

# Bharti Airtel

Refer to important disclosures at the end of this report

## India ARPU takes a mild breather; underlying fundamentals intact

- Bharti reported in-line EBITDA, but ARPU of Rs145 missed our estimate by ~1.8% (adjusted for IUC and lesser number of days in Q4). This indicates a deceleration in the mix improvement-led ARPU uptick that has been seen over the last two quarters.
- Data subscriber addition momentum sustained with 13.9mn additions, boosting data subs base to 58.7% (52.4% in FY20). Healthy performance of enterprise and home broadband segments continued, with the latter seeing the highest customer additions, yet again.
- Market share gains across the business segments reflect the strength of the underlying customer winning strategy. FY22 capex is expected to be similar to that of FY21, while the composition of it will change with spends on transport capex (ahead of 5G launch).
- We keep our estimates largely unchanged. We expect a tariff hike in H2FY22. This is crucial for fast-paced balance sheet deleveraging, in turn, driving next leg of re-rating for the stock. We maintain Buy with a SoTP-based TP of Rs686.

**Subscriber additions surprise positively; one-offs aid PAT again:** Consolidated revenues dipped 2.9% qoq and missed our estimates by 3% due to higher-than-expected impact stemming from the absence of IUC revenues which contribute ~9% of India wireless revenues. However, EBITDA was in line due to lower access charges. Margins expanded 244bps sequentially. Net exceptional gain of Rs4.4bn, along with related tax benefit and deferred tax assets, restricted the decline in PAT at 11% qoq. In the non-wireless business, the enterprise segment performed well and topped our estimates, with EBITDA margin expanding by 145bps qoq. Although home broadband EBITDA grew 6%, growth was curtailed due to ARPU decline, attributable to the residual impact of lower-priced plans. Data volumes rose 9% sequentially.

**Outlook:** The company has outlined its strategy for enterprise business to gain customer wallet share and new client additions in non-connectivity segment, which has an addressable market size of Rs500bn. Moreover, it is targeting 25mn home passes in home broadband business over the next 2-3 years, driven by ongoing LCO partnership expansion and entry into new markets. Going ahead, tariff hike in India mobile is key for fast paced deleveraging leading to next leg of re-rating. Considering the pandemic situation, the likelihood of a hike in H1 is slim; hence, we are expecting it in H2FY22. In the event of a postponement or a lack of a tariff increase, the FCF generation will get restricted. That said, a lack of tariff hike could also potentially pose a huge risk to VIL's financial viability and impending fund raise, resulting in favorable market structure for Bharti and Jio. **Key risks:** 1) adverse regulatory regime; 2) delays in tariff hike; 3) currency depreciation in the African market; 4) market share loss in mobile business and 5) sooner-than-anticipated 5G capex.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 13\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Revenue	8,75,390	10,19,888	11,53,861	12,91,087	13,99,092
EBITDA	3,64,823	4,64,348	5,66,861	6,56,180	7,15,018
EBITDA Margin (%)	41.7	45.5	49.1	50.8	51.1
APAT	80,512	(90,387)	76,211	1,71,782	1,93,683
EPS (Rs)	14.8	(16.6)	14.0	31.5	35.5
EPS (% chg)	0.0	(212.3)	0.0	125.4	12.7
ROE (%)	8.2	(9.4)	8.0	15.9	15.5
P/E (x)	36.3	(32.4)	38.4	17.0	15.1
EV/EBITDA (x)	11.2	9.4	7.7	6.2	5.2
P/BV (x)	2.9	3.2	2.9	2.5	2.2

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 536</b> as of (May 18, 2021)	<b>Rs 686 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>27.9 %</b>

### Change in Estimates

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

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	14.0	31.5
Consensus	10.9	22.6
Mean Consensus TP (12M)	Rs 728	

### 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)	2,946 / 40.33
Daily Avg Volume (nos.)	1,76,28,310
Daily Avg Turnover (US\$ mn)	131.8

### Shareholding Pattern Mar '21

Promoters	55.9%
FIIIs	18.6%
DIIIs	20.4%
Public and Others	5.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(1)	(9)	12	-
<b>Rel. to Nifty</b>	(4)	(9)	(4)	(42)

### Relative price chart



Source: Bloomberg

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## Q4FY21 performance

- The India business posted a 4% rise in EBITDA qoq. All segments, except for the DTH business, saw a sequential improvement in EBITDA. The wireless business saw a 4% rise in EBITDA, with EBITDA margins expanding by ~380bps.
- India wireless subscriber additions were strong at 13.4mn additions in the quarter. Data subscriber adds were strong once again and stood at 13.9mn adds, with 4G additions standing at 13.7mn. In FY21, the company managed to add 43mn 4G subs and 40mn total data subscribers, taking its data subscriber base as a percentage of total subs to 58.7% from 52.4% at FY20-end.
- Mobile ARPU print of Rs145 was weaker than estimated, even after adjusting for the IUC impact and two lower days in the quarter. It was ~1.8% below our estimate. The impact of mix improvement was lower as well.
- In the non-wireless segments, enterprise and home broadband businesses saw a sequential jump of 6% in EBITDA. On the other hand, the DTH segment witnessed a decline in EBITDA of 4% qoq due to the decline in subscriber base and ARPU.

