

BHARTI INFRATEL

Battling tenancy addition challenge

India Equity Research | Telecom



Bharti Infratel's (Infratel) Q1FY19 revenue of INR36.7bn rose 0.3% QoQ versus Street's 2.2% decline estimate. Rental revenue grew 0.6% QoQ despite 4,819 tenancy cancellations, driving 110bps increase in ex-energy EBITDA margin to 66.6%. Gross tenancy and tower addition, at 838 and 307, respectively, was much weaker than anticipated. We believe, weak gross tenancy addition highlights structural challenges for the company, especially at a juncture when telcos' capex is high. Although the stock has corrected ~15% in the past three months, we believe rerating is possible only on tenancy addition revival. We revise down FY19/20E EBITDA 1.5%/3.9% to factor in lower tenancy growth rate. Maintain 'HOLD' with revised TP of INR325 (INR368 earlier).

Gross tenancy addition remains tepid

Infratel reported meager 838 gross tenancy addition (1,933 in Q4FY18) as big operators are channeling their capex towards loading 4G equipment on existing sites. Last leg of tenancy cancellation from small operators led to 5,657 cancellations (9,813 in Q4FY18). EBITDA margin declined 210bps QoQ to 41.4% despite 110bps increase in ex-energy EBITDA margin to 66.6%, as energy margin dipped to 3.7% from 11.0% QoQ. PAT slipped 3.9% YoY to INR6.38bn.

Tenancy growth revival crucial for revival; revise down estimates

Management expects tenancy growth to revive in a couple of quarters on completion of 4G loading on existing sites as network densification will drive demand for sites. We remain sceptical as operators may prefer small cells to drive network densification in urban areas. Reliance Jio's (RJIO) strategy of going for own towers may lead to lower tenancy addition. Consequently, we revise down FY19/20E EBITDA 1.5%/3.9%, leading to 4.4%/3.0% cut in PAT.

Outlook and valuations: Challenges galore; maintain 'HOLD'

We believe, weak tenancy growth and anticipated losses due to the Idea-Vodafone merger will be key challenges for Infratel's revenue growth. The Indus acquisition will benefit only marginally as it has been done largely via equity issuance instead of debt. At CMP, the stock trades at 7.7x FY20E EV/EBITDA. We maintain 'HOLD/SP' with DCF-based target price of INR325 (INR368 earlier).

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

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

CMP	: INR 287
Target Price	: INR 325
52-week range (INR)	: 483 / 275
Share in issue (mn)	: 1,849.6
M cap (INR bn/USD mn)	: 531 / 7,727
Avg. Daily Vol.BSE/NSE('000)	: 4,687.9

SHARE HOLDING PATTERN (%)

	Current	Q4FY18	Q3FY18
Promoters *	53.5	53.5	53.5
MF's, FI's & BK's	2.3	2.3	2.3
FII's	43.0	43.0	42.1
Others	1.2	1.2	2.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Telecom Index
1 month	(0.9)	2.3	(7.4)
3 months	(15.1)	3.7	(16.6)
12 months	(31.3)	10.7	(24.6)

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Financials

(INR mn)

Year to March	Q1FY19	Q1FY18	% Chg	Q4FY18	% Chg	FY18	FY19E	FY20E
Net revenues	36,735	35,239	4.2	36,622	0.3	144,896	148,217	146,171
EBITDA	15,196	15,750	(3.5)	15,923	(4.6)	63,801	61,789	56,934
Adjusted Profit	6,380	6,639	(3.9)	6,060	5.3	25,437	27,018	25,569
Diluted EPS (INR)	3.4	3.6	(3.9)	3.3	5.3	13.8	14.6	13.8
Diluted P/E (x)						20.8	19.6	20.7
EV/EBITDA (x)						7.5	7.3	7.7

