

BSE SENSEX
 53,177

 S&P CNX
 15,850

CMP: INR681
TP: INR910 (+34%)
Buy

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| | |
|-----------------------|---------------|
| Bloomberg | BHARTI IN |
| Equity Shares (m) | 5,884 |
| M.Cap.(INRb)/(USDb) | 3867.8 / 49.1 |
| 52-Week Range (INR) | 782 / 510 |
| 1, 6, 12 Rel. Per (%) | 3/8/30 |
| 12M Avg Val (INR M) | 7633 |
| Free float (%) | 44.1 |

Financials & Valuations (INR b)

| INR Billion | FY22 | FY23E | FY24E |
|-------------------|-------|-------|-------|
| Net Sales | 1,165 | 1,350 | 1,507 |
| EBITDA | 575 | 695 | 796 |
| Adj. PAT | 31 | 69 | 98 |
| EBITDA Margin (%) | 49.4 | 51.5 | 52.8 |
| Adj. EPS (INR) | 5.6 | 12.4 | 17.5 |
| EPS Gr. (%) | -527 | 122 | 41 |
| BV/Sh. (INR) | 119 | 160 | 177 |

Ratios

| | | | |
|-----------------|-----|-----|------|
| Net D:E | 2.3 | 1.3 | 0.8 |
| RoE (%) | 5.0 | 8.9 | 10.4 |
| RoCE (%) | 8.0 | 9.9 | 12.4 |
| Div. Payout (%) | 0.0 | 0.0 | 0.0 |

Valuations

| | | | |
|----------------|-----|-----|-----|
| EV/EBITDA (x) | 9.6 | 7.4 | 6.0 |
| P/E (x) | 125 | 56 | 40 |
| P/BV (x) | 5.8 | 4.4 | 3.9 |
| Div. Yield (%) | 0.0 | 0.0 | 0.0 |
| FCF Yield (%) | 2.2 | 7.6 | 9.9 |

Shareholding pattern (%)

| As On | Mar-22 | Dec-21 | Mar-21 |
|----------|--------|--------|--------|
| Promoter | 55.9 | 55.9 | 55.9 |
| DII | 19.5 | 19.5 | 20.4 |
| FII | 19.4 | 19.4 | 18.6 |
| Others | 5.2 | 5.2 | 5.2 |

FII Includes depository receipts

Huge FCF opportunity calls

Strong EBITDA growth and flat capex to translate into robust FCF generation

Over the last couple of years, though Bharti's operational performance has been strong, it has lagged in FCF generation and deleveraging that has posed a key concern for the stock. FCF is a key factor in telecom business as technology upgradation continually keeps capex intensity high. However, we believe despite the upcoming investments in 5G, Bharti is witnessing a decadal shift in its FCF generation capability that could translate into healthy deleveraging. **We maintain our BUY rating on the stock with a TP of INR910.**

Decadal shift in FCF generation capability

- Bharti is entering a phase of high FCF growth. During the last three years (FY19-22), Bharti's EBITDA has jumped over 2x adding INR318b as against an average capex (excluding Spectrum) of INR233b (flat over the period). This translated into a significant FCF.
- During the last three years, we saw an EBITDA addition of 1.4x of the annual capex of Bharti (excluding Spectrum).
- However, Indus and DTH stake acquisitions, AGR payments and liability et al. have led to limited FCF and deleveraging (refer to Exhibit 2).
- We expect Bharti to generate FCF (post-interest) of INR251b/INR368b, i.e. 22%/47% of its net debt (post Ind-AS 116) in FY23/24E, respectively, (refer to Exhibit 1).

Industry dynamics turned favorable

- The change in market construct (led by sector consolidation) over the last five years has assuaged a big historical concern of the past decade (FY08-18), when earnings were depressed and capex continued to rise leading to high leverage.
- At present, the sector consolidation has led to:
 - Multiple rounds of tariff hikes, cumulatively >50%, which were unheard-of in the past decade, translating into 39% increase in ARPU for Bharti over FY19-22 (refer to Exhibit 3).
 - Nearly 5.3% market share gains (refer to Exhibit 4).
- We see three levers of growth for Bharti: a) 4G mix improvement, b) market share gains from VIL, and c) continued tariff hikes.
- These levers along with incremental margin of 65% should drive 18% EBITDA CAGR for Bharti over FY22-24E.

