

Outlook clouded by Voda Idea pain...

Bharti Infratel reported another muted performance. Revenues (on a proportionate consolidation basis) came in at ₹ 3505 crore, up 3.3% QoQ with energy revenues, down 8.1% QoQ, at ₹ 1262 crore. Core rental revenues came in at ₹ 2243 crore, down 0.4% QoQ. The company reported net decline of 365 co-locations on a consolidated basis. EBITDA came in at ₹ 1767 crore, up 4% QoQ, with EBITDA margins at 50.4% (up 355 bps QoQ). We note that Q4FY20 had one-off provision for debtors of ~₹ 193 crore, adjusting for same like to like EBITDA declined 6.6% QoQ. The EBITDA was also impacted by energy margins wherein it recorded negative margins of 2%, as the tenants have moved to pass through. Reported PAT came in at ₹ 703.6 crore (up 8.3% QoQ).

Tenancy decline led by Voda Idea exits

On a gross basis, the company added 863 tenancies while gross exits were 1228. Consequently, Infratel reported a net decline of 365 co-locations on a consolidated basis vs. our expectation of addition of 1000 tenancies. Moreover, there are 3474 collocations where actual exits are yet to happen despite exit notice. Most importantly, Vodafone Idea's going concern status remains a key risk given the pain of AGR payout. We also note risk of further exit persists if Vodafone Idea survives as it may just focus on profitable circles. Nevertheless, we build in tepid gross tenancy addition ahead, given the measured approach of incumbents in expansion. Hence, we build in 185538 net co-locations in FY22 vs. current co-location count of 174216. We expect reported rentals to witness to witness 2.2% CAGR (flattish on a like-to-like basis) over FY20-22E to ₹ 9428 crore, driven by exit penalties.

Merger continues to be delayed...

Despite all approvals, we note that the company has now extended the deadline for closing the deal till August 31, 2020 as both parties have been unable to close the agreement due to disruption from the lockdown as well AGR uncertainty. Furthermore, each party has the right to terminate the deal within the period. We believe that with uncertainty lurking on Vodafone Idea's operation on account of GAR pain, the merger continues to face a roadblock.

Valuation & Outlook

The key risk for Infratel is on tenancy growth concerns and possibly in worst case, Vodafone Idea's survival (it is an anchor tenant). While there are large opportunities in adjacent areas over the long term (viz small cells/smart cities/in building solutions/active network sharing), near/medium term challenges cannot be ruled out. Therefore, we maintain our **HOLD** recommendation with a target price of ₹ 180/share. Our target price implies 5x FY22E EV/EBITDA.

Key Financial Summary

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales (₹crore)	14,489.6	14,582.3	14,647.2	14,225.9	14,552.2	(0.3)
EBITDA (₹crore)	6,380.1	6,001.2	7,350.0	7,417.7	7,661.4	2.1
Net Profit (₹crore)	2,493.7	2,493.8	3,298.7	3,082.5	3,210.9	(1.3)
EPS (₹)	13.5	13.5	17.8	16.7	17.4	
P/E (x)	14.1	14.1	10.7	11.4	11.0	
Price / Book (x)	2.1	2.4	2.6	2.7	2.8	
EV/EBITDA (x)	4.8	5.7	5.7	5.6	5.3	
RoCE (%)	21.1	21.2	18.1	19.8	21.7	
RoE (%)	14.7	17.2	24.4	23.7	25.5	

Source: Company, ICICI Direct Research



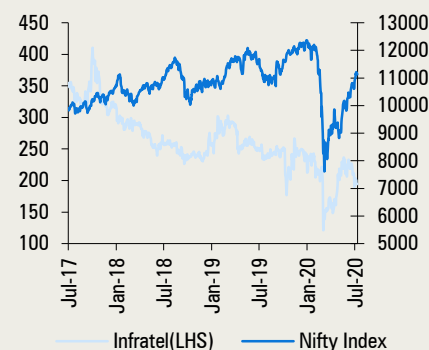
Particulars

Particulars	Amount
Market Capitalization (₹crore)	35,234.9
Total Debt (₹crore)	4,011.1
Cash & Investments (₹crore)	3,980.9
EV (₹crore)	35,265.1
52 week H/L (₹)	297/ 120
Equity capital (₹crore)	1,849.6
Face value (₹)	10.0

