(6)	(13)	(28)

### Relative price chart



Source: Bloomberg

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## Q1FY22 performance

- The India business recorded a 3% sequential increase in EBITDA. The wireless and DTH segments led the growth, with both the segments registering a rise of 5% and 6% qoq, respectively. The mobile services segment saw a margin expansion of ~165bps qoq and stood at 49.2%.
  - As anticipated, the subscriber base for the mobile segment stayed largely stable at 321mn, though impacted by the Covid-19-induced slowdown in terms of smartphone shipments and financial squeeze at the lower end of the market.
  - Mobile ARPU came in at Rs146, up 0.6% qoq, and was marred by one-month of free recharges given by the company.
- In the non-wireless segment, home broadband and enterprise businesses witnessed sequential declines in EBITDA of 3% and 1%, respectively. That said, the home broadband segment continued its steady pace and posted the highest-ever quarterly net subscriber additions of 0.3mn, while the ARPU was stable. On the other hand, the DTH arm saw a 5% increase in ARPU, with subscriber base expanding by 0.3mn.

**Exhibit 1: India and South Asia business snapshot (excludes tower business retrospectively)**

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Total revenues	1,70,435	1,81,225	1,91,051	1,84,269	1,89,168	11%	2.7
EBITDA	72,762	80,142	85,926	89,580	92,623	27%	3.4
<b>EBITDA / Total revenues</b>	<b>42.7%</b>	<b>44.2%</b>	<b>45.0%</b>	<b>48.6%</b>	<b>49.0%</b>	<b>630 bps</b>	<b>39 bps</b>
EBIT	13,532	19,632	23,907	27,152	28,447	110%	4.8
Profit before Tax	-4,246	-8,196	-1,915	-1,263	-3,344	-21%	164.7
Net Income	-1,423	-7,168	-566	-2,356	-2,552	79%	8.3
<b>Capex</b>	<b>33,746</b>	<b>54,688</b>	<b>54,816</b>	<b>53,007</b>	<b>58,113</b>	<b>72%</b>	<b>9.6</b>
<b>Operating Free Cash Flow</b>	<b>39,017</b>	<b>25,454</b>	<b>31,110</b>	<b>36,573</b>	<b>34,510</b>	<b>-12%</b>	<b>(5.6)</b>
Cumulative Investments	28,23,599	28,73,285	31,34,774	32,30,504	34,02,128	20%	5.3
<b>Network sites (India)</b>							
India	1,96,145	2,01,192	2,08,606	2,16,901	2,19,310	11.8	1.1
of which broadband sites	1,94,205	1,99,464	2,07,360	2,15,801	2,18,328	12.4	1.2

Source: Company, Emkay Research

### Financial performance

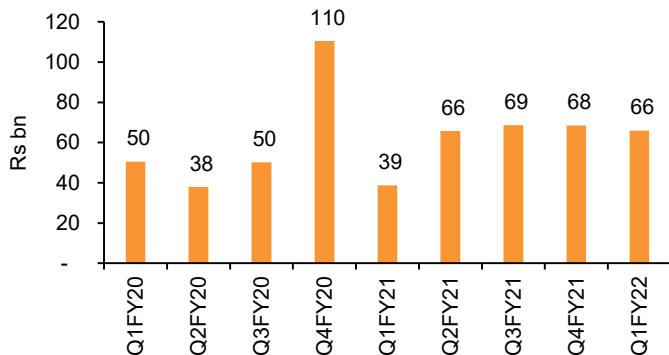
- Reported consolidated revenue was 3% above our estimates at Rs269bn, up 4.3% qoq.
- **EBITDA of Rs130bn was up 5.3% qoq, implying a margin of 48.3% (+44bps qoq).** Total opex was up 3.4% and 2%, ahead of estimates, while network opex was down 2% qoq. In India, network opex and access charges were down 4%/5% qoq, partially supporting the EBITDA beat.
- Consolidated net profit stood at Rs2.7bn.
  - Exceptional gain was Rs305mn vs. Rs4.4bn in Q4. Finance charges increased to Rs42.2bn from Rs38.6bn in Q4.
- **India Mobile:** Revenues increased 1.6% sequentially
  - Data customer additions were healthy at 4.3mn despite lockdowns across the states in Q1. Data customers as a percentage of mobile customers stood at 60.1% vs. 58.7% in Q4FY21. 4G data customer additions were 5.1mn. Data volume increased 17% qoq, with average usage/sub growing 12% qoq.
  - Blended churn rate rose once again to 2.8% from 2.2% in Q4. The post-paid subscriber base expanded by 0.3mn in Q1 vs. 0.6mn in Q4.
  - The company added 2,409 sites in the quarter vs. the last three-quarter average of 6,919 sites. The optical fiber network was expanded by 7,717km in Q1 vs. the last three-quarter average of 6,012km.
- **Airtel Business (Enterprise):** Revenues rose 2.4% qoq, while EBITDA dipped by 1.2% and margin contracted by 141bps qoq.

- **Home Broadband:** The segment posted strong revenue growth of 9% qoq, while EBITDA was down by 3.4% qoq, implying a margin contraction of 622bps. *During the quarter, subs additions were steady at 285,000 vs. 274,000 in Q4, which is the highest-ever adds for the company.* ARPU decline moderated significantly to 0.4% qoq vs. a 10% decline in Q3FY21 and 3% in Q4FY21.
- **DTH:** Revenue and EBITDA improved 6% qoq, with the performance being supported by 5% ARPU growth and subscriber additions of 282,000.

