

Rating medium

Rating	:	Hold
Target	:	₹ 330
Target Period	:	12 months
Potential Upside	:	5%

What's changed?

Target	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key financials

₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	13,424	14,490	14,497	14,467
EBITDA	5,897	6,380	5,868	5,858
Net Profit	2,747	2,494	2,464	2,592
EPS (₹)	14.9	13.5	13.3	14.0

Valuation summary

	FY17	FY18E	FY19E	FY20E
P/E	21.2	23.4	23.6	22.5
Target P/E	22.2	24.5	24.8	23.6
EV / EBITDA	9.5	8.4	9.0	9.0
P/BV	3.8	3.4	3.6	3.8
RoNW	17.7	14.7	15.4	17.1
RoCE	20.1	21.0	19.7	20.7

Stock data

	Amount
Market Capitalization (₹ crore)	58,262.4
Total Debt (₹ crore)	1,690.1
Cash and Investments (₹crore)	6,583.2
EV (₹ crore)	53,369.3
52 week H/L (₹)	482/ 283
Equity capital (₹ crore)	1,849.6
Face value (₹)	10.0

Research Analyst

Bhupendra Tiwary
bhupendra.tiwary@icicisecurities.com

Sameer Pardikar
sameer.pardikar@icicisecurities.com

Bharti Infratel (BHAINF)

₹ 315

Announces merger with Indus Towers...

Bharti Infratel (Infratel), on 25th April, 2018 announced its merger with Indus Towers (Indus) creating a Pan-India leading tower companies with 163162 towers and 367073 tenancies. The share swap is 1,565 shares of Bharti Infratel for every 1 Indus Towers share. The merger implies Indus enterprise value of ~₹ 71500 crore (equity valuation of ₹ 67600), which is 9.3x TTM EV/EBITDA. We highlight that implied valuation of Indus is slightly lower than our target valuation of ₹ 69,600 crore for Indus.

The merger envisages complete exit of Idea Cellular's 11.15% stake in Indus at ₹ 6500 crore, while Providence (currently holding 4.85% of stake in Indus) is likely to offload 3.35% of its stake for ~₹ 1900 crore, while retain 1.1% holding in combined entity. Post-merger entity (in case Idea & Providence exit full and partially, respectively) is expected to have Vodafone holding 29.4% stake, Airtel – 37.2%, Providence 1.1% and remaining held by public shareholder.

Share swap & combined entity implied value: The combined entity will change its name to Indus Towers Limited and will continue to be listed on stock exchanges. The merger ratio will be 1,565 shares of Bharti Infratel to every 1 Indus tower share. Merger ratio implies an enterprise valuation for Indus Tower (before merger entity) at ₹71,500 crore (9.3x EV/LTM EBITDA). On Pro-forma basis, the combined entity's equity value (Bharti Infratel + Indus) will be ₹96500 crore.

Scenario for Idea and Indus: Idea has an option to either (i) sell its 11.15% shareholding in Indus Towers for ₹6545 crore (refer to valuation construct on Page 2- Exhibit 1). In case of Idea does not go for its stake sale, then it will be issued 207.9 mn shares in the combined entity which will be equivalent to 7.1% stake. Similarly, Providence (4.85% stake in Indus) has also given option for i) share swap with resultant 3.1% stake in combined entity or to sell 3.35% for ~₹1966 crore and be issued 28 mn shares for its remaining 1.5% stake and its effective shareholding in the combined entity will be 1.1%. **We believe the second option is more probable for Idea as it seeks monetize assets**

Vodafone & Airtel to have Joint Control: Post-merger entity (in case Idea & Providence exit fully & partially, respectively) is expected to have Vodafone holding 29.4% stake & Airtel having 37.2%, with joint control in the combined entity. Vodafone will be issued 783.1 mn new shares in the combined entity.

Entity seeks to have better capital structure through 100% pay-out: The combined entity assuming pay-out to Idea & Providence, would have net debt of ₹ 5560 crore (0.5x merged entity EBITDA). Going ahead, the combined entity is expected to distribute any excess cash flow to its shareholders through dividends or share buybacks, without exceeding a maximum leverage ratio of 3x TTM EBITDA.

