Bharti Airtel (BHAAIR)

CMP: ₹ 601 | Target: ₹ 730 (22%) | Target Period: 12-18 months | **BUY**

February 5, 2021

Result Update

Robust operating show again…

Bharti Airtel reported yet another strong operating performance with beat on KPIs such as ARPU, subscriber addition and margins. Consolidated topline came in at ₹ 26,518 crore, up 5.8% QoQ *on a like to like basis*, driven by Indian wireless revenues, which were up 6.8% QoQ (32.4% YoY) at ₹ 14,779 crore, with ARPU growth of 2.4% QoQ at ₹ 166 and strong net sub addition of ~14.2 million. Africa revenues were up 6.7% QoQ at ₹ 7644 crore. Consolidated EBITDA came in at ₹ 12,053 crore, up 8.9% QoQ on comparable basis with margin of 45.5% (up 128 bps QoQ). Overall Indian margin was up 78 bps QoQ at 45.2% with Indian wireless margins at 42.6%, up 110 bps QoQ, largely a function of operating leverage.

India wireless business – strong performance yet again

Key highlight was net subscriber addition of ~14.2 million coupled with ARPU growth of 2.4% QoQ at ₹ 166. It also witnessed a strong 4G Net adds of ~12.9 mn. The company also added ~7 lakh post-paid subscribers driven by omni-channel capabilities. While it rooted for tariff hike need for decent RoCE generation, management reiterated that they would drive ARPU growth ahead through natural upgrade to 4G and acceleration to post-paid but tariff hike will be function of competitive intensity. We expect monthly ARPU to reach ₹ 192 in FY23 vs. current levels of ₹ 166, as we do not build in any one-time hike in our estimates.

Non-wireless segment shining too

Broadband was noteworthy in the non-wireless segment with the company adding ~2.15 lakh broadband subs (highest ever). Notably, the company has accelerated LCO partnerships in non-wired cities, taking up the LCO partnership model live in 120+ cities (~48 cities in Q2). It sees strong traction riding on traction online education, streaming services and work from home needs. It also continues to ramp up its enterprise offerings through new collaborations and services. Revenue growth of ~9% YoY, in the enterprise segment, was robust.

Valuation & Outlook

Bharti Airtel continues to report resilient numbers especially on Indian wireless business front. The strong subscriber addition and ARPU traction which percolated into superior EBITDA (incremental margins of ~60%) are key positive. The commentary of no major step up capex intensity in 5G (apart from spectrum spends), also provides clarity on cash generation. The non-wireless business traction along with Africa performance, continue to witness strong traction. We see the favourable industry structure of three players (two being strong), a good enough kicker for eventual hike in tariff as well as superior digital play in medium to long term. We maintain our **BUY** rating on the stock with a revised DCF based target price of ₹ 730/share (earlier ₹ 700/share).

Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	3,27,663
Total Debt (₹ Crore)	1,48,228
Cash & Inv (₹ Crore)	29,061
EV (₹ Crore)	4,46,831
52 week H/L	623/ 362
Equity capital	2,727.8
Face value	5.0

Key Highlights

- Key highlight was net subscriber addition of ~14.2 million coupled with ARPU growth of 2.4% QoQ at ₹ 166. It also added ~7 lakh post-paid subscribers driven by omni-channel capabilities coupled with continued expansion in India wireless margins
- Maintain BUY rating with DCF based target price of ₹ 730/share

Key Risk to our call

- Subscriber market share recovery for VIL
- Sustained delay in tariff hike

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(Year-end March)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales (₹ crore)	80,780	87,539	1,02,699	1,14,608	1,27,972	13.5
EBITDA (₹ crore)	25,630	36,482	46,833	57,693	66,840	22.4
Net Profit (₹ crore)	409	(32,183)	(14,572)	10,156	16,078	NA
EPS (₹)	1.0	NA	(26.7)	18.6	29.5	
P/E (x)	586.3	NA	(22.5)	32.3	20.4	
Price / Book (x)	3.4	4.2	7.0	5.7	4.5	
EV/EBITDA (x)	17.2	12.2	10.0	7.5	6.0	
RoCE (%)	2.1	4.1	7.4	11.5	15.0	
RoE (%)	(3.5)	(5.3)	(1.3)	17.8	21.9	