### Other highlights

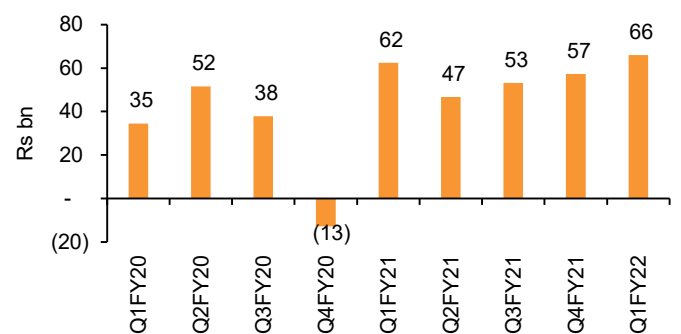
- Capex for the quarter fell marginally to Rs65.9bn from Rs68.5bn in Q4. **However, India capex recorded an increase of 11% qoq to Rs57bn.**
- Operating FCF generation stood at Rs66bn, supported by healthy operating performance and lower capex in Africa.
- Gross debt rose to Rs1.69tn vs. Rs1.63tn in Q4 on account of deferred spectrum payments.
  - Net debt was Rs1.6tn at Q1-end vs. Rs1.49tn at the end of the previous quarter.

**Exhibit 2: Capex dipped sequentially**



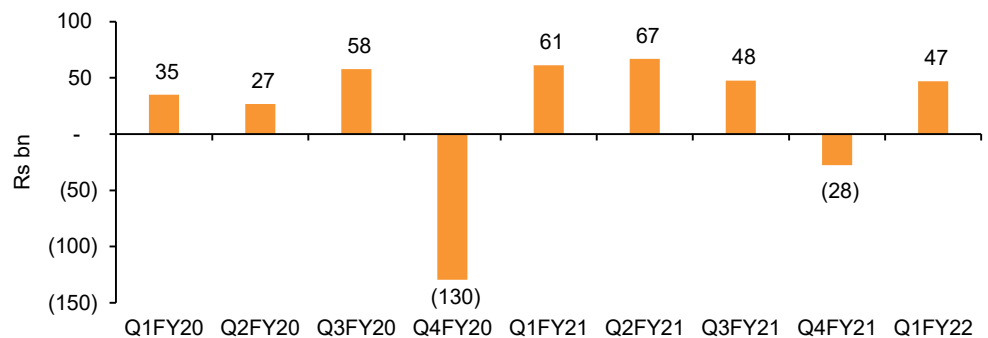
Source: Company, Emkay Research

**Exhibit 3: Operating FCF (EBITDA – Capex) rose sizably in Q1**



Source: Company, Emkay Research

**Exhibit 4: FCF turned back into black and stood at Rs46.9bn in Q1**



Source: Company, Emkay Research

**Exhibit 5: India Wireless KPI trends**

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
ARPU (Rs)	157	162	166	145	146	(7)	0.6
MOU (mins)	994	1,005	1,027	1,053	1,044	5	(1)
Traffic (bn mins)	820	861	925	997	1,002	22	1
Subscribers (Mn)	280	294	308	321	321	15	(0)
Pre-Paid Churn	2%	2%	2%	2%	3%		

**Data metrics**

Subscribers (mn)	149	162	175	189	193	29	2
<b>Of which no. of 3G/4G customers (mn)</b>	<b>138</b>	<b>153</b>	<b>166</b>	<b>179</b>	<b>184</b>	<b>33</b>	<b>3</b>
As % of customer base	53.3%	55.2%	56.7%	58.7%	60.1%		
Total MBs on the network (bn)	7,240	7,640	8,454	9,207	10,771	49	17
Data usage/ User (GB)	16.7	16.4	16.8	16.8	18.9	14	12

Source: Company, Emkay Research

**Exhibit 6: DTH segment KPI trends**

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
<b>Digital TV subs (mn)</b>	<b>16.8</b>	<b>17.4</b>	<b>17.9</b>	<b>17.7</b>	<b>18.0</b>	<b>6.9</b>	<b>1.6</b>
Net additions (000's)	226	549	485	-156	282		
ARPU (Rs)	149	148	149	144	151	1.3	5.0
Monthly Churn	1.3%	1.5%	1.4%	2.2%	1.4%	7.7	(35.1)

Source: Company, Emkay Research

**Exhibit 7: Home Services segment KPIs**

Particulars	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Subscribers (mn)	2.4	2.6	2.8	3.1	3.4	36.9	9.3
Net Additions (000's)	34	129	215	274	285		
Average Revenue Per User (ARPU)	802	783	705	684	681	(15.1)	(0.4)

Source: Company, Emkay Research

**Exhibit 8: Actual vs. Estimates (Q1FY22)**

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	2,68,536	2,61,283	2,62,470	3%	2%	Led by all business segments
EBITDA	1,29,803	1,25,212	1,26,756	4%	2%	Lower-than-expected network opex and access charges
<i>EBITDA Margin</i>	<i>48%</i>	<i>48%</i>	<i>48%</i>	<i>42 bps</i>	<i>4 bps</i>	
PAT	2,835	3,185	2,933	-11%	-3%	Higher-than-anticipated ETR

