

Sector: Telecom  
Results Update

	Change
Reco: <b>Buy</b>	↔
CMP: <b>Rs. 599</b>	
Price Target: <b>Rs. 680</b>	↑
↑ Upgrade ↔ No change ↓ Downgrade	

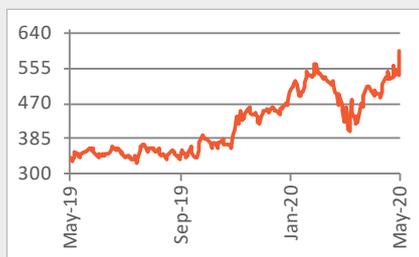
## Company details

Market cap:	Rs. 326,870 cr
52-week high/low:	Rs. 603/321
NSE volume: (No of shares)	150.1 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTIARTL
Free float: (No of shares)	191.4 cr

## Shareholding (%)

Promoters	62.7
FII	21.3
DII	14.5
Others	1.6

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	19.6	11.0	46.4	76.3
Relative to Sensex	21.1	38.4	71.5	99.6

Sharekhan Research, Bloomberg

Bharti Airtel (Bharti) delivered better-than-expected results in Q4FY2020, as average revenue per user (ARPU) surged and addition of 4G subscribers was healthy (despite the nationwide lockdown). Revenue grew by 8.1%/15.1% q-o-q/y-o-y to Rs. 23,723 crore (ahead of our estimates), driven by strong 16/22% q-o-q/y-o-y growth in India wireless business. Strong growth in India wireless business was led by a 14.3% q-o-q growth in ARPU to Rs. 154. The company added 1.2 crore of 4G customers to its mobile network during the quarter despite challenges in the last two weeks of March due to the lockdown. Home broadband revenue grew 3.2% q-o-q, led by increase in demand on account of work-from-home (WFH) mode. EBITDA margin improved 78 bps q-o-q to 43%, slightly beating our estimates, as operating margin of India wireless business rose by 329 bps q-o-q. EBITDA took a hit of Rs. 179 crore owing to changes in accounting methodologies in the DTH business. Still, EBITDA grew 10.1% q-o-q and was 5% ahead of our estimates, led by higher-than-expected revenue. Management remains hopeful that ARPU would improve to Rs. 200 in the short term from Rs. 154. Further, it reiterated its earlier stance that eventually ARPU would improve to Rs. 300 in the long term for a profitable growth as well as RoCE of over 15% for its business. The improvement in ARPU would be supported by continued up-gradation from 2G to 4G, increasing postpaid subscribers, segmentation price hike for the premium users and higher digitization (bundling of multiple services like home broadband, DTH and mobility). The management indicated that capex (up 119% q-o-q in Q4FY2020) intensity would moderate in FY2021E.

## Key positives

- ◆ ARPU increased 14.3% q-o-q to Rs. 154 on the back of tariff increase
- ◆ Number of 4G customers, rose by 10% q-o-q and 57% y-o-y
- ◆ EBIT of India wireless business turned positive

## Key negatives

- ◆ EBITDA margin of Africa business declined 100BPS q-o-q to 44.1%

## Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 680:** We have raised our earnings estimates for FY2021E/FY2022E as Q4FY2020 results beat estimates, addition of 4G customers stayed strong and continued improvement in ARPU. Further, the recent series of fund-raising in the last one year and potential asset sale alleviates the concerns on payment of regulatory dues (AGR dues). We expect free cash flow of India wireless business to improve in FY2021E as the capex intensity is expected to moderate in near-term. In addition, Facebook's strategic investment in Reliance Jio's platform is expected to create monetization opportunities for other Indian telecom companies to leverage their digital platforms. We remain positive on Bharti, considering its steady EBITDA performance in a tough environment, scope for growth in the number of 4G subscribers and potential for further ARPU improvement. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 680.

## Key Risks

Increasing competition could keep pressurising realisations. Any slowdown in data volume growth could affect revenue growth. AGR dues, if levied fully, could be a huge stress on the balance sheet.

