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INSTITUTIONAL RESEARCH

COMPANY UPDATE | 08 JAN 2018

Bharti Infratel

SELL

INDUSTRY	TELECOM
CMP *(as on 05 Jan 2018)*	**Rs 373**
Target Price	**Rs 310**
Nifty	10,559
Sensex	34,154
KEY STOCK DATA	
Bloomberg	BHIN IN
No. of Shares (mn)	1,850
MCap (Rs bn) / ($ mn)	689/10,873
6m avg traded value (Rs mn)	2,104
STOCK PERFORMANCE (%)	
52 Week high / low	**Rs 483/282**

	3M	6M	12M
Absolute (%)	(7.9)	(7.5)	6.4
Relative (%)	(16.0)	(16.9)	(20.6)

SHAREHOLDING PATTERN (%)	
Promoters	58.0
FIs & Local MFs	1.8
FPIs	38.2
Public & Others	2.0

Source : BSE

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Multiple de-rating inevitable

Bharti Infratel's (BHIN) share price has declined from a peak of Rs 480 to Rs 373 (22%) in last two months. Despite recent decline, we reiterate our Sell rating with revised TP of Rs 310 (vs. Rs 387). Our TP is based on 20x Dec-19E EPS (Rs 356) for business as usual (vs. 24x earlier) less impact of Rs 60/sh from Voda-Idea merger (vs. Rs 39/sh earlier) and likely acquisition of Voda-Idea stake in Indus at EV of Rs 5mn/tower (+Rs 15/sh). Key reason for our de-rating is instant loss of tenancies on merger of Voda-Idea and impact of RCom and Aircel businesses' scaling down. This would push back BHIN's EBITDA and earnings by couple of years.

Street's optimism on BHIN is driven by the prospect of (a) better capital allocation via the likely acquisition of Vodafone and Idea's stake in Indus (b) BHIN's parent Bharti diluting in favour of a consortium of investors and (c) realization of exit penalties from Voda-Idea on merger. However, these events are probable and s.t. valuations; while loss of tenancies certainly warrants de-rating. A higher price for Indus acquisition would be negative. A lower price would be sentimentally negative as BHIN holds 42% in Indus.

Note: In absence of details of mix of tenancy losses, timing and event uncertainties, our numbers are on business-as-usual basis. But, we provide the impact of each of the events separately.

Key highlights

- **All round pain:** BHIN's 3QFY18 is expected to be weak with tenancy losses from Rcom's wireless business exit and shutdown of operations by Aircel in six circles. Further, as Voda-Idea merge their operations, their overlapping tenancies would get accounted as loading (6-8% rental/tenant) instead of separate tenancies. A potential reduction of 60-65k tenancies is likely from the merged entities. These could impact BHIN's EBITDA by ~15% and EPS 25%.
- **Structural risks persist:** Pricing renegotiations by telcos of relatively larger costs remains a key long-term risk. Jio has considerable network cost advantage vs. incumbents owing to single technology operations, smart mix of owned vs. leased towers and mostly notably the leasing terms. BHIN runs the risk over here, as a decline of 5% rental/tenant impacts BHIN EPS by 11%.

Consolidated Financial Summary

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	123,314	134,236	144,956	150,364	157,002
EBITDA	54,106	58,969	64,133	66,793	70,936
APAT	22,473	27,470	27,308	30,850	33,608
Diluted EPS (Rs)	11.9	14.7	14.6	16.5	18.0
P/E (x)	31.5	25.3	25.5	22.5	20.7
EV / EBITDA (x)	11.9	10.9	10.1	9.4	8.6
RoE (%)	12.8	16.3	17.3	18.9	19.7

Source: Company, HDFC sec Inst Research

We foresee CY18 to be the toughest year for BHIN led by overlapping tenancies reduction by Vodafone-Idea and exit of weaker players

On merger, overlapping tenancies of Vodafone-Idea would immediately be treated as loading instead of additional tenancy

Loading charges are 6-8% of rental/tenant

Realization of exit penalties from Voda-Idea and acquisition of their stake in Indus (s.t. valuations) are likely positive events

A tough CY18 for BHIN

- BHIN is likely to witness an eventful and tough CY18 on account of tenancy losses from exit of fringe players (Rcom and Aircel) and from merger of Vodafone-Idea. Weaker players constitute <10% of BHIN's tenancies. Realization of exit penalties from Vodafone-Idea and acquisition of their stake in Indus (s.t. valuations) are the likely positive developments to be watched out. Stake sale in BHIN by parent Bharti Airtel making it a truly independent tower company rather than being operator owned could be another potential event.
- In the medium term risk of rental renegotiations by telcos is a key risk especially as BHIN/Indus became an independent tower company. **We discuss the impact of each events on BHIN:**

Impact of Voda-Idea merger

- Vodafone and Idea merger is progressing at fast pace with NCLT and DOT approval as the only pending requirements. As per Vodafone the transaction is likely to close in 1HCY18 vs. earlier towards end CY18.
- As Vodafone and Idea merge their operations, the overlapping tenancies would get accounted for as a single tenancy instead of two earlier. For the second tenancy, the combined entity would pay loading charges (6-8% of rental charges of fresh tenant) till it decides to withdraw the equipments. As per the master services agreement, the rental charges for remaining tenants would increase with reduction in tenancies. This would lead to a steep reduction in revenue and EBITDA for BHIN by ~15% and EPS by 25%, a key reason for multiple de-rating. Refer workings below.