Table 1: Infratel—Revenue and tenancy growth

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Total Towers	89,352	89,791	90,255	90,646	90,837	90,955	91,007	91,451	91,759
Total Co-locations	196,401	198,795	204,934	210,606	218,401	220,088	213,476	205,596	200,778
Quarterly tower addition	544	439	465	391	191	117	52	444	307
Quarterly tenancy addition									
Gross additions	2,545	2,580	6,410	7,060	8,843	4,398	1,950	1,933	838
Tenancy cancellation	1,179	186	271	1,388	1,048	2,711	8,562	9,813	5,657
Net additions	1,366	2,394	6,139	5,672	7,795	1,687	(6,612)	(7,880)	(4,819)
Average sharing factor	2.20	2.21	2.24	2.30	2.36	2.41	2.38	2.30	2.22
Sharing revenue per tower per month	76,983	77,197	78,407	80,464	83,001	83,040	82,794	79,861	80,014
QoQ growth	1.5	0.3	1.6	2.6	3.2	0.0	(0.3)	(3.5)	0.2
Sharing revenue per sharing operator per month	35,039	34,994	34,966	35,029	35,112	34,427	34,748	34,770	35,276
QoQ growth	1.1	(0.1)	(0.1)	0.2	0.2	(2.0)	0.9	0.1	1.5
Rent revenue	20,573	20,744	21,175	21,834	22,595	22,644	22,598	21,857	21,989
QoQ growth	1.2	0.8	2.1	3.1	3.5	0.2	(0.2)	(3.3)	0.6
Energy revenue	11,533	12,175	12,832	13,370	12,644	13,838	13,955	14,765	14,746
QoQ growth	0.3	5.6	5.4	4.2	(5.4)	9.4	0.8	5.8	(0.1)
Total revenue	32,106	32,919	34,007	35,204	35,239	36,482	36,553	36,622	36,735
QoQ growth	0.9	2.5	3.3	3.5	0.1	3.5	0.2	0.2	0.3

Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY19	Q1FY18	% change	Q4FY18	% change	FY18	FY19E	FY20E
Net revenues	36,735	35,239	4.2	36,622	0.3	144,896	148,217	146,171
Direct costs	17,410	15,155	14.9	16,378	6.3	63,387	69,716	72,272
Employee expenses	1,229	1,216	1.1	1,269	(3.2)	5,002	5,220	5,581
Other expenses	2,900	3,118	(7.0)	3,052	(5.0)	12,706	11,493	11,384
Total expenditure	21,539	19,489	10.5	20,699	4.1	81,095	86,428	89,237
EBITDA	15,196	15,750	(3.5)	15,923	(4.6)	63,801	61,789	56,934
Depreciation	5,389	5,905	(8.7)	5,721	(5.8)	23,462	22,946	22,819
EBIT	9,807	9,845	(0.4)	10,202	(3.9)	40,339	38,843	34,115
Interest	(285)	(627)	NA	129	NA	(97)	(1,830)	(2,202)
Other income	609	474	28.5	956	(36.3)	2,326	2,199	2,189
Profit before tax	10,701	10,946	(2.2)	10,529	1.6	42,762	42,872	38,506
Provision for taxes	4,321	4,307	0.3	4,469	(3.3)	17,325	15,854	12,936
Reported net profit	6,380	6,639	(3.9)	6,060	5.3	25,437	27,018	25,569
Exceptional items								
Adjusted Profit	6,380	6,639	(3.9)	6,060	5.3	25,437	27,018	25,569
Diluted EPS (INR)	3.4	3.6	(3.9)	3.3	5.3	13.8	14.6	13.8
Basic EPS (INR)	3.4	3.5	(3.9)	3.2	5.3	13.8	14.6	13.8
Diluted P/E (x)	-	-		-		20.8	19.6	20.7
EV/EBITDA (x)	-	-		-		7.5	7.3	7.7
EV/Revenues (x)	-	-		-		3.3	3.0	3.0
Direct costs	47.4	43.0		44.7		43.7	47.0	49.4
Employee cost	3.3	3.5		3.5		3.5	3.5	3.8
Other operating expenses	7.9	8.8		8.3		8.8	7.8	7.8
EBITDA	41.4	44.7		43.5		44.0	41.7	39.0
Adjusted net profit	17.4	18.8		16.5		17.6	18.2	17.5
Tax rate (% PBT)	40.4	39.3		42.4		40.5	37.0	33.6

