Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharti Airtel

Strong Q4; well-poised to grab digital opportunities

Telecom	Sharekhan code: BHARTIARTL
Reco/View: Buy ↔	CMP: **Rs. 696** / Price Target: **Rs. 910** ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 26.51

Updated Apr 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

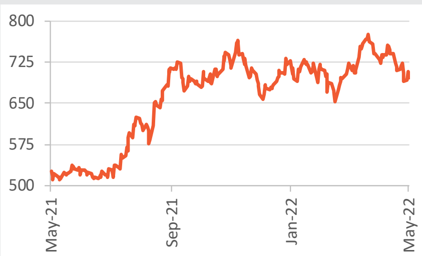
Company details

Market cap:	Rs. 3,82,273 cr
52-week high/low:	Rs. 781 / 509
NSE volume: (No of shares)	77.2 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	259.3 cr

Shareholding (%)

Promoters	55.9
FII	22.0
DII	20.2
Others	1.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.6	-3.5	-4.7	32.2
Relative to Sensex	0.6	3.0	5.5	24.2

Sharekhan Research, Bloomberg

Summary

- Revenue growth was in-line despite a moderation in industrywide net subscriber additions, while EBITDA margin beat estimates. Q4 saw continued strong growth in home business, robust FCF and market share gains.
- Airtel is well positioned to deliver strong revenue growth in FY2023E, led by massive investments in digital offerings, strong execution in the non-wireless business, increase in subscribers and higher ARPUs.
- Given monetisation of its digital initiatives, improvement in 4G and postpaid subscriber mix and potential tariff increase, we believe the company's EBITDA would clock a 24% CAGR over FY2022-FY2024E.
- We maintain a Buy with a PT of Rs. 910, owing to healthy FCF generation, strong growth potential, gains from differentiated digital offerings and reasonable valuations.

Bharti Airtel (Airtel) reported largely in-line revenue performance despite moderation in net subscriber addition in the industry due to SIM consolidation in the feature phone segment and slackening in the pace of 4G subscriber addition due to increased smartphone price, while EBITDA margin beat our estimates. Q4FY2022 saw healthy 4G subscriber addition, softer consolidated capex, robust home business performance, strong FCF generation, and market share gains across key portfolios. Consolidated revenue increased by 5.5% q-o-q (up 22% y-o-y) to Rs. 31,500 crore, in line with our estimate, led by 7.6% q-o-q growth in India revenue, 10% q-o-q growth in home business, and 1.8% q-o-q growth in enterprise business. Consolidated EBITDA margin for the quarter improved by ~169 bps q-o-q to 50.9%, ahead of our estimate. ARPU of India wireless grew by 9.2% q-o-q to Rs. 178.3 because of prepaid tariff hike (in November 2021). The company is likely to take another round of tariff hike in FY2023E to achieve its desired ARPU level of Rs. 200. The company's continued investments in its three digital layers such as digital infrastructure, digital experience, and digital enterprise along with huge opportunities in the enterprise business are expected to accelerate its growth going ahead.

Key positives

- EBITDA of India wireless business increased 12%/33% q-o-q/y-o-y
- Net debt to annualised EBITDA at 2.51x in Q4FY2022 versus 2.67x in Q3FY2022
- Strong FCF generation, up 13.6% q-o-q

Key negatives

- Revenue from DTH business declined 4.6% q-o-q in Q4FY2022
- Net debt (excluding leases) remained flat despite strong FCF generation

Management Commentary

- Management expects another round of tariff hike in FY2023. Management hopes ARPU should improve to Rs. 200 in the medium term and Rs. 300 in the long term.
- The industry saw low net addition in its subscriber base in Q4, which was due to SIM consolidation and increased smartphone prices
- 5G devices to overall smartphone in India is less than 4% and is expected to reach 14-15% in the next two years
- Management expects capex to remain flat on a y-o-y basis in FY2023

Revision in estimates – We have increased our earnings estimates for FY2023E/FY2024E, factoring in Q4FY2022 results, improvement in subscriber mix, and continued strong performance in the non-wireless business.

