

Retail Equity Research

Bharti Airtel Limited

Telecom

BSE CODE: 532454

NSE CODE: BHARTIARTL

Bloomberg CODE: BHARTI:IN

SENSEX: 37,663

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 560

TARGET Rs. 645

RETURN 15% ↑

(Closing: 05-08-20)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Topline grew despite COVID; Positive outlook

Bharti Airtel Limited is a leading global telecommunications company with operations in 16 countries across Asia and Africa. The company had around 420 million customers across its operations at the end of Q1FY21.

- Consolidated revenue grew 15.4% YoY to Rs. 23,939cr, driven by tariff hikes and higher data usage during lockdown.
- EBITDA rose 26.4% YoY with improved margins (+377bps to 43.5%) driven by lower costs and increased customer base.
- The company's net loss reached at Rs. 15,933cr due to one-time charges from provisions on license fee and spectrum usage.
- With continued growth in customer base and ARPU and promising outlook, we reiterate our BUY rating on the stock with a revised target price of Rs. 645 based on SOTP methodology.

Revenue grew with tariff hike

Bharti Airtel recorded topline of Rs. 23,939cr, a rise of 15.4% YoY, on account of higher growth in Mobile services in India and Africa, and Airtel business. India Mobile revenue rose 18.5% YoY to Rs. 12,877cr with rising 4G customers and tariffs. ARPU rose to Rs. 157 (vs. Rs. 129 in Q1FY20) on account of 2G to 4G upgrade and addition of postpaid customers. Africa Mobile services revenue grew 16.4% YoY supported by net addition in customers of 857k (+4.6% YoY) and rising ARPU of USD 2.6 (+1.6% YoY). However, it was partially offset by churn rate of 5.7% (vs. 5.0% in Q1FY20). Airtel business went up 9.2% YoY to Rs. 3,502cr. On the other hand, Tower Infrastructure services fell 4.9% YoY. Infratel had average sharing factor of 1.79x (vs. 1.88 in Q1FY20) with 42,339 towers.

Operating margin expanded, bottom-line contracted

Consolidated EBITDA increased 26.4% YoY to Rs. 10,408cr and EBITDA margin expanded 377bps YoY to 43.5% due to rise in ARPU and reduction in network operations and sales & marketing expenses. Net loss went up to Rs. 15,933cr (vs. net loss of Rs. 2,866cr in Q1FY20) impacted by higher D&A (+6.9% YoY) and one-off expenses of Rs. 11,374cr (incl. charge from incremental provision on license fee & spectrum usage, re-assessment of deferred tax assets, and adoption of Vivad Se Vishwas Scheme 2020). Adj. net loss was Rs. 4,187cr (vs. Rs. 1,397cr loss in Q1FY20).

Key highlights

- The company expects 5G to come after few years in India, as the spectrum is costly. The total cost of the spectrum is Rs. 50,000cr for 100megahertz.
- The FCF for the global consolidated operations for the company would be USD 400mn. The debt portfolio mainly consists of finance lease obligation and deferred spectrum liability.
- Company added ~34k customers in home broadband and achieved ARPU of Rs. 800 in Q1FY21. It expects ARPU to remain constant in upcoming quarters.
- The company has access to 280mn mobile customers, ~18mn homes, 2,000 large corporates, and over 1mn small businesses.
- Airtel deposited Rs. 18,000cr as AGR payments and for future payments, it has excess cash with no requirement of additional payment.

Valuation and Outlook

The increase in ARPU in near future and growing customer base of both 4G and postpaid segment will boost the company's financials. Company has strong balance sheet with no external funding requirement for AGR payments. We reiterate our BUY rating on the stock with a revised target price of Rs. 645 based on SOTP methodology.

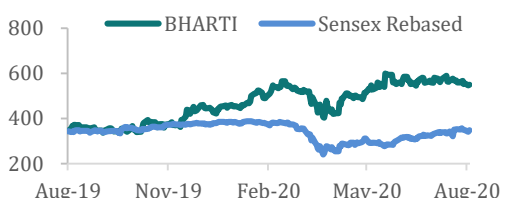
Company Data

Market Cap (cr)	Rs. 305,085
Enterprise Value (cr)	Rs. 447,630
Outstanding Shares (cr)	545.3
Free Float	37.0%
Dividend Yield	0.4%
52 week high	Rs. 612
52 week low	Rs. 326
6m average volume (cr)	0.2
Beta	1.0
Face value	Rs. 5