Valuation	Rs cr				
Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	82,638.8	80,780.2	87,539.0	99,712.4	110,540.3
OPM (%)	36.4	32.0	41.8	44.8	48.8
Adjusted PAT	1,099.0	-3,977.8	-3,346.8	699.4	6,627.4
% YoY growth	-77.9	NM	NM	NM	-
Adjusted EPS (Rs.)	2.7	-10.0	-6.4	1.4	12.9
P/E (x)	194.2	NM	NM	391.5	41.3
P/B (x)	4.2	4.1	3.8	3.9	3.6
EV/EBITDA (x)	12.9	15.6	32.7	10.1	8.6
RoNW (%)	1.4	-4.9	-4.3	0.9	8.0
RoCE (%)	6.1	2.4	4.2	7.5	9.2

Source: Company; Sharekhan estimates

\*FY20/FY21E/FY22E numbers are based on IndAs-116

**Earnings shine:** Bharti Airtel delivered strong quarterly performance during Q4FY2020, led by strong improvement in ARPU and healthy addition in 4G subscribers. Consolidated revenue grew by 8.1% q-o-q (up 15.1% y-o-y) to Rs. 23,723 crore, above our estimates, led by strong revenue growth (16%/22% q-o-q/y-o-y) in India wireless revenue. The Africa business reported steady revenue growth (up 2.9% q-o-q on constant currency basis). Strong growth in the India wireless business was led by 14.3% q-o-q growth in ARPU to Rs. 154 and 0.2% q-o-q growth in subscribers. EBITDA margin improved by 78 bps q-o-q to 43%, slightly ahead of our estimates, as operating margin of India wireless business rose by 329 bps q-o-q. Note that there was an adjustment of Rs. 179 crore in the EBITDA of DTH business. Excluding the one-time impact, adjusted EBITDA margin stood at 43.8%. The India wireless business EBIT turned positive during the quarter. Reported net loss stood at Rs. 5,237 crore (versus our estimates of a net loss of Rs. 613 crore), affected by charge of Rs. 7,004 crore on account of re-assessment of regulatory cost based on a recent judgment on one-time spectrum charge and other exceptional items.

**ARPU momentum to continue; well-placed to capitalize from digitisation:** The management remains hopeful that ARPU would improve to Rs. 200 in the short term from the current level of Rs. 154. Further, it reiterated its earlier stance that eventually ARPU would improve to Rs. 300 in the long term for profitable growth as well as RoCE of over 15% for its business. The improvement in ARPU would be supported by continued up-gradation from 2G to 4G, increasing post-paid subscribers and segmentation price hike for the premium users. Further, the company's presence in non-telecom business like enterprise, home-broadband and DTH would benefit the company from the increasing digitisation trends. We believe the bundling of home broadband, DTH and wireless services under one-bill initiative would help the company to improve its ARPU going forward. The company has also partnered with global content partners to provide free premium subscription to its customers. Higher digitisation would enable the company to increase monetisation from its digital assets and value-added services, reduce churn rate across verticals and improve wallet share from subscribers. The management indicated that capex (up 119% q-o-q in Q4FY2020) intensity would moderate in FY2021E.

