

## Healthy core performance...

Bharti Infratel reported a mixed performance. While core performance led by net tenancy addition of 2116 (highest in the last 13 quarters) was a pleasant surprise, negative energy spread led to a lower margin. Revenues (on a proportionate consolidation basis) came in at ₹ 3695 crore, up 5.4% QoQ driven by energy revenues, up 9% QoQ, at ₹ 1375 crore. Core rental revenues came in at ₹ 2320 crore, up 3.4% QoQ. EBITDA came in at ₹ 1817 crore, with margins of 49.2%, down 126 bps QoQ. EBITDA was impacted by energy margins wherein it recorded negative margins of 3.3%, as tenants have moved to pass through and some disputes thereafter. Reported PAT came in at ₹ 732.6 crore (up 4.1% QoQ).

## Tenancy addition highest in last 13 quarters

On a gross basis, the company added 2609 tenancies while gross exits were 493. Consequently, Infratel reported a net addition of 2116 co-locations on a consolidated basis, which is the highest in last 13 quarter. While Vodafone Idea's (VIL) fund raising plans would allow survival for some time (hence no near term tenancy exits shock), long term tenancy growth outlook will be key ahead. We note that the company is "hoping" for continued healthy traction. Nevertheless, we would monitor tenancy addition ahead, given the measured approach of incumbents in expansion during recent times. We build in 190355 net co-locations in FY22 vs. current co-location count of 176322. We expect reported rentals to witness 4.3% CAGR in FY20-22E to ₹ 9835 crore, driven by exit penalties.

## Merger to be consummated soon...

We note that both the Infratel board and Vodafone lenders have approved the merger. NCLT has approved the merger on October 22, 2020 and formal order is awaited, post which it will become effective after filing with RoC. The company does not expect significant synergy from merger. The post-merger shareholding will be Airtel (36.7%), Vodafone Group (28.2%), Providence (3.25) and remaining being public shareholders. VIL will receive ~₹ 4000 crore for its 11.15% stake and will prepay ₹ 2400 crore as security package, for payment agreement. Further, a primary pledge over shares worth ₹ 4000 crore, owned by Vodafone Group will be provided along with a secondary pledge of shares with a maximum liability cap of ₹ 4250 crore.

## Valuation & Outlook

The key risk of VIL's survival seems to have eased out after the latter's fund raise plans, albeit form of survival will key. Furthermore, while opportunities in adjacent areas (viz small cells/smart cities/in building solutions/active network sharing) exist, these may fructify only over the long term. We upgrade to **HOLD** recommendation (vs. REDUCE earlier), with a revised target price of ₹ 220/share, implying 6x FY22E EV/EBITDA (vs. 5x, earlier).



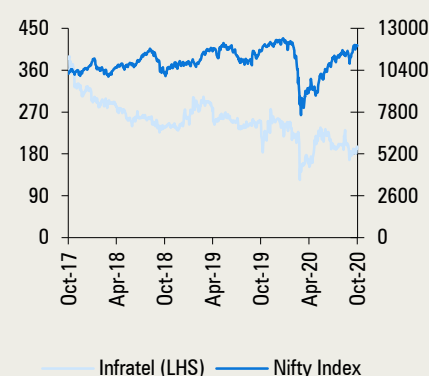
### Particulars

Particulars	Amount
Market Capitalization (₹ crore)	35,540.1
Total Debt (₹ crore)	4,011.1
Cash & Investments (₹ crore)	3,980.9
EV (₹ crore)	35,570.2
52 week H/L (₹)	297/ 120
Equity capital (₹ crore)	1,849.6
Face value (₹)	10.0

### Key Highlights

- Q2 core performance led by healthy tenancy addition of 2116 (highest in last 13 quarter), albeit tempered by negative energy spread, which led to lower margins
- Upgrade to **HOLD** (vs. **REDUCE** earlier), with a revised target price of ₹ 220/share

