

Risk-reward favorable – Growth mojo reviving

- Bharti Infratel (BHIN) Q2FY21 was operationally healthy lead by strong tower additions, tenancy growth and rental/tenant. Energy spread was negative for 2nd consecutive quarter. **BHIN's short-term prognosis remains significantly positive** led by potential tariff increase in the telecom sector and/or fund-raise by VIL. More importantly, BHIN-Indus merger would conclude within a month and the combined entity would declare a dividend of Rs 48bn (Rs 17.8/sh ~9.5% yield) within 3Ms. We have marginally increased our estimates to factor in the robust growth. **Reiterate BUY with revised TP of Rs 285 @ 15x Sep-22E EPS.**
- The medium-term risk for BHIN are wrt survivability of VIL. Shutdown of VIL may significantly impact the business of BHIN. For BHIN+100% Indus it may lead to ~40-45% reduction in tenancies in our view. However, we don't foresee it playing out over next 18-24m. Risk of reduction in rentals/tenant on renewals as tenancies come out of lock-in in FY23 (similar to energy spread correction) is another key risk.

Key Operating and Financial highlights

Overall (including energy)/Core rental revenue stood at Rs 35.9/23.2bn viz. +1.6/+3.6% YoY. Overall/Core EBITDA of Rs 18.2/18.6bn YoY viz -3.3/-1.1% YoY. EBITDA performance would have been better but for negative energy spread. PAT stood at Rs 7.32bn, -24% YoY. PAT decline is on account of higher tax outgo at 25.4% vs. 7.6% in PY due to corporate tax reduction.

Operating performance was significantly healthy. Tower additions stood at 1,482 (highest since listing in 2012). This seems to be due to surge in data demand, to improve the QoS and thus gain quality 4G subs. Tenancy additions were at 2,117 viz. **highest in three years/VIL merger. Rentals increase was strong at 3/3.3% YoY/QoQ.** Churn moderated to 0.23%.

Debtors were up further by Rs 4bn QoQ. But BHIN would conclude its merger shortly with Indus. BHIN would pay VIL ~Rs 40bn for its share in Indus but would retain ~Rs 24bn as receipt towards receivables/advance rentals.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	36,952	36,376	1.6	35,047	5.4
Total Expense	18,784	17,593	6.8	17,375	8.1
EBITDA	18,168	18,783	(3.3)	17,672	2.8
Depreciation	7,263	7,453	(2.5)	7,057	2.9
EBIT	10,905	11,330	(3.8)	10,615	2.7
Other Income	472	349	35.2	239	97.5
Interest	1,552	1,251	24.1	1,425	8.9
EBT	9,825	10,428	(5.8)	9,429	4.2
Tax	2,499	793	215.1	2,393	4.4
RPAT	7,326	9,635	(24.0)	7,036	4.1
APAT	7,326	9,635	(24.0)	7,036	4.1
			(bps)		(bps)
Gross Margin (%)	61.5	61.4	13	63.3	(173)
EBITDA Margin (%)	49.2	51.6	(247)	50.4	(126)
NPM (%)	19.8	26.5	(666)	20.1	(25)
Tax Rate (%)	25.4	7.6	1783	25.4	6
EBIT Margin (%)	29.5	31.1	(164)	30.3	(78)

CMP	Rs 192
Target / Upside	Rs 285 / 48%
NIFTY	11,930

Scrip Details

Equity / FV	Rs 18,496mn / Rs 10
Market Cap	Rs 355bn
	USD 5bn
52-week High/Low	Rs 297/ 120
Avg. Volume (no)	12,662,200
Bloom Code	BHIN IN
Price Performance	1M 3M 12M
Absolute (%)	5 (2) (11)
Rel to NIFTY (%)	(4) (8) (16)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	53.5	53.5	53.5
MF/Banks/FIs	3.5	4.4	3.8
FIIIs	42.0	40.6	40.9
Public / Others	1.0	1.5	1.8

Valuation (x)