Key Highlights

- Q1 performance muted with tenancy exits led by Voda Idea and EBITDA impacted by negative spread in energy revenues
- Maintain HOLD recommendation with revised target price of ₹ 180/share

Price Chart



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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	Q4FY20	YoY (%)	QoQ (%)	Comments
Revenue	3,504.7	3,600.2	3,711.9	3,624.4	-5.6	-3.3	Lower revenues owing to lower energy revenues
Other Income	23.9	55.0	65.1	57.6	-63.3	-58.5	
Employee Expenses	133.7	124.5	118.4	129.9	12.9	2.9	
Power and Fuel	1,287.0	1,330.0	1,373.6	1,291.6	-6.3	-0.4	
Rent	0.0	0.0	0.0	0.0			
Other Expenses	150.1	144.0	174.1	311.4	-13.8	-51.8	
Repairs and Maintenance	166.7	184.9	150.3	192.5	10.9	-13.4	
EBITDA	1,767.2	1,816.8	1,895.5	1,699.0	-6.8	4.0	
EBITDA Margin (%)	50.4	50.5	51.1	46.9	-64 bps	355 bps	
Depreciation	705.7	775.0	742.5	765.7	-5.0	-7.8	
Interest	142.5	120.0	112.5	124.7	NM	NM	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	239.3	246.1	218.6	216.7	9.5	10.4	
PAT	703.6	730.6	887.0	649.5	-20.7	8.3	Topline miss percolated to bottomline
Towers (Consolidated)	95,801	95,604	92,277	94,244	3.82	1.65	
Tenancy Ratio (x) (Consolidated)	1.82	1.83	1.88	1.85	-3.0	-1.5	
Sharing revenue per tower p.m	78,219	77,814	76,159	81,113	2.70	-3.57	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Revenue	14,663.0	14,225.9	-3.0	14,878.3	14,552.2	-2.2
EBITDA	7,448.0	7,417.7	-0.4	7,567.4	7,661.4	1.2
EBITDA Margin (%)	50.8	52.1	135 bps	50.9	52.6	179 bps
PAT	2,939.2	3,082.5	4.9	2,927.3	3,210.9	9.7
EPS (₹)	15.9	16.7	4.9	15.8	17.4	9.7

Source: Company, ICICI Direct Research

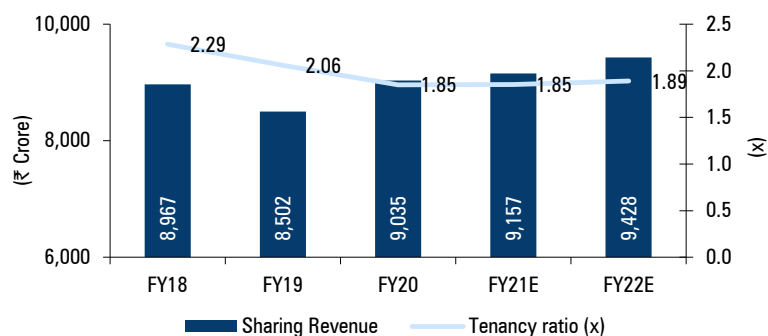
Exhibit 3: Assumptions

	Current				Earlier	
	FY18	FY19	FY20	FY21E	FY21E	FY22E
Bharti Infratel Standalone						
Towers (No.)	39,523	40,388	42,053	42,721	43,236	42,560
Tenancy Ratio (x)	2.26	2.06	1.84	1.82	1.85	1.82
Total Co-locations (No.)	88,665	76,341	75,715	78,440	80,967	78,180
Sharing revenue per tower	86,253	82,622	85,537	84,268	85,465	83,950
Sharing Revenue (₹Crore)	4,068.8	3,961.5	4,231.0	4,286.2	4,407.8	4,261.9
Indus Towers						
Towers (No.)	123,639	123,546	126,949	128,056	129,084	127,968
Tenancy Ratio (x)	2.30	2.05	1.86	1.88	1.92	1.88
Total Co-locations (No.)	278,408	229,483	235,396	244,597	248,980	244,408
Sharing revenue per tower	78,892	72,889	76,108	75,797	77,474	76,222
Sharing Revenue (₹Crore)	11,661.9	10,810.2	11,438.8	11,597.2	11,953.0	11,658.2
Bharti Infratel Consolidated						
Towers (No.)	91,451	92,277	95,372	96,505	97,451	96,306
Tenancy Ratio (x)	2.29	2.06	1.85	1.85	1.89	1.85
Total Co-locations (No.)	205,596	172,724	174,581	181,171	185,538	180,831
Sharing revenue per tower	82,070	77,122	80,250	79,540	81,015	79,634
Sharing Revenue (₹Crore)	8,966.8	8,501.8	9,035.3	9,157.1	9,428.1	9,158.4