**Exhibit 1: India and South Asia business snapshot (100% deconsolidation of tower business retrospectively)**

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Total revenues	1,68,500	1,70,435	1,81,225	1,91,051	1,84,269	9.4	(3.5)
Net revenue	1,27,731	1,29,739	1,38,084	1,45,731	1,51,830	18.9	4.2
EBITDA	68,973	72,762	80,142	85,926	89,580	29.9	4.3
<b>EBITDA / Total revenues</b>	<b>40.9%</b>	<b>42.7%</b>	<b>44.2%</b>	<b>45.0%</b>	<b>48.6%</b>	<b>770 bps</b>	<b>364 bps</b>
EBIT	11,132	13,532	19,632	23,907	27,152	143.9	13.6
Profit before Tax	-20,432	-4,246	-8,196	-1,915	-1,263	-93.8	(34.0)
Net Income	-13,379	-1,423	-7,168	-566	-2,356	-82.4	316.3
<b>Capex</b>	<b>92,539</b>	<b>33,746</b>	<b>54,688</b>	<b>54,816</b>	<b>53,007</b>	<b>-42.7</b>	<b>(3.3)</b>
<b>Operating Free Cash Flow</b>	<b>-23,566</b>	<b>39,017</b>	<b>25,454</b>	<b>31,110</b>	<b>36,573</b>	<b>-255.2</b>	<b>17.6</b>
Cumulative Investments	27,64,590	27,96,984	28,47,193	31,10,121	32,30,504	16.9	3.9

### Network sites

India	1,94,409	1,96,145	2,01,192	2,08,606	2,16,901	11.6	4.0
<i>of which broadband sites</i>	<i>1,92,068</i>	<i>1,94,205</i>	<i>1,99,464</i>	<i>2,07,360</i>	<i>2,15,801</i>	<i>12.4</i>	<i>4.1</i>

Source: Company, Emkay Research

**Exhibit 2: Absence of IUC benefited EBITDA**

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ change
Mobile revenue incl. IUC impact *	1,29,529	1,28,771	1,38,319	1,47,789	1,53,468	4%
Re-casted mobile revenues	1,18,214	1,17,380	1,26,238	1,35,096	1,40,797	4%
<b>Difference (Rs mn)</b>	<b>11,315</b>	<b>11,391</b>	<b>12,082</b>	<b>12,693</b>	<b>12,672</b>	
Access charge	23,087	23,157	23,996	24,839	11,209	
QoQ change					-13,630	
<b>Net impact of IUC on EBITDA#</b>					<b>958</b>	
Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	
ARPU incl. IUC impact	154	157	162	166	164	
Re-casted ARPU	135	138	143	146	145	
<b>IUC impact</b>	<b>(19)</b>	<b>(19)</b>	<b>(19)</b>	<b>(20)</b>	<b>(19)</b>	

Source: Company, Emkay Research \* Q4 number is our estimate based on the past three quarters' run-rate of IUC. # It is our assumption.

## Financial performance

- Reported consolidated revenues stood at Rs257bn, down 2.9% qoq and 3% below our expectations.
- EBITDA of Rs123bn was up 2.3% qoq, implying a margin of 47.9% (+244bps qoq). The higher-than-expected impact of IUC revenue loss and lower-than-anticipated access charges led to in line EBITDA.

- Consolidated net profit stood at Rs7.6bn.
  - There was a net exceptional gain of Rs4.4bn in the quarter. This can be attributable to the gain stemming from the reversal of impairment of intangible assets of Rs6.4bn, offset in part by a charge of Rs1.2bn from the reassessment of useful lives of certain network assets and Rs870mn from reassessment of levies. Net tax benefit due to the exceptional item and deferred tax asset pertaining to one of the subsidiaries was also recognized in Q4. This amount of Rs1,397mn was included under tax expense/(credit). As a result, the overall net exceptional gain (after tax) stood at Rs5,801mn.

**Exhibit 3: Trend of exceptional items**

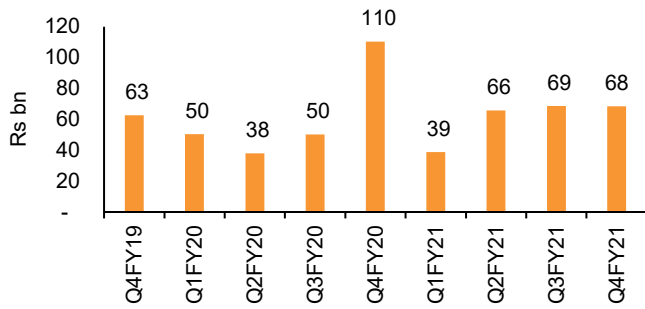
Rs bn	Q1FY21	Q2FY21	Q3FY21	Q4FY21
Provision for license fee and spectrum usage charge	107.4			
Charge pertaining to re-assessment of levies	10.0		31.6	0.9
Employee restructuring		0.5		
Charge on account of re-assessment of useful lives of certain network assets & impairment of intangible assets			14.2	1.2
Net credit due to settlement with customer and other charges			0.2	
Gain on account of reversal of impairment of intangible assets				6.4
<b>Taxation related</b>				
Deferred tax asset related to a subsidiary, benefit due to adoption of Vivad se Vishwas Scheme	36.4			
Deferred tax asset related to a subsidiary		0.2		
Tax charge and others tax related charges			38.7	
Tax benefit and deferred tax asset of a subsidiary				1.4
<b>Total</b>	<b>(153.8)</b>	<b>(0.3)</b>	<b>84.3</b>	<b>5.8</b>

Source: Company, Emkay Research

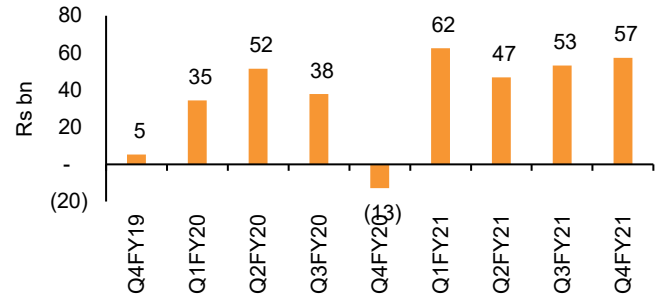
- India Mobile:** Revenue dipped 5% sequentially due to the absence of IUC revenues. After adjusting for IUC revenues, it rose 4% qoq. EBITDA rose 4% qoq as well, while margin expanded ~380bps to 47.5%.
  - Data volume increased 9% qoq, with average usage/sub staying stable. Data customer addition was strong with the base expanding 8% qoq to 188.6mn. Total data additions stood at 13.9mn for the quarter. Data customer as a percentage of mobile customers stood at 58.7% vs. 56.7% in Q3FY21. 4G data customer additions stood at 13.7mn at the end of the quarter.
  - Blended churn rate rose once again to 2.2% from 1.9% in Q3. Postpaid subscriber base increased by 0.6mn in Q4.
- Airtel Business (Enterprise):** Revenues rose 2% qoq. EBITDA increased 6%, while margin expanded 145bps to 40.2%.
- Home Broadband:** The performance was healthy, with EBITDA rising 6%, similar to that of revenues. Margins expanded marginally to 55.7% from 55.5% in Q3. In Q4, subs additions stood at 274,000 - the highest-ever for the company.
- DTH:** Revenue dipped 3% qoq. EBITDA declined 4% as well. The performance was hampered by a 3% dip in ARPU to Rs144 and a 156,000 contraction in subscriber base.