Source: Company, ICICI Direct Research

ICICI Securities – Retail Equity Research

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	Comments
Revenue	26,517.8	25,391.4	21,947.1	25,785.0	20.8	2.8	Prior period numbers not comparable due to Indus deconsolidation
Employee Expenses	1,026.0	1,073.2	965.1	1,100.8	6.3	-6.8	
Marketing Expenses	2,532.5	2,338.8	2,324.2	2,427.4	9.0	4.3	
Access Charges	3,063.2	2,941.0	2,710.9	2,922.9	13.0	4.8	
Network Operating	5,547.9	5,365.4	4,934.5	5,456.4	12.4	1.7	
License Fee	2,295.2	2,226.7	1,766.6	2,235.5	29.9	2.7	
EBITDA	12,053.0	11,216.3	9,245.8	11,642.0	30.4	3.5	
EBITDA Margin (%)	45.5	44.2	42.1	45.2	332 bps	30 bps	
Depreciation	7,503.1	7,000.0	6,940.8	7,421.1	8.1	1.1	
Interest	3,971.9	3,572.4	2,984.6	3,760.4	33.1	5.6	
Exceptional Items	-5,250.2	0.0	1,050.0	49.3	-600.0	-10,749.5	
Total Tax	4,306.7	600.0	-1,037.9	551.7	-514.9	680.6	
PAT	853.6	-56.1	-1,035.3	-763.2	-182.4	-211.8	
Subscribers (Mn)	307.9	301.2	283.0	293.7	8.8	4.8	
ARPU	166	165	135	162	23.2	2.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E	
(₹ Crore)	Old	New	% Change	Old	New	% Change	New	
Revenue	1,04,048	1,02,699	-1.3	119440	1,14,608	-4.0	1,27,972	Build in deconsolidation of Indus and strong core operating performance
EBITDA	47,052	46,833	-0.5	57766	57,693	-0.1	66,840	
EBITDA Margin (%)	45.2	45.6	38 bps	48.4	50.3	198 bps	52.2	
PAT	-15,535	-14,572	NA	6240	10,156	62.8	16,078	
EPS (₹)	-28.5	-26.7	NA	11.4	18.6	62.8	29	

Source: Company, ICICI Direct Research

Business Highlights (India)

- **Overall revenues & EBITDA**: On a like to like basis, overall Indian revenues at ₹ 19,007 crore, were up 5.5% QoQ, largely driven by wireless businesses. Overall Indian margin was up 78 bps QoQ at 45.2% mainly aided by expansion in wireless business margins
- **Wireless revenues & EBITDA:** Indian wireless revenues at ₹ 14,779 crore, was up 6.8% QoQ largely driven by **healthy net sub addition of ~14.2 million and the** ARPU growth of 2.4% QoQ at ₹ 166**. Indian wireless margins at 43.7%, up 110 bps QoQ, was largely a function of operating leverage. We note that incremental wireless EBITDA margins were at robust 60%**
- **Subscriber base and 4G addition:** Overall sub base saw addition of staggering **14.2 mn QoQ to reach 307.9 mn, which is a reflection strong subscriber market capture, as the new operator had added 5.2 million. It witnessed a strong 4G Net adds of ~12.9 mn during the quarter, with 4G data sub base at 165.8 mn (overall data customers base of 162.2).** The company indicated that mobile broad band subscriber addition was function of both market share gains and 2G to 4G conversion. The post-paid subscriber addition also stood at robust ~696,000
- **Minutes and data usage**: Data usage per sub was up 2.2% QoQ to 16.4 GB. Voice usage per customer was up 2.2% QoQ to 1027 minutes. Total minutes on network was up 7.4% QoQ to 924.9.9 billion (bn) minutes, largely due sharp increase in subscribers
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were down 3.4% QoQ at ₹ 567 crore (impacted by lower ARPU), Airtel business (enterprise) revenues were up 21.1% QoQ at ₹ 3621 crore and DTH reported revenues witnessed a growth of 4.6% QoQ at ₹ 789 crore
- **Network capacity and capex:** The company has maintained continued access expansion in the form of sites additions (~7414 sites) and capacity through mobile broadband BTS additions (31,139 additions in Q3). The company continues its network upgradation efforts through Open virtual ran with 5G ready software coupled with network disintegration into hardware and software. **India mobile capex was at ₹ 4205 crore (vs. ₹ 24174 crore in Q2) with overall India capex of ₹ 5391 crore (vs. ₹ 5383 crore in Q2)**

