

Bharti Infratel

BSE SENSEX

31,156

S&P CNX

9,618

CMP: INR384
TP: INR440 (+15%)
Buy


Stock Info

Bloomberg	BHIN IN
Equity Shares (m)	1,896.7
52-Week Range (INR)	413/283
1, 6, 12 Rel. Per (%)	-1/-9/-14
M.Cap. (INR b)	726.4
M.Cap. (USD b)	10.9
Avg Val, INRm	1477.0
Free float (%)	38.4

Financials Snapshot (INR b)

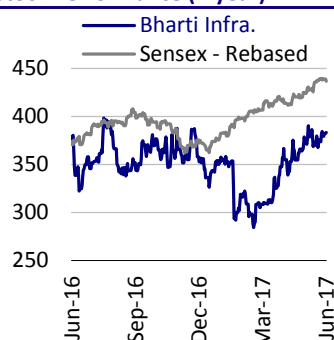
Y/E Mar	2017	2018E	2019E
Net Sales	134.2	149.4	162.4
EBITDA	59.0	65.2	70.8
NP	27.5	32.3	36.9
EPS (INR)	14.9	17.5	19.9
EPS Gr. (%)	25.3	17.7	14.0
BV/Sh. (INR)	83.7	96.6	111.9
RoE (%)	16.2	19.4	19.1
RoCE (%)	13.2	14.4	14.0
P/E (x)	25.9	22.0	19.3
P/BV (x)	4.6	4.0	3.4

Shareholding pattern (%)

As On	Mar-17	Dec-16	Mar-16
Promoter	61.7	72.0	71.7
DII	1.7	1.2	0.7
FII	34.4	25.0	25.6
Others	2.3	1.9	2.0

FII Includes depository receipts

Stock Performance (1-year)



Healthy tenancy outlook to support growth

Vodafone-Idea merger could dilute EBITDA by 15%

- Accelerated data network expansion by Bharti and RJio should keep gross tenancy additions healthy. Net additions might be moderated by the potential loss of tenancies from Aircel and TTSL.
- As cell density grows in urban areas, growth over the next two years would be tenancy driven.
- The Vodafone-Idea merger could have a negative impact of 15% on EBITDA, given a potential 35k-37k site reduction.
- We expect 11%/9% revenue growth in FY18/19 on the back of healthy 10% tenancy addition from Bharti and RJio in FY18.
- Assuming a 15% EBITDA cut due to Vodafone-Idea merger, the stock would be valued at 10.3x (FY19E). BHIN's key value proposition is its high free cash generating capability, with 6-7% FCFE yield.

Healthy order pipeline to drive revenues

Bharti Infratel (BHIN) has witnessed healthy tenancy addition over the last 2-3 quarters, led by aggressive 4g rollout by RJio and Airtel. In FY18, gross additions should remain high, as RJio and Airtel are expected to continue accelerated data network expansion. Net additions would depend on the balance 15% tenancies, with TTSL and Aircel tenancies at risk. Renewal of master service agreements (MSA) is completed by 75% tenants. Rentals are frozen for most tenants for the first three years; so, price increases are likely to be negligible.

Tenancy-to-site-addition ratio could turn favorable

Over the last five years, the ratio of cell site addition to tenancy addition has been about 4:1, implying large proportion of cell site addition through loading. In the next two years, fresh tenancy could increase, as cell density grows in urban areas on high band spectrum. This could increase tenancy v/s loading, given that a large portion of loading-led data network rollout is completed.

Risk of single RAN overblown

The prominence of single RAN cell sites using multiple technologies (2g, 3g, 4g) at one cell site is growing. This has created concerns that telcos may not require to load each technology separately on the tower, thus reducing tenancy charges. However, we understand that single RAN adoption does not impact loading revenues, as charges are technology-wise and are also incurred separately for incremental antenna space.

Vodafone-Idea merger could have 15% EBITDA impact

With reduction of 20% sites out of the total 270,000 sites, about 54,000 sites should be reduced. Of these, the first would be ~12,000 overlapping sites of Vodafone and Idea towers. Of the remaining 42,000 sites, 5,000-7,000 sites could be from other tenants. So, a net of 35,000-37,000 sites could be reduced, leading to a 10% impact on BHIN (standalone and Indus). As base rate remains high for two tenancies v/s three tenancies, any reduction in tenancy could be partly mitigated by increased tenancy rates. This could reduce the impact by 2-3%. Also, the impact could be reduced over the next 2-3 years by imposing the termination clause.