**Other highlights**

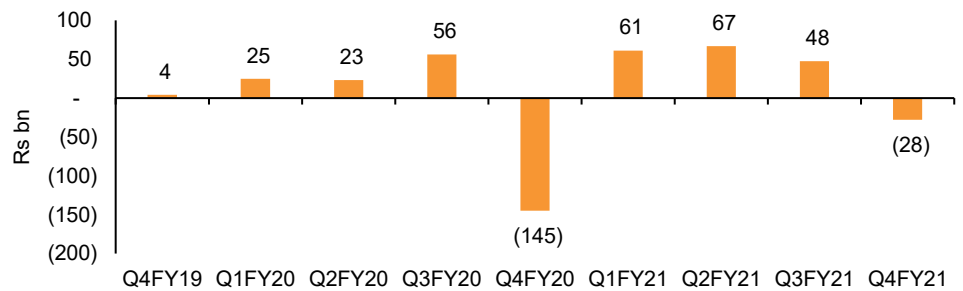
- Capex for the quarter was stable at Rs68.5bn vs. Rs68.6bn in Q3. India capex stood at Rs51.4bn vs. Rs53.9bn in the previous quarter.
- Operating FCF generation stood at Rs57.4bn. In FY21, the telco generated operating FCF of Rs219.7bn vs. Rs102.8bn in FY20.
- FCF for FY21 stood at Rs147.7bn vs. -Rs41.3bn in FY20. This includes upfront payment for spectrum purchased in the Mar'21 auctions.
- Gross debt rose to Rs1.63tn from 1.58tn in Q3, mainly due to the payment toward spectrum auctions.
  - Net debt stood at Rs1.49tn at Q4-end vs. Rs1.47tn at Q3-end.
- The company completed its USD1.25bn dual-tranche senior 10.25 year bond offering in the quarter.

**Exhibit 4: Capex was stable qoq**

Source: Company, Emkay Research

**Exhibit 5: Operating FCF was healthy at Rs220bn in FY21**

Source: Company, Emkay Research

**Exhibit 6: FCF for FY21 stood at Rs148bn vs. –Rs41bn in FY20**

Source: Company, Emkay Research

**Exhibit 7: Trend of India Wireless KPIs**

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
ARPU (Rs)	154	157	162	166	145	(6)	(13)
MOU (mins)	965	994	1,005	1,027	1,053	9	3
Traffic (bn mins)	822	820	861	925	997	21	8
Subscribers (Mn)	284	280	294	308	321	13	4
Pre-Paid Churn	2.6%	2%	2%	2%	2%		
<b>Data metrics</b>							
Subscribers (mn)	149	149	162	175	189	27	8
Of which no. of 3G/4G customers (mn)	136	138	153	166	179	32	8
As % of customer base	52.4%	53.3%	55.2%	56.7%	58.7%		
Total MBs on the network (bn)	6,453	7,240	7,640	8,454	9,207	43	9
Data usage/ User (GB)	15.0	16.7	16.4	16.8	16.8	12	0

Source: Company, Emkay Research

**Exhibit 8: Trend of DTH segment KPIs**

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Digital TV subs (mn)	16.6	16.8	17.4	17.9	17.7	6.6	(0.9)
Net additions (000's)	304	226	549	485	-156	(151.3)	(132.2)
ARPU (Rs)	123	149	148	149	144	17.3	(3.4)
Monthly Churn	1.0%	1.3%	1.5%	1.4%	2.2%	105.9	51.9

Source: Company, Emkay Research

**Exhibit 9: Trend of Home Services segment KPIs:**

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Subscribers (mn)	2.4	2.4	2.6	2.8	3.1	27.0	9.8
Net Additions (000's)	63	34	129	215	274	335.5	27.2
Average Revenue Per User (ARPU)	803	802	783	705	684	(14.8)	(2.9)

Source: Company, Emkay Research

## Exhibit 10: Actual vs. Estimates (Q4FY21)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	2,57,473	2,64,988	2,61,648	-3%	-2%	Due to lower mobile and DTH revenues
EBITDA	1,23,319	1,23,022	1,26,264	0%	-2%	
EBITDA Margin	48%	46%	48%	147 bps	-36 bps	
PAT	7,592	74	6,868		11%	On net exceptional gain and lower ETR