Business highlights (Africa)

- Africa revenues were up 7.8% QoQ to US$1.04 billion, driven by healthy ARPU growth and subscriber addition, with EBITDA margins of 46.9% (up 160 bps QoQ). Airtel Money reported 11.4% QoQ revenue growth at US$111 mn. **In rupee terms, Africa revenues were up 6.7% QoQ at ₹ 7644 crore**
- Subscriber base was up 2.2% QoQ at 118.9 mn with ARPU at US$2.9 up 3.7% QoQ. Data subs base was up 2.6% QoQ at 40.6 mn while total data usage was up 9% QoQ at 320.6 bn MB. Data usage per subscriber was at 2.6 GB per month, up 3% QoQ
- Africa net debt (including lease obligations) was at US$3.52 billion (up US$ 6mn). Capex was ~US$188mn
- Operating free cash flow for Q3FY21 was at US$299 million

Other Highlights

- **5G**: The company indicated 5G has no business case and app and devices ecosystem is nascent and roll out is still few years away. The management indicated that that ~ 4-5% of device shipment in December, 2020 was 5G compatible which is some movement as in October, 2020 it was ~2% and almost zero in September, 2020. **The company indicated that there would be no material change in capex intensity with 5G as additional radio units would be the only capex, with transport and core likely to remain flat, as they correspondingly reduce on 4G capex too**

- **Home broadband demand:** The company indicated that broadband is on the cusp of growth driven by online education, streaming services and Work from Home needs. The company added ~2.15 lakh broadband subs (highest ever) during the quarter. **The company accelerated LCO partnerships in non-wired cities, taking up the LCO partnership model live in 120+ cities (~48 cities in Q2)**

- **Spectrum Holdings**: The company indicated that they seek to fill the gap in the challengers' markets of Kerala, UP West, Haryana through sub-giga hertz spectrum. They would also look at 2300 MHz capacity spectrum, if possible along with renewal spectrum in 1800 MHz

- **Debt & capex:** Total capex spend for the quarter was ₹ 6864 crore vs. ₹ 6583 crore in Q2. **Reported net debt (excluding lease liability) was at ~₹ 1.15 lakh crore (up by ~₹ 4514 crore QoQ), largely due to 5% incremental stake buy in Indus Towers in December, 2020 and some reclassification from current liabilities**
- **Exceptional Items:** There was an overall net exceptional charge (after tax) of ₹ 8427 crore for re-assessment of contractual / regulatory levies and taxes of ₹ 3160 crore; charge on account of reassessment of the useful life of certain assets and impairment of intangible assets of ₹ 1420 crore with remaining largely being tax charges for the same. Furthermore, gain on deemed disposal on account of loss of control over Indus Towers amounting to ₹ 9450 crore was also booked as profit from discounted operation. **Adjusted loss was at ₹ 298.3 crore, largely due to forex losses of ₹ 384 crore (accounted within finance cost)**

Exhibit 3: Segmental revenues

₹ crore	FY19	FY20	FY21E	FY22E	FY23E
India	**67,256**	**71,111**	**79,136**	**87,150**	**99,157**
Mobility	41,554	45,966	55,896	65,686	75,925
Broadband	2,239	2,245	2,339	2,583	2,851
Enterprise	12,454	13,233	14,399	15,529	16,809
Passive Infrastructure	6,819	6,742	3,408	0	0
Digital +Others	4,190	2,924	3,094	3,351	3,571
Africa	**22,346**	**24,217**	**28,974**	**30,920**	**32,817**
South Asia	**444**	**455**	**441**	**460**	**460**
Total Gross Revenue	**90,046**	**95,783**	**1,08,551**	**1,18,530**	**1,32,434**
Intersegmental Elimination	-7,978	-7,789	-5,522	-3,922	-4,462
Net Revenue	**81,624**	**87,539**	**1,02,703**	**1,14,608**	**1,27,972**