### Price Chart



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### 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	14,784.1	15,553.8	3.0
EBITDA (₹ crore)	6,380.1	6,001.2	7,350.0	7,426.6	7,856.9	3.4
Net Profit (₹ crore)	2,493.7	2,493.8	3,298.7	3,026.4	3,246.2	(0.8)
EPS (₹)	13.5	13.5	17.8	16.4	17.6	
P/E (x)	14.3	14.3	10.8	11.7	10.9	
Price / Book (x)	2.1	2.4	2.6	2.7	2.8	
EV/EBITDA (x)	4.8	5.8	5.8	5.6	5.2	
RoCE (%)	21.1	21.2	18.1	19.7	22.2	
RoE (%)	14.7	17.2	24.4	23.4	25.9	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	3,695.2	3,631.7	3,637.6	3,504.7	1.6	5.4	Revenue growth driven by energy revenues, up 9% QoQ, at ₹ 1375 crore. Core rental revenues came in at ₹ 2320 crore, up 3.4% QoQ.
Other Income	47.2	30.0	34.9	23.9	35.2	97.5	
Employee Expenses	133.3	139.5	124.0	133.7	7.5	-0.3	
Power and Fuel	1,421.0	1,352.4	1,403.6	1,287.0	1.2	10.4	
Rent	0.0	0.0	0.0	0.0			
Other Expenses	125.2	134.4	46.3	150.1	170.4	-16.6	
Repairs and Maintenance	198.9	172.3	185.4	166.7	7.3	19.3	
EBITDA	1,816.8	1,833.1	1,878.3	1,767.2	-3.3	2.8	
EBITDA Margin (%)	49.2	50.5	51.6	50.4	-247 bps	-126 bps	Margin was impacted by energy margins wherein it recorded negative margins of 3.3%, as the tenants have moved to pass through and some disputes thereafter
Depreciation	726.3	715.2	745.3	705.7	-2.5	2.9	
Interest	155.2	140.0	125.1	142.5	NM	NM	
Exceptional Items	0.0	0.0	0.0	0.0	NA	NA	
Total Tax	249.9	254.0	79.3	239.3	215.1	4.4	
PAT	732.6	753.9	963.5	703.6	-24.0	4.1	
Towers (Consolidated)	97,283	96,036	92,277	94,244	5.42	3.23	
Tenancy Ratio (x) (Consolidated)	1.82	1.82	1.88	1.85	-3.5	-2.0	
Sharing revenue per tower p.m	80,100	78,249	76,159	81,113	5.17	-1.25	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY21E			FY22E		
(₹ Crore)	Old	New	% Change	Old	New	% Change
Revenue	14,225.9	14,784.1	3.9	14,552.2	15,553.8	6.9
EBITDA	7,417.7	7,426.6	0.1	7,661.4	7,856.9	2.6
EBITDA Margin (%)	52.1	50.2	-191 bps	52.6	50.5	-209 bps
PAT	3,082.5	3,026.4	-1.8	3,210.9	3,246.2	1.1
EPS (₹)	16.7	16.4	-1.8	17.4	17.6	1.1

