RESULT UPDATE

BHARTI INFRATEL

Strong tenancy addition; consolidation pangs

India Equity Research| Telecom

Bharti Infratel (Infratel) reported Q1FY18 revenue of INR35.2bn (up 0.1% QoQ) versus Street's INR35.6bn estimate as energy revenue fell 5.4% QoQ. However, rental revenue growth was strong at 3.5% QoQ led by Reliance Jio's (RJIO) network rollout and 3G/4G loading. Tenancy addition remained robust—7,795 versus 5,672 QoQ—but tower addition decelerated further to 191 from 391 QoQ. EBITDA margin remained flat QoQ at 44.7% versus Street's 43.7% estimate. We estimate revenue growth to normalise post completion of RJIO's network expansion in FY18 and slow down post consolidation in the industry. Maintain 'HOLD' with DCF-based INR400 TP.

Robust tenancy addition

Infratel added 191 towers and 7,795 tenancies in Q1FY18 versus 391 towers and 5,672 tenancies in Q4FY17. Management attributed the strong addition to telecom operators' focus on expanding data network and increased contribution from RJIO. EBITDA margin remained flat at 44.7% despite lower energy margin (4.7% versus 10.2% in Q4FY17) as other expenses fell 11.3% QoQ and operating leverage kicked in. This led to 130bps expansion in ex-energy EBITDA margin to 67.1%.

Indus stake purchase may correct capital structure

Lack of gearing has been a key challenge for Infratel in improving its return ratios. With Idea and Vodafone looking to prune debt by selling their stakes in Indus and Infratel having first right of refusal, the latter may acquire this stake. This can improve its capital structure and drive up return ratios. It may also acquire standalone towers of Vodafone and Idea. The company is also venturing in government's Smart Cities initiatives, in-building solutions, small cells and passive fiber deployment to deploy capital to improve its capital structure.

Outlook and valuations: Consolidation concerns; maintain 'HOLD'

We estimate Infratel's tenancy addition to slowdown to 11,804 in FY19 from 24,179 in FY18 as RJIO completes its network expansion. Consequently, FY19 revenue growth is estimated at 5.6% versus 8.2% in FY18. With consolidation in the telecom space, the company is at risk of losing revenue as operators extract synergies from network consolidation. The stock is trading at 11.2x and 10.4x FY18E and FY19E EV/EBITDA, respectively. We maintain **'HOLD/SP'** with DCF-based target price of INR400.

Financials **(INR mn)**

Year to March	Q1FY18	Q1FY17	*% Chg*	Q4FY17	*% Chg*	FY17	FY18E	FY19E
Net revenues	35,239	32,107	9.8	35,204	0.1	134,237	145,202	153,313
EBITDA	15,750	13,947	12.9	15,723	0.2	58,969	66,101	69,998
Adjusted Profit	6,639	7,562	(12.2)	5,966	11.3	27,470	30,417	33,926
Diluted EPS (INR)	3.6	4.0	(10.0)	3.2	11.3	14.8	16.4	18.3
Diluted P/E (x)						28.2	25.3	22.7
EV/EBITDA (x)						12.7	11.2	10.4

EDELWEISS 4D RATINGS

Absolute Rating	**HOLD**
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Underweight

MARKET DATA *(R: BHRI.BO, B: BHIN IN)*

CMP	: INR 416
Target Price	: INR 400
52-week range (INR)	: 439 / 282
Share in issue (mn)	: 1,849.6
M cap (INR bn/USD mn)	: 769 / 11,940
Avg. Daily Vol.BSE/NSE('000)	: 4,350.2

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	61.7	72.0	72.0
MF's, FI's & BK's	1.3	1.2	1.0
FII's	35.0	24.9	25.2
Others	2.1	1.9	1.9

** Promoters pledged shares (% of share in issue) : NIL*

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Telecommunication Index
1 month	11.7	4.1	16.4
3 months	10.8	7.1	14.7
12	13.6	15.4	11.5

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Table 1: Infratel—Revenue and tenancy growth