Source: Company, Bloomberg, Emkay Research

**Exhibit 9: Summary of quarterly financials (excludes revenues from tower business retrospectively)**

Rs mn	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Mobile	1,94,371	2,11,096	2,25,289	2,17,798	2,25,781	16.2	3.7
India	1,28,771	1,38,319	1,47,788	1,40,798	1,43,056	11.1	1.6
Africa	64,513	71,661	76,441	76,018	81,773	26.8	7.6
South Asia	1,088	1,116	1,060	982	952	(12.5)	(3.1)
Home Broadband	5,786	5,874	5,674	6,009	6,531	12.9	8.7
Enterprise Total	35,019	35,821	36,215	37,020	37,893	8.2	2.4
Others	7,448	7,571	7,905	7,757	8,179	9.8	5.4
<b>Total gross Sales</b>	<b>2,42,625</b>	<b>2,60,362</b>	<b>2,75,083</b>	<b>2,68,584</b>	<b>2,78,384</b>	<b>14.7</b>	<b>3.6</b>
Inter-segmental eliminations	9,722	9,758	9,905	11,111	9,848	1.3	(11.4)
<b>Net Sales</b>	<b>2,32,903</b>	<b>2,50,604</b>	<b>2,65,178</b>	<b>2,57,473</b>	<b>2,68,536</b>	<b>15.3</b>	<b>4.3</b>
Access charge	28,011	29,229	30,632	15,649	16,166	(42.3)	3.3
<i>as % of sales</i>	12.0	11.7	11.6	6.1	6.0		
Network Operating	50,963	54,198	55,479	59,179	57,973	13.8	(2.0)
<i>as % of sales</i>	21.9	21.6	20.9	23.0	21.6		
Employee Expenses	10,725	10,172	10,260	9,989	10,345	(3.5)	3.6
<i>as % of sales</i>	4.6	4.1	3.9	3.9	3.9		
Marketing Expenses	23,267	23,954	25,325	24,325	27,794	19.5	14.3
<i>as % of sales</i>	10.0	9.6	9.6	9.4	10.4		
License Fee	20,766	22,354	22,952	25,012	26,455	27.4	5.8
<i>as % of sales</i>	8.9	8.9	8.7	9.7	9.9		
<b>Total operating expenditure</b>	<b>1,33,732</b>	<b>1,39,907</b>	<b>1,44,648</b>	<b>1,34,154</b>	<b>1,38,733</b>	<b>3.7</b>	<b>3.4</b>
<b>EBITDA</b>	<b>99,171</b>	<b>1,10,697</b>	<b>1,20,530</b>	<b>1,23,319</b>	<b>1,29,803</b>	<b>30.9</b>	<b>5.3</b>
Depreciation	71,132	72,862	75,031	75,019	77,137	8.4	2.8
<b>EBIT</b>	<b>28,039</b>	<b>37,835</b>	<b>45,499</b>	<b>48,300</b>	<b>52,666</b>	<b>87.8</b>	<b>9.0</b>
Other Income	4,066	1,031	492	839	2,098		
Interest	34,671	37,914	39,719	38,606	42,257	21.9	9.5
Non-operating expenses	1,10,101	-7,152	-53,098	-4,404	-305		
<b>PBT</b>	<b>-1,12,666</b>	<b>8,103</b>	<b>59,370</b>	<b>14,937</b>	<b>12,812</b>	<b>111.4</b>	<b>14.2</b>
Tax	38,175	5,517	43,663	5,101	8,345	78.1	63.6
<b>PAT before MI</b>	<b>-1,50,841</b>	<b>2,586</b>	<b>15,707</b>	<b>9,836</b>	<b>4,467</b>	<b>103.0</b>	<b>54.6</b>
Minority interest	7,419	7,293	4,965	7,518	6,579	(11.3)	(12.5)
<b>PAT MI</b>	<b>-1,58,260</b>	<b>-4,707</b>	<b>10,742</b>	<b>2,318</b>	<b>-2,112</b>	<b>98.7</b>	<b>191.1</b>
share of associates	1,070	2,926	-2,206	5,274	4,947	362.2	(6.2)
<b>PAT</b>	<b>-1,59,330</b>	<b>-7,633</b>	<b>8,536</b>	<b>7,592</b>	<b>2,835</b>	<b>101.8</b>	<b>62.7</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>
EBIDTA	42.6	44.2	45.5	47.9	48.3	576	44
EBIT	12.0	15.1	17.2	18.8	19.6	757	85
EBT	(48.4)	3.2	22.4	5.8	4.8	5,315	(103)
PAT	(68.4)	(3.0)	3.2	2.9	1.1	6,947	(189)
Effective Tax rate	(33.9)	68.1	73.5	34.2	65.1	9,902	3,098

Source: Company, Emkay Research

## Q1FY22 performance of Africa operations

- Consolidated Revenue stood at US\$1.1bn (+30.7% yoy and 7.1% qoq on a reported basis), EBITDA at US\$534mn (+42.4% yoy and 7.9% qoq) with margin at 48% (+33bps qoq).
- Voice revenues rose 3.3% sequentially in CC terms.
  - Voice ARPU increased by 2.1% in CC terms to \$1.6 after seeing a dip in the previous quarter.
- Data revenue jumped 13.9% qoq in CC terms, on the back of a 10.2% rise in data ARPU to \$2.9.
  - Data customer base rose to 35.1% from 34.3% in Q4FY21.
  - During the period, data usage per customer was up 14% qoq to 3.3GB vs. 2.9GB in Q4.
- PAT dropped 5.3% qoq on a reported basis to \$125mn. This was due to an increase in tax outgo on higher operating profit, a one-time tax case settlement charge, and higher withholding tax on dividends by a subsidiary.
  - Net finance cost was broadly stable. However, there was an increase in the effective interest rate to 5% from 4.7% in the previous year due to a reduction in foreign currency debt and an increase in local currency debt. However, interest charges were stable on account of lower debt and a slightly higher interest income.