Source: Company, ICICI Direct Research

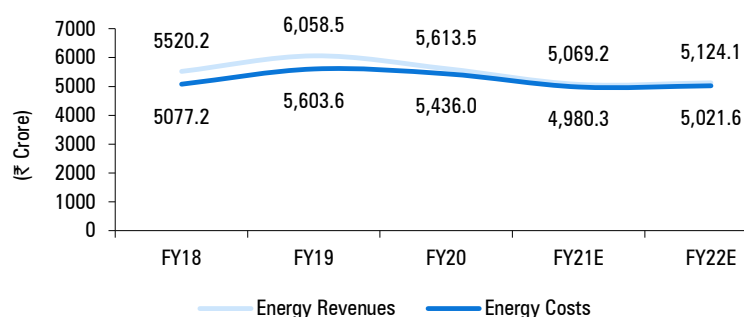
Key Charts

Exhibit 4: Bharti Infratel consolidated tenancy, sharing revenues



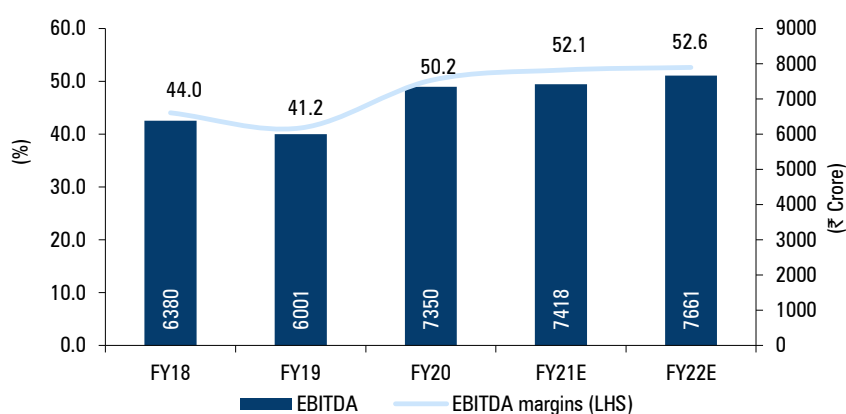
Source: Company, ICICI Direct Research

Exhibit 5: Energy revenues, energy cost trends



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: Income statement under equity method

(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income e	6,826.2	6,743.0	6,635.8	6,781.8
Growth (%)	3.1	-1.2	-1.6	2.2
Other Income	101.5	128.7	85.5	92.0
Total Revenue	6,927.7	6,871.7	6,721.3	6,873.8
Rent	344.6	0.0	0.0	0.0
Employee Expenses	291.5	293.5	340.8	347.5
Power and Fuel	2,525.8	2,367.2	2,239.0	2,231.5
Other Expenses	188.7	274.2	312.1	318.7
Repairs & Maintenance	363.5	250.3	245.5	248.5
Total Operating Expenditure	3,714.1	3,185.2	3,137.5	3,146.2
EBITDA	3,112.1	3,557.8	3,498.3	3,635.5
Growth (%)	-1.4	14.3	-1.7	3.9
Depreciation	1,065.8	1,281.5	1,158.4	1,189.6
Interest	-387.7	-2.0	73.7	80.0
Other Income	101.5	128.7	85.5	92.0
PBT	2,535.5	2,407.0	2,351.7	2,457.9
Profit from associates	1,017.2	1,380.5	1,215.7	1,227.6
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	1,058.9	488.8	484.9	474.6
PAT	2,493.8	3,298.7	3,082.5	3,210.9
Growth (%)	0.0	32.3	-6.6	4.2
EPS (₹)	13.5	17.8	16.7	17.4