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Total Towers	87,184	88,055	88,808	89,352	89,791	90,255	90,646	90,837
Total Co-locations	188,636	191,921	195,035	196,401	198,795	204,934	210,606	218,401
Quarterly tower addition	788	870	753	544	439	465	391	191
Quarterly tenancy addition	3,421	3,285	3,114	1,366	2,394	6,139	5,672	7,795
Average sharing factor	2.15	2.17	2.19	2.20	2.21	2.24	2.30	2.36
Sharing revenue per tower per month	73,856	74,820	75,856	76,983	77,197	78,407	80,464	83,001
Sharing revenue per sharing operator per month	34,292	34,453	34,671	35,039	34,994	34,966	35,029	35,112
Rent revenue	19,262	19,793	20,322	20,573	20,744	21,175	21,834	22,595
QoQ growth	2.9	2.8	2.7	1.2	0.8	2.1	3.1	3.5
Energy revenue	11,148	11,263	11,495	11,533	12,175	12,832	13,370	12,644
QoQ growth	(1.4)	1.0	2.1	0.3	5.6	5.4	4.2	(5.4)
Total revenue	30,410	31,056	31,817	32,106	32,919	34,007	35,204	35,239
QoQ growth	1.3	2.1	2.5	0.9	2.5	3.3	3.5	0.1

Source: Company, Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	35,239	32,107	*9.8*	35,204	*0.1*	134,237	145,202	153,313
Direct costs	15,155	13,940	*8.7*	15,033	*0.8*	58,161	61,086	63,593
Employee expenses	1,216	1,147	*6.0*	1,157	*5.1*	4,679	4,924	5,234
Other expenses	3,118	3,073	*1.5*	3,291	*(5.3)*	12,428	13,091	14,487
Total expenditure	19,489	18,160	*7.3*	19,481	*0.0*	75,268	79,101	83,315
EBITDA	15,750	13,947	*12.9*	15,723	*0.2*	58,969	66,101	69,998
Depreciation	5,905	5,649	*4.5*	5,684	*3.9*	22,626	23,722	23,929
EBIT	9,845	8,298	*18.6*	10,039	*(1.9)*	36,343	42,379	46,069
Other income	474	351	*35.0*	414	*14.5*	1,455	1,701	1,676
Interest	(627)	(1,282)	*NA*	287	*NA*	(4,414)	(3,447)	(3,914)
Profit before tax	10,946	9,931	*10.2*	10,166	*7.7*	42,212	47,527	51,659
Provision for taxes	4,307	2,369	*81.8*	4,200	*2.5*	14,742	17,111	17,733
Reported net profit	6,639	7,562	*(12.2)*	5,966	*11.3*	27,470	30,417	33,926
Exceptional items								
Adjusted Profit	6,639	7,562	*(12.2)*	5,966	*11.3*	27,470	30,417	33,926
Diluted EPS (INR)	3.6	4.0	*(10.0)*	3.2	*11.3*	14.8	16.4	18.3
Basic EPS (INR)	3.5	4.0	*(12.2)*	3.1	*11.3*	14.8	16.4	18.3
Diluted P/E (x)	-	-		-		28.2	25.3	22.7
EV/EBITDA (x)	-	-		-		12.7	11.2	10.4
EV/Revenues (x)	-	-		-		5.6	5.1	4.7
Direct costs	43.0	43.4		42.7		43.3	42.1	41.5
Employee cost	3.5	3.6		3.3		3.5	3.4	3.4
Other operating expenses	8.8	9.6		9.3		9.3	9.0	9.4
EBITDA	44.7	43.4		44.7		43.9	45.5	45.7
Adjusted net profit	18.8	23.6		16.9		20.5	20.9	22.1
Tax rate (% PBT)	39.3	23.9		41.3		34.9	36.0	34.3

Company Description

Infratel, including Indus Towers, is a leading telecom tower infrastructure provider in India with 40.8% market share. Backed by parent Bharti and by virtue of 42% stake in Indus Towers, Infratel shares a strong relationship with Bharti, Vodafone and Idea, which account for ~76% telecom revenue market share and are aggressively expanding their 3G/4G footprint. On consolidated basis, the company has 90,837 towers with 218,401 tenancies, implying a sharing factor of 2.40.

