

Sector: Telecom
Event Update

	Change
Reco: Buy	↔
CMP: Rs. 547	
Price Target: Rs. 710	↔
↑ Upgrade ↔ No change ↓ Downgrade	

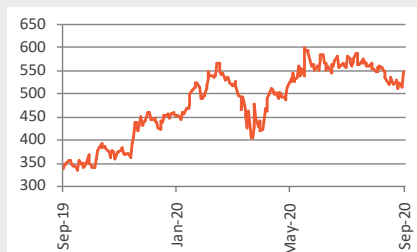
Company details

Market cap:	Rs. 298,283 cr
52-week high/low:	Rs. 611 / 325
NSE volume: (No of shares)	20.1 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTIARTL
Free float: (No of shares)	191.4 cr

Shareholding (%)

Promoters	56.2
FII	22.3
DII	18.7
Others	2.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	-2.0	5.4	62.4
Relative to Sensex	-5.4	-17.0	3.5	56.0

Sharekhan Research, Bloomberg

The Supreme Court of India (SC) allowed telecom players to pay Adjusted Gross Revenue (AGR)-related dues to the Department of Telecommunications (DoT) on a staggered basis over next 10 years subject to certain conditions. The apex court has directed telecom companies to make a 10% upfront payment of outstanding AGR dues by March 31, 2021, and the balance over a 10-year timeline starting February 7, 2022. As per the SC verdict, Bharti Airtel will have to pay ~Rs. 2,600 crore upfront in FY2021 and ~Rs. 3,500 crore annually from FY2022. As the SC has not mentioned anything about dues of insolvent companies, we assume that both Bharti Airtel and Reliance Jio may not liable to pay the dues of RCom, Airtel and Videocon. Payment of AGR liabilities would result in cash outgo of ~Rs. 3,500 per annum for Bharti Airtel over FY2022-FY2031. We believe around 12% hike in ARPU by Bharti Airtel could mitigate the impact of AGR dues on its cashflows. Hence, we expect another round increase in ARPU in the near term to support its cashflows. Further, any lower capex by Vodafone-Idea given the quantum of financial stress on its balance sheet owing to the shorter duration of AGR payments would benefit Airtel in terms of market share gains.

MSCI weightage to reverse going ahead: In the August review, Bharti Airtel's weightage decreased from 3.5% to 1.8% in MSCI India and 0.285% to 0.144% in the MSCI EM Index as the foreign ownership limit (FOL) information on NSDL remained 49% under the automatic route. The regulatory approval to increase its FOL beyond 49% to 100% in January 2020 for Bharti Airtel had come with a condition that all its downstream subsidiaries such as Bharti Infratel Ltd., and its DTH and broadband units, should be compliant with foreign ownership limits. However, we believe that the FOL would get corrected over the next few months. As a result, Bharti Airtel's weightage in the MSCI will eventually go up.

Our Call

Valuation – Maintain Buy with a PT of Rs. 710: The recent correction in the stock was due to the MSCI rebalancing and uncertainty around AGR dues. Post the SC's final ruling on AGR dues and completion of MSCI-related selling, we believe the overhang on Bharti Airtel's stock price has ended. Further, the SC verdict on staggered payment option and spectrum sale during the Insolvency & bankruptcy Code (IBC) process is broadly on expected lines. We expect another 10% hike in ARPU by Bharti Airtel in the near-term to support its cashflows from the annual payment of AGR dues. We believe that the company would be a beneficiary as the market structure is steadily moving towards a duopoly. We remain positive on Bharti, considering its steady EBITDA performance in a tough environment, scope for growth in the number of 4G subscribers and improving free cash flows. We introduced FY2023 numbers in this note. Further, the valuation of Reliance Jio (~15x of 1 year forward EV/EBITDA) from recent deals indicate significant premium to Bharti Airtel FY2022 EV/EBITDA of 7.3x. Hence, we maintain our Buy rating on the stock with a price target (PT) of Rs. 710.

Key Risks

Increasing competition could keep up the pressure on realisations. Any slowdown in data volume growth could affect revenue growth.

