

## Resilient performance...

**About the stock:** Bharti Airtel (Airtel) is India's second largest telecom operator with a revenue market share of ~35% as on Q4FY21. The company has ~32.1 crore wireless customers in India and ~12.1 crore subscribers across operations in 14 African countries.

- It enjoys industry leading ARPU and margins in the wireless business

**Q1FY22 Results:** Airtel reported resilient Q1FY22 results.

- Consolidated topline at ₹ 26,854 crore was up 4.3% QoQ, driven by superior Africa revenues (up 7.6% QoQ at ₹ 8177 crore). Indian wireless revenues were up 1.6% QoQ at ₹ 14,306 crore, with slightly better ARPU, which came in at ₹ 146 was up 0.6% QoQ. 4G net adds of ~5.1 mn, were decent
- EBITDA at ₹ 12,980 crore was up 5.3% QoQ with margin of 48.3%, up 44 bps QoQ. India wireless margins, at 49.2%, were up 165 bps QoQ

**What should investors do?** Airtel share price has grown ~72% over the past five years.

- We maintain **BUY** on the company

**Target Price and Valuation:** We value Airtel at a DCF based target price of ₹ 720

**Key triggers for future price performance:**

- The favourable industry structure of three players (two being strong) or two players, is a good enough kicker for eventual hike in tariff as well as superior digital play in the medium to long term
- The non-wireless business momentum along with Africa performance, continues to be robust
- Overall growth opportunity from 5G in the long term

**Alternate Stock Idea:** Apart from Bharti Airtel, in our telecom & media coverage we like Inox Leisure

- A play on multiplexes recovery and their improving market share with strong balance sheet
- BUY with a target price of ₹ 365



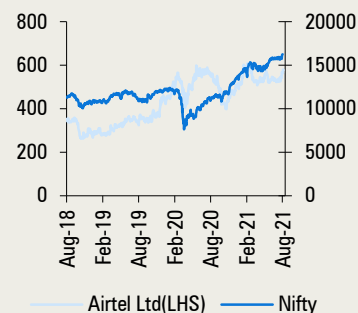
### Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	3,13,479
Total Debt (₹ Crore)	1,62,785
Cash & Inv (₹ Crore)	14,071
EV (₹ Crore)	4,62,193
52 week H/L	623/ 394
Equity capital	2,727.8
Face value	5.0

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	56.2	56.2	55.9	55.9
DII	21.7	21.7	20.4	20.6
FII	17.6	17.8	18.6	18.1
Other	4.5	4.3	5.2	5.4

### Price Chart



### Key risks

**Key Risk:** (i) Delay in tariff hike; (ii) Increased competitive intensity

### Research Analyst

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### Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 y CAGR (FY21-23E)
Net Sales (₹ crore)	80,780	87,539	1,00,616	0.8	1,12,623	1,28,966	13.2
EBITDA (₹ crore)	25,630	36,482	45,372	5.9	56,152	67,238	21.7
Net Profit (₹ crore)	409	(32,183)	(15,084)	PL	5,923	14,028	LP
Adjusted PAT (₹ crore)	(2,519)	(4,075)	(1,300)		5,892	14,028	
EPS (₹)	1.0	NA	(27.6)		10.9	25.7	
P/E (x)	560.9	NA	(20.8)		52.9	22.3	
Price / Book (x)	3.2	4.1	5.3		4.8	4.0	
EV/EBITDA (x)	16.6	11.8	10.1		8.0	6.3	
RoCE (%)	2.1	4.1	6.4		9.4	13.7	
RoE (%)	(3.5)	(5.3)	(2.2)		9.1	17.8	

## Key performance highlight and outlook

### India wireless business – decent performance

Key highlight was India wireless margins, which at 49.2%, was up 165 bps QoQ. This was coupled with decent 4G net adds of ~5.1 million (mn) (to 184.1 mn). The company also added ~2.89 lakh post-paid subscribers driven by omni-channel capabilities. **We have seen initial signs of steps by operator including Airtel now to increase implied APRU by a) tweaking their offering (lowering data usage, etc), b) entry level prepaid recharge pricing from ₹ 49 to ₹ 79 and c) recent increase in post-paid tariff especially moving the minimum corporate pack up to ₹ 299/month to ₹ 199/month, etc. Thus, this signals that it is a step in the right direction.** While the management maintained that tariff hike is needed for decent RoCE generation they would drive ARPU growth ahead through natural upgrade to 4G and acceleration to post-paid. However, pre-paid tariff hike decision remains a function of competitive intensity. We expect monthly ARPU to reach ₹ 180 in FY23 vs. current levels of ₹ 146, driven by 4G addition, higher wallet share of premium subscribers and back ended tariff growth assumption.

