

Retail Equity Research

Bharti Airtel Limited

Telecom

BSE CODE: 532454

NSE CODE: BHARTIARTL

Bloomberg CODE: BHARTI:IN

SENSEX: 50,652

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 527 TARGET Rs. 676 RETURN 28%
(Closing: 24-05-21) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Healthy customer growth; Outlook positive

Bharti Airtel Limited is a leading global telecommunications company with operations in 18 countries across Asia and Africa. The company had around 471mn customers across its operations at the end of Q4FY21.

- Q4FY21 consolidated revenue grew 11.9% YoY, driven by sustained growth in customer base and higher data usage.
- EBITDA margin expanded 610bps YoY to 47.9% benefitted from lower access charges and employee costs. Net profit increased to Rs. 759cr (vs. 5,237cr loss in Q4FY20).
- Robust growth in customer base, increasing data usage coupled with expected tariff hikes improves the outlook for the business. Also, strong performance of Indian wireless business could drive the consolidated numbers despite near-term weakness in ARPU. We believe Airtel's long-term growth story remains intact and hence reiterate our BUY rating on the stock with a revised TP of Rs. 676 based on SOTP valuation.

Topline remains resilient

Bharti Airtel's Q4FY21 revenue rose by 11.9% YoY to Rs. 25,747cr, mainly driven by sustained growth in customer addition partially offset by reduction in ARPU (Rs. 145 in Q4FY21 vs Rs. 154 in Q4FY20). Revenue from India mobile services increased by 8.7% YoY to Rs. 14,080cr, whereas African mobile service business reported revenue of Rs. 7,602cr (+17.2% YoY). Homes services revenue grew by 5.0% YoY to Rs. 601cr on account of double digit growth in customer base (+27.0% YoY to 3.07mn). Due to lower-than-expected ARPU and decline in customer base, Digital TV services revenue decreased by 2.8% to Rs. 767cr, while Airtel business grew by 9.2% YoY to Rs. 3,702cr as demand for data continued to increase.

Margins improve, as access charges reduce

In Q4FY21, EBITDA grew 28.2% YoY to Rs. 12,332cr, as EBITDA margin expanded by 610bps YoY to 47.9% (+240bps QoQ) largely driven by significant reduction in access charges (due to IUC impact), partially offset by marginal increase in spectrum and network operations expenses. Indian wireless business margins remain robust contributing to overall margins. Net profit reported at Rs. 759cr in Q4FY21 vs. Rs. 5,237cr loss in Q4FY20.

Key concall highlights

- Airtel tested LIVE 5G service in Hyderabad over its 1800 MHz band, demonstrating 5G readiness using dynamic spectrum sharing.
- Capex spends to remain at current levels with focus ahead on deleveraging its balance sheet reducing debt.
- Growth in customer base continued to be healthy as India and Africa businesses reported 13.1% and 6.9% growth, respectively. Management expects ARPU to bottom out at these levels and could improve in the coming quarters.
- Company acquired 20% stake (increasing its stake to 100%) in Bharti Telemedia Ltd. from Warbung Pincus for Rs. 3,126cr.

Valuation

Strong momentum in revenue backed by continued growth in customer additions and improved margins support the growth prospects for the company. We expect the ARPU to improve further on expected hike in tariffs. Airtel's strong brand presence coupled with its executional capabilities will help drive the topline growth and healthy margins. Maintaining a positive long-term outlook, we reiterate our BUY rating on the stock with a revised target price of Rs. 676 based on SOTP valuation.

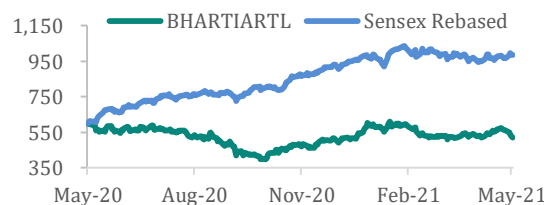
Company Data

Market Cap (cr)	Rs. 287,350
Enterprise Value (cr)	Rs. 453,453
Outstanding Shares (cr)	545.5
Free Float	44.0%
Dividend Yield	0.8%
52 week high	Rs. 623
52 week low	Rs. 394
6m average volume (lac)	7.3
Beta	0.8
Face value	Rs. 5