Valuation

	Rs cr				
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	80,780.2	87,539.0	100,876.9	112,864.2	127,441.0
OPM (%)	32.0	41.7	46.7	47.5	51.0
Adjusted PAT	-3,977.8	-3,630.4	2,663.1	7,257.3	13,371.1
% YoY growth	NM	NM	NM	172.5	84.2
Adjusted EPS (Rs.)	-10.0	-7.0	4.9	13.3	24.5
P/E (x)	NM	NM	111.9	41.1	22.3
P/B (x)	4.2	3.9	3.7	3.4	3.0
EV/EBITDA (x)	15.9	10.6	8.8	7.3	5.7
RoNW (%)	NM	NM	3.2	8.2	13.4
RoCE (%)	2.4	4.5	8.5	10.7	15.6

Source: Company; Sharekhan estimates

*FY20/FY21E/FY22E/FY23E numbers are based on IndAs-116

Event: AGR verdict: Supreme Court allows staggered payment of AGR liabilities

The Supreme Court of India (SC) allowed telecom players to pay the Adjusted Gross Revenue (AGR)-related dues to the Department of Telecommunications (DoT) over next 10 years. The apex court has asked telecom companies (Bharti Airtel, Vodafone Idea and Tata Teleservices) to make a 10% upfront payment of the outstanding AGR dues by March 31, 2021 and the timeline for staggered payments will begin on February 7, 2022. The apex court also warned that failure to pay installments would invite penalty, interest, along with contempt of court. The SC clarified again that there will be no revaluation of the AGR dues. The apex court announced that the issue of sale of the spectrum by those telecom companies which are facing insolvency proceedings will be decided by National Company Law Tribunal (NCLT).

Impact of verdict: Even though the apex court has asked telecom operators for 10% upfront payment by March 31, 2021, the relaxation in terms of staggered payments over next 10 years starting from February 7, 2022 provides some breather space to telecom players, especially to Vodafone Idea. Bharti Airtel has outstanding AGR dues of around Rs. 26,000 crore, while Vodafone Idea has balance dues of Rs. 50,400 crore. As per the verdict, Bharti Airtel will have to make an upfront payment of around Rs. 2,600 crore in FY2021 and an annual payment of around Rs. 3,500 crore from FY2023. As the SCI has not mentioned anything about the dues of insolvent companies, we assume that Bharti Airtel and Reliance Jio may not liable to pay their dues to RCom, Aircel and Videocon. Further, the SC agrees that spectrum sale can be allowed under IBC shall be decided by NCLT. If Vodafone-Idea doesn't file for a review petition to review the time frame of payment, the company will have to make an upfront payment of around Rs. 5,040 crore in FY2021 and an annual payment of around Rs. 6,800 crore for next 10 years starting from FY2022.

Annual payout for AGR dues by Bharti Airtel over 10 years

Bharti Airtel	Amount (Rs. crore)
Total dues claimed	43,980
Paid so far	18,004
Balance to be paid as of now	25,976
Upfront payment (10% by March 31, 2021)	2,598
Balance to be paid from FY2022	23,378
Period in years	10
Discount rate (assumed)	8%
Annual Payout (FY2022 to FY2031)	3,484

Source: Sharekhan Research

Annual payout for AGR dues by Vodafone Idea over 10 years

Particular	Amount (Rs. crore)
Total dues claimed	58,254
Paid so far	7,854
Balance to be paid as of now	50,400
Upfront payment (10% by March 31, 2021)	5,040
Balance to be paid from FY2022	45,360
Period in years	10
Discount rate (assumed)	8%
Annual Payout (FY2022 to FY2031)	6,760

Source: Sharekhan Research

Price hikes inevitable

Post the SC ruling, we believe that the payment of AGR liabilities would result in cash outgo of ~Rs. 3,500 crore/~Rs. 6,800 crore per annum for Bharti Airtel/Vodafone-Idea over FY2022-FY2031. We believe Bharti Airtel will have to undertake a 12% hike in ARPUs from its current level to mitigate the impact of AGR dues on its cashflows. The management reiterated its earlier stance that ARPU should improve to Rs. 200 in the short term from Rs. 157 currently and thereafter it should improve to Rs. 300 in the long term for profitable growth. We expect another round of ARPU increase in the near term to support its cashflow.

