



MID CAP MULTIBAGGER

BHARTI AIRTEL

DATE: 05th January 2024
CMP=1045
NSE: BHARTIARTL
Market Cap : 598969 Cr

Moving Up the Value Change

Over the past couple of decades, many mid and small-cap companies have advanced in their value proposition by specializing in specific business segments. These companies started these companies have undergone continuous. Any company can either move up the value chain by either expanding its existing product line or by introducing newer products.

Companies that generate recurring revenues by targeting a large market with perpetual demand have tremendous potential, apparently any particular stock is bought considering the industry in which the business operates, the extent of competitive advantage and the future potential for its goods or services offered to the customers.

Our Latest recommendations is one such stock from telecommunications sector. **Bharti Airtel**, provider of ICT services with a global network across the USA, Europe, Africa, Middle East, Asia-Pacific, India, and SAARC regions. Airtel ranks amongst the top 3 mobile service providers around the world.

Company Background

The story of Bharti Airtel starts in 1975, not with telecom, but with bicycle parts! The Bharti Group, founded by **Mr. Sunil Mittal**, began manufacturing bicycle parts under the name Bharti Tele ventures.

In the 1980s, they diversified into push-button phones through a partnership with Siemens.

Finally, in 1995, Bharti Airtel entered the world of telecommunications, becoming the first company to offer mobile phone services in India. Since then there is no looking back for Bharti Airtel.

Bharti Airtel is one of the largest homegrown consumer brands and India's premier integrated communications solution provider.

Bharti Airtel is operational in 17 countries across South Asia and Africa.

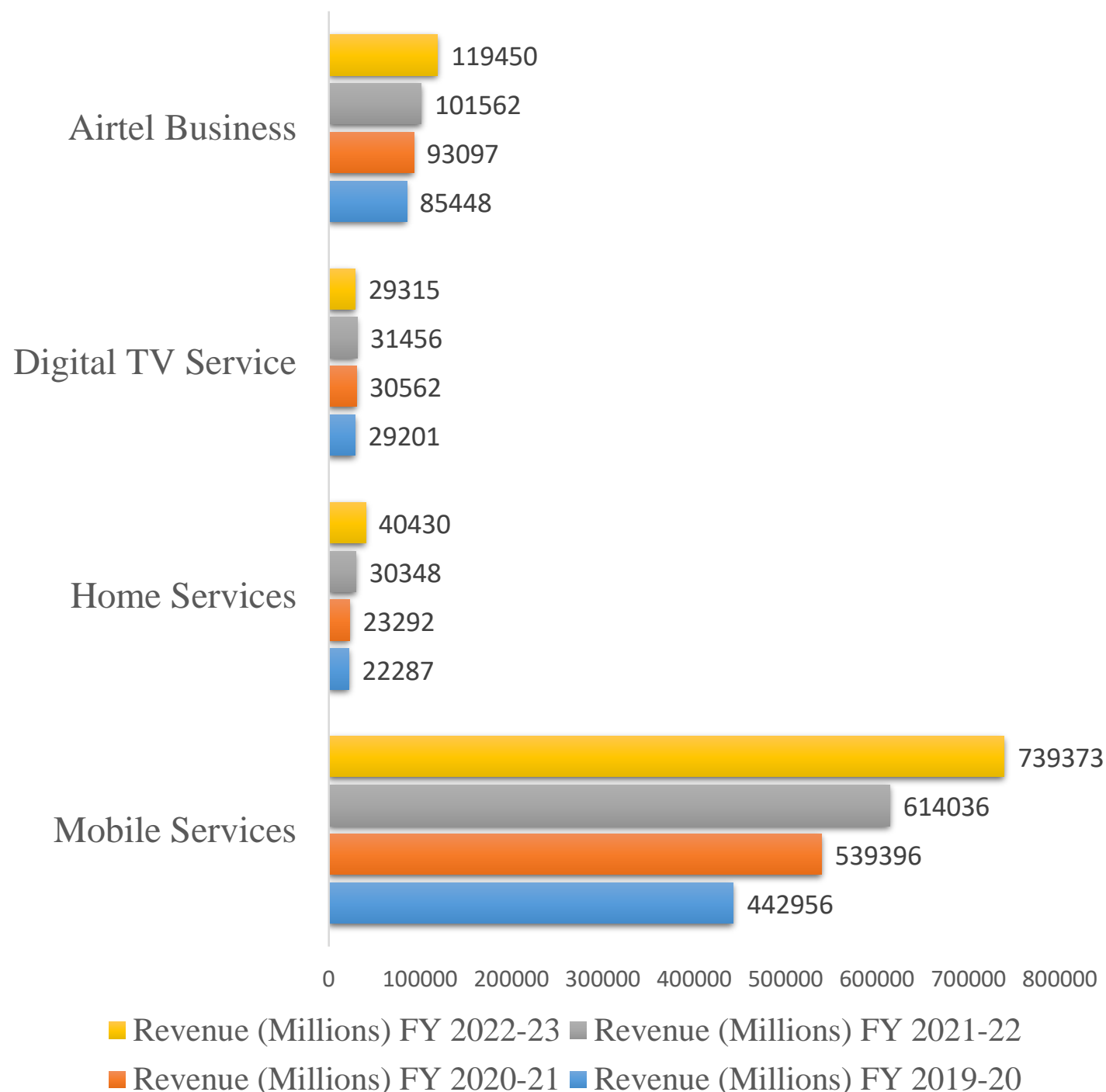
While mobile services remain Airtel's core business, they offer a diverse range of telecom solutions. This includes fixed-line broadband, digital TV, and enterprise services. They're also investing heavily in new technologies like 5G and fiber optics, aiming to future-proof their business.

