

BSE SENSEX
 48,944

 S&P CNX
 14,341


Bloomberg	BHARTI IN
Equity Shares (m)	5,456
M.Cap.(INRb)/(USDb)	2934.4 / 39.3
52-Week Range (INR)	623 / 394
1, 6, 12 Rel. Per (%)	2/3/-46
12M Avg Val (INR M)	12118
Free float (%)	44.2

Financials & Valuations (INR b)

Y/E March	FY21E	FY22E	FY23E
Sales	1,018.6	1,143.8	1,271.8
EBITDA	461.7	557.0	639.0
Adj. PAT	4.6	24.7	42.9
EBITDA Margin. %	45.3	48.7	50.2
Adj. EPS (INR)	0.8	4.5	7.9
EPS Gr. (%)	-111.3	435.8	73.8
BV/Sh. (INR)	115.9	120.4	128.3

Ratios

Net D:E	2.0	1.9	1.3
RoE (%)	0.7	3.8	6.3
RoCE (%)	13.6	6.8	8.8
Payout (%)	0.0	0.0	0.0

Valuations

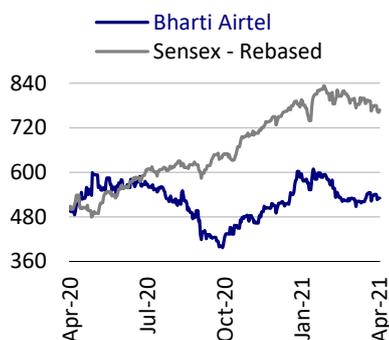
EV/EBITDA (x)	8.9	7.4	6.1
P/E (x)	NM	115.3	66.4
P/BV (x)	4.5	4.3	4.1
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	55.9	56.2	59.0
DII	20.4	21.8	15.8
FII	18.6	17.8	20.3
Others	5.2	4.2	4.9

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR534
TP: INR720 (+35%)
Buy

Insulated from COVID woes

Expect steady growth irrespective of price hike

BHARTI has been an underperformer despite elevated expectations around business potential/growth. In this note, we highlight our key arguments as to why we believe it offers a good risk-reward equation

- Despite the COVID woes, Bharti has delivered estimated EBITDA growth of 28% and the trend should continue in FY22E with estimated consol. EBITDA growth of 21%.
- This should be on the back of steady market share gains; we think, irrespective of a tariff hike, earnings growth should continue to be strong.
- FCF generation and deleveraging have been a concern for the past 4–6 quarters. However, we are now seeing a more focused approach to drive healthy INR233b FCF (in FY23E) and corresponding deleveraging benefits.
- The stock looks attractively valued at EV/EBITDA of 6x – as it does not capture the potential tariff hikes and garners 8% FCF yield on an FY23 basis. Maintain Buy, with TP of INR720.

Limited COVID impact

In the past year, even as most businesses were severely impacted by the COVID-led lockdown, Bharti's consolidated revenue/EBITDA is estimated to have grown 17%/28% in FY21, with the India Wireless business revenue/EBITDA up ~21%/44%. Wireless EBITDA grew 3% QoQ even during the strict lockdown in 1QFY21, when telcos were offering free validity to low-ARPU subscribers – this underscores the inherent strength of the company. Thus, the company does not face any imminent risks from the ongoing second wave of COVID. The lack of physical recharges / new SIM card availability in the ongoing lockdown may have a minimal impact on the company as an increase in the number of online recharges (50% currently estimated) and data subscribers should offset the impact (as seen in the previous lockdown).

Steady market share gains; price hikes irrelevant

Although the Telecom industry awaits a price hike, since the previous one taken about five quarters ago, Bharti has delivered steady revenue/EBITDA growth (of 10%/35% YoY in 4QFY21E) in the Wireless business – on the back of healthy market share gains. Subscriber/revenue market share gains of 180bp/550bp (33.7%/35.3%) over 9MFY21 are commendable, with gross/active subscribers adds of 3%/4%. Wins in the 4G market have been a key factor in improving ARPU – it added 30.1m 4G subscribers of the total 56.8m industry adds, implying incremental market share of 53%. One of the key factors is its superior data experience, reflected in its data usage, which is just one-third that of Rjio's despite the similar network capability. Thus, irrespective of a price hike, Bharti has the ability to deliver 2–3% ARPU growth on average and 1–2% subscriber adds quarterly, which should drive annual revenue growth of 12–13%. Assuming 65% incremental market share, EBITDA should grow at a 21% CAGR over FY21–23E.