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	56.2	56.2	55.9
FII's	17.6	17.8	18.6
MFs/Insti	21.8	21.8	20.4
Public	2.0	2.0	2.1
Others	2.5	2.2	3.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-8.1%	11.1%	-11.2%
Absolute Sensex	-0.3%	13.8%	65.1%
Relative Return*	-7.8%	-2.7%	-76.3%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	100,616	114,199	129,045
Growth (%)	18.8	13.5	13.0
EBITDA	45,372	54,653	64,243
EBITDA Margin (%)	45.1	47.9	49.8
Adj. PAT	(1,150)	5,727	12,073
Growth (%)	72.3	n.m.	110.8
Adj. EPS	(2.1)	10.5	22.1
Growth (%)	74.2	n.m.	110.8
P/E	n.m.	50.2	23.8
P/B	4.8	4.6	3.9
EV/EBITDA	10.0	8.3	7.0
ROE (%)	n.m.	9.1	16.4
D/E	2.0	1.7	1.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	25,747	23,019	11.9	26,518	(2.9)	100,616	84,677	18.8
EBITDA	12,332	9,618	28.2	12,053	2.3	45,372	34,253	32.5
EBITDA margins	47.9	41.8	610bps	45.5	240bps	45.1	40.5	460bps
Depreciation	7,502	6,862	9.3	7,503	(0.0)	29,404	27,094	8.5
EBIT	4,830	2,756	75.3	4,550	6.2	15,967	7,159	123.0
Interest	3,859	3,411	13.1	4,028	(4.2)	14,802	12,816	15.5
Other Income	82	83	(1.8)	105	(21.9)	354	278	27.3
Exceptional Items	440	(6,859)	n.m.	(4,560)	n.m.	(15,915)	(40,089)	n.m.
PBT	1,494	(7,430)	n.m.	(3,933)	n.m.	(14,395)	(45,468)	n.m.
Tax	510	(2,152)	n.m.	4,307	(88.2)	8,933	(12,512)	n.m.
Sh. of profit from Associate	527	(124)	n.m.	(221)	n.m.	(93)	(663)	n.m.
Minority Interest	752	260	189.2	497	51.4	2,720	1,519	79.0
Reported PAT	759	(5,237)	n.m.	854	(11.1)	(15,084)	(32,183)	53.1
Adjustments	(437)	4,688	n.m.	(1,152)	n.m.	13,933	28,031	(60.3)
Adj. PAT	322	(549)	n.m.	(298)	n.m.	(1,150)	(4,152)	72.3
No. of shares	545.5	540.5	0.9	545.5	-	545.5	540.5	0.9
Adj. EPS (Rs.)	0.6	(1.0)	n.m.	(0.6)	n.m.	(2.1)	(8.2)	74.2

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	115,839	125,106	114,199	129,045	(1.4)	3.1
EBITDA	53,659	61,687	54,653	64,243	1.9	4.1
Margins (%)	46.3	49.3	47.9	49.8	160bps	50bps
Adj. PAT	5,905	12,708	5,727	12,073	(3.0)	(5.0)
Adj. EPS	10.8	23.3	10.5	22.1	(3.0)	(5.0)

Sum-of-the-parts Valuation

Particulars	Basis	Multiple	Year	% holding	Value (Rs. cr.)	Value/share (Rs.)
India and SA	EV/EBITDA	11.0	FY23E	100.0%	420,890	772
Africa	EV/EBITDA	8.5	FY23E	56.0%	91,902	168
Tower	15% Holdco discount			41.7%	23,439	43
Enterprise Value					536,231	983
Net Debt					(145,241)	(266)
Minority Interest					(22,274)	(41)
Equity value					368,716	676

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	80,780	84,677	100,616	114,199	129,045
% change	(2.2)	4.8	18.8	13.5	13.0
EBITDA	25,764	34,253	45,372	54,653	64,243
% change	(14.3)	33.0	32.5	20.5	17.5
Depreciation	21,348	27,690	29,709	29,641	30,407
EBIT	4,416	7,159	15,967	25,012	33,836
Interest	9,589	12,816	14,802	15,305	14,240
Other Income	3,441	(40,474)	(15,654)	519	526
PBT	(1,732)	(46,130)	(14,488)	10,226	20,122
% change	(153.0)	2563.7	(68.6)	(170.6)	96.8
Tax	(3,419)	(12,512)	8,933	3,068	5,031
Tax Rate (%)	197.4	27.1	(61.7)	30.0	25.0
Reported PAT	409	(32,183)	(15,084)	5,727	12,073
Adj*	(2,929)	28,031	13,933	-	-
Adj PAT	(2,519)	(4,152)	(1,150)	5,727	12,073
% change	n.m.	(64.8)	72.3	n.m.	110.8
No. of shares (cr)	426.6	540.5	545.5	545.5	545.5
Adj EPS (Rs.)	(5.9)	(8.2)	(2.1)	10.5	22.1
% change	n.m.	(38.5)	74.2	n.m.	110.8
DPS (Rs.)	2.5	2.0	4.0	2.8	2.8
CEPS (Rs.)	44.1	46.4	52.4	64.8	77.9