Source: Company, ICICI Direct Research

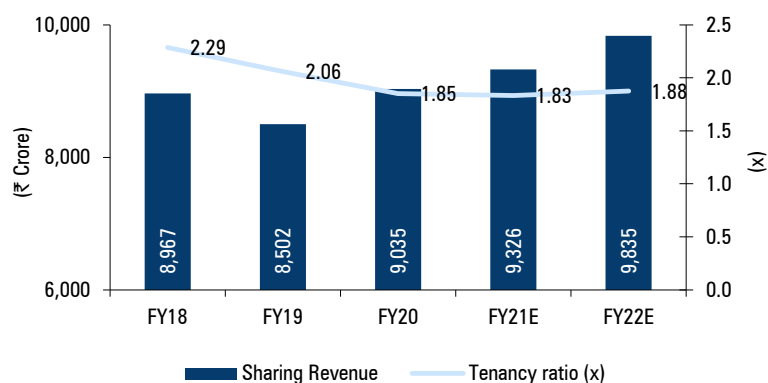
**Exhibit 3: Assumptions**

	Current				Earlier	
	FY18	FY19	FY20	FY21E	FY21E	FY22E
<b>Bharti Infratel Standalone</b>						
Towers (No.)	39,523	40,388	42,053	43,672	44,198	42,721
Tenancy Ratio (x)	2.26	2.06	1.84	1.81	1.85	1.82
Total Co-locations (No.)	88,665	76,341	75,715	79,136	83,349	78,440
Sharing revenue per tower p.m	86,253	82,622	85,537	86,004	88,395	84,268
Sharing Revenue (₹ Crore)	4,068.8	3,961.5	4,231.0	4,423.6	4,660.4	4,268.2
<b>Indus Towers</b>						
Towers (No.)	1,23,639	1,23,546	1,26,949	1,30,534	1,31,582	1,28,056
Tenancy Ratio (x)	2.30	2.05	1.86	1.86	1.90	1.88
Total Co-locations (No.)	2,78,408	2,29,483	2,35,396	2,42,849	2,54,777	2,44,597
Sharing revenue per tower p.m	78,892	72,889	76,108	75,548	78,338	75,797
Sharing Revenue (₹ Crore)	11,661.9	10,810.2	11,438.8	11,671.4	12,320.2	11,597.2
<b>Bharti Infratel Consolidated</b>						
Towers (No.)	91,451	92,277	95,372	98,496	99,463	96,505
Tenancy Ratio (x)	2.29	2.06	1.85	1.83	1.88	1.85
Total Co-locations (No.)	2,05,596	1,72,724	1,74,581	1,81,132	1,90,355	1,81,171
Sharing revenue per tower p.m	82,070	77,122	80,250	80,171	82,802	79,540
Sharing Revenue (₹ Crore)	8,966.8	8,501.8	9,035.3	9,325.6	9,834.8	9,157.1