Price hike required by Bharti Airtel to mitigate the cashflow impact from AGR

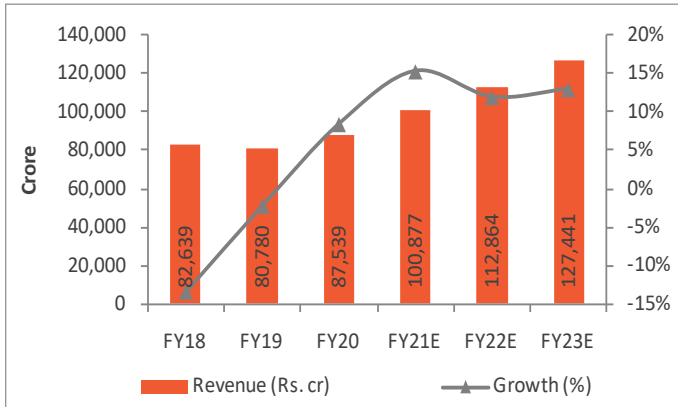
Particular	FY2022
Estimated cash flow impact (Rs. Crore)	3,484
Assumed EBITDA margin in India mobile business	55%
Incremental revenue required	6,335
Subscriber base (million)	280
ARPU hike required (Rs./month)	19
Increase in ARPU required (%)	12%

Source: Sharekhan Research

Given the financial stress on its balance sheet, Vodafone-Idea will have to reduce its capex, which would impact its network quality and marketing expense and/or would need to raise tariffs. This would increase the risk of losing customers to Reliance Jio and Bharti Airtel.

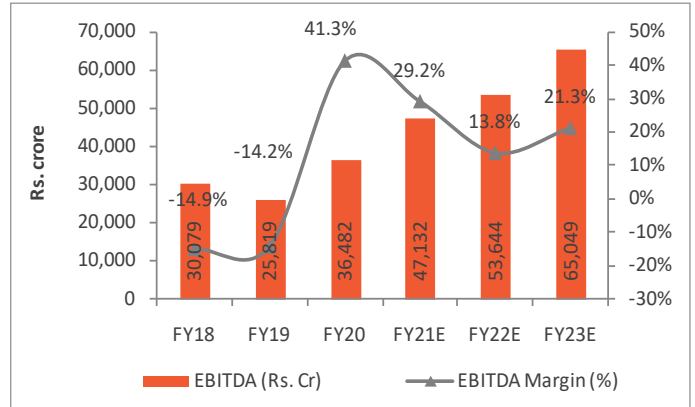
Financials in charts

Revenue (Rs. cr) and growth (%)



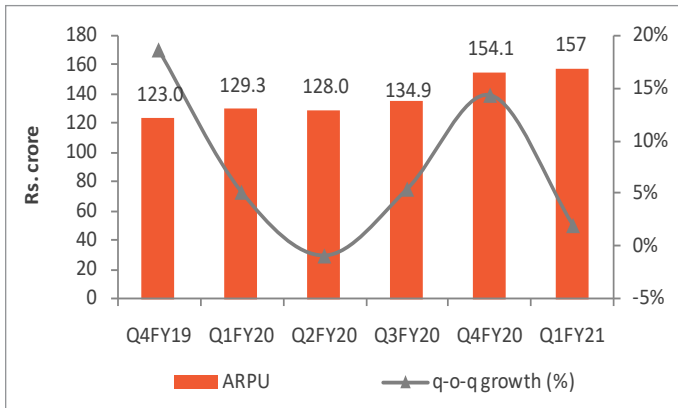
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and growth (%)