Source: Company, Emkay Research

## Exhibit 11: Summary of quarterly financials

Rs mn	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
<b>Mobile</b>	<b>1,95,619</b>	<b>1,94,373</b>	<b>2,11,096</b>	<b>2,25,289</b>	<b>2,17,798</b>	<b>11.3</b>	<b>(3.3)</b>	<b>8,48,556</b>	<b>7,06,388</b>	<b>20.1</b>
India	1,29,528	1,28,772	1,38,319	1,47,788	1,40,798	8.7	(4.7)	5,55,677	4,59,663	
Africa	64,888	64,513	71,661	76,441	76,018	17.2	(0.6)	2,88,633	2,42,173	
South Asia	1,203	1,088	1,116	1,060	982	(18.4)	(7.4)	4,246	4,552	
Home broadband	5,725	5,785	5,874	5,674	6,009	5.0	5.9	23,342	22,451	4.0
Enterprise	33,762	35,019	35,821	36,215	37,020	9.6	2.2	1,44,075	1,32,331	8.9
Others	6,050	7,452	7,571	7,905	7,757	28.2	(1.9)	30,685	29,289	4.8
Passive Infrastructure	16,826	16,421	17,663					34,084	67,423	(49.4)
<b>Total gross Sales</b>	<b>2,57,982</b>	<b>2,59,050</b>	<b>2,78,025</b>	<b>2,75,083</b>	<b>2,68,584</b>	<b>4.1</b>	<b>(2.4)</b>	<b>10,80,742</b>	<b>9,57,882</b>	<b>12.8</b>
Inter-segmental eliminations	20,755	19,663	20,175	9,905	11,111	(46.5)	12.2	60,854	82,492	(26.2)
<b>Net Sales</b>	<b>2,37,227</b>	<b>2,39,387</b>	<b>2,57,850</b>	<b>2,65,178</b>	<b>2,57,473</b>	<b>8.5</b>	<b>(2.9)</b>	<b>10,19,888</b>	<b>8,75,390</b>	<b>16.5</b>
Access charge	28,270	28,011	29,229	30,632	15,649	(44.6)	(48.9)	1,03,521	1,07,395	(3.6)
as % of sales	11.9	11.7	11.3	11.6	6.1			10.2	12.3	
Network Operating	52,015	51,036	54,564	55,479	59,179	13.8	6.7	2,20,258	1,97,685	11.4
as % of sales	21.9	21.3	21.2	20.9	23.0			21.6	22.6	
Employee Expenses	10,316	11,566	11,008	10,260	9,989	(3.2)	(2.6)	42,823	38,072	12.5
as % of sales	4.3	4.8	4.3	3.9	3.9			4.2	4.3	
Marketing Expenses	24,404	23,927	24,274	25,325	24,325	(0.3)	(3.9)	97,851	93,582	4.6
as % of sales	10.3	10.0	9.4	9.6	9.4			9.6	10.7	
License Fee	20,570	20,768	22,355	22,952	25,012	21.6	9.0	91,087	73,833	23.4
as % of sales	8.7	8.7	8.7	8.7	9.7			8.9	8.4	
<b>Total operating expenditure</b>	<b>1,35,575</b>	<b>1,35,308</b>	<b>1,41,430</b>	<b>1,44,648</b>	<b>1,34,154</b>	<b>(1.0)</b>	<b>(7.3)</b>	<b>5,55,540</b>	<b>5,10,567</b>	<b>8.8</b>
<b>EBITDA</b>	<b>1,01,652</b>	<b>1,04,079</b>	<b>1,16,420</b>	<b>1,20,530</b>	<b>1,23,319</b>	<b>21.3</b>	<b>2.3</b>	<b>4,64,348</b>	<b>3,64,823</b>	<b>27.3</b>
Depreciation	70,550	72,268	74,211	75,031	75,019	6.3	(0.0)	2,96,529	2,76,896	7.1
<b>EBIT</b>	<b>31,102</b>	<b>31,811</b>	<b>42,209</b>	<b>45,499</b>	<b>48,300</b>	<b>55.3</b>	<b>6.2</b>	<b>1,67,819</b>	<b>87,927</b>	<b>90.9</b>
Other Income	9,220	4,805	1,489	492	839	(90.9)	70.5	7,625	19,346	
Interest	41,302	34,562	37,604	39,719	38,606	(6.5)	(2.8)	1,50,491	1,39,918	7.6
Non-operating expenses	70,040	1,17,457	493	-53,098	-4,404			60,448	4,02,344	
<b>PBT</b>	<b>-71,020</b>	<b>-1,15,403</b>	<b>5,601</b>	<b>59,370</b>	<b>14,937</b>	<b>121.0</b>	<b>(74.8)</b>	<b>-35,495</b>	<b>-4,34,989</b>	<b>(91.8)</b>
Tax	-20,335	38,175	5,517	43,663	5,101	125.1	(88.3)	92,456	-1,21,823	(175.9)
<b>PAT before MI</b>	<b>-50,685</b>	<b>-1,53,578</b>	<b>84</b>	<b>15,707</b>	<b>9,836</b>	<b>119.4</b>	<b>(37.4)</b>	<b>-1,27,951</b>	<b>-3,13,166</b>	<b>(59.1)</b>
Minority interest	2,600	7,419	7,293	4,965	7,518	189.2	51.4	27,195	15,190	79.0
<b>PAT MI</b>	<b>-53,285</b>	<b>-1,60,997</b>	<b>-7,209</b>	<b>10,742</b>	<b>2,318</b>	<b>104.4</b>	<b>(78.4)</b>	<b>-1,55,146</b>	<b>-3,28,356</b>	<b>(52.8)</b>
share of associates	915	1,666	-423	-2,206	5,274	476.4	(339.1)	4,311	6,524	(33.9)
<b>PAT</b>	<b>-52,370</b>	<b>-1,59,331</b>	<b>-7,632</b>	<b>8,536</b>	<b>7,592</b>	<b>114.5</b>	<b>(11.1)</b>	<b>-1,50,835</b>	<b>-3,21,832</b>	<b>(53.1)</b>
<b>Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EBIDTA	42.8	43.5	45.2	45.5	47.9	505	244	45.5	41.7	385
EBIT	13.1	13.3	16.4	17.2	18.8	565	160	16.5	10.0	641
EBT	(29.9)	(48.2)	2.2	22.4	5.8	3,574	(1,659)	(3.5)	(49.7)	4,621
PAT	(22.1)	(66.6)	(3.0)	3.2	2.9	2,502	(27)	(14.8)	(36.8)	2,198
Effective Tax rate	28.6	(33.1)	98.5	73.5	34.2	552	(3,939)	(260.5)	28.0	(28,848)

Source: Company, Emkay Research

## Q4FY21 performance of Africa operations

- Consolidated revenue stood at USD1bn (+15.5% yoy and 0.4% qoq). EBITDA stood at USD495mn (+24.7% yoy and 2.1% qoq) with a margin of 47.7% (+78bps qoq).
- Voice revenue rose 12.8% yoy, while dipping 1.6% qoq in CC terms. The sequential decline was due to a contraction in overall subscriber base by 0.7mn.
  - Voice ARPU declined 1.3% qoq in CC terms to USD1.6 after posting a meaningful jump in the previous quarter.
- Data revenue increased 9.2% qoq in CC terms on a 9.8% rise in data ARPU to USD2.7.
  - Data customer base rose to 34.3% from 34.2% in Q3.
  - In Q4, data usage per customer rose 9.1% to 2.9GB from 2.7GB in Q3.
- PAT rose by 38.9% qoq to USD132mn vs. USD95mn in Q3 due to lower finance charge.

