

Rights issue to meet accelerated investments...

Event:

- Bharti Airtel (Airtel) announced that its board has approved raising up to ₹ 21,000 crore via rights issue at ₹ 535 per share, with rights entitlement ratio at one equity share for every 14 equity shares held, implying equity dilution of ~7%. *Terms of payment:* Issue price will be 25% on application and balance in two more additional calls within 36 months
- The promoter & promoter group will collectively subscribe to the full extent of their aggregate rights entitlement along with any unsubscribed portion

Management commentary and outlook.

- Sunil Bharti Mittal, promoter & Chairman, outlined the company's aspirations as a) ARPU to reach ₹ 200 levels by FY22 end and eventually to ₹ 300, b) lowering of leverage (net debt to EBITDA to 2x vs. 3x currently) and c) healthy return ratios in teens vs. single digit, currently
- The management clarified that fund raise was aimed to meet accelerated investment mainly in mobile business (as it envisages strong market share grab), 5G, fibre backhaul, FTTH and data centre. They also clarified that proceeds will not be utilised for investment in Indus or OneWeb (overall investment in Oneweb India to be limited to US\$7-8 million). It outlined towers, fibre assets and real estate as three non-core monetisable assets
- The company expects 5G spectrum auction in early FY23 and rollout from second half with rollout initially in large cities and expansion into smaller markets in later years. Furthermore, 5G device ecosystem has improved with increased proportion of 5G device shipment and reasonable prices
- The promoters stake is likely to be stable as Bharti Telecom is debt free

What should investors do?

This move of expanding growth war chest (to capture incremental market share and 5G foray) without stretching leverage is positive, in our view. We remain constructive on Airtel ascribing it as one of our top picks. We maintain BUY rating with unchanged DCF based target price of ₹ 720. **We also advise subscribing to the rights issue.**

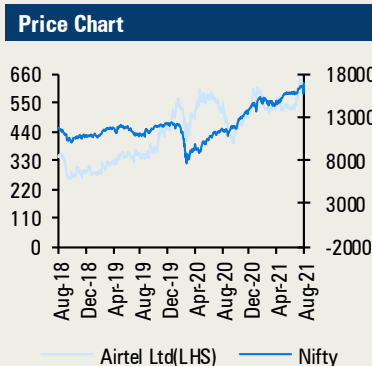
Key triggers for future price performance:

- Favourable industry structure of three players (two being strong) or two players, is a strong kicker for eventual hike in tariff as well as superior digital play in the medium to long term driven by growth opportunity from 5G



Particulars	
Particulars	Amount
Market Capitalisation (₹ Crore)	3,38,493
Total Debt (₹ Crore)	1,62,785
Cash & Inv (₹ Crore)	14,071
EV (₹ Crore)	4,87,207
52 week H/L	644/ 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	20.4
FIs	17.6	17.8	18.6	18.1
Other	4.5	4.3	5.2	5.6



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

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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)	605.7	NA	(22.4)		57.2	24.1	
Price / Book (x)	3.5	4.4	5.7		5.2	4.3	
EV/EBITDA (x)	17.6	12.5	10.7		8.5	6.6	
RoCE (%)	2.1	4.1	6.4		9.4	13.7	
RoE (%)	(3.5)	(5.3)	(2.2)		9.1	17.8	

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	87,539.0	1,00,615.8	1,12,622.6	1,28,965.8
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
EBITDA	36,482.3	45,371.7	56,152.1	67,238.5
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
PAT	-32,183.3	-15,083.5	5,922.9	14,027.7
Growth (%)	NA	NA	NA	136.8
EPS (₹)	-59.0	-27.6	10.9	25.7

Source: Company, ICICI Direct Research

Exhibit 2: 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
CF from op activities	26,525.0	24,998.9	61,224.8	71,250.8
(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
CF from inv activities	-65,451.7	-23,783.0	-37,814.3	-26,117.7
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
CF from fin activities	46,713.9	-3,642.5	-13,219.4	-39,505.1
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
Closing Cash	15,892.7	13,466.1	23,657.2	29,285.2

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
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
Total Liabilities	2,62,073	2,61,508	2,66,416	2,51,326
Assets				
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
Application of Funds	2,62,073	2,61,508	2,66,416	2,51,326

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
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
Operating Ratios				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
P/E	NA	-22.4	57.2	24.1
EV / EBITDA	12.5	10.7	8.5	6.6
EV / Net Sales	5.2	4.8	4.2	3.5
Market Cap / Sales	3.9	3.4	3.0	2.6
Price to Book Value	4.4	5.7	5.2	4.3
Solvency Ratios				
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

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Sell: <-15%



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