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Termination clause to reduce near-term EBITDA risk

BHIN's master service agreement (MSA) mentions that if a contract is terminated prematurely, the tenant has to pay for 35% of the remaining life of the contract if the tenant has stayed for five years and for 100% if the tenant has stayed for less than five years. When small operators shut tenancy, it is often difficult to execute the termination clause. However, Vodafone-Idea's case would be different, as the combined entity would be continuing operations. In the worst case scenario, assuming 10% revenue impact and 65% rental margin, the net EBITDA impact could be 15%. This could be reduced by 2-5% due to increase in tenancy rates. If the termination clause is imposed, the impact could be delayed beyond 2020.

Indus acquisition could lead to high leverage, cash deployment source

BHIN's management has indicated its willingness to explore Indus and other acquisition opportunities in the market. Given the high supply in the tower industry with Indus, Idea, Vodafone and RCom assets, we believe valuations could be moderate at EV/tenancy of 2.5x for Indus compared to the current 2.9x. Based on this, BHIN might require INR429b with prorata co-location of 167,570 for 58% stake. Thus, from a net cash position of INR56.9b, BHIN may reach a debt of INR362b, with net-debt-to-EBITDA of 3.6x. Given BHIN's annual operating cash flow of INR50b and addition of cash flow from remaining 58% Indus stake, leverage could be reduced by ~50% in two years. This should lead to good growth potential for BHIN, which is otherwise scouting for cash deployment opportunities.

Expect 10% EBITDA growth over FY18-19

We expect 11%/9% revenue growth in FY18/19 on the back of healthy 10% tenancy addition from Bharti and RJio in FY18. We expect FY18/19 EBITDA margin to tread at 43.6% v/s 43.9% in FY17, as MSA renewal would leave limited operating leverage for margin expansion potential.

Valued at EV/EBITDA of 9x factoring Vodafone-Idea merger, 6% FCF yield to support valuations

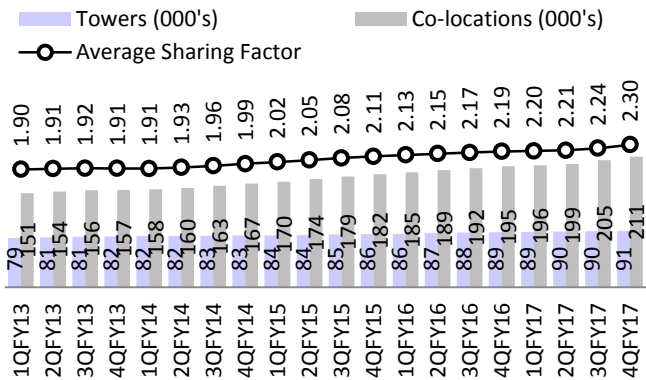
The stock is trading at an EV of 9x FY19E EBITDA. Assuming a 15% EBITDA cut due to Vodafone-Idea merger, the stock would be valued at 10.3x (FY19E). BHIN's key value proposition is its high free cash generating capability, with 6-7% FCFE yield supporting valuations. We maintain **Buy** with a target price of INR440/sh.

Quarterly Performance**(INR Million)**

Y/E March (Consolidated)	FY16				FY17				FY16	FY17
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Revenue from operations	30,031	30,410	31,056	31,817	32,106	32,919	34,007	35,204	123,314	134,237
YoY Change (%)	5.6	3.8	5.3	8.0	6.9	8.3	9.5	10.6	5.7	8.9
Total Expenditure	17,135	17,315	17,433	17,322	18,159	18,421	19,206	19,481	69,205	75,268
EBITDA	12,896	13,095	13,623	14,495	13,947	14,498	14,801	15,723	54,109	58,969
Margins (%)	42.9	43.1	43.9	45.6	43.4	44.0	43.5	44.7	43.9	43.9
Depreciation	5,450	5,562	5,526	5,697	5,648	5,629	5,664	5,684	22,235	22,626
Interest	566	-1,675	292	-1,029	-1,281	-2,472	-947	287	-1,847	-4,414
Other Income	564	564	487	433	352	333	357	414	2,048	1,455
PBT	7,444	9,772	8,292	10,260	9,932	11,674	10,441	10,166	35,769	42,212
Tax	3,020	3,855	3,342	3,076	2,369	3,936	4,237	4,200	13,293	14,742
Rate (%)	40.6	39.4	40.3	30.0	23.9	33.7	40.6	41.3	37.2	34.9
Reported PAT	4,424	5,917	4,950	7,184	7,563	7,738	6,204	5,966	22,476	27,470
Adj PAT	4,424	5,917	4,950	7,184	7,563	7,738	6,204	5,966	22,476	27,470
YoY Change (%)	-4.4	27.2	-2.3	28.9	71.0	30.8	25.3	-17.0	12.8	22.2
Margins (%)	14.7	19.5	15.9	22.6	23.6	23.5	18.2	16.9	18.2	20.5