### Exhibit 12: Consolidated Airtel Africa financials (in reported terms)

Particulars (USD mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
Total revenue	899	851	965	1,034	1,038	15.5	0.4	3,888	3,422	13.6
EBITDA	397	375	437	485	495	24.7	2.1	1,792	1,516	18.2
EBITDA margin	44.2%	44.1%	45.3%	46.9%	47.7%			46.1%	44.3%	
Net Income	65	42	70	95	132	103.1	38.9	339	370	(8.4)
Capex	246	66	149	188	211			614	642	
Operating FCF (EBITDA - Capex)	151	309	287	298	284	88.1	(4.7)	1,178	873	34.9

Source: Company, Emkay Research

### Consolidated KPIs

- Subscriber base was contracted by 0.6% to 118.1mn from 118.9mn in Q3.
  - Data customer base was relatively stable at 40.6mn (34.3% of subscriber base vs. 34.2% in Q3).
- ARPU stood at USD3 - up 2.3% qoq in CC terms. Most of this growth stemmed from the data segment which saw a 9.8% rise in ARPU, while the voice segment saw a dip in ARPU.
- Mobile money revenue increased slightly on CC terms to USD112mn. While active customer base expanded 1% qoq, transaction value growth dipped.
- Total capex stood at USD211mn vs. USD188mn in Q3FY21.
- Net debt increased slightly to USD3.5bn, with **net debt-to-EBITDA standing at 2x**.
- FCF for the quarter stood at USD181mn vs. USD146mn in Q3.

### Exhibit 13: KPI trends

Particulars	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
ARPU (\$)	2.8	2.6	2.8	2.9	3.0	12.4%	2.3%
Subscribers ('000)	1,10,604	1,11,461	1,16,371	1,18,903	1,18,192	6.9%	-0.6%
<b>Data</b>							
Data Customer base (000's)	35,443	36,972	39,596	40,624	40,584	14.5%	-0.1%
As % of total base	32.0%	33.2%	34.0%	34.2%	34.3%		
<b>Network sites</b>							
Network sites	22,909	23,471	24,246	24,693	25,368	10.7%	2.7%
of which 3G sites	20,378	21,171	22,250	22,998	23,826	16.9%	3.6%

Source: Company, Emkay Research

### Other highlights

- Although the company did not meet its capex target of USD650-700mn for the year due to the impact of import logistics and on-ground deployment challenges, guidance for it stays intact for FY22.
- The board declared a final dividend of 2.5 cents/share, taking total dividend to 4 cents/share in the year.
- In Apr'21, the Nigerian Communications Commission (NCC) announced that it would allow new customer enrolment to recommence from certified outlets. So far, approvals for 800 outlets have been received.

- Regarding the verification of National Identification Number (NIN), information for 23.2mn subscribers of the total active base of 42mn have been collated.
- In Jan'21, the telco's application for the renewal of spectrum license in the 900Mhz and 800Mhz bands was approved by NCC. After this, the regulatory authority offered Airtel Nigeria the opportunity to renew its license in the same bands for a period of 10 years. The company has accepted and paid USD182mn with respect to this.
- New shareholding structure requirements for companies 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 shall also have three years, effective November'20, to comply with the 30% shareholding norm.
- During the quarter, AAF signed agreements with TPG's The Rise Fund and Mastercard who shall invest USD200mn and USD100mn respectively in Airtel Mobile Commerce BV, a wholly owned subsidiary of Airtel Africa plc.
  - These transactions value the mobile money business at USD2.65bn on a cash and debt free basis. Both, The Rise Fund and Mastercard will hold minority stakes while AAF shall continue to hold a majority stake.
  - It is the aim of Airtel Africa to explore the potential listing of the mobile money business within four years. In addition, it is also open to the possibility of further minority investments in Airtel money, up to a total of 25%.

**Exhibit 14: Changes in consolidated estimates**

Particulars (Rs mn)	FY22E			FY23E			FY24 Introduced
	Old	Revised	% Change	Old	Revised	% Change	
Revenue	11,55,833	11,53,861	-0.2	12,98,243	12,91,087	-0.6	13,99,092
EBITDA	5,67,233	5,66,861	-0.1	6,56,289	6,56,180	0.0	7,15,018
EBITDA Margin %	49.1	49.1	5 bps	50.6	50.8	27 bps	51.1
APAT	76,278	76,211	-0.1	1,72,262	1,71,782	-0.3	1,93,683
EPS	14.0	14.0	0.0	31.6	31.5	-0.3	35.5

