

Weakness in tenancy addition continues...

Bharti Infratel continued to report a muted performance on the topline front given the weak gross tenancy addition. Revenues (on a proportionate consolidation basis) came in at ₹ 3637.6 crore, down 2% QoQ with core rental revenues of ₹ 2328.5 crore, down 1% QoQ. It should be noted that underlying Q2FY20 revenue growth was weak, albeit exit penalty (₹ 101 crore), Ind-AS 116 adoption (rent equalisation of ₹ 76.7 crore) and extended occupation of exiting tenants (~3750 collocations where actual exits are yet to happen despite exit notice) led to a better-than-expected show on a reported basis. The company reported a net increase of 159 co-locations on consolidated basis vs. our expectation of a net loss of ~700 tenancies. Reported EBITDA at ₹ 1878.3 crore was better on account of lower other expenses (bad debt recoveries). Reported EBITDA margins, consequently, at 51.6% (up 50 bps QoQ) were higher than expected.

Faces challenges ahead in tenancy growth

During Q2FY20, Infratel reported a net increase of 159 co-locations on a consolidated basis vs. our expectation of net loss of 700 tenancies. On a gross basis, the company added 1265 tenancies while gross exits were 1106. We note that Vodafone Idea has guided for further ~21000 exits as part of its integration process, which should happen in the next couple of quarters. Moreover, we build in tepid gross tenancy addition ahead, given the measured approach of incumbents in expansion. Hence, we build in 180732 net co-locations in FY21 vs. current co-location count of 173406. We expect reported rentals to witness 4.5% CAGR (-0.5% on a like-to-like basis) over FY19-21E, largely owing to exit penalties & rent equalisation under Ind-AS 116.

Merger continues to be delayed...

The company also informed that FDI approval is still awaited. Therefore, the merger of Infratel and Indus is yet to be completed. The company has also authorised a Committee of Directors to "explore and evaluate all possible options to secure the best interests of the company and its shareholders under the current facts and circumstances" and come up with a decision by October 24, 2019.

Valuation & Outlook

We note the key risk for Infratel is on tenancy growth concerns, pricing and terms of payments (as telcos continue to struggle at operating levels) and possibly in worst case, Vodafone Idea's survival (it is an anchor tenant). Notwithstanding, the company's belief on capitalising on large opportunities in adjacent areas, near/medium term challenges cannot be ruled out. Therefore, we maintain our **HOLD** recommendation with a DCF based target price of ₹ 270/share. Our target price implies 6.5x FY21E EV/EBITDA on the merged entity proforma financials.



Particulars	
Particulars	Amount
Market Capitalization (₹ crore)	47,738.2
Total Debt (₹ crore)	2,349.2
Cash and Investments (₹ crore)	3,090.6
EV (₹ crore)	46,996.8
52 week H/L (₹)	333/ 241
Equity capital (₹ crore)	1,849.6
Face value (₹)	10.0

Key Highlights

- Q2 performance weak on a like-to-like basis, albeit exit penalty and IND-As 116 adoption and some bad debt recoveries (lower other expenses) resulted in better-than-expected operating level reported numbers
- We maintain HOLD recommendation with a target price of ₹ 270/share

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Key Financial Summary

(Year-end March)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales (₹ crore)	13,423.6	14,489.6	14,582.3	14,898.9	15,250.6	2.3
EBITDA (₹ crore)	5,896.9	6,380.1	6,001.2	7,498.7	7,597.7	12.5
Net Profit (₹ crore)	2,747.0	2,493.7	2,493.8	2,847.2	2,623.1	2.6
EPS (₹)	14.9	13.5	13.5	15.4	14.2	
P/E (x)	18.1	19.9	19.9	17.4	18.9	
Price / Book (x)	3.2	2.9	3.4	3.9	4.2	
EV/EBITDA (x)	8.1	7.0	8.1	6.6	6.6	
RoCE (%)	19.9	21.1	21.2	20.9	22.9	
RoE (%)	17.7	14.7	17.2	22.2	22.2	