### Exhibit 10: Consolidated Airtel Africa financials (in reported terms)

Particulars (USD mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Total revenue	851	965	1,034	1,038	1,112	30.7	7.1
EBITDA	375	437	485	495	534	42.4	7.9
EBITDA margin	44.1%	45.3%	46.9%	47.7%	48.0%		
Net Income	42	70	95	132	125	197.6	(5.3)
Capex	66	149	188	211	106		
Operating FCF (EBITDA - Capex)	309	287	298	284	428	38.5	50.7

Source: Company, Emkay Research

### Consolidated KPIs

- After a contraction in the previous quarter, the subscriber base expanded by 2.6mn (our estimate: 1.1mn) and stood at 120.8mn vs. 118.2mn in Q4FY21.
  - Data customer base rose to 42.4mn (35.1% of total subscriber base vs. 34.3% in Q4).
  - Monthly churn was 3.6% vs. 3.9% in the previous quarter.
- ARPU stood at \$3.1, up 6.5% qoq in CC terms. This growth was driven by ARPU of the data segment, which witnessed a jump of 10.2%, while voice saw an increase of 2.1%.
- Mobile money revenue increased to \$123mn (+12.9% qoq in CC terms). There was an overall increase across metrics, with active customer base expanding by 6.5% qoq and transaction value surging 17.1% qoq.
- Total capex was US\$106mn vs. US\$211mn in Q4FY21.
- Net debt was relatively stable at US\$3.5bn, with **net debt-to-EBITDA at 1.8x**.
- Operating FCF (EBITDA – capex) for the quarter stood at \$428mn vs. \$284mn in Q4FY21, driven lower capex.

**Exhibit 11: KPI performance**

Particulars	Q1FY21	Q4FY21	Q1FY22	YoY	QoQ
ARPU (\$) (in CC terms)	2.5	2.9	3.1	22.9%	6.5%
Subscribers ('000)	111.5	118.2	120.8	8.4%	2.2%
<b>Data</b>					
Data Customer base (000's)	37.0	40.6	42.4	14.7%	4.5%
As % of total base	33.2%	34.3%	35.1%		
Network sites	23,471	25,368	26,104	11.2%	2.9%
of which 3G sites	21,171	23,826	24,701	16.7%	3.7%

Source: Company, Emkay Research

**Other highlights**

- In Jun'21, the company signed a deal with a JV owned by SBA Communications and Paradigm Infrastructure for the sale of the tower portfolio belonging to Airtel Tanzania. The portfolio comprises 1,400 towers.
  - The consideration for the transaction is ~\$175mn, of which ~\$157.5m is payable on the first closing date (expected to take place in H2). The balance is payable in instalments upon the completion of the transfer of any remaining towers.
  - From the proceeds, ~\$60mn will be used to invest in network and sales infrastructure in Tanzania and for distribution to the government, and the balance will be utilized for reducing debt at the group level.
- Following up on the directive issued by the Nigerian Communications Commission (NCC) in Dec'20, the company announced that it would permit new customer enrolment to recommence via certified outlets in Apr'21. So far, approvals for 2,100 outlets have been received.
  - With regard to the verification of National Identification Numbers (NIN), information for 25mn subscribers of the total active base of 40.9mn has been collated.
  - The deadline for verification of the entire subscriber base is Oct'21.
- In Apr'21, the company agreed to a new \$500mn loan facility with a group of banks. This facility consists of a combination of a revolving credit facility and term loans with a tenor of up to four years.
  - It was used to partially refinance the group's EUR750mn euro-denominated bonds which were due in May'21.
- New shareholding structure requirements were unveiled in Kenya in Apr'21. As per the amendment, Airtel Networks Kenya has a mandate to have 30% local shareholding within three years, effective April 9, 2021. In addition, Airtel Money Kenya should also have three years, effective Nov'20, to comply with the 30% shareholding norm.
- There has been a change at the management level, with Segun Ogunsanya taking over as MD & CEO, effective Oct'21.

## Changes in estimates

We largely maintain our revenue and EBITDA assumptions, while the bottom-line estimates see a downward revision due to higher ETR assumptions for the African operations.