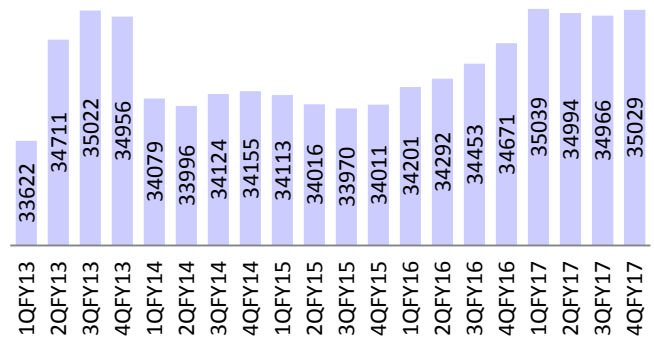
Story in charts

Exhibit 1: Continued momentum in tenancy demand



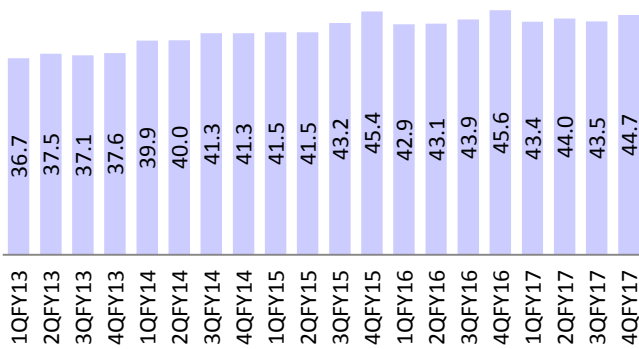
Source: Company, MOSL

Exhibit 2: Sharing revenue per operator per month (INR)



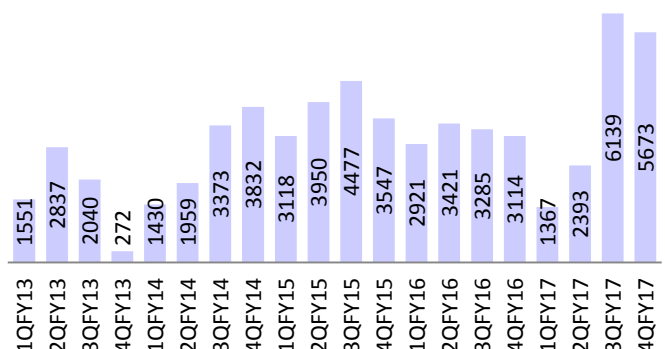
Source: Company, MOSL

Exhibit 3: EBITDA margin (%)