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	Q1FY20	YoY (%)	QoQ (%)	Comments
Revenue	3,637.6	3,620.0	3,668.3	3,711.9	-0.8	-2.0	
Other Income	34.9	60.0	55.7	65.1	-37.3	-46.4	
Employee Expenses	124.0	116.3	122.2	118.4	1.5	4.7	
Power and Fuel	1,403.6	1,355.1	1,436.7	1,373.6	-2.3	2.2	
Rent	0.0	0.0	316.8	0.0			Under Ind-AS 116, rental is charged under depreciation and interest
Other Expenses	46.3	133.9	92.3	174.1	-49.8	-73.4	
Repairs and Maintenance	185.4	203.5	213.9	150.3	-13.3	23.4	
EBITDA	1,878.3	1,811.2	1,486.4	1,895.5	26.4	-0.9	EBITDA beat owing to lower other expenses
EBITDA Margin (%)	51.6	50.0	40.5	51.1	1112 bps	57 bps	
Depreciation	745.3	744.7	562.5	742.5	32.5	0.4	
Interest	125.1	110.0	-44.2	112.5	NM	NM	
Exceptional Items	0.0	0.0	35.7	0.0	NA	NA	
Total Tax	79.3	256.2	388.3	218.6	-79.6	-63.7	The company adopted the new tax rate, which led to lower effective tax rate for the quarter
PAT	963.5	760.4	599.8	887.0	60.6	8.6	
Towers (Consolidated)	93,421	92,817	92,123	92,632	1.41	0.85	
Tenancy Ratio (x) (Consolidated)	1.86	1.86	2.04	1.87	-8.7	-0.4	
Sharing revenue per tower p.m	80,210	78,857	76,865	81,503	4.35	-1.59	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	14,898.9	14,672.3	-1.5	15,250.6	15,059.1	-1.3	
EBITDA	7,498.7	7,463.0	-0.5	7,597.7	7,605.9	0.1	
EBITDA Margin (%)	50.3	50.9	56 bps	49.8	50.5	71 bps	
PAT	2,847.2	3,361.1	18.0	2,623.1	3,101.9	18.3	PAT upgrade on account of new tax rate
EPS (₹)	15.4	18.2	18.0	14.2	16.8	18.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Bharti Infratel Standalone							
Towers (No.)	39,099	39,523	40,388	41,297	41,794	41,003	41,497
Tenancy Ratio (x)	2.20	2.26	2.06	1.88	1.89	1.91	1.94
Total Co-locations (No.)	89,263	88,665	76,341	77,411	79,939	78,909	81,453
Sharing revenue per tower p.m	81,001	86,253	82,622	87,501	90,058	83,996	86,437
Sharing Revenue (₹ Crore)	3,769.3	4,068.8	3,961.5	4,288.5	4,489.8	4,101.9	4,278.6
Indus Towers							
Towers (No.)	122,730	123,639	123,546	125,191	126,196	124,543	125,543
Tenancy Ratio (x)	2.30	2.30	2.05	1.86	1.88	1.86	1.89
Total Co-locations (No.)	288,913	278,408	229,483	233,365	239,983	232,516	239,104
Sharing revenue per tower p.m	75,503	78,892	72,889	75,215	76,169	77,951	79,926
Sharing Revenue (₹ Crore)	10,990.8	11,661.9	10,810.2	11,225.2	11,488.8	11,603.3	11,993.0
Bharti Infratel Consolidated							
Towers (No.)	90,646	91,451	92,277	93,877	94,797	93,311	94,225
Tenancy Ratio (x)	2.26	2.29	2.06	1.87	1.89	1.88	1.91
Total Co-locations (No.)	210,606	205,596	172,724	175,424	180,732	176,566	181,877
Sharing revenue per tower p.m	77,930	82,070	77,122	80,606	82,286	80,602	82,790
Sharing Revenue (₹ Crore)	8,390.9	8,966.8	8,501.8	9,003.1	9,315.1	8,975.3	9,315.7