5G not a concern

- One of the key headwinds for Bharti is the fresh round of 5G-led capex. However, we draw comfort on 5G from the three factors mentioned below:
 - Over the last three years, the increase in EBITDA for Bharti has far outpaced the capex need (refer to Exhibit 5).

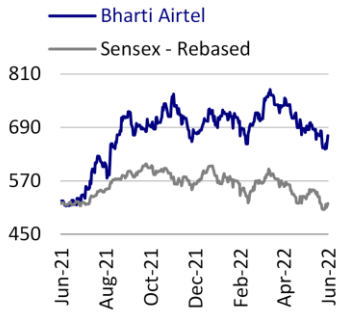
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Stock Performance (1-year)

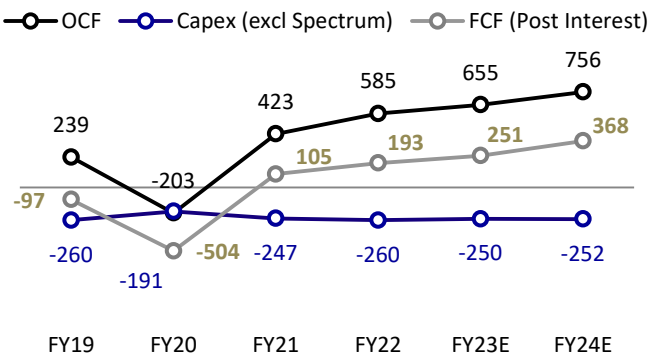


- Bharti has ~INR215b of expected funds (INR160b of uncalled rights issue and INR55b from Google) against an expected spend of ~INR150-200b in the upcoming 5G auction.
- With its EBITDA growth of over 2x in the last three years (FY19-22), Capex amount has now become less impactful – 0.6-0.8x of EBITDA v/s 1.2-1.5x of EBITDA in FY14-15 (refer to Exhibit 5).
- Further, given that 4G is still not fully monetized and 5G device and band ecosystem are yet to be developed, we should see a staggered growth in 5G over the next 3-5 years, unlike the aggressive 4G capex seen during FY16-20.
- The impact on operating cash flow from 5G annual installments in 700MHz/3300MHz bands ranges between 2% and 4% (refer to Exhibit 7).

Improvement in FCF should command better valuation

- The stock is trading at 7x on consolidated FY23E EV/EBITDA with India business trading at slightly below 8x. Historically, Bharti has commanded lower valuations due to intensive competition and high capex intensity that hurt profitability, FCF and return ratios.
- However, we now expect the stock to command better valuation due to:
 - consistent 18% EBITDA CAGR over FY22-24E,
 - sustainable FCF yield of ~8-9% and leverage position,
 - low concern on 5G-led capex intensity as EBITDA growth has far outpaced capex need, and
 - Bharti turning profitable at the PAT level with high 50%+ growth (over FY22-24E) driven by operating leverage.
- We arrive at our SOTP-based TP of INR910 premised on FY24E EV/EBITDA of 11x for the India Mobile business and 5x for the Africa business.

Exhibit 1: OCF/FCF growth against flat capex (INR b)



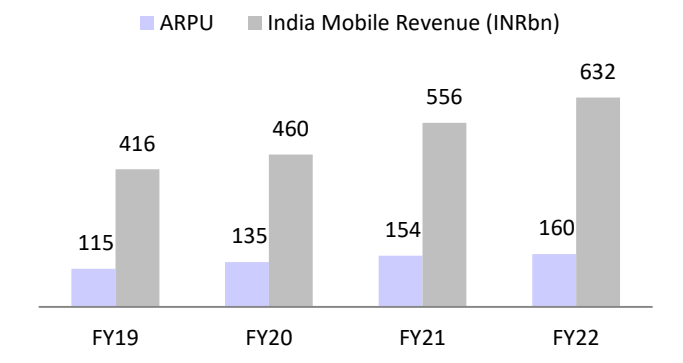
Source: MOFSL, Company

Exhibit 2: Indus and DTH stake acquisitions

| Acquired | Date | Stake | INR b |
|-------------------------------|--------|-------|-------|
| DTH stake from Warburg Pincus | Feb-21 | 20.0% | 31.3 |
| Indus Tower | Dec-20 | 4.9% | 28.8 |
| Indus Tower | Feb-22 | 4.7% | 25.0 |