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	21,757	(4,494)	14,626	35,368	42,480
Non-cash adj.	(4,668)	23,815	33,398	13,804	7,891
Changes in W.C	2,982	(1,192)	181	695	1,283
C.F. Operation	20,070	18,129	48,205	49,866	51,654
Capital exp.	(29,050)	(20,585)	(27,114)	(26,402)	(27,099)
Change in inv.	92	(8,839)	3,813	290	(10)
Other invest.CF	457	(1,068)	(3,587)	-	-
C.F - Investment	(28,501)	(30,492)	(26,888)	(26,112)	(27,110)
Issue of equity	9,869	51,892	(436)	-	-
Issue/repay debt	10,588	(10,818)	(8,211)	(15,000)	(9,000)
Dividends paid	(4,662)	(1,826)	(2,691)	(1,527)	(1,527)
Other finance.CF	(6,332)	(20,103)	(13,572)	(15,305)	(14,240)
C.F - Finance	9,464	19,144	(24,910)	(31,833)	(24,767)
Chg. in cash	1,033	6,781	(3,594)	(8,078)	(223)
Closing cash	8,064	15,893	13,466	5,388	5,165

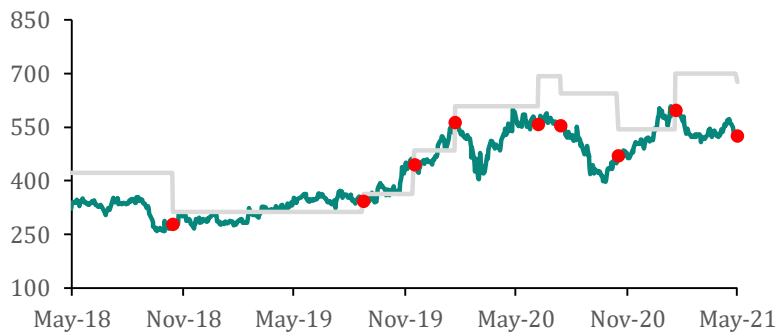
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	8,064	15,893	13,466	5,388	5,165
Accounts Receivable	4,301	4,606	3,638	5,139	6,452
Inventories	88	157	266	222	367
Other Cur. Assets	20,411	55,988	37,383	35,101	41,206
Investments	11,088	11,709	23,472	23,302	23,478
Gross Fixed Assets	182,307	202,633	229,747	256,149	283,248
Net Fixed Assets	81,523	113,662	114,616	110,287	106,025
CWIP	8,843	3,997	4,367	5,321	6,275
Intangible Assets	120,100	115,878	110,223	110,359	110,359
Def. Tax (Net)	8,938	27,016	20,086	18,078	16,270
Other Assets	11,800	11,873	18,510	17,818	17,161
Total Assets	275,156	360,779	346,028	331,014	332,758
Current Liabilities	54,831	98,707	84,520	79,908	76,707
Provisions	682	755	502	527	553
Debt Funds	125,428	148,228	162,785	147,785	138,785
Other Liabilities	9,267	10,960	16,994	15,937	16,291
Equity Capital	1,999	2,728	2,746	2,746	2,746
Reserves & Surplus	69,424	74,417	56,207	60,406	70,952
Shareholder's Fund	71,422	77,145	58,953	63,152	73,698
Minority Interest	13,526	24,985	22,274	23,706	26,724
Total Liabilities	275,156	360,779	346,028	331,014	332,758
BVPS (Rs.)	167	152	108	116	135

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	31.9	40.5	45.1	47.9	49.8
EBIT margin (%)	5.5	8.5	15.9	21.9	26.2
Net profit mgn.(%)	0.5	(38.0)	(15.0)	5.0	9.4
ROE (%)	0.6	n.m.	n.m.	9.1	16.4
ROCE (%)	2.1	2.9	6.5	10.7	14.1
W.C & Liquidity					
Receivables (days)	19.4	19.9	13.2	16.4	18.3
Inventory (days)	0.8	1.5	2.3	1.8	2.7
Payables (days)	247.5	241.9	245.5	246.4	244.6
Current ratio (x)	0.4	0.6	0.5	0.4	0.5
Quick ratio (x)	0.2	0.3	0.2	0.1	0.2
Turnover & Leverage					
Gross asset T.O (x)	0.5	0.4	0.5	0.5	0.5
Total asset T.O (x)	0.3	0.3	0.3	0.3	0.4
Int. coverage ratio (x)	0.5	0.6	1.1	1.6	2.4
Adj. debt/equity (x)	1.5	1.5	2.0	1.7	1.4
Valuation					
EV/Sales (x)	3.2	4.5	4.5	4.0	3.5
EV/EBITDA (x)	10.1	11.1	10.0	8.3	7.0
P/E (x)	n.m.	n.m.	n.m.	50.2	23.8
P/BV (x)	1.8	2.9	4.8	4.6	3.9

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
16-Sep-19	HOLD	363
9-Dec-19	HOLD	485
14-Feb-20	BUY	608
30-Jun-20	BUY	693
6-Aug-20	BUY	645
9-Nov-20	BUY	544
11-Feb-21	BUY	700
25-May-21	BUY	676

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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