Consolidation pangs to weigh on financials; Maintain HOLD

We note that while the merger would result in opex synergy of ~₹ 50-60 crore annually coupled with savings on double taxation impact of dividend distribution to the tune of ₹ 200 crore, the basic premise of less than optimum capital structure persists. We believe that despite merger benefits, the focus currently would be the impact of consolidation (exits from Voda-Idea) and future growth potential. We maintain our **HOLD** rating with a target price of ₹ 330, valuing it at 9.5x FY20E EV/EBITDA. We highlight that similar multiple of 9.5x on combined entity FY20E EBITDA (post opex synergy) yields a fair value of ₹ 344/share (exhibit 3), which we shall consider only post consummation of the deal.

Exhibit 1: Construct of Cash Pay-out to Idea & Providence

Particulars	₹ crore
Infratel's last 60 trading day Vwap Share Price	₹ 339
Market Cap based on Vwap Price	62,701
Net Debt (FY18)	(5,171)
EV	57,531
Infratel reported EBITDA (FY18)	6,427
Implied TTM EV/EBITDA	9.0x
Multiple assigned for Indus valuation (10% discount on Infratel)	8.1x
Indus EBITDA (FY18)	7,716
Resultant EV	62,243
Net Debt (FY18)	3,918
Equity Value	58,325
Value of Idea's 11.15% stake	6,503
Value of Providence's 3.35% stake	1,954

Source: Company, ICICI Direct Research

Exhibit 2: Merged Entity Net Debt (assuming offload by Idea, Providence)

Particulars	₹ crore
Net debt of Infratel standalone	(6,816)
Net debt of Indus	3,918
Combined Net Debt	(2,899)
Payouts	
Idea's 11.15% stake	6,503
Providence 3.35% stake	1,954
Net debt post payouts	5,559

Source: Company, ICICI Direct Research

Exhibit 3: Proforma of merged entity

₹ crore	Infratel Standalone			Indus Towers			Combined Entity		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Tower (No.)	39,523	39,999	40,482	123,639	123,639	123,639	163,162	163,638	164,121
Tenancies (No.)	88,665	82,000	79,669	278,408	272,778	261,852	367,073	354,778	341,521
Tenancy Ratio (x)	2.2	2.1	2.0	2.3	2.2	2.1	2.2	2.1	2.1
Revenues	6,618	6,547	6,495	18,742	18,928	18,982	25,360	25,476	25,477
EBITDA	3,178	2,827	2,737	7,716	7,240	7,431	10,894	10,127	10,228
Margin (%)	48.0	43.2	42.1	41.2	38.3	39.1	43.0	39.8	40.1
							Target EV at 9.5x		97,162
							Less: Net Debt		5,560
							Equity Value		91,602
							Diluted no. of Shares (crore)		266.1
							Fair Value (₹/share)		344

Source: Company, ICICI Direct Research

Exhibit 4: Current shareholding structure of Bharti Infratel and Indus Towers (%)

	Bharti Infratel	Indus Towers
Bharti Airtel	53.5	
Bharti Infratel		42.0
Vodafone		42.0
Idea Group		11.2
Providence		4.9
Public Shareholding	46.5	

Source: Company, ICICI Direct Research

Exhibit 5: Indicative combined entity shareholding (%)