Company Description

Infratel, including Indus Towers, is the leading telecom tower infrastructure provider in India with >40% 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 ~73% telecom revenue market share and are aggressively expanding their 4G footprint. On consolidated basis, Infratel has 91,759 towers with 200,778 tenancies, implying a sharing factor of 2.19.

Investment Theme

Infratel has benefitted from accelerated data network roll out by telcos to serve the burgeoning data demand, leading to 10.7% EBITDA CAGR over FY13-18. 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 4.0% 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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
Company				
Total Towers	90,646	91,451	92,589	93,665
Total Co-locations	210,606	205,596	205,278	189,778
Average Sharing factor	2.3	2.3	2.2	2.1
Sharing Revenue per Tower per month	34,647	35,918	35,758	34,860
Energy revenue per tower (INR)	46,354	50,524	54,394	56,859
Cost assumptions				
Energy Margin (%)	6.8	8.0	5.4	6.8
Rent expense per month per tower (INR)	10,800	11,546	11,693	11,653
Other costs as % of sales	12.7	12.2	11.3	11.6
Financial assumptions				
Depreciation as a % Net Block	15.7	16.4	16.3	16.3
Tax rate as % of PBT	34.9	40.5	37.0	33.6
Capex (INR mn)	9,060	9,488	19,825	18,819
Debtor days	6	14	23	23
Payable days	45	71	81	82
Cash conversion cycle	(39)	(57)	(58)	(59)

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	134,237	144,896	148,217	146,171
Direct costs	58,161	63,387	69,716	72,272
Employee costs	4,679	5,002	5,220	5,581
Other Expenses	12,428	12,706	11,493	11,384
Total operating expenses	75,268	81,095	86,428	89,237
EBITDA	58,969	63,801	61,789	56,934
Depreciation	22,626	23,462	22,946	22,819
EBIT	36,343	40,339	38,843	34,115
Less: Interest Expense	(4,414)	(97)	(1,830)	(2,202)
Add: Other income	1,455.00	2,326.00	2,199.08	2,188.53
Profit Before Tax	42,212	42,762	42,872	38,506
Less: Provision for Tax	14,742	17,325	15,854	12,936
Reported Profit	27,470	25,437	27,018	25,569
Adjusted Profit	27,470	25,437	27,018	25,569
Shares o /s (mn)	1,861	1,850	1,850	1,850
Adjusted Basic EPS	14.8	13.8	14.6	13.8
Diluted shares o/s (mn)	1,861	1,850	1,850	1,850
Adjusted Diluted EPS	14.8	13.8	14.6	13.8
Adjusted Cash EPS	26.9	26.4	27.0	26.2
Dividend per share (DPS)	16.0	14.0	13.1	11.7
Dividend Payout Ratio(%)	108.4	101.8	89.5	84.6

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	43.3	43.7	47.0	49.4
Staff costs	3.5	3.5	3.5	3.8
S G & A expenses	9.3	8.8	7.8	7.8
Operating expenses	56.1	56.0	58.3	61.0
Depreciation	16.9	16.2	15.5	15.6
Interest Expense	(3.3)	(0.1)	(1.2)	(1.5)
EBITDA margins	43.9	44.0	41.7	39.0
Net Profit margins	20.5	17.6	18.2	17.5

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	8.9	7.9	2.3	(1.4)
EBITDA	9.0	8.2	(3.2)	(7.9)
PBT	18.0	1.3	0.3	(10.2)
Adjusted Profit	22.2	(7.4)	6.2	(5.4)
EPS	24.5	(6.8)	6.2	(5.4)

