

Stepping up on growth pedals!

About the company:

- Bharti Airtel (Airtel) is India's second largest telecom operator with a revenue market share of ~37%. The company has ~32.3 crore wireless customers in India and ~12.6 crore subscribers across operations in 14 African countries. It enjoys industry leading ARPU in the wireless business

Event: We attended the Analyst Day of Bharti Airtel with key takeaway being:

- The management reiterated the call for higher ARPU, another tariff hike by CY22 end and a couple more in the next few years (albeit inflationary trend, competitive stance and affordability a lower end could be a key deterrent in the near term, in our view). It outlined that US\$3,3 (₹ 250) ARPU could propel RoCEs to 20% vs. 6% in FY21 at US\$2.2 ARPU. It indicated that all heavy lifting in terms of capex is done. It also termed itself 5G ready with trails done, successful testing of use cases, 5G core & infra ready with only implication being on higher radio capex in near term, albeit with no major change in capex in three-year period from current levels
- Identified broadband to be area of focus with home pass expansion from 16 million to 40 million by 2025 through own and LCO model of expansion
- It outlined emerging products under Enterprise such as Data Centre, IoT, Security, Cloud, Communication Platform as Service (CPaaS) and Network as a Service (NaaS) as another key area of growth (current cumulative market size of ₹ 36000 crore and ~25%+ CAGR ahead)

What should investors do?

- Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in a sweet spot to maintain its relative strength with a formidable digital ecosystem offering.

We maintain BUY rating with an SOTP target price of ₹ 860

Key triggers for future price performance:

- Tariff hike flow through to boost Airtel's India ARPU, India EBITDA by 20%, 30%, respectively, from pre-hike levels
- Relative market share gain from VIL, given its stressed balance sheet and long term potential driven by growth opportunity from 5G & Enterprise

Alternate Stock Idea: Besides Airtel, we like Tata Comm in our telecom space.

- Play on enterprise communication and improving balance sheet
- BUY with target price of ₹ 1,775

Key Financial Summary

(Year-end March)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	3 y CAGR (FY21-24E)
Net Sales (₹ crore)	87,539	1,00,616	0.8	1,17,543	1,36,083	1,48,762	13.9
EBITDA (₹ crore)	36,482	45,372	5.9	58,367	70,229	77,716	19.6
Net Profit (₹ crore)	(32,183)	(15,084)	PL	5,142	15,569	20,878	LP
Adjusted PAT (₹ crore)	(4,075)	(1,300)		4,350	15,569	20,878	
EPS (₹)	(59.0)	(27.6)		8.6	26.1	35.1	
P/E (x)	NA	NA		82.2	27.1	20.2	
Price / Book (x)	5.0	6.6		5.0	4.0	3.3	
EV/EBITDA (x)	14.8	12.5		9.2	7.1	6.0	
RoCE (%)	4.1	6.4		9.0	12.9	15.2	
RoE (%)	(5.3)	(2.2)		5.1	14.7	16.5	

Source: Company, ICICI Direct Research;



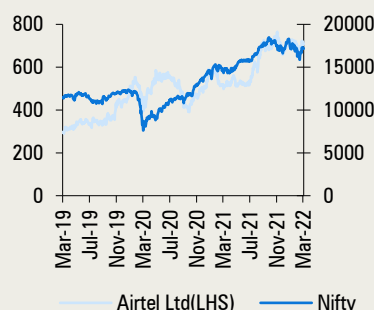
Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	3,89,577
Total Debt (₹ Crore) - FY21	1,62,785
Cash & Inv (₹ Crore) - FY21	14,071
EV (₹ Crore)	5,38,291
52 week H/L	782/ 495
Equity capital	2,977.7
Face value	5.0

Shareholding pattern

	Jun-21	Sep-21	Oct-21	Dec-21
Promoters	55.9	55.9	55.9	55.9
DII	20.4	20.7	19.1	17.8
FII	18.1	18.1	19.9	19.4
Other	5.6	5.4	5.1	6.9

Price Chart



Key risks

Key Risk: (i) Any subscriber churn; (ii) Higher spectrum and/or network capex in 5G

Research Analyst

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Key Highlights and Meet Takeaways

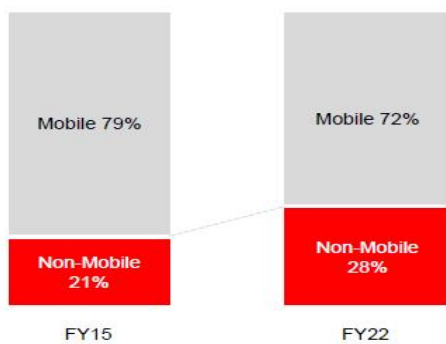
- ARPU:** The company highlighted that it saw massive gain of ~40% in the last two years in terms of ARPU driven by tariff hike benefits, premiumisation (upgrades, etc) and focus on quality customers. It indicated that it is the market leader for 4G net adds in last one year, with its share at 48% in FY2021. The management reiterated the call for higher ARPU and another tariff hike by CY22 end and couple more in next few years (*albeit inflationary trend, competitive stance and affordability a lower end could be a key deterrent in the near term, in our view*). It highlighted ARPUs are lower vis-a-vis global countries as well as lower proportion of postpaid, which could catch up, going ahead. It added that it would not shy away from making the first move as it can pull back quickly if competition does not follow
- It outlined that US\$3,3 (₹ 250) ARPU could propel RoCEs to 20% vs. 6% in FY21 at US\$2.2 ARPU

