

Bharti Airtel

 BSE SENSEX
 58,466

 S&P CNX
 17,417


Bloomberg	BHARTI IN
Equity Shares (m)	5,456
M.Cap.(INRb)/(USD\$b)	4228.5 / 56.8
52-Week Range (INR)	756 / 450
1, 6, 12 Rel. Per (%)	11/27/23
12M Avg Val (INR M)	9946
Free float (%)	44.2

Financials & Valuations (INR b)

INR Billion	FY21	FY22E	FY23E	FY24E
Net Sales	1,006	1,173	1,414	1,590
EBITDA	454	582	744	860
Adj. PAT	-7	35	83	120
EBITDA Margin (%)	45.1	49.6	52.6	54.1
Adj. EPS (INR)	-1.3	6.4	15.2	21.9
EPS Gr. (%)	-82	-591	136	45
BV/Sh. (INR)	107	115	130	152

Ratios

Net D:E	2.5	2.2	1.2	0.5
RoE (%)	-1.1	5.8	12.4	15.6
RoCE (%)	12.8	7.9	12.0	15.6
Div. Payout (%)	0.0	0.0	0.0	0.0

Valuations

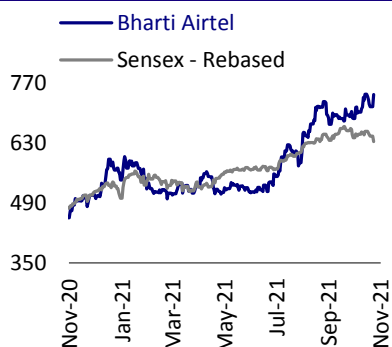
EV/EBITDA (x)	12.4	9.5	7.0	5.6
P/E (x)	NM	115	49	34
P/BV (x)	6.9	6.5	5.7	4.9
Div. Yield (%)	0.0	0.0	0.0	0.0
FCF Yield (%)	2.6	4.1	9.1	10.9

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	55.9	55.9	56.2
DII	19.2	20.6	21.7
FII	19.9	18.2	17.6
Others	5.1	5.3	4.5

FII Includes depository receipts

Stock performance (one-year)


CMP: INR742
TP: INR920 (+24%)
Buy

Bharti hikes tariff, other telcos likely to follow suit

A 20% hike in prepaid plans to boost EBITDA by 13% (INR72b)

- The effective tariff hike of ~20% in prepaid plans is expected to contribute incremental revenue/EBITDA of INR103b/INR72b, thereby driving 13% consolidated EBITDA growth on a 2QFY22 annualized basis.
- To improve cash flow in the industry, other large players are expected to follow suit in the immediate future.
- Bharti's lower churn and strong network capability leaves room for a potentially healthy EBITDA increase, in line with the tariff hike in Dec'19.
- The significant reduction in the data allowance across price plans leaves limited possibility for downtrading.

The math of a tariff hike – 13% rise in consolidated EBITDA

On 22nd Nov'21, Bharti announced a 20% price hike, effective 26th Nov'21, across its prepaid plans, which contributes 85% to India Mobile revenue (15% is postpaid). The tariff hike comes nearly eight quarters from its last hike (Dec'19), even as industry participants have been calling for the same since the last 12 months. With a 20% increase in prices and expected ARPU at INR181, we expect incremental revenue/EBITDA contribution to its India Mobile business to be INR103b/INR72b, i.e. 16%/22% growth, which works out to a 13% growth in consolidated EBITDA on 2QFY22 annualized basis. On an FY24E basis, we revise higher our consolidated EBITDA estimate by 10% to INR821b.

Other telcos likely to follow suit

In line with its previous tariff hike in Dec'19 we expect the other two large telcos – RJio and VIL – to raise tariffs in the immediate future. Both telcos have been advocating the need for a tariff hike to improve the cash flow situation in the industry. Bharti's tariff, effective 26th Nov'21, offers time to other telcos to implement a similar price hike. A similar price hike will increase VIL/RJio's EBITDA by 100%/23%.

Previous hike resulted in a higher earnings translation for Bharti v/s its peers

After the tariff hike in Dec'19, Bharti saw ~80% increase in ARPU, which, in turn, boosted EBITDA. On an annualized basis, India Mobile business EBITDA rose INR44b, or 27%, over 2Q-4QFY20. During the same period, VIL saw a much lower increase in EBITDA by INR12b v/s our expectation of INR50-60b. RJio's EBITDA increase was gradual over the last 4-5 quarters as it has a higher share of long validity customers (two-third of overall). Its ARPU increased by 18% as compared to price hike of 26-27%, possibly due to higher contribution of lower ARPU JioPhone. Bharti's lower churn and strong network capability underscore the potential to see a similar healthy EBITDA increase, in line with the tariff hike in Dec'19.