Balance sheet (INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	18,496	18,496	18,496	18,496
Reserves & Surplus	136,369	151,048	174,395	176,797
Shareholders' funds	154,865	169,544	192,891	195,293
Long term borrowings	4,447	4,014	4,014	4,014
Short term borrowings	6,793	12,887	12,887	12,887
Total Borrowings	11,240	16,901	16,901	16,901
Long Term Liabilities	14,258	15,564	15,564	15,564
Def. Tax Liability (net)	7,150	6,223	8,601	10,541
Sources of funds	187,513	208,232	233,957	238,300
Gross Block	315,018	336,838	356,662	375,482
Net Block	135,934	130,383	127,126	121,581
Capital work in progress	392	4,066	4,066	4,066
Intangible Assets	2,568	357	357	357
Total Fixed Assets	138,894	134,806	131,549	126,004
Non current investments	48,970	11,423	11,423	11,423
Cash and Equivalents	37,960	65,832	95,276	106,289
Sundry Debtors	2,179	9,185	9,440	9,249
Loans & Advances	13,442	13,479	13,769	13,552
Other Current Assets	5,227	5,138	5,281	5,174
Current Assets (ex cash)	20,848	27,802	28,491	27,975
Trade payable	12,903	18,580	19,713	20,313
Other Current Liab	46,256	13,051	13,068	13,078
Total Current Liab	59,159	31,631	32,781	33,391
Net Curr Assets-ex cash	(38,311)	(3,829)	(4,290)	(5,416)
Uses of funds	187,513	208,232	233,957	238,300
BVPS (INR)	83.2	91.7	104.3	105.6

Free cash flow (INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	27,470	25,437	27,018	25,569
Add: Depreciation	22,626	23,462	22,946	22,819
Others	(22,451)	(13,079)	1,102	2,003
Less: Changes in WC	(1,017)	1,126	461	1,125
Operating cash flow	28,662	34,694	50,605	49,266
Less: Capex	9,060	9,488	19,825	18,819
Free Cash Flow	19,602	25,206	30,780	30,446

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	28,662	34,694	50,605	49,266
Financing cash flow	(26,710)	(35,548)	(24,194)	(21,622)
Investing cash flow	(2,372)	(18,551)	(17,626)	(16,631)
Net cash Flow	(420)	(19,405)	8,785	11,013
Capex	(9,060)	(9,488)	(19,825)	(18,819)
Dividend paid	(6,679)	(35,604)	(24,194)	(21,622)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	16.3	15.7	14.9	13.2
ROACE (%)	20.7	24.2	20.7	17.2
Debtors Days	6	14	23	23
Payable Days	45	71	81	82
Cash Conversion Cycle	(39)	(57)	(58)	(59)
Current Ratio	1.0	3.0	3.8	4.0
Gross Debt/EBITDA	0.2	0.3	0.3	0.3
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	(8.2)	(415.9)	(21.2)	(15.5)

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.7	0.7	0.7	0.6
Fixed Asset Turnover	1.0	1.1	1.1	1.2
Equity Turnover	0.8	0.9	0.8	0.8

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	14.8	13.8	14.6	13.8
Y-o-Y growth (%)	24.5	(6.8)	6.2	(5.4)
Adjusted Cash EPS (INR)	26.9	26.4	27.0	26.2
Diluted P/E (x)	19.4	20.9	19.6	20.7
P/B (x)	3.4	3.1	2.8	2.7
EV / Sales (x)	3.8	3.3	3.0	3.0
EV / EBITDA (x)	8.6	7.5	7.3	7.7
Dividend Yield (%)	5.6	4.9	4.6	4.1