Source: Company, Emkay Research

**Exhibit 15: Key revenue assumptions**

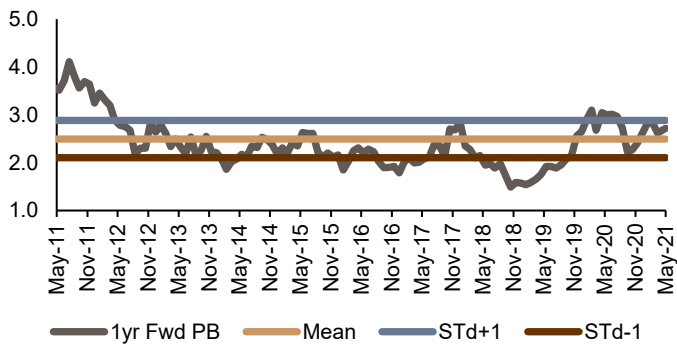
Rs mn	FY20	FY21	FY22E	FY23E	FY24E
<b>India and Asia</b>					
Mobile	4,64,216	5,59,923	6,36,555	7,35,416	7,98,293
Home Service	22,451	23,342	26,027	32,799	39,087
Airtel business	1,32,330	1,44,075	1,54,580	1,65,401	1,75,325
Passive	67,424	34,084	0	0	0
Others	29,238	30,685	31,638	34,030	35,508
Africa	2,42,170	2,88,632	3,36,709	3,57,310	3,87,567
<b>Total gross revenue</b>	<b>9,57,830</b>	<b>10,80,741</b>	<b>11,85,510</b>	<b>13,24,955</b>	<b>14,35,779</b>
Less: Eliminations	82,439	60,854	31,649	33,868	36,687
<b>Net Revenue</b>	<b>8,75,391</b>	<b>10,19,887</b>	<b>11,53,861</b>	<b>12,91,087</b>	<b>13,99,092</b>

Source: Company, Emkay Research

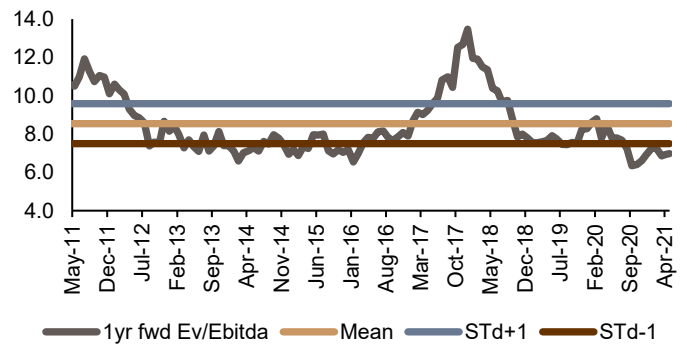
**Exhibit 16: SoTP-based valuation**

Particulars	FY23E
<b>Core India business (ex-towers, ex-Africa)</b>	
Enterprise value (Rs bn)	4,515
EBITDA (Rs mn)	488
EV/EBITDA (x)	9
Net debt (Rs bn)	1,137
Equity value (Rs bn)	3,377
<b>Equity value (Rs/share)</b>	<b>619</b>
<b>Indus Towers valuation</b>	
Target market cap (Rs bn)	629
Bharti's shareholding (%)	42%
Bharti's share (Rs bn)	262
<b>Per Share value (Rs/share)</b>	<b>48</b>
<b>Africa business valuation</b>	
Enterprise value (Rs bn)	520
EBITDA (Rs bn)	168
EV/EBITDA (x)	3.1
Net debt - (Rs bn)	335
Equity value (Rs bn)	185
Bharti's stake	56%
<b>Per share value (Rs/share)</b>	<b>19</b>
<b>Target Price (Rs/share)</b>	<b>686</b>

Source: Company, Emkay Research

**Exhibit 17: 1-year forward P/B valuation band**

Source: Company, Bloomberg, Emkay Research

**Exhibit 18: 1-year forward EV/EBITDA valuation band**

Source: Company, Bloomberg, Emkay Research



## Con-call highlights

- **Mobile:** The company has gained market share and it now stands at an all-time high. Q4 reported ARPU now fully reflects customer revenues, as it eliminates inter-circle elimination revenues as well as IUC. Active base will always be higher than revenue-earning subs as it includes the subs who have latched to the network and not recharged at the end of the period and also include international in-roaming users.
  - ARPU moderation in Q4 can be attributable to the high base of Q2 and Q3, and management is not concerned about it. Underlying trend continues to remain strong with sustained broadband subscriber additions.
  - Competitive intensity has heightened, with an increase in sales incentive and channel commissions. However, it has seen a moderation with the second wave of Covid.
  - Network opex increase was backed by aggressive site roll-outs and rise in fuel costs.
  - **Capex:** FY22 will see capex similar to that of FY21, while the composition of capex will see a change, with more investment in transport (run-up to the 5G), broadband and data centers. 4G radio capex should start to moderate as well.
  - **5G:** 6% of consumer device shipments in India now are 5G and the price of devices are falling as well. The timeline of auctions are still not clear - whether it will happen in Q4FY22 or in FY23, especially considering the pandemic situation.
- **Airtel business:** The company has gained market share. Its share now stands at 31% vs. 23% two years back, as per Frost and Sullivan. Only 20% of customers contribute 80% of the business. This implies room for wallet share ask from large customers (farming) and search for new customers (hunting). The strategy to grow also include: 1) insourcing SME sales force, 2) use of omni-channel and 3) entering adjacent areas with data centers, Airtel IQ, Airtel Cloud, etc. The company has also launched Airtel IoT in the quarter.
  - **Connectivity business:** The market size is about Rs400bn and there is strong headroom for growth and market share gain. Beyond connectivity, the addressable market is Rs500bn, which includes Cloud communication, Cyber security, Cloud (public and private) and IoT. Telco Edge Cloud is another area of growth.
- **Home broadband:** The company added 1mn home passes in Q4 and saw the highest-ever subscriber additions as well. The decline in ARPU was due to spill-over tariffs implemented in September 2020. The cost difference in deploying home pass between LCO and the company is 25-30%. The target is have 20-25mn Home passes in the medium term.
- **DTH:** subscriber base reduction was followed by strong recovery in April.
- **Digital:** The company has reached a combined 200mn DaUs across digital apps. The payments bank has reached 54mn active users and is growing rapidly. The throughput for it stands at Rs220bn. Airtel Payment should achieve profitability next year.
  - **Airtel ads:** It is in the beta phase. The company has worked with 100 brands and has started to deliver revenues. The company is targeting 15-20% revenue growth in the coming quarter from this. A total of 1,600 employees are deployed in digital businesses.
- 'One Airtel Plan' was launched as beta and a revised version will be launched in 4-5 weeks. The company is looking at Rs500-600 ARPU (combined of home broadband and DTH).
- **Debt:** Debt should continue to reduce with growing EBITDA and stable capex with marginal reduction. Management does not see any major swings on ratings in the near future.