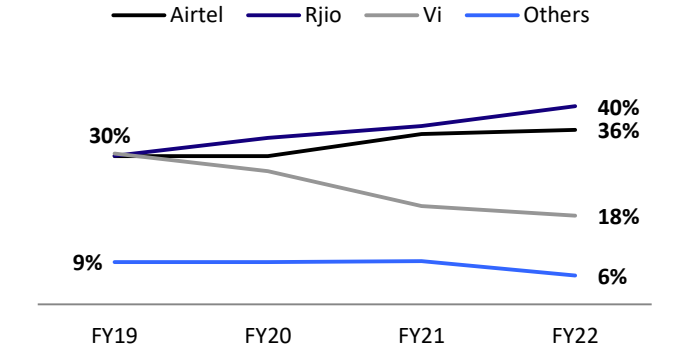
Source: MOFSL, Company

Exhibit 3: ARPU/India Mobile revenue grew 39%/52% over FY19-22, respectively



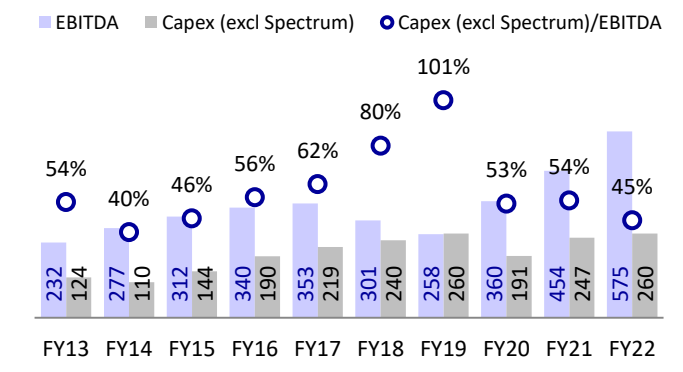
Source: MOFSL, Company

Exhibit 4: Bharti gaining AGR market share



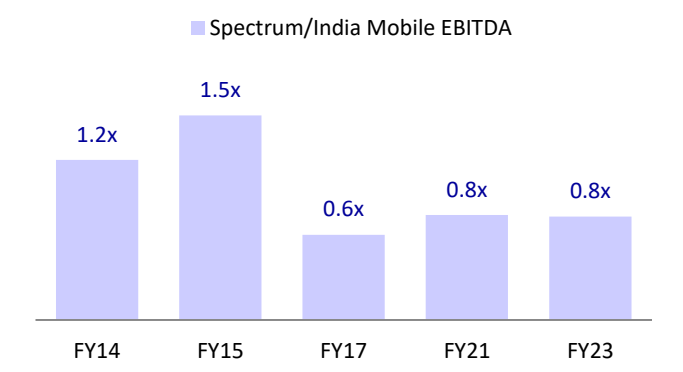
Source: MOFSL, Company

Exhibit 5: Capex/EBITDA improving



Source: MOFSL, Company

Exhibit 6: Spectrum/EBITDA improving



Source: MOFSL, Company

Exhibit 7: 5G spectrum acquisition scenario

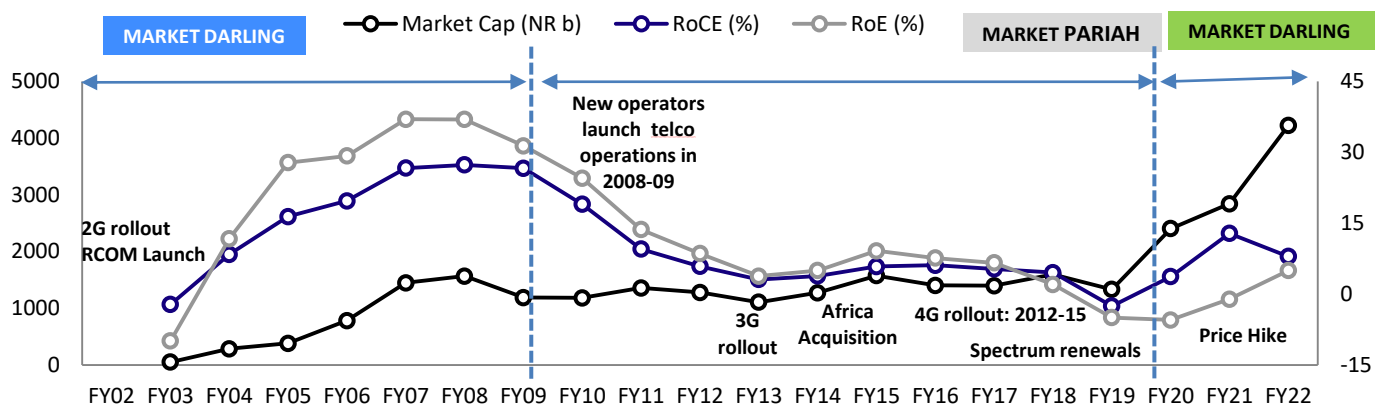
| Band | INR b per MHz | MHz acquired cases | | | INR b for each cases | | |
|--------------|---------------|--------------------|--------|--------|----------------------|------------|------------|