	FY21E	FY22E	FY23E
P/E	11.9	10.9	10.1
EV/EBITDA	5.6	5.1	4.7
ROE (%)	22.5	24.0	24.3
RoACE (%)	14.4	16.0	16.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	148,114	154,520	160,659
EBITDA	73,565	77,812	81,363
PAT	29,936	32,648	35,023
EPS (Rs.)	16.2	17.7	18.9

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Exhibit 1: Change in estimates: BHIN + 100% of Indus

Rs Mn	New		Old		Change (%)		Comments
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	
Rental Revenue	1,59,731	1,63,745	1,53,989	1,56,752	3.7	4.5	Change in estimates to factor higher tenancies and rental/tenant partly off-set by lower energy spread
EBITDA	1,25,718	1,33,101	1,24,141	1,26,822	1.3	5.0	
EBITDA Margin %	78.7	81.3	80.6	80.9	(191.0)	37.9	
PAT	44,506	48,830	43,295	44,479	2.8	9.8	

Source: DART, Company

Exhibit 2: Actual vs Estimates

Rs mn	Actual	Estimate	% Variance	Remarks
Total Revenue	36,952	35,735	3.4	Beat on core operating parameters was off-set by lower energy spread leading to in-line EBITDA. PAT was lower on account of marginally higher D&A and Finance costs
Rental Revenue	23,199	22,114	4.9	
EBITDA	18,168	18,080	0.5	
EBITDA Margin %	78.3	81.8	(4.2)	
PAT	7,326	7,387	(0.8)	

Source: DART, Company

Exhibit 3: Consolidated Quarterly Financials

(Rs mn)	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)
Rental income	22,385	22,833	22,513	22,430	23,199	3.6	3.4
Energy and other reimbursements	13,991	13,900	13,731	12,617	13,753	(1.7)	9.0
Net Sales	36,376	36,733	36,244	35,047	36,952	1.6	5.4
Power and fuel	14,036	13,672	12,916	12,870	14,210	1.2	10.4
Employee benefits expenses	1,240	1,278	1,299	1,337	1,333	7.5	(0.3)
R&M expenses	1,854	1,775	1,925	1,667	1,989	7.3	19.3
Other expenses	463	1,236	3,112	1,501	1,252	170.4	(16.6)
Total Operating Expenses	17,593	17,961	19,252	17,375	18,784	6.8	8.1
EBITDA	18,783	18,772	16,992	17,672	18,168	(3.3)	2.8
EBITDA ex energy	18,828	18,544	16,177	17,925	18,625	(1.1)	3.9
Depreciation	7,453	7,036	7,657	7,057	7,263	(2.5)	2.9
EBIT	11,330	11,736	9,335	10,615	10,905	(3.8)	2.7
Other Income	349	336	576	239	472	35.2	97.5
Finance costs/(income)	1,251	1,384	1,247	1,425	1,552	24.1	8.9
PBT	10,428	10,688	8,664	9,429	9,825	(5.8)	4.2
Tax	793	2,701	2,197	2,393	2,499	215.1	4.4
PAT	9,635	7,987	6,467	7,036	7,326	(24.0)	4.1
Energy spread	(45)	228	815	(253)	(457)	915.6	80.6

Source: DART, Company

Exhibit 4: Margin Analysis

As % of Net Sales	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (bps)	QoQ (bps)
Power and fuel	38.6	37.2	35.6	36.7	38.5	145	124
Employee benefits expenses	3.4	3.5	3.6	3.8	3.6	42	13
R&M expenses	5.1	4.8	5.3	4.8	5.4	133	55
Other expenses	1.3	3.4	8.6	4.3	3.4	(130)	2
Total Opex	48.4	48.9	53.1	49.6	50.8	190	194
EBITDA Margin	51.6	51.1	46.9	50.4	49.2	(190)	(194)
EBITDA Margin ex energy	84.1	81.2	71.9	79.9	80.3	(13)	(93)
EBIT Margin	31.1	31.9	25.8	30.3	29.5	(155)	(244)
RPAT Margin	26.5	21.7	17.8	20.1	19.8	(407)	(192)
Energy Spread	-0.3	1.6	5.9	-2.0	-3.3	(868)	(496)
Tax Rate	7.6	25.3	25.4	25.4	25.4	566	16