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Bharti Infratel	7,727	19.6	20.7	7.3	7.7	14.9	13.2
Bharti Airtel	20,822	71.0	35.0	4.4	3.5	3.9	6.6
Idea Cellular	247,608,240	(5.8)	(7.6)	11.4	9.5	(17.1)	(15.6)
Reliance Communication	34,334,676	(226.6)		6.2		0.2	
Median	-	6.9	27.9	6.8	8.6	2.0	9.9
AVERAGE	-	(35.4)	16.1	7.3	6.9	0.5	1.4

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
Bharti airtel ltd	50.33	Silverview portfolio	7.07
Artisan partners ltd	5.59	Canada pension plan	3.27
Nettle infrastrucur	3.18	Comgest s a	1.76
Merrill lynch mkt sg	1.59	Vanguard group	1.58
Matthews intl capita	1.45	Virtus investment pa	1.22

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
14 Nov 2017	Harris Insight Emerging Markets Fund (Vontobel)	Buy	14743940	399.98
14 Nov 2017	Ubs Principal Capital Asia Ltd	Buy	17000000	400.00
14 Nov 2017	Nettle Infrastructure Investment Ltd	Sell	39566667	401.17
14 Nov 2017	Nettle Infrastructure Investments Ltd	Sell	43433333	400.05
08 Aug 2017	Nettle Infrastructure Investment Ltd	Sell	50650794	380.74
08 Aug 2017	Nettle Infrastructure Investments Ltd	Sell	16883598	380.12

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
11 Aug 2017	NETTLE INFRASTRUCTURE INVESTMENTS LIMITED	Sell	67534392.00
07 Aug 2017	Biswajit Patnaik	Sell	25000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharti Airtel	BUY	SO	L	Bharti Infratel	HOLD	SP	L
Idea Cellular	HOLD	SP	M	Reliance Communication	HOLD	SU	H
Sterlite Technologies	BUY	SO	M	Tejas Networks	BUY	SO	M

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

Bharti Airtel, Bharti Infratel, Idea Cellular, Reliance Communication, Sterlite Technologies, Tejas Networks

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Dec-99	Tejas Networks	Robust performance; benign outlook; <i>Result Update</i>	273	Buy
30-Dec-99	Sterlite Technologies	Margin gets utilisation boost; <i>Result Update</i>	302	Buy
30-Dec-99	Net Neutrality	Telcos' moment of truth ; <i>Techweiss (Global Pulse)</i>		

Distribution of Ratings / Market Cap

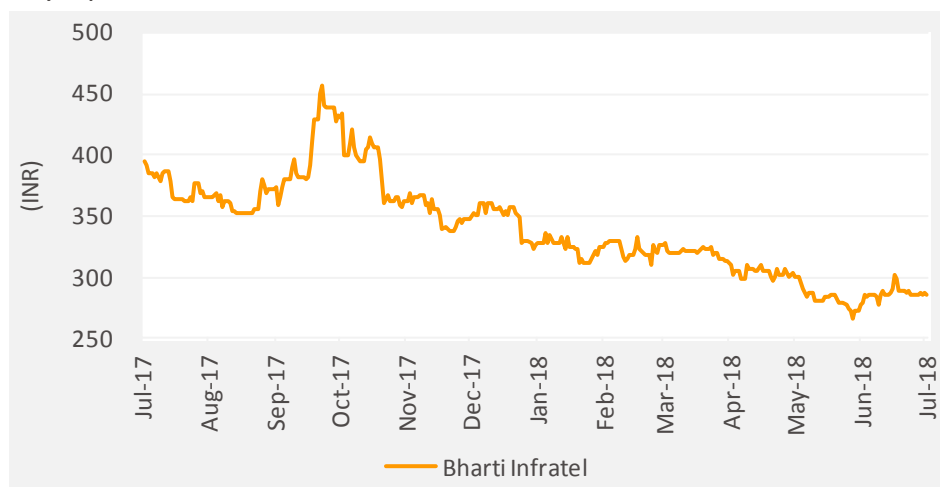
Edelweiss Research Coverage Universe

	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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