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 Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Limited risk of downtrading

The price plans are designed in a way that the downtrading reduces the data allowance significantly, thus leaving limited room to do so. Downtrading from its most popular and attractive plans of INR719 for 84 days (i.e. INR257 for 30 days) to its next lower plan offers 34% lower monthly outgo at INR192 for 30 days (i.e. INR179 for 28 days), but reduces the data allowance by nearly 95% to a mere 2GB/month.

An INR200b FCF generating company, yield at 5%

Bharti's consolidated EBITDA (2QFY22 annualized) after capturing the 20% tariff increase would be INR624b. Adjusting for capex, interest, tax, and Ind AS 116, it would be ~INR200b, thus implying a 5% FCF yield. It has the potential to grow EBITDA by more than 20% over the next two years on the back of mix led ARPU improvement and subscriber additions. It does not factor in an additional 13% EBITDA opportunity due to potential market consolidation over time, leaving additional growth levers.

Valuation has more levers

- Without capturing market share gains, the stock is trading at 7x consolidated EBITDA on a one-year forward basis, while the implied India business is trading at 8.5x. This doesn't capture an additional 13% EBITDA opportunity from market consolidation and the re-rating potential due to an improving FCF/RoCE profile.
- We expect 24% CAGR in consolidated EBITDA over FY21-24E on the back of 31% CAGR in Mobile India EBITDA, aided by ARPU growth as a result of the tariff hike.
- We see potential for a re-rating in both the India and Africa business on the back of steady earnings growth. We value Bharti on a Sep'23E basis, assigning an EV/EBITDA of 10x/4x to the India Mobile/Africa business, arriving at a SoTP-based TP of INR920. **We maintain our Buy rating.**

Exhibit 1: Bharti's FY23E-based SoTP

	EBITDA (INR b)	Ownership	Proportionate EBITDA (INR b)	EV/EBITDA	Fair Value (INR b)	Value/share
India standalone business (excl. towers)	595	100%	595	10	5,952	1091
Tower business (15% discount to fair value)		41.7%			234	43
Africa business	207	55.2%	114	4	452	83
Less: Net debt					1,618	297
Total value					5019	920
Shares outstanding (b)	5.5					
CMP						741
Upside (%)						24

Source: MOFSL

Exhibit 2: Incremental revenue and EBITDA

Particulars	Pre hike			Post hike			Change
	Customers	ARPU	INR (m)	Customers	ARPU	INR (m)	
Total	326.6	153.0	1,51,913	326.6	181.3	1,77,622	17%
Postpaid customers	17.3	450.0	23,369	17.3	450.0	23,369	0%
Prepaid customers	309.3	138.5	1,28,544	309.3	166.2	1,54,253	20%
Annualized impact							
Incremental Revenue						1,02,835	
Incremental EBITDA						71,985	
Total revenue			11,33,056			12,35,891	9%
Total EBITDA			5,52,420			6,24,405	13%

Source: MOFSL, Company

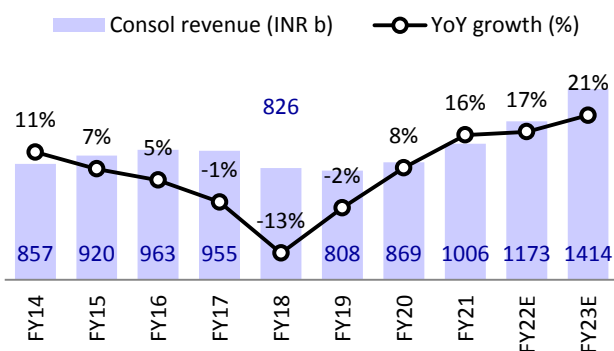
Exhibit 3: Revised price plans

Current price (INR)	Validity	New price (INR)	Change (%)
Tariffed Voice plans			
79	28 days	99	25%
Unlimited Voice bundles			
149	28 days	179	20%
219	28 days	265	21%
249	28 days	299	20%
298	28 days	359	20%
399	56 days	479	20%
449	56 days	549	22%
379	84 days	455	20%
598	84 days	719	20%
698	84 days	839	20%
1,498	365 days	1799	20%
2,498	365 days	2999	20%
Data top-ups			
48	Unlimited	58	21%
98	Unlimited	118	20%
251	Unlimited	301	20%