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FCF generation to improve

In the last six quarters, despite healthy EBITDA growth, Bharti has been unable to garner high FCF generation – which could be utilized to deleverage the balance sheet. The exponential data growth during the lockdown required intensification of the network, which kept FY21E capex high (similar to FY20 levels), contrary to the management guidance for a capex reduction. Additionally, Bharti spent a) INR28.8b for 4.94% additional stake in Indus, b) INR31b for the buyback of Warburg Pincus' 20% stake in the DTH business, and c) INR187b (INR70b in 4QFY21 as an upfront payment) on the spectrum auction. Furthermore, continued one-offs/extraordinary provisions of INR164b resulted in a net loss position in FY21. This has been a key dampener as the high EBITDA growth has not reflected in the form of FCF improvement or the return of net profit. However, going forward, capex should reduce as more spectrum acquisitions would reduce site additions. Moreover, with the management's focus on FCF and deleveraging, it should refrain from utilizing OCF in other avenues. Subsequently, we expect FCF (post-interest) at ~INR233b in FY23 (at EBITDA of INR639b).

RoCE turning relevant

Over the last 10 years, BHARTI's RoCE was barely in the mid-single digits due to a hyper-competitive landscape and its continued capex for technological advancements, spectrum renewals, and investments in Africa. Now with benign competition and the limited possibility of a new player's entry, ARPU could be determined to at least cover WACC. In our view, at EBITDA of INR639b in FY23E, BHARTI could garner pre-tax RoCE of ~12%.

Risk of capex intensity

We do not see any material investments in 5G to happen over the next 2–3 years as a) new use cases for 5G are few and far between and b) the incremental consumer benefit is limited – as data speed could be easily dealt with through 4G investments. Furthermore, unlike in the past – when 4G investments were inevitable due to the entry of a new player – we do not see any pressure on technology or spectrum investments.

Valuation and view

In the last year, the stock has given ~5% returns after much oscillation in its stock price – it slipped ~13% from the peak of INR602 as high capex hurt FCF and deleveraging expectations. With improving FCF potential, the stock would certainly command better multiples. Our estimates factor in the AGR liability of INR260b. However, they do not capture the corresponding potential upside for BHARTI from incremental ARPU growth or potential market share gains from the AGR liability being fulfilled. This could garner an incremental EBITDA opportunity of ~INR100b. Even without this, the valuation seems compelling at FY23E EBITDA of INR639b, implying 8% FCF yield (post-interest). We maintain our **Buy** rating, with SOTP-based TP of INR720, assigning 10x (to capture the incremental earnings upside) to the India Wireless EBITDA and 6x to Africa.

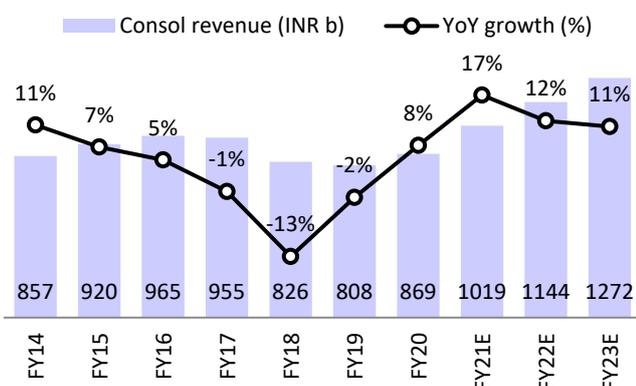
Exhibit 1: Bharti's FY23E-based SOTP

	EBITDA (INR b)	Ownership (%)	Proportionate EBITDA (INR b)	EV/EBITDA	Fair Value (INR b)	Value/Share
India SA business (excl. towers)	447	100	447	10	4,679	858
Tower business (15% discount to fair value)		41.0			230	42
Africa business	192	55.2	106	6	683	125
Less net debt					1661	305
Total Value					3930	720
Shares o/s (b)	5.5					
CMP						534
Upside (%)						35

Source: MOFSL

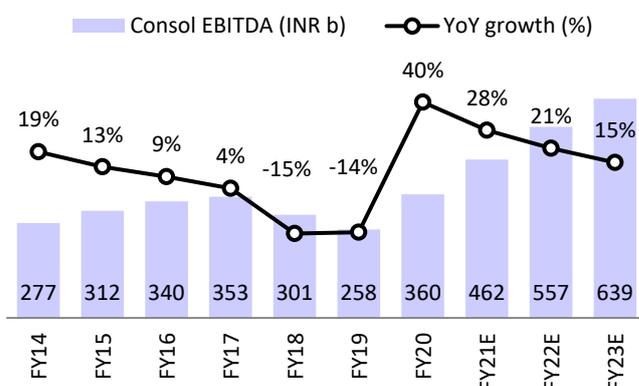
Key exhibits

Exhibit 2: Bharti to clock 14% revenue CAGR over FY20–23E...