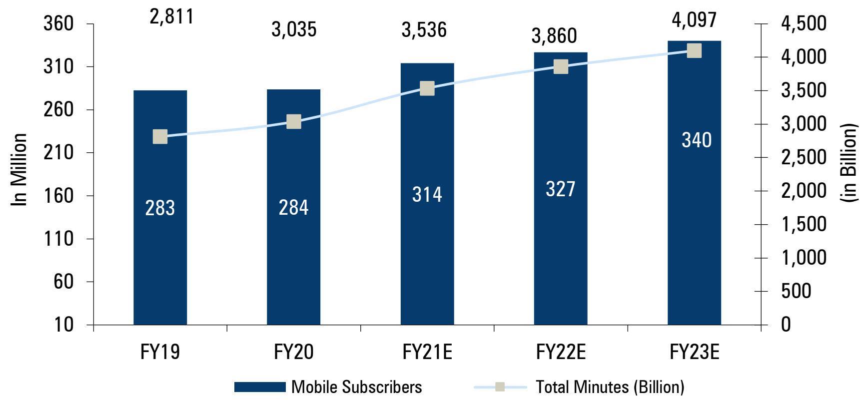
*Source: Company, ICICI Direct Research *excluded tower revenues post H2FY21 after Indus Deconsolidation*

Exhibit 4: Segmental EBITDA

₹ crore	FY19	FY20	FY21E	FY22E	FY23E
India & South Asia	**17,936**	**26,376**	**34,212**	**44,329**	**52,352**
Africa	**8,363**	**10,726**	**13,298**	**13,937**	**14,898**
Gross EBITDA	**26,300**	**37,102**	**47,509**	**58,266**	**67,250**
Intersegmental Elimination	670	620	676	573	410
Reported EBITDA	**25630**	**36482**	**46833**	**57693**	**66840**