### Non-wireless segment picks up traction

Broadband segment witnessed strong net adds of 285,000 subscribers (highest ever) during the quarter. Notably, the company has accelerated LCO partnerships in non-wired cities, taking up the LCO partnership model live in 301 cities (~203 cities in Q4). The company also outlined robust opportunity on Enterprise side (total market size of ~₹ 40,000 crore) and adjacent areas like Cloud communication, cyber security, IOT with market size of ~₹ 50,000 crore. The company also introduced *Airtel Black* to capitalise on convenience of bundling one-bill for multiple services and thereby, improving wallet share.

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
					FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Bharti Airtel	575	720	Buy	3,13,479	-27.6	10.9	25.7	NM	52.9	22.3	10.1	8.0	6.3	6.4	9.4	13.7	-2.2	9.1	17.8
Vodafone Idea	6	5	Sell	17,327	-15.4	-8.7	-8.3	NM	NM	NM	12.0	12.1	10.5	-4.1	-3.3	-1.9	NM	NM	NM

Source: Company, ICICI Direct Research

**Bharti Airtel continues to report resilient numbers, especially on Indian wireless business front. The strong margins traction and decent 4G net adds is a key positive. The non-wireless business momentum along with Africa performance continue to be robust. We see the favourable industry structure of three players (two being strong), a good enough kicker for eventual hike in tariff as well as superior digital play in medium to long term. We maintain our BUY rating on the stock with a DCF based target price of ₹ 720/share (vs. ₹690, earlier)**

### Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	Q4FY21	YoY (%)	QoQ (%)	Comments
Revenue	26,853.6	26,121.4	23,938.7	25,747.3	12.2	4.3	YoY numbers not comparable due to IUC impact
Employee Expenses	1,034.5	1,034.1	1,156.6	998.9	-10.6	3.6	
Marketing Expenses	2,779.4	2,437.4	2,392.7	2,432.5	16.2	14.3	
Access Charges	1,616.6	1,636.6	2,801.1	1,564.9	-42.3	3.3	
Network Operating	5,797.3	5,920.2	5,103.6	5,917.9	13.6	-2.0	
License Fee	2,645.5	2,372.7	2,076.8	2,501.2	27.4	5.8	
EBITDA	12,980.3	12,620.3	10,407.9	12,331.9	24.7	5.3	
EBITDA Margin (%)	48.3	48.3	43.5	47.9	486 bps	44 bps	
Depreciation	7,713.7	7,601.9	7,226.8	7,501.9	6.7	2.8	
Interest	4,225.7	3,914.0	3,456.2	3,860.6	22.3	9.5	
Exceptional Items	-30.5	0.0	11,745.7	-440.4	-100.3	-93.1	There was an overall net exceptional gain of ₹ 30.5 crore on account of sale of telecommunications tower assets in one of the Group's subsidiaries
Total Tax	834.5	592.2	3,817.5	510.1	-78.1	63.6	
PAT	283.5	392.2	-15,933.1	759.2	-101.8	-62.7	
Subscribers (Mn)	321.2	323.5	279.9	321.4	14.8	0.0	
ARPU	146	145	157	145	-6.8	0.6	

Source: Company, ICICI Direct Research

### Change in Estimates

₹ Crore	FY22E			FY23E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,09,505	1,12,623	2.8	1,27,033	1,28,966	1.5	Realign estimates
EBITDA	54,380	56,152	3.3	66,085	67,238	1.7	
EBITDA Margin (%)	49.7	49.9	20 bps	52.0	52.1	12 bps	
PAT	6,206	5,923	-4.6	14,411	14,028	-2.7	Bake higher tax rates for Africa
EPS (₹)	11.4	10.9	-4.6	26.4	25.7	-2.7	