**Exhibit 12: Changes in estimates**

Rs mn	FY22E			FY23E			FY24E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	11,53,861	11,51,156	-0.2	12,91,087	13,07,981	1.3	13,99,092	14,11,397	0.9
EBITDA	5,66,861	5,67,253	0.1	6,56,180	6,62,517	1.0	7,15,018	7,15,094	0.0
EBITDA Margin %	49.1	49.3	15 bps	50.8	50.7	-17 bps	51.1	50.7	-44 bps
PAT	76,211	67,401	-11.6	1,71,782	1,63,614	-4.8	1,93,683	1,78,722	-7.7
EPS (Rs)	14.0	12.4	-11.6	31.5	30.0	-4.8	35.5	32.8	-7.7

Source: Company, Emkay Research

**Exhibit 13: Key revenue assumptions**

Rs mn	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>India and Asia</b>						
Mobile	4,19,977	4,64,216	5,59,923	6,23,615	7,39,393	7,92,595
Home Service	22,391	22,451	23,342	29,418	38,290	46,931
Airtel business	1,24,537	1,32,330	1,44,075	1,55,723	1,66,624	1,78,288
Passive	68,185	67,424	34,084	0	0	0
Others	41,904	29,238	30,685	33,397	35,902	37,750
Africa	2,23,463	2,42,170	2,88,632	3,42,738	3,66,980	3,98,056
<b>Total gross revenue</b>	<b>9,00,457</b>	<b>9,57,830</b>	<b>10,80,741</b>	<b>11,84,891</b>	<b>13,47,189</b>	<b>14,53,620</b>
Less: Eliminations	92,655	82,439	60,854	33,733	39,208	42,223
<b>Net Revenue</b>	<b>8,07,802</b>	<b>8,75,391</b>	<b>10,19,887</b>	<b>11,51,156</b>	<b>13,07,981</b>	<b>14,11,397</b>

Source: Company, Emkay Research

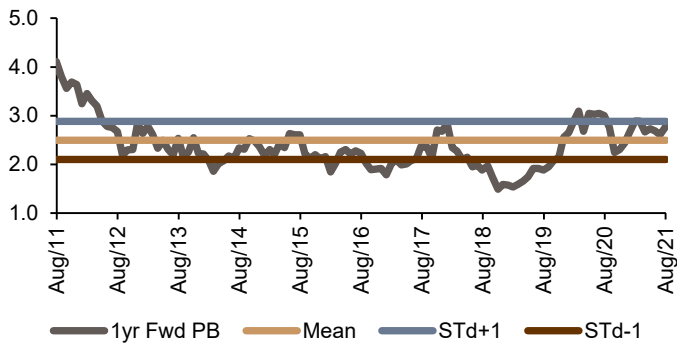
**Exhibit 14: SoTP-based valuation**

Particulars	Sept'23E
<b>Core India business (ex-towers, ex-Africa)</b>	
Enterprise value (Rs bn)	4,652
EBITDA (Rs mn)	510
EV/EBITDA (x)	9.0
Net debt (Rs bn)	1,043
Equity value (Rs bn)	3,608
<b>Equity value (Rs/share)</b>	<b>660</b>
<b>Indus Towers valuation</b>	
Target market cap (Rs mn)	6,32,942
Bharti's shareholding (%)	41.7%
Bharti's share	2,63,684
<b>Per Share value (Rs/share)</b>	<b>48</b>
<b>Africa business valuation</b>	
Enterprise value (Rs bn)	554
EBITDA (Rs bn)	179
EV/EBITDA (x)	3.1
Net debt - (Rs bn)	333
Equity value (Rs bn)	221
Bharti's stake	56%
<b>Per share value (Rs/share)</b>	<b>22</b>
<b>Target Price (Rs/share)</b>	<b>730</b>