Investment Theme

Infratel has benefitted from accelerated data network roll out by telcos to serve the burgeoning data demand. However, the phase of accelerated data network roll out will pass and it is critical to determine the growth rate in the number of sites post data network's coverage-led expansion phase. We believe, Infratel's long-term growth rate will settle at 5.0% when data network expansion ventures into capacity-led expansion mode from current coverage-led expansion mode.

Key Risks

Availability of substantially more spectrum

Meaningful pickup in active infrastructure sharing

Disruption in wireless technology

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Company				
Total Towers	88,808	90,646	91,483	92,234
Total Co-locations	195,035	210,606	234,785	246,589
Average Sharing factor	2.2	2.3	2.4	2.6
Sharing Revenue per Tower per month	34,499	34,647	35,342	35,353
Energy revenue per tower (INR)	43,130	46,354	46,446	46,452
Cost assumptions				
Energy Margin (%)	5.8	6.8	5.2	4.0
Rent expense per month per tower (INR)	9,847	10,799	11,864	13,098
Other costs as % of sales	13.2	12.7	12.4	12.9
Financial assumptions				
Depreciation as a % Net Block	15.3	15.7	16.9	17.7
Tax rate as % of PBT	37.2	34.9	36.0	34.3
Capex (INR mn)	19,434	21,788	19,887	16,835
Debtor days	8	6	6	6
Payable days	18	45	60	59
Cash conversion cycle	(10)	(39)	(54)	(54)

Income statement (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	123,314	134,237	145,202	153,313
Direct costs	52,920	58,161	61,086	63,593
Employee costs	4,279	4,679	4,924	5,234
Other Expenses	12,007	12,428	13,091	14,487
Total operating expenses	69,206	75,268	79,101	83,315
EBITDA	54,108	58,969	66,101	69,998
Depreciation	22,236	22,626	23,722	23,929
EBIT	31,872	36,343	42,379	46,069
Add: Other income	2,048.00	1,455.00	1,701.47	1,676.35
Less: Interest Expense	(1,847)	(4,414)	(3,447)	(3,914)
Profit Before Tax	35,767	42,212	47,527	51,659
Less: Provision for Tax	13,293	14,742	17,111	17,733
Reported Profit	22,474	27,470	30,417	33,926
Adjusted Profit	22,474	27,470	30,417	33,926
Shares o /s (mn)	1,897	1,861	1,850	1,850
Adjusted Basic EPS	11.8	14.8	16.4	18.3
Diluted shares o/s (mn)	1,897	1,861	1,850	1,850
Adjusted Diluted EPS	11.8	14.8	16.4	18.3
Adjusted Cash EPS	23.6	26.9	29.3	31.3
Dividend per share (DPS)	3.0	16.0	14.8	16.0
Dividend Payout Ratio(%)	25.3	108.4	90.0	87.4

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	56.1	56.1	54.5	54.3
Materials costs	42.9	43.3	42.1	41.5
Staff costs	3.5	3.5	3.4	3.4
S G & A expenses	9.7	9.3	9.0	9.4
Depreciation	18.0	16.9	16.3	15.6
Interest Expense	(1.5)	(3.3)	(2.4)	(2.6)
EBITDA margins	43.9	43.9	45.5	45.7
Net Profit margins	18.2	20.5	20.9	22.1

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	5.7	8.9	8.2	5.6
EBITDA	8.1	9.0	12.1	5.9
PBT	17.2	18.0	12.6	8.7
Adjusted Profit	12.8	22.2	10.7	11.5
EPS	12.5	24.5	11.4	11.5

Balance sheet (INR mn)