Source: DART, Company

Exhibit 5: Operating Performance

	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	YoY (%)	QoQ (%)
No. of towers								
Bharti Infratel (consolidated)	92,632	93,421	94,244	95,372	95,801	97,283	4.1	1.5
Bharti Infratel (standalone)	40,636	41,050	41,471	42,053	42,339	43,110	5.0	1.8
Indus Towers	1,23,799	1,24,692	1,25,649	1,26,949	1,27,291	1,28,984	3.4	1.3
Number of tenants								
Bharti Infratel (consolidated)	1,73,247	1,73,406	1,74,150	1,74,581	1,74,216	1,76,332	1.7	1.2
Bharti Infratel (standalone)	76,119	76,176	76,322	75,715	75,435	76,565	0.5	1.5
Indus Towers	2,31,256	2,31,500	2,32,924	2,35,396	2,35,192	2,37,541	2.6	1.0
Net tenants added								
Bharti Infratel (consolidated)	523	159	744	431	-366	2,117		
Bharti Infratel (standalone)	-222	57	146	-607	-280	1,130		
Indus Towers	1,773	244	1,424	2,472	-204	2,349		
Tenants Churn								
Bharti Infratel (consolidated)	956	1,106	1,149	2,067	1,228	493		
Bharti Infratel (standalone)	596	464	471	1,533	787	334		
Indus Towers	857	1,529	1,614	1,271	1,050	379		
Gross tenants added								
Bharti Infratel (consolidated)	1,479	1,265	1,893	2,498	862	2,610		
Bharti Infratel (standalone)	374	521	617	926	507	1,464		
Indus Towers	2,630	1,773	3,038	3,743	846	2,728		
Average sharing factor								
Bharti Infratel (consolidated)	1.871	1.864	1.848	1.839	1.825	1.816	(2.6)	(0.5)
Bharti Infratel (standalone)	1.882	1.864	1.848	1.820	1.791	1.779	(4.6)	(0.7)
Indus Towers	1.863	1.862	1.855	1.854	1.851	1.845	(0.9)	(0.3)
Sharing rev./sharing tower/month (Rs)								
Bharti Infratel (consolidated)	81,503	78,558	79,605	77,723	76,653	78,816	0.3	2.8
Bharti Infratel (standalone)	85,917	87,669	84,593	84,878	80,908	85,767	(2.2)	6.0
Indus Towers	78,061	74,373	78,357	75,653	73,290	75,638	1.7	3.2
Sharing rev./sharing operator/month (Rs)								
Bharti Infratel (consolidated)	42,590	42,163	42,983	42,260	42,013	43,413	3.0	3.3
Bharti Infratel (standalone)	44,623	46,095	45,018	45,715	45,173	47,400	2.8	4.9
Indus Towers	40,989	39,082	41,392	39,590	39,596	40,360	3.3	1.9