Idea Cellular BTS and tower mix at the end of 1QFY18

	No of Towers	Mix %	Implied mix for tenancy roll-back %	Implied mix for tenancy roll-back
- Rented Indus	69,238	52.0%	56.3%	36,013
- Rented Others	53,807	40.4%		
BHIN standalone	37,665		30.6%	19,591
Others	16,142		13.1%	8,396
Sub total	**123,045**	**92.5%**	**100.0%**	**64,000**
- Owned Towers (3)	9,984	7.5%		6,000
Total	**133,029**	**100.0%**		**70,000**

**For rented towers of Idea on others we have assumed 70:30 mix of tenancy on BHIN standalone and Others (GTL Infra, ATC, Reliance Infratel etc)*

- Similar to Idea Cellular, Vodafone has ~140k 2G towers (and cell-sites) and additional ~140-150k 3G+4G cell sites. Voda-Idea has indicated for reduction of ~70k overlapping tenancies (~6k on owned towers). We thus foresee a reduction of additional ~64k tenancies, majority of which will be on BHIN standalone and Indus towers. In absence of details we are taking the rented tower mix of Idea as base for calculating the impact of reduction of tenancies on revenue and EBITDA of BHIN (standalone) and Indus Towers.
- Simultaneously, Voda-Idea would be liable to pay one-time exit penalties for early termination of tenancies. Exit penalty would amount to 35% of the balance period rental if tenant has completed five years else 100%.

Lesser tenancy cancellations for BHIN standalone as well as for Indus would be positive for BHIN and vice-versa

Voda-Idea sold their standalone ~20k towers (~1.65 tenancy ratio) to ATC for EV/tower of Rs 3mn without paying any exit penalties for 6k tenancies cancellations

Impact of Vodafone-Idea tenancy roll-back on BHIN's and Indus revenue and EBITDA

	2G	3G + 4G loading	Total	Remarks
No of Idea + Voda tenancies to go off	**64,000**	**64,000**		Lesser tenancy cancellations for BHIN standalone as well as for Indus would be positive for BHIN and vice-versa
- Indus	36,013	36,013		
- BHIN (standalone)	19,591	19,591		
- Others	8,396	8,396		
Loss of revenue rental/tenant/month (Rs)				Assumed @ 85% of the rental/tenant as Voda-Idea would need to pay ~6-8% loading charges. Also rental for balance tenants would increase by 8-10%
- Indus	27,977	2,469		
- BHIN (standalone)	31,474	2,777		
Loss of revenue (BHIN + 100% of Indus) (Rs Mn)	**19,490**	**1,720**	**21,209**	Voda-Idea targets ~Rs 40-50bn p.a. in networks costs primarily owing to tenancies roll-back. This would be majorly on BHIN standalone and Indus. Our estimate of loss of revenue for BHIN could thus be lower.
- Indus	12,090	1,067	13,157	
- BHIN (standalone)	7,399	653	8,052	
- BHIN Consol (incl 42% of Indus)	**12,477**	**1,101**	**13,578**	
% of FY18E BHIN (incl 42% of Indus) revenue (ex energy)			**14.9%**	
EBITDA Loss (@ 80% margin), (BHIN + 100% of Indus)	**14,617**	**1,290**	**15,907**	We assume EBITDA impact at 80%. However with most of the costs being fixed for tower companies, EBITDA margin impact could be higher than 80%.
- Indus	9,068	800	9,868	
- BHIN	5,549	490	6,039	
- BHIN Consol (incl 42% of Indus)	**9,358**	**826**	**10,184**	
% of FY18E BHIN (incl 42% of Indus) EBITDA			**15.9%**	
PAT Loss (net of 33% tax shield) (BHIN + 100% of Indus)	**9,794**	**864**	**10,658**	
- Indus	6,075	536	6,611	
- BHIN	3,718	328	4,046	
- BHIN Consol (incl 42% of Indus)	**6,270**	**553**	**6,823**	
% of FY18E BHIN (incl 42% of Indus) PAT			**25.0%**	
EPS impact			**3.7**	
One time penalty (@ Rs 1mn)	**55,604**	**5,560**	**61,164**	Voda-Idea has indicated merger dis-synergies at ~Rs 70-80bn for one-time exit penalties on towers (i.e. ~Rs 1mn per tenancy exit on 70k tenancies). We have further assumed Rs 0.1mn for 3G+4G tenancies roll-back
- Indus	36,013	3,601	39,614	
- BHIN	19,591	1,959	21,550	
- BHIN Consol (incl 42% of Indus)	**34,716**	**3,472**	**38,188**	
No of O/s shares			1,850	
Value per share			**21**	
Value per share (net of tax @ 33%)			**14**	