Source: Company, ICICI Direct Research

Other Highlights

- **Receivables + unbilled revenues stable:** The company indicated that rather than looking at receivables (up 511 crore sequentially, the, receivables + unbilled revenues (stable; up ~51 crore QoQ) gives the right picture. We note that the management had earlier indicated that given the financial stress, they have relaxed payment terms for operators on a non-discretionary basis. During the quarter, they did not recognise exit penalty of ₹ 58 crore, which was not received, as they recognise it only on cash basis
- **Dividend from Indus received after two years; use same to declare dividend:** The company received a dividend from Indus after two years. It has used this cash to pay dividend of ₹ 2.3/ share, which it passes through to its shareholders as per company policy. We highlight that Indus had not declared dividend in FY20 given the pending merger
- The company continues to see opportunities in adjacent areas such as smart cities, active infra sharing, fibre rollouts, in building solutions etc, and expects at least 8-10% of telcos capex to move to tower companies. It expects the same to contribute 15-20% of revenues in the medium to long term
- The company also indicated that negative energy spread was due to change in structure (tenants moving to pass through vs. fixed contract). It also lowered energy margin guidance to 0-3% vs. 3-5% earlier
- Two of the tenants (we reckon Voda Idea and new operator) are revisiting their roll out strategy and not adding newer sites

Financial summary

Exhibit 8: Profit and loss statement					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Total operating Income	14,582.3	14,647.2	14,225.9	14,552.2		
Growth (%)	0.6	0.4	-2.9	2.3		
Other Income	203.4	191.2	128.9	140.0		
Total Revenue	14,785.7	14,838.4	14,354.8	14,692.2		
Rent	1,255.1	0.0	0.0	0.0		
Employee Expenses	491.4	500.1	548.4	561.0		
Power and Fuel	5,603.6	5,436.0	4,980.3	5,021.6		
Other Expenses	390.7	655.4	578.9	582.1		
Repairs & Maintenance	840.3	705.7	700.6	726.1		
Total Operating Expenditure	8,581.1	7,297.2	6,808.2	6,890.8		
EBITDA	6,001.2	7,350.0	7,417.7	7,661.4		
Growth (%)	-5.9	22.5	0.9	3.3		
Depreciation	2,223.9	2,957.1	2,856.5	2,943.0		
Interest	-157.1	500.7	562.5	560.0		
Other Income	203.4	191.2	128.9	140.0		
PBT	4,137.8	4,083.4	4,127.5	4,298.4		
Exceptional Items	35.7	0.0	0.0	0.0		
Total Tax	1,608.3	784.7	1,045.0	1,087.5		
PAT	2,493.8	3,298.7	3,082.5	3,210.9		
Growth (%)	0.0	32.3	-6.6	4.2		
EPS (₹)	13.5	17.8	16.7	17.4		

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Profit after Tax	2,493.8	3,298.7	3,082.5	3,210.9		
Add: Depreciation	2,223.9	2,957.1	2,856.5	2,943.0		
Add: Interest Paid	(157.1)	500.7	562.5	560.0		
(Inc)/dec in Current Assets	-879.1	-686.6	-81.1	10.0		
Inc/(dec) in CL and Provisions	-316.9	-193.1	-94.7	73.3		
CF from operating activities	3,364.6	5,876.8	6,325.8	6,797.2		
(Inc)/dec in Investments	1,987.7	-641.0	-200.0	-200.0		
(Inc)/dec in Fixed Assets	-1,578.9	-2,441.6	-1,949.5	-1,949.5		
Others	393.9	436.9	-162.8	-137.5		
CF from investing activities	802.7	-2,645.7	-2,312.4	-2,287.0		
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0		
Inc/(dec) in loan funds	70.0	-401.4	0.0	0.0		
Dividend paid & dividend tax	-3,329.3	-2,885.4	-3,329.3	-3,329.3		
Add: Interest Paid	(157.1)	500.7	562.5	560.0		
Others	-691.1	-337.9	-1,425.0	-1,420.0		
CF from financing activities	-4,107.5	-3,124.0	-4,191.8	-4,189.3		
Net Cash flow	59.8	107.1	-178.3	320.9		
Opening Cash	75.9	135.7	242.8	64.5		
Closing Cash	135.7	242.8	64.5	385.4		