Source: Company, ICICI Direct Research

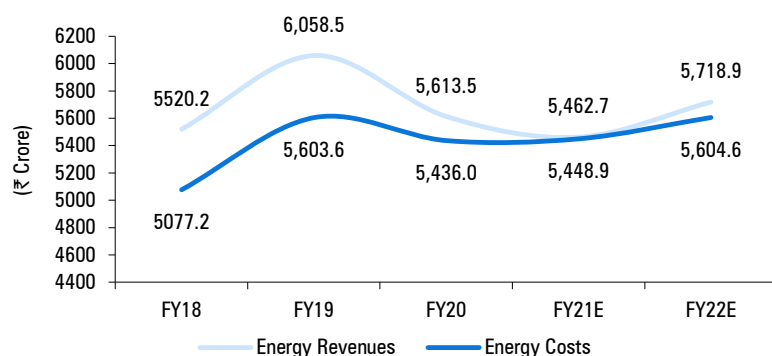
## Key Charts

**Exhibit 4: Bharti Infratel consolidated tenancy, sharing revenues**



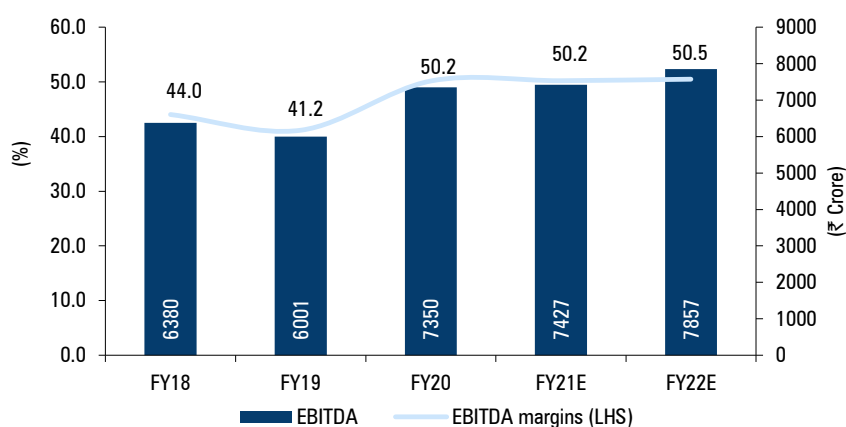
Source: Company, ICICI Direct Research

**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
<b>Total operating Income</b>	<b>6,826.2</b>	<b>6,743.0</b>	<b>7,036.3</b>	<b>7,394.0</b>
Growth (%)	3.1	-1.2	4.4	5.1
Other Income	101.5	128.7	84.7	92.0
Total Revenue	6,927.7	6,871.7	7,121.0	7,486.0
Rent	344.6	0.0	0.0	0.0
Employee Expenses	291.5	293.5	340.2	363.4
Power and Fuel	2,525.8	2,367.2	2,525.2	2,569.6
Other Expenses	188.7	274.2	289.7	347.5
Repairs & Maintenance	363.5	250.3	276.0	279.3
Total Operating Expenditure	3,714.1	3,185.2	3,431.1	3,559.9
<b>EBITDA</b>	<b>3,112.1</b>	<b>3,557.8</b>	<b>3,605.2</b>	<b>3,834.1</b>
Growth (%)	-1.4	14.3	1.3	6.3
Depreciation	1,065.8	1,281.5	1,182.9	1,183.8
Interest	-387.7	-2.0	82.5	80.0
Other Income	101.5	128.7	84.7	92.0
PBT	2,535.5	2,407.0	2,424.6	2,662.3
Profit from associates	1,017.2	1,380.5	1,150.3	1,126.6
Exceptional Items	0.0	0.0	0.0	0.0
Total Tax	1,058.9	488.8	548.6	542.8
<b>PAT</b>	<b>2,493.8</b>	<b>3,298.7</b>	<b>3,026.4</b>	<b>3,246.2</b>
Growth (%)	0.0	32.3	-8.3	7.3
<b>EPS (₹)</b>	<b>13.5</b>	<b>17.8</b>	<b>16.4</b>	<b>17.6</b>

Source: Company, ICICI Direct Research

## Merger Proforma

**Exhibit 8: Merged entity proforma EBITDA/revenues**

₹ crore	Infratel Standalone			Indus Towers			Combined Entity		
	FY20	FY21E	FY22E	FY20	FY21	FY22	FY20	FY21	FY22
Tower (No.)	42,053	43,672	44,198	1,26,949	1,30,534	1,31,582	1,69,002	1,74,206	1,75,780
Tenancies (No.)	75,715	79,136	83,349	2,35,396	2,42,849	2,54,777	3,11,111	3,21,985	3,38,127
Tenancy Ratio (x)	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.8	1.9
Revenues	6,738	7,035	7,394	18,828	18,452	19,428	25,566	25,486	26,822
EBITDA	3,498	3,605	3,834	9,106	9,178	9,578	12,605	12,783	13,412
Margin (%)	51.9	51.2	51.9	48.4	49.7	49.3	49.3	50.2	50.0

Source: Company, ICICI Direct Research

## Other Highlights

- The company indicated that receivables has been increasing as exits payments got deferred. The company is yet to receive ~₹ 800-900 crore of exit penalty. The management expects receivables to decline post-merger
- The company also said that negative energy spread was due to change in structure (tenants moving to pass through vs. fixed contract) and some disputes thereafter. It will continue to push for fixed model, which, it believes, is a win-win for all. It also lowered energy margin guidance to 0-2% with FY21 margins being on lower end of guidance
- The company refrained from giving guidance on capex given its dependence on the telcos' network expansion plans. It, however, expects Q2 capex to be the run rate, going forward
- The company said that FDI limit is 100%. Bharti Airtel's share in the company is not treated as foreign entity. Furthermore, post-merger, Bharti Infratel will not be treated as a subsidiary of Bharti Airtel
- The reported numbers also include exit penalty of ₹ 68.4 crore, recorded on a cash basis