Source: Company, ICICI Direct Research

## Business Highlights (India)

- **Overall revenues & EBITDA:** Overall Indian revenues at ₹ 18,828 crore, were up 2.7% QoQ, largely driven by strong traction in non-wireless businesses. Overall Indian margin was up 34 bps QoQ at 49.3% aided by wireless business margins expansion
- **Wireless revenues & EBITDA:** Indian wireless revenues at ₹ 14,079 crore, was up 1.6% QoQ with **net subscriber decline of 0.1 million while ARPU saw growth of 0.6% QoQ at ₹ 146. Indian wireless margins at 49.2% were up 165 bps QoQ, on account of lower network opex**
- **Subscriber base and 4G addition:** Overall sub base at 321.1 mn, saw decline of ~0.1 mn, largely due to second wave led lockdown. **Airtel witnessed decent 4G net adds of ~5.1 mn during the quarter, with 4G data sub base at 184.4 mn (overall data customers base of 192.9 mn).** The post-paid subscriber addition was also at a healthy ~289,000
- **Minutes and data usage:** Data usage per sub was up 12.4% QoQ to 18.5 GB. Voice usage per customer was down 0.8% QoQ to 1044 minutes. Total minutes on network was up 0.5% QoQ to 1002.3 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, in the other segment of India business, homes services (broadband) revenues were up 8.7% QoQ at ₹ 653 crore with healthy net adds of 2,85,000 subscribers (highest ever. Airtel business (enterprise) revenues were up 2.4% QoQ at ₹ 3789 crore and DTH reported revenues witnessed growth of 5.5% QoQ at ₹ 809 crore
- **Network capacity and capex:** The company has maintained continued access expansion in the form of sites/tower additions (~2409 sites) and capacity through mobile broadband BTS additions (54,967 additions in Q4). Airtel continues to deploy sites and reduce coverage gaps. **India mobile capex was at ₹ 4374 crore (vs. ₹ 3739 crore in Q4) with overall India capex of ₹ 5714 crore (vs. ₹ 5141 crore in Q4)**

## Business highlights (Africa)

- Africa revenues were up 7.2% QoQ to US\$1.11 billion, driven by healthy ARPU growth and subscriber growth. EBITDA margins of 48% (up 34 bps QoQ). Airtel Money reported 9.9% QoQ revenue growth at US\$23 mn. **In rupee terms, Africa revenues were up 7.6% QoQ at ₹ 8177 crore**
- Subscriber base was up by 2.6 mn QoQ at 120.8 mn with ARPU at US\$3.1 up 3.4% QoQ. Data subs base was up by 1.85 mn QoQ at 42.4 mn while total data usage was up 17.9% QoQ at 410.7 bn MB. Data usage per subscriber was at 3.2 GB per month, up 14% QoQ
- Africa net debt (including lease obligations) was at US\$3.54 bn. Capex was ~US\$106 mn
- Operating free cash flow for Q1FY22 was at US\$426 million

## Other Highlights

- **Consolidated debt and capex:** Total capex spend for the quarter was ₹ 6591 crore vs. ₹ 6846 crore in Q4. Reported net debt (excluding lease liability) was at ~₹ 1.26 lakh crore (up by ~₹ 11000 crore QoQ, on account of deferred payment liabilities for new spectrum acquired in the auction). Net Debt to EBITDA was at ~3x.
- **Second wave impact:** Consolidation of spends was seen and recharges at the lower end of the strata saw some disruption resulting in decline in overall subs. The company also provided ₹ 270 crore of benefits through validity extension. It indicated that from June onwards, recovery was seen. However, given the recent tariff moves, some consolidation is likely in August, with normalisation from September onwards

