



Powered by the Sharekhan 3R Research Philosophy

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
Updated Oct 08, 2021 26.51

Medium Risk

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

Source: Morningstar

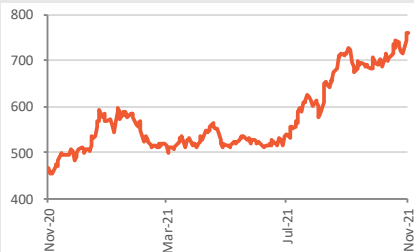
Company details

Market cap:	Rs. 4,16,708 cr
52-week high/low:	Rs. 781 / 450
NSE volume: (No of shares)	143.5 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	242.4 cr

Shareholding (%)

Promoters	55.9
FII	22.1
DII	20.1
Others	1.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.8	26.2	46.9	63.0
Relative to Sensex	13.6	21.4	31.1	31.3

Sharekhan Research, Bloomberg

Bharti Airtel

A hike for the better

Telecom	Sharekhan code: BHARTIARTL		
Reco/View: Buy	↔	CMP: Rs. 759	Price Target: Rs. 910 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Bharti Airtel has hiked tariffs by 20-25% across prepaid plans after two years; move to drive 15% growth in consolidated EBITDA of Q2FY2022.
- Price hike to minimally impact monthly subscriber churn rate; possibilities of down-trading are also limited, given its quality customer base and efficient price plans.
- Tariff hike, steady 4G subscriber additions, continued increase in postpaid customer base and strong growth potential in non-wireless business to help EBITDA clock an 18% CAGR over FY2022-FY2024.
- We maintain a Buy on the stock with a revised PT of Rs. 910, led by the price hike, market share gains across its portfolio, improving FCF and reasonable valuation.

BhartiAirtel Limited (Airtel) announced a much-awaited tariff hike of 20-25% across its prepaid plans after a gap of two years (December 2019), where the company had taken a tariff hike of 25-30%. The prepaid segment contributes around 85% of the company's India wireless revenue and 95% of its total India wireless business subscribers. We believe the recent price hike will have a minimal impact on monthly subscriber churn rate and limited possibilities of downtrading, given its focus on quality customer base and prudent design of its price plans (significant reduction in data allowance/validity days). Vodafone Idea has also followed suit by announcing around 25% price hike across its prepaid plans. We believe Reliance Jio would emulate by announcing similar kind of tariff increase.

- Tariff hike would boost its EBITDA by 15%:** With the 20-25% price hike across prepaid plans (contributes 85% of total revenue), we estimate the company's India wireless revenue and EBITDA would increase by 20% and 27%, respectively, from the current level. Effectively, this would translate in 15% growth in consolidated EBITDA of Q2FY2022. We do not expect any meaningful increase in the monthly subscriber churn rate from current level as SIM consolidation activity is almost done and Reliance Jio is expected to follow suit by announcing similar tariff increases.
- Limited possibilities for downtrading:** We believe there is limited possibilities of downtrading, given prudent design of its price plans (significant reduction of data allowance/validity days). The downtrading of its popular plans (Rs. 839 for 84 days and 2 GB/day data or Rs. 719 for 84 days and 1.5 GB/day data) to its next lower plan would have 14%/24% lower monthly outgo (Rs. 719 for 84 days and 1.5 GB/day data and Rs. 549 for Rs. 56 days, 2 GB/day).
- Leads on 4G subscriber addition:** Over the past 12 months, the company has added around 40 million customers over its 4G networks, which accounted for 60% of total customer base. Strong addition of 4G customers and improving postpaid subscribers would boost the company's revenue and margin going ahead.

Our Call

Valuation – Expect growth momentum to remain strong: We have raised our consolidated revenue and EBITDA estimates for FY2022/FY2023/FY2024 by 4-6%, given tariff hike across its prepaid plans. Note that we had already estimated higher ARPU for the remaining quarters of FY2022, FY2023, and FY2024. The recent price increase, steady 4G subscriber additions, continued increase of postpaid customer base, and strong growth potential in the non-wireless business are expected to boost the company's EBITDA growth at an 18% CAGR over FY2022-FY2024. At the CMP, the stock is trading at a reasonable valuation of 8x/7x its FY2023E/FY2024E EV/EBITDA. We continue to prefer Airtel, given its improving free cash flows (FCF), high 4G penetration in its India wireless subscriber base, and strong competitive position. We maintain Buy on the stock with a revised price target (PT) of Rs. 910.