## Financial summary

Exhibit 9: Profit and loss statement					₹ crore	
(Year-end March)	FY19	FY20E	FY21E	FY22E		
<b>Total operating Income</b>	<b>6,826.2</b>	<b>6,743.0</b>	<b>7,036.3</b>	<b>7,394.0</b>		
Growth (%)	3.1	-1.2	4.4	5.1		
Other Income	101.5	128.7	84.7	92.0		
Total Revenue	6,927.7	6,871.7	7,121.0	7,486.0		
Rent	344.6	0.0	0.0	0.0		
Employee Expenses	291.5	293.5	340.2	363.4		
Power and Fuel	2,525.8	2,367.2	2,525.2	2,569.6		
Other Expenses	188.7	274.2	289.7	347.5		
Repairs & Maintenance	363.5	250.3	276.0	279.3		
Total Operating Expenditure	3,714.1	3,185.2	3,431.1	3,559.9		
<b>EBITDA</b>	<b>3,112.1</b>	<b>3,557.8</b>	<b>3,605.2</b>	<b>3,834.1</b>		
Growth (%)	-1.4	14.3	1.3	6.3		
Depreciation	1,065.8	1,281.5	1,182.9	1,183.8		
Interest	-387.7	-2.0	82.5	80.0		
Other Income	101.5	128.7	84.7	92.0		
PBT	2,535.5	2,407.0	2,424.6	2,662.3		
Profit from associates	1,017.2	1,380.5	1,150.3	1,126.6		
Exceptional Items	0.0	0.0	0.0	0.0		
Total Tax	1,058.9	488.8	548.6	542.8		
<b>PAT</b>	<b>2,493.8</b>	<b>3,298.7</b>	<b>3,026.4</b>	<b>3,246.2</b>		
Growth (%)	0.0	32.3	-8.3	7.3		
<b>EPS (₹)</b>	<b>13.5</b>	<b>17.8</b>	<b>16.4</b>	<b>17.6</b>		

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
Profit after Tax	2,493.8	3,298.7	3,026.4	3,246.2		
Add: Depreciation	2,223.9	2,957.1	2,913.0	3,045.5		
Add: Interest Paid	(157.1)	500.7	597.7	600.0		
(Inc)/dec in Current Assets	-879.1	-686.6	-384.8	-255.0		
Inc/(dec) in CL and Provisions	-316.9	-193.1	30.8	172.9		
<b>CF from operating activities</b>	<b>3,364.6</b>	<b>5,876.8</b>	<b>6,183.0</b>	<b>6,809.6</b>		
(Inc)/dec in Investments	1,987.7	-641.0	300.0	-200.0		
(Inc)/dec in Fixed Assets	-1,578.9	-2,441.6	-1,949.5	-1,949.5		
Others	393.9	436.9	-204.5	-175.3		
<b>CF from investing activities</b>	<b>802.7</b>	<b>-2,645.7</b>	<b>-1,854.0</b>	<b>-2,324.8</b>		
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	597.7	600.0		
Others	-691.1	-337.9	-1,495.4	-1,500.0		
<b>CF from financing activities</b>	<b>-4,107.5</b>	<b>-3,124.0</b>	<b>-4,227.0</b>	<b>-4,229.3</b>		
Net Cash flow	59.8	107.1	102.0	255.5		
Opening Cash	75.9	135.7	242.8	344.8		
<b>Closing Cash</b>	<b>135.7</b>	<b>242.8</b>	<b>344.8</b>	<b>600.4</b>		