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	62.7	59.0	56.2
FII's	16.4	20.3	20.2
MFs/Insti	14.2	15.9	18.4
Public	0.7	0.7	1.2
Others	6.0	4.2	4.0
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	6.0%	4.9%	56.7%
Absolute Sensex	19.7%	-8.5%	2.6%
Relative Return*	-13.7%	13.3%	54.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	87,539	101,983	115,751
Growth (%)	8.4	16.5	13.5
EBITDA	36,610	45,585	55,466
EBITDA Margin (%)	41.8	44.7	47.9
Adj. PAT	8,051	(2,401)	8,683
Growth (%)	(419.6)	(129.8)	(461.7)
Adj. EPS	15.9	(4.4)	15.9
Growth (%)	(368.6)	(127.8)	(461.7)
P/E	27.8	(127.1)	35.1
P/B	2.9	4.2	3.8
EV/EBITDA	10.4	9.8	7.8
ROE (%)	(41.7)	(3.3)	10.8
D/E	1.5	1.3	1.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	23,939	20,738	15.4	23,723	0.9
EBITDA	10,408	8,234	26.4	10,165	2.4
EBITDA margins	43.5	39.7	377bps	42.9	60bps
Depreciation	7,227	6,759	6.9	7,055	2.4
EBIT	3,181	1,475	115.6	3,110	2.3
Interest	3,456	3,393	1.9	4,130	(16.3)
Other Income	647	388	67.0	1,014	(36.2)
Exceptional Items	(11,746)	(1,469)	n.m.	(7,004)	n.m.
PBT	(11,374)	(2,999)	n.m.	(7,011)	n.m.
Tax	3,818	(607)	n.m.	(2,034)	n.m.
Share of profit from Associate	167	93	78.9	92	82.1
Minority Interest	742	474	56.6	260	185.3
Reported PAT	(15,933)	(2,866)	n.m.	(5,237)	n.m.
Adjustments	11,746	1,469	699.4	7,004	67.7
Adj. PAT	(4,187)	(1,397)	n.m.	1,767	n.m.
No. of shares	545.3	463.8	-	540.5	-
Adj. EPS (Rs.)	(7.7)	(3.0)	n.m.	3.3	n.m.

Segmental Revenue

Particular (Rs. cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth%
Mobile Services India	12,877	10,867	18.5	12,953	(0.6)
Mobile Services Africa	6,451	5,543	16.4	6,489	(0.6)
Mobile Services South Asia	109	109	(0.1)	120	(9.6)
Airtel Business	3,502	3,208	9.2	3,376	3.7
Tower Infrastructure	1,642	1,726	(4.9)	1,683	(2.4)
Home Services	579	571	1.4	573	1.0
Digital Services	745	739	0.8	604	23.4
Others	0	(8)	(105.0)	2	(73.3)
Subtotal	25,905	22,755	13.8	25,798	0.4
Less: Intersegment revenue	1,966	2,017	(2.5)	2,076	(5.3)
Total Segment Revenue	23,939	20,738	15.4	23,723	0.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1,03,296	1,16,725	1,01,983	1,15,751	(1.3)	(0.8)
EBITDA	46,459	54,942	45,585	55,466	(1.9)	1.0
Margins (%)	45.0	47.1	44.7	47.9	(28bps)	85bps
Adj. PAT	2,390	8,515	(2,401)	7,958	n.m.	(6.5)
EPS	4.4	15.6	(4.4)	14.6	n.m.	(6.5)

Sum-of-the-parts Valuation

Particulars	Basis	Multiple	Year	% holding	Value (Rs. cr.)	Value/share (Rs.)
India and SA	EV/EBITDA	10.0	FY22E	100.0%	3,79,343	696
Africa	EV/EBITDA	7.0	FY22E	56.0%	63,711	117
Tower	15% Holdco discount			53.5%	19,614	36
Enterprise Value					4,62,668	848
Net Debt					(85,927)	(158)
Minority Interest					(24,985)	(46)
Equity value					3,51,756	645



PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	82,639	80,780	87,539	1,01,983	1,15,751
% change	(13.4)	(2.2)	8.4	16.5	13.5
EBITDA	30,079	25,764	36,610	45,585	55,466
% change	(14.9)	(14.3)	42.1	24.5	21.7
Depreciation	19,243	21,348	27,690	29,480	31,368
EBIT	10,836	4,416	8,920	16,106	24,098
Interest	8,072	9,589	12,382	11,778	11,636
Other Income	503	3,441	(39,384)	(10,330)	1,438
PBT	3,267	(1,732)	(42,847)	(6,002)	13,899
% change	(57.7)	(153.0)	2374.1	(86.0)	(331.6)
Tax	1,084	(3,419)	(12,182)	(4,802)	3,683
Tax Rate (%)	33.2	197.4	28.4	80.0	26.5
Reported PAT	1,099	409	(32,183)	(2,401)	8,683
Adj*	793	(2,929)	40,234	-	-
Adj PAT	1,892	(2,519)	8,051	(2,401)	8,683
% change	(61.9)	(233.1)	(419.6)	(129.8)	(461.7)
No. of shares (cr)	399.7	426.6	507.5	545.3	545.3
Adj EPS (Rs.)	4.7	(5.9)	15.9	(4.4)	15.9
% change	(61.9)	(224.8)	(368.6)	(127.8)	(461.7)
DPS (Rs.)	5.3	2.5	2.0	2.4	2.8
CEPS (Rs.)	52.9	44.1	70.4	49.7	73.5

