

Bharti Airtel

Refer to important disclosures at the end of this report

India wireless beats expectations;
tariff hike is the next big triggerCMP: Rs 553
as of (July 30, 2020)TP: Rs 684 (▼)
12 months

Rating: BUY (■)

Upside: 23.6 %

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- Bharti reported a healthy performance, supported by a marginal fall in India wireless revenues. Better subscriber mix and the partial spillover impact of the Dec'19 tariff hike helped Bharti beat wireless revenue estimates.
- Operating leverage, despite a rise in employee cost, for the second quarter in a row boosted India margins. Management expects that some cost optimization achieved in Q1 would be sustainable. Cash generation was aided by healthy EBITDA and lower capex.
- A tariff hike is crucial to improve ARPU to Rs200-300 in the medium term. Management believes that the 5G ecosystem is yet to evolve and its deployment in India is still a couple of years away. The company has now fully provided Rs476bn towards AGR penalty.
- Our estimates are largely unchanged with a ~20% tariff hike in FY21E. Bharti showcased its subscriber quality with a healthy flow-thru of the tariff hike. The stock's outperformance hinges on a further tariff hike. We retain Buy with a SoTP-based TP of Rs684.

In-line operating performance: Consolidated revenue was stable sequentially, while EBITDA rose 2.4% and margins expanded 63bps. Enterprise services recorded a 6% decline in EBITDA sequentially, while home services' EBITDA rose 17%, boosted by changes in lease accounting. The DTH segment registered a double-digit increase in revenue, driven by a 17% qoq rise in ARPU. Average data usage per subscriber jumped 11%, while the blended churn rate declined to 2.2%, aided by the lockdown. Data customer base rose to 53.3% vs. 52.4% in Q4. India EBITDA rose 4.5% qoq, primarily due to the wireless segment, which registered a 3% rise and managed to expand its EBIT.

Outlook: Bharti continues to deliver a strong performance, with lower-than-estimated subscriber loss as well as a rise in 4G subscribers, albeit at a slower pace. Going forward, we expect the company to benefit from subscriber market share loss at hands of VIL, due to network challenges on account of its stressed financial situation. Although the performance of the Africa unit was dented by currency devaluation, Bharti remains on a strong footing with improving cash flows (Rs225bn FCF estimated over FY21-23E). We continue to highlight that a tariff hike in the imminent future is essential, given the financial stress in the sector. It is also vital for the stock's outperformance. A tariff hike and continued focus on tight cost control would lead to strong operating leverage. Key risks include: 1) any adverse regulatory regime; 2) lower-than-expected tariff hike; 3) weak macro environment, along with currency depreciation in the African markets; 4) additional bullet payment towards AGR penalty would impact liquidity and 5) earlier than anticipated 5G capex spends.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 13\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	8,07,802	8,75,391	10,34,685	11,33,464	12,13,263
EBITDA	2,58,189	3,64,824	4,72,402	5,55,250	6,03,961
EBITDA Margin (%)	32.0	41.7	45.7	49.0	49.8
APAT	(24,413)	80,513	5,718	1,17,432	1,84,731
EPS (Rs)	(4.5)	14.8	1.0	21.5	33.9
EPS (% chg)	(227.7)	0.0	(92.9)	1,953.8	57.3
ROE (%)	(2.7)	8.2	0.6	12.2	16.4
P/E (x)	(123.5)	37.5	527.5	25.7	16.3
EV/EBITDA (x)	16.0	11.5	9.6	7.7	6.5
P/BV (x)	3.2	3.0	3.4	2.9	2.5

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	(15.5)/(3)
Target Price change (%)	(0.1)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	1.0	21.5
Consensus	3.5	15.0
Mean Consensus TP (12M)	Rs 696	

Stock Details

Bloomberg Code	BHARTI IN
Face Value (Rs)	5
Shares outstanding (mn)	5,456
52 Week H/L	612 / 321
M Cap (Rs bn/USD bn)	3,016 / 40.30
Daily Avg Volume (nos.)	2,41,33,550
Daily Avg Turnover (US\$ mn)	181.7

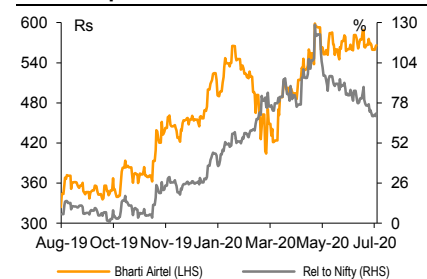
Shareholding Pattern Jun '20

Promoters	56.2%
FIIIs	20.2%
DIIIs	18.4%
Public and Others	5.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	7	13	60
Rel. to Nifty	(8)	(5)	22	60

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Q1FY21 performance

- India wireless revenues beat estimates (-0.6% qoq), driven by better-than-estimated ARPU and a lower-than-expected subscriber loss.
 - Subscriber mix improvement was impacted by the lockdown, leading to slower growth in the 4G subscriber base (+1.5% qoq to Rs138mn).
- Within the non-wireless business, the home services segment recorded strong EBITDA growth of 17% qoq on a favorable base. The DTH business recorded strong performance with revenue and EBITDA growth of 23% and 38% qoq, respectively.