Our Call

Valuation – Growth to stay strong: Airtel is well positioned to deliver strong revenue growth because of massive investments in digital offerings, market share gains across key segments, and strong execution in the non-wireless business. Given monetisation of its digital initiatives, improvement in 4G and postpaid subscriber mix, and potential tariff increase, we believe the company's EBITDA would report a 24% CAGR over FY2022-FY2024E. At the CMP, the stock is trading at a reasonable valuation of 7x/6x its FY2023E/FY2024E EV/EBITDA. We continue to prefer Airtel, given improving subscriber mix, resilient business model, and healthy free cash flow (FCF) generation. We maintain our Buy recommendation on the stock with a price target (PT) of Rs. 910.

Key Risks

Increasing competition could keep up the pressure on realisations. Continued decline in data volume growth could affect revenue growth. Slowdown in Africa operations could affect its revenue growth.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,00,615.8	1,16,546.9	1,39,668.1	1,65,768.2
OPM (%)	45.1	49.4	51.9	53.7
Adjusted PAT	-1,468.5	4,865.5	18,418.0	28,863.3
% YoY growth	*NM*	*NM*	*278.5*	*56.7*
Adjusted EPS (Rs.)	-2.7	7.6	28.6	44.8
P/E (x)	NM	91.2	24.4	15.5
P/B (x)	6.9	6.2	4.2	2.7
EV/EBITDA (x)	11.5	9.8	7.5	5.9
RoNW (%)	NM	6.3	15.2	21.4
RoCE (%)	8.3	12.6	18.4	22.9

Source: Company; Sharekhan estimates

Revenue in-line, margins beat; Home and enterprise continued to stay strong; Healthy FCF generation

Bharti Airtel reported largely in-line revenue performance in Q4, while EBITDA margin beat our estimates. Consolidated revenue increased by 5.5% q-o-q (up 22% y-o-y) to Rs. 31,500 crore, in line with our estimates, led by 7.6% q-o-q growth in India revenue, 10% q-o-q growth in home business, and 1.8% q-o-q growth in enterprise business. India wireless business revenue grew by 9.5% q-o-q during the quarter, led by 2.7% q-o-q growth in 4G subscribers and 9.6% q-o-q growth in ARPU. ARPU increased to Rs. 178.3 because of prepaid tariff hike taken in November 2021. 4G customer addition accelerated during the quarter, up 2.7%q-o-q (12% y-o-y). Home and Airtel business reported revenue growth of 10% q-o-q and 1.8% q-o-q, respectively. Revenue growth in Africa and DTH business remained weak during the quarter. Consolidated EBITDA margin for the quarter improved by ~169 bps q-o-q to 50.9%, ahead of our estimates, led by 106 bps q-o-q improvement in operating margin of India business. Consolidated EBITDA during the quarter grew by 9.1% q-o-q to Rs. 16,040 crore versus our estimate of Rs. 16,056 crore. Reported net profit stood at Rs. 2,007.8 crore. Excluding one-time items, adjusted net profit came at Rs. 1,929.4 crore in Q4FY2022 compared to Rs. 807.3 crore in Q3FY2022.

Key result highlights

- **FY2022 - A round-up:** Bharti Airtel reported the highest-ever consolidated revenue of Rs. 1,16,547 crore, up 20.2% y-o-y on a comparable basis, led by 20% tariff hike in its prepaid segment in November 2021. Effectively, EBITDA margin improved by 400 bps y-o-y to 49.9%. EBITDA margin of India wireless business improved by 450 bps y-o-y to 49.9%. EBITDA of India wireless business grew by 25% y-o-y in FY2022. The company invested around Rs. 24,000+ crore across network, data centres, sub-marine cables, and digital.

- **Africa business disappointed:** Africa business revenue growth slowed down to 0.2% q-o-q in USD terms at $1,222 million. EBITDA margin was at 49.9% for the quarter, up 30 bps q-o-q. Africa business generated free cash flow (FCF) of $386 million (down 7.6% q-o-q) during the quarter, while capex increased by 19.6% q-o-q to $224 million.