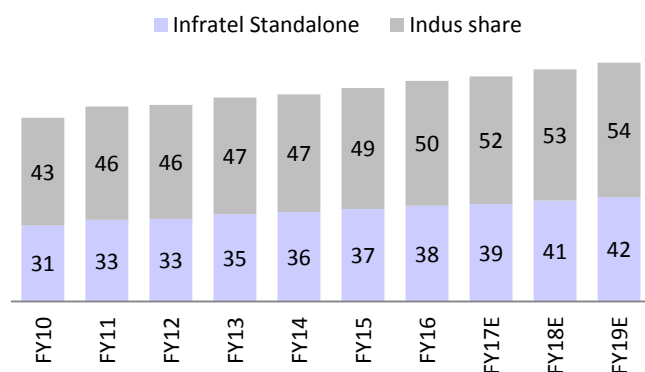
Source: Company, MOSL

Exhibit 4: Net co-location additions



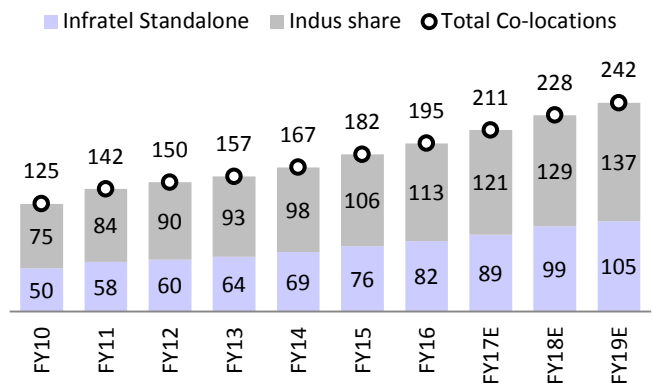
Source: Company, MOSL

Exhibit 5: Tower portfolio break-up (000s)



Source: Company, MOSL

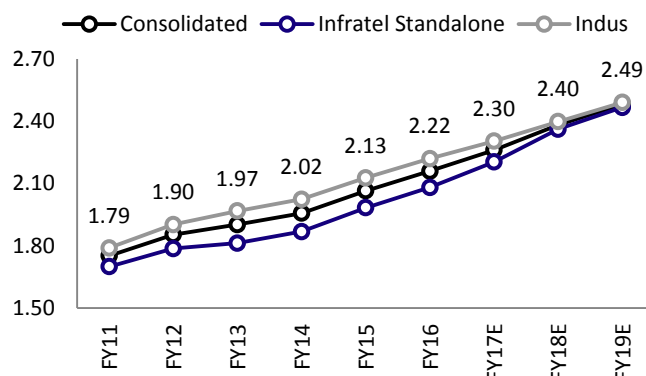
Exhibit 6: Co-locations break-up (000s)



Source: Company, MOSL

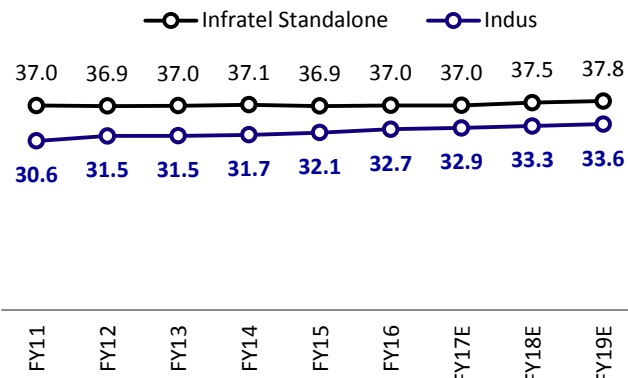
Story in charts

Exhibit 7: Average sharing factor (x)



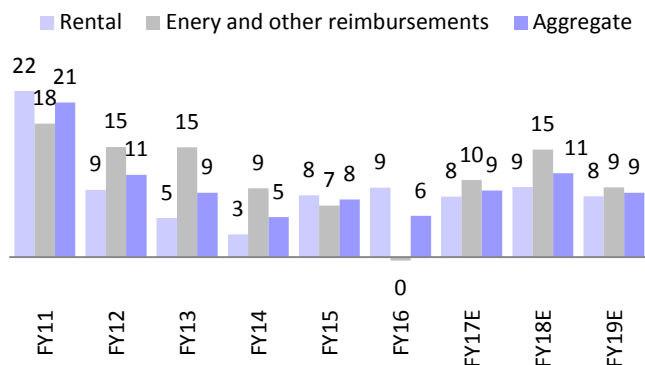
Source: Company, MOSL

Exhibit 8: Sharing revenue per operator (INR 000s/month)



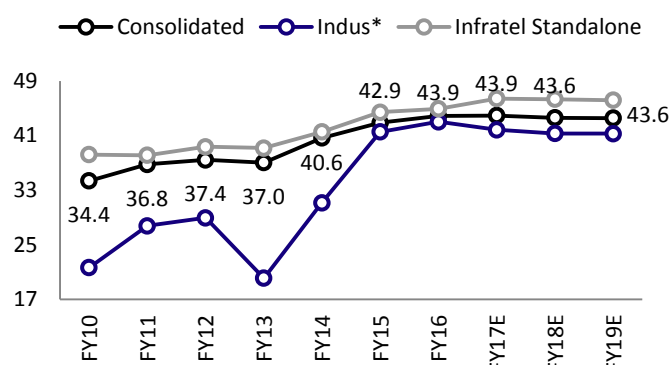
Source: Company, MOSL

Exhibit 9: Consolidated revenue growth (%)