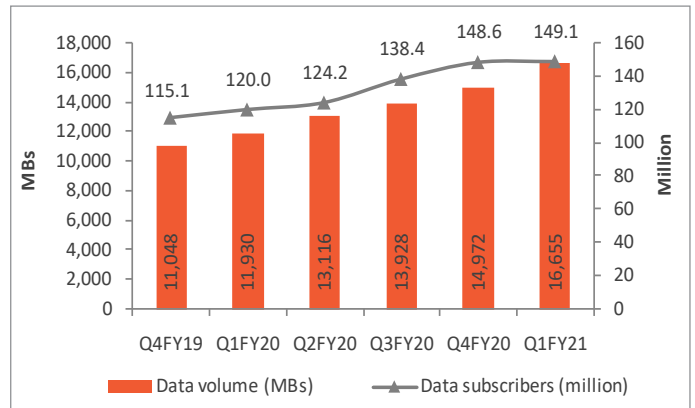
Source: Company, Sharekhan Research

ARPU continued to grow



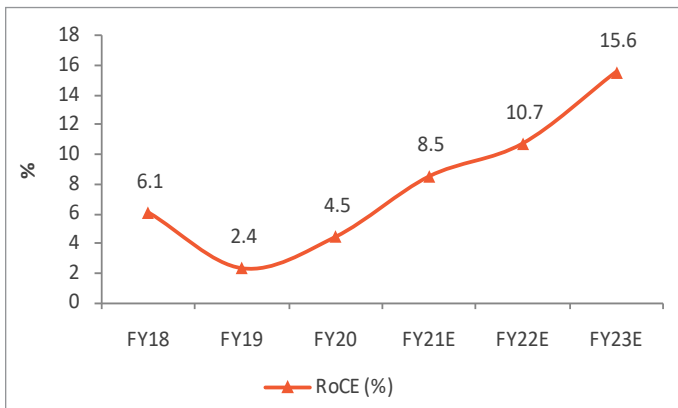
Source: Company, Sharekhan Research

Strong traction for data



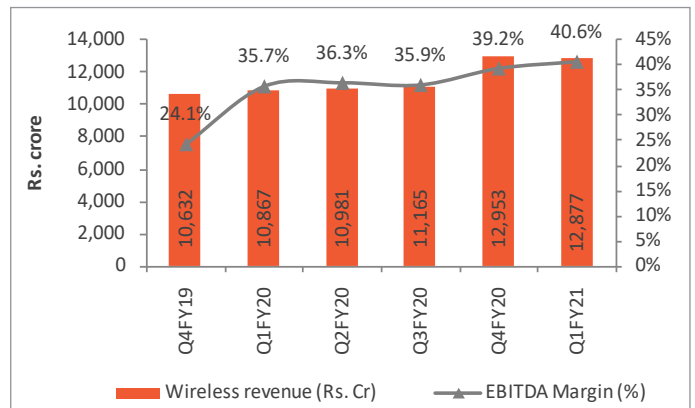
Source: Company, Sharekhan Research

RoCE (%)



Source: Company, Sharekhan Research

Wireless business revenue (Rs. Cr) and margin (%)