Exhibit 1: India & South Asia business snapshot

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Total revenues	1,54,448	1,54,608	1,59,002	1,75,540	1,76,919	14.5	0.8
EBITDA	60,723	63,298	65,119	74,622	77,968	28.4	4.5
EBITDA / Total revenues	39.3%	40.9%	41.0%	42.5%	44.1%	478 bps	159 bps
EBIT	2,287	4,601	6,559	14,835	17,350	658.6	17.0
Profit before Tax	-20,536	-17,071	-12,097	-15,814	-143	(99.3)	(99.1)
Net Income	-13,982	-10,163	-8,799	-12,602	-1,487	(89.4)	(88.2)
Capex	43,542	27,576	41,155	95,476	34,749	(20.2)	(63.6)
Operating Free Cash Flow	17,181	35,723	23,964	-20,854	43,219	151.6	(307.2)
Cumulative Investments	28,38,517	29,03,597	29,38,934	29,78,435	30,10,127	6.0	1.1
Network sites							
India	1,82,600	1,85,582	1,89,857	1,94,409	1,96,145	7.4	0.9
of which broadband sites	1,77,141	1,81,825	1,88,591	1,92,068	1,94,205	9.6	1.1

Source: Company, Emkay Research

Financial performance

- Reported consolidated revenues stood at Rs239bn, up 1% qoq (in line with expectations). EBITDA rose 2.4% qoq to Rs104bn, implying a margin of 43.5% (+63bps qoq).
 - Operating leverage was restricted due to a lower-than-expected decline in India SG&A costs and a 12% qoq increase in employee costs.
- Consolidated net loss stood at Rs159.3bn, impacted by exceptional items of Rs117bn, largely on account of provisions toward AGR dues. Additionally, there was a reversal of current tax liability and a net deferred tax charge due to the adoption of a low tax rate.
- India Mobile:** Revenue reflects a lower-than-expected fall in underlying ARPU. EBITDA increased 2.8% qoq, with EBITDA margins expanding 140bps qoq to 40.6%.
 - Data volume increased 12% qoq with average usage per subscriber increasing 11% qoq to 16.7GB. Data customer base was stable at 149mn. Data customer as percentage of mobile customer was 53.3% vs. 52.4% in Q4FY20.
 - 4G data customer addition slowed down significantly with 1.9mn additions, while the overall 4G customer base stood at 138.3mn at the end of the quarter.
 - Blended churn rate dipped to 2.2%.
- Airtel Business (Enterprise):** EBITDA declined 6% qoq to Rs12.7bn, with EBITDA margin of 36.3% (-360bps qoq).
- Passive Infrastructure:** EBITDA fell 3% qoq, with revenues dropping 2% sequentially.
- Home Broadband:** Revenue was flat on a qoq basis, while EBITDA increased 17% as the last quarter was impacted by some one-off items.
- DTH:** Revenue and EBITDA rose 23% and 38% qoq, respectively. The rollout of new tariff order helped in improving market share.

Other highlights

- Net debt declined marginally to Rs1.16tn vs. Rs1.18tn in Q4FY20
- Consolidated capex stood at Rs39.8bn vs. Rs113.4bn in Q4FY20. India capex was at Rs34.4bn vs. Rs95.2bn in Q4FY20.

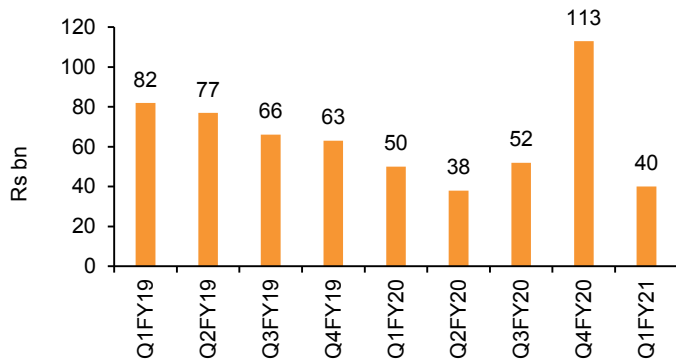
Exhibit 2: Net exceptional items in Q1FY21

Particulars	Rs bn
Provision for license fee and spectrum usage charge	107.4
Charge pertaining to re-assessment of levies	10.0
Taxation related	
Deferred tax asset related to a subsidiary, benefit due to adoption of Vivad se Vishwas scheme	36.4
Total	153.8

Source: Company, Emkay Research

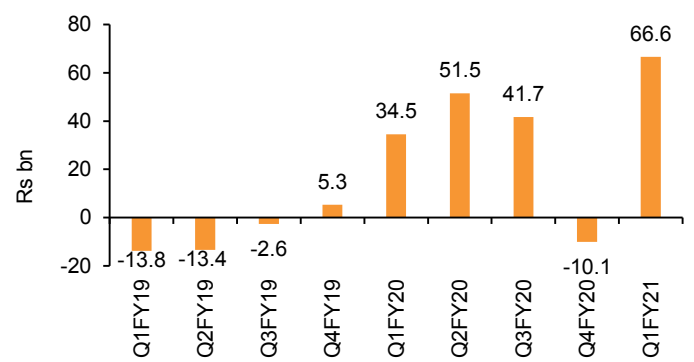
- Moderation in capex, as guided by management in the last few quarters, helped generate operating cash flow of Rs66.6bn.