- **Strong performance in India wireless business despite tariff hike:** Revenue of India wireless business grew by 9.5% q-o-q and 25.1% y-o-y to Rs. 17,617 crore, led by tariff hikes and 4G subscriber additions of 5.2 million q-o-q (constitute 62% of overall customer base). Over the past 12 months, the company has added around 21.5 million customers over its 4G networks. The company has also added over 2 lakh subscribers in the postpaid segment during the quarter. Overall, customer net additions improved by 3.1 million q-o-q and churn ratio declined slightly to 2.8%. ARPU grew by 9.2% q-o-q to Rs. 178. EBITDA margin of India wireless business improved 120 bps q-o-q basis to 50.6% and EBITDA increased by 12.3% q-o-q.

- **Industry witnessed low net addition in the wireless business in Q4:** The industry saw low net addition in subscribers during the quarter due to (1) SIM consolidation at lower price end (features phones segment) and (2) moderation in 4G net addition because of higher prices of smartphones due to shortage of semiconductors. Original equipment manufacturers (OEMs) are prioritising higher price smartphones across markets due to increasing costs of semiconductor chips.

- **Improvement in India wireless operating metrics:** Data subscribers increased by 5.5 million q-o-q to 208 million, an increase of 2.7% q-o-q and 10.5% y-o-y. The number of 4G subscribers increased by ~5.2 million q-o-q to 201 million, 2.7% q-o-q and 12.0% y-o-y growth. Overall data usage on the network was up 4.8% q-o-q/28.7% y-o-y, while usage per customer grew by 2.7% q-o-q (up 14.2% y-o-y) to 19.2GB per subscriber. Voice traffic grew by 2.1% q-o-q/5.4% y-o-y to 1,051 billion minutes.

- **Restricted itself to comment on its approach in the upcoming 5G auction:** TRAI has recently announced the reduction of the reserve price of 5G airwaves in the 3300-3670 MHz band to Rs. 317 crore on a pan-India basis from Rs. 492 crore suggested in 2018. Although the reduction in reserve price of 5G airwaves is largely on expected lines, it is significantly lower than the industry's demand. Airtel's management also indicated reduction in the reserve price is not adequate. However, management restricted itself from its strategy and approach for its participation in the upcoming 5G spectrum auction as its decision will depend on the final reserve price of the government.

- **Expect another round of tariff hike in FY2023E:** Despite around 20% tariff hike in the prepaid segment effective from November 26, 2021, 4G subscriber additions grew by 5.2 million on a q-o-q basis and churn rate remained stable at 2.2%. Revenue of India wireless business grew strongly by 9.6% q-o-q. With achieving ARPU of Rs. 178.3 (versus Rs. 145 in Q4FY2021), management sounded confident in increasing ARPU to Rs. 200 during FY2023. To achieve ARPU of Rs. 200, the company could take another round of tariff hike in FY2023E. Thereafter, ARPU should improve to Rs. 300 in the long term for profitable growth.