Key Risks

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

Valuation

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,00,615.8	1,17,297.2	1,36,479.1	1,54,243.2
OPM (%)	45.1	49.4	51.0	52.5
Adjusted PAT	-1,468.5	6,035.6	15,353.5	21,414.6
% YoY growth	NM	NM	154.4	39.5
Adjusted EPS (Rs.)	-2.7	11.0	26.1	36.4
P/E (x)	NM	69.0	29.1	20.8
P/B (x)	7.6	6.6	4.7	3.1
EV/EBITDA (x)	12.9	10.4	8.4	6.9
RoNW (%)	0.0	8.1	17.5	16.8
RoCE (%)	7.8	10.8	13.7	16.1

Source: Company; Sharekhan estimates;

*FY20/FY21/FY22E/FY23E numbers are based on IndAs-116

Improving prospects lead to outperformance

Airtel's stock price has outperformed the broader indices by ~26% since the end of July 2021. The outperformance of the stock from July was primarily led by (1) increasing minimum entry-level tariff (Rs. 79 versus Rs. 49 earlier) in the prepaid segment and shifting all its corporate entry plans to Rs. 299 from Rs. 199, (2) fund-raising (Rs. 21,000 crore) via right issues and other assets sale (including Airtel Mobile Commerce BV stake sale) to fund the capex for its growth, (3) major structural reforms announced by the government including four-year moratorium on AGR and spectrum dues, change in AGR definition by excluding non-telecom revenue, rationalisation of interest and penalty on Spectrum usage charges (SUCs), option to surrender/sharing spectrum and conversion of deferred amount (post moratorium) to equity, (4) strong performance in India wireless business and other segments, and (5) announcement of a tariff hike in its prepaid segment (20-25%) across the board after a gap of eight quarters.

Event: Increased tariff by 20-25% across its prepaid plans

Airtel announced around 20% price hike across its prepaid plans (though ~25% price hike in its minimum entry plan), effective from November 26, 2021. The prepaid segment contributes around 85% to the company's India wireless revenue and 95% to its total India wireless business subscribers. Though Airtel had increased tariff for its minimum recharge plan (Rs. 49 to Rs. 79) in July 2021, the company further increased price in this base plan by 25% (Rs. 79 to Rs. 99). This has resulted in 2x increase in the minimum entry-level tariff over the past five months. The company has taken tariff hike of 20% in most of its prepaid plans, except 28 days, 1 GB/day data plan (up 21%), 56 days, 2 GB/day data plan (up 22%), and 3 GB data top-up plan (up 21%). The company took tariff hike across its prepaid plans after a gap of two years (last price hike was in December 2019), where the company took a tariff hike of 25-30%. The company's recent tariff increase will expand the pricing gap by 12-35% with Reliance Jio.

Airtel's revised tariff

Rs cr

Current Price (Rs)	Validity (days)	New Price (Rs)	Change (%)	Benefits
Tariffed Voice plans				
79	28 days	99	25%	Talktime of Rs 99, 1p/sec voice tariff
Tariffed Voice plans				
149	28 days	179	20%	100 SMS/day, 2 GB data
219	28 days	265	21%	100 SMS/day, 1 GB/day data
249	28 days	299	20%	100 SMS/day, 1.5 GB/day data
298	28 days	359	20%	100 SMS/day, 2 GB/day data
399	56 days	479	20%	100 SMS/day, 1.5 GB/day data
449	56 days	549	22%	100 SMS/day, 2 GB/day data
379	84 days	455	20%	100 SMS/day, 6 GB data
598	84 days	719	20%	100 SMS/day, 1.5 GB/day data
698	84 days	839	20%	100 SMS/day, 2 GB/day data
1,498	365 days	1799	20%	100 SMS/day, 24 GB data
2,498	365 days	2999	20%	100 SMS/day, 2 GB/day data
Data Top-ups				
48	Unlimited	58	21%	3 GB data
98	Unlimited	118	20%	12 GB data
251	Unlimited	301	20%	50 GB data