Acquisition of 58% stake in Indus from joint venture partners would be positive for BHIN provided it is <= Rs 5mn EV/tower

Nevertheless acquisition would improve BHIN's capital structure.

Being a tower company, BHIN could afford leverage of 2-3x Net debt/EBITDA

On the contrary BHIN has cash surplus with ~Rs 60bn of cash

Post acquisition, BHIN net debt/EBITDA would be comfortably below 3x

Impact of BHIN's acquisition of balance 58% stake in Indus

No of Towers	**123,500**	**123,500**	**123,500**	**123,500**
Acquisition cost EV/Tower (Rs Mn)	4.0	5.0	6.0	7.0
Enterprise Value (Rs Mn)	**494,000**	**617,500**	**741,000**	**864,500**
Acquisition cost for 58%* (Rs Mn)	286,520	358,150	429,780	501,410
Incremental EBITDA (Rs Mn)	**46,000**	**46,000**	**46,000**	**46,000**
Incremental Interest (@ 8%) (Rs Mn)	22,922	28,652	34,382	40,113
Incremental Capex (Rs 0.15mn/tower (for 58%) (Rs Mn)	10,745	10,745	10,745	10,745
Voda-Idea merger impact (@ 58%)	5,723	5,723	5,723	5,723
Incremental Cash flows/PBT to BHIN (Rs Mn)	**6,611**	**880**	**(4,850)**	**(10,580)**
Tax @ 33%	2,182	308	(1,697)	(3,703)
Incremental post tax Cash flows/PAT to BHIN (Rs Mn)	**4,429**	**572**	**(3,152)**	**(6,877)**
Incremental EPS to BHIN (Rs Mn)	**2.4**	**0.3**	**(1.7)**	**(3.7)**

* Indus shareholders include Bharti Infratel 42%, Vodafone 42%, Idea 11.15% and Providence 4.85%

In light of impending business risk and structural weakness, we reduce our target multiple on BHIN from 25x Sep-19E EPS to 20x Dec-19E EPS

Our TP of Rs 310 is SoTP of (a) Rs 356 for business as usual based on 25x Dec-19E EPS less (b) Rs 74 for Voda-Idea tenancies cancellations less Rs 14 for one-time exit penalties (c) Rs 8 for value accretion for acquisition of Indus at Rs 5mn EV/tower and Rs 6 for one-time exit penalties for Indus 58% share

Valuation Snapshot

Impact of Voda-Idea merger

	A	B	C	D
EPS impact of Voda-Idea merger (refer table above) (Rs)	(3.7)	(3.7)	(3.7)	(3.7)
Target multiple (X)	15.0	20.0	25.0	30.0
Value per share (Rs) (A)	**(55)**	**(74)**	**(92)**	**(111)**
One time penalty from Voda-Idea (net of tax) (Rs Mn)	25,586	25,586	25,586	25,586
Value per share (Rs) (B)	**14**	**14**	**14**	**14**
Net Value per share impact (Rs) (A+B)	**(41)**	**(60)**	**(78)**	**(97)**

Incremental Cash flow per share/EPS from Indus acquisition (Rs Mn)*

	A	B	C	D
EV/tower : Rs 4mn	2.4	2.4	2.4	2.4
EV/tower : Rs 5mn	0.3	0.3	0.3	0.3
EV/tower : Rs 6mn	(1.7)	(1.7)	(1.7)	(1.7)
Target multiple (X)	**15.0**	**20.0**	**25.0**	**30.0**
Value per share impact of acquisition for BHIN				
EV/tower : Rs 4mn	36	48	60	72
EV/tower : Rs 5mn	5	6	8	9
EV/tower : Rs 6mn	(26)	(34)	(43)	(51)
One time penalty from Voda-Idea net of tax for 58% acquisition by BHIN (Rs Mn)	15,394	15,394	15,394	15,394
Value per share (Rs)	8	8	8	8