| | | Case A | Case B | Case C | Case A | Case B | Case C |
| 700 MHz | 39.27 | 0 | 0 | 5 | 0 | 0 | 196 |
| 3300 MHz | 3.17 | 50 | 100 | 0 | 159 | 317 | 0 |
| Total | | | | | 159 | 317 | 196 |

Source: MOFSL, Company

Exhibit 8: Impact of 5G annual instalment on FY23E OCF

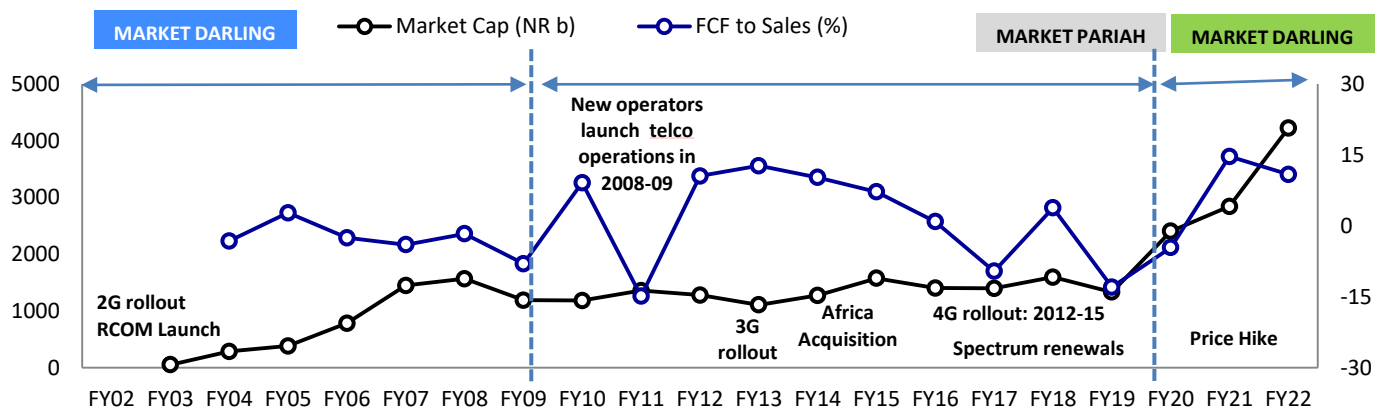
| Annual instalment calculation (INR b) | Case A | Case B | Case C |
|---------------------------------------|-----------|-----------|-----------|
| Amount for each cases | 159 | 317 | 196 |
| Annual instalment | 14 | 28 | 18 |
| OCF for FY23E | 655 | 655 | 655 |
| Instalment/OCF | 2% | 4% | 3% |
| Term (years) | 20 | | |
| Interest rate % | 7.20% | | |