Business Models

Business Model	Offering
<u>Mobile Services</u>	High-speed internet access and a host of innovative services like Mobile TV, video calls, live-streaming videos, gaming, buffer-less HD video streaming, among others
<u>Homes Services</u>	Fixed-line telephone and broadband services for homes. The product offerings include high-speed broadband, and voice connectivity
<u>Digital TV Services</u>	Standard and high definition (HD) digital TV services with 3D capabilities and Dolby surround sound
<u>Airtel Business</u>	ICT services . For SMEs, it provides fixed-line voice (PRIs), data and other connectivity solutions like MPLS, VoIP, SIP trucking. Cloud portfolio, an integral part of its office solutions suite, which offers storage, compute, Microsoft Office 365, ecommerce package through Shopify and CRM packages on a pay-as-you-go model

Business Model Analysis (1/2)

Segmental Revenue in Millions



Industry Overview (1/2)

Since the launch of Jio 4G the telecommunications sector in India has seen a huge growth not only in number of consumers but also the average data use by consumer on monthly basis.

As of now, India has the second-largest telecom network in the world and India has the second-highest number of internet subscribers globally.

There is only 5 key companies operating in Telecom sector in India. They are MTNL, BSNL, JIO, Vi and AIRTEL.

COMPANY	PRESENCE
MTNL	Fixed-line and mobile telephony (in Delhi and Mumbai), data and Internet
BSNL	Fixed-line and mobile telephony (GSM - outside Delhi and Mumbai), data and Internet in 22 circles
JIO	Broadband and mobile (GSM) in 22 circles
Vi	Broadband and mobile (GSM) in 22 circles
AIRTEL	Broadband and mobile (GSM) in 22 circles

Industry Overview (2/2)

Telecom sector growth can be estimated by looking in the tele-density of rural subscriber which stood more than 57.83% last year and tele-density in rural area was on increasing trend. As of June 2023, wireless subscriptions stood at 1,143.57 million, and wireless tele-density reached 82.25%. As of June 2023, the wireless subscriber base of Jio stood at 438.58 million, followed by Bharti Airtel (373.72 million), Vodafone Idea (229.65 million), and BSNL (99.47 million).

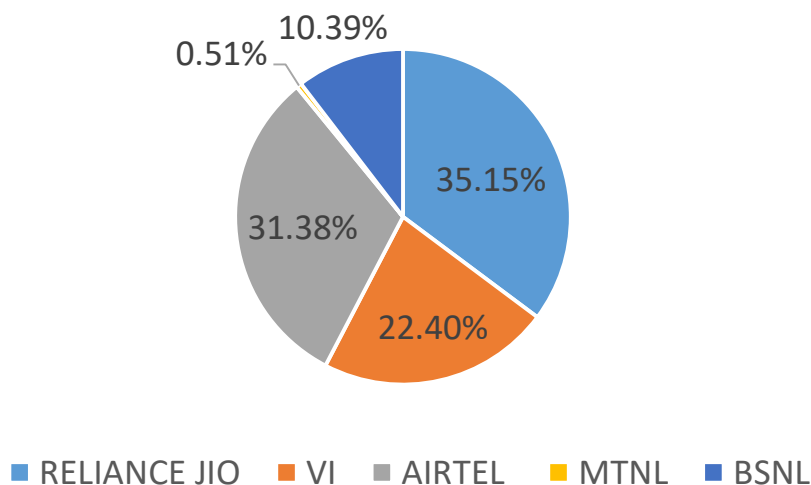
Number of internet subscribers increasing at a fast pace a positive news for the future of telecom industry.