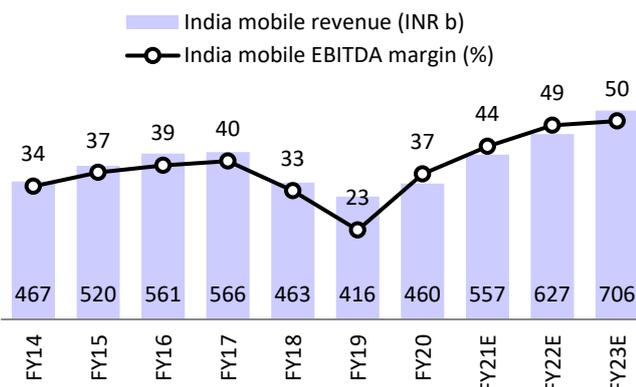
Source: Company, MOFSL

Exhibit 3: ...EBITDA to grow at 21% over this period



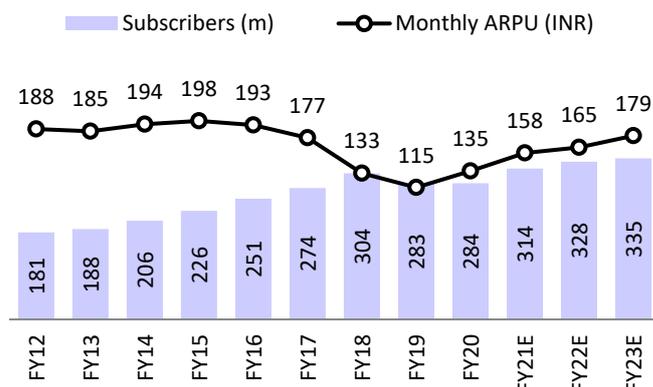
Source: Company, MOFSL

Exhibit 4: India Wireless EBITDA margin to expand 1,340bps



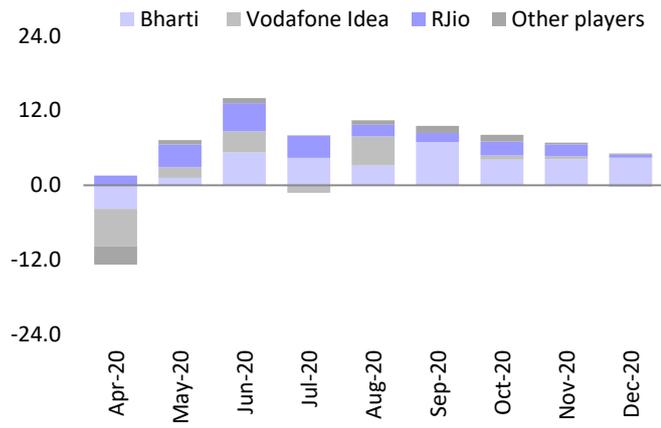
Source: Company, MOFSL

Exhibit 5: APRU/subs to continue to grow



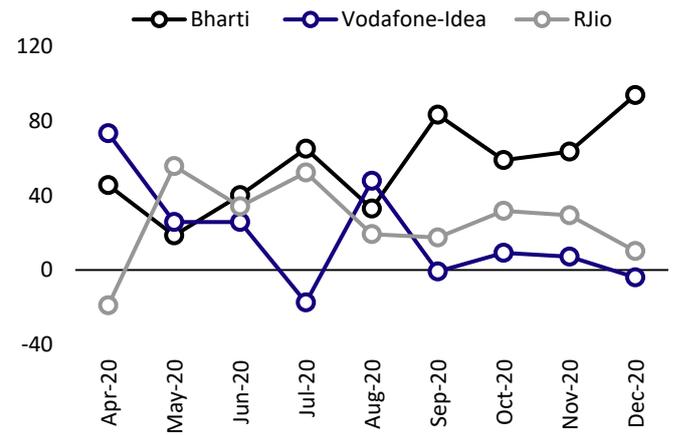
Source: Company, MOFSL

Exhibit 6: Telcos' MBB adds over 9MFY21



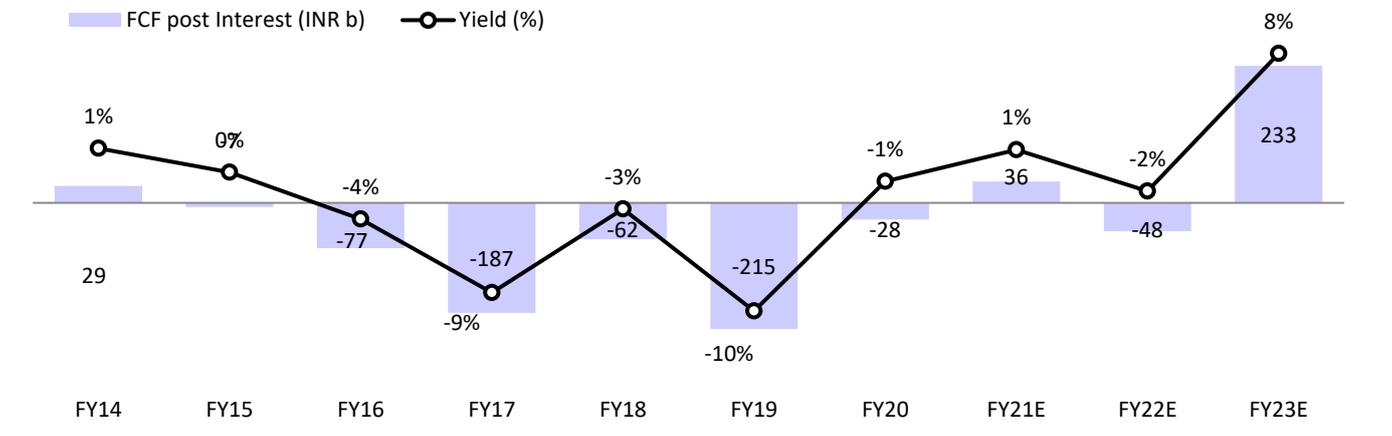
Source: TRAI, MOFSL

Exhibit 7: Bharti captures majority incremental MBB share



Source: TRAI, MOFSL

Exhibit 8: FCF post-interest yield at 8% in FY23E



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement							(INR b)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	920	965	955	826	808	869	1,019	1,144	1,272
Change (%)	7.3	4.9	-1.1	-13.4	-2.2	7.6	17.2	12.3	11.2
