

Bharti Airtel

Wireless telecommunications

Equity Research Report

20 October 2020

CMP: ₹ 397.70

(19/10/2020)

TARGET PRICE: ₹ 525

Months: 5 Months

RATING:

BUY

Upside:

32%

Company details

Market Cap ₹ 216722 Cr

52 Weeks ₹325.50 / ₹ 612

Stock P/E

EPS

— Bharti Airtel — S&P BSE Sensex



About the Company:

Established in 1995, Bharti Airtel is one of the leaders in the Indian mobile telephony space with operations in 18 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers. Airtel is a diversified telecom service provider offering wireless, mobile commerce, fixed line, home broadband, enterprise and DTH services. It expanded into Africa by acquiring Zain's Africa operations in 2010 and is present in 14 African markets. Bharti Airtel had over 420 million customers across its operations at the end of March 2020. It owns a 53.51% stake in Bharti Infratel, which has decided to proceed with Indus Tower merger.

Topline grew despite COVID:

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.

Key highlights

- 1) 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.
- 2) 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.
- 3) Company added 34k customers in home broadband and achieved ARPU of Rs. 800 in Q1FY21. It expects ARPU to remain constant in upcoming quarters.
- 4) The company has access to 280mn mobile customers, ~18mn homes, 2,000 large corporates, and over 1mn small businesses.
- 5) Airtel deposited Rs. 18,000cr as AGR payments and for future payments, it has excess cash with no requirement of additional payment.

Price Performance (%)

	1m	3m	YTD	12m
Absolute	-19.58	-29.83	-12.75	3.68

ShareHolding Pattern (%)

Promoter	56.23
DII	18.37
FII	20.15
Others	5.25

Quarterly Financials (Figures in Rs. Crores)

	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Sales	19394.5	19799.2	20147.8	20231.1	20602.2	20737.9	21131.3	21947.1	23722.7	23938.7
Expenses	12483.4	13077.4	14023.5	14110.7	13992.6	12503.8	12294.1	12701.3	13557.5	13530.8
Other Income	-65.8	-97.1	99.6	1496.9	2129.6	-1081.8	30327.8	-823.2	-5990.5	11098.6
Depreciation	4899.1	5145.2	5236.6	5472.3	5493.4	6758.7	6935.1	6940.8	7055	7226.8
Interest	1829.3	2126.6	2985.7	1944.8	2532.3	3392.8	2908.3	2984.6	4130.2	3456.2
Profit before tax	116.9	-647.1	-1998.4	200.2	713.5	-2999.2	-31334	-1502.8	-7010.5	11373.7
Tax	-302.1	-1126.7	-2247.6	-182.4	137.4	-607	-8503.9	-1037.9	-2033.5	3817.5
Net profit	82.9	97.3	118.8	86.2	107.2	-2866	23044.9	-1035.3	-5237	15933.1
Operating Profit	6911.1	6721.8	6124.3	6120.4	6609.6	8234.1	8837.2	9245.8	10165.2	10407.9

Cash Flows Annual (Figures in Rs. Crores)

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Cash from Operating Activity	18851.3	22593.1	22607.5	26232.6	28059	27942.3	28279.9	29853.8	20070.2	18128.7
Cash from Investing Activity	-	-	-	-	-	-	-	-	-	-
Cash from Financing Activity	39715.3	-4010.7	-4565.5	2774.4	-9672.4	11946.1	-351.4	1920.5	9463.8	19144.4
Net Cash Flow	-1895.3	202.9	-634.1	3826.4	-3914.5	1904.8	-2751.5	3834.8	1248.4	7674.6

Balance Sheet (Figures in Rs. Crores)

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Equity										
Share Capital	1898.8	1898.8	1898.8	1998.7	1998.7	1998.7	1998.7	1998.7	1998.7	2727.8
Reserves	46868	48712.5	48422.9	57757.3	37778.3	64823	65494.3	67599.9	69423.5	74417
Borrowings	58749.2	69023.2	66736.3	75895.8	83415.1	100646.5	107287.6	111333.5	125428.3	148228.1
Other Liabilities	37741.7	36265	40911.7	45840.4	58746.9	57003.8	57541.7	68588.9	77175.8	133718.4
Total	145257.7	155899.5	157969.7	181492.2	181939	224472	232322.3	249521	274026.3	359091.3
Net Block	124050.9	129168.2	125674.4	140614.5	124278.6	172292.8	178235.1	187200.4	200831.5	229255.5
Capital Work in Progress	4823.4	4413.9	2991.9		17414.8	5702	10838.5	9751.2	9634.2	4282.3
Investments	622.4	1835.5	7709.8	15530.8	10752	11977	14338.7	16158.6	15711	25476.5
Other Assets	15761	20481.9	21593.6	25346.9	29493.6	34500.2	28910	36410.8	47849.6	100077
Total	145257.7	155899.5	157969.7	181492.2	181939	224472	232322.3	249521	274026.3	359091.3
Receivables	5492.9	6373.5	6782.4	6244.1	5207.2	5503.9	4740.2	5883	4300.6	4605.8
Inventory	213.9	130.8	110.9	142.2	133.9	169.2	48.8	69.3	88.4	156.9
Cash & Bank	957.5	2030	1607.8	4980.8	2083.1	5098.7	5098.3	6670.6	8064	15892.7