The growth driver in this industry are the number of customers, government policies and IOT. The number of customers which is yet to be added to the 4G and 5G network are huge indicating the untapped market for any company. Government has been actively helping the companies to expand by policies which not only reduce the license fees but also has increased the flow of FDI which will be very useful for company to penetrate the untapped market and for expansion.

Government promoting digitalization and IOT in every industry will increase the use of ICT which in turn is a positive factor for the growth of telecom industry in coming future.

Competition Analysis

Market Share



Airtel has the 2nd largest market share behind only with JIO who hold 35.15% market share. From last few year a trend has been seen where Vi is losing its customer to both Airtel and Jio over time. The closet competitor of Airtel in this industry are Jio and Vi. MTNL and BSNL as a competitor even though they hold 11% market share is because their operation is limited to very few area and department/ service offered comparing to Jio and Airtel.

Competition Advantage

Airtel not only focus on revenue but also on the one of the most important factor in telecom industry i.e Average Revenue Per User (ARPU). Airtel biggest advantage over their completion have been ARPU not no. of the customers they have.

The advantage Airtel has over their competitor are their business operating model. They are not targeting all the consumers but only valuable customer who contribute to their ARPU which means customers who are willing to pay for the services.

After Jio launched free services only Airtel not only survived the revolution but also improved their position in competing market.

Jio has the highest number of customer and market share but its ARPU is less than AIRTEL, who is the market leader in terms of ARPU.

Airtel ARPU has been on increasing trend from the past 3 years. Airtel has the highest ARPU stands at Rs 190 against the industry standard of Rs 142.32. Whereas JIO ARPU stands 178.8 and Vi ARPU stands at 142.

Financial Analysis (1/4)

	REVENUE (MILLION)	EBIDTA (MILLION)	NET PROFIT/LO SS (Mn)	NET PROFIT MARGIN	DIVIDEND/ SHARE
FY 18-19	5,22,387	1,49,191	-18,596	-3.76%	2.5
FY 19-20	5,65,596	2,23,761	-3,60,952	-66.43%	2
FY 20-21	6,67,138	3,03,720	-2,51,974	-39.17%	0
FY 21-22	7,20,647	3,65,136	-38,647	-5.13%	3
FY 22-23	8,73,539	4,64,325	-988	-0.10%	4

	ROE (%)	ROA (%)	ROCE (%)	D/E Ratio
FY 18-19	-1.90	-0.83	-0.12	0.85
FY 19-20	-35.70	-12.01	0.95	0.81
FY 20-21	-32.57	-9.07	4.05	1.22
FY 21-22	-4.59	-1.27	5.66	1.31
FY 22-23	-0.11	-0.02	7.80	1.79