Exhibit 3: Moderation in capex spends aided cash generation



Source: Company, Emkay Research

Exhibit 4: Operating free cash flow shall rise due to cut in capex



Source: Company, Emkay Research

Exhibit 5: Actual vs. Estimates (Q1FY21)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	2,39,387	2,38,473	2,37,755	0%	1%	In-line performance
EBITDA	1,04,079	1,02,527	1,03,188	2%	1%	
<i>EBITDA Margin</i>	43%	43%	43%	48 bps	8 bps	
PAT	-1,59,331	-3,189	(1,385)			Due to exceptional items of Rs117bn

Source: Company, Bloomberg, Emkay Research

Exhibit 6: Quarterly financials

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Mobile	1,65,190	1,70,075	1,75,504	1,95,620	1,94,373	17.7	(0.6)
Home services	5,705	5,475	5,546	5,725	5,785	1.4	1.0
Enterprise Total	32,080	33,312	33,177	33,762	35,019	9.2	3.7
Others	7,309	7,892	8,038	6,050	7,452	2.0	23.2
Passive Infrastructure	17,262	16,673	16,662	16,826	16,421	(4.9)	(2.4)
Total gross Sales	2,27,546	2,33,427	2,38,927	2,57,983	2,59,050	13.8	0.4
Intersegmental elimination	20,167	22,114	19,456	20,755	19,663	(2.5)	(5.3)
Net Sales	2,07,379	2,11,313	2,19,471	2,37,228	2,39,387	15.4	0.9
Access charge	25,627	26,389	27,109	28,270	28,011	9.3	(0.9)
<i>as % of sales</i>	12.4	12.5	12.4	11.9	11.7		
Network Operating	46,636	49,689	49,345	52,015	51,036	9.4	(1.9)
<i>as % of sales</i>	22.5	23.5	22.5	21.9	21.3		
Employee Expenses	8,641	9,464	9,651	10,316	11,566	33.9	12.1
<i>as % of sales</i>	4.2	4.5	4.4	4.3	4.8		
Marketing Expenses	25,743	20,404	23,031	24,404	23,927	(7.1)	(2.0)
<i>as % of sales</i>	12.4	9.7	10.5	10.3	10.0		
License Fee	18,391	16,995	17,877	20,570	20,768	12.9	1.0
<i>as % of sales</i>	8.9	8.0	8.1	8.7	8.7		
Total operating expenditure	1,25,038	1,22,941	1,27,013	1,35,575	1,35,308	8.2	(0.2)
EBITDA	82,341	88,372	92,458	1,01,653	1,04,079	26.4	2.4
Depreciation	67,587	69,351	69,408	70,550	72,268	6.9	2.4
EBIT	14,754	19,021	23,050	31,103	31,811	115.6	2.3
Other Income	2,945	3,466	3,715	9,220	4,805		
Interest	33,928	31,872	32,816	41,302	34,562	1.9	(16.3)
Non-operating expenses	14,694	3,07,110	10,500	70,040	1,17,457		
PBT	-30,923	-3,16,495	-16,551	-71,019	-1,15,403	(273.2)	(62.5)
Tax	-6,070	-85,039	-10,379	-20,335	38,175	728.9	287.7
PAT before MI	-24,853	-2,31,456	-6,172	-50,684	-1,53,578	(517.9)	(203.0)
Minority interest	4,738	2,148	5,704	2,600	7,419	56.6	185.3
PAT after MI	-29,591	-2,33,604	-11,876	-53,284	-1,60,997	(444.1)	(202.1)
share of associates	931	3,155	1,523	915	1,666	78.9	82.1
PAT	-28,660	-2,30,449	-10,353	-52,369	-1,59,331	(455.9)	(204.2)

Margins (%)					(bps)	(bps)	
EBIDTA	39.7	41.8	42.1	42.9	43.5	377	63
EBIT	7.1	9.0	10.5	13.1	13.3	617	18
EBT	(14.9)	(149.8)	(7.5)	(29.9)	(48.2)	(3,330)	(1,827)
PAT	(13.8)	(109.1)	(4.7)	(22.1)	(66.6)	(5,274)	(4,448)
Effective Tax rate	19.6	26.9	62.7	28.6	(33.1)	(5,271)	(6,171)