Source: Company, MOFSL

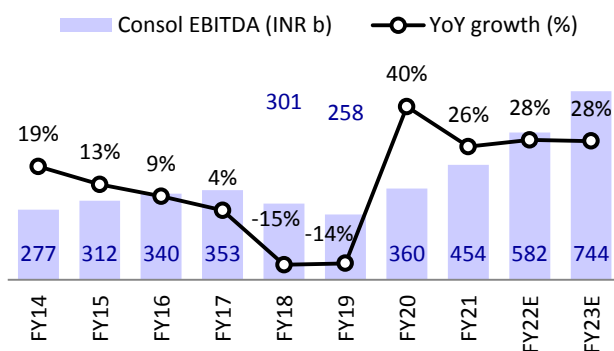
Key exhibits

Exhibit 4: Bharti to clock 22% revenue CAGR...



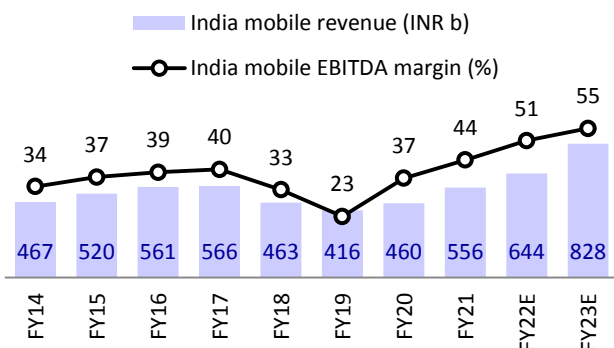
Source: Company, MOFSL

Exhibit 5: ...EBITDA to grow at 28% over FY21-23E



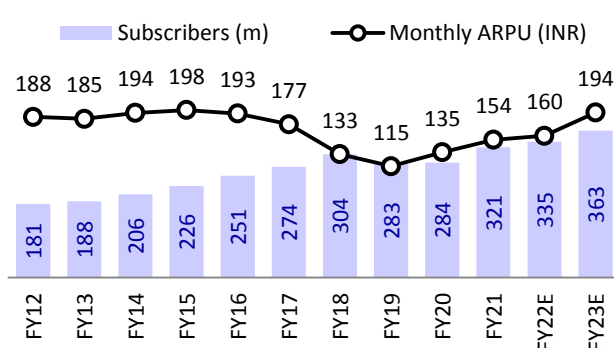
Source: Company, MOFSL

Exhibit 6: India Wireless EBITDA margin to expand by 1,170bp



Source: company, MOFSL

Exhibit 7: APRU to touch INR194 by FY23E



Source: company, MOFSL

Financials and valuations

Consolidated Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	9,65,321	9,54,683	8,26,388	8,07,802	8,69,355	10,06,158	11,72,511	14,13,949	15,89,975
Change (%)	4.9	-1.1	-13.4	-2.2	7.6	15.7	16.5	20.6	12.4
Total Expenditure	6,25,479	6,01,386	5,25,597	5,50,164	5,09,134	5,52,441	5,90,469	6,69,558	7,29,638
As a percentage of Sales	64.8	63.0	63.6	68.1	58.6	54.9	50.4	47.4	45.9
EBITDA	3,39,842	3,53,297	3,00,791	2,57,638	3,60,221	4,53,717	5,82,042	7,44,392	8,60,338
Margin (%)	35.2	37.0	36.4	31.9	41.4	45.1	49.6	52.6	54.1
Depreciation	1,74,498	1,97,730	1,92,431	2,13,475	2,75,666	2,94,044	3,32,096	3,59,755	3,81,215
EBIT	1,65,344	1,55,567	1,08,360	44,163	84,555	1,59,673	2,49,946	3,84,637	4,79,122
Int. and Finance Charges	69,135	76,974	80,715	95,894	1,35,093	1,50,910	1,65,921	1,50,405	1,36,516
Other Income	10,513	10,336	12,956	5,125	16,090	5,500	35,021	36,062	42,725
PBT bef. EO Exp.	1,06,722	88,929	40,601	-46,606	-34,448	14,263	1,19,047	2,70,294	3,85,331
EO Items	21,741	-11,697	-7,931	29,288	-4,02,344	-1,59,145	7,526	0	0
PBT after EO Exp.	1,28,463	77,232	32,670	-17,318	-4,36,792	-1,44,882	1,26,573	2,70,294	3,85,331
Total Tax	59,533	34,819	10,835	-34,193	-1,23,081	89,325	50,063	1,10,301	1,54,132
Tax Rate (%)	46.3	45.1	33.2	197.4	28.2	-61.7	39.6	40.8	40.0
Profit from discontinued operations					7069.0	110567.0	0.0	0.0	0.0
Minority Interest	8,163	4,416	10,845	12,780	15,190	27,195	36,648	76,637	1,10,744
Reported PAT	60,767	37,997	10,990	4,095	-3,21,832	-1,50,835	39,862	83,356	1,20,454
Adjusted PAT	49,101	44,421	13,960	-34,943	-40,744	-7,197	35,313	83,356	1,20,454
Change (%)	-12.0	-9.5	-68.6	-350.3	16.6	-82.3	-590.7	136.1	44.5
Margin (%)	5.1	4.7	1.7	-4.3	-4.7	-0.7	3.0	5.9	7.6