Exhibit 1: Diversified portfolio and massive gain in ARPU

Relentless focus on best quality customers



Increasingly diversified portfolio



Highest industry ARPU (Rs) – ~40% gain in 2 years



ARPU (Rs INR) for Airtel is recasted for termination revenue which have been reduced to 0 from Q4'21

Source: Company, ICICI Direct Research

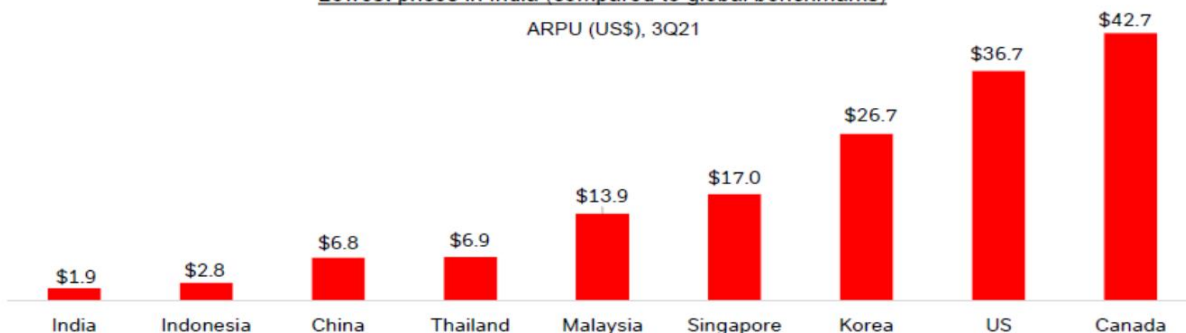
Exhibit 2: ARPU opportunity

Opportunity Mobile – ARPU opportunity



Lowest prices in India (compared to global benchmarks)

ARPU (US\$), 3Q21

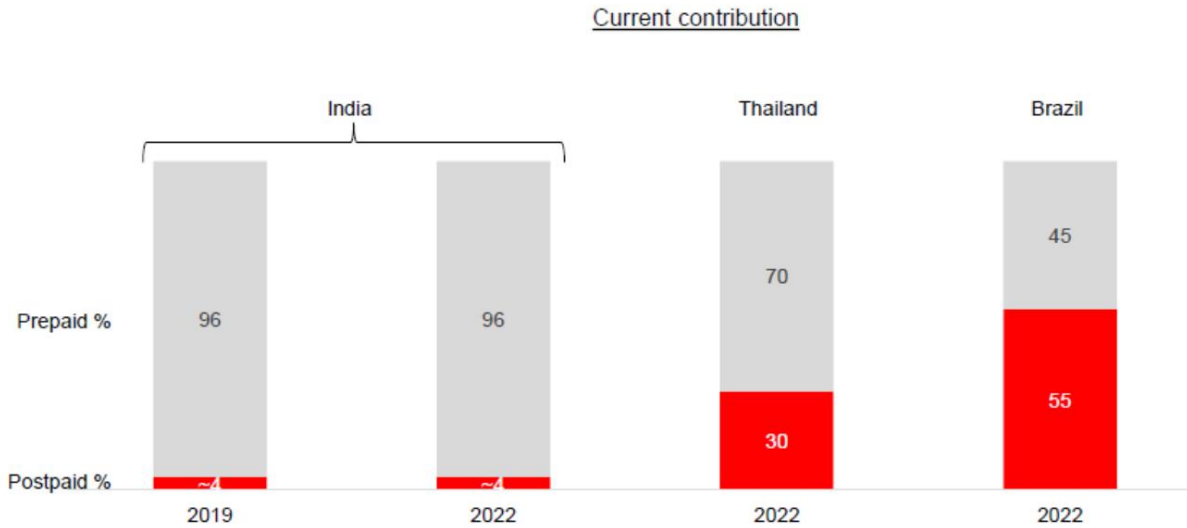


- ~\$2 ARPU : 6% ROCE. ~\$3.3 ARPU : ~20% ROCE. 33,000 Crore Incremental Revenue. 28,000 Crore Incremental EBITDA