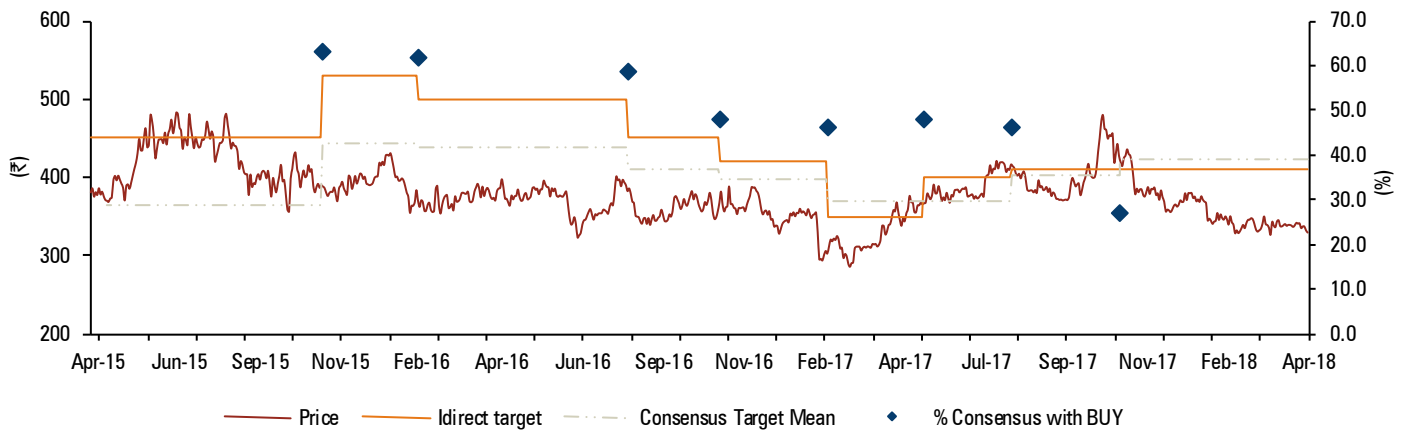
	Idea Group (all cash election); Providence (1.5% in shares, 3.35% in cash)	Idea Group (all shares election); Providence (all shares election)
Idea group cash selection	YES	NO
Providence cash election?	YES	NO
Bharti Airtel	37.2	33.8
Vodafone	29.4	26.7
Idea Group		7.1
Providence	1.1	3.1
Public shareholders	32.3	29.3

Source: Company, ICICI Direct Research

Other Highlights

- The pro forma shares outstanding of 2,660.7m (current Bharti Infratel shares outstanding of 1,849.6m + 783.1m shares issued to Vodafone + 28.0m shares issued to Providence) on the assumption that Idea Group sells its shares for cash and Providence elects to receive cash for its 3.35% shareholding in Indus Towers
- No lock in for existing shareholders which implies that either of Vodafone/Airtel or both could exit.
- Idea would continue to enjoy most preferred network status along with Vodafone and Bharti
- Transaction is expected to completed before FY19 end.

Recommendation History Versus Consensus Estimates



Source: Company, ICICI Direct Research

Key events

Date	Event
FY13	BIL comes out with an IPO and raises about ₹ 4118 crore (comprising public issue and subscription by anchor investors)
Mar-14	Reaches high tenancy ratio of 1.99x at consolidated level
FY14	The company declares dividends of about ₹ 4.4 per share for the year ended FY14
Jul-14	The parent company Bharti Airtel starts the process of selling loss-making African towers, removing the overhang on the stock as there was speculation on Infratel
FY15	The company declares impressive dividend of ₹ 11 per share, which amounted to ₹ 2477 crore as total dividend payouts
FY16	Announces dividend of ₹ 3 per share for FY16 and also announces a buy-back for an amount not exceeding ₹ 2000 crore at a maximum price of ₹ 450 per share resulting in a share buy-back of 4.44 crore shares
Apr-18	Announces merger with Indus Towers

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bharti Enterprises, Ltd.	31-Dec-17	50.33	930.9	0.0
2	Silverview Portfolio Investments Pte. Ltd.	31-Dec-17	7.07	130.8	0.0
3	CPP Investment Board	31-Dec-17	3.27	60.5	0.0
4	Nettle Infrastructure Investments, Ltd.	31-Dec-17	3.18	58.9	0.0
5	Artisan Partners Limited Partnership	31-Mar-18	1.69	31.2	22.9
6	Matthews International Capital Management, L.L.C.	31-Dec-17	1.60	29.5	0.0
7	The Vanguard Group, Inc.	31-Mar-18	1.57	29.0	-1.0
8	Vontobel Asset Management, Inc.	31-Dec-17	1.12	20.7	6.7
9	SBI Funds Management Pvt. Ltd.	31-Mar-18	0.97	17.9	1.1
10	Comgest S.A.	28-Feb-18	0.94	17.5	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	61.65	61.65	58.00	58.00	53.51
FII	34.34	35.01	38.24	38.24	42.96
DII	1.71	0.59	0.63	1.71	2.18
Others	2.30	2.75	3.13	2.05	1.35