Consolidated Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	19,987	19,987	19,987	19,987	27,278	27,460	27,460	27,460	27,460
Total Reserves	6,47,706	6,54,576	6,75,357	6,94,235	7,44,170	5,62,067	6,01,929	6,85,285	8,05,740
Net Worth	6,67,693	6,74,563	6,95,344	7,14,222	7,71,448	5,89,527	6,29,389	7,12,745	8,33,200
Minority Interest	54,981	68,750	88,139	1,35,258	2,49,847	2,22,739	2,59,387	3,36,024	4,46,768
Total Loans	10,04,526	10,72,877	11,13,335	12,54,283	11,76,190	16,27,852	15,07,619	12,85,362	11,85,880
Lease liabilities					3,06,091	0	0	0	0
Deferred Tax Liabilities	-34,226	-16,766	-22,118	-82,556	-2,62,612	-2,22,103	-2,22,103	-2,22,103	-2,22,103
Capital Employed	16,92,974	17,99,424	18,74,700	20,21,207	22,40,964	22,18,015	21,74,292	21,12,029	22,43,745
Net Fixed Assets	17,79,948	18,90,736	15,89,357	16,83,662	16,90,165	22,92,061	22,98,553	21,53,398	19,86,782
Right of use assets					2,59,049	0	0	0	0
Total Investments	1,19,671	1,81,552	1,80,406	1,76,044	2,78,185	3,29,306	2,88,525	2,88,525	2,88,525
Curr. Assets, Loans, and Adv.	3,10,876	2,34,170	3,26,564	3,81,895	7,24,067	6,16,808	6,37,145	7,73,766	11,15,141
Inventory	1,692	488	693	884	1,569	0	1,828	376	2,103
Account Receivables	55,039	47,402	58,830	43,006	46,058	36,377	40,720	44,505	51,329
Cash and Bank Balance	37,087	12,817	47,886	62,121	1,35,507	80,859	68,085	1,70,579	4,75,267
Loans and Advances	2,17,058	1,73,462	2,19,155	2,75,884	5,40,933	4,99,572	5,26,512	5,58,305	5,86,441
Curr. Liability and Prov.	5,17,520	5,07,034	6,01,786	6,41,389	10,96,666	10,20,160	10,49,931	11,03,660	11,46,704
Account Payables	5,07,838	4,97,348	5,77,285	6,21,206	6,20,540	10,20,160	10,49,931	11,03,660	11,46,704
Provisions	9,682	9,686	24,501	20,183	4,76,126	0	0	0	0
Net Current Assets	-2,06,645	-2,72,865	-2,75,222	-2,59,494	-3,72,599	-4,03,352	-4,12,786	-3,29,894	-31,563
Appl. of Funds	16,92,974	17,99,424	18,74,700	20,21,207	22,40,964	22,18,015	21,74,292	21,12,028	22,43,745