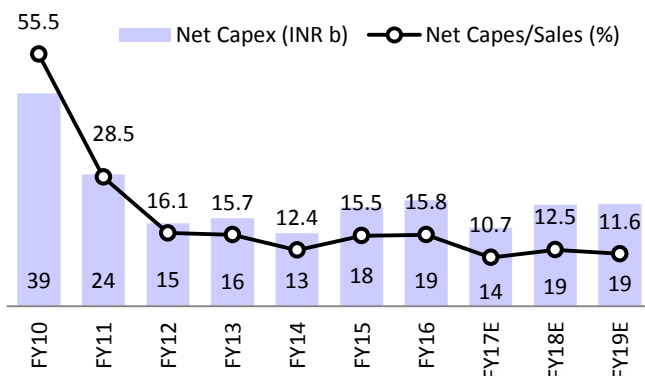
Source: Company, MOSL

Exhibit 10: EBITDA margin (%)



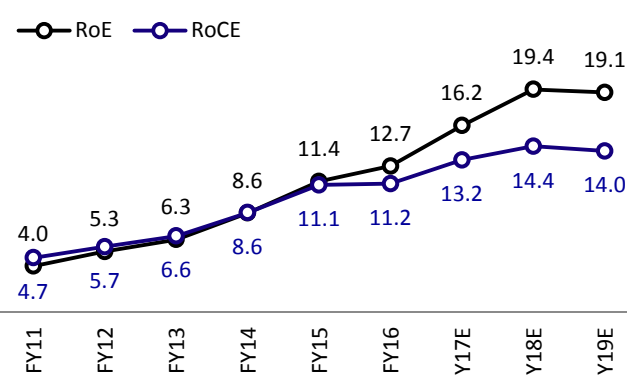
Source: Company, MOSL

Exhibit 11: Net capex intensity expected to moderate



Source: Company, MOSL

Exhibit 12: Return ratios continue to improve (%)



Source: Company, MOSL

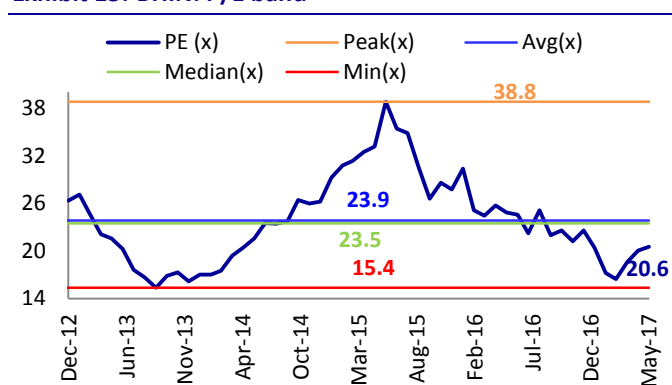
Exhibit 13: Bharti Infratel - SOTP valuation

	Value (INR b)	Value (INR/sh)	Implied FY19 EV/ Tower (INR m)	Implied FY19 EV/ EBITDA (x)
Standalone (Mar-18)	418	226	10	12
Indus (Mar-18)	906	490	7	11
Indus value (42%)	381			
Indus value post holdco discount of 20%	304	165	6	9
Total Enterprise value	723	391	8	10.2
Net Debt	-91	-49		
Shares o/s (b)	2			
Fair value	813	440		11.5
CMP		383		
Upside		15%		