Source: Company, ICICI Direct Research

Exhibit 3: Postpaid mix lower than global average

Opportunity
Mobile – Postpaid opportunity

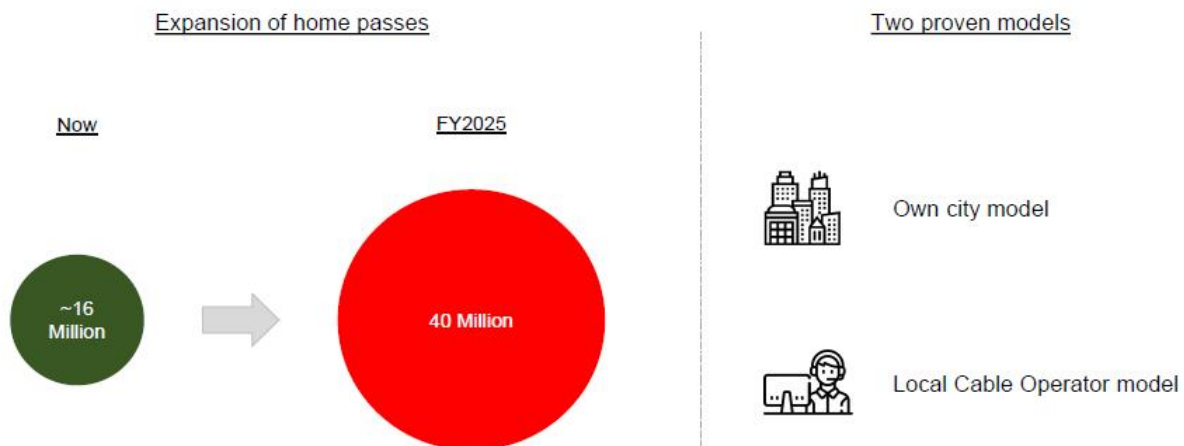


Based on Global Wireless Matrix report by BofA
Source: Company, ICICI Direct Research

- Broadband:** Broadband is one segment wherein it has lagged its key peer. It has identified broadband to be an area of focus with home pass expansion from 16 million to 40 million by 2025 through own and LCO model of expansion. Currently, it is present in 850 cities through own (top 100 cities) and LCO partnership model. It expects 15% annualised growth in the segment ahead.

Exhibit 4: Broadband market opportunity

Quality customers
Broadband – Land grab



Source: Company, ICICI Direct Research

- Enterprise:** The company outlined emerging products under Enterprise such as Data Centre (market size - ₹ 14000 crore by 2025), IoT, Security (₹ 20000 crore market by 2025) Cloud (₹ 31000 crore market by 2025), Communication Platform as Service (CPaaS) and Network as a Service (NaaS) as the another key area of growth (cumulative market size of ₹ 36000 crore and ~25%+ CAGR ahead)
- Adtech (market size of ₹ 31000 crore by 2025), payments and digital marketplace were the other B2B segment identified as the major areas of growth focus
- It highlighted that Digital segment, Airtel IQ (Cloud communication) and Payment Bank have annualised turnover of ₹ 1000 crore and are profitable segments.

Exhibit 5: B2B / Enterprise Segment Strategy

Opportunity
B-B – Market changing dramatically

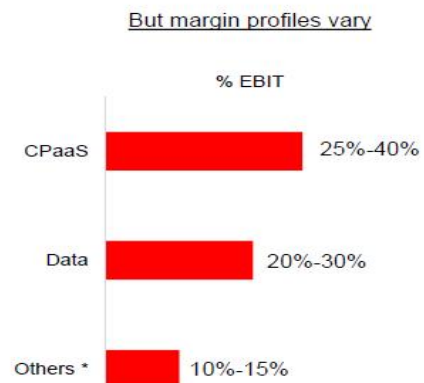
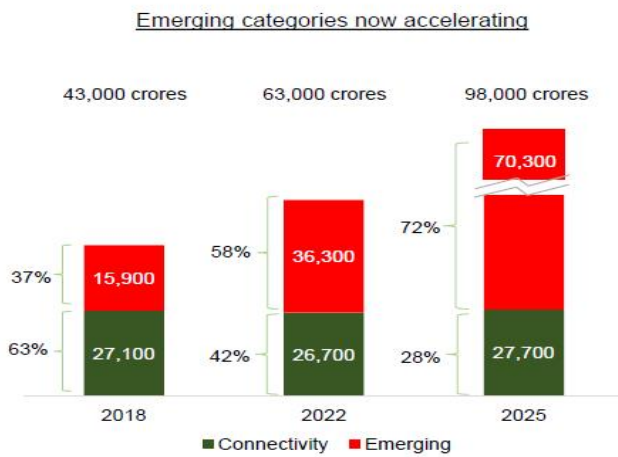
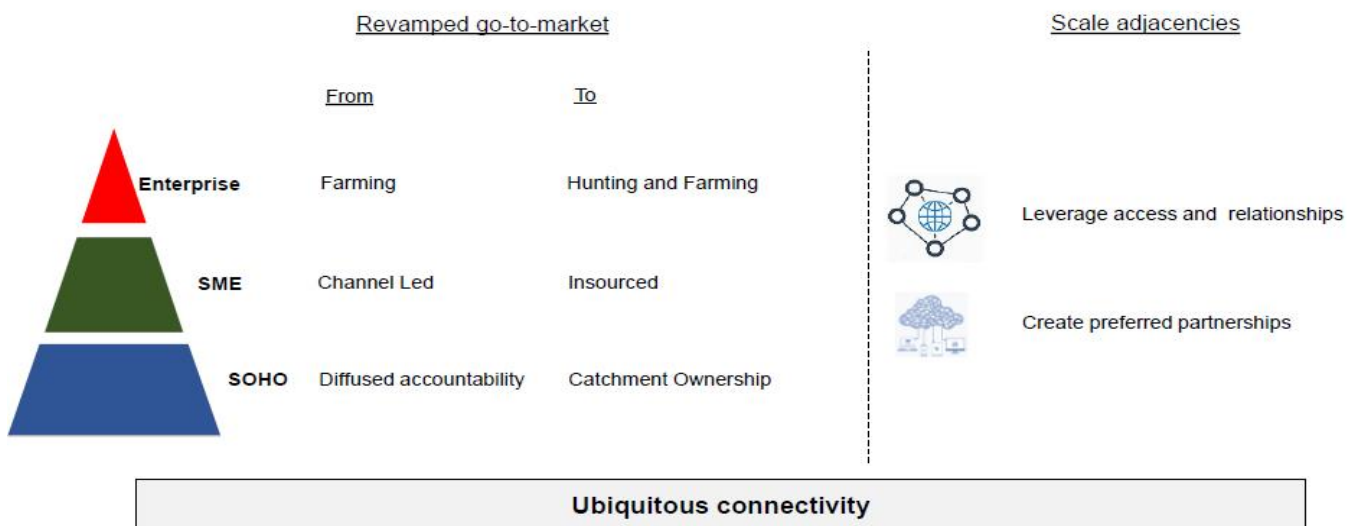