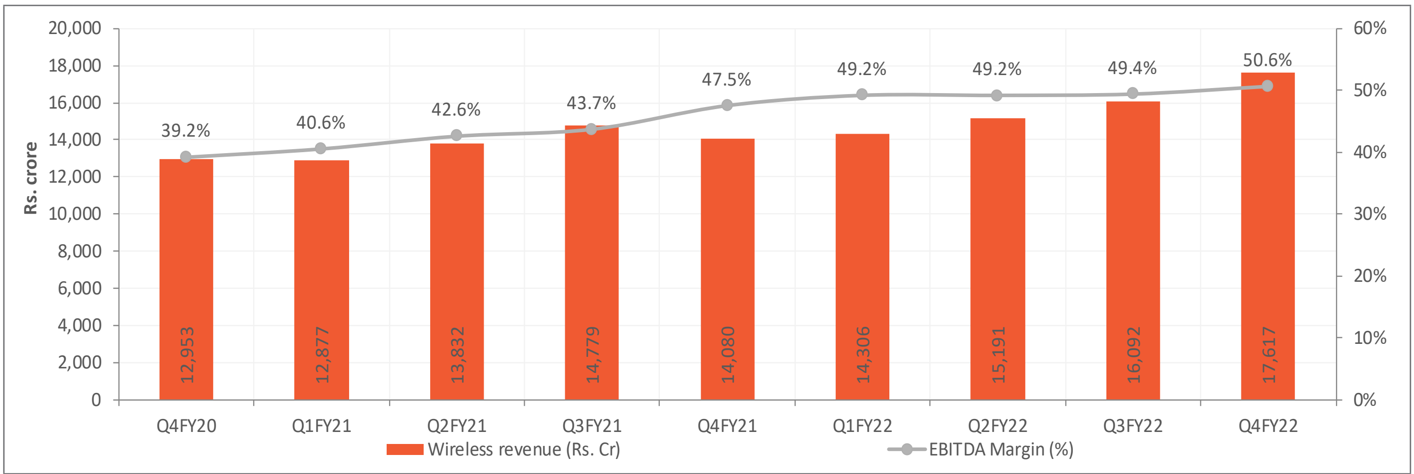
- **Strong growth in home broadband business to continue:** The home broadband business continued to expand with the addition of over 1.85 million home passes during the quarter, led by its innovative partnership model with local cable operators (LCOs). The company added 175 cities through its LCO partnership model during the quarter. During Q4FY2022, the business added 3,23,000 customers and reached the total customer base of 4.5 million broadband customers. Further, the company would continue to step-up investments to cover over 40 million home passes by 2025. Revenue from home broadband grew by 10% q-o-q, led by strong 7.8% q-o-q growth in subscriber addition. EBITDA margin of the home broadband segment declined by 20 bps q-o-q to 54.5%. The company incurred capex of Rs. 497 crore during the quarter. We believe the company is well poised to gain significant share of growth in the home broadband segment, given its sharp focus on high-quality urban homes, digital partnership model with LCOs, and Airtel Black.
- **DTH business likely to face headwinds in the near term:** The company's DTH revenue has been declining sequentially for the past three consecutive quarters. This segment continues to see headwinds given excessive regulations and higher competition from FTA and OTT platforms. Management acknowledged that free dish TV continues to disrupt the business model as good content is being offered free. Management believes there are two opportunities to grow the business going ahead – (1) conversion from cable, which has massive room for growth and (2) move to connected boxes, which would allow the company to operate as a platform of choice. Revenue in the DTH business declined by 4.6% q-o-q, owing to a 2.8% q-o-q fall in customers and 2.9% q-o-q decline in its ARPU. We believe there is huge scope for growth in the DTH segment because of its lower pricing as compared to the average rate of global DTH services, lower penetration, poor services by cable operators, and lack of broadband penetration across the country (limits technological disruptions).
- **Enterprise business is consistently delivering growth:** Airtel's business revenue grew by 1.8% q-o-q and 12.9% y-o-y during the quarter, driven by demand for connectivity, Communication Platform as a Service (CPaaS) across global and domestic businesses, IoT, cybersecurity, cloud, and data centers. Management indicated that all of its sub-segments have been growing at least in high-teens and expand market share. The company continues to outperform its peers in each of the segments of the enterprise business. The company wants to grow the business in two ways – (1) farming i.e. increasing the wallet share by offering solutions around cyber security, surveillance, cloud communications, cloud-based services, and work-from-home solutions, among others, and (2) hunting i.e. acquiring new customers. EBITDA margin of the company's enterprise business improved by 82 bps q-o-q to 39.4%. The company's CPaaS business grew in double digits during the quarter. We believe the company's resilient connectivity along with strong relationships with customers and hyperscalers would provide a competitive advantage in the enterprise segment.
- **Focuses on three layers of its digital business:** The company's three digital layers such as digital infrastructure, digital experience, and digital enterprise would drive its growth going ahead. Management believes the core of its business is ***digital infrastructure***. Over the past five years, the company has invested around $46 billion to create a strong digital business model for the company. The company has also done massive investment in transport infrastructure in both domestic fibre and international submarine cables, which enables broadband growth and the company to be ready for 5G. With a strong digital infrastructure layer as a base, the company can focus on ***digital experience*** across its businesses, including channels, customer touch points, network experience, customer-facing application, go-to-market capabilities, stores, and delivery teams with an omni-channel view. This has enabled the company to have one retail channel for DTH, prepaid, bank, one direct customer channel, one digital channel, one home delivery organisation, and one B2B channel (direct to digital). The company has brought its digital organisation for all services together, thereby being able to bundle various services together for the customer and improving delivery efficiency. The company's ***digital enterprise*** business is a key moat for the company. The core of its digital enterprise service is connectivity and connectivity-related solutions. Both digital infrastructure and enterprise capabilities combine to provide digital services.
- **Healthy FCF generation and deleveraging:** Capex declined by 1.7% q-o-q to Rs. 5,997 crore in Q4FY2022. FCF remained healthy (up 13.6% q-o-q) at Rs. 10,001 crore, led by strong EBITDA growth and lower capex. Consolidated net debt excluding lease obligations declined 0.3% q-o-q to Rs. 12,354.4 crore. Net debt to annualised EBITDA (including the impact of leases) declined to around 2.51x in Q4FY2022 from 2.67x in Q3FY2022. With fund infusion from Google, health cash flow generation in both India and Africa business, and lower interest expenses in the coming quarters, we believe there would be further deleveraging going forward.