Source: Emkay Research

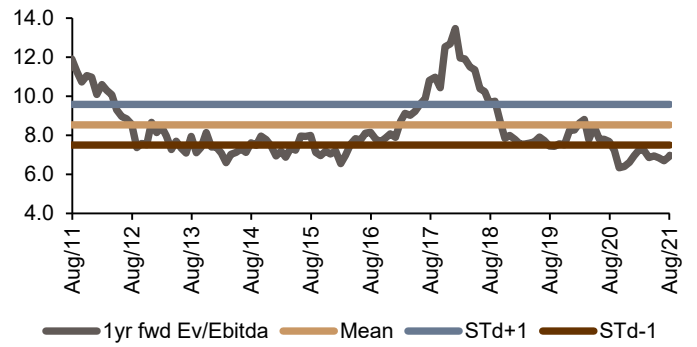


**Exhibit 15: 1-year forward P/B valuation band**



Source: Company, Bloomberg, Emkay Research

**Exhibit 16: 1-year forward EV/EBITDA valuation band**



Source: Company, Bloomberg, Emkay Research

## Con-call highlights

- **Wireless:** June subscriber additions bounced back after the weakness seen in May, and the momentum has sustained in July. There will be SIM consolidation after tariff increase for entry-level plans, which should normalize in September. The tariff hike in the mass segment will be done carefully as Bharti's does not want to increase the premium and getting impacted by the price elasticity.
  - Bharti implemented both Sub-GHz and mid-bands across various circles to enhance coverage. Data usage trend during Q1 flattened during the day, resulting in lesser capex requirement.
  - **High-Value Homes (50mn):** Average monthly spends for these customers stand at ~Rs1,500-2,000 for communication & content consumption, while they have far higher purchasing power but needs attention. Bharti is sharply focusing on this category with differentiating product offerings such as: 1) 'Family Plan', 3) integration of Airtel Payment Bank option with higher level of security and 3) Airtel Black plans. Bharti has already 30mn of these 50mn high-value customers on network and now the focus is on increasing the wallet share. Aspirers – 500mn subscribers: these customers have the potential to spend more with rising income levels in the longer term. Both of these customer segments give 80% of industry revenues.
  - Net adds over the last few quarters were on sites which were less utilized. The company evaluates the utilization and economics of single-network sites to enhance revenue-paying subscribers in those circles.
  - **Capex:** The implementation of sub-GHz spectrum in a few circles led to higher capex in Q1 but FY22 guidance remains unchanged. Components of capex: 1) capacity Radio toward new site deployment and it is reducing, 2) core capacity and 3) transport and backhaul consume the maximum portion of incremental capex.
    - 5G: Use cases in B2B are still few and on B2C only 1-2% of devices are 5G-compliant. With the rise in 5G deployment, 4G capex would reduce as the cost of delivering a GB on 5G is lower than 4G.
- **Payments bank:** Airtel Payments bank has now reached an annualized revenue run-rate of Rs10bn and achieved breakeven in July'21 vs. Rs151mn loss in Q1FY21. Deposits and average balance per customers are increasing, along with rising remittances. Additionally, payments to merchants on offline mode is growing at a faster pace. Cash collection is also one of the important sources of revenues.
- **Enterprise business:** The order book has recovered after seeing a weakness in April and May. Bharti is now the leader in IoT in India.
  - The focus remains on increasing revenue share as 20% of customers contribute 80% of revenues across product offerings.
- **Home broadband:** The subscriber addition momentum is accelerating and connections by small businesses have started to re-activate.
- **Digital TV:** The move to connected boxes and the shift from cable services providers will continue to drive growth.
- **Balance sheet deleveraging:** Bank debt is nearly zero (on a net basis) and net debt is also comfortable. This should further move in the favorable direction, with continued growth in EBITDA. There is no strategy around increasing stake in Indus Towers.

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Revenue</b>	<b>8,75,390</b>	<b>10,19,888</b>	<b>11,51,156</b>	<b>13,07,981</b>	<b>14,11,397</b>
<b>Expenditure</b>	<b>5,10,567</b>	<b>5,55,540</b>	<b>5,83,903</b>	<b>6,45,463</b>	<b>6,96,303</b>
<b>EBITDA</b>	<b>3,64,823</b>	<b>4,64,348</b>	<b>5,67,253</b>	<b>6,62,517</b>	<b>7,15,094</b>
Depreciation	2,76,896	2,96,529	3,13,573	3,27,089	3,42,659
<b>EBIT</b>	<b>87,927</b>	<b>1,67,819</b>	<b>2,53,680</b>	<b>3,35,428</b>	<b>3,72,435</b>
Other Income	19,346	7,625	7,673	6,445	9,625
Interest expenses	1,39,918	1,50,491	1,60,616	1,34,314	1,20,841
<b>PBT</b>	<b>(32,645)</b>	<b>24,953</b>	<b>1,00,737</b>	<b>2,07,560</b>	<b>2,61,220</b>
Tax	(1,21,823)	92,456	29,133	39,134	78,726
Extraordinary Items	(4,02,344)	(60,448)	305	0	0
Minority Int./Income from Assoc.	(15,190)	(27,195)	(26,079)	(28,000)	(28,800)
<b>Reported Net Income</b>	<b>(3,21,832)</b>	<b>(1,50,835)</b>	<b>67,401</b>	<b>1,63,614</b>	<b>1,78,722</b>
<b>Adjusted PAT</b>	<b>80,512</b>	<b>(90,387)</b>	<b>67,096</b>	<b>1,63,614</b>	<b>1,78,722</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	27,278	27,460	27,460	27,460	27,460
Reserves & surplus	9,79,923	8,86,647	9,61,890	11,22,126	12,75,336
<b>Net worth</b>	<b>10,07,201</b>	<b>9,14,107</b>	<b>9,89,350</b>	<b>11,49,586</b>	<b>13,02,796</b>
<b>Minority Interest</b>	<b>2,49,847</b>	<b>2,22,739</b>	<b>2,48,818</b>	<b>2,76,818</b>	<b>3,05,618</b>
<b>Loan Funds</b>	<b>14,82,281</b>	<b>16,27,852</b>	<b>15,87,852</b>	<b>12,77,852</b>	<b>10,77,852</b>
Net deferred tax liability	16,877	16,107	16,107	16,107	16,107
<b>Total Liabilities</b>	<b>27,56,206</b>	<b>27,80,805</b>	<b>28,42,127</b>	<b>27,20,363</b>	<b>27,02,373</b>
<b>Net block</b>	<b>22,92,555</b>	<b>22,34,796</b>	<b>23,62,746</b>	<b>22,78,197</b>	<b>21,77,338</b>
<b>Investment</b>	<b>2,54,765</b>	<b>2,75,504</b>	<b>2,75,504</b>	<b>2,75,504</b>	<b>2,75,504</b>
<b>Current Assets</b>	<b>10,17,647</b>	<b>8,92,713</b>	<b>8,11,785</b>	<b>8,31,781</b>	<b>9,30,804</b>
Cash & bank balance	1,58,927	1,34,661	62,279	50,816	1,16,652
Other Current Assets	8,08,260	7,18,041	6,96,628	7,21,160	7,52,130
<b>Current liabilities &amp; Provision</b>	<b>8,51,584</b>	<b>6,79,473</b>	<b>6,35,732</b>	<b>6,92,942</b>	<b>7,09,096</b>
<b>Net current assets</b>	<b>1,66,063</b>	<b>2,13,240</b>	<b>1,76,053</b>	<b>1,38,838</b>	<b>2,21,708</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>27,56,206</b>	<b>27,80,805</b>	<b>28,42,127</b>	<b>27,20,363</b>	<b>27,02,373</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>(51,991)</b>	<b>17,328</b>	<b>93,065</b>	<b>2,01,114</b>	<b>2,51,595</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	6,187	(72,213)	(35,195)	25,751	(17,033)
<b>Operating Cashflow</b>	<b>2,23,604</b>	<b>52,407</b>	<b>2,95,778</b>	<b>5,26,454</b>	<b>5,14,348</b>
Capital expenditure	(5,07,617)	(2,53,212)	(4,12,081)	(2,42,540)	(2,41,800)
<b>Free Cash Flow</b>	<b>(2,84,013)</b>	<b>(2,00,805)</b>	<b>(1,16,303)</b>	<b>2,83,914</b>	<b>2,72,548</b>
Investments	(97,655)	(20,739)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
<b>Investing Cashflow</b>	<b>(5,85,926)</b>	<b>(2,66,326)</b>	<b>(4,04,409)</b>	<b>(2,36,095)</b>	<b>(2,32,175)</b>
Equity Capital Raised	7,291	182	0	0	0
Loans Taken / (Repaid)	2,27,998	1,45,571	(40,000)	(3,10,000)	(2,00,000)
Dividend paid (incl tax)	(12,766)	0	(12,766)	(12,766)	(12,766)
Other Financing Cash Flow	4,38,644	3,53,318	3,84,291	2,17,536	1,68,085
<b>Financing Cashflow</b>	<b>5,21,249</b>	<b>3,48,580</b>	<b>1,70,909</b>	<b>(2,39,544)</b>	<b>(1,65,521)</b>
<b>Net chg in cash</b>	<b>1,58,927</b>	<b>1,34,661</b>	<b>62,279</b>	<b>50,816</b>	<b>1,16,652</b>
Opening cash position	81,055	1,58,927	1,34,661	62,279	50,816
<b>Closing cash position</b>	<b>1,58,927</b>	<b>1,34,661</b>	<b>62,279</b>	<b>50,816</b>	<b>1,16,652</b>