Chart based on typical industry margins
* Others include security & cloud

Source: Company, ICICI Direct Research

Exhibit 6: B2B / Enterprise Segment Strategy

Quality customers
B2B - Expansion

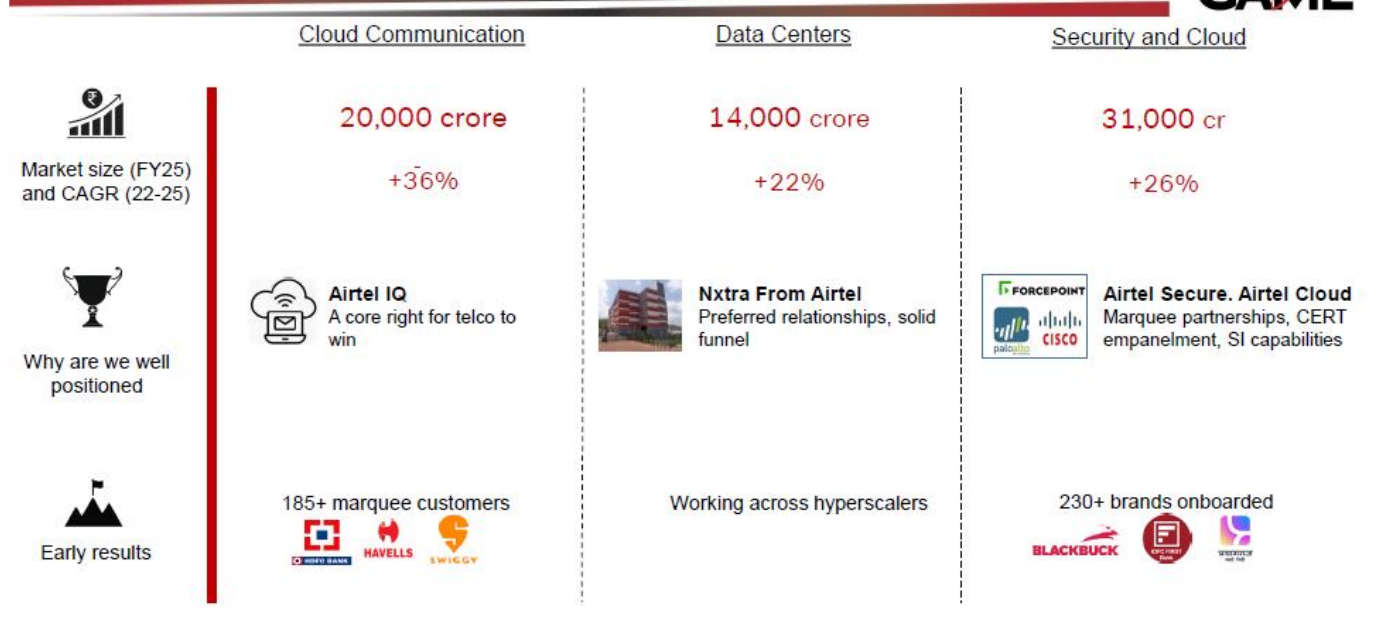


Source: Company, ICICI Direct Research

Exhibit 7: B2B / Enterprise Segment Strategy

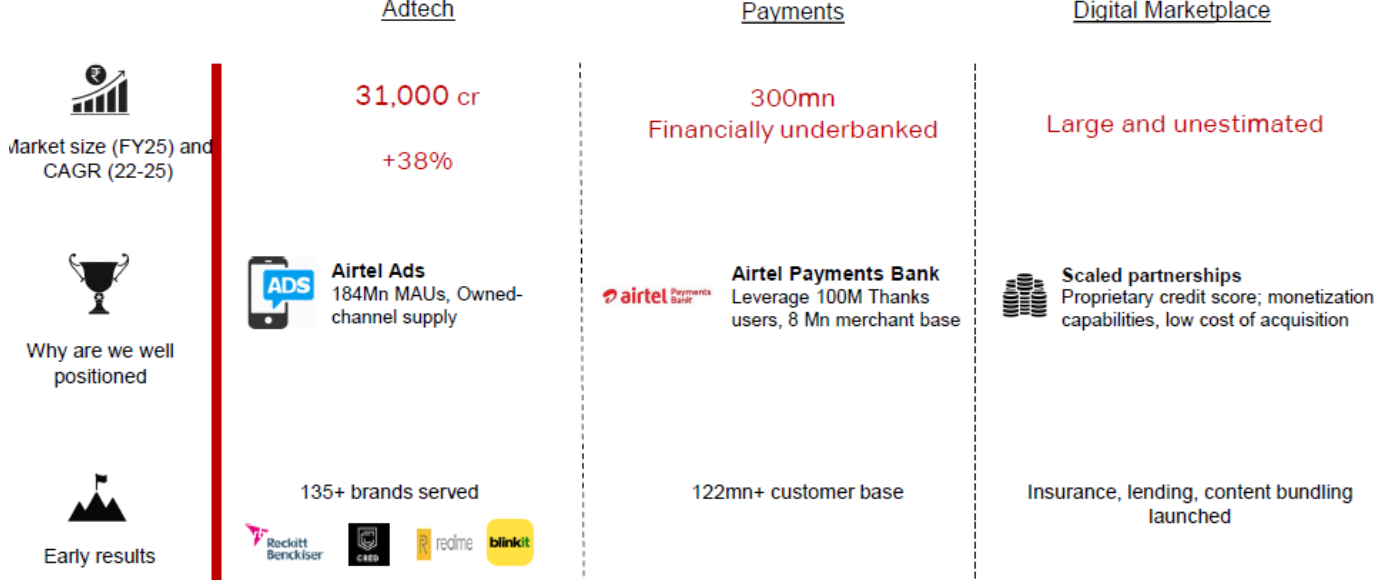
Services at scale

We are well-positioned in each of these adjacencies



Source: Company, ICICI Direct Research

Exhibit 8: B2B / Enterprise Segment Strategy



Note – Adtech market size as Dentsu Aegis Network report 2021
Cloud & security market size as per internal estimates

Source: Company, ICICI Direct Research

Exhibit 9: B2B / Enterprise Segment Strategy

Opportunity

B-B – We can go both wide and deep



Opportunity to go wider

Proven track record