**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>11,53,861</b>	<b>12,91,087</b>	<b>13,99,092</b>
<b>Expenditure</b>	<b>5,10,567</b>	<b>5,55,540</b>	<b>5,87,000</b>	<b>6,34,908</b>	<b>6,84,073</b>
<b>EBITDA</b>	<b>3,64,823</b>	<b>4,64,348</b>	<b>5,66,861</b>	<b>6,56,180</b>	<b>7,15,018</b>
Depreciation	2,76,896	2,96,529	3,13,573	3,27,089	3,41,102
<b>EBIT</b>	<b>87,927</b>	<b>1,67,819</b>	<b>2,53,288</b>	<b>3,29,091</b>	<b>3,73,917</b>
Other Income	19,346	7,625	5,959	6,445	12,567
Interest expenses	1,39,918	1,50,491	1,49,916	1,23,714	1,10,241
<b>PBT</b>	<b>(32,645)</b>	<b>24,953</b>	<b>1,09,332</b>	<b>2,11,822</b>	<b>2,76,243</b>
Tax	(1,21,823)	92,456	24,961	34,206	77,985
Extraordinary Items	(4,02,344)	(60,448)	0	0	0
Minority Int./Income from Assoc.	(15,190)	(27,195)	(28,000)	(28,800)	(29,600)
<b>Reported Net Income</b>	<b>(3,21,832)</b>	<b>(1,50,835)</b>	<b>76,211</b>	<b>1,71,782</b>	<b>1,93,683</b>
<b>Adjusted PAT</b>	<b>80,512</b>	<b>(90,387)</b>	<b>76,211</b>	<b>1,71,782</b>	<b>1,93,683</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	9,71,506	11,34,573	13,04,344
<b>Net worth</b>	<b>10,07,201</b>	<b>9,14,107</b>	<b>9,98,966</b>	<b>11,62,033</b>	<b>13,31,804</b>
<b>Minority Interest</b>	<b>2,49,847</b>	<b>2,22,739</b>	<b>2,50,739</b>	<b>2,79,539</b>	<b>3,09,139</b>
<b>Loan Funds</b>	<b>14,82,281</b>	<b>16,27,852</b>	<b>15,77,852</b>	<b>12,67,852</b>	<b>10,67,852</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>28,43,664</b>	<b>27,25,531</b>	<b>27,24,902</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>21,58,895</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>8,15,848</b>	<b>8,20,193</b>	<b>9,75,448</b>
Cash & bank balance	1,58,927	1,34,661	1,05,335	84,824	2,04,387
Other Current Assets	8,08,260	7,18,041	6,66,909	6,85,368	7,15,648
<b>Current liabilities &amp; Provision</b>	<b>8,51,584</b>	<b>6,79,473</b>	<b>6,38,258</b>	<b>6,76,186</b>	<b>7,12,768</b>
<b>Net current assets</b>	<b>1,66,063</b>	<b>2,13,240</b>	<b>1,77,591</b>	<b>1,44,006</b>	<b>2,62,680</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>27,56,206</b>	<b>27,80,805</b>	<b>28,43,664</b>	<b>27,25,531</b>	<b>27,24,902</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>1,03,372</b>	<b>2,05,377</b>	<b>2,63,676</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	6,187	(72,213)	6,323	13,073	889
<b>Operating Cashflow</b>	<b>2,23,604</b>	<b>52,407</b>	<b>3,33,107</b>	<b>5,21,945</b>	<b>5,45,674</b>
Capital expenditure	(5,07,617)	(2,53,212)	(4,12,081)	(2,42,540)	(2,21,800)
<b>Free Cash Flow</b>	<b>(2,84,013)</b>	<b>(2,00,805)</b>	<b>(78,975)</b>	<b>2,79,405</b>	<b>3,23,874</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>(4,06,122)</b>	<b>(2,36,095)</b>	<b>(2,09,233)</b>
Equity Capital Raised	7,291	182	0	0	0
Loans Taken / (Repaid)	2,27,998	1,45,571	(50,000)	(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	3,91,032	2,45,454	1,90,952
<b>Financing Cashflow</b>	<b>5,21,249</b>	<b>3,48,580</b>	<b>1,78,350</b>	<b>(2,01,026)</b>	<b>(1,32,055)</b>
<b>Net chg in cash</b>	<b>1,58,927</b>	<b>1,34,661</b>	<b>1,05,335</b>	<b>84,824</b>	<b>2,04,387</b>
Opening cash position	81,055	1,58,927	1,34,661	1,05,335	84,824
<b>Closing cash position</b>	<b>1,58,927</b>	<b>1,34,661</b>	<b>1,05,335</b>	<b>84,824</b>	<b>2,04,387</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	49.1	50.8	51.1
EBIT Margin	10.0	16.5	22.0	25.5	26.7
Effective Tax Rate	373.2	370.5	22.8	16.1	28.2
Net Margin	10.2	(6.6)	7.3	13.8	14.2
ROCE	4.2	6.3	9.2	12.0	14.2
ROE	8.2	(9.4)	8.0	15.9	15.5
RoIC	4.1	7.3	10.7	13.8	16.4

<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)	14.0	31.5	35.5
CEPS	65.5	37.8	71.4	91.4	98.0
BVPS	184.6	167.6	183.1	213.0	244.1
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	36.3	(32.4)	38.4	17.0	15.1
P/CEPS	8.2	14.2	7.5	5.9	5.5
P/BV	2.9	3.2	2.9	2.5	2.2
EV / Sales	4.7	4.3	3.8	3.2	2.7
EV / EBITDA	11.2	9.4	7.7	6.2	5.2
Dividend Yield (%)	0.4	0.0	0.4	0.4	0.4

<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	1.4	1.0	0.6
Net Debt/EBIDTA	3.2	3.1	2.5	1.7	1.2
Working Cap Cycle (days)	3.0	28.1	22.9	16.7	15.2

