

## Tariff hike – finally!

### Event:

- Bharti Airtel (Airtel) announced a tariff hike in its prepaid segment with ~20% tariff hike across the board, ~25% hike in base entry level 2G tariff (from ₹ 79 to ₹ 99) with effect from November 26, 2021 – (details on page 2)
- The company indicated that tariff hike was taken to “provide a reasonable return on capital that allows for a financially healthy business model and that this level of ARPU will enable the substantial investments required in networks and spectrum, including 5G”

### Our take:

- With prepaid subscriber and revenues forming ~95%, ~87-88% of overall subscribers, revenues, respectively, the tariff hike will result in wireless revenues increasing by ~19%. Furthermore, assuming conservative pass through of ~75% to EBITDA, the wireless EBITDA will rise by ~29% from current levels. **Hike pass through is likely over the next two quarters. We expect peers to follow suit with similar hikes**
- We highlight that we had built in ~15% step up tariff over Q4FY22 and FY23. Thus, tariff increase implies accelerated (and bit higher) benefits with 5%, 6% upgrade in our FY22, FY23 India EBITDA estimates and ~3.6%, 4.5% upgrade in overall EBITDA estimate in FY22, FY23, respectively**

### What should investors do?

- Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. **We remain constructive on Airtel and maintain BUY rating with a revised SOTP target price of ₹ 860**

### Key triggers for future price performance:

- Relative market share gain from VIL, given its stressed balance sheet
- Long term potential driven by growth opportunity from 5G

**Alternate Stock Idea:** Besides Airtel, we like Tata Communication in our telecom coverage

- Play on enterprise communication and improving balance sheet
- BUY with target price of ₹ 1,725

### 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	1,16,815	1,34,973	15.8
EBITDA (₹ crore)	25,630	36,482	45,372	5.9	58,167	70,234	24.4
Net Profit (₹ crore)	409	(32,183)	(15,084)	PL	5,955	14,888	LP
Adjusted PAT (₹ crore)	(2,519)	(4,075)	(1,300)		5,202	14,888	
EPS (₹)	1.0	(59.0)	(27.6)		10.8	25.3	
P/E (x)	724.4	NA	NA		68.4	29.3	
Price / Book (x)	4.2	5.2	6.9		6.3	4.3	
EV/EBITDA (x)	20.3	14.4	12.2		9.3	6.9	
RoCE (%)	2.1	4.1	6.4		9.7	13.3	
RoE (%)	(3.5)	(5.3)	(2.2)		8.0	14.8	

Source: Company, ICICI Direct Research;



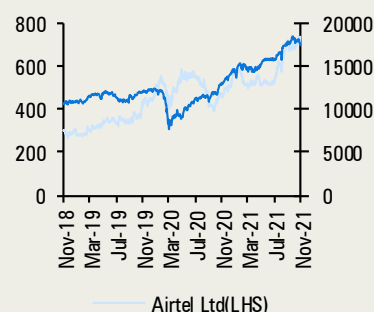
### Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	4,07,561
Total Debt (₹ Crore) - FY21	1,62,785
Cash & Inv (₹ Crore) - FY21	14,071
EV (₹ Crore)	5,56,275
52 week H/L	756/ 450
Equity capital	2,746.0
Face value	5.0

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Oct-21
Promoters	55.9	55.9	55.9	55.9
DII	20.4	20.4	20.7	19.1
FII	18.6	18.1	18.1	19.9
Other	5.2	5.6	5.4	5.1

### Price Chart



### Key risks

**Key Risk:** (i) Delay in tariff hike by competitors; (ii) Increased competitive intensity

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## Financial Summary

## Exhibit 1: New tariff plan

## Airtel's New Prepaid Tariffs

Current Price (Rs)	Validity	New Price (Rs)	Benefits
<b>Tariffed Voice Plans</b>			
79	28 days	99	50% more talktime of Rs 99, 200MB data 1p/sec voice tariff
<b>Unlimited Voice Bundles</b>			
149	28 days	179	Unlimited calling, 100 SMS/day, 2 GB data
219	28 days	265	Unlimited calling, 100 SMS/day, 1 GB/day data
249	28 days	299	Unlimited calling, 100 SMS/day, 1.5 GB/day data
298	28 days	359	Unlimited calling, 100 SMS/day, 2 GB/day data
399	56 days	479	Unlimited calling, 100 SMS/day, 1.5 GB/day data
449	56 days	549	Unlimited calling, 100 SMS/day, 2 GB/day data
379	84 days	455	Unlimited calling, 100 SMS/day, 6 GB data
598	84 days	719	Unlimited calling, 100 SMS/day, 1.5 GB/day data
698	84 days	839	Unlimited calling, 100 SMS/day, 2 GB/day data
1498	365 days	1799	Unlimited calling, 100 SMS/day, 24 GB data
2498	365 days	2999	Unlimited calling, 100 SMS/day, 2 GB/day data
<b>Data Top-ups</b>			
48	Unlimited	58	3 GB data
98	Unlimited	118	12 GB data
251	Unlimited	301	50 GB data

Source: Company, ICICI Direct Research

## Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Realign estimates incorporating Q2 performance and tariff hike (slightly higher and earlier than anticipated)
	Old	New	% Change	Old	New	% Change	
Revenue	1,12,623	1,16,815	3.7	1,28,966	1,34,973	4.7	
EBITDA	56,152	58,167	3.6	67,238	70,234	4.5	
EBITDA Margin (%)	49.9	49.8	-6 bps	52.1	52.0	-10 bps	
PAT	5,923	5,955	0.5	14,028	14,888	6.1	
EPS (₹)	10.9	10.8		25.7	25.3		