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EBITDA Margin	41.7	45.5	49.3	50.7	50.7
EBIT Margin	10.0	16.5	22.0	25.6	26.4
Effective Tax Rate	373.2	370.5	28.9	18.9	30.1
Net Margin	10.2	(6.6)	6.2	12.9	12.9
ROCE	4.2	6.3	9.3	12.3	14.1
ROE	8.2	(9.4)	7.0	15.3	14.6
RoIC	4.1	7.3	10.6	13.9	16.0

<b>Per Share Data (Rs)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EPS	14.8	(16.6)	12.3	30.0	32.8
CEPS	65.5	37.8	69.8	89.9	95.6
BVPS	184.6	167.6	181.3	210.7	238.8
DPS	2.0	0.0	2.0	2.0	2.0

<b>Valuations (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
PER	39.3	(35.0)	47.2	19.3	17.7
P/CEPS	8.9	15.4	8.3	6.5	6.1
P/BV	3.1	3.5	3.2	2.8	2.4
EV / Sales	4.9	4.5	4.0	3.3	2.9
EV / EBITDA	11.9	9.9	8.2	6.6	5.7
Dividend Yield (%)	0.3	0.0	0.3	0.3	0.3

<b>Gearing Ratio (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net Debt/ Equity	1.2	1.6	1.5	1.0	0.7
Net Debt/EBIDTA	3.2	3.1	2.6	1.8	1.3
Working Cap Cycle (days)	3.0	28.1	36.1	24.6	27.2

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Revenue	8.4	16.5	12.9	13.6	7.9
EBITDA	41.3	27.3	22.2	16.8	7.9
EBIT	96.6	90.9	51.2	32.2	11.0
PAT	(7,959.1)	0.0	0.0	142.7	9.2

<b>Quarterly (Rs mn)</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>
Revenue	2,39,387	2,57,850	2,65,178	2,57,473	2,68,536
EBITDA	1,04,079	1,16,420	1,20,530	1,23,319	1,29,803
<b>EBITDA Margin (%)</b>	<b>43.5</b>	<b>45.2</b>	<b>45.5</b>	<b>47.9</b>	<b>48.3</b>
PAT	(1,59,331)	(7,632)	8,536	7,592	2,835
<b>EPS (Rs)</b>	<b>(29.2)</b>	<b>(1.4)</b>	<b>1.6</b>	<b>1.4</b>	<b>0.5</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>
Promoters	56.2	56.2	56.2	55.9	55.9
FIs	20.2	17.6	17.8	18.6	18.1
DIs	18.4	21.7	21.8	20.4	20.7
Public and Others	5.3	4.5	4.2	5.2	5.4