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	6,671	8,064	15,893	10,122	16,440
Accounts Receivable	5,883	4,301	4,606	7,139	8,103
Inventories	69	88	157	187	221
Other Cur. Assets	20,876	20,411	55,988	40,061	40,791
Investments	9,261	11,088	11,709	12,524	13,348
Gross Fixed Assets	1,57,296	1,82,307	2,02,633	2,25,049	2,49,125
Net Fixed Assets	70,608	81,523	1,13,662	1,05,644	97,398
CWIP	5,209	8,843	3,997	4,951	5,905
Intangible Assets	1,21,135	1,20,100	1,15,878	1,15,878	1,15,878
Def. Tax (Net)	2,933	8,938	27,016	14,406	11,050
Other Assets	7,937	11,800	11,873	12,873	12,873
Total Assets	2,50,582	2,75,156	3,60,779	3,23,786	3,22,007
Current Liabilities	51,848	54,831	98,707	90,057	85,846
Provisions	721	682	755	755	755
Debt Funds	1,11,334	1,25,428	1,48,228	1,26,482	1,15,982
Other Liabilities	8,330	9,267	10,960	6,871	11,114
Equity Capital	1,999	1,999	2,728	2,728	2,728
Reserves & Surplus	67,536	69,424	74,417	70,707	77,864
Shareholder's Fund	69,534	71,422	77,145	73,435	80,592
Minority Interest	8,814	13,526	24,985	26,185	27,718
Total Liabilities	2,50,582	2,75,156	3,60,779	3,23,786	3,22,007
BVPS (Rs.)	174	167	152	135	148

CASH FLOW

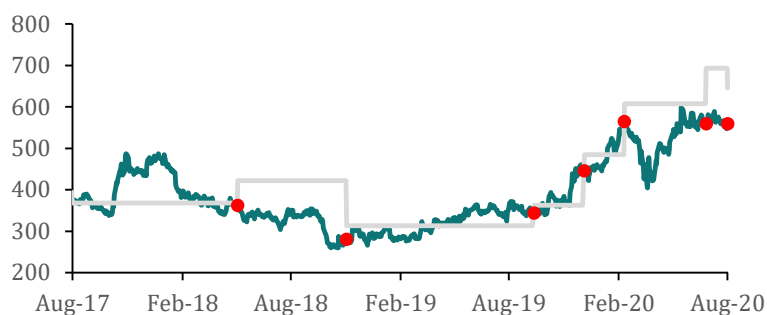
Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	20,342	21,757	(4,494)	27,079	40,052
Non-cash adj.	10,467	(4,668)	23,815	11,181	12,746
Changes in W.C	(955)	2,982	(1,192)	1,472	1,259
C.F. Operation	29,854	20,070	18,129	39,731	54,057
Capital exp.	(25,248)	(29,050)	(20,585)	(22,416)	(24,076)
Change in inv.	(3,332)	92	(8,839)	-	-
Other invest.CF	613	457	(1,068)	-	-
C.F - Investment	(27,968)	(28,501)	(30,492)	(22,416)	(24,076)
Issue of equity	(39)	9,869	51,892	-	-
Issue/repay debt	4,007	10,588	(10,818)	(10,000)	(10,500)
Dividends paid	(3,265)	(4,662)	(1,826)	(1,309)	(1,527)
Other finance.CF	1,217	(6,332)	(20,103)	(11,778)	(11,636)
C.F - Finance	1,921	9,464	19,144	(23,087)	(23,663)
Chg. in cash	3,807	1,033	6,781	(5,771)	6,318
Closing cash	6,671	8,064	15,893	10,122	16,440

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	36.4	31.9	41.8	44.7	47.9
EBIT margin (%)	13.1	5.5	10.2	15.8	20.8
Net profit mgn.(%)	1.3	0.5	(36.8)	(2.4)	7.5
ROE (%)	1.6	0.6	(41.7)	(3.3)	10.8
ROCE (%)	5.7	2.1	3.6	7.1	10.7
W.C & Liquidity					
Receivables (days)	26.0	19.4	19.2	25.6	25.6
Inventory (days)	0.7	0.8	1.5	1.6	1.8
Payables (days)	278.8	247.5	241.8	255.5	259.2
Current ratio (x)	0.4	0.4	0.6	0.5	0.6
Quick ratio (x)	0.2	0.2	0.3	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	0.6	0.5	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)	1.3	0.5	0.7	1.4	2.1
Adj. debt/equity (x)	1.4	1.5	1.5	1.3	1.1
Valuation					
EV/Sales (x)	3.1	3.2	4.4	4.4	3.7
EV/EBITDA (x)	8.6	10.1	10.4	9.8	7.8
P/E (x)	76.1	(51.3)	27.8	(127.1)	35.1
P/BV (x)	2.1	1.8	2.9	4.2	3.8



Recommendation Summary



Dates	Rating	Target
4-Aug-17	REDUCE	368
8-May-18	HOLD	422
6-Nov-18	HOLD	313
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

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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