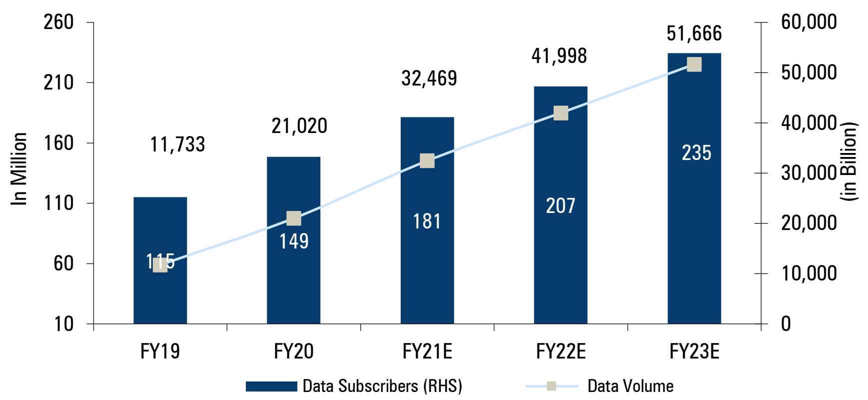
Source: Company, ICICI Direct Research

Exhibit 5: India subscriber details



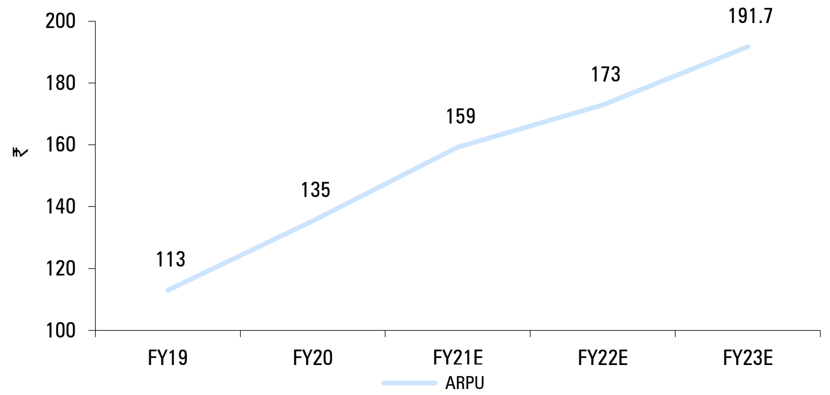
Source: Company, ICICI Direct Research

Exhibit 6: Data volume and data subs trend



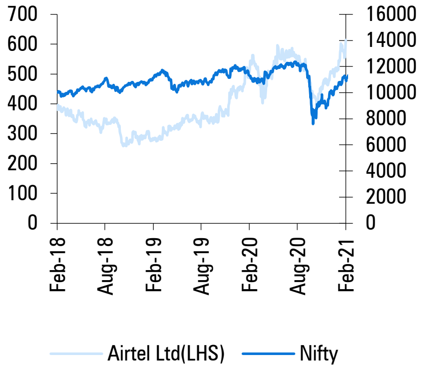
Source: Company, ICICI Direct Research

Exhibit 7: India mobile ARPU trend



Source: Company, ICICI Direct Research

Exhibit 8: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement — ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	**87,539.0**	**1,02,699.0**	**1,14,608.1**	**1,27,971.6**
Growth (%)	8.4	17.3	11.6	11.7
Employee Expenses	3,807.2	4,319.0	4,316.1	4,765.8
Marketing Expenses	9,358.2	9,951.0	11,101.3	12,135.3
Access Charges	10,739.5	10,881.1	8,540.6	9,537.9
Network Operating	19,768.5	21,836.2	23,188.6	23,764.4
License Fee	7,383.3	8,878.9	9,768.1	10,928.0
Other Costs	0.0	0.0	0.0	0.0
Total Operating Expenditure	51,056.7	55,866.2	56,914.7	61,131.5
EBITDA	**36,482.3**	**46,832.9**	**57,693.4**	**66,840.1**
Growth (%)	42.3	28.4	23.2	15.9
Depreciation	27,689.6	29,782.7	32,090.3	35,832.1
Interest	13,991.8	14,266.1	12,395.4	10,270.4
Other Income	1,934.6	828.6	600.0	700.0
Exceptional Items	40,234.4	6,544.8	-	-
PBT	-43,498.9	-2,932.2	13,807.8	21,437.7
MI / Profit from associates	866.7	2,464.0	200.0	0.0
Total Tax	-12,182.3	9,175.9	3,451.9	5,359.4
PAT	**-32,183.3**	**-14,572.1**	**10,155.8**	**16,078.3**
Growth (%)	NA	NA	NA	NA
EPS (₹)	**-59.0**	**-26.7**	**18.6**	**29.5**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement — ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-32,183.3	-14,572.1	10,155.8	16,078.3
Add: Depreciation	27,689.6	29,782.7	32,090.3	35,832.1
Add: Interest Paid	13,991.8	14,266.1	12,395.4	10,270.4
(Inc)/dec in Current Assets	(26,805.6)	(8,136.5)	(6,391.6)	(7,172.3)
Inc/(dec) in CL and Prov	43,832.5	7,286.7	23,448.4	15,093.1
Others	0.0	0.0	0.0	0.0
CF from op activities	**26,525.0**	**28,627.0**	**71,698.3**	**70,101.6**
(Inc)/dec in Investments	-9,833.6	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-50,761.7	-22,000.0	-22,000.0	-22,000.0
Others	-4,856.4	336.1	1,084.5	-8,617.7
CF from invactivities	**-65,451.7**	**-21,663.9**	**-20,915.5**	**-30,617.7**
Issue/(Buy back) of Equity	729.1	0.0	0.0	0.0
Inc/(dec) in loan funds	22,799.8	10,100.0	-25,000.0	-25,000.0
Dividend paid & dividend tax	-1,276.6	0.0	0.0	0.0
Interest Paid	13,991.8	14,266.1	12,395.4	10,270.4
Others	10,475.1	-44,074.9	-24,790.8	-20,540.8
CF from fin activities	**46,719.2**	**-19,708.8**	**-37,395.4**	**-35,270.4**
Net Cash flow	7,792.5	-12,745.6	13,387.4	4,213.5
Opening Cash	8,103.5	15,896.0	3,150.4	16,537.7
Closing Cash	**15,896.0**	**3,150.4**	**16,537.7**	**20,751.2**