As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	18,967	18,496	18,496	18,496
Reserves & Surplus	163,296	136,369	139,410	142,703
Shareholders' funds	182,263	154,865	157,906	161,199
Short term borrowings	6,300	6,793	6,793	6,793
Long term borrowings	10,746	4,447	4,447	4,447
Total Borrowings	17,046	11,240	11,240	11,240
Long Term Liabilities	13,048	14,258	14,258	14,258
Def. Tax Liability (net)	9,200	7,150	9,717	12,376
Sources of funds	**221,557**	**187,513**	**193,120**	**199,073**
Gross Block	293,230	315,018	334,905	351,741
Net Block	139,610	135,934	139,761	131,674
Capital work in progress	163	392	392	392
Intangible Assets	2,246	2,568	2,568	2,568
Total Fixed Assets	142,019	138,894	142,721	134,634
Non current investments	35,607	48,970	48,970	48,970
Cash and Equivalents	49,194	37,960	38,987	53,152
Sundry Debtors	1,915	2,179	2,309	2,406
Loans & Advances	10,964	13,442	13,998	14,413
Other Current Assets	5,079	5,227	5,538	5,770
Current Assets (ex cash)	17,958	20,848	21,844	22,589
Trade payable	5,617	12,903	13,141	13,992
Other Current Liab	17,604	46,256	46,261	46,280
Total Current Liab	23,221	59,159	59,402	60,272
Net Curr Assets-ex cash	(5,263)	(38,311)	(37,558)	(37,683)
Uses of funds	**221,557**	**187,513**	**193,120**	**199,073**
BVPS (INR)	96.1	83.2	85.4	87.2

Free cash flow (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	22,474	27,470	30,417	33,926
Add: Depreciation	22,236	22,626	23,722	23,929
Others	(132)	8,176	(641)	1,233
Less: Changes in WC	631	3,710	(753)	125
Operating cash flow	43,947	54,562	54,251	58,963
Less: Capex	19,434	21,788	19,887	16,835
Free Cash Flow	**24,513**	**32,774**	**34,363**	**42,128**

Cash flow metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	43,947	54,562	54,251	58,963
Investing cash flow	2,478	(20,419)	(18,186)	(15,159)
Financing cash flow	(26,273)	-	(27,375)	(29,639)
Net cash Flow	20,152	34,143	8,689	14,165
Capex	(19,434)	(21,788)	(19,887)	(16,835)
Dividend paid	(15,676)	-	(27,375)	(29,639)

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	12.8	16.3	19.4	21.3
ROACE (%)	17.5	20.7	26.3	28.0
Debtors Days	8	6	6	6
Payable Days	18	45	60	59
Cash Conversion Cycle	(10)	(39)	(54)	(54)
Current Ratio	2.9	1.0	1.0	1.3
Gross Debt/EBITDA	0.3	0.2	0.2	0.2
Gross Debt/Equity	0.1	0.1	0.1	0.1
Adjusted Debt/Equity	0.1	0.1	0.1	0.1
Interest Coverage Ratio	(17.3)	(8.2)	(12.3)	(11.8)

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	0.6	0.7	0.8	0.8
Fixed Asset Turnover	0.9	1.0	1.0	1.1
Equity Turnover	0.7	0.8	0.9	1.0

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	11.8	14.8	16.4	18.3
Y-o-Y growth (%)	*12.5*	*24.5*	*11.4*	*11.5*
Adjusted Cash EPS (INR)	23.6	26.9	29.3	31.3
Diluted P/E (x)	35.1	28.2	25.3	22.7
P/B (x)	4.3	5.0	4.9	4.8
EV / Sales (x)	6.1	5.6	5.1	4.7
EV / EBITDA (x)	14.0	12.7	11.2	10.4
Dividend Yield (%)	0.7	3.8	3.6	3.9

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Bharti Infratel	11,940	25.3	22.7	11.2	10.4	19.4	21.3
Bharti Airtel	26,558	38.7	32.9	7.7	6.8	6.3	6.9
Idea Cellular	5,472	(41.3)	(1,042.7)	7.6	6.7	(3.5)	(0.1)
Reliance Communication	988	325.1	(419.5)	7.7	6.6	0.3	0.2
Median	-	32.0	(198.4)	7.7	6.8	3.3	3.5
AVERAGE	-	86.9	(351.7)	8.6	7.6	5.6	7.1