Source: Company, Emkay Research

Africa operations – Q1FY21 financial performance

- Consolidated revenue stood at US\$851mn (+6.9% yoy and -5.3% qoq), with EBITDA at US\$375mn (+7.8% yoy and -5.5% qoq) and margin at 44.1% (+35bps yoy).
 - Adjusted for currency devaluation, revenue and EBITDA remained flat qoq, which was marginally below our estimates.
- Voice revenue dropped 3.4% yoy but rose 2.2% in CC terms. Voice ARPU declined 8.1% yoy in CC terms to US\$1.4, impacted by a drop in interconnect usage charges across key markets in East Africa and Francophone Africa.
- Data revenue increased 36% yoy in CC terms, driven by data customer growth of 23.2% yoy and higher data usage per customer, up 68% yoy.
 - During the period, overall data usage doubled, supported by an expansion of 4G networks and data bundle offerings, thereby resulting in data ARPU growth of 13.7% yoy in CC terms.
 - Data revenue accounted for 31.1% of total revenue, up from 26% in Q1FY20 on CC basis.
- PAT declined to US\$42mn vs. US\$125mn in Q1FY20, primarily due to higher finance cost and a one-off gain in the base quarter.
 - The net finance cost increased \$17mn, mainly due to the impact of devaluation of Zambian Kwacha, Madagascar Ariary and Seychelles Rupee.
- **Tax:** The total tax charge increased due to higher operating profit and withholding tax on dividends declared in the base quarter.

Exhibit 7: Consolidated Airtel Africa financials (in reported terms)

Particulars (USD mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Total revenue	796	844	883	899	851	6.9	(5.3)
EBITDA	348	372	399	397	375	7.8	(5.5)
EBITDA margin	43.7%	44.1%	45.2%	44.2%	44.1%		
Net Income	125	90	90	65	42	(66.4)	(35.4)
Capex	99	147	150	246	66	(33.3)	(73.2)
Operating FCF (EBITDA - Capex)	248	225	249	151	309	24.6	104.6

Source: Company, Emkay Research

Consolidated KPIs (Africa)

- The subscriber base was up 11.8% yoy at 111.5mn vs 110.6mn in Q4FY20. Data customer base stood at 36.9mn (33.2% of subscriber base) vs. 30mn in Q1FY20. ARPU at \$2.6, declined 7% qoq (vs. our estimate of flat qoq).
- Mobile money revenue increased 20% yoy on a reported basis, driven by growth in the customer base (+26.9%) and in the transaction value (+33.9%). Customer base growth was boosted by expansion of the distribution network.
- Total Capex was US\$66mn vs. US\$99mn in Q1FY20.
- Net debt as of Q1FY21-end was US\$3.4bn vs. US\$4bn in Q1FY20. Net debt to EBITDA was at 2.2x, compared to 2.1x in Q4FY20 and 3x in Q1FY20.

Nigeria

- Revenues from Nigeria were at US\$341mn in Q1, up 9% yoy but down 9.5% qoq, as a result of the devaluation in Nigerian naira.
 - The slowdown in revenue growth in Q1 was driven by the restriction on movements imposed due to Covid-19, which impacted customer usage, particularly in voice.
- Data revenue was up 40% in CC terms and it remained the largest contributor to revenue growth.
- Nigeria incurred capex of US\$30mn, which was substantially lower due to the lockdown.

Exhibit 8: Nigeria performance (in reported terms)

Particulars (USD mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Total revenues	311	327	355	377	341	9.0	(9.5)
EBITDA	165	174	194	209	182	10.3	(12.9)
<i>EBITDA margin</i>	53.1%	53.2%	54.6%	55.4%	53.4%	32	(207)
Capex	53	62	64	145	30	(43.6)	(79.3)
Operating FCF (EBITDA - Capex)	113	112	130	64	152	34.5	137.5

Source: Company, Emkay Research

East Africa

- Reported revenue in East Africa increased 10.1% yoy (CC growth of 17.5%).
- Voice revenue was up 7.9% in CC terms, largely driven by customer growth of 13.3% and increased usage per customer of 22.5% yoy.
- In June, Airtel Malawi was allocated a spectrum of 10MHz in the 2600 band for an annual fee of \$0.3mn.

Exhibit 9: East Africa performance (in reported terms)

Particulars (USD mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Total revenues	277	301	313	310	305	10.3	(1.6)
EBITDA	111	123	127	125	129	16.6	3.2
<i>EBITDA margin</i>	40.0%	40.9%	40.6%	40.3%	42.3%	231	197
Capex	30	30	61	61	19	(36.2)	(68.9)
Operating FCF (EBITDA - Capex)	81	93	66	64	110	36.1	71.9

Source: Company, Emkay Research

Rest of Africa

- Reported revenue was flat on a yoy basis, while CC growth was offset by currency devaluation.
- Mobile money revenue increased 16.8%, impacted by the lockdown.
- Capital expenditure was US\$16mn in Q1.