Exhibit 9: Correlation of company market cap with RoCE/RoE



Source: MOFSL, Company

Exhibit 10: Correlation of company market cap with FCF/sales



Source: MOFSL, Company

Exhibit 11: Bharti's FY24E-based SOTP

| | EBITDA (INR b) | Ownership | Proportionate EBITDA (INR b) | EV/EBITDA | Fair Value (INR b) | Value/Share |
|---|----------------|-----------|------------------------------|-----------|--------------------|-------------|
| India SA business (excl. towers) | 579 | 100% | 579 | 11 | 6,131 | 1042 |
| Tower business (15% discount to fair value) | | 41.7% | | | 243 | 41 |
| Africa business | 217 | 55.2% | 120 | 5 | 599 | 102 |
| Less: net debt | | | | | 1618 | 275 |
| Total Value | | | | | 5354 | 910 |
| Shares o/s (b) | 5.9 | | | | | |
| CMP | | | | | | 681 |
| Upside (%) | | | | | | 34 |

Source: MOFSL, Company

Financials and Valuation

Consolidated - Income Statement

(INR b)

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|-------------------------------------|------------|------------|------------|-------------|--------------|--------------|--------------|--------------|
| Total Income from Operations | 955 | 826 | 808 | 869 | 1,006 | 1,165 | 1,350 | 1,507 |
| Change (%) | -1.1 | -13.4 | -2.2 | 7.6 | 15.7 | 15.8 | 15.8 | 11.6 |
| Total Expenditure | 601 | 526 | 550 | 509 | 552 | 590 | 655 | 711 |
| % of Sales | 63.0 | 63.6 | 68.1 | 58.6 | 54.9 | 50.6 | 48.5 | 47.2 |
| EBITDA | 353 | 301 | 258 | 360 | 454 | 575 | 695 | 796 |
| Margin (%) | 37.0 | 36.4 | 31.9 | 41.4 | 45.1 | 49.4 | 51.5 | 52.8 |
| Depreciation | 198 | 192 | 213 | 276 | 294 | 331 | 366 | 395 |
| EBIT | 156 | 108 | 44 | 85 | 160 | 244 | 329 | 401 |
| Int. and Finance Charges | 77 | 81 | 96 | 135 | 151 | 166 | 154 | 137 |
| Other Income | 10 | 13 | 5 | 16 | 6 | 30 | 46 | 47 |
| PBT bef. EO Exp. | 89 | 41 | -47 | -34 | 14 | 108 | 221 | 312 |
| EO Items | -12 | -8 | 29 | -402 | -159 | 17 | 0 | 0 |
| PBT after EO Exp. | 77 | 33 | -17 | -437 | -145 | 125 | 221 | 312 |
| Total Tax | 35 | 11 | -34 | -123 | 89 | 42 | 89 | 125 |
| Tax Rate (%) | 45.1 | 33.2 | 197.4 | 28.2 | -61.7 | 33.5 | 40.0 | 40.0 |
| Profit from discontinued operations | 0.0 | 0.0 | 0.0 | 7.1 | 110.6 | 0.0 | 0.0 | 0.0 |
| Minority Interest | 4 | 11 | 13 | 15 | 27 | 41 | 64 | 90 |
| Reported PAT | 38 | 11 | 4 | -322 | -151 | 43 | 69 | 98 |
| Adjusted PAT | 44 | 14 | -35 | -41 | -7 | 31 | 69 | 98 |
| Change (%) | -9.5 | -68.6 | -350.3 | 16.6 | -82.3 | -534.2 | 121.6 | 40.9 |
| Margin (%) | 4.7 | 1.7 | -4.3 | -4.7 | -0.7 | 2.7 | 5.1 | 6.5 |

Consolidated - Balance Sheet

(INR b)