	A	B	C	D
Target PE multiple (X)	15.0	20.0	25.0	30.0
Base case Dec-19E PAT (Rs Mn)	**32,919**	**32,919**	**32,919**	**32,919**
Target Mcap(Rs Mn)	493,782	658,377	822,971	987,565
O/s shares (Mn)	1,850	1,850	1,850	1,850
Value per share (Rs) (A)	**267**	**356**	**445**	**534**
Voda-Idea merger impact (refer table above) (B1)	(55)	(74)	(92)	(111)
One time penalty (BHIN + 42% of Indus) (refer table above) (B2)	14	14	14	14
Value per share (Rs) (A+B1+B2)	**225**	**296**	**366**	**437**
Implied TP of BHIN post Indus acquisition at varying EV/tower				
Acquisition of Indus (@ EV/tower of Rs 4mn)	270	352	435	517
Acquisition of Indus (@ EV/tower of Rs 5mn)	238	310	383	455
Acquisition of Indus (@ EV/tower of Rs 6mn)	208	270	332	394

Pricing renegotiations by telcos of largest costs remains a key long-term risk. Jio has considerable network costs advantage vs. incumbents. BHIN runs risk over here. We haven't factored the same in our TP

Sensitivity of earnings to 5% change in rental is higher vs. 5% change in tenancies

4G VoLTE data sites coverage is still less than 50% for Voda-Idea of 2G sites and ~55-60% for Bharti. Thus we foresee only loading led revenue growth for BHIN/Indus in the near-medium term vs. capacity led despite robust growth in data volumes

Incremental tenancies demand from Jio, remains the only silver lining

Sensitivity of EPS and TP to 5% change in rental/tenant

Avg Rental/tenant/month (BHIN Consol) (Rs)	35,000			
FY18E avg tenancy (Nos)	216,547			
EBITDA impact of 5% reduction in rentals (Rs mn)	4,547			
PAT impact of 5% reduction in rentals (Rs mn)	3,047			
EPS impact of 5% reduction in rentals (Rs)	**1.6**			
% of FY18E EPS	**11.2%**			
	A	**B**	**C**	**D**
Target PE multiple (X)	15.0	20.0	25.0	30.0
Value per share impact (Rs)	25	33	41	49

Sensitivity of EPS and TP to 5% change in tenancies

New tenancies higher than expected	10,000			
Avg Rental/tenant/month (BHIN Consol) (Rs)	30,000			
EBITDA impact of new tenants (Rs mn)	3,240			
PAT impact of new tenants (Rs mn)	2,171			
EPS impact of new tenants (Rs)	**1.2**			
% of FY18E EPS	**8.0%**			
	A	**B**	**C**	**D**
Target PE multiple (X)	15.0	20.0	25.0	30.0
Value per share impact (Rs)	18	23	29	35

BHIN reported one of the weakest performances of the last several quarters in 2QFY18

We foresee 3QFY18 to be similar or even poor led by tenancy losses from Rcom

4QFY18 would be impacted by Aircel and 1HFY19 by Voda-Idea

Quarterly Financial Snapshot: Consolidated

(Rs mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18E	*YoY (%)*	*QoQ (%)*
Rental income	20,573	20,744	21,175	21,834	22,595	22,644	22,871	*8.0*	*1.0*
Energy and other reimbursements	11,533	12,175	12,832	13,370	12,644	13,838	13,621	*6.1*	*(1.6)*
Net Sales	**32,106**	**32,919**	**34,007**	**35,204**	**35,239**	**36,482**	**36,492**	***7.3***	***0.0***
Power and fuel	11,144	11,447	11,938	12,004	12,044	12,593	12,668	*6.1*	*0.6*
Rent	2,796	2,871	2,932	3,029	3,111	3,102	3,133	*6.9*	*1.0*
Employee benefits expenses	1,146	1,171	1,204	1,157	1,216	1,263	1,264	*5.0*	*0.1*
R&M expenses	2,298	2,312	2,258	2,289	2,338	2,255	2,345	*3.8*	*4.0*
Other expenses	775	620	874	1,002	780	1,123	944	*8.0*	*(15.9)*
Total Operating Expenses	**18,159**	**18,421**	**19,206**	**19,481**	**19,489**	**20,336**	**20,353**	***6.0***	***0.1***
EBITDA	**13,947**	**14,498**	**14,801**	**15,723**	**15,750**	**16,146**	**16,139**	***9.0***	***(0.0)***
EBITDA ex energy	**13,558**	**13,770**	**13,907**	**14,357**	**15,150**	**14,901**	**15,185**	***9.2***	***1.9***
Depreciation	5,648	5,629	5,664	5,684	5,905	5,941	5,947	*5.0*	*0.1*
EBIT	**8,299**	**8,869**	**9,137**	**10,039**	**9,845**	**10,205**	**10,191**	***11.5***	***(0.1)***
Other Income	352	333	357	414	474	401	343	*(3.8)*	*(14.3)*
Finance costs/(income)	(1,281)	(2,472)	(947)	287	(627)	(109)	(296)	*(68.8)*	*171.1*
PBT	**9,931**	**11,674**	**10,441**	**10,166**	**10,946**	**10,715**	**10,830**	***3.7***	***1.1***
Tax	2,369	3,936	4,237	4,200	4,307	4,331	3,767	*(11.1)*	*(13.0)*
APAT	**7,562**	**7,738**	**6,204**	**5,966**	**6,639**	**6,384**	**7,063**	***13.9***	***10.6***
Energy spread	389	728	894	1,366	600	1,245	953	*6.7*	*(23.4)*