Source: Company, ICICI Direct Research

Other Highlights

- **Energy margins:** The company reported a negative energy gross profits (of ~₹ 4.5 crore) during the quarter, largely owing to contracts renegotiations and seasonality. The management indicated that overall energy cost savings would be realised for the rest of the year and *guided for ~3% energy margins on an annual basis.*
- **Co-locations exits largely stabilise; foresees large opportunity in adjacent areas:** The company continued to report net positive tenancy addition for a second consecutive quarter. The management was hopeful this trend will continue on the back of 4G coverage expansion by telecom players. *We note that the company reported net tower addition of ~789 during the quarter, highest in the last four years.* Overall demand would be driven by capacity build out and coverage addition in USO areas. Furthermore, it does not see any major impact of 3G networks shutdown. The management also indicated that given its overall experience, strong balance sheet and relationship with players, it foresees strong opportunities in adjacent areas of telecom infrastructure in 5G era
- **Guides for 3% energy margins for FY20; relaxed payment terms for operators given financial stress:** The management indicated that energy margins in Q2 were in the negative territory due to certain contracts renewals and seasonality effect. They indicated that energy margins could be lumpy in nature on a quarterly basis but guided for 3% energy margins in FY20. The company also indicated that given the financial stress, they have relaxed payment terms for operators on a non-discretionary basis. *This was clearly visible in trade receivables, which were at ₹ 2274 crore in Q2FY20 vs. 1483 crore in FY19, implying receivable days of 57 days vs. ~37 days as on FY19*
- **Dividend from Indus not yet received owing to pending merger:** The management indicated Indus has not declared dividend so far given the pending merger. The net debt at Indus was at ₹ 4000 crore
- **New tax rate adoption boosts PAT:** The company indicated that it has now transitioned to the new tax rate of 25.17%. Consequently, during Q2 excess provision of Q1 of ~₹ 109 crore was written back. Furthermore, tax liabilities have been re-measured as per new tax rate and ~₹ 70 crore has been provided. Consequently, reported PAT was up 60.6% YoY
- **Others:** On an adjusted basis (ex-Ind-AS), EBITDA was at ₹ 1486 crore, with margin of 41.7%

Exhibit 4: Proforma of merged entity

₹ crore	Infratel Standalone			Indus Towers			Combined Entity		
	FY19	FY20E	FY21E	FY19	FY20E	FY21	FY18	FY19E	FY20E
Tower (No.)	40,388	41,297	41,794	123,546	125,191	126,196	163,934	166,488	167,990
Tenancies (No.)	76,341	77,411	79,939	229,483	233,365	239,983	305,824	310,776	319,922
Tenancy Ratio (x)	2.1	1.9	1.9	2.1	1.9	1.9	2.1	1.9	1.9
Revenues	6,822	6,757	6,992	18,478	18,845	19,208	25,299	25,602	26,200
EBITDA	3,114	3,566	3,766	6,921	9,150	9,143	10,034	12,797	13009*
Margin (%)	45.6	52.8	53.9	37.5	48.6	47.6	39.7	50.0	49.7
							Target EV at 6.5x		84557
							Less: Net Debt		14,000
							Add: PV of Exit Charge		1,406
							Equity Value		71,963
							Diluted no. of Shares (crore)		266.1
							Fair Value (₹/share)		270

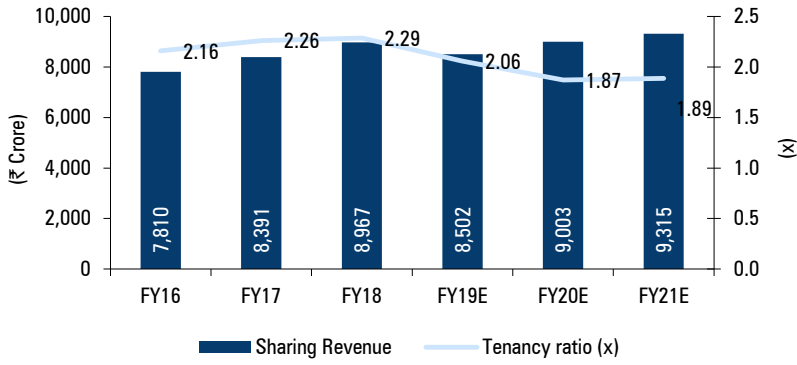
Source: Company, ICICI Direct Research

Exhibit 5: Income statement under equity method

(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	6,621.2	6,826.2	6,759.3	6,991.6
Growth (%)	8.8	3.1	-1.0	3.4
Other Income	95.5	101.5	128.8	112.0
Total Revenue	6,716.7	6,927.7	6,888.1	7,103.6
Rent	351.8	344.6	0.0	0.0
Employee Expenses	291.6	291.5	284.2	291.2
Power and Fuel	2,281.7	2,525.8	2,301.0	2,351.7
Other Expenses	132.8	188.7	297.8	328.6
Repairs & Maintenance	406.2	363.5	251.2	254.2
Total Operating Expenditure	3,464.1	3,714.1	3,134.2	3,225.7
EBITDA	3,157.1	3,112.1	3,625.1	3,765.9
Growth (%)	11.8	-1.4	16.5	3.9
Depreciation	1,180.1	1,065.8	1,246.8	1,328.2
Interest	-180.2	-387.7	-108.0	-160.0
Other Income	95.5	101.5	128.8	112.0
PBT	2,252.7	2,535.5	2,615.1	2,709.7
Profit from associates	1,302.5	1,017.2	1,229.1	957.6
Exceptional Items	26.0	0.0	0.0	0.0
Total Tax	1,035.5	1,058.9	483.1	565.3
PAT	2,493.7	2,493.8	3,361.1	3,101.9
Growth (%)	-9.2	0.0	34.8	-7.7
EPS (₹)	13.5	13.5	18.2	16.8