### Key result highlights

- ◆ **India wireless business puts up strong show:** India wireless business revenue grew 16% q-o-q (highest over last 10 years) and 22% y-o-y to Rs. 12,953 crore. EBITDA margin of India wireless business improved by 329 bps q-o-q to 39.2%, while the EBIT turned positive.
- ◆ **Healthy India wireless operating metrics:** Subscribers grew by 0.6 million to 284 million, an increase of 0.2% q-o-q. Net addition of subscribers during the quarter was impacted due to the nationwide lockdown. Data subscribers increased by 10.1 million at 149 million, an increase of 7.3% q-o-q and 29% y-o-y. The number of 4G subscribers increased by around 12.5 million to 136.3 million, a growth of 10% q-o-q and 57% y-o-y. The management highlighted that 4G customer addition would have been impacted owing to nationwide lockdown restrictions. Overall data was up by 16%/74% q-o-q/y-o-y, while usage per customer increased by 7.5/35.5% q-o-q/y-o-y to 14.9 GB per subscriber. The churn rate remained flat at 2.6% q-o-q. A strong growth (up 8.3% q-o-q) in voice traffic to 822 billion minutes.
- ◆ **Good performance in home broadband:** Home broadband revenue grew 3.2% q-o-q, led by an increase in demand during the lockdown restrictions across the country. The growth was driven by 2% q-o-q growth in ARPU. The home broadband business continues to remain resilient and shows significant long term promise in the wake of the new normal of work from home and social distancing established post COVID-19. The company has tied up with local operators to provide last mile connectivity in 11 cities. However, we believe that the broadband segment would remain under pressure owing to tough competition from Reliance Jio.
- ◆ **Reviewed the accounting treatment for revenue in DTH business:** The company carried out accounting changes in its DTH business. The company has reviewed its accounting treatment for acquisition revenue and accordingly onboarding, installation and rental revenue is being deferred over the life of the customer. The full-year impact has been considered in Q4FY2020. Note that there was an adjustment of Rs. 179 crore in the EBITDA of the DTH business, otherwise consolidated EBITDA margin would have been higher.
- ◆ **Enterprise segment growth accelerated:** Enterprise business delivered 1.8% q-o-q revenue growth, while EBITDA margin improved 334 bps q-o-q to 39.9%. EBITDA grew 11.1% q-o-q.

- ◆ **Digital revenue is considered to be the heart of the business:** In recent times, digital revenue is considered as the heart of the business as it complements the core business and helps in enhancing the overall business and profitability by i) significant new customer additions, ii) retaining customers for a longer duration and iii) improving the efficiency resulting in lower opex. The company is scaling its digital assets as it helps in generating advertising revenues through pop-ups, introducing cyber security products and services and also offering B2B routing business services.
- ◆ **Airtel Platform provides synergies to maximise revenue and profitability:** The company's Airtel Platform helps it in gaining traction for the following i) increases data consumption, ii) provides access to 280 million individual users, 80 million homes and 2,000 corporates to cross-sell products and services, iii) enhances digital payments in a significant manner and iv) Network and location based services.
- ◆ **Further improvement in ARPU likely:** The management expects ARPU to increase at a healthy pace to Rs 200 and thereafter to Rs 300 in the long-term. This is likely as growth in postpaid users is expected to be healthy owing to differential between the prepaid and postpaid tariff being narrowed down considerably. Also a large part of the increase in ARPU has been led by tariff hikes in December 2019 and the full potential of the same is yet to be seen. Also international roaming forms a reasonable part of the post-paid subscriber/revenues. Also in regions like Brazil, the number of postpaid users is higher than prepaid users and the trend can be expected soon in India as well over the next few quarters.
- ◆ **Capex to moderate going forward:** The company incurred a total capex of Rs 11,339 crore during the quarter to enhance customer experience along with some front loading of investments to ensure seamless services during the pandemic. However, the management sees moderation in capex going forward.
- ◆ **Fund raising lowers consolidated debt:** Improved operational performance coupled with multiple fund raising i) \$2 billion through QIP, ii) \$1 billion through FCCB and iii) \$250 million through perpetual bonds (tap on existing bonds), helped the net debt/ EBITDA ratio improve to 2.88x as on March 31, 2020 as compared to 4.15x last year.
- ◆ **Status-quo on AGR dues:** The company stated that it has made self assessment of the AGR dues and deposited Rs 13,000 crore in February 2020 and thereafter has deposited another Rs. 5,000 crore so that the amount deposited earlier does not for short in case of final assessment made by the department of telecom or government agencies. Also, the government has allowed making the payment of the AGR dues raised over a period of 20 years by charging 8% interest on a reducing basis. However, the hearing in Supreme Court on the AGR matter was earlier scheduled to happen in April 2020, which stands deferred.