Source: Company, HDFC sec Inst Research

Margin Analysis (%)

As % of Net Sales	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18E	*YoY (bps)*	*QoQ (bps)*
Power and fuel	34.7	34.8	35.1	34.1	34.2	34.5	34.7	(6)	54
Rent	8.7	8.7	8.6	8.6	8.8	8.5	8.6	(14)	(24)
Employee benefits expenses	3.6	3.6	3.5	3.3	3.5	3.5	3.5	(9)	1
R&M expenses	7.2	7.0	6.6	6.5	6.6	6.2	6.4	(60)	(21)
Other expenses	2.4	1.9	2.6	2.8	2.2	3.1	2.6	70	37
Total Opex	**56.6**	**56.0**	**56.5**	**55.3**	**55.3**	**55.7**	**55.8**	**(18)**	**47**
EBITDA Margin	**43.4**	**44.0**	**43.5**	**44.7**	**44.7**	**44.3**	**44.2**	**18**	**(47)**
EBITDA Margin ex energy	**65.9**	**66.4**	**65.7**	**65.8**	**67.1**	**65.8**	**66.4**	**1**	**(66)**
EBIT Margin	25.8	26.9	26.9	28.5	27.9	28.0	27.9	99	(1)
APAT Margin	**23.6**	**23.5**	**18.2**	**16.9**	**18.8**	**17.5**	**19.4**	**(415)**	**52**
Energy Spread	**3.4**	**6.0**	**7.0**	**10.2**	**4.7**	**9.0**	**7.0**	**102**	**225**
Tax Rate as % of PBT	23.9	33.7	40.6	41.3	39.3	40.4	34.8	107	(456)

Source: Company, HDFC sec Inst Research *Energy spread = (energy revenue less power & fuel costs)/ energy revenue

In 3QF18, we estimate higher churn at ~2.5% on account of wireless business shut down by Rcom

Operating KPIs

	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18E	YoY (%)	QoQ (%)
No. of towers									
Bharti Infratel (consolidated)	89,352	89,791	90,255	90,646	90,837	90,955	91,071	*0.9*	*0.1*
Bharti Infratel (standalone)	38,642	38,832	38,997	39,099	39,211	39,264	39,309	*0.8*	*0.1*
Indus Towers	120,739	121,330	122,044	122,730	122,920	123,073	123,245	*1.0*	*0.1*
Number of tenants									
Bharti Infratel (consolidated)	196,401	198,795	204,934	210,606	218,401	220,088	221,353	*8.0*	*0.6*
Bharti Infratel (standalone)	81,908	83,085	86,112	89,263	93,297	94,538	95,537	*10.9*	*1.1*
Indus Towers	272,603	275,499	282,909	288,913	297,867	298,929	299,562	*5.9*	*0.2*
Net tenants added									
Bharti Infratel (consolidated)	1,367	2,393	6,139	5,673	7,795	1,687	1,265	*(79.4)*	*(25.0)*
Bharti Infratel (standalone)	276	1,177	3,027	3,151	4,034	1,241	999	*(67.0)*	*(19.5)*
Indus Towers	2,597	2,896	7,410	6,004	8,954	1,062	633	*(91.5)*	*(40.4)*
Tenants Churn									
Bharti Infratel (consolidated)	1,179	186	271	1,387	1,048	2,711	5,502	*1,930.3*	*103.0*
Bharti Infratel (standalone)	729	73	83	472	95	1,093	2,363	*2,747.5*	*116.2*
Indus Towers	1,071	269	448	2,179	2,269	3,852	7,473	*1,569.6*	*94.0*
Average sharing factor									
Bharti Infratel (consolidated)	2.197	2.206	2.242	2.297	2.364	2.412	2.425	*8.2*	*0.5*
Bharti Infratel (standalone)	2.121	2.130	2.174	2.246	2.331	2.394	2.419	*11.3*	*1.1*
Indus Towers	2.255	2.264	2.294	2.336	2.389	2.426	2.430	*5.9*	*0.2*
Sharing rev./sharing tower/month (Rs)									
Bharti Infratel (consolidated)	76,983	77,197	78,407	80,464	83,001	83,044	83,764	*6.8*	*0.9*
Bharti Infratel (standalone)	79,801	80,646	81,366	84,238	86,937	87,111	88,304	*8.5*	*1.4*
Indus Towers	74,902	74,587	76,223	77,661	80,085	79,955	80,316	*5.4*	*0.5*
Sharing rev./sharing operator/month (Rs)									
Bharti Infratel (consolidated)	35,039	34,994	34,966	35,029	35,112	34,427	34,540	*(1.2)*	*0.3*
Bharti Infratel (standalone)	37,622	37,868	37,428	37,512	37,292	36,394	36,503	*(2.5)*	*0.3*
Indus Towers	33,215	32,941	33,221	33,244	33,527	32,956	33,055	*(0.5)*	*0.3*