Exhibit 10: Rest of Africa performance (in reported terms)

Rest of Africa (USD mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
Total revenues	209	217	218	215	209	0.1	(2.8)
EBITDA	64	76	82	70	74	15.3	5.7
<i>EBITDA margin</i>	30.8%	35.0%	37.6%	32.6%	35.4%	464	285
Capex	14	54	24	40	16	12.7	(60.0)
Operating FCF (EBITDA - Capex)	50	22	57	31	58	16.0	87.1

Source: Company, Emkay Research

Estimate changes

While our revenue and EBITDA numbers are largely unchanged, we have tweaked our PAT estimates on account of 1) higher minority interest, 2) increase in interest outgo due to a rise in debt and 3) higher tax adjustment.

Exhibit 11: Change in estimates

Particulars	FY21E			FY22E			FY23E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
Revenue	10,38,566	10,34,685	-0.4	11,23,489	11,33,464	0.9	12,10,334	12,13,263	0.2
EBITDA	4,63,642	4,72,402	1.9	5,44,309	5,55,250	2.0	5,95,300	6,03,961	1.5
EBITDA Margin %	44.6	45.7	101 bps	48.4	49.0	54 bps	49.2	49.8	60 bps
APAT	49,854	42,150	-15.5	1,21,486	1,17,432	-3.3	1,80,335	1,84,731	2.4
EPS	9.1	7.7	-15.5	22.3	21.5	-3.3	33.1	33.9	2.4

Source: Company, Emkay Research

Exhibit 12: Key revenue assumptions

Rs mn	FY19	FY20	FY21E	FY22E	FY23E
India and Asia					
Mobile	4,19,977	4,64,216	5,82,571	6,55,610	7,15,072
Home Service	22,391	22,451	24,005	26,278	26,695
Airtel business	1,24,537	1,32,330	1,42,287	1,53,245	1,62,440
Passive	68,185	67,424	65,768	68,008	71,741
Others	41,904	29,238	31,197	33,205	35,748
Africa	2,23,463	2,42,170	2,68,125	2,81,389	2,92,619
Total gross revenue	9,00,457	9,57,830	11,13,947	12,17,735	13,04,315
Less: Eliminations	92,655	82,439	79,267	84,271	91,053
Net Revenue	8,07,802	8,75,391	10,34,685	11,33,464	12,13,263

Source: Company, Emkay Research

Valuation

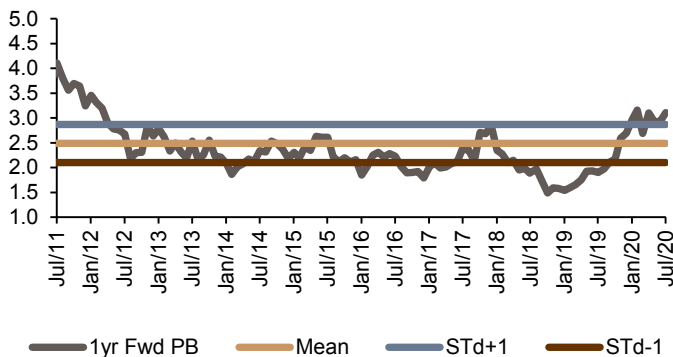
We roll forward valuations to Sept'22E, while our TP remains unchanged due to an increase in debt, with additional Rs107bn provisions toward AGR dues. We have accounted for the AGR penalty (provisioned amount) as debt.

Exhibit 13: SOTP-based valuation

	Sept'22
Core India business (ex-towers, ex-Africa)	
Enterprise value (Rs mn)	46,20,650
EBITDA (Rs mn)	4,16,275
EV/EBITDA (x)	11
Bharti Infratel valuation	
Current market cap (Rs mn)	2,49,298
Bharti's shareholding (%)	53.0%
Infratel net debt (Rs mn)	19,974
EV (Rs mn)	1,42,714
Equity Value	1,32,128
Per Share value (Rs)	25
India EV (Rs mn)	
	46,20,650
Net debt – including lease liabilities (Rs mn)	12,00,438
Equity value - India business (Rs mn)	34,20,213
Per share value (Rs)	630
Africa business valuation	
Enterprise value (Rs mn)	5,13,540
EBITDA (Rs mn)	1,28,385
EV/EBITDA (x)	4.0
Net debt - (Rs mn)	2,34,500
Equity value (Rs mn)	2,79,040
Bharti's stake	54%
Per share value – Africa (Rs)	28
Target Price (Rs)	
	684