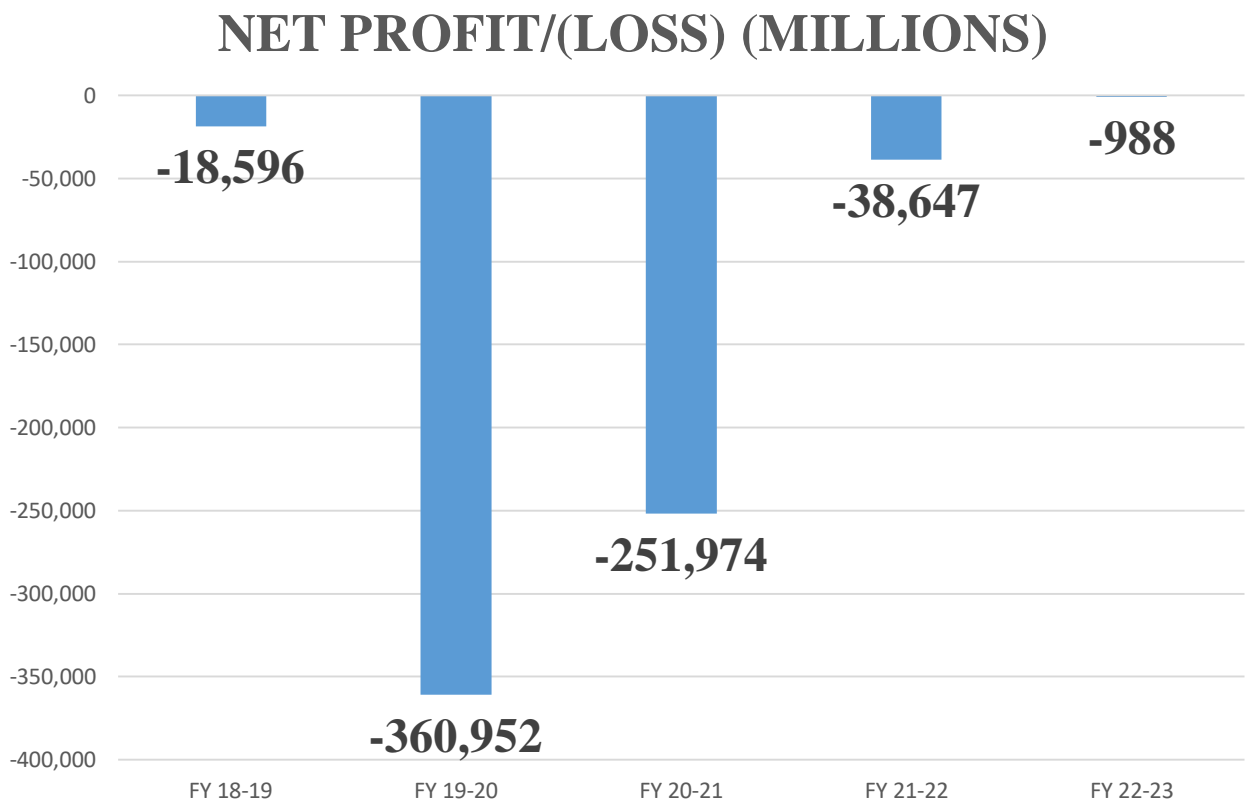
Financial Analysis (2/4)

Revenue & EBIDTA (MILLIONS)



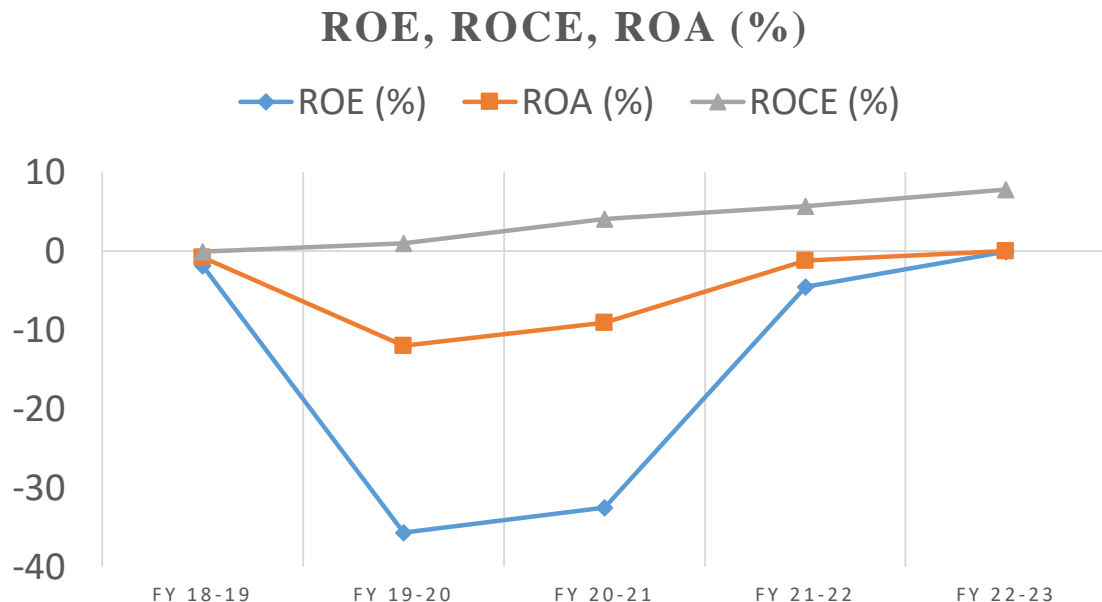
REVENUE & EBIDTA : Both revenue and EBIDTA is increasing from past 5 years. I expect both the revenue and EBIDTA to grow similarly in coming years which will bear fruitful result.