Source: DART, Company *including IndAS 116 impact

Exhibit 6: Key Operating Assumptions

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Towers							
BHIN standalone	39,099	39,523	40,388	42,053	44,254	46,903	48,686
Indus	1,22,730	1,23,639	1,23,546	1,26,949	1,31,145	1,35,936	1,39,117
BHIN + 100% Indus	1,61,829	1,63,162	1,63,934	1,69,002	1,75,399	1,82,839	1,87,803
% chg YoY							
BHIN standalone	1.7	1.1	2.2	4.1	5.2	6.0	3.8
Indus	2.4	0.7	(0.1)	2.8	3.3	3.7	2.3
BHIN + 100% Indus	2.2	0.8	0.5	3.1	3.8	4.2	2.7
Net Additions-Towers							
BHIN standalone	641	424	865	1,665	2,201	2,649	1,783
Indus	2,849	909	-93	3,403	4,196	4,791	3,181
BHIN + 100% Indus	3,490	1,333	772	5,068	6,397	7,440	4,964
Tenancies							
BHIN standalone	89,263	88,665	76,341	75,715	77,941	81,230	86,546
Indus	2,88,913	2,78,408	2,29,483	2,35,396	2,40,887	2,49,048	2,60,270
BHIN + 100% Indus	3,78,176	3,67,073	3,05,824	3,11,111	3,18,828	3,30,278	3,46,816
% chg YoY							
BHIN standalone	9.3	(0.7)	(13.9)	(0.8)	2.9	4.2	6.5
Indus	7.0	(3.6)	(17.6)	2.6	2.3	3.4	4.5
BHIN + 100% Indus	7.5	(2.9)	(16.7)	1.7	2.5	3.6	5.0
Net Additions-Tenancies							
BHIN standalone	7,631	-598	-12,324	-626	2,226	3,289	5,316
Indus	18,907	-10,505	-48,925	5,913	5,491	8,162	11,221
BHIN + 100% Indus	26,538	-11,103	-61,249	5,287	7,717	11,451	16,538
Closing Tenancy							
BHIN standalone (x)	2.28	2.24	1.89	1.80	1.76	1.73	1.78
Indus (x)	2.35	2.25	1.86	1.85	1.84	1.83	1.87
BHIN + 100% Indus	2.34	2.25	1.87	1.84	1.82	1.81	1.85
Sharing revenue/tenant (Rs/month)							
BHIN standalone	37,029	38,143	40,245	46,352	47,002	47,354	45,986
Indus	32,914	34,256	35,467	41,014	40,731	40,319	40,191
BHIN + 100% Indus	33,877	35,184	36,639	42,330	42,261	42,044	41,627
Sharing revenue/tower (Rs/month)							
BHIN standalone	81,592	86,320	83,101	85,493	83,679	82,684	80,714
Indus	75,825	78,882	72,875	76,116	75,165	73,961	74,421
BHIN + 100% Indus	77,222	80,682	75,373	78,438	77,299	76,181	76,044
Rental Revenue (Rs Mn)							
BHIN standalone (x)	37,968	40,720	39,844	42,289	43,333	45,224	46,292
Indus (x)	1,10,376	1,16,605	1,08,081	1,14,400	1,16,398	1,18,521	1,22,819
BHIN + 100% Indus	1,48,344	1,57,325	1,47,925	1,56,689	1,59,731	1,63,745	1,69,111
EBITDA (ex-energy) (Rs Mn)							
BHIN standalone	26,516	28,913	28,103	34,142	35,262	37,354	38,212
Indus	69,229	72,519	65,143	89,488	91,835	94,202	1,00,498
BHIN + 100% Indus	95,745	1,01,432	93,246	1,23,630	1,27,097	1,31,556	1,38,710
EBITDA Margin %							
BHIN standalone	69.8	71.0	70.5	80.7	81.4	82.6	82.5
Indus	62.7	62.2	60.3	78.2	78.9	79.5	81.8
BHIN + 100% Indus	64.5	64.5	63.0	78.9	79.6	80.3	82.0
Energy EBITDA (Rs Mn)							
BHIN standalone (x)	1,736	2,647	3,032	1,430	537	421	448
Indus (x)	3,907	4,245	3,612	821	-1,916	1,124	1,175
BHIN + 100% Indus	5,643	6,892	6,644	2,251	-1,378	1,545	1,623
EBITDA (incl energy) (Rs Mn)							
BHIN standalone (x)	28,252	31,560	31,135	35,572	35,799	37,775	38,660
Indus (x)	73,136	76,764	68,755	90,310	89,919	95,326	1,01,673
BHIN + 100% Indus	1,01,388	1,08,324	99,890	1,25,882	1,25,718	1,33,101	1,40,334