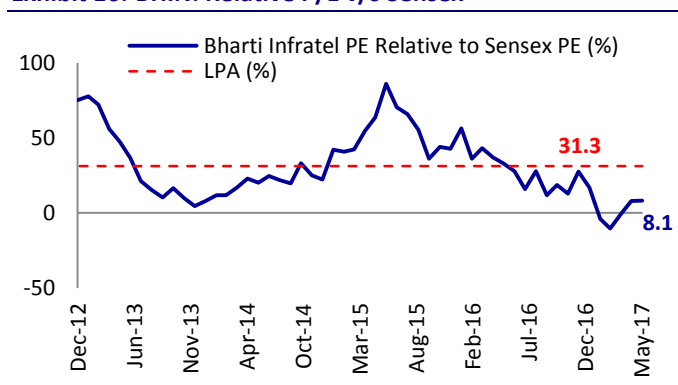
Source: Company, MOSL

Exhibit 14: Potential impact on BHIN's tenancy due to Idea - Vodafone merger (Nos)

Voda cell sites	141,000
Idea cell sites	131,486
Voda + Idea Cell sites	272,486
Merged-led reduction in sites	54,497
-Overlapping sites between Vodafone & Idea	12,000
As % of BHIN+Indus tenancies	3%
-Overlapping sites between Vodafone & Idea	5,000-7,000
As % of BHIN+Indus tenancies	1-2%
Net site reduction (ex-overlaps)	35,000-37,000
BHIN standalone tenancies	89,263
Indus tenancies	288,913
BHIN Standalone + Indus tenancies	378,176
Voda-Idea merger impact on BHIN+Indus tenancies	9-10%

Exhibit 15: BHIN: P/E band

Source: Company, MOSL

Exhibit 16: BHIN: Relative P/E v/s Sensex

Source: Company, MOSL

Exhibit 17: Bharti Infratel - A Snapshot

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Towers (000s)									
Consolidated	78	79	82	83	86	89	91	93	96
YoY (%)	6.1	0.8	3.8	1.6	3.0	3.4	2.1	3.0	2.9
Net additions	4.5	0.6	3.0	1.3	2.5	2.9	1.8	2.7	2.7
-Infratel Standalone	2.2	0.4	2.0	0.8	1.3	1.3	0.6	1.5	1.5
-Indus	5.5	0.6	2.5	1.2	2.9	3.9	2.8	3.0	3.0
Co-locations (000s)									
Consolidated	142	150	157	167	182	195	211	228	242
YoY (%)	13.8	5.5	4.5	6.8	9.0	7.0	8.0	8.1	6.3
Net additions	17.3	7.8	6.7	10.6	15.1	12.7	15.6	17.2	14.4
-Infratel Standalone	7.6	2.5	3.4	5.6	6.7	5.8	7.6	9.6	6.0
-Indus	23.0	12.6	7.8	12.0	20.0	16.5	18.9	18.0	20.0
Average sharing factor (x)									
Consolidated	1.75	1.85	1.90	1.96	2.06	2.16	2.26	2.38	2.48
-Infratel Standalone	1.70	1.79	1.81	1.87	1.98	2.08	2.20	2.36	2.47
-Indus	1.79	1.90	1.97	2.02	2.13	2.22	2.30	2.40	2.49
Sharing revenue per operator (INR '000/month)									
Consolidated	34.7	33.7	33.7	33.9	34.1	34.5	34.7	35.1	35.4
YoY (%)	1.6	-3.0	0.1	0.6	0.5	1.2	0.5	1.3	0.9
-Infratel Standalone	37.0	36.9	37.0	37.1	36.9	37.0	37.0	37.5	37.8
-Indus	30.6	31.5	31.5	31.7	32.1	32.7	32.9	33.3	33.6
Revenue break-up (INR b)									
Rental revenue	55.6	60.7	63.8	65.8	71.3	77.9	84.3	92.3	99.9
YoY (%)	22	9	5	3	8	9	8	9	8
-Bharti Infratel standalone	23.9	26.1	27.4	29.6	32.1	35.0	38.0	42.3	46.2
-Indus	70	78	82	86	94	103	110	119	128
Energy and other reimbursements	29.5	33.9	38.9	42.5	45.4	45.2	49.9	57.2	62.6
YoY (%)	18	15	15	9	7	0	10	15	9
-Bharti Infratel standalone	13.9	15.5	17.2	20.4	21.8	20.8	22.9	26.9	29.7
-Indus	37.1	41.8	49.6	52.3	55.8	58.0	64.3	72.1	78.2
Total revenue	85	95	103	108	117	123	134	149	162
YoY (%)	21	11	9	5	8	6	9	11	9
-Bharti Infratel standalone	38	42	45	50	54	56	61	69	76
-Indus	107	120	132	139	150	161	175	191	206
Power and fuel cost (INR b)	30	34	38	41	42	43	47	53	58
YoY (%)	19	11	13	7	3	2	9	14	9
% of revenue	35	36	37	38	36	35	35	35	36
Power and fuel cost per tower (INR '000/month)	33	36	39	41	41	41	43	48	51
EBITDA (INR b)	31	35	38	44	50	54	59	65	71
YoY (%)	29	13	8	16	14	8	9	11	9
EBITDA margin (%)	36.8	37.4	37.0	40.6	42.9	43.9	43.9	43.6	43.6
EBITDA per tower (INR m)	0.41	0.45	0.47	0.53	0.59	0.62	0.66	0.71	0.75