**Exhibit 1: Segmental revenues**

₹ crore	FY20	FY21	FY22E	FY23E
<b>India</b>	<b>71,111</b>	<b>75,366</b>	<b>83,803</b>	<b>99,741</b>
Mobility	45,966	55,568	62,019	76,044
Broadband	2,245	2,334	2,835	3,240
Enterprise	13,233	14,408	15,618	16,906
Passive Infrastructure	6,742		0	0
Digital + Others	2,924	3,056	3,331	3,552
<b>Africa</b>	<b>24,217</b>	<b>28,863</b>	<b>32,612</b>	<b>33,762</b>
<b>South Asia</b>	<b>455</b>	<b>425</b>	<b>405</b>	<b>450</b>
<b>Total Gross Revenue</b>	<b>95,783</b>	<b>1,04,654</b>	<b>1,16,820</b>	<b>1,33,953</b>
Intersegmental Elimination	-7,789	-4,038	-4,094	-4,987
<b>Net Revenue</b>	<b>87,539</b>	<b>1,00,616</b>	<b>1,12,631</b>	<b>1,28,966</b>

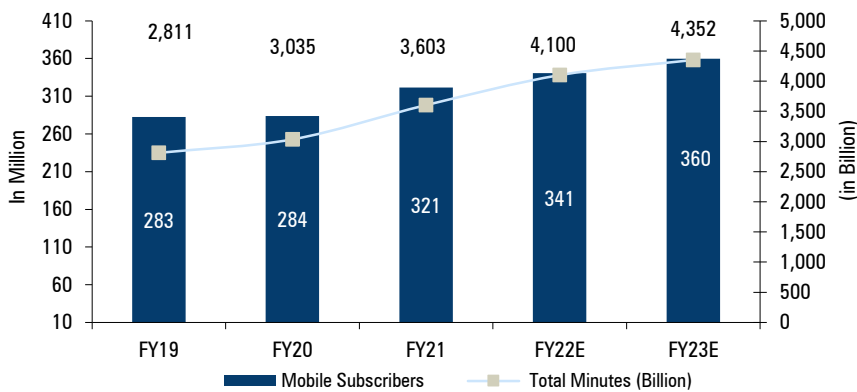
Source: Company, ICICI Direct Research \*excluded tower revenues post H2FY21 after Indus Deconsolidation

**Exhibit 2: Segmental EBITDA**

₹ crore	FY20	FY21	FY22E	FY23E
<b>India &amp; South Asia</b>	<b>26,376</b>	<b>32,841</b>	<b>41,637</b>	<b>51,928</b>
<b>Africa</b>	<b>10,726</b>	<b>13,298</b>	<b>15,044</b>	<b>15,892</b>
<b>Gross EBITDA</b>	<b>37,102</b>	<b>46,139</b>	<b>56,680</b>	<b>67,820</b>
Intersegmental Elimination	620	767	528	582
<b>Reported EBITDA</b>	<b>36482</b>	<b>45372</b>	<b>56152</b>	<b>67238</b>