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Y-o-Y %	Q3FY22	Q-o-Q %
Net sales	**31,500.3**	**25,747.3**	**22.3**	**29,866.6**	**5.5**
License fees and spectrum charges	3,008.9	2,501.2	20.3	2,729.8	10.2
Employee expenses	1,164.2	998.9	16.5	1,133.6	2.7
Access and interconnection charges	1,750.5	1,564.9	11.9	1,723.2	1.6
Network operating expenses	6,545.8	5,917.9	10.6	6,498.6	0.7
Other expenses	1,457.9	1,284.1	13.5	1,636.1	-10.9
Operating profit	**16,040.3**	**12,331.9**	**30.1**	**14,702.8**	**9.1**
Interest expenses	4,059.3	3,860.6	5.1	4,367.1	-7.0
Depreciation	8,582.6	7,501.9	14.4	8,547.2	0.4
Tax	1,321.8	510.1	159.1	990.8	33.4
Reported net income	**2,007.8**	**759.2**	**164.5**	**829.6**	**142.0**
Adjusted net income	**1,929.4**	**318.8**	**505.2**	**807.3**	**139.0**
EPS (Rs.)	3.1	0.6	423.3	1.3	139.0
Margins (%)			bps		bps
EBITDA Margin	50.9	47.9	303	49.2	169
NPM (adjusted)	6.1	1.2	489	2.7	342
Tax rate	30.6	34.2	-358	48.9	-1,834