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Total Income from Operations	102,720	108,267	116,683	123,314	134,237	149,446	162,419
Change (%)	8.7	5.4	7.8	5.7	8.9	11.3	8.7
Power and fuel	38,016	40,612	41,950	42,598	46,533	52,985	57,941
Rent	10,876	8,886	9,460	10,322	11,628	12,869	13,927
Employee benefits expenses	3,341	3,670	3,997	4,279	4,679	4,966	5,382
Other Expenses	12,437	11,098	11,235	12,006	12,428	13,440	14,415
Total Expenditure	64,670	64,266	66,642	69,205	75,268	84,260	91,664
% of Sales	63.0	59.4	57.1	56.1	56.1	56.4	56.4
EBITDA	38,050	44,001	50,041	54,109	58,969	65,186	70,754
Margin (%)	37.0	40.6	42.9	43.9	43.9	43.6	43.6
Depreciation	22,199	21,259	21,847	22,235	22,626	24,128	25,676
EBIT	15,851	22,742	28,194	31,874	36,343	41,059	45,079
Int. and Finance Charges	3,945	3,997	2,902	-1,847	-4,414	-7,946	-10,804
Other Income	3,379	4,487	5,223	2,048	1,455	0	0
PBT bef. EO Exp.	15,285	23,232	30,515	35,769	42,212	49,005	55,882
EO Items	22	0	0	0	0	0	0
PBT after EO Exp.	15,307	23,232	30,515	35,769	42,212	49,005	55,882
Total Tax	5,282	8,053	10,591	13,293	14,742	16,662	19,000
Tax Rate (%)	34.5	34.7	34.7	37.2	34.9	34.0	34.0
Reported PAT	10,025	15,179	19,924	22,476	27,470	32,343	36,882
Adjusted PAT	10,011	15,179	19,924	22,476	27,470	32,343	36,882
Change (%)	33.3	51.6	31.3	12.8	22.2	17.7	14.0
Margin (%)	9.7	14.0	17.1	18.2	20.5	21.6	22.7

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	18,887	18,893	18,938	18,967	18,496	18,496	18,496
Total Reserves	153,038	161,489	151,262	164,512	136,369	160,130	188,430
Net Worth	171,925	180,382	170,200	183,479	154,865	178,626	206,926
Total Loans	32,296	26,836	17,131	10,767	22,249	19,464	19,464
Deferred Tax Liabilities	7,610	11,249	12,247	12,249	7,150	7,150	7,150
Capital Employed	211,831	218,467	199,578	206,495	184,264	205,240	233,540
Net Fixed Assets	163,239	153,205	148,121	144,868	136,326	130,805	123,898
Capital WIP	1,723	1,527	2,260	2,245	2,568	2,568	2,568
Total Investments	38,911	74,803	58,822	38,811	56,211	56,211	56,211
Curr. Assets, Loans&Adv.	73,057	56,821	62,344	83,265	51,567	85,305	126,194
Account Receivables	8,554	3,075	3,532	1,916	2,179	2,524	2,816
Cash and Bank Balance	1,267	1,655	9,120	31,916	22,970	53,806	92,607
Loans and Advances	63,236	52,091	49,692	49,433	26,418	28,975	30,772
Curr. Liability & Prov.	65,099	67,889	71,969	62,694	62,408	69,648	75,331
Account Payables	7,106	1,894	1,342	959	6,793	6,921	7,030
Other Current Liabilities	42,090	45,422	43,694	41,139	49,510	56,418	61,885
Provisions	15,903	20,573	26,933	20,596	6,105	6,309	6,415
Net Current Assets	7,958	-11,068	-9,625	20,571	-10,841	15,657	50,863
Appl. of Funds	211,831	218,467	199,578	206,495	184,264	205,240	233,540