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Liabilities						
Equity Capital	1,849.6	1,849.6	1,849.6	1,849.6		
Reserve and Surplus	12,674.9	11,688.4	11,141.7	10,723.3		
Total Shareholders funds	14,524.5	13,538.0	12,991.3	12,572.9		
Total Debt	2,349.2	4,011.1	4,011.1	4,011.1		
Deferred Tax Liability	701.4	770.7	770.7	770.7		
Others	1,190.3	6,964.5	5,964.5	5,014.5		
Total Liabilities	18,765.4	25,284.3	23,737.6	22,369.2		
Assets						
Gross Block	34,113.0	36,648.5	38,598.1	40,547.6		
Accumulated Depreciation	21,525.9	24,483.0	27,339.6	30,282.6		
Net Block	12,587.1	12,165.5	11,258.5	10,265.0		
Capital WIP	248.5	154.6	154.6	154.6		
Total Fixed Assets	12,835.6	12,320.1	11,413.1	10,419.6		
Right of Use	0.0	5,129.8	4,329.8	3,529.8		
Investments	4,797.3	5,438.3	5,638.3	5,838.3		
Debtors	1,488.3	2,068.3	2,338.5	2,392.1		
Loans and Advances	2,000.5	2,150.1	1,983.8	1,927.9		
Other Current Assets	338.3	295.3	272.5	264.8		
Cash	135.7	242.8	64.5	385.4		
Total Current Assets	3,962.8	4,756.5	4,659.3	4,970.2		
Creditors	511.7	1,843.0	1,790.0	1,831.0		
Provisions	308.5	210.4	204.3	209.0		
Other Current Liabilities	2,664.0	1,237.7	1,202.1	1,229.7		
Total Current Liabilities	3,484.2	3,291.1	3,196.4	3,269.8		
Net Current Assets	478.6	1,465.4	1,462.9	1,700.5		
Others Assets	653.9	930.7	893.5	881.0		
Application of Funds	18,765.4	25,284.3	23,737.6	22,369.2		

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Per share data (₹)						
EPS	13.5	17.8	16.7	17.4		
Cash EPS	25.5	33.8	32.1	33.3		
BV	78.5	73.2	70.2	68.0		
DPS	15.0	13.0	15.0	15.0		
Cash Per Share	0.7	1.3	0.3	2.1		
Operating Ratios						
EBITDA Margin (%)	41.2	50.2	52.1	52.6		
PAT Margin (%)	17.1	22.5	21.7	22.1		
Debtor days	37.3	51.5	60.0	60.0		
Creditor days	12.8	45.9	45.9	45.9		
Return Ratios (%)						
RoE	17.2	24.4	23.7	25.5		
RoCE	21.2	18.1	19.8	21.7		
RoIC	25.6	29.1	30.3	32.1		
Valuation Ratios (x)						
P/E	14.1	10.7	11.4	11.0		
EV / EBITDA	5.7	5.7	5.6	5.3		
Market Cap / Sales	2.4	2.4	2.5	2.4		
Price to Book Value	2.4	2.6	2.7	2.8		
Solvency Ratios						
Debt/EBITDA	0.4	0.5	0.5	0.5		
Debt / Equity	0.2	0.3	0.3	0.3		
Current Ratio	1.1	1.4	1.4	1.4		
Quick Ratio	1.1	1.4	1.4	1.4		

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Coverage Universe (Telecom)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E	FY19	FY20	FY21E
Bharti Airtel	565	700	Buy	308,023	1.0	-59.0	7.3	551.1	NM	76.8	16.4	11.7	8.7	2.1	3.5	7.1	-3.5	-4.7	5.2
Bharti Infratel	191	180	Hold	35,235	13.5	17.8	16.7	14.1	10.7	11.4	5.7	5.7	5.6	21.2	18.1	19.8	17.2	24.4	23.7
Vodafone Idea	8	UR	UR	23,132	-5.1	-25.7	-7.5	NM	NM	NM	36.4	9.5	8.1	-5.0	-5.7	-4.7	NM	NM	NM
Sterlite Tech	129	125	Reduce	5,203	14.0	10.8	8.1	9.2	12.0	15.9	6.2	6.7	8.0	29.7	27.8	20.9	28.7	33.0	25.1
Tata Comm	695	600	Hold	19,793	-2.9	-3.0	13.0	NM	NM	53.6	10.4	8.8	8.3	5.9	5.4	7.8	9.4	127.7	-22.2

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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