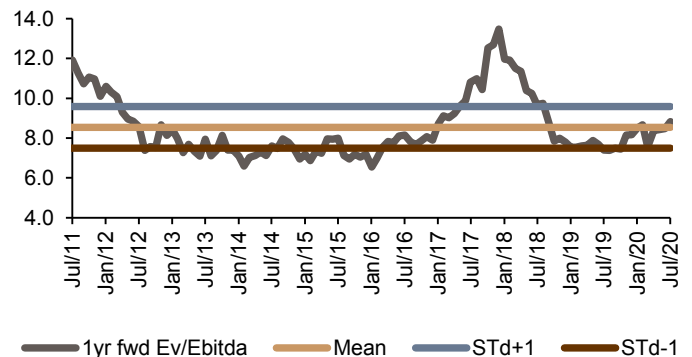
Source: Company, Emkay Research

Exhibit 14: 1-year forward P/B valuation band



Source: Company, Emkay Research

Exhibit 15: 1-year forward EV/EBITDA valuation band



Source: Company, Emkay Research

Conference call highlights

- **India Mobile:** Revenues were impacted by an absence of International revenues, SIM consolidation at bottom-of-the-pyramid subscribers and slowdown in 4G net additions.
 - The company continues to gain 4G subscriber share in Q1. The impact of the tariff hike is fully reflected, with the majority of it seen in Q4.
 - Smartphone shipments are back to pre-Covid-19 levels and almost all the stores are now operational.
 - Weekends recharges were weak during Q1, and were also impacted in July by stringent lockdowns.
 - The subscriber loss of 3.8mn was mostly from the bottom pyramid subscribers. Management reiterated that ARPU will move to Rs200 and eventually to Rs300 in the medium to long term. This will be driven by tariff hikes and not be dependent on organic increase through subscriber mix.
 - Temporary disconnection in corporate customers (MSME) marginally impacted post-paid numbers, while there is strong traction in the retail segment on postpaid additions.
 - **For Q2FY20:** Subscriber decline has stopped and growth has started. International revenue will not grow soon.
 - The commercial use of 5G is still a couple of years away due to inadequate ecosystem. Bharti is working with partners on the 5G ecosystem. It finds the 5G spectrum prices unaffordable.
 - Management does not expect 5G device prices to fall substantially in the near term.
 - The company has enough spectrum in 1,800Mhz and most of the circles, where renewal is coming up, is for 1800MMhz. In order to increase capacity, there could be some purchases on 2,300Mhz but that will come at a minimal payout.
- **Management is working on four fronts to drive growth:** 1) data-trust on data integrity, 2) distribution, 3) payments, and 4) network. High quality customers with transaction value will drive ad revenues going forward. Management stated that Bharti is working with various partners and it has seen ad revenues starting to flow (although at slower pace).
 - The company has 1500 digital teams working on Ad revenues, alliances and partnership and building products and services.
- **Home broadband:** There is increased demand and installations while many existing subscribers also want to let go their connection or want it at extremely low monthly ARPU.
 - ARPU is expected to remain at Q1 levels.
 - In Q1, opex was lower and depreciation is higher on account of IFRS lease accounting, which even out on EBIT. EBITDA margins are expected to remain in the range of range of 55-60%.
 - Bharti is doubling the partnerships LCOs, given a huge opportunity on home broadband in smaller towns. Bharti is positively surprised with traction seen in 14 cities where the services are live with LCOs. Airtel manages the network, after sales and payments, while last mile is managed by LCOs. The cost of operations is lower than top-50 cities.
- **Enterprise:** Growth is driven by conferencing solution, data centers, cyber securing and WFH, while there is pressure from MSMEs as their businesses are impacted.
 - Opportunity is big on connectivity (core segment) with increased demand. The company has strong relationship with 2,000 large corporates and the company wants to increase the wallet share by becoming the One-Stop-Shop (conferencing services, cyber security, both private, public and edge cloud, data centers).
- **Costs:** Covid-19 has led to further cost savings and margin expansion in India wireless EBITDA.
 - Acceleration to digital channels has reduced channel spends, rental negotiation, lower marketing spends and lower SAC (although one-off).
 - Customer service costs have been lowered with revamped IVRS and apps. Despite full operationalization of call centers, the number of customer calls have not reached pre-Covid-19 levels.
- **AGR:** Funding AGR dues is not a challenge. Strong EBITDA increase and moderation in capex would lead to better cash flows and might not be detrimental on company ratings.
 - The company could monetize fibre assets if the need arises. Deleveraging would continue with potential of strong cash generation.
 - The stake sale in BHIN is not necessary in the near term and if it has to happen, it will happen only post-merger.

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	8,07,802	8,75,391	10,34,685	11,33,464	12,13,263
Expenditure	5,49,613	5,10,567	5,62,283	5,78,214	6,09,301
EBITDA	2,58,189	3,64,824	4,72,402	5,55,250	6,03,961
Depreciation	2,13,475	2,76,896	2,88,775	2,97,574	3,06,943
EBIT	44,714	87,928	1,83,627	2,57,676	2,97,018
Other Income	2,912	19,346	16,805	17,000	18,000
Interest expenses	97,008	1,39,918	1,32,018	1,20,006	90,063
PBT	(49,382)	(32,644)	68,414	1,54,670	2,24,955
Tax	(34,193)	(1,21,823)	49,363	25,901	30,709
Extraordinary Items	28,508	(4,02,344)	(1,17,457)	0	0
Minority Int./Income from Assoc.	(12,780)	(15,190)	(19,419)	(18,000)	(18,000)
Reported Net Income	4,095	(3,21,831)	(1,11,739)	1,17,432	1,84,731
Adjusted PAT	(24,413)	80,513	5,718	1,17,432	1,84,731