~32% Lifetime high market share



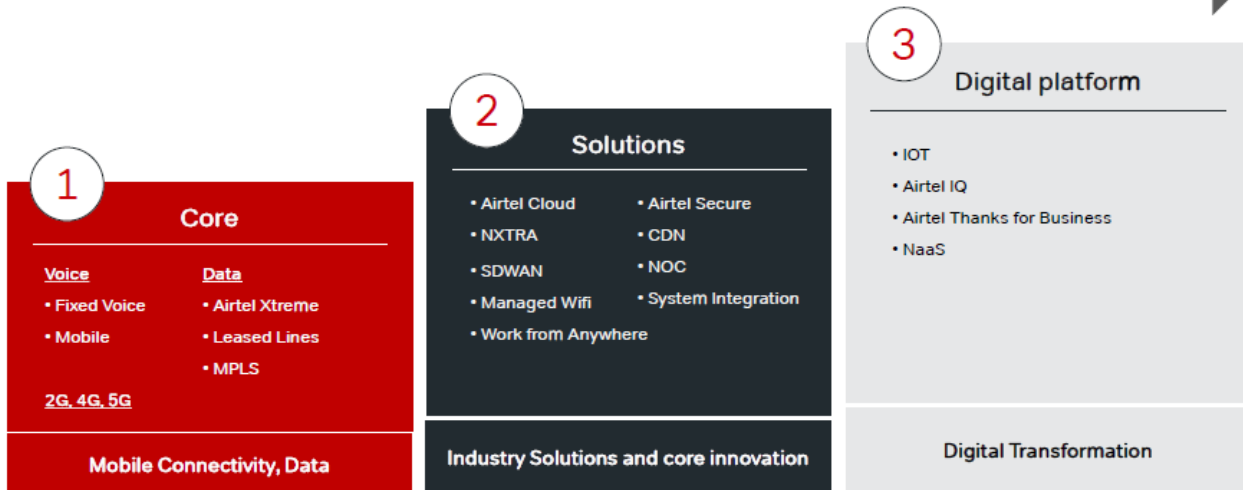
Source: Company, ICICI Direct Research

Exhibit 10: B2B / Enterprise Segment Strategy

Value Creation for Customers through Airtel Ecosystem



Increasing value to Airtel Business Customers



We continue to innovate in our Core offerings while bringing in new products and solutions into our portfolio

Source: Company, ICICI Direct Research

- Digital:** The company highlighted that digital revenues are at an annual run rate of ₹ 1000+ crore and it is driven by strong monthly active users of 184 mn across *Airtel Thanks*, *Wynk*, *Xtreme* etc. Overall digital services include Digital marketplace (apps and loans & credit cards), digital banking, ad tech and *Airtel IQ (CPaaS)*. It highlighted that there is massive opportunity in Digital services monetisation ahead.