Source: Company, DART

	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
APAT (Rs Mn)							
BHIN Standalone (RPAT)	27,047	24,399	27,340	17,466	21,896	18,981	19,586
(-) Dividend from Indus	9,510	10,010	11,261	0	4,200	0	0
BHIN Standalone (APAT)	17,537	14,389	16,079	17,466	17,696	18,981	19,586
Indus PAT	28,454	28,929	22,095	29,051	29,500	32,539	36,756
(-) DDT	4,664	4,910	5,523	0	0	0	0
Indus Adjusted PAT	23,790	24,019	16,572	29,051	29,500	32,539	36,756
Interest net of tax (Rs Mn)					2,691	2,691	2,691
BHIN + 100% Indus (RPAT)	45,991	43,318	38,174	46,517	47,196	51,521	56,341
BHIN + 100% Indus (APAT)	41,327	38,408	32,651	46,517	44,506	48,830	53,651

Source: Company, DART, *Interest (net of tax) on Idea + Providence stake acquisition

Exhibit 7: Implied TP of BHIN at various target multiples

	A	B	C	D
Target PE multiple (X)	12	15	18	20
Base case FY22E PAT of merged entity (Rs Mn)	51,240	51,240	51,240	51,240
Target Mcap(Rs Mn)	6,14,884	7,68,605	9,22,326	10,24,806
O/s shares of merged entity (Mn)	2,698	2,698	2,698	2,698
TP before incorporating decline in rental/tenant (Rs)	228	285	342	380
Impact on TP of 5% decline in rental/tenant	(27)	(33)	(40)	(44)
TP after incorporating decline in rental/tenant	201	252	302	335

Source: DART, Company

Exhibit 8: Sensitivity of EPS and TP to 5% change in rental/tenant

Particulars	Nos
Avg Rental/tenant/month (BHIN Consol) (Rs)	42,261
Avg tenancy (Nos)	3,18,828
EBITDA impact of 5% reduction in rentals (Rs mn)	8,084
PAT impact of 5% reduction in rentals (Rs mn)	5,982
% of FY21E Consol PAT	13.4
EPS impact of 5% reduction in rentals on Consol EPS (Rs)	2.2

	A	B	C	D
Target PE multiple (X)	12	15	18	20
Value per share impact (Rs)	27	33	40	44

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	146,472	148,114	154,520	160,659
Total Expense	72,970	74,549	76,708	79,296
COGS	54,360	56,161	58,624	61,841
Employees Cost	5,001	5,350	5,216	5,245
Other expenses	13,609	13,038	12,867	12,209
EBIDTA	73,502	73,565	77,812	81,363
Depreciation	29,571	28,955	29,712	30,311
EBIT	43,931	44,610	48,100	51,053
Interest	5,007	5,946	6,154	6,346
Other Income	1,912	1,636	2,172	2,622
Exc. / E.O. items	0	0	0	0
EBT	40,836	40,300	44,119	47,328
Tax	7,877	10,364	11,471	12,305
RPAT	32,959	29,936	32,648	35,023
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	32,959	29,936	32,648	35,023

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	18,496	18,496	18,496	18,496
Minority Interest	0	0	0	0
Reserves & Surplus	116,884	112,365	122,813	128,839
Net Worth	135,380	130,861	141,309	147,335
Total Debt	115,094	96,766	96,425	96,345
Net Deferred Tax Liability	9,427	9,949	10,769	11,657
Total Capital Employed	259,901	237,576	248,503	255,337

Applications of Funds

Net Block	172,953	163,155	152,307	141,848
CWIP	1,546	1,653	1,789	1,937
Investments	9,696	12,582	13,619	14,741
Current Assets, Loans & Advances	101,559	85,702	108,408	126,706
Inventories	0	0	0	0
Receivables	20,683	32,020	34,660	37,517
Cash and Bank Balances	61,806	37,719	56,469	70,486
Loans and Advances	0	0	0	0
Other Current Assets	19,070	15,963	17,279	18,703
Less: Current Liabilities & Provisions	25,853	25,516	27,619	29,896
Payables	18,430	15,622	16,909	18,303
Other Current Liabilities	7,423	9,894	10,710	11,593
<i>sub total</i>				
Net Current Assets	75,706	60,187	80,789	96,810
Total Assets	259,901	237,576	248,503	255,337