Total Expenditure	608	625	601	526	550	509	557	587	633
% of Sales	66.1	64.8	63.0	63.6	68.1	58.6	54.7	51.3	49.8
EBITDA	312	340	353	301	258	360	462	557	639
Margin (%)	33.9	35.2	37.0	36.4	31.9	41.4	45.3	48.7	50.2
Depreciation	155	174	198	192	213	276	305	351	387
EBIT	157	165	156	108	44	85	157	206	252
Int. and Finance Charges	48	69	77	81	96	135	142	142	130
Other Income	7	11	10	13	5	16	6	14	14
PBT bef. EO Exp.	115	107	89	41	-47	-34	22	79	137
EO Items	-8	22	-12	-8	29	-402	-164	0	0
PBT after EO Exp.	107	128	77	33	-17	-437	-142	79	137
Total Tax	54	60	35	11	-34	-123	92	32	55
Tax Rate (%)	50.4	46.3	45.1	33.2	197.4	28.2	-64.8	40.0	40.0
Minority Interest	1	8	4	11	13	15	10	23	39
Reported PAT	52	61	38	11	4	-322	-139	25	43
Adjusted PAT	56	49	44	14	-35	-41	5	25	43
Change (%)	102.7	-12.0	-9.5	-68.6	-350.3	16.6	-111.3	435.8	73.8
Margin (%)	6.1	5.1	4.7	1.7	-4.3	-4.7	0.5	2.2	3.4