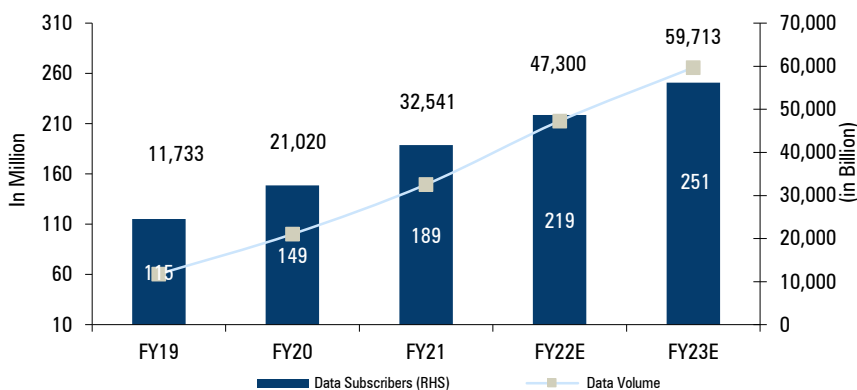
Source: Company, ICICI Direct Research

**Exhibit 3: India subscriber details**



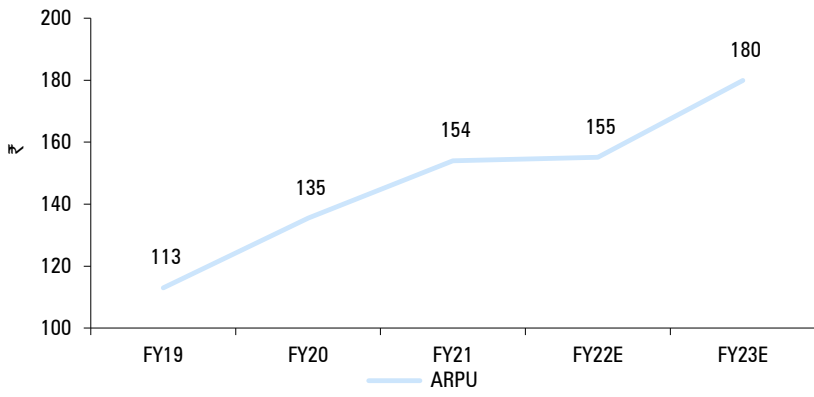
Source: Company, ICICI Direct Research

**Exhibit 4: Data volume and data subs trend**



Source: Company, ICICI Direct Research

**Exhibit 5: India mobile ARPU trend**



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>87,539.0</b>	<b>1,00,615.8</b>	<b>1,12,622.6</b>	<b>1,28,965.8</b>
Growth (%)	8.4	14.9	11.9	14.5
Employee Expenses	3,807.2	4,114.6	4,275.0	4,697.3
Marketing Expenses	9,358.2	9,687.1	11,236.6	12,603.5
Access Charges	10,739.5	10,352.1	6,649.4	7,151.4
Network Operating	19,768.5	21,981.9	23,425.4	25,312.8
License Fee	7,383.3	9,108.4	10,884.0	11,962.2
Other Costs	0.0	0.0	0.0	0.0
Total Operating Expenditure	51,056.7	55,244.1	56,470.6	61,727.3
<b>EBITDA</b>	<b>36,482.3</b>	<b>45,371.7</b>	<b>56,152.1</b>	<b>67,238.5</b>
Growth (%)	42.3	24.4	23.8	19.7
Depreciation	27,689.6	29,404.4	31,759.6	33,531.1
Interest	13,991.8	15,091.0	15,619.4	14,505.1
Other Income	1,934.6	642.8	659.8	700.0
Exceptional Items	40,234.4	4,857.8	(30.5)	-
PBT	-43,498.9	-3,338.7	9,463.4	19,902.3
MI / Profit from associates	866.7	2,812.3	583.2	700.0
Total Tax	-12,182.3	8,932.5	2,957.3	5,174.6
<b>PAT</b>	<b>-32,183.3</b>	<b>-15,083.5</b>	<b>5,922.9</b>	<b>14,027.7</b>
Growth (%)	NA	NA	NA	136.8
<b>EPS (₹)</b>	<b>-59.0</b>	<b>-27.6</b>	<b>10.9</b>	<b>25.7</b>

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-32,183.3	-15,083.5	5,922.9	14,027.7
Add: Depreciation	27,689.6	29,404.4	31,759.6	33,531.1
Add: Interest Paid	13,991.8	15,091.0	15,619.4	14,505.1
(Inc)/dec in Current Assets	(26,805.6)	9,773.9	(3,363.2)	(4,715.9)
Inc/(dec) in CL and Prov	43,832.5	-14,186.9	11,286.1	13,902.8
Others	0.0	0.0	0.0	0.0
<b>CF from op activities</b>	<b>26,525.0</b>	<b>24,998.9</b>	<b>61,224.8</b>	<b>71,250.8</b>
(Inc)/dec in Investments	-9,833.6	-2,067.6	0.0	0.0
(Inc)/dec in Fixed Assets	-23,493.8	-22,165.9	-40,698.8	-22,000.0
Others	-32,124.3	450.5	2,884.5	-4,117.7
<b>CF from inv activities</b>	<b>-65,451.7</b>	<b>-23,783.0</b>	<b>-37,814.3</b>	<b>-26,117.7</b>
Issue/(Buy back) of Equity	729.1	0.0	0.0	0.0
Inc/(dec) in loan funds	22,799.8	14,557.1	2,400.0	-25,000.0
Dividend paid & dividend tax	-1,276.6	0.0	0.0	0.0
Interest Paid	-13,991.8	-15,091.0	-15,619.4	-14,505.1
Others	38,453.5	-3,108.6	0.0	0.0
<b>CF from fin activities</b>	<b>46,713.9</b>	<b>-3,642.5</b>	<b>-13,219.4</b>	<b>-39,505.1</b>
Net Cash flow	7,787.2	-2,426.6	10,191.1	5,628.0
Opening Cash	8,105.5	15,892.7	13,466.1	23,657.2
<b>Closing Cash</b>	<b>15,892.7</b>	<b>13,466.1</b>	<b>23,657.2</b>	<b>29,285.2</b>