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Revenue	8.4	16.5	13.1	11.9	8.4
EBITDA	41.3	27.3	22.1	15.8	9.0
EBIT	96.6	90.9	50.9	29.9	13.6
PAT	(7,959.1)	0.0	0.0	125.4	12.7

<b>Quarterly (Rs mn)</b>	<b>Q4FY20</b>	<b>Q1FY21</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>
Revenue	2,37,227	2,39,387	2,57,850	2,65,178	2,57,473
EBITDA	1,01,652	1,04,079	1,16,420	1,20,530	1,23,319
<b>EBITDA Margin (%)</b>	<b>42.8</b>	<b>43.5</b>	<b>45.2</b>	<b>45.5</b>	<b>47.9</b>
PAT	(52,370)	(1,59,331)	(7,632)	8,536	7,592
<b>EPS (Rs)</b>	<b>(9.6)</b>	<b>(29.2)</b>	<b>(1.4)</b>	<b>1.6</b>	<b>1.4</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Mar-20</b>	<b>Jun-20</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>
Promoters	59.0	56.2	56.2	56.2	55.9
FIs	20.3	20.2	17.6	17.8	18.6
DIs	15.8	18.4	21.7	21.8	20.4
Public and Others	4.9	5.3	4.5	4.2	5.2

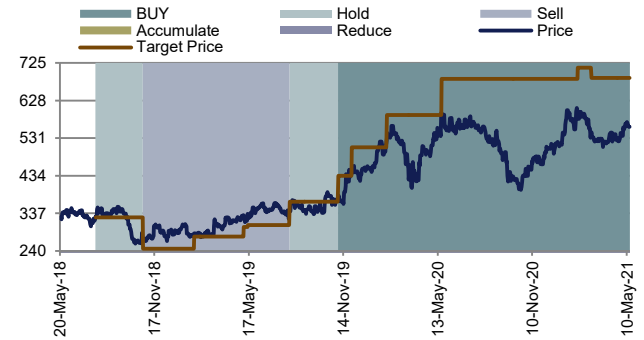
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
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	553	684	12m	Buy	Naval Seth
05-Jul-20	579	684	12m	Buy	Naval Seth
20-Jun-20	570	684	12m	Buy	Naval Seth
20-May-20	592	684	12m	Buy	Naval Seth
10-Mar-20	494	591	12m	Buy	Naval Seth
05-Feb-20	531	591	12m	Buy	Naval Seth
30-Dec-19	459	507	12m	Buy	Naval Seth
30-Nov-19	441	507	12m	Buy	Naval Seth
22-Nov-19	419	434	12m	Buy	Naval Seth
15-Nov-19	392	434	12m	Buy	Naval Seth
04-Nov-19	377	434	12m	Buy	Naval Seth
18-Sep-19	334	367	12m	Hold	Naval Seth
03-Aug-19	342	367	12m	Hold	Naval Seth
25-Jun-19	347	307	12m	Sell	Naval Seth
09-Jun-19	356	307	12m	Sell	Naval Seth
15-May-19	330	307	12m	Sell	Naval Seth
07-May-19	324	302	12m	Sell	Naval Seth
08-Apr-19	325	277	12m	Sell	Naval Seth
01-Feb-19	285	277	12m	Sell	Naval Seth
27-Nov-18	300	246	12m	Sell	Naval Seth
26-Oct-18	270	246	12m	Sell	Naval Seth
29-Aug-18	340	327	12m	Hold	Naval Seth
27-Jul-18	329	327	12m	Hold	Naval Seth

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Telecommunications



### Analyst: Naval Seth

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#### Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

#### Analyst bio

Naval holds an MBA in Finance and has more than 12 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>2.06</b>	<b>1.99</b>	<b>-3%</b>	<b>-6</b>	<b>100.00</b>
Bharti Airtel	1.56	1.59	2%	4	77.50
Indus Towers	0.27	0.25	-8%	-2	12.15
Tata Communications	0.15	0.15	0%	0	7.20
Vodafone Idea	0.08	0.00	-100%	-8	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.06</b>	<b>NA</b>	<b>6</b>	<b>3.15</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	18-May-20	17-Nov-20	15-Feb-21	16-Apr-21	17-May-21
EAP - Telecommunications	100.0	140.6	128.0	156.8	147.1	147.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	112.3	104.5	128.5	118.8	118.7

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

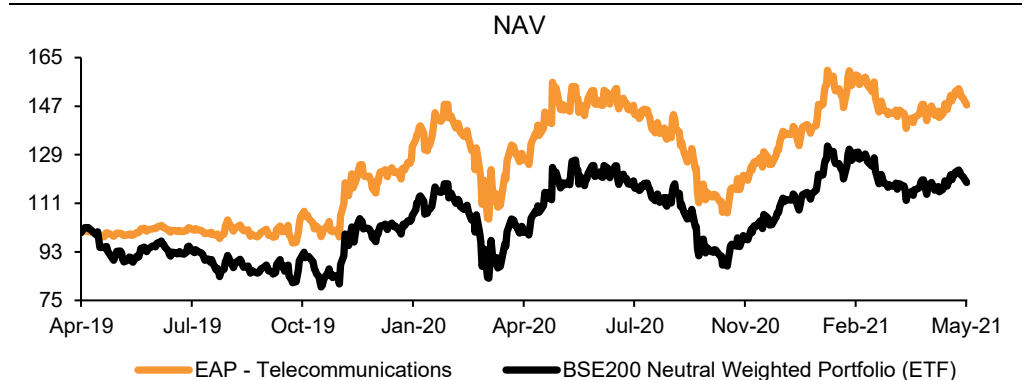
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	0.2%	-6.0%	15.2%	4.9%
BSE200 Neutral Weighted Portfolio (ETF)	0.0%	-7.6%	13.6%	5.7%

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: 19 May 2021 01:41:14 (SGT)

Dissemination Date: 19 May 2021 01:42:14 (SGT)

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