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Artisan Partners Limited Partnership	+118.41M	+22.95M	BlackRock Institutional Trust Company, N.A.	-46.79M	-9.07M
Cambiar Investors LLC	+38.83M	+7.02M	TOBAM	-8.59M	-1.62M
Vontobel Asset Management, Inc.	+39.64M	+6.68M	Wellington Management Company, LLP	-7.44M	-1.40M
Van Eck Associates Corporation	+12.67M	+2.14M	William Blair Investment Management, LLC	-6.74M	-1.27M
SBI Funds Management Pvt. Ltd.	+5.62M	+1.09M	BNP Paribas Asset Management USA, Inc.	-5.44M	-1.02M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total operating Income	13,423.6	14,489.6	14,497.4	14,467.2
Growth (%)	8.9	7.9	0.1	-0.2
Other Income	145.6	232.6	200.0	280.0
Total Revenue	13,569.2	14,722.2	14,697.4	14,747.2
Rent	1,162.8	1,261.5	1,309.1	1,321.9
Employee Expenses	467.8	500.2	502.4	501.3
Power and Fuel	4,653.3	5,077.2	5,520.3	5,563.0
Other Expenses	326.9	366.8	376.9	332.7
Repairs & Maintenance	915.9	903.8	920.7	890.5
Total Operating Expenditure	7,526.7	8,109.5	8,629.4	8,609.5
EBITDA	5,896.9	6,380.1	5,868.0	5,857.7
Growth (%)	9.0	8.2	-8.0	-0.2
Depreciation	2,262.5	2,346.2	2,329.0	2,388.7
Interest	-441.3	-9.7	-300.0	-500.0
Other Income	145.6	232.6	200.0	280.0
PBT	4,221.2	4,276.2	4,038.9	4,249.0
Exceptional Items	0.0	50.0	0.0	0.0
Total Tax	1,474.2	1,732.5	1,575.2	1,657.1
PAT	2,747.0	2,493.7	2,463.7	2,591.9
Growth (%)	22.2	-9.2	-1.2	5.2
EPS (₹)	14.9	13.5	13.3	14.0

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit after Tax	2,747.0	2,493.7	2,463.7	2,591.9
Add: Depreciation	2,262.5	2,346.2	2,329.0	2,388.7
Add: Interest Paid	(441.3)	(9.7)	(300.0)	(500.0)
(Inc)/dec in Current Assets	-369.6	-684.7	283.7	150.7
Inc/(dec) in CL and Provisions	3,038.8	-2,356.4	1.9	-7.4
CF from operating activities	7,237.4	1,789.1	4,778.4	4,623.9
(Inc)/dec in Investments	-1,066.2	-1,163.9	0.0	-200.0
(Inc)/dec in Fixed Assets	-1,950.0	-1,937.4	-954.2	-1,000.8
Others	-100.4	152.1	-0.2	0.8
CF from investing activities	-3,116.6	-2,949.2	-954.5	-1,199.9
Issue/(Buy back) of Equity	-47.1	0.0	0.0	0.0
Inc/(dec) in loan funds	-629.9	-43.3	-401.4	0.0
Dividend paid & dividend tax	-3,562.0	0.0	-3,107.3	-3,107.3
Add: Interest Paid	(441.3)	(9.7)	(300.0)	(500.0)
Others	-607.6	-735.0	300.0	700.0
CF from financing activities	-5,287.9	-788.0	-3,508.7	-2,907.3
Net Cash flow	-1,167.1	-1,948.1	315.2	516.7
Opening Cash	3,191.1	2,024.0	75.9	391.1
Closing Cash	2,297.0	75.9	391.1	907.7

