

- ❑ Bharti Airtel Ltd. reported consolidated revenues of ₹237,227 million, up 15% year over year (y/y). The growth was driven by improved performance across segments including mobile services, Airtel business and tower infrastructure services.
- ❑ EBITDA improved 53.8% y/y to ₹101,652 million while EBITDA margin came in at 42.9%, up from 32.1% in the previous year quarter. Including exceptional items, the company reported net loss of ₹ 52,370 million compared to profit of ₹1,072 million in the previous year quarter.
- ❑ For FY20, revenues increased 8.4% y/y to ₹875,390 million. Net loss for the year stood at ₹321,832 million against a profit of ₹4,095 million in FY19. As of Mar 31, 2020, the company had 423 million customers, an increase of 4.9% y/y.
- ❑ Segment wise, India mobile revenues witnessed a solid growth of 21.8% y/y primarily driven by increase in 4G customer base, increase in post paid customers and improved tariffs. ARPU for Q4FY20 stood at Rs 154 as compared to Rs 123 in Q4FY19. Management believes that an ARPU of ₹154 remains inadequate to turn a reasonable return on capital as a company and expects ARPUs to reach Rs 200 in the short term and eventually to Rs 300, which is crucial for telecom business. The quarter witnessed decreased customer churn of 2.6% compared to 2.8% in corresponding quarter last year, and had 283.7 million customers as on Mar 31, 2020, compared to 283.0 million in the previous quarter. Voice traffic on the network grew 12.4% y/y to 822 billion minutes during the quarter as compared to 731 billion minutes in Q4FY19. Also, strong data customer additions along with increased bundle penetration led to data traffic growth of 74.2% y/y.
- ❑ Also, Digital TV revenue recorded strong growth of 16.9% y/y on an underlying basis, led by customer additions. As on March 31, 2020, the company had its Digital TV operations in 639 districts. DTH had 16.6 million customers at the end of the quarter, increasing 7.9% y/y.
- ❑ Further, Airtel Business registered double digit revenue growth of 12.4% y/y, reflecting company's increased focus on offering services to large enterprises and SMEs. Additionally, Homes business reported revenue growth of 3.4% y/y during the quarter. Management noted that the home business shows significant long term promise amid the new normal of work from home post the COVID situation.
- ❑ Regarding the tower infrastructure services, which reflect standalone operations of Bharti Infratel Ltd. with the interest in Indus Tower Ltd, revenues increased 0.7% y/y. Including the proportionate share of Indus in which Infratel holds 42% of stake, Infratel had 95,372 towers with an average sharing factor of 1.84 times as compared to 1.88 times in the corresponding quarter last year.

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- ❑ In terms of Africa business, revenues grew 17.7% y/y mainly due to continued strong performance in Nigeria and East Africa. As on March 31, 2020, the company had an aggregate customer base of 110.6 million as compared to 98.9 million in the corresponding quarter last year, an increase of 11.9% y/y. Total minutes on network during the quarter registered a growth of 30.3% y/y to 68.9 billion. Data customers during the quarter increased by 5.4million to 35.4 million as compared to 30.0 million in Q4FY19. Data customers now represent 32.0% of the total customer base.
- ❑ Capex spend during the quarter stood at ₹113,385 million, compared to 62,735 million in the previous year quarter. The surge was mainly due to significant investments in transport infrastructure particularly in electronics. The company remains focused on expanding networks, extending coverage particularly in rural areas, along with continued investments in data centers, home broadband and other lines of business. The company is also refarming almost all of its spectrum, hence all 3G spectrum is moving to 4G. Management expects moderation of capex in FY21 compared to FY20.
- ❑ In view of the COVID-19 scenario, the company introduced several innovative features including online acquisition, simplifying payments journeys, and launch of Work from Home solutions. Management noted that currently over 60% of the company's entire business goes through digital channels. Also, management noted that during the 45 to 50 days since Mar 15, 2020, the company has witnessed rapid growth in demand for home broadband, surge in the B2B side in terms of capacity that are required by many of the enterprises and a significant pressure at the lower end of the customer profile. Management expects continued growth in ARPU driven by upgradation of 2G/3G to 4G and acceleration in postpaid business.
- ❑ Recently, the company inked deal with global investment firm ,The Carlyle Group, under which the later will invest US\$235 million in Nxtra Data Limited, a wholly owned subsidiary of Bharti Airtel engaged in the data centre business. Post transaction, Carlyle will hold a stake of about 25% in the business while the remaining 75% stake will continue to be held by Bharti Airtel. The company looks to benefit from this investment given Carlyle's prior experience in data centre ownership through investments in Coresite in the US and Itconic in Spain.
- ❑ We believe Bharti Airtel is poised for decent ARPU growth for India Mobile business though there might be some short term impact on 4G subscriber additions. Also, revenue prospects look promising with improving performance in Africa business. Further, with revenue market share gain and decent network capacity compared to peers, the company is well placed for long term growth in the telecom space. Additionally, following several capital-raising activities, the company's financial position can withstand the dues related to the AGR issue which is pending before court. We have updated our estimates factoring in latest numbers and continue to remain positive on the stock with **HOLD** rating and target price of ₹625 per share.