Financial Analysis (3/4)



NET/PROFIT : Even though Airtel is making losses but as we can clearly see the loss has been significantly reduced from 2019. The huge difference between EBIDTA and net profit is because of repayment of loan. As the company is expanding to 5g and other geographical location it has taken some loan whose interest and principal amount repayment is affecting the net profit of the company.

Financial Analysis (4/4)



ROE and ROA is declining over the past 5 years showing the companies is generating return at more efficiently way except for the year FY19-20 in both the case. I expect the company to follow the similar trend in coming years.

ROCE : The consistent upward trend suggests that the company is taking steps to improve its ROCE. Continued focus on optimizing operations, increasing revenue, and managing capital effectively could lead to further ROCE growth in the coming years.

D/E Ratio : The D/E ratio for Airtel is increasing because of debt taken for the purpose of expansion and rolling out of 5g in different geographical locations.

FY 23-24 Quarterly Analysis

PARTICULARS	JUNE 23	SEPT 23
REVENUE (Mn)	2,63,750	2,69,947.00
EBIDTA (Mn)	1,41,540	145612
EBIDTA MARGIN	53.66%	53.94%
NET PROFIT (Mn)	24148	28781
NET PROFIT MARGIN	9.16%	10.66%

Net profit increased by **61.47%** in Q1 (June 23) comparing to Q1 (June 22) which stand at Rs **9302 Million**. And the revenue also increased by 13.1% whereas the EBIDTA increased by 19 % showing the improved operating efficiency.

Valuation

I have valued this stock using 2 method for long term and short term goal.

Method	Purpose	Intrinsic Value	Analysis	Link
Price To Sales Ratio	Short term	1108	Under valued	LINK
FCFE (DCF)	Long term	3266.2	Under valued	LINK

ESG Analysis (1/2)

ESG has become an important non financial factor for investor to invest. Before we invest in the company we need to understand how Airtel is investing in their own future not just financially but other factor such as Environmental, Social and Governance factors. ESG plays an important role in building a brand image, which in turn convince the investor to invest in the company alongside with good financial report.

	Key Focus Area
Environmental	Greening the Network, Achieving Climate Resilience Resource Efficiency and Waste Management.
Social	Occupational Health & Safety, Diversity & Inclusion and Talent Development & Retention.
Governance	Stakeholder Engagement, Sustainable Supply Chain Management and Corporate Governance.

ESG Analysis (2/2)

- Air emissions (other than GHG emissions) by the entity has dropped by 5% from last year.
- E-Waste reduced by 24.26% in FY 22-23.
- Recycled 100% of their waste generated (Plastic waste, E- waste and Battery Waste).
- 33% of the total electricity consumed in data centers were from renewable sources.
- Increased average training hours per employee by more than 20% by FY 2022-2023, using FY 2019-20 as baseline.
- Maintained compliance with EMF radiation levels set by local regulations and ICNIRP (International Commission on Non-Ionizing Radiation Protection).
- All these data indicates that AIRTEL is not only financially strong but also have a stronghold in ESG analysis which **reduces the non financial risk** of the company in coming future.

Recommendations

As Warren Buffett said, **"If the Business Does Well, the Stock Eventually Follows"**.

We recommend two strategy for this undervalued stock who has been consistently performing and growing.

Time Period	Strategy	Target Price
Short Term Goal (1-3 Months)	BUY	1108 (5% profit)
Long Term Goal (2 -3 year)	BUY	3000-3200 (2x profit)

Risk:

Increasing carbon emission can attract regulatory risk in the future.

Contingent liability: Airtel may have to pay fine and could face demand tax up to 6000 Cr for the treatment of License fees in financial reports.

High Debt : Airtel has significantly high debt which affect the Net – profit. Increasing debt increase the risk associated with the company it limit its ability to grow and make it vulnerable in economic downturn.