Results	Rs cr				
Particulars	Q4FY20	Q4FY19*	Y-o-Y (%)	Q3FY20	Q-o-Q (%)
<b>Net sales</b>	<b>23,722.7</b>	<b>20,602.2</b>	<b>15.1</b>	<b>21,947.1</b>	<b>8.1</b>
License fees and spectrum charges	2,020.1	1,728.8	16.8	1,766.6	14.3
Employee expenses	1,031.6	942.9	9.4	965.1	6.9
Access and interconnection charges	2,827.0	2,441.0	15.8	2,710.9	4.3
Network operating expenses	5,201.5	5,950.5	-12.6	4,934.5	5.4
Other expenses	1,504.9	1,884.2	-20.1	1,402.8	7.3
<b>Operating profit</b>	<b>10,202.1</b>	<b>6,615.7</b>	<b>54.2</b>	<b>9,266.9</b>	<b>10.1</b>
Interest expenses	3,307.6	2,532.3	30.6	2,984.6	10.8
Depreciation	7,055.0	5,493.4	28.4	6,940.8	1.6
Tax	-2,033.5	137.4	-	-1,037.9	-
<b>Reported net income</b>	<b>-5,237.0</b>	<b>107.3</b>	<b>-</b>	<b>-1,035.3</b>	<b>-</b>
<b>Adjusted net income</b>	<b>-187.4</b>	<b>-1,192.3</b>	<b>-</b>	<b>-1,112.3</b>	<b>-</b>
EPS (Rs.)	-0.3	-3.0	-	-2.2	-
<b>Margins (%)</b>			<b>bps</b>		<b>bps</b>
OPM	43.0	32.1	1,089	42.2	78
NPM (adjusted)	-0.8	-5.8	500	-5.1	428

Source: Company; Sharekhan Research

\*reported financials are not comparable on account of IndAS 116 implementation from April 1, 2019; The result for Q3FY20/Q4FY20 includes the impact of IndAS116 and the same is not comparable with the prior period results (Q4FY19).