Exhibit 11: Digital Stack and capabilities

Digital Services

Overview



Digital Stack & Capabilities

Airtel Digital Stack

Capabilities We Have Extracted

Digital Services

Digital Experience

Digital Infrastructure

airtel ads

airtel iq

Digital Marketplace
(Wynk, Xstream, Loans and Credit Card)

Digital Banking

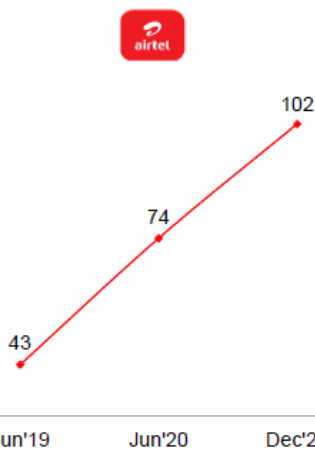
- Omnichannel
- Search-to-Refer Customer Cycle

- B2B Distribution: 3.5K+ Enterprises & 1M+ SMBs
- B2C Distribution: 350M+ Customers & 184M+ Digital MAU
- Data: 4K+ Databases, 338K+ KM of Fiber & \$46B of investments
- Pay Infrastructure

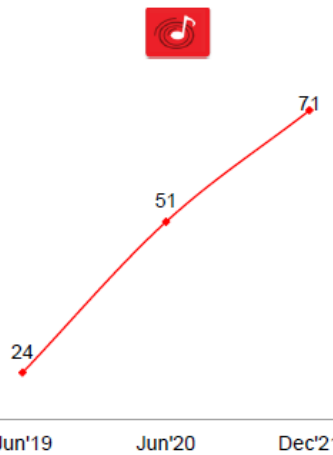
Source: Company, ICICI Direct Research

Exhibit 12: Digital assets subscriber base sees sharp increase

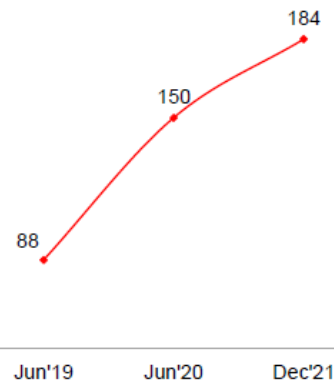
Airtel Thanks (Mn MAU)



Wynk (Mn MAU)



Total Digital users (Mn MAU)



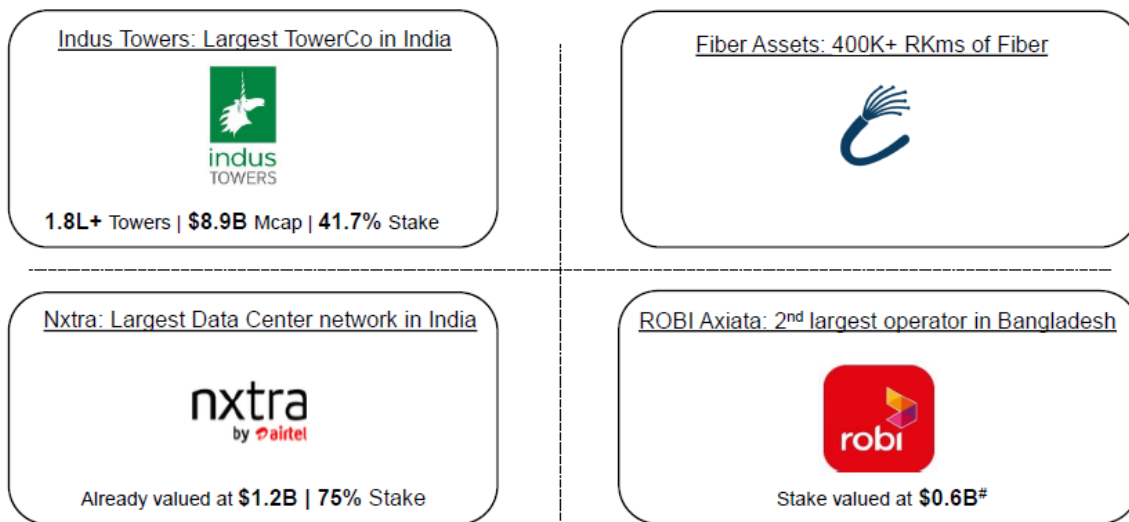
Source: Company, ICICI Direct Research

- Asset Monetisation:** The company said that four assets have been identified for monetisation over the medium to long term, which could deleverage the balance sheet
 - Indus Tower:** It reiterated that *over the medium to long term it intends to monetise the tower assets*. The company also stressed that *current incremental stake buy was intended to provide stability in shareholding* given its criticality for Airtel. We note that Airtel has announced 4.7% stake buy in Indus Towers at ₹ 187.88 per share on the basis of the agreed price formula in the agreement, aggregating to ₹ 2388. 1 crore from Vodafone PLC. It is on the condition that the proceeds will be used for investment in Vodafone Idea and clearing its dues towards Indus Towers
 - Fibre Assets** of ~400k RKM across India and Africa
 - Nxtra** – Currently valued at US\$1.2 billion and Airtel has 75% stake. The data centre has a network of 10 large and 120 edge data centres located strategically across India and manages critical submarine landing stations. It aims to triple the capacity from 130 MW to 400 MW by 2025 with ₹ 5000 crore capex lined up
 - ROBI Axiata** - (JV in Bangladesh valued at US\$0.6 billion)

Exhibit 13: Assets identified for monetisation

Who are we?