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	2,728	2,728	2,728	2,728
Reserve and Surplus	74,417	56,225	62,148	76,175
Total Shareholders funds	77,145	58,953	64,876	78,903
Total Debt	1,48,228	1,62,785	1,65,185	1,40,185
Deferred Tax Liability	1,688	1,611	1,611	1,611
Others	35,012	38,160	34,744	30,626
<b>Total Liabilities</b>	<b>2,62,073</b>	<b>2,61,508</b>	<b>2,66,416</b>	<b>2,51,326</b>
<b>Assets</b>				
Gross Block	3,14,811	3,35,533	3,76,231	3,98,231
Less: Acc Depreciation	1,46,079	1,75,484	2,07,243	2,40,774
Net Block	1,68,731	1,60,049	1,68,988	1,57,457
CWIP	4,282	5,727	5,727	5,727
Goodwill	34,619	34,619	34,619	34,619
Right of Use	25,905	28,812	28,812	28,812
Investments	27,823	29,891	29,891	29,891
Debtors	4,606	3,638	4,072	4,663
Loans and Advances	21,045	14,326	16,036	18,363
Other Current Assets	21,332	19,245	20,464	22,262
Cash	15,893	13,466	23,657	29,285
Total Current Assets	62,875	50,675	64,229	74,573
Creditors	25,020	27,872	32,398	37,100
Other Current Liabilities	73,687	56,648	63,407	72,609
Total Current Liabilities	98,707	84,520	95,806	1,09,709
Net Current Assets	-35,831	-33,845	-31,577	-35,136
Others Assets	36,543	36,256	29,956	29,956
<b>Application of Funds</b>	<b>2,62,073</b>	<b>2,61,508</b>	<b>2,66,416</b>	<b>2,51,326</b>

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	-59.0	-27.6	10.9	25.7
Cash EPS	-8.2	26.2	69.1	87.2
BV	141.4	108.1	118.9	144.6
DPS	2.3	0.0	0.0	0.0
Cash Per Share	29.1	24.7	43.4	53.7
<b>Operating Ratios</b>				
EBITDA Margin (%)	41.7	45.1	49.9	52.1
EBIT Margin (%)	10.0	15.9	21.7	26.1
PAT Margin (%)	-4.7	-1.3	5.2	10.9
Inventory days	0.0	0.0	0.0	0.0
Debtor days	19.2	13.2	13.2	13.2
Creditor days	104.3	101.1	105.0	105.0
<b>Return Ratios (%)</b>				
RoE	-5.3	-2.2	9.1	17.8
RoCE	4.1	6.4	9.4	13.7
RoIC	6.7	11.5	17.5	28.4
<b>Valuation Ratios (x)</b>				
P/E	NA	-20.8	52.9	22.3
EV / EBITDA	11.8	10.1	8.0	6.3
EV / Net Sales	4.9	4.6	4.0	3.3
Market Cap / Sales	3.6	3.1	2.8	2.4
Price to Book Value	4.1	5.3	4.8	4.0
<b>Solvency Ratios</b>				
Debt/EBITDA	4.1	3.6	2.9	2.1
Debt / Equity	1.9	2.8	2.5	1.8
Current Ratio	0.5	0.4	0.4	0.4
Quick Ratio	0.5	0.4	0.4	0.4

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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