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total operating Income</b>	<b>87,539.0</b>	<b>1,00,615.8</b>	<b>1,16,814.9</b>	<b>1,34,973.0</b>
Growth (%)	8.4	14.9	16.1	15.5
Employee Expenses	3,807.2	4,114.6	4,395.6	4,749.1
Marketing Expenses	9,358.2	9,687.1	11,534.2	12,924.3
Access Charges	10,739.5	10,352.1	6,927.2	7,717.2
Network Operating	19,768.5	21,981.9	24,397.6	26,062.3
License Fee	7,383.3	9,108.4	11,393.5	13,285.9
Other Costs	0.0	0.0	0.0	0.0
Total Operating Expenditure	51,056.7	55,244.1	58,648.1	64,738.9
<b>EBITDA</b>	<b>36,482.3</b>	<b>45,371.7</b>	<b>58,166.8</b>	<b>70,234.0</b>
Growth (%)	42.3	24.4	28.2	20.7
Depreciation	27,689.6	29,404.4	32,825.0	34,688.1
Interest	13,991.8	15,091.0	16,172.2	14,505.1
Other Income	1,934.6	642.8	588.6	700.0
Exceptional Items	40,234.4	4,857.8	(752.6)	-
PBT	-43,498.9	-3,338.7	10,510.8	21,740.9
MI / Profit from associates	866.7	2,812.3	1,008.5	1,200.0
Total Tax	-12,182.3	8,932.5	3,547.4	5,652.6
<b>PAT</b>	<b>-32,183.3</b>	<b>-15,083.5</b>	<b>5,954.9</b>	<b>14,888.3</b>
Growth (%)	NA	NA	NA	150.0
<b>EPS (₹)</b>	<b>-59.0</b>	<b>-27.6</b>	<b>10.8</b>	<b>25.3</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	-32,183.3	-15,083.5	5,954.9	14,888.3
Add: Depreciation	27,689.6	29,404.4	32,825.0	34,688.1
Add: Interest Paid	13,991.8	15,091.0	16,172.2	14,505.1
(Inc)/dec in Current Assets	(26,805.6)	9,773.9	(4,873.4)	(5,315.1)
Inc/(dec) in CL and Prov	43,832.5	-14,186.9	14,852.4	15,446.7
Others	0.0	0.0	0.0	0.0
<b>CF from op activities</b>	<b>26,525.0</b>	<b>24,998.9</b>	<b>64,931.0</b>	<b>74,213.0</b>
(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
<b>CF from inv activities</b>	<b>-65,451.7</b>	<b>-23,783.0</b>	<b>-37,814.3</b>	<b>-26,117.7</b>
Issue/(Buy back) of Equity	729.1	18.2	0.0	196.1
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	-16,172.2	-14,505.1
Others	38,453.5	-3,126.8	0.0	20,791.2
<b>CF from fin activities</b>	<b>46,713.9</b>	<b>-3,642.5</b>	<b>-13,772.2</b>	<b>-18,517.7</b>
Net Cash flow	7,787.2	-2,426.6	13,344.6	29,577.6
Opening Cash	8,105.5	15,892.7	13,466.1	26,810.7
<b>Closing Cash</b>	<b>15,892.7</b>	<b>13,466.1</b>	<b>26,810.7</b>	<b>56,388.3</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	2,728	2,746	2,746	2,942
Reserve and Surplus	74,417	56,207	62,162	97,841
Total Shareholders funds	77,145	58,953	64,908	1,00,783
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
<b>Total Liabilities</b>	<b>2,62,073</b>	<b>2,61,508</b>	<b>2,66,448</b>	<b>2,73,206</b>
<b>Assets</b>				
Gross Block	3,14,811	3,35,533	3,76,231	3,98,231
Less: Acc Depreciation	1,46,079	1,75,484	2,08,309	2,42,997
Net Block	1,68,731	1,60,049	1,67,923	1,55,234
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	4,223	4,880
Loans and Advances	21,045	14,326	16,633	19,218
Other Current Assets	21,332	19,245	21,226	23,299
Cash	15,893	13,466	26,811	56,388
Total Current Assets	62,875	50,675	68,893	1,03,786
Creditors	25,020	27,872	33,604	38,828
Other Current Liabilities	73,687	56,648	65,768	75,991
Total Current Liabilities	98,707	84,520	99,372	1,14,819
Net Current Assets	-35,831	-33,845	-30,479	-11,033
Others Assets	36,543	36,256	29,956	29,956
<b>Application of Funds</b>	<b>2,62,073</b>	<b>2,61,508</b>	<b>2,66,448</b>	<b>2,73,206</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	-59.0	-27.6	10.8	25.3
Cash EPS	-8.2	26.2	70.6	84.3
BV	141.4	108.1	118.2	171.3
DPS	2.3	0.0	0.0	0.0
Cash Per Share	29.1	24.7	48.8	95.8
<b>Operating Ratios</b>				
EBITDA Margin (%)	41.7	45.1	49.8	52.0
EBIT Margin (%)	10.0	15.9	21.7	26.3
PAT Margin (%)	-4.7	-1.3	4.5	11.0
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
<b>Return Ratios (%)</b>				
RoE	-5.3	-2.2	8.0	14.8
RoCE	4.1	6.4	9.7	13.3
RoIC	6.7	11.5	18.6	31.3
<b>Valuation Ratios (x)</b>				
P/E	NA	-26.8	68.4	29.3
EV / EBITDA	14.4	12.2	9.3	6.9
EV / Net Sales	6.0	5.5	4.6	3.6
Market Cap / Sales	4.7	4.1	3.5	3.0
Price to Book Value	5.2	6.9	6.3	4.3
<b>Solvency Ratios</b>				
Debt/EBITDA	4.1	3.6	2.8	2.0
Debt / Equity	1.9	2.8	2.5	1.4
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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