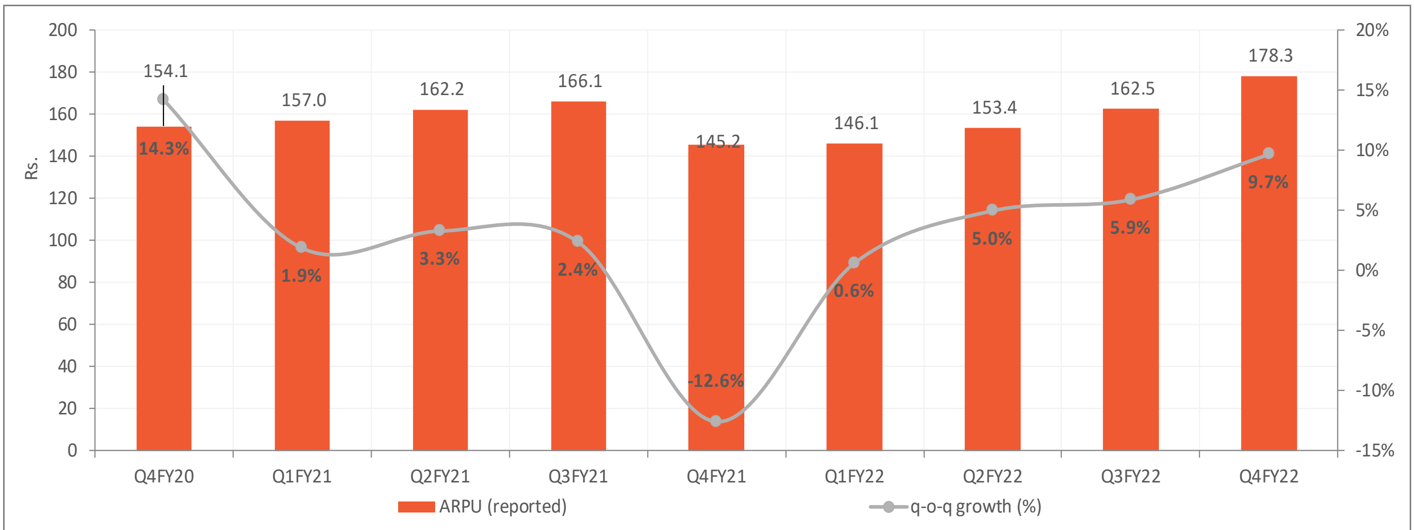
Source: Company; Sharekhan Research

India wireless revenue grew by 9.5% q-o-q, as expected



Source: Sharekhan Research

ARPU improved 9.7% q-o-q, led by tariff hikes



Source: Sharekhan Research

Outlook and Valuation

■ Sector view – Large addressable market

Reliance Jio's entry in the Indian telecom space led to reversal of pricing paradigm that benefited incumbent telecom players. After extensive consolidation, the structure of the telecom industry has changed from more than eight players to three private and one government operator now. The momentum has now shifted towards data. As smartphones are becoming more affordable, the uptake of data services is increasing. India has become the second largest telecommunications market and has the second highest number of internet users in the world. We believe higher bundling with home entertainment, partnerships with content providers, and increasing data consumption due to work for home and online education could be major growth drivers going ahead.

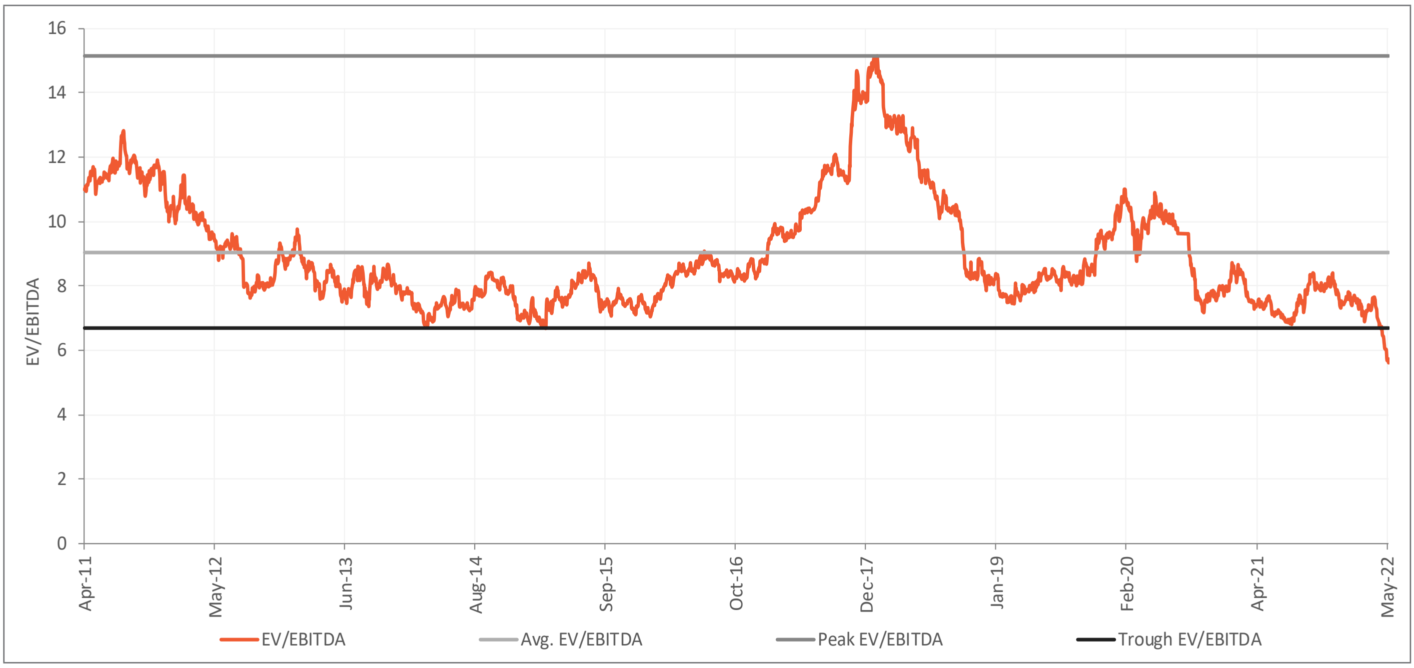
■ Company outlook – Better positioned to gain market share