Source: Edelweiss research

Additional Data

Directors Data

Mr. Jitender Balakrishnan	Non-Executive Director	Mr. Akhil Gupta	Chairman
Mrs. Devender Singh Rawat	Managing Director & CEO	Mrs. Leena Srivastava	Non-Executive Director
Mr. Mark Chin Kok Chong	Non-Executive Director	Mr. Narayanan Kumar	Non-Executive Director
Mr. Bharat Sumant Raut	Non-Executive Director	Mr. Rajan Bharti Mittal	Non-Executive Director
Mr. R P Singh	Non-Executive Director		

Auditors - M/s S. R. Batliboi & Associates LLP

Holding – Top10

	Perc. Holding		Perc. Holding
Silverview Portfolio Invs	7.07	Canada Pension Plan Invest	3.27
Comgest S A	1.68	Fidelity Management & Research	1.61
Merrill Lynch Capital Markets	1.57	Blackrock	1.16
Vanguard Group Inc	1.01	Matthews International Capital	0.88
Compassvale Investments	0.69	Harding Loevner LP	0.59

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
29 Mar 2017	Nettle Infrastructure Investments Ltd	Buy	209416643	325.00
29 Mar 2017	Bharti Airtel Ltd	Sell	209416643	325.00
28 Mar 2017	Silverview Portfolio Investments Pte. Ltd	Buy	130803065	325.00
28 Mar 2017	Canada Pension Plan Investment Board	Buy	60461539	324.99
28 Mar 2017	Bharti Airtel Ltd	Sell	190583357	325.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
03 Apr 2017	BHARTI AIRTEL LIMITED	Sell	209416643.00
03 Apr 2017	NETTLE INFRASTRUCTURE INVESTMENTS LIMITED	Buy	209416643.00
31 Mar 2017	NETTLE INFRASTRUCTURE INVESTMENTS LIMITED	Buy	209416643.00
31 Mar 2017	BHARTI AIRTEL LIMITED	Sell	209416643.00
30 Mar 2017	BHARTI AIRTEL LIMITED	Sell	190583357.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharti Airtel	HOLD	SP	L	Bharti Infratel	HOLD	SP	L
Idea Cellular	HOLD	SP	M	Reliance Communication	HOLD	SU	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Date: 2017.07.25 21:21:44 +05'30'

Coverage group(s) of stocks by primary analyst(s): Telecom

Bharti Airtel, Bharti Infratel, Idea Cellular, Reliance Communication

Recent Research

Date	Company	Title	Price (INR)	Recos
22-Jul-17	**Telecom**	Reliance Jio forays in feature phone segment; *Sector Update*		
04-Jul-17	**Telecom**	Limited arsenal for meaningful course correction ; *Sector Update*		
15-May-17	**Idea Cellular**	Cost rationalisation springs margin surprise; *Result Update*	86	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

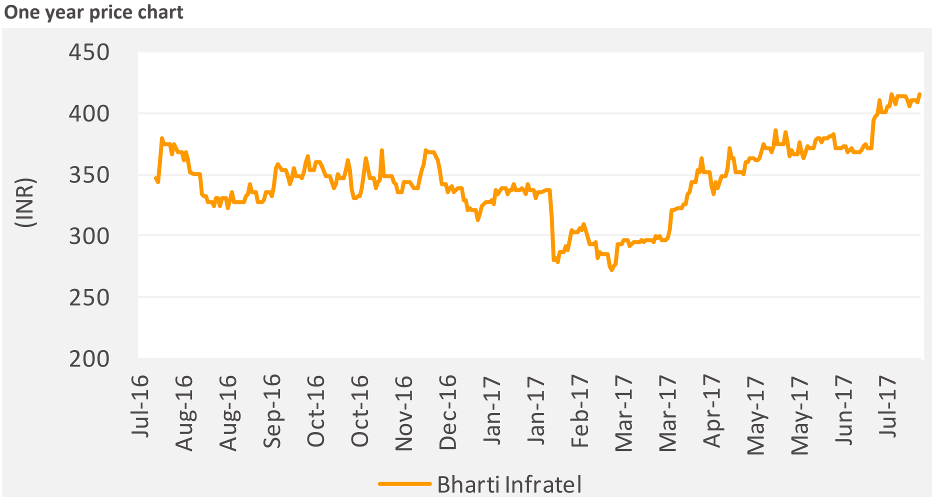
* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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