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	19,987	27,278	27,278	27,278	27,278
Reserves & surplus	9,29,740	9,79,923	8,69,132	9,99,292	11,93,421
Net worth	9,49,727	10,07,201	8,96,410	10,26,570	12,20,699
Minority Interest	1,35,258	2,49,847	2,69,266	2,87,266	3,05,266
Loan Funds	12,54,283	14,82,281	17,38,403	14,74,647	11,31,016
Net deferred tax liability	11,297	16,877	16,877	16,877	16,877
Total Liabilities	23,50,565	27,56,206	29,20,955	28,05,360	26,73,858
Net block	21,04,657	23,35,378	24,49,346	23,37,264	21,95,470
Investment	1,57,110	2,54,765	2,54,765	2,54,765	2,54,765
Current Assets	4,90,208	10,17,647	9,60,253	9,96,017	10,63,749
Cash & bank balance	81,055	1,58,927	58,839	56,665	81,936
Other Current Assets	3,61,732	8,08,260	8,40,218	8,77,852	9,11,848
Current liabilities & Provision	4,01,410	8,51,584	7,43,409	7,82,686	8,40,126
Net current assets	88,798	1,66,063	2,16,844	2,13,331	2,23,623
Misc. exp	0	0	0	0	0
Total Assets	23,50,565	27,56,206	29,20,955	28,05,360	26,73,858

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	(52,294)	(51,990)	51,609	1,37,670	2,06,955
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(1,12,284)	6,187	(1,50,869)	1,339	14,979
Operating Cashflow	2,18,261	2,23,605	36,167	4,26,346	5,16,652
Capital expenditure	(3,48,616)	(5,07,617)	(4,02,743)	(1,85,492)	(1,65,149)
Free Cash Flow	(1,30,355)	(2,84,012)	(3,66,576)	2,40,854	3,51,504
Investments	4,476	(97,655)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(3,41,228)	(5,85,926)	(3,85,938)	(1,68,492)	(1,47,149)
Equity Capital Raised	0	7,291	0	0	0
Loans Taken / (Repaid)	1,40,948	2,27,998	2,56,122	(2,63,756)	(3,43,631)
Dividend paid (incl tax)	(11,692)	(12,766)	(12,766)	(12,766)	(12,766)
Other Financing Cash Flow	1,71,744	4,38,643	2,97,273	1,95,339	1,58,893
Financing Cashflow	2,01,684	5,21,248	4,08,611	(2,01,189)	(2,87,567)
Net chg in cash	78,717	1,58,927	58,839	56,665	81,936
Opening cash position	66,706	81,055	1,58,927	58,839	56,665
Closing cash position	81,055	1,58,927	58,839	56,665	81,936

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	32.0	41.7	45.7	49.0	49.8
EBIT Margin	5.5	10.0	17.7	22.7	24.5
Effective Tax Rate	69.2	373.2	72.2	16.7	13.7
Net Margin	(1.9)	10.2	1.8	11.4	16.0
ROCE	2.1	4.2	7.1	9.6	11.5
ROE	(2.7)	8.2	0.6	12.2	16.4
RoIC	2.2	3.9	7.4	10.1	12.3

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	(4.5)	14.8	1.0	21.5	33.9
CEPS	34.7	65.5	54.0	76.1	90.1
BVPS	174.1	184.6	164.3	188.2	223.8
DPS	1.8	2.0	2.0	2.0	2.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	(123.5)	37.5	527.5	25.7	16.3
P/CEPS	16.0	8.4	10.2	7.3	6.1
P/BV	3.2	3.0	3.4	2.9	2.5
EV / Sales	5.1	4.8	4.4	3.8	3.2
EV / EBITDA	16.0	11.5	9.6	7.7	6.5
Dividend Yield (%)	0.3	0.4	0.4	0.4	0.4

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	1.2	1.2	1.7	1.2	0.7
Net Debt/EBIDTA	4.3	3.2	3.2	2.3	1.5
Working Cap Cycle (days)	3.5	3.0	55.7	50.4	42.6

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	(2.2)	8.4	18.2	9.5	7.0
EBITDA	(14.2)	41.3	29.5	17.5	8.8
EBIT	(58.7)	96.6	108.8	40.3	15.3
PAT	(62.7)	(7,959.1)	0.0	0.0	57.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	2,07,379	2,11,313	2,19,471	2,37,228	2,39,387
EBITDA	82,341	88,372	92,458	1,01,653	1,04,079
EBITDA Margin (%)	39.7	41.8	42.1	42.9	43.5
PAT	(28,660)	(2,30,449)	(10,353)	(52,369)	(1,59,331)
EPS (Rs)	(5.3)	(42.2)	(1.9)	(9.6)	(29.2)

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-19	Dec-19	Jan-20	Mar-20	Jun-20
Promoters	62.7	62.7	59.0	59.0	56.2
FII's	22.3	16.4	19.4	20.3	20.2
DII's	13.2	14.2	15.5	15.8	18.4
Public and Others	1.8	6.8	6.2	4.9	5.3