Source: Company, HDFC sec Inst Research; Bharti Infratel Consolidated is 42% including proportionate share in Indus

Key Model Assumptions

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Towers							
BHIN consol	83,368	85,892	88,808	90,646	91,213	91,813	92,542
BHIN standalone	35,905	37,196	38,458	39,099	39,378	39,648	39,978
Indus	113,008	115,942	119,881	122,730	123,416	124,201	125,152
% chg YoY							
BHIN consol	1.6	3.0	3.4	2.1	0.6	0.7	0.8
BHIN standalone	2.2	3.6	3.4	1.7	0.7	0.7	0.8
Indus	1.1	2.6	3.4	2.4	0.6	0.6	0.8
Net Additions-Towers							
BHIN consol	1,285	2,523	2,916	1,838	567	600	730
BHIN standalone	786	1,291	1,262	641	279	270	330
Indus	1,189	2,934	3,939	2,849	686	785	951
Tenancies							
BHIN consol	167,202	182,294	195,035	210,606	222,488	232,241	242,911
BHIN standalone	69,137	75,819	81,632	89,263	96,423	102,807	109,906
Indus	233,488	253,513	270,006	288,913	300,155	308,178	316,677
% chg YoY							
BHIN consol	6.8	9.0	7.0	8.0	5.6	4.4	4.6
BHIN standalone	8.8	9.7	7.7	9.3	8.0	6.6	6.9
Indus	5.4	8.6	6.5	7.0	3.9	2.7	2.8
Net Additions-Tenancies							
BHIN consol	10,594	15,093	12,740	15,572	11,882	9,753	10,669
BHIN standalone	5,564	6,682	5,813	7,631	7,160	6,383	7,100
Indus	11,977	20,025	16,493	18,907	11,242	8,023	8,499
Closing Tenancy							
BHIN consol (x)	2.01	2.12	2.20	2.32	2.44	2.53	2.62
BHIN standalone (x)	1.93	2.04	2.12	2.28	2.45	2.59	2.75
Indus (x)	2.07	2.19	2.25	2.35	2.43	2.48	2.53
Sharing revenue/tenant (Rs/month)							
BHIN consol	33,862	33,488	34,499	34,648	35,088	34,983	35,377
BHIN standalone	37,135	36,911	37,037	37,029	37,173	36,944	37,316
Indus	31,683	32,086	32,682	32,914	33,523	33,454	33,804
% chg YoY							
BHIN consol	(2.7)	(1.1)	3.0	0.4	1.3	(0.3)	1.1
BHIN standalone	(0.2)	(0.6)	0.3	(0.0)	0.4	(0.6)	1.0
Indus	0.5	1.3	1.9	0.7	1.9	(0.2)	1.0