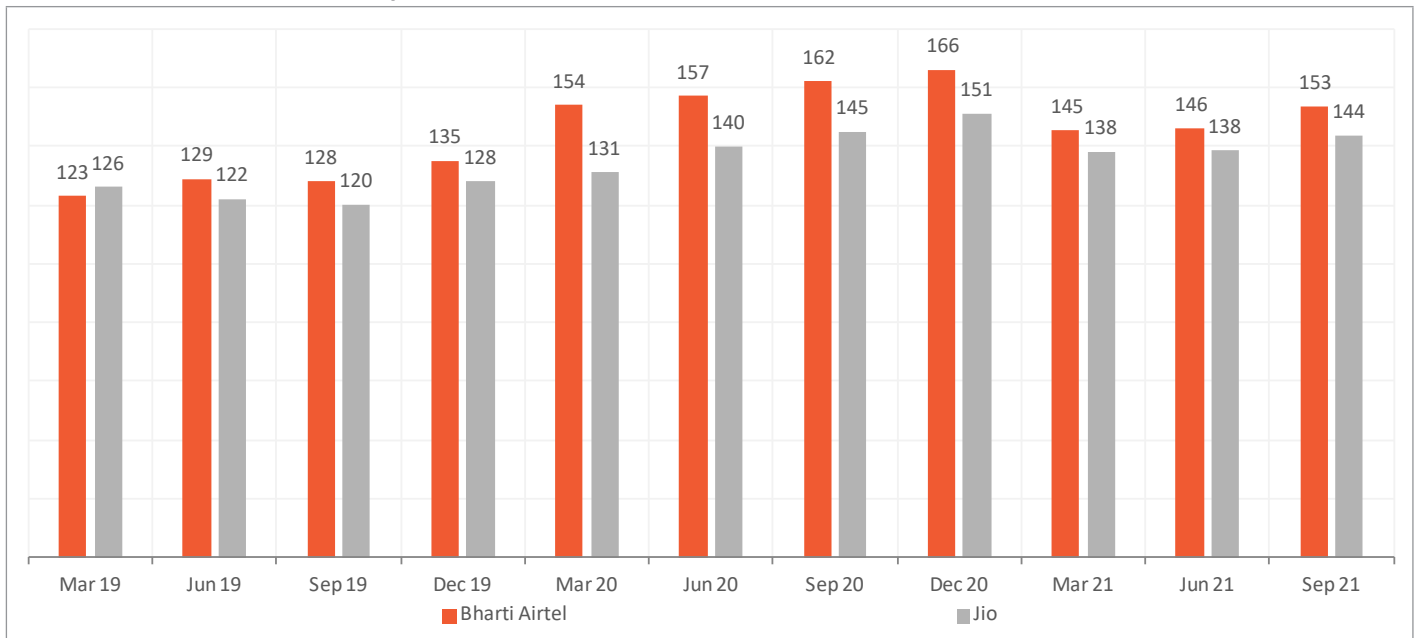
Source: Company; Sharekhan Research

Tariff hike would boost its ARPU and EBITDA

Airtel has taken a price hike of 20-25% across its prepaid plans after a gap of two years. We believe the recent price hike will have a minimal impact on its customer base, given its focus on quality customer base. Airtel has also recently tested the absorption of tariff hike by increasing tariff in its minimum recharge plan for its prepaid customers and discontinuing entry-level plans for corporate postpaid and entry-level family plan for retail postpaid during July 2021. Like the last round of price hike across telecom players, Vodafone Idea has also followed suit by announcing around 25% price hike across its prepaid plans. Hence, we do not expect any meaningful increase in the monthly subscriber churn rate from the current level as the SIM consolidation activity is almost done and Reliance Jio is expected to focus on its profitability after the introduction of new global investors. Further, there is limited scope for downtrading, given the prudent design of its price plans and significant reduction of data allowance.

With the increase in tariff in December 2019 (during Q3FY2020), India wireless business saw an ARPU increase of 20% (versus a tariff increase of 25-30% across its prepaid plans) between Q2FY2020 and Q4FY2020, while EBITDA of India wireless business increased by 27% over the same period.

Bharti's ARPU continues to remain premium to Jio



Source: Company; Sharekhan Research

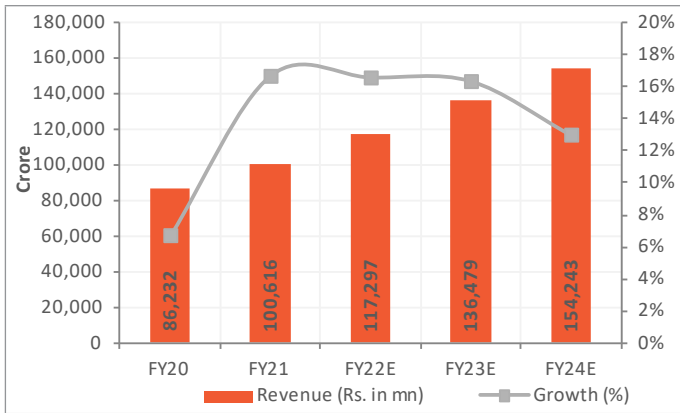
With the 20-25% price hike across prepaid plans and expected ARPU of Rs. 183, we estimate the company's India wireless revenue and EBITDA would increase by around 20% and 27%, respectively, from the current level. Effectively, this would translate in 15% growth in consolidated EBITDA of Q2FY2022.