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	62.9	62.1	62.1	61.5
EBIDTA Margin	50.2	49.7	50.4	50.6
EBIT Margin	30.0	30.1	31.1	31.8
Tax rate	19.3	25.7	26.0	26.0
Net Profit Margin	22.5	20.2	21.1	21.8
(B) As Percentage of Net Sales (%)				
COGS	37.1	37.9	37.9	38.5
Employee	3.4	3.6	3.4	3.3
Other	9.3	8.8	8.3	7.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.9	0.7	0.7	0.7
Interest Coverage	8.8	7.5	7.8	8.0
Inventory days	0	0	0	0
Debtors days	52	79	82	85
Average Cost of Debt	6.7	5.6	6.4	6.6
Payable days	46	38	40	42
Working Capital days	189	148	191	220
FA T/O	0.8	0.9	1.0	1.1
(D) Measures of Investment				
AEPS (Rs)	17.8	16.2	17.7	18.9
CEPS (Rs)	33.8	31.8	33.7	35.3
DPS (Rs)	12.8	18.0	15.0	15.7
Dividend Payout (%)	71.8	111.2	85.0	82.8
BVPS (Rs)	73.2	70.8	76.4	79.7
RoANW (%)	23.5	22.5	24.0	24.3
RoACE (%)	16.7	14.4	16.0	16.4
RoAIC (%)	25.9	22.4	24.5	27.1
(E) Valuation Ratios				
CMP (Rs)	192	192	192	192
P/E	10.8	11.9	10.9	10.1
Mcap (Rs Mn)	355,401	355,401	355,401	355,401
MCap/ Sales	2.4	2.4	2.3	2.2
EV	408,689	414,447	395,356	381,259
EV/Sales	2.8	2.8	2.6	2.4
EV/EBITDA	5.6	5.6	5.1	4.7
P/BV	2.6	2.7	2.5	2.4
Dividend Yield (%)	6.7	9.4	7.8	8.2
(F) Growth Rate (%)				
Revenue	0.4	1.1	4.3	4.0
EBITDA	22.5	0.1	5.8	4.6
EBIT	16.3	1.5	7.8	6.1
PBT	(1.3)	(1.3)	9.5	7.3
APAT	30.3	(9.2)	9.1	7.3
EPS	30.3	(9.2)	9.1	7.3

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	59,962	56,269	66,661	69,675
CFI	(85,392)	(22,774)	(19,217)	(20,235)
CFF	32,904	(57,582)	(28,694)	(35,424)
FCFF	(15,752)	37,005	47,661	49,675
Opening Cash	54,332	61,806	37,719	56,469
Closing Cash	61,806	37,719	56,469	70,486

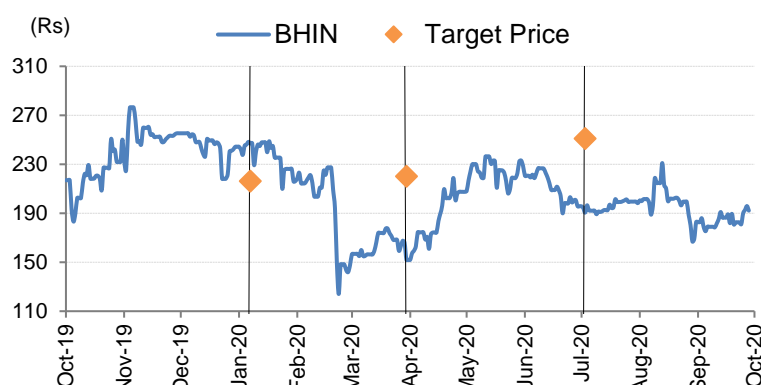
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-20	Accumulate	216	247
Apr-20	BUY	220	152
Jul-20	BUY	251	191

*Price as on recommendation date

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