	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sharing revenue/tower (Rs/month)							
BHIN consol	66,380	70,385	74,514	78,317	83,562	86,915	91,179
BHIN standalone	69,387	73,193	77,080	81,592	87,956	93,136	99,685
Indus	64,118	68,250	72,553	75,825	80,226	82,188	84,711
% chg YoY							
BHIN consol	3.5	6.0	5.9	5.1	6.7	4.0	4.9
BHIN standalone	3.6	5.5	5.3	5.9	7.8	5.9	7.0
Indus	3.4	6.4	6.3	4.5	5.8	2.4	3.1
Rental Revenue (Rs Mn)							
BHIN consol	65,896	71,480	78,105	84,326	91,178	95,446	100,855
BHIN standalone	29,569	32,103	34,989	37,968	41,416	44,161	47,626
Indus	36,327	39,377	43,116	46,358	49,763	51,285	53,230
% chg YoY							
BHIN consol	6.3	8.5	9.3	8.0	8.1	4.7	5.7
BHIN standalone	7.8	8.6	9.0	8.5	9.1	6.6	7.8
Indus	5.1	8.4	9.5	7.5	7.3	3.1	3.8
EBITDA (ex-energy) (Rs Mn)							
BHIN consol	42,189	46,599	51,494	55,592	60,514	63,498	67,567
BHIN standalone	19,969	21,997	24,123	26,516	29,505	31,726	34,640
Indus	22,220	24,602	27,371	29,076	31,009	31,773	32,927
EBITDA Margin %							
BHIN consol	64.0	65.2	65.9	65.9	66.4	66.5	67.0
BHIN standalone	67.5	68.5	68.9	69.8	71.2	71.8	72.7
Indus	61.2	62.5	63.5	62.7	62.3	62.0	61.9
Energy EBITDA (Rs Mn)							
BHIN consol	1,857	3,472	2,612	3,377	3,619	3,295	3,369
BHIN standalone	1,562	1,943	936	1,736	1,888	1,503	1,537
Indus	295	1,529	1,676	1,641	1,731	1,792	1,832
EBITDA (incl energy) (Rs Mn)							
BHIN consol	44,046	50,071	54,106	58,969	64,133	66,793	70,936
BHIN standalone	21,531	23,940	25,059	28,252	31,393	33,228	36,177
Indus	22,515	26,131	29,047	30,717	32,740	33,565	34,759
% chg YoY							
BHIN consol	15.5	13.7	8.1	9.0	8.8	4.1	6.2
BHIN standalone	9.7	11.2	4.7	12.7	11.1	5.8	8.9
Indus	21.7	16.1	11.2	5.7	6.6	2.5	3.6

Consolidated Income Statement (BHIN Standalone + 42% of Indus)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Rental revenue	78,105	84,326	91,178	95,446	100,855
Energy reimbursements	45,209	49,910	53,777	54,918	56,147
Net Sales	**123,314**	**134,236**	**144,956**	**150,364**	**157,002**
Growth (%)	***5.7***	***8.9***	***8.0***	***3.7***	***4.4***
Energy costs	42,597	46,533	50,158	51,623	52,778
Lease rentals	10,322	11,628	12,466	12,840	13,225
Employee costs	4,282	4,678	4,958	5,206	5,466
Other expenses	12,007	12,428	13,240	13,902	14,597
Total Operating Cost	**69,208**	**75,267**	**80,822**	**83,571**	**86,067**
EBIDTA	**54,106**	**58,969**	**64,133**	**66,793**	**70,936**
EBIDTA Margin (%)	***43.9***	***43.9***	***44.2***	***44.4***	***45.2***
EBIDTA Growth (%)	***8.1***	***9.0***	***8.8***	***4.1***	***6.2***
Depreciation	22,236	22,625	23,761	24,949	26,197
EBIT	**31,870**	**36,344**	**40,372**	**41,844**	**44,739**
Interest costs	(1,848)	(4,413)	(1,586)	(2,799)	(3,536)
Other income	2,050	1,456	1,613	1,748	1,887
PBT	**35,768**	**42,212**	**43,570**	**46,391**	**50,162**
Tax	13,295	14,742	16,262	15,541	16,553
APAT	**22,473**	**27,470**	**27,308**	**30,850**	**33,608**
EPS	**11.9**	**14.7**	**14.6**	**16.5**	**18.0**
EPS Growth (%)	***12.8***	***22.2***	***(0.6)***	***13.0***	***8.9***

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	18,967	18,496	18,496	18,496	18,496
Reserves	163,295	136,369	141,479	148,316	155,729
Total Shareholders Funds	**182,262**	**154,865**	**159,975**	**166,812**	**174,225**
Long Term Debt	10,746	4,447	8,975	8,323	8,380
Short Term Debt	-	-	-	-	-
Current portion of LT Debt	6,300	12,903	13,778	13,510	13,546
Total Debt	**17,046**	**17,350**	**22,753**	**21,834**	**21,926**
Non-current liabilities	22,249	21,408	22,344	24,186	26,179
TOTAL SOURCES OF FUNDS	**221,557**	**193,623**	**205,072**	**212,831**	**222,330**
APPLICATION OF FUNDS					
Net Fixed Assets	142,020	138,894	132,576	124,806	116,763
Other non-current assets	12,157	11,847	12,364	13,383	14,487
Trade Receivables	1,916	2,179	1,756	1,901	2,057
Cash & Equivalents	77,459	79,181	82,060	98,377	116,771
Other Current Assets	11,225	14,727	15,157	16,406	17,759
Current Assets	**90,600**	**96,087**	**98,972**	**116,683**	**136,587**
Trade Payables	5,616	6,890	7,696	8,330	9,017
Other CL & Provisions	17,604	46,315	31,144	33,712	36,491
Current Liabilities	**23,220**	**53,205**	**38,840**	**42,042**	**45,507**
Net current Assets	**67,380**	**42,882**	**60,132**	**74,642**	**91,080**
TOTAL APPLICATION OF FUNDS	**221,557**	**193,623**	**205,072**	**212,831**	**222,330**