Unwarranted! Bharti's share price has declined sharply (~30%) since the AGR verdict on 1 st Sep, 2020. We believe this is on account of news flow of fund-raise by VIL, Jio postpaid plus plan launch and most importantly lack of good news on tariff increase. This is in contrast to expectations of immediate announcement of price hike post the AGR case closure. Our calculation implies that from an ARPU growth, market is now implying a de-growth. However, we still maintain that 15-20% ARPU CAGR is likely and essential for survival of industry. Business trajectory on strong footing Contrary to stock reaction, business trajectory of Bharti remains healthy and positive especially in 4G smartphone subscriber additions viz. at par / ahead of Jio.

MNP request from postpaid subscribers for transition to Jiopostpaid is limited. We appreciate Bharti's in-market execution and the clarity on thoughts and strategy to drive the market share and growth. A few months' delay in tariff increase doesn't alter the strong long-term industry potentials and consecutive positive bias of ours. Bharti well-positioned – two-player market or Rs 250 ARPU Continuity of VIL may be challenged in absence of meaningful tariff increase and fund infusion and improvement in execution (all inevitable). Shutdown of VIL would imply value erosion for Bharti in tower business but would be more than off-set in wireless business.

SALES GROWTH**PROFIT GROWTH**

1 YEAR **-1830.63%**
3 YEAR **-217.83%**
5 YEAR **-222.28%**

**ROE%**

1 YEAR **-36.16%**
3 YEAR **-12.65%**
5 YEAR **-7.82%**

**ROCE%**

1 YEAR **-21.63%**
3 YEAR **-5.66%**
5 YEAR **-1.65%**

**Positives**

- Company has been maintaining a healthy dividend payout of 144.96%
- The stock's market price justifies its intrinsic value.
- The Company has been maintaining an effective average operating margins of 33.42% in the last 5 years.
- The company has an efficient Cash Conversion Cycle of -108.26 days.
- The company has a high promoter holding of 58.98%.

Negative

- 1) Increasing competition could pressurise realisations;
- 2) Slower growth in data volumes could affect data revenue growth.

My Call:

BUY; Tariff increase key trigger I reiterate BUY on Bharti with Target Price of Rs

The Supreme Court of India (SC) allowed telecom players to pay Adjusted Gross Revenue (AGR)-related dues to the Department of Telecommunications (DoT) on a staggered basis over next 10 years subject to certain conditions. The apex court has directed telecom companies to make a 10% upfront payment of outstanding AGR dues by March 31, 2021, and the balance over a 10-year timeline starting February 7, 2022. As per the SC verdict, Bharti Airtel will have to pay Rs. 2,600 crores upfront in FY2021 and ~Rs. 3,500 crores annually from FY2022. As the SC has not mentioned anything about dues of insolvent companies, we assume that both Bharti Airtel and Reliance Jio may not liable to pay the dues of RCom, Aircel and Videocon. Payment of AGR liabilities would result in cash outgo of ~Rs. 3,500 per annum for Bharti Airtel over FY2022-FY2031. We believe around 12% hike in ARPU by Bharti Airtel could mitigate the impact of AGR dues on its cashflows. Hence, we expect another round increase in ARPU in the near term to support its cashflows. Further, any lower capex by Vodafone-Idea given the quantum of financial stress on its balance sheet owing to the shorter duration of AGR payments would benefit Airtel in terms of market share gains.

Investment theme

Revenue accretion from the 4G upgrade, minimum-ARPU plans (rolled out across India) and recent tariff hike helped the company to report improvement in ARPU. Further, the government's data localisation policies with an increasing penetration of smartphones are likely to boost strong demand for data over medium-to-long term. Despite a predatory pricing strategy from new entrants since its commercial launch in September 2016, Bharti Airtel has been resilient in sustaining its revenue market share (RMS) as it has been drastically standardising its plans to retain customers and acquiring subscribers through M&A activities. In DTH, Bharti expects to maintain steady growth by adding new subscribers in rural areas by launching USB-enabled STBs, increasing reach in cities taking advantage of flat-screen TV upgrades and driving up ARPUs by selling OTT boxes and hybrid HD STBs. We believe the company is well-poised to deliver strong multi-year EBITDA growth phase given recent developments in the Indian wireless industry.

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

Data traffic growth surged by 73% YoY even as 4G net additions slowed down to 2 Million caused by supply chain shocks in the device eco system. Revenues grew by 15% Y-o-Y and performance was satisfactory across all segments. Airtel flagship "War on Waste" program, helped improve EBITDA margin by 1.6% over the previous quarter. To serve there customers even better, airtel have launched a company-wide program to improve our customer experience. Bharti Airtel continue to invest in the best of emerging technologies to make our networks future ready. They have made rapid strides in our digital business, with nearly 155 million monthly active users across Airtel Thanks, Wynk, Xstream and our payments platforms. Today, 60 percent of Airtel's entire business goes through its digital channels. We are most excited about the string of partners we are attracting in order to build greater stickiness and ultimately growth from our digital assets.