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Equity Share Capital | 20 | 20 | 20 | 27 | 27 | 28 | 29 | 29 |
| Total Reserves | 655 | 675 | 694 | 744 | 562 | 638 | 863 | 960 |
| Net Worth | 675 | 695 | 714 | 771 | 590 | 666 | 892 | 990 |
| Minority Interest | 69 | 88 | 135 | 250 | 223 | 254 | 317 | 407 |
| Total Loans | 1,073 | 1,113 | 1,254 | 1,176 | 1,628 | 1,697 | 1,285 | 1,186 |
| Lease liabilities | 0 | 0 | 0 | 306 | 0 | 0 | 0 | 0 |
| Deferred Tax Liabilities | -17 | -22 | -83 | -263 | -222 | -217 | -217 | -217 |
| Capital Employed | 1,799 | 1,875 | 2,021 | 2,241 | 2,218 | 2,399 | 2,278 | 2,366 |
| Net Fixed Assets | 1,891 | 1,589 | 1,684 | 1,690 | 2,292 | 2,500 | 2,384 | 2,241 |
| Goodwill on Consolidation | 0 | 328 | 333 | 346 | 0 | 0 | 0 | 0 |
| Capital WIP | 0 | 52 | 88 | 40 | 0 | 0 | 0 | 0 |
| Right of use assets | 0 | 0 | 0 | 259 | 0 | 0 | 0 | 0 |
| Total Investments | 182 | 180 | 176 | 278 | 329 | 359 | 359 | 359 |
| Curr. Assets, Loans&Adv. | 234 | 327 | 382 | 724 | 617 | 561 | 582 | 874 |
| Inventory | 0 | 1 | 1 | 2 | 0 | 0 | 0 | 2 |
| Account Receivables | 47 | 59 | 43 | 46 | 36 | 41 | 41 | 50 |
| Cash and Bank Balance | 13 | 48 | 62 | 136 | 81 | 61 | 67 | 336 |
| Loans and Advances | 173 | 219 | 276 | 541 | 500 | 459 | 473 | 486 |
| Curr. Liability & Prov. | 507 | 602 | 641 | 1,097 | 1,020 | 1,020 | 1,046 | 1,108 |
| Account Payables | 497 | 577 | 621 | 621 | 1,020 | 1,020 | 1,046 | 1,108 |
| Provisions | 10 | 25 | 20 | 476 | 0 | 0 | 0 | 0 |
| Net Current Assets | -273 | -275 | -259 | -373 | -403 | -460 | -464 | -234 |
| Appl. of Funds | 1,799 | 1,875 | 2,021 | 2,241 | 2,218 | 2,399 | 2,278 | 2,366 |

Financials and Valuation

Ratios

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|-------------------------------|-------------|------------|-------------|-------------|-------------|------------|-------------|-------------|
| Basic (INR) | | | | | | | | |
| EPS | 11.1 | 3.5 | -8.7 | -7.5 | -1.3 | 5.6 | 12.4 | 17.5 |
| Cash EPS | 60.6 | 51.6 | 44.7 | 43.1 | 52.2 | 64.8 | 77.9 | 88.0 |
| BV/Share | 168.8 | 173.9 | 178.7 | 141.4 | 107.3 | 119.1 | 159.6 | 177.1 |
| DPS | 1.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payout (%) | 12.7 | 43.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation (x) | | | | | | | | |
| P/E | 62.6 | 199.3 | -79.6 | -93.2 | -531.1 | 124.5 | 56.2 | 39.9 |
| Cash P/E | 11.5 | 13.5 | 15.6 | 16.2 | 13.3 | 10.7 | 8.9 | 7.9 |
| P/BV | 4.1 | 4.0 | 3.9 | 4.9 | 6.5 | 5.8 | 4.4 | 3.9 |
| EV/Sales | 4.0 | 4.7 | 4.9 | 5.9 | 5.3 | 4.7 | 3.8 | 3.1 |
| EV/EBITDA | 10.9 | 12.8 | 15.4 | 14.3 | 11.8 | 9.6 | 7.4 | 6.0 |
| Dividend Yield (%) | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF per share | -22.9 | 7.8 | -26.2 | -7.3 | 26.9 | 22.6 | 72.5 | 90.3 |
| Return Ratios (%) | | | | | | | | |
| RoE | 6.6 | 2.0 | -5.0 | -5.5 | -1.1 | 5.0 | 8.9 | 10.4 |
| RoCE | 5.3 | 4.6 | -2.5 | 3.7 | 12.8 | 8.0 | 9.9 | 12.4 |
| RoIC | 5.4 | 4.5 | -2.6 | 3.5 | 14.4 | 8.6 | 10.3 | 13.7 |
| Working Capital Ratios | | | | | | | | |
| Fixed Asset Turnover (x) | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.5 | 0.6 | 0.7 |
| Asset Turnover (x) | 0.5 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 |
| Inventory (Days) | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 |
| Debtor (Days) | 18 | 26 | 19 | 19 | 13 | 13 | 11 | 12 |
| Creditor (Days) | 190 | 255 | 281 | 261 | 370 | 320 | 283 | 268 |
| Leverage Ratio (x) | | | | | | | | |
| Current Ratio | 0.5 | 0.5 | 0.6 | 0.7 | 0.6 | 0.5 | 0.6 | 0.8 |
| Interest Cover Ratio | 2.0 | 1.3 | 0.5 | 0.6 | 1.1 | 1.5 | 2.1 | 2.9 |
| Net Debt/Equity | 1.3 | 1.3 | 1.4 | 1.5 | 2.5 | 2.3 | 1.3 | 0.8 |