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	12.3	11.1	3.5	-8.7	-7.5	-1.3	6.4	15.2	21.9
Cash EPS	55.9	60.6	51.6	44.7	43.1	52.2	66.9	80.7	91.3
BV/Share	168.8	168.8	173.9	178.7	141.4	107.3	114.6	129.8	151.7
DPS	1.4	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	10.8	12.7	43.8	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	60.4	66.7	212.3	-84.8	-99.3	-565.7	115.3	48.8	33.8
Cash P/E	13.3	12.2	14.4	16.6	17.2	14.2	11.1	9.2	8.1
P/BV	4.4	4.4	4.3	4.1	5.2	6.9	6.5	5.7	4.9
EV/Sales	4.1	4.2	4.9	5.1	6.2	5.6	4.7	3.7	3.0
EV/EBITDA	11.6	11.4	13.4	16.1	15.0	12.4	9.5	7.0	5.6
Dividend Yield (%)	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)									
RoE	7.6	6.6	2.0	-5.0	-5.5	-1.1	5.8	12.4	15.6
RoCE	6.1	5.3	4.6	-2.5	3.7	12.8	7.9	12.0	15.6
RoIC	6.4	5.4	4.5	-2.6	3.5	14.4	8.3	13.1	18.4
Working Capital Ratios									
Asset Turnover (x)	0.6	0.5	0.4	0.4	0.4	0.5	0.5	0.7	0.7
Debtor (Days)	21	18	26	19	19	13	13	11	12
Leverage Ratio (x)									
Net Debt/Equity	1.3	1.3	1.3	1.4	1.5	2.5	2.2	1.2	0.5

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	1,28,463	77,233	32,670	-17,318	-4,28,465	-31,184	1,26,573	2,70,294	3,85,331
Depreciation	1,74,498	1,97,730	1,92,431	2,13,475	2,76,896	2,97,092	3,32,096	3,59,755	3,81,215
Interest and Finance Charges	85,461	95,466	93,255	1,10,134	1,37,261	1,49,304	1,65,921	1,50,405	1,36,516
Direct Taxes Paid	-46,836	-31,587	-13,723	-11,706	-22,937	-22,328	-50,063	-1,10,301	-1,54,132
(Inc.)/Dec. in WC	-3,955	-27,429	5,906	-55,374	-1,65,964	30,433	-3,340	19,602	6,357
CF from Operations	3,37,631	3,11,413	3,10,539	2,39,211	-2,03,209	4,23,317	5,71,187	6,89,756	7,55,287
Others	-58,208	-19,104	-12,001	-38,509	3,84,496	58,732	0	0	0
CF from Operations incl. EO	2,79,423	2,92,309	2,98,538	2,00,702	1,81,287	4,82,049	5,71,187	6,89,756	7,55,287
(Inc.)/Dec. in FA	-2,70,967	-3,84,045	-2,67,262	-3,05,270	-2,21,275	-3,34,379	-3,38,588	-2,14,600	-2,14,600
Free Cash Flow	8,456	-91,736	31,276	-1,04,568	-39,988	1,47,670	2,32,599	4,75,156	5,40,687
(Pur.)/Sale of Investments	68,115	-817	-33,322	924	-88,392	38,126	40,781	0	0
Others	60,595	69,308	40,326	19,337	4,748	27,370	0	0	0
CF from Investments	-1,42,257	-3,15,554	-2,60,258	-2,85,009	-3,04,919	-2,68,883	-2,97,807	-2,14,600	-2,14,600
Issue of Shares	984	1,245	21	98,932	4,62,270	7,000	0	0	0
Inc./(Dec.) in Debt	-1,17,833	9,353	40,073	1,05,883	-1,79,553	-1,18,162	-1,20,233	-2,22,256	-99,482
Interest Paid	-32,890	-58,566	-44,041	-76,171	-1,09,993	-71,294	-1,65,921	-1,50,405	-1,36,516
Dividend Paid	-15,304	-9,168	-32,652	-46,617	-18,263	-26,906	0	0	0
Others	46,925	52,866	56,085	12,611	36,983	-39,741	0	0	0
CF from Fin. Activity	-1,18,118	-4,270	19,486	94,638	1,91,444	-2,49,103	-2,86,154	-3,72,662	-2,35,999
Inc./Dec. in Cash	19,048	-27,515	57,766	10,331	67,812	-35,937	-12,774	1,02,494	3,04,688
Opening Balance	-1,413	17,635	-9,880	41,309	53,793	1,30,539	90,630	77,856	1,80,350
Closing Balance	17,635	-9,880	41,309	53,793	1,30,539	90,630	77,856	1,80,350	4,85,038
Less: Bank overdraft	-19,452	-22,697	-6,577	-8,328	-4,968	9,771	9,771	9,771	9,771
Net Closing Balance	37,087	12,817	47,886	62,121	1,35,507	80,859	68,085	1,70,579	4,75,267

E: MOFSL estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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