Source: Company, Sharekhan Research

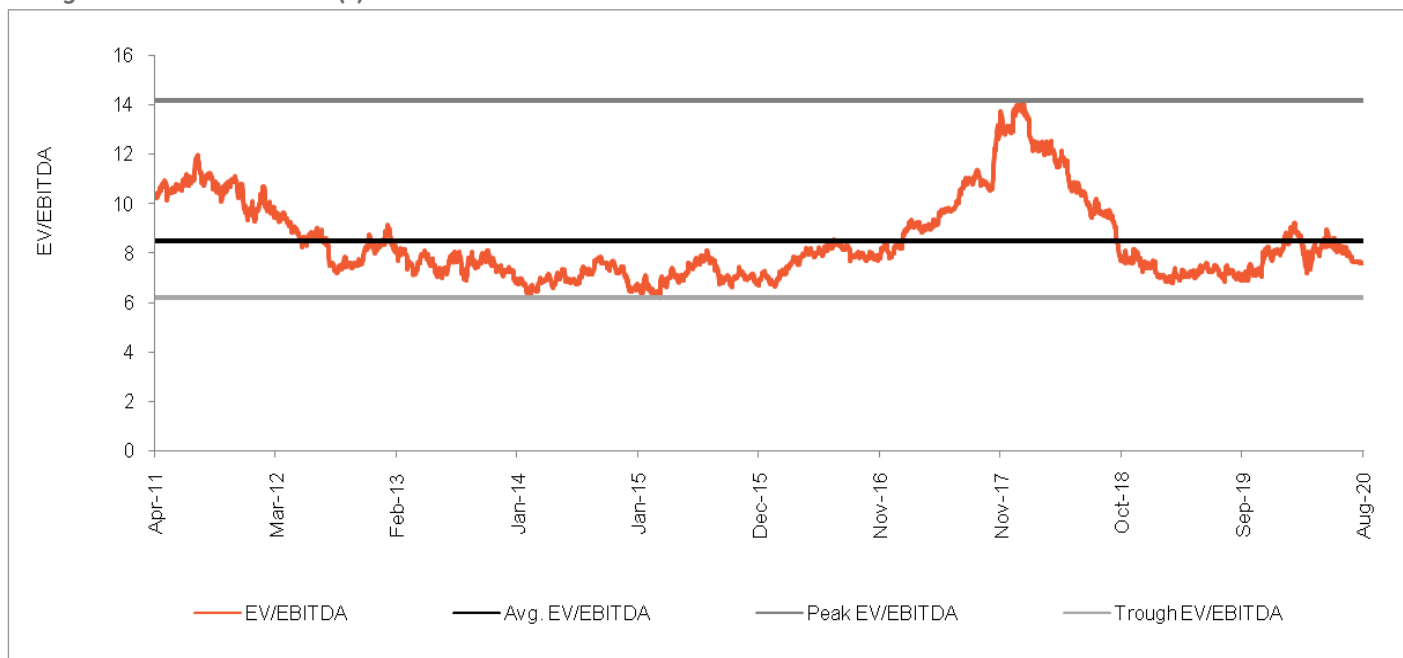
Outlook

Though Bharti Airtel will be able to withstand competition, we believe that the company's capex intensity will improve in its wireless business and investments in contents to create differentiation in the market. We believe that Bharti's free cash flow is set to improve going ahead with the increase of ARPU and better cost management. Higher digitisation would enable company increase monetisation of digital assets and value-added services, a reduced churn rate across verticals and improved 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

Maintain Buy with a PT of Rs. 710: The recent correction in the stock was due to the MSCI rebalancing and uncertainty around AGR dues. Post the SC's final ruling on AGR dues and completion of MSCI-related selling, we believe the overhang on Bharti Airtel's stock price has ended. Further, the SC verdict on staggered payment option and spectrum sale during the Insolvency & bankruptcy Code (IBC) process is broadly on expected lines. We expect another 10% hike in ARPUs by Bharti Airtel in the near-term to support its cashflows from the annual payment of AGR dues. We believe that the company would be a beneficiary as the market structure is steadily moving towards a duopoly. We remain positive on Bharti, considering its steady EBITDA performance in a tough environment, scope for growth in the number of 4G subscribers and improving free cash flows. We introduced FY2023 numbers in this note. Further, the valuation of Reliance Jio (~15x of 1 year forward EV/EBITDA) from recent deals indicate significant premium to Bharti Airtel FY2022 EV/EBITDA of 7.3x. Hence, we maintain our Buy rating on the stock with a price target (PT) of Rs. 710.

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 has decided to proceed with Indus Tower merger.

Investment theme

Revenue accretion from the 4G upgrade, minimum-ARPU plans (rolled out across India) and recent tariff hike helped the company to report improvement in ARPU. Further, the government's data localisation policies with an 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 ARPU 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	ICICI Prudential Asset Management	2.82
2	LIC Of India	2.78
3	SBI Funds Management Pvt Ltd	2.31
4	GIC Pte Limited	1.70
5	BlackRock Inc	1.60
6	Vanguard Group Inc/The	1.48
7	Capital Group Companies	1.39
8	ICICI Prudential Life Insurance Co	1.10
9	Aditya Birla Sun Life Asset Management	1.01
10	Axis Asset Management	0.85

Source: Bloomberg

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