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet — ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	2,727.8	2,727.8	2,727.8	2,727.8
Reserve and Surplus	74,417.0	44,307.6	54,463.4	70,541.6
Total Shareholders funds	77,144.8	47,035.4	57,191.2	73,269.4
Total Debt	1,48,228.1	1,58,328.1	1,33,328.1	1,08,328.1
Deferred Tax Liability	1,687.7	1,687.7	1,687.7	1,687.7
Others	35,011.9	35,348.0	36,432.5	27,814.8
Total Liabilities	**2,62,074.5**	**2,42,399.2**	**2,28,639.5**	**2,11,100.0**
Assets				
Gross Block	4,30,602.7	4,52,604.7	4,74,604.7	4,96,604.7
Less: Acc Depreciation	1,97,064.9	2,26,847.7	2,58,937.9	2,94,770.0
Net Block	2,33,537.8	2,25,757.1	2,15,666.8	2,01,834.8
Investments	27,823.0	27,823.0	27,823.0	27,823.0
Inventory	0.0	0.0	0.0	0.0
Debtors	4,605.8	5,403.4	6,030.0	6,733.1
Loans and Advances	21,045.3	24,689.9	27,553.0	30,765.7
Other Current Assets	21,331.5	25,025.7	27,927.7	31,184.1
Cash	15,892.7	3,150.4	16,537.7	20,751.2
Total Current Assets	62,875.3	58,269.4	78,048.4	89,434.2
Creditors	25,019.9	29,543.6	32,969.5	36,813.8
Provisions	0.0	0.0	0.0	0.0
Other Current Liabilities	73,686.6	76,449.7	96,472.2	1,07,721.1
Total Current Liabilities	98,706.5	1,05,993.2	1,29,441.7	1,44,534.8
Net Current Assets	-35,831.2	-47,723.8	-51,393.2	-55,100.6
Others Assets	36,542.9	36,542.9	36,542.9	36,542.9
Application of Funds	**2,62,074.5**	**2,42,399.2**	**2,28,639.5**	**2,11,100.0**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios — ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	-59.0	-26.7	18.6	29.5
Cash EPS	-8.2	27.9	77.4	95.2
BV	141.4	86.2	104.8	134.3
DPS	2.3	0.0	0.0	0.0
Cash Per Share	29.1	5.8	30.3	38.0
Operating Ratios				
EBITDA Margin (%)	41.7	45.6	50.3	52.2
EBIT Margin (%)	10.0	16.6	22.3	24.2
PAT Margin (%)	-4.7	-0.6	8.9	12.6
Inventory days	0.0	0.0	0.0	0.0
Debtor days	19.2	19.2	19.2	19.2
Creditor days	104.3	105.0	105.0	105.0
Return Ratios (%)				
RoE	-5.3	-1.3	17.8	21.9
RoCE	4.1	7.4	11.5	15.0
RoIC	4.5	9.0	15.8	22.1
Valuation Ratios (x)				
P/E	NA	-22.5	32.3	20.4
EV / EBITDA	12.2	10.0	7.5	6.0
EV / Net Sales	5.1	4.6	3.8	3.1
Market Cap / Sales	3.7	3.2	2.9	2.6
Price to Book Value	4.2	7.0	5.7	4.5
Solvency Ratios				
Debt/EBITDA	4.1	3.4	2.3	1.6
Debt / Equity	1.9	3.4	2.3	1.5
Current Ratio	0.5	0.5	0.5	0.5
Quick Ratio	0.5	0.5	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bharti Airtel	601	730	Buy	3,27,663	-59.0	-26.7	18.6	NM	NM	32.3	12.2	10.0	7.5	4.1	7.4	11.5	-5.3	-1.3	17.8
Indus Towers	254	245	Hold	68,410	17.8	14.5	17.5	14.2	17.5	14.5	9.4	7.6	5.6	18.1	17.1	20.5	24.4	23.1	27.1
Vodafone Idea	12	6	Sell	38,362	-25.7	-15.7	-8.5	NM	NM	NM	9.3	11.9	9.9	-5.7	-4.8	-4.2	NM	NM	NM
Sterlite Tech	176	200	Hold	6,974	10.8	7.3	11.7	16.4	24.3	15.0	8.4	10.7	7.5	27.8	20.9	14.6	33.0	25.0	15.1
Tata Comm	1,052	1,210	Buy	29,986	-3.0	44.6	46.0	NM	23.6	22.9	11.9	8.6	7.8	7.8	16.0	16.6	-22.2	NM	118.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey Head – Research pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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