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
<b>Liabilities</b>						
Equity Capital	1,849.6	1,849.6	1,849.6	1,849.6		
Reserve and Surplus	12,674.9	11,688.4	11,085.5	10,702.4		
Total Shareholders funds	14,524.5	13,538.0	12,935.1	12,552.0		
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		
<b>Total Liabilities</b>	<b>18,765.4</b>	<b>25,284.3</b>	<b>23,681.4</b>	<b>22,348.3</b>		
<b>Assets</b>						
Gross Block	34,113.0	36,648.5	38,598.1	40,547.6		
Accumulated Depreciation	21,525.9	24,483.0	27,396.0	30,441.5		
Net Block	12,587.1	12,165.5	11,202.0	10,106.0		
Capital WIP	248.5	154.6	154.6	154.6		
Total Fixed Assets	12,835.6	12,320.1	11,356.6	10,260.6		
Right of Use	0.0	5,129.8	4,329.8	3,529.8		
Investments	4,797.3	5,438.3	5,138.3	5,338.3		
Debtors	1,488.3	2,068.3	2,430.3	2,556.8		
Loans and Advances	2,000.5	2,150.1	2,170.2	2,283.2		
Other Current Assets	338.3	295.3	298.1	313.6		
Cash	135.7	242.8	344.8	600.4		
Total Current Assets	3,962.8	4,756.5	5,243.4	5,753.9		
Creditors	511.7	1,843.0	1,860.2	1,957.1		
Provisions	308.5	210.4	212.4	223.4		
Other Current Liabilities	2,664.0	1,237.7	1,249.3	1,314.3		
Total Current Liabilities	3,484.2	3,291.1	3,321.9	3,494.8		
Net Current Assets	478.6	1,465.4	1,921.5	2,259.1		
Others Assets	653.9	930.7	935.2	960.5		
<b>Application of Funds</b>	<b>18,765.4</b>	<b>25,284.3</b>	<b>23,681.4</b>	<b>22,348.3</b>		

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore	
(Year-end March)	FY19	FY20	FY21E	FY22E		
<b>Per share data (₹)</b>						
EPS	13.5	17.8	16.4	17.6		
Cash EPS	25.5	33.8	32.1	34.0		
BV	78.5	73.2	69.9	67.9		
DPS	15.0	13.0	15.0	15.0		
Cash Per Share	0.7	1.3	1.9	3.2		
<b>Operating Ratios</b>						
EBITDA Margin (%)	41.2	50.2	50.2	50.5		
PAT Margin (%)	17.1	22.5	20.5	20.9		
Debtor days	37.3	51.5	60.0	60.0		
Creditor days	12.8	45.9	45.9	45.9		
<b>Return Ratios (%)</b>						
RoE	17.2	24.4	23.4	25.9		
RoCE	21.2	18.1	19.7	22.2		
RoIC	25.6	29.1	30.7	33.5		
<b>Valuation Ratios (x)</b>						
P/E	14.3	10.8	11.7	10.9		
EV / EBITDA	5.8	5.8	5.6	5.2		
Market Cap / Sales	2.4	2.4	2.4	2.3		
Price to Book Value	2.4	2.6	2.7	2.8		
<b>Solvency Ratios</b>						
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	1.5	1.5		
Quick Ratio	1.1	1.4	1.5	1.5		

Source: Company, ICICI Direct Research

**Exhibit 13: ICICI Direct Coverage Universe (Telecom)**

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bharti Airtel	434	700	Buy	2,36,991	-59.0	-24.7	11.2	NM	NM	38.8	9.7	8.4	6.6	3.5	6.9	9.2	-4.7	4.2	11.3
Bharti Infratel	192	220	Hold	35,540	17.8	16.4	17.6	10.8	11.7	10.9	5.8	5.6	5.2	18.1	19.7	22.2	24.4	23.4	25.9
Vodafone Idea	9	6	Sell	26,006	-25.7	-14.5	-6.8	NM	NM	NM	9.3	11.3	8.7	-5.7	-4.4	-3.4	NM	NM	NM
Sterlite Tech	156	150	Reduce	6,177	10.8	8.1	11.8	14.5	19.3	13.2	7.6	9.1	7.1	27.8	20.9	15.4	33.0	25.0	16.5
Tata Comm	919	1,055	Buy	26,192	-3.0	38.9	43.7	NM	23.7	21.1	10.8	8.0	7.1	7.8	14.9	16.4	-22.2	-426.5	142.5

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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