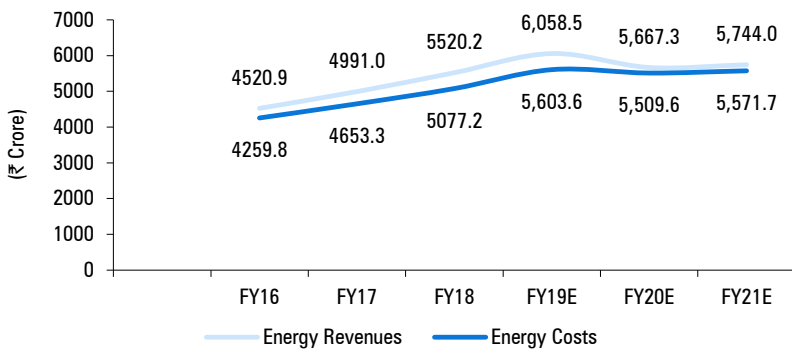
Source: Company, ICICI Direct Research

Exhibit 6: Bharti Infratel consolidated tenancy, sharing revenues



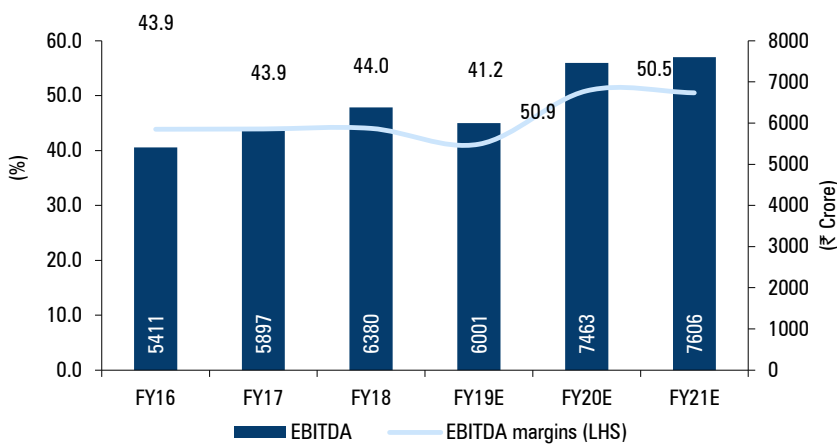
Source: Company, ICICI Direct Research

Exhibit 7: Energy revenues, energy cost trends



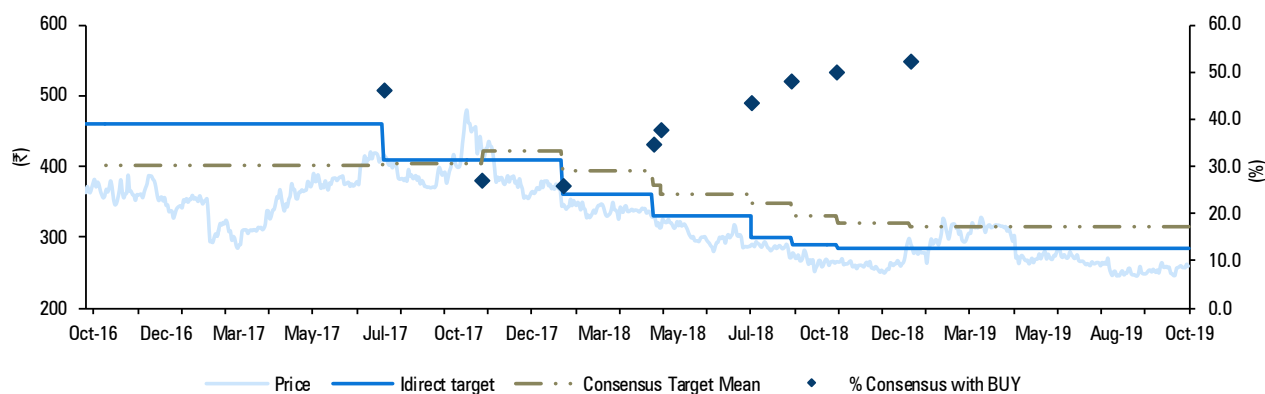
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Position Change (m)
1	Bharti Enterprises, Ltd.	30-Jun-19	33.57	620.9	0.0
2	Nettle Infrastructure Investments, Ltd.	30-Jun-19	19.94	368.9	0.0
3	Silverview Portfolio Investments Pte. Ltd.	30-Jun-19	7.07	130.8	0.0
4	EdgePoint Investment Group Inc.	30-Jun-19	6.13	113.4	6.4
5	CPP Investment Board [Activist]	31-Mar-19	3.27	60.6	0.0
6	Artisan Partners Limited Partnership [Activist]	30-Sep-19	3.10	57.3	1.1
7	The Vanguard Group, Inc.	30-Sep-19	1.64	30.3	0.0
8	Vontobel Asset Management, Inc.	31-Aug-19	1.59	29.4	0.0
9	Black Creek Investment Management, Inc.	30-Jun-19	0.81	14.9	0.4
10	SBI Funds Management Pvt. Ltd.	30-Sep-19	0.59	10.9	0.1