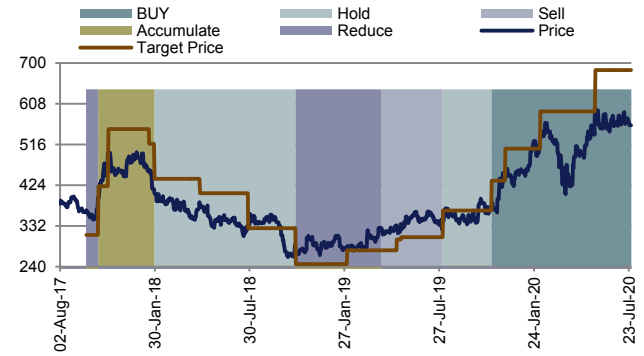
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
05-Jul-20	581	684	12m	Buy	Naval Seth
20-Jun-20	573	684	12m	Buy	Naval Seth
20-May-20	594	684	12m	Buy	Naval Seth
10-Mar-20	496	591	12m	Buy	Naval Seth
05-Feb-20	533	591	12m	Buy	Naval Seth
30-Dec-19	461	507	12m	Buy	Naval Seth
30-Nov-19	442	507	12m	Buy	Naval Seth
22-Nov-19	421	434	12m	Buy	Naval Seth
15-Nov-19	393	434	12m	Buy	Naval Seth
04-Nov-19	378	434	12m	Buy	Naval Seth
18-Sep-19	336	367	12m	Hold	Naval Seth
03-Aug-19	344	367	12m	Hold	Naval Seth
25-Jun-19	349	307	12m	Sell	Naval Seth
09-Jun-19	357	307	12m	Sell	Naval Seth
15-May-19	331	307	12m	Sell	Naval Seth
07-May-19	325	302	12m	Sell	Naval Seth
08-Apr-19	326	277	12m	Sell	Naval Seth
01-Feb-19	286	277	12m	Reduce	Naval Seth
27-Nov-18	301	246	12m	Reduce	Naval Seth
26-Oct-18	274	246	12m	Reduce	Naval Seth
29-Aug-18	344	327	12m	Hold	Naval Seth
27-Jul-18	335	327	12m	Hold	Naval Seth
26-Apr-18	376	406	12m	Hold	Naval Seth
26-Feb-18	389	439	12m	Hold	Naval Seth
29-Jan-18	405	439	12m	Hold	Naval Seth
19-Jan-18	457	518	12m	Accumulate	Naval Seth
24-Nov-17	456	551	12m	Accumulate	Naval Seth
02-Nov-17	499	551	12m	Accumulate	Naval Seth
14-Oct-17	396	422	12m	Accumulate	Naval Seth
21-Sep-17	367	312	12m	Reduce	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Telecommunications



Analyst: Naval Seth

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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 12 years of experience in equity research. His team currently covers 18 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Telecommunications	2.66	2.66	0%	0	100.00
Bharti Airtel	2.27	2.41	6%	14	90.64
Bharti Infratel	0.28	0.25	-11%	-3	9.36
Tata Communications*	0.00	0.00	NA	0	0.00
Vodafone Idea	0.11	0.00	-100%	-11	0.00
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

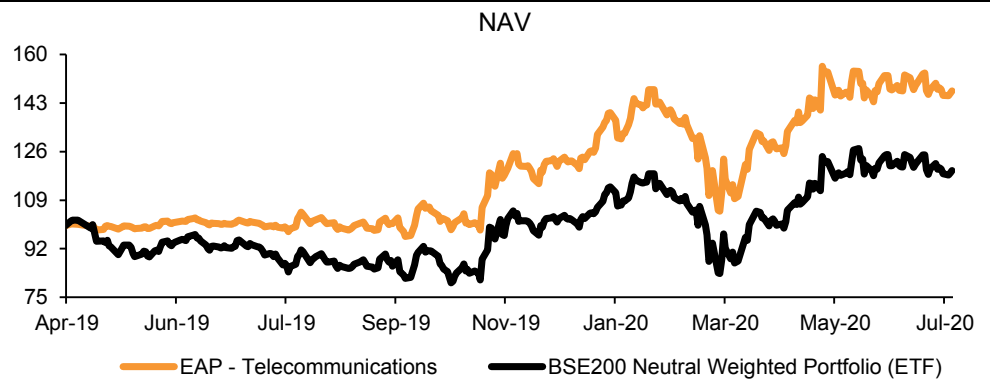
Sector portfolio NAV

	Base					Latest
	1-Apr-19	27-Oct-19	29-Jan-20	29-Apr-20	29-Jun-20	29-Jul-20
EAP - Telecommunications	100.0	101.7	130.7	128.1	149.1	147.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	84.0	107.4	101.4	122.6	119.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 31 Jul 2020 10:52:56 (SGT)

Dissemination Date: 31 Jul 2020 10:53:56 (SGT)

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