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PAT	**22,473**	**27,470**	**27,308**	**30,850**	**33,608**
Depreciation	22,236	22,625	23,761	24,949	26,197
Interest	(1,848)	(4,413)	(1,586)	(2,799)	(3,536)
Working Capital Change	(22,358)	26,220	(14,372)	1,808	1,957
OPERATING CASH FLOW (a)	**20,503**	**71,903**	**35,112**	**54,808**	**58,226**
Capex	(13,875)	(19,499)	(17,443)	(17,180)	(18,154)
Free Cash Flow	**6,628**	**52,403**	**17,669**	**37,627**	**40,072**
Investments & Others	11,537	(531)	419	823	890
INVESTING CASH FLOW (b)	**(2,338)**	**(20,030)**	**(17,024)**	**(16,358)**	**(17,264)**
Capital Issuance	14	(385)	(368)	(0)	(0)
Debt Issuance	(85)	304	5,403	(919)	92
Interest	1,848	4,413	1,586	2,799	3,536
Dividend & others	(10,425)	(54,482)	(21,830)	(24,013)	(26,196)
FINANCING CASH FLOW (c)	**(8,648)**	**(50,150)**	**(15,210)**	**(22,133)**	**(22,568)**
NET CASH FLOW (a+b+c)	**9,517**	**1,722**	**2,878**	**16,317**	**18,395**
Closing C&CE	**77,459**	**79,181**	**82,060**	**98,377**	**116,771**

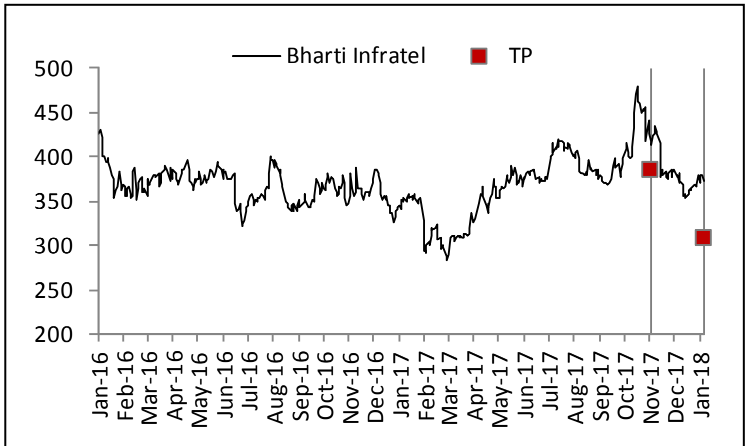
Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
EBITDA Margin	43.9	43.9	44.2	44.4	45.2
EBITDA Margin excl energy cost	69.3	69.9	70.3	70.0	70.3
EBIT Margin excl energy cost	40.8	43.1	44.3	43.8	44.4
APAT Margin excl energy cost	28.8	32.6	30.0	32.3	33.3
RoE	12.8	16.3	17.3	18.9	19.7
RoIC	13.4	18.3	21.3	23.4	27.2
RoCE	9.0	11.4	12.7	13.3	13.8
EFFICIENCY					
Tax Rate (%)	37.2	34.9	37.3	33.5	33.0
Asset Turnover (x)	0.6	0.7	0.7	0.7	0.7
Debtors (days)	6	6	4	5	5
Payables (days)	17	19	19	20	21
Cash Conversion Cycle (days)	(11)	(13)	(15)	(16)	(16)
Net Debt/EBITDA (x)	(1.1)	(1.0)	(0.9)	(1.1)	(1.3)
Net D/E	(0.3)	(0.4)	(0.4)	(0.5)	(0.5)
Interest Coverage	(17.2)	(8.2)	(25.5)	(14.9)	(12.7)
PER SHARE DATA (Rs)					
EPS (Rs/sh)	11.9	14.7	14.6	16.5	18.0
CEPS (Rs/sh)	23.6	27.1	27.6	30.2	32.3
DPS (Rs/sh)	3.0	16.0	10.0	11.0	12.0
BV (Rs/sh)	96.1	83.7	86.5	90.2	94.2
VALUATION					
P/E	31.4	25.3	25.4	22.5	20.6
P/BV	3.9	4.4	4.3	4.1	3.9
EV/EBITDA	11.6	10.6	9.8	9.2	8.4
OCF/EV (%)	7.0	11.2	5.4	8.8	9.6
FCF/EV (%)	3.6	7.7	2.6	6.2	7.2
FCFE/Mcap (%)	3.9	7.8	2.9	6.2	7.0
Dividend Yield (%)	0.8	4.3	2.7	3.0	3.2
EV/Revenues	5.1	4.7	4.3	4.1	3.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
02-Nov-17	426	SELL	387
08-Jan-18	373	SELL	310

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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