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
EdgePoint Investment Group Inc.	+24.73M	+6.38M	Union Investment Luxembourg S.A.	-4.93M	-1.09M
Lazard Asset Management, L.L.C.	+13.74M	+3.77M	Tredje AP Fonden	-3.84M	-0.99M
Southeastern Asset Management, Inc.	+9.45M	+2.44M	Fidelity Management & Research (Hong Kong) Limited	-2.56M	-0.66M
Artisan Partners Limited Partnership	+4.00M	+1.10M	Robeco Institutional Asset Management B.V.	-1.79M	-0.49M
Black Creek Investment Management, Inc.	+1.55M	+0.40M	Gupta (Akhil)	-1.31M	-0.38M

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	53.51	53.51	53.51	53.51	53.51
FII	42.29	42.29	43.90	43.75	43.81
DII	2.26	2.26	0.85	1.58	1.04
Others	1.94	1.94	1.74	1.16	1.64

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	14,489.6	14,582.3	14,672.3	15,059.1
Growth (%)	7.9	0.6	0.6	2.6
Other Income	232.6	203.4	180.0	160.0
Total Revenue	14,722.2	14,785.7	14,852.3	15,219.1
Rent	1,261.5	1,255.1	0.0	0.0
Employee Expenses	500.2	491.4	492.0	505.0
Power and Fuel	5,077.2	5,603.6	5,509.6	5,571.7
Other Expenses	366.8	390.7	498.7	602.4
Repairs & Maintenance	903.8	840.3	709.0	774.2
Total Operating Expenditure	8,109.5	8,581.1	7,209.3	7,453.2
EBITDA	6,380.1	6,001.2	7,463.0	7,605.9
Growth (%)	8.2	-5.9	24.4	1.9
Depreciation	2,346.2	2,223.9	2,988.3	3,120.6
Interest	-9.7	-157.1	487.6	500.0
Other Income	232.6	203.4	180.0	160.0
PBT	4,276.2	4,137.8	4,167.1	4,145.3
Exceptional Items	50.0	35.7	0.0	0.0
Total Tax	1,732.5	1,608.3	806.0	1,043.4
PAT	2,493.7	2,493.8	3,361.1	3,101.9
Growth (%)	-9.2	0.0	34.8	-7.7
EPS (₹)	13.5	13.5	18.2	16.8