Consolidated - Balance Sheet							(INR b)		
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	20	20	20	20	20	27	27	27	27
Total Reserves	600	648	655	675	694	744	605	630	673
Net Worth	620	668	675	695	714	771	632	657	700
Minority Interest	49	55	69	88	135	250	260	282	322
Total Loans	807	1,005	1,073	1,113	1,254	1,176	1,391	1,220	1,048
Lease liabilities						306	306	306	306
Deferred Tax Liabilities	-44	-34	-17	-22	-83	-263	-263	-263	-263
Capital Employed	1,431	1,693	1,799	1,875	2,021	2,241	2,326	2,203	2,113
Net Fixed Assets	1,501	1,780	1,891	1,589	1,684	1,690	1,994	2,045	1,873
Right of use assets						259	259	259	259
Total Investments	170	120	182	180	176	278	141	141	141
Curr. Assets, Loans&Adv.	227	311	234	327	382	724	1,058	915	1,029
Inventory	1	2	0	1	1	2	1	2	2
Account Receivables	67	55	47	59	43	46	58	59	71
Cash and Bank Balance	12	37	13	48	62	136	417	239	311
Loans and Advances	146	217	173	219	276	541	581	615	644
Curr. Liability & Prov.	468	518	507	602	641	1,097	1,125	1,156	1,187
Account Payables	459	508	497	577	621	621	649	673	705
Provisions	8	10	10	25	20	476	476	482	483
Net Current Assets	-241	-207	-273	-275	-259	-373	-67	-241	-159
Appl. of Funds	1,431	1,693	1,799	1,875	2,021	2,241	2,326	2,203	2,113

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)									
EPS	14.0	12.3	11.1	3.5	-8.7	-7.5	0.8	4.5	7.9
Cash EPS	52.8	55.9	60.6	51.6	44.7	43.1	56.7	68.8	78.7
BV/Share	155.0	168.8	168.8	173.9	178.7	141.4	115.9	120.4	128.3
DPS	2.2	1.4	1.0	1.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	19.9	10.8	12.7	43.8	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	37.4	42.5	47.0	149.4	NM	NM	NM	115.3	66.4
Cash P/E	9.9	9.3	8.6	10.1	11.7	12.1	9.2	7.6	6.6
P/BV	3.4	3.1	3.1	3.0	2.9	3.7	4.5	4.3	4.1
EV/Sales	3.1	3.2	3.3	3.8	4.1	4.8	4.1	3.6	3.1
EV/EBITDA	9.2	9.0	8.9	10.5	12.7	11.6	8.9	7.4	6.1
Dividend Yield (%)	0.4	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)									
RoE	9.2	7.6	6.6	2.0	NM	NM	0.7	3.8	6.3
RoCE	5.8	6.1	5.3	4.6	NM	3.7	13.6	6.8	8.8
RoIC	6.5	6.4	5.4	4.5	NM	3.5	14.6	6.9	8.7
Working Capital Ratios									
Asset Turnover (x)	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.6
Debtor (Days)	27	21	18	26	19	19	21	19	20
Leverage Ratio (x)									
Net Debt/Equity	1.0	1.3	1.3	1.3	1.4	1.5	2.0	1.9	1.3

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	107	128	77	33	-17	-428	-37	79	137
Depreciation	155	174	198	192	213	277	305	351	387
Interest & Finance Charges	73	85	95	93	110	137	142	142	130
Direct Taxes Paid	-46	-47	-32	-14	-12	-23	-92	-32	-55
(Inc)/Dec in WC	-2	-4	-27	6	-55	-166	-24	-4	-10
CF from Operations	288	338	311	311	239	-203	293	536	588
Others	-12	-58	-19	-12	-39	384	0	0	0
CF from Operating incl EO	276	279	292	299	201	181	293	536	588
(Inc)/Dec in FA	-210	-271	-384	-267	-305	-221	-222	-402	-215
(Pur)/Sale of Investments	-12	68	-1	-33	1	-88	138	0	0
Others	14	61	69	40	28	10	5	5	5
CF from Investments	-207	-142	-316	-260	-277	-300	-79	-397	-210
Issue of Shares	0	1	1	0	99	462	0	0	0
Inc/(Dec) in Debt	-72	-118	9	40	106	-180	214	-170	-172
Interest Paid	-34	-33	-59	-44	-76	-110	-142	-142	-130
Dividend Paid	-21	-15	-9	-33	-47	-18	0	0	0
Others	31	47	53	56	13	37	0	0	0
CF from Fin. Activity	-97	-118	-4	19	95	191	73	-312	-302
Inc/Dec of Cash	-28	19	-28	58	19	73	287	-173	77
Opening Balance	40	-1	18	-10	41	54	131	412	234
Closing Balance	12	37	13	48	62	136	417	239	311
Less Bank OD	13	-19	-23	7	-8	-5	-5	-5	-5
Closing Cash Balance (with OD)	-1	18	-10	41	54	131	412	234	306

E: MOFSL Estimates

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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