Assets that can be monetized to lighten the balance sheet



Indus – Based on Q3FY22 published financials and as of 31st Dec 2021 (1 USD = 75 INR)
 Nxtra - Based on post money enterprise valuation after Carlyle stake sale

Fiber Assets are Domestic Fibre for India (as of Dec 2021) & Africa (as of March 2021)
[#]Value of Airtel's stake in Robi, Stock price 34.6 BDT; USD BDT 84

Source: Company, ICICI Direct Research

Other Highlights

- 5G:** It indicated that all heavy lifting in terms of capex is done. It also termed itself 5G ready with trails done, successful testing of use cases, 5G core & infra ready. It is working on use cases such as drone based smart inventory, connected ambulances, surveillance, port solutions etc. The company has carried out 5G trials with recorded peak downlink speeds of 3.8 Gbps using a 5G Mifi device in the 26GHz band. However, it reiterated that pricing need to come down for spectrum for economic viability. It also added that with only implication on early 5G launch will be on higher radio capex in near term, albeit with no major change in capex in three-year period from current levels.

- Payment Bank:** The payment bank has achieved a sharp jump in revenues over the past three years and annualised revenues is over ₹ 1000 crore currently. The revenue mix for the payments bank is 43%/33%/33% from banking clients/digital transaction/B2B segments. It indicated that focus is on optimising operating costs and reducing cost per transaction. It is also the only profitable payment bank. It remains upbeat on Payment Banks growth given the scalability and potential from its own 184 mn digital users for transactional conversion.

Exhibit 14: Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,35,142	1,36,083	0.7	1,46,906	1,48,762	1.3	Raise Enterprise segment growth from 10% CAGR to 12% CAGR
EBITDA	69,641	70,229	0.8	76,531	77,716	1.5	
EBITDA Margin (%)	51.5	51.6	8 bps	52.1	52.2	15 bps	
PAT	15,312	15,569	1.7	20,340	20,878	2.6	
EPS (₹)	26.7	26.1		34.2	35.1		

Source: Company, ICICI Direct Research

Exhibit 15: Segmental Breakup

Revenues - ₹ crore	FY20	FY21	FY22E	FY23E	FY24E
India	71,111	75,366	86,153	1,02,077	1,12,523
Mobility	45,966	55,568	63,886	77,582	85,708
Broadband	2,245	2,334	2,999	3,585	3,957
Enterprise	13,233	14,408	16,078	17,673	19,484
Passive Infrastructure	6,742				
DTH+ Others	2,924	3,056	3,190	3,237	3,373
Africa	24,217	28,863	35,101	38,353	41,077
South Asia	455	425	393	450	450
Total Gross Revenue	95,783	1,04,654	1,21,648	1,40,881	1,54,050
Intersegmental Elimination	-7,789	-4,038	-4,001	-4,798	-5,289
Net Revenue	87,539	1,00,616	1,17,358	1,36,083	1,48,762
EBITDA ₹ crore	FY20	FY21	FY22E	FY23E	FY24E
India & South Asia	26,376	32,841	42,255	52,018	57,603
Africa	10,726	13,298	16,547	18,767	20,544
Gross EBITDA	37,102	46,139	58,802	70,785	78,147
Intersegmental Elimination	620	767	435	556	431
Reported EBITDA	36482	45372	58367	70229	77716

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 16: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Total operating Income	1,00,615.8	1,17,542.7	1,36,082.9	1,48,761.8	
Growth (%)	14.9	16.8	15.8	9.3	
Employee Expenses	4,114.6	4,460.6	5,029.7	5,469.1	
Marketing Expenses	9,687.1	11,763.8	12,972.9	13,895.8	
Access Charges	10,352.1	6,821.0	7,567.7	8,211.4	
Network Operating	21,981.9	24,946.8	27,290.6	29,241.1	
License Fee	9,108.4	11,184.1	12,993.0	14,228.1	
Other Costs	0.0	0.0	0.0	0.0	
Total Operating Expenditure	55,244.1	59,176.2	65,853.8	71,045.5	
EBITDA	45,371.7	58,366.5	70,229.1	77,716.3	
Growth (%)	24.4	28.6	20.3	10.7	
Depreciation	29,404.4	33,147.0	34,973.3	36,744.2	
Interest	15,091.0	16,636.2	13,375.6	11,977.0	
Other Income	642.8	710.7	780.0	840.0	
Exceptional Items	4,857.8	(792.4)	-	-	
PBT	-3,338.7	10,086.4	22,660.2	29,835.1	
MI / Profit from associates	2,812.3	838.5	1,200.0	1,200.0	
Total Tax	8,932.5	4,105.5	5,891.6	7,757.1	
PAT	-15,083.5	5,142.4	15,568.5	20,878.0	
Growth (%)	NA	NA	202.8	34.1	
EPS (₹)	-27.6	8.6	26.1	35.1	