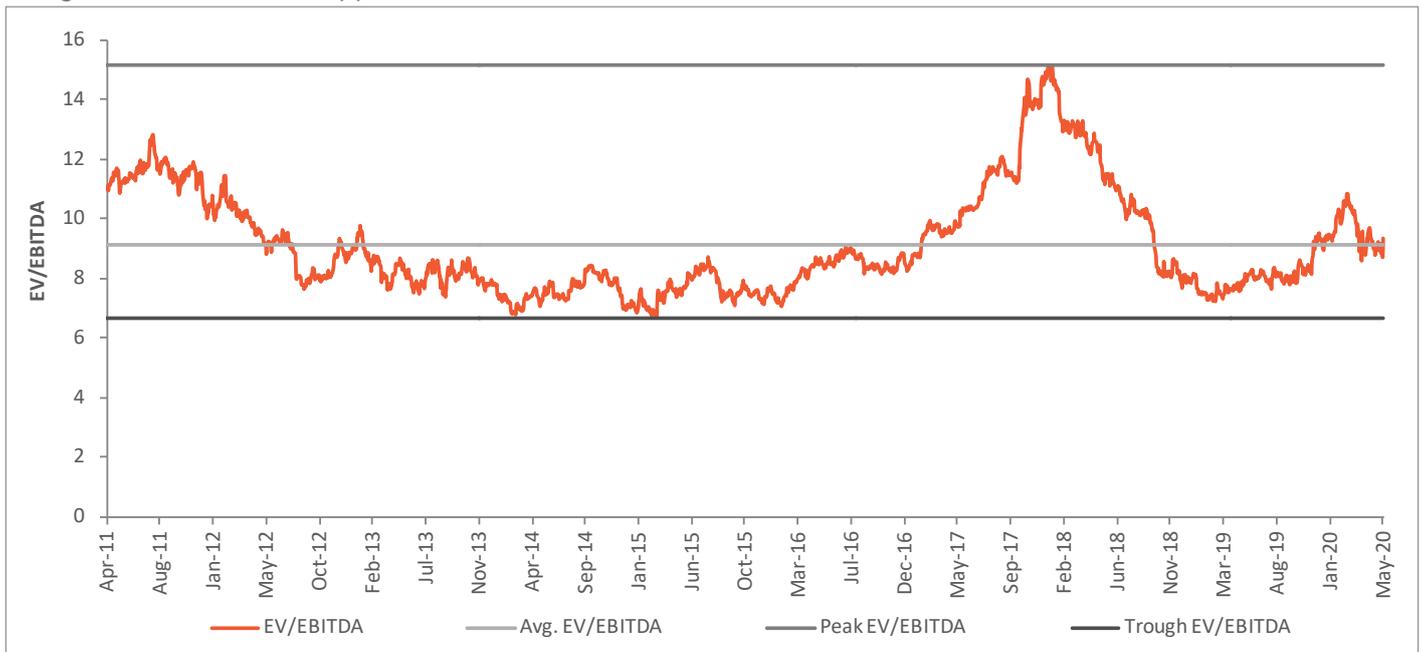
**Outlook**

Though Bharti Airtel will be able to withstand competition now, we believe that the company’s capex intensity will moderate in its wireless business and investments in contents. This would help Bharti improve its free cash flow in FY2021E. Higher digitisation would enable the company increase monetisation from digital assets and value-added services, reduce churn rate across verticals and improve wallet share from subscribers. With a comparatively a strong balance sheet and adequate network investments, Bharti is well-placed to capitalise on opportunities of a recovery in the industry.

**Valuation**

We have raised our earnings estimates for FY2021E/FY2022E as Q4FY2020 results beat estimates, addition of 4G customers stayed strong and continued improvement in ARPU. Further, the recent series of fund-raising in the last one year and potential asset sale alleviates the concerns on payment of regulatory charges/fees. We expect free cash flow of India wireless business to improve in FY2021E as the capex intensity is expected to moderate in near-term. In addition, Facebook’s strategic investment in Reliance Jio’s platform is expected to create monetization opportunities for other Indian telecom companies to leverage their digital platforms. We remain positive on Bharti, considering its steady EBITDA performance in a tough environment, scope for growth in the number of 4G subscribers and potential for further ARPU improvement. Hence, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 680.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

## About company

Established in 1995, Bharti Airtel is one of the leaders in the Indian mobile telephony space with operations in 18 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers. Airtel is a diversified telecom service provider offering wireless, mobile commerce, fixed line, home broadband, enterprise and DTH services. It expanded into Africa by acquiring Zain's Africa operations in 2010 and is present in 14 African markets. Bharti Airtel had over 420 million customers across its operations at the end of March 2020. It owns a 53.51% stake in Bharti Infratel, which in turn owns a 42% stake in Indus Towers.

## Investment theme

Revenue accretion from the 4G upgrade, minimum-ARPU plans (rolled out across India) and recent tariff hike helps the company to report improvement in ARPU. Further, the government's data localisation policies with increasing penetration of smartphones are likely to boost strong demand for data over medium-to-long term. Despite a predatory pricing strategy from new entrants since its commercial launch in September 2016, Bharti Airtel has been resilient in sustaining its revenue market share (RMS) as it has been drastically standardising its plans to retain customers and acquiring subscribers through M&A activities. In DTH, Bharti expects to maintain steady growth by adding new subscribers in rural areas by launching USB-enabled STBs, increasing reach in cities taking advantage of flat-screen TV upgrades and driving up ARPUs by selling OTT boxes and hybrid HD STBs. We believe the company is well-poised to deliver strong multi-year EBITDA growth phase given recent developments in the Indian wireless industry.

## Key Risks

1) Increasing competition could pressurise realisations; and 2) Slower growth in data volumes could affect data revenue growth.

## Additional Data

### Key management personnel

Sunil Mittal	Chairman
Gopal Vittal	MD & CEO (India and South Asia)
Raghunath Mandava	CEO (Africa)
Badal Bagri	Chief Financial Officer
Pankaj Tewari	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	GIC Private Limited	3.55
2	ICICI Prudential Asset Management	2.78
3	SBI Funds Management Pvt Ltd	1.98
4	Capital Group Companies	1.40
5	BlackRock Inc	1.33
6	Franklin Resources Inc	1.13
7	Franklin India Equity	1.05
8	ICICI Prudential Life Insurance Co	0.95
9	Vanguard Group Inc/The	0.89
10	Aditya Birla Sun Life Asset Management	0.84

Source: Bloomberg

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by BNP PARIBAS

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