## Consolidated Financials

| (In ₹ mn)               | Q4-FY20         | Q4-FY19      | Chg    | FY20             | FY19          | Chg    |
|-------------------------|-----------------|--------------|--------|------------------|---------------|--------|
| Net Sales               | 237,227         | 206,022      | 15.1%  | 875,390          | 807,802       | 8.4%   |
| Operating Expense       | 135,575         | 139,926      | -3.1%  | 510,481          | 551,943       | -7.5%  |
| EBITDA                  | 101,652         | 66,096       | 53.8%  | 364,909          | 255,859       | 42.6%  |
| Other Income            | 9,220           | 2,127        | 333.5% | 23,172           | 18,810        | 23.2%  |
| Depreciation            | 70,550          | 54,934       | 28.4%  | 276,896          | 213,475       | 29.7%  |
| EBIT                    | 40,322          | 13,289       | 203.4% | 111,185          | 61,194        | 81.7%  |
| Interest                | 41,302          | 26,743       | 54.4%  | 143,830          | 111,356       | 29.2%  |
| PBT                     | (980)           | (13,454)     | -92.7% | (32,645)         | (50,162)      | -34.9% |
| Tax                     | (20,335)        | 1,374        |        | (121,823)        | (34,193)      |        |
| Exceptional Items       | (70,040)        | 20,221       |        | (402,344)        | 29,288        |        |
| <b>PAT</b>              | <b>(50,685)</b> | <b>5,393</b> |        | <b>(313,166)</b> | <b>13,319</b> |        |
| Minority /Other Adj.    | (1,685)         | (4,321)      |        | (8,666)          | (9,224)       |        |
| <b>Consolidated PAT</b> | <b>(52,370)</b> | <b>1,072</b> |        | <b>(321,832)</b> | <b>4,095</b>  |        |

| Margins            | Q4-FY20 | Q4-FY19 | Chg BPS | FY20   | FY19  | Chg BPS |
|--------------------|---------|---------|---------|--------|-------|---------|
| Operating Margin % | 42.9%   | 32.1%   | 1077    | 41.7%  | 31.7% | 1001    |
| Net Margin %       | -21.4%  | 2.6%    | -2398   | -35.8% | 1.6%  | -3742   |

Source: Company, Anand Rathi Research

## Consolidated Financials:

| (In ₹ mn)         | FY-19        | FY-20            | FY-21E        | FY-22E        |
|-------------------|--------------|------------------|---------------|---------------|
| Net Sales         | 807,802      | 875,390          | 1,012,865     | 1,141,268     |
| Operating Expense | 565,767      | 509,295          | 547,747       | 593,460       |
| EBITDA            | 242,035      | 366,095          | 465,118       | 547,809       |
| Other Income      | 31,412       | 19,346           | 21,878        | 28,532        |
| Depreciation      | 213,475      | 276,896          | 310,555       | 340,787       |
| EBIT              | 59,972       | 108,545          | 176,440       | 235,553       |
| Interest          | 110,134      | 141,190          | 141,220       | 142,144       |
| Misc. items       | 29,288       | (402,344)        | -             | -             |
| PBT               | (20,874)     | (434,989)        | 35,221        | 93,409        |
| Tax               | (34,193)     | (121,823)        | 9,862         | 26,155        |
| Minority Interest | (9,224)      | (8,666)          | -             | -             |
| <b>PAT</b>        | <b>4,095</b> | <b>(321,832)</b> | <b>25,359</b> | <b>67,255</b> |