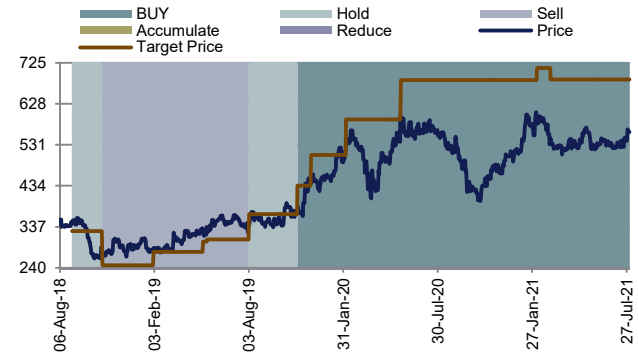
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Jul-21	530	686	12m	Buy	Naval Seth
18-May-21	536	686	12m	Buy	Naval Seth
12-May-21	562	686	12m	Buy	Naval Seth
18-Mar-21	527	686	12m	Buy	Naval Seth
03-Mar-21	546	686	12m	Buy	Naval Seth
01-Mar-21	532	713	12m	Buy	Naval Seth
24-Feb-21	573	713	12m	Buy	Naval Seth
05-Feb-21	581	713	12m	Buy	Naval Seth
29-Jan-21	554	684	12m	Buy	Naval Seth
24-Dec-20	517	684	12m	Buy	Naval Seth
23-Nov-20	477	684	12m	Buy	Naval Seth
29-Oct-20	451	684	12m	Buy	Naval Seth
23-Sep-20	434	684	12m	Buy	Naval Seth
01-Sep-20	546	684	12m	Buy	Naval Seth
31-Jul-20	555	684	12m	Buy	Naval Seth
05-Jul-20	581	684	12m	Buy	Naval Seth
20-Jun-20	573	684	12m	Buy	Naval Seth
20-May-20	594	684	12m	Buy	Naval Seth
10-Mar-20	496	591	12m	Buy	Naval Seth
05-Feb-20	533	591	12m	Buy	Naval Seth
30-Dec-19	461	507	12m	Buy	Naval Seth
30-Nov-19	442	507	12m	Buy	Naval Seth
22-Nov-19	421	434	12m	Buy	Naval Seth
15-Nov-19	393	434	12m	Buy	Naval Seth
04-Nov-19	378	434	12m	Buy	Naval Seth
18-Sep-19	336	367	12m	Hold	Naval Seth
03-Aug-19	344	367	12m	Hold	Naval Seth
25-Jun-19	349	307	12m	Sell	Naval Seth
09-Jun-19	357	307	12m	Sell	Naval Seth
15-May-19	331	307	12m	Sell	Naval Seth
07-May-19	325	302	12m	Sell	Naval Seth
08-Apr-19	326	277	12m	Sell	Naval Seth
01-Feb-19	286	277	12m	Sell	Naval Seth
27-Nov-18	301	246	12m	Sell	Naval Seth
26-Oct-18	274	246	12m	Sell	Naval Seth
29-Aug-18	344	327	12m	Hold	Naval Seth

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Telecommunications



### Analyst: Naval Seth

#### Contact Details

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#### Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

#### Analyst bio

Naval holds an MBA in Finance and has more than 13 years of experience in equity research. His team currently covers 19 stocks spread across three different sectors.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>Telecommunications</b>	<b>1.98</b>	<b>1.91</b>	<b>-4%</b>	<b>-7</b>	<b>100.00</b>
Bharti Airtel	1.49	1.55	4%	6	78.00
Indus Towers	0.23	0.17	-25%	-6	8.70
Tata Communications	0.19	0.19	2%	0	9.75
Vodafone Idea	0.07	0.00	-100%	-7	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.07</b>	<b>NA</b>	<b>7</b>	<b>3.55</b>

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	4-Aug-20	2-Feb-21	4-May-21	2-Jul-21	3-Aug-21
EAP - Telecommunications	100.0	143.0	157.9	148.9	144.1	156.5
BSE200 Neutral Weighted Portfolio (ETF)	100.0	116.1	129.1	119.8	116.4	125.5

\*Performance measurement base date 1<sup>st</sup> April 2019

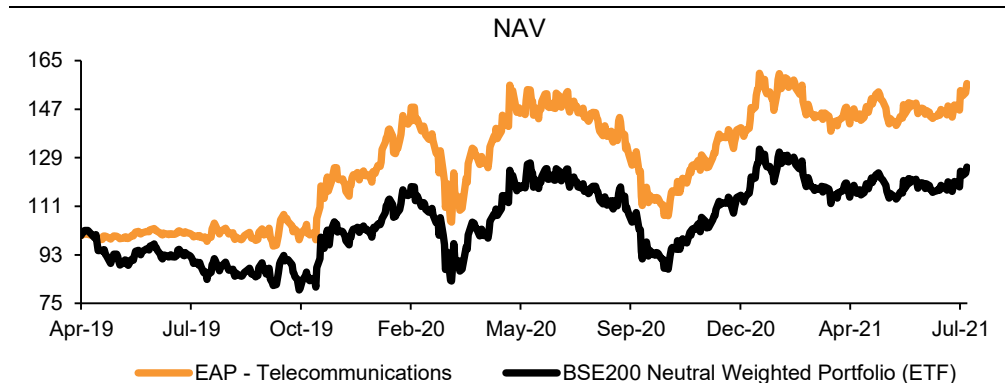
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	8.6%	5.1%	-0.9%	9.4%
BSE200 Neutral Weighted Portfolio (ETF)	7.8%	4.8%	-2.8%	8.1%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 05 Aug 2021 12:53:28 (SGT)

Dissemination Date: 05 Aug 2021 12:54:28 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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