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	-15,083.5	5,142.4	15,568.5	20,878.0	
Add: Depreciation	29,404.4	33,147.0	34,973.3	36,744.2	
Add: Interest Paid	15,091.0	16,636.2	13,375.6	11,977.0	
(Inc)/dec in Current Assets	9,773.9	(5,135.6)	(5,442.7)	(3,168.3)	
Inc/(dec) in CL and Prov	-14,186.9	15,471.5	15,771.8	10,785.6	
Others	0.0	0.0	0.0	0.0	
CF from op activities	24,998.9	65,261.5	74,246.5	77,216.4	
(Inc)/dec in Investments	-2,067.6	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-22,165.9	-40,698.8	-28,000.0	-28,000.0	
Others	450.5	2,884.5	-4,117.7	-4,369.6	
CF from inv activities	-23,783.0	-37,814.3	-32,117.7	-32,369.6	
Issue/(Buy back) of Equity	18.2	231.7	0.0	0.0	
Inc/(dec) in loan funds	14,557.1	2,400.0	-25,000.0	-20,000.0	
Dividend paid & dividend tax	0.0	0.0	0.0	0.0	
Interest Paid	-15,091.0	-16,636.2	-13,375.6	-11,977.0	
Others	-3,126.8	20,791.2	5,188.8	0.0	
CF from fin activities	-3,642.5	6,786.8	-33,186.8	-31,977.0	
Net Cash flow	-2,426.6	34,234.0	8,942.0	12,869.8	
Opening Cash	15,892.7	13,466.1	47,700.1	56,642.1	
Closing Cash	13,466.1	47,700.1	56,642.1	69,512.0	

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Liabilities					
Equity Capital	2,746	2,978	2,978	2,978	
Reserve and Surplus	56,207	82,140	1,02,898	1,23,776	
Total Shareholders funds	58,953	85,118	1,05,875	1,26,753	
Total Debt	1,62,785	1,65,185	1,40,185	1,20,185	
Deferred Tax Liability	1,611	1,611	1,611	1,611	
Others	38,160	34,744	30,626	26,257	
Total Liabilities	2,61,508	2,86,658	2,78,298	2,74,806	
Assets					
Gross Block	3,35,533	3,76,231	4,04,231	4,32,231	
Less: Acc Depreciation	1,75,484	2,08,631	2,43,604	2,80,348	
Net Block	1,60,049	1,67,600	1,60,627	1,51,883	
CWIP	5,727	5,727	5,727	5,727	
Goodwill	34,619	34,619	34,619	34,619	
Right of Use	28,812	28,812	28,812	28,812	
Investments	29,891	29,891	29,891	29,891	
Debtors	3,638	4,250	4,920	5,378	
Loans and Advances	14,326	16,736	19,376	21,181	
Other Current Assets	19,245	21,358	23,491	24,395	
Cash	13,466	47,700	56,642	69,512	
Total Current Assets	50,675	90,044	1,04,429	1,20,467	
Creditors	27,872	33,814	39,147	42,794	
Other Current Liabilities	56,648	66,177	76,616	83,754	
Total Current Liabilities	84,520	99,991	1,15,763	1,26,549	
Net Current Assets	-33,845	-9,947	-11,334	-6,081	
Others Assets	36,256	29,956	29,956	29,956	
Application of Funds	2,61,508	2,86,658	2,78,298	2,74,806	

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-27.6	8.6	26.1	35.1
Cash EPS	26.2	64.3	84.9	96.8
BV	108.1	142.9	177.8	212.8
DPS	0.0	0.0	0.0	0.0
Cash Per Share	24.7	80.1	95.1	116.7
Operating Ratios				
EBITDA Margin (%)	45.1	49.7	51.6	52.2
EBIT Margin (%)	15.9	21.5	25.9	27.5
PAT Margin (%)	-1.3	3.7	11.4	14.0
Inventory days	0.0	0.0	0.0	0.0
Debtor days	13.2	13.2	13.2	13.2
Creditor days	101.1	105.0	105.0	105.0
Return Ratios (%)				
RoE	-2.2	5.1	14.7	16.5
RoCE	6.4	9.0	12.9	15.2
RoIC	11.5	18.6	29.8	40.1
Valuation Ratios (x)				
P/E	-25.7	82.2	27.1	20.2
EV / EBITDA	12.5	9.2	7.1	6.0
EV / Net Sales	5.6	4.6	3.7	3.2
Market Cap / Sales	4.2	3.6	3.1	2.8
Price to Book Value	6.6	5.0	4.0	3.3
Solvency Ratios				
Debt/EBITDA	3.6	2.8	2.0	1.5
Debt / Equity	2.8	1.9	1.3	0.9
Current Ratio	0.4	0.4	0.4	0.4
Quick Ratio	0.4	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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