| Margins            | FY-19 | FY-20  | FY-21E | FY-22E |
|--------------------|-------|--------|--------|--------|
| Sales Growth%      | -2.2% | 8.4%   | 15.7%  | 12.7%  |
| Operating Margin % | 30.0% | 41.8%  | 45.9%  | 48.0%  |
| Net Margin %       | 0.5%  | -36.8% | 2.5%   | 5.9%   |

| (In ₹ mn)                   | FY-19            | FY-20            | FY-21E           | FY-22E           |
|-----------------------------|------------------|------------------|------------------|------------------|
| <b><u>Liabilities</u></b>   |                  |                  |                  |                  |
| Equity Share Capital        | 20,731           | 27,278           | 27,278           | 27,278           |
| Reserves & Surplus          | 693,491          | 744,170          | 769,529          | 836,784          |
| Total Shareholder's Funds   | 714,222          | 771,448          | 796,807          | 864,062          |
| Minority Interest           | 135,258          | 249,847          | 249,847          | 249,847          |
| Long-Term Liabilities       | 872,454          | 1,154,470        | 1,154,470        | 1,154,470        |
| Other Long-term Liabilities | 88,195           | 100,272          | 100,272          | 100,272          |
| Deferred Tax Liability      | (95,776)         | (274,371)        | (274,371)        | (274,371)        |
| Short-term Liabilities      | 930,134          | 1,314,876        | 1,367,068        | 1,435,757        |
| <b>Total</b>                | <b>2,644,487</b> | <b>3,316,542</b> | <b>3,394,093</b> | <b>3,530,037</b> |
| <b><u>Assets</u></b>        |                  |                  |                  |                  |
| Net Fixed Assets            | 2,104,657        | 2,335,378        | 2,378,237        | 2,475,145        |
| Long-Term L&A               | 73,331           | 74,181           | 74,181           | 74,181           |
| Non Current Investments     | 110,878          | 117,086          | 117,086          | 117,086          |
| Other Non-Current Assets    | 26,979           | 23,465           | 23,465           | 23,465           |
| Current Asset               | 328,642          | 766,432          | 801,124          | 840,160          |
| <b>Total</b>                | <b>2,644,487</b> | <b>3,316,542</b> | <b>3,394,093</b> | <b>3,530,037</b> |

| (In ₹ mn) | FY-19 | FY-20  | FY-21E | FY-22E |
|-----------|-------|--------|--------|--------|
| EPS (₹)   | 0.8   | (59.0) | 4.6    | 12.3   |
| P/B (x)   | 4.4   | 4.1    | 4.0    | 3.7    |
| P/E (x)   | 774.6 | NA     | 125.1  | 47.2   |
| ROE       | 0.6%  | -41.7% | 3.2%   | 7.8%   |

Source: Company, Anand Rathi Research

## Key Risks:

- ❑ Regulatory headwinds.



Rating and Target Price history:

BHARTI rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on July 5, 2020.

BHARTI rating details

| Date        | Rating | Target Price (₹) | Share Price (₹) |
|-------------|--------|------------------|-----------------|
| 5-May-2020  | BUY    | 625              | 529             |
| 5-July-2020 | HOLD   | 625              | 581             |
|             |        |                  |                 |
|             |        |                  |                 |
|             |        |                  |                 |

Source: Bloomberg, Anand Rathi Research



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| Ratings Guide (12 months)  | Buy | Hold    | Sell      |
|----------------------------|-----|---------|-----------|
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