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	1,849.6	1,849.6	1,849.6	1,849.6
Reserve and Surplus	13,636.9	15,104.8	14,161.2	13,345.8
Total Shareholders funds	15,486.5	16,954.4	16,010.8	15,195.4
Total Debt	1,735.0	1,690.1	1,288.7	1,288.7
Deferred Tax Liability	715.0	638.0	638.0	638.0
Others	842.9	1,004.6	1,004.6	1,004.6
Total Liabilities	18,779.4	20,287.1	18,942.1	18,126.7
Assets				
Gross Block	30,588.4	32,376.0	33,330.3	34,331.0
Accumulated Depreciation	16,955.8	19,302.0	21,631.1	24,019.8
Net Block	13,632.6	13,074.0	11,699.2	10,311.3
Capital WIP	256.8	406.6	406.6	406.6
Total Fixed Assets	13,889.4	13,480.6	12,105.8	10,717.9
Investments	5,621.1	6,785.0	6,785.0	6,985.0
Inventory	0.0	0.0	0.0	0.0
Debtors	217.9	918.5	794.4	792.7
Loans and Advances	1,354.9	1,347.9	1,213.8	1,090.1
Other Current Assets	522.7	513.8	488.4	463.0
Cash	2,297.0	75.9	391.1	907.7
Total Current Assets	4,392.5	2,856.1	2,887.6	3,253.6
Creditors	679.3	618.2	618.5	617.2
Provisions	610.5	396.9	397.1	396.3
Other Current Liabilities	4,598.0	2,516.3	2,517.6	2,512.4
Total Current Liabilities	5,887.8	3,531.4	3,533.3	3,525.9
Net Current Assets	-1,495.3	-675.3	-645.7	-272.4
Others Assets	764.2	696.8	697.0	696.2
Application of Funds	18,779.4	20,287.1	18,942.1	18,126.7

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	14.9	13.5	13.3	14.0
Cash EPS	27.1	26.2	25.9	26.9
BV	83.7	91.7	86.6	82.2
DPS	16.0	14.0	14.0	14.0
Cash Per Share	12.4	0.4	2.1	4.9
Operating Ratios				
EBITDA Margin (%)	43.9	44.0	40.5	40.5
PAT Margin (%)	20.5	17.2	17.0	17.9
Debtor days	5.9	23.1	20.0	20.0
Creditor days	18.5	15.6	15.6	15.6
Return Ratios (%)				
RoE	17.7	14.7	15.4	17.1
RoCE	20.1	21.0	19.7	20.7
RoIC	26.0	32.0	32.3	34.3
Valuation Ratios (x)				
P/E	21.2	23.4	23.6	22.5
EV / EBITDA	9.5	8.4	9.0	9.0
Market Cap / Sales	4.3	4.0	4.0	4.0
Price to Book Value	3.8	3.4	3.6	3.8
Solvency Ratios				
Debt/EBITDA	0.3	0.3	0.2	0.2
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.4	0.8	0.7	0.7
Quick Ratio	0.4	0.8	0.7	0.7

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Telecom)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Bharti Airtel (BHAAIR)	408	480	Buy	163,094	9.5	2.5	3.4	42.9	161.0	120.0	7.6	8.7	8.6	8.4	5.7	5.9	7.4	2.6	2.1
Bharti Infratel (BHAINF)	315	330	Hold	58,262	14.9	13.5	13.3	21.2	23.4	23.6	9.5	8.4	9.0	20.1	21.1	19.8	17.7	14.7	15.4
Idea Cellular (IDECEL)	67	63	Hold	29,294	-1.1	-9.6	-11.7	NM	NA	NM	7.7	13.5	16.5	3.3	-2.3	-3.8	-1.6	-15.3	-23.1
Sterlite Tech. (STETEC)	347	440	Buy	13,829	5.1	8.4	10.3	68.7	41.4	33.7	28.5	19.6	16.4	16.1	21.6	22.3	22.9	29.6	28.1
Tata Comm. (TATCOM)	629	720	Buy	17,914	43.3	-6.5	12.4	14.5	NM	50.8	10.5	11.0	9.8	6.1	4.9	8.1	17.2	2.5	27.4

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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