Though Airtel will be able to withstand competition in the wireless business, we believe the company's capex will be allocated towards the non-wireless business and differentiated digital capabilities to drive its growth going ahead. Further, the company's FCF is set to improve going ahead with the recent tariff increase and better cost management. Higher digitisation would enable the company to increase monetisation of digital assets and value-added services, a reduced churn rate across verticals, and improved wallet share from subscribers. With improving cash flow generation and adequate investments in digital offerings and networks, Airtel is well placed to grow in its core business and gain market share across its portfolio going ahead.

■ Valuation – Growth to stay strong

Airtel is well positioned to deliver strong revenue growth because of massive investments in digital offerings, market share gains across key segments, and strong execution in the non-wireless business. Given monetisation of its digital initiatives, improvement in 4G and postpaid subscriber mix, and potential tariff increase, we believe the company's EBITDA would report a 24% CAGR over FY2022-FY2024E. At the CMP, the stock is trading at a reasonable valuation of 7x/6x its FY2023E/FY2024E EV/EBITDA. We continue to prefer Airtel, given improving subscriber mix, resilient business model, and healthy free cash flow (FCF) generation. We maintain our Buy recommendation on the stock with a price target (PT) of Rs. 910.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

Established in 1995, Airtel is one of the leaders in the Indian mobile telephony space with operations in 18 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers. Airtel is a diversified telecom service provider offering wireless, mobile commerce, fixed line, home broadband, enterprise, and DTH services. The company expanded into Africa by acquiring Zain's Africa operations in 2010 and is present in 14 African markets. Airtel had over 485 million customers across its operations.

Investment theme

Revenue accretion from the 4G upgrade, minimum ARPU plans (rolled out across India), and recent tariff hike helped the company to report ARPU improvement. Further, the government's data localisation policies with increasing penetration of smartphones are likely to boost strong demand for data over the medium-to-long term. Despite a predatory pricing strategy from new entrants since its commercial launch in September 2016, Airtel has been resilient in sustaining its revenue market share (RMS) as it has been drastically standardising its plans to retain customers and acquiring subscribers through M&A activities. We believe the company is well poised to deliver strong multi-year EBITDA growth phase, given recent developments in the Indian wireless industry and market repairs (tariff hike and relief from the government).

Key Risks

1) Increasing competition could pressurise realisations; and 2) Slower growth in data volumes could affect data revenue growth.

Additional Data

Key management personnel

Sunil Mittal	Chairman
Gopal Vittal	MD and CEO (India and South Asia)
Raghunath Mandava	CEO (Africa)
Soumen Ray	Chief Financial Officer
Pankaj Tewari	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Capital Group Companies	2.86
2	ICICI Prudential Asset Management	2.53
3	SBI Funds Management Private Limited	2.45
4	BlackRock Inc.	1.60
5	The Vanguard Group Inc.	1.52
6	GIC Pte Limited	1.23
7	ICICI Prudential Life Insurance Co.	1.18
8	OP – Rahastoyhtio Oy	0.96
9	HDFC Asset Management Private Limited	1.15
10	Nippon Life India Asset Management	0.81

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

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