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
Basic (INR)							
EPS	5.3	8.0	10.5	11.8	14.9	17.5	19.9
Cash EPS	17.0	19.2	22.0	23.6	26.4	29.8	33.0
BV/Share	90.6	95.1	89.7	96.7	81.6	94.2	109.1
DPS	4.0	4.0	4.0	4.0	3.9	3.9	3.9
Payout (%)	87.4	57.7	44.0	39.0	31.2	26.5	23.3
Valuation (x)							
P/E			34.7	30.8	24.6	20.9	18.3
Cash P/E			16.6	15.5	13.8	12.3	11.1
P/BV			4.1	3.8	4.5	3.9	3.3
EV/Sales			6.0	5.4	5.2	4.4	3.8
EV/EBITDA			14.0	12.4	11.7	10.1	8.8
Dividend Yield (%)	1.1	1.1	1.1	1.1	1.1	1.1	1.1
FCF per share	10.7	13.1	12.1	13.6	24.6	17.0	18.2
Return Ratios (%)							
RoE	6.3	8.6	11.4	12.7	16.2	19.4	19.1
RoCE	6.6	8.6	11.1	11.2	13.2	14.4	14.0
RoIC	6.0	9.6	13.6	15.2	20.0	27.8	34.0
Working Capital Ratios							
Fixed Asset Turnover (x)	0.6	0.7	0.8	0.9	1.0	1.1	1.3
Asset Turnover (x)	0.5	0.5	0.6	0.6	0.7	0.7	0.7
Inventory (Days)	0	0	0	0	0	0	0
Debtor (Days)	30	10	11	6	6	6	6
Creditor (Days)	25	6	4	3	18	17	16
Leverage Ratio (x)							
Current Ratio	1.1	0.8	0.9	1.3	0.8	1.2	1.7
Interest Cover Ratio	4.0	5.7	9.7	-17.3	-8.2	-5.2	-4.2
Net Debt/Equity	0.0	-0.3	-0.3	-0.3	-0.4	-0.5	-0.6

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
OP/(Loss) before Tax	15,307	23,232	30,515	36,207	42,212	49,005	55,882
Depreciation	22,199	21,259	21,847	22,693	22,626	24,128	25,676
Interest & Finance Charges	3,717	3,864	2,946	2,181	-4,414	-7,946	-10,804
Direct Taxes Paid	-3,722	-4,345	-8,420	-11,547	-14,742	-16,662	-19,000
(Inc)/Dec in WC	3,463	-194	-517	1,870	22,466	4,338	3,595
CF from Operations	40,964	43,816	46,371	51,404	68,148	52,863	55,349
Others	-4,452	-5,646	-5,338	-6,218	-7,147	-2,048	-2,048
CF from Operating incl EO	36,512	38,170	41,033	45,186	61,001	50,815	53,301
(Inc)/Dec in FA	-16,173	-13,389	-18,144	-19,433	-14,407	-18,606	-18,769
Free Cash Flow	20,339	24,781	22,889	25,753	46,594	32,208	34,532
(Pur)/Sale of Investments	-34,795	-35,977	17,588	25,887	-17,400	0	0
Others	-6,976	25,904	17	10,350	13,527	13,527	13,527
CF from Investments	-57,944	-23,462	-539	16,804	-18,280	-5,079	-5,242
Issue of Shares	31,543	57	490	0	-47,502	0	0
Inc/(Dec) in Debt	124	-4,254	-7,601	0	11,482	-2,785	0
Interest Paid	-3,715	-3,805	-3,010	-2,180	4,414	7,946	10,804
Dividend Paid	-5,721	-7,003	-21,755	-15,676	-8,582	-8,582	-8,582
CF from Fin. Activity	22,231	-15,005	-31,876	-17,856	-40,188	-3,421	2,221
Inc/Dec of Cash	799	-297	8,618	44,134	2,533	42,315	50,280
Opening Balance	468	598	1,640	285	20,437	11,491	42,327
Closing Balance	1,267	1,655	9,120	31,916	22,970	53,806	92,607

NOTES

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