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	1,849.6	1,849.6	1,849.6	1,849.6
Reserve and Surplus	15,104.8	12,674.9	11,461.5	10,934.1
Total Shareholders funds	16,954.4	14,524.5	13,311.1	12,783.7
Total Debt	1,690.1	2,349.2	2,349.2	2,349.2
Deferred Tax Liability	622.3	701.4	701.4	701.4
Others	918.4	1,190.3	6,885.1	5,885.1
Total Liabilities	20,185.2	18,765.4	23,246.8	21,719.4
Assets				
Gross Block	32,376.0	34,113.0	35,885.3	37,834.9
Accumulated Depreciation	19,302.0	21,525.9	24,514.2	27,634.8
Net Block	13,074.0	12,587.1	11,371.1	10,200.0
Capital WIP	406.6	248.5	248.5	248.5
Total Fixed Assets	13,480.6	12,835.6	11,619.6	10,448.5
Right of Use	0.0	0.0	4,337.6	3,537.6
Investments	6,785.0	4,797.3	4,997.3	5,197.3
Debtors	918.5	1,488.3	2,210.9	2,475.5
Loans and Advances	1,515.7	2,000.5	1,811.6	1,766.4
Other Current Assets	513.8	338.3	323.4	315.3
Cash	75.9	135.7	796.2	929.4
Total Current Assets	3,023.9	3,962.8	5,142.1	5,486.5
Creditors	618.2	511.7	514.9	528.4
Provisions	666.6	308.5	310.4	318.6
Other Current Liabilities	2,516.3	2,664.0	2,680.4	2,751.1
Total Current Liabilities	3,801.1	3,484.2	3,505.7	3,598.1
Net Current Assets	-777.2	478.6	1,636.4	1,888.4
Others Assets	696.8	653.9	655.9	647.6
Application of Funds	20,185.2	18,765.4	23,246.8	21,719.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	2,493.7	2,493.8	3,361.1	3,101.9
Add: Depreciation	2,346.2	2,223.9	2,988.3	3,120.6
Add: Interest Paid	(9.7)	(157.1)	487.6	500.0
(Inc)/dec in Current Assets	-852.5	-879.1	-518.7	-211.3
Inc/(dec) in CL and Provisions	-1,856.8	-316.9	21.5	92.4
CF from operating activities	2,120.9	3,364.6	6,339.8	6,603.6
(Inc)/dec in Investments	-1,163.9	1,987.7	-200.0	-200.0
(Inc)/dec in Fixed Assets	-1,937.4	-1,578.9	-1,772.3	-1,949.5
Others	-179.7	393.9	1,355.2	-191.7
CF from investing activities	-3,281.0	802.7	-617.1	-2,341.2
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-43.3	70.0	0.0	0.0
Dividend paid & dividend tax	-3,107.3	-3,329.3	-3,329.3	-3,329.3
Add: Interest Paid	(9.7)	(157.1)	487.6	500.0
Others	2,099.3	-691.1	-2,220.4	-1,300.0
CF from financing activities	-1,061.0	-4,107.5	-5,062.1	-4,129.3
Net Cash flow	-2,221.1	59.8	660.5	133.2
Opening Cash	2,297.0	75.9	135.7	796.2
Closing Cash	75.9	135.7	796.2	929.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	13.5	13.5	18.2	16.8
Cash EPS	26.2	25.5	34.3	33.6
BV	91.7	78.5	72.0	69.1
DPS	14.0	15.0	15.0	15.0
Cash Per Share	0.4	0.7	4.3	5.0
Operating Ratios				
EBITDA Margin (%)	44.0	41.2	50.9	50.5
PAT Margin (%)	17.2	17.1	22.9	20.6
Debtor days	23.1	37.3	55.0	60.0
Creditor days	15.6	12.8	12.8	12.8
Return Ratios (%)				
RoE	14.7	17.2	25.3	24.3
RoCE	21.1	21.2	20.0	21.4
RoIC	32.3	25.6	30.3	31.1
Valuation Ratios (x)				
P/E	19.1	19.1	14.2	15.4
EV / EBITDA	6.7	7.8	6.3	6.2
Market Cap / Sales	3.3	3.3	3.3	3.2
Price to Book Value	2.8	3.3	3.6	3.7
Solvency Ratios				
Debt/EBITDA	0.3	0.4	0.3	0.3
Debt / Equity	0.1	0.2	0.2	0.2
Current Ratio	0.8	1.1	1.2	1.3
Quick Ratio	0.8	1.1	1.2	1.3

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct Coverage Universe (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Bharti Airtel	374	400	Buy	192,002	1.0	-9.8	-1.1	365.3	NM	NM	11.9	8.6	7.8	5.6	2.1	3.4	2.7	-3.5	-4.3
Bharti Infratel	258	270	Hold	47,738	13.5	18.2	16.8	19.1	14.2	15.4	7.8	6.3	6.2	21.1	21.2	20.0	14.7	17.2	25.3
Vodafone Idea	6	6	Reduce	17,615	-16.7	-5.2	-5.1	NM	NM	NM	33.6	11.3	16.9	-2.3	-5.0	-3.5	-15.3	-25.9	-16.1
Sterlite Tech	157	180	Hold	6,310	14.0	14.4	15.0	11.2	10.9	10.5	7.2	6.2	5.3	29.7	27.8	27.7	28.7	33.0	27.2
Tata Comm	365	266	Hold	10,412	-2.9	10.2	12.8	NM	NM	28.5	7.0	5.9	5.6	5.9	5.4	8.0	9.4	127.7	-208.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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