Consolidated - Cash Flow Statement

| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23E | FY24E |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| (INR b) | | | | | | | | |
| OP/(Loss) before Tax | 77 | 33 | -17 | -428 | -31 | 125 | 221 | 312 |
| Depreciation | 198 | 192 | 213 | 277 | 297 | 331 | 366 | 395 |
| Interest & Finance Charges | 95 | 93 | 110 | 137 | 149 | 165 | 154 | 137 |
| Direct Taxes Paid | -32 | -14 | -12 | -23 | -22 | -22 | -89 | -125 |
| (Inc)/Dec in WC | -27 | 6 | -55 | -166 | 30 | -14 | 2 | 38 |
| CF from Operations | 311 | 311 | 239 | -203 | 423 | 585 | 655 | 756 |
| Others | -19 | -12 | -39 | 384 | 59 | -35 | 0 | 0 |
| CF from Operating incl EO | 292 | 299 | 201 | 181 | 482 | 550 | 655 | 756 |
| (Inc)/Dec in FA | -384 | -267 | -305 | -221 | -334 | -424 | -250 | -252 |
| Free Cash Flow | -92 | 31 | -105 | -40 | 148 | 127 | 405 | 505 |
| (Pur)/Sale of Investments | -1 | -33 | 1 | -88 | 38 | -5 | 9 | 0 |
| Others | 69 | 40 | 19 | 5 | 27 | 10 | 0 | 0 |
| CF from Investments | -316 | -260 | -285 | -305 | -269 | -419 | -241 | -252 |
| Issue of Shares | 1 | 0 | 99 | 462 | 7 | 10 | 156 | 0 |
| Inc/(Dec) in Debt | 9 | 40 | 106 | -180 | -118 | -19 | -411 | -99 |
| Interest Paid | -59 | -44 | -76 | -110 | -71 | 132 | -154 | -137 |
| Dividend Paid | -9 | -33 | -47 | -18 | -27 | -14 | 0 | 0 |
| Others | 53 | 56 | 13 | 37 | -40 | -257 | 1 | 0 |
| CF from Fin. Activity | -4 | 19 | 95 | 191 | -249 | -148 | -407 | -236 |
| Inc/Dec of Cash | -28 | 58 | 10 | 68 | -36 | -17 | 6 | 269 |
| Opening Balance | 18 | -10 | 41 | 54 | 131 | 91 | 74 | 80 |
| Closing Balance | -10 | 41 | 54 | 131 | 91 | 74 | 80 | 349 |
| Less :- Bank overdraft | -23 | -7 | -8 | -5 | 10 | 13 | 13 | 13 |
| Net Closing Balance | 13 | 48 | 62 | 136 | 81 | 61 | 67 | 336 |

| 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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