Strong 4G subscriber addition would aid ARPU improvement

While the company's active subscriber increased by 2.5 million over the past two quarters, 4G subscriber additions remained strong at 13.2 million over the same period. Over the past 12 months, the company has added around 40 million customers over its 4G networks, which accounted for 60% of total customer base. Further, the company has added 0.7 million subscribers in the postpaid segment over the past two quarters. Strong addition of 4G customers and postpaid subscribers would boost the company's revenue and margin going ahead.

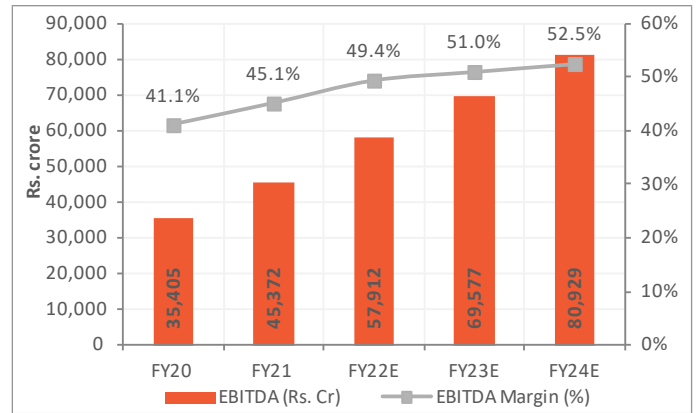
Financials in charts

Revenue (Rs. cr) and growth (%)



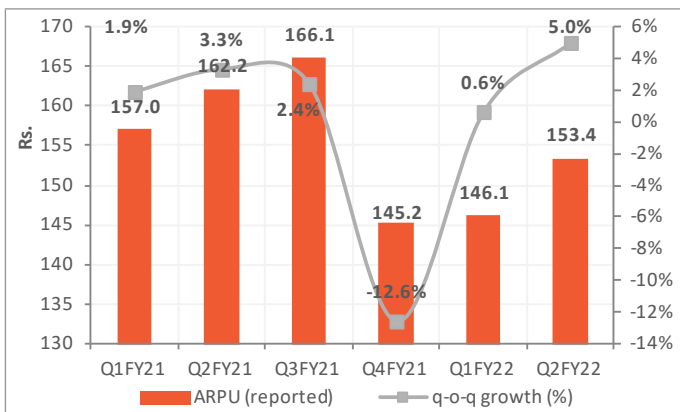
Source: Company, Sharekhan Research

EBITDA (Rs. cr) and growth (%)



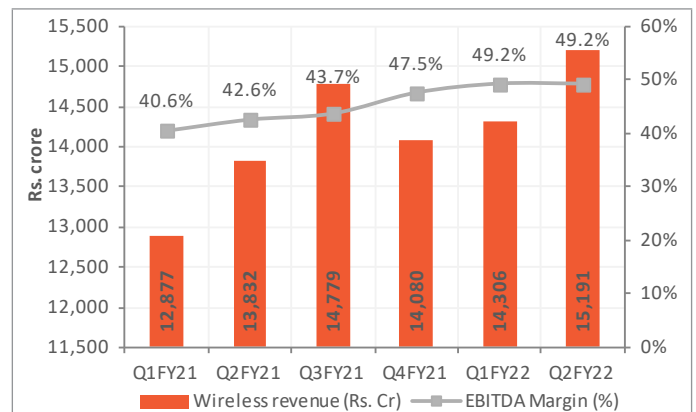
Source: Company, Sharekhan Research

ARPU continued to grow



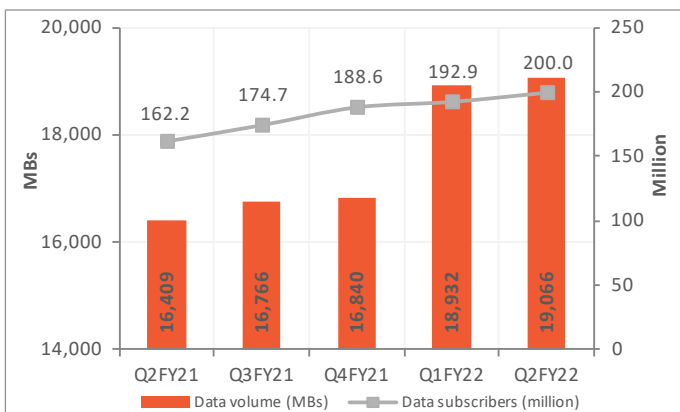
Source: Company, Sharekhan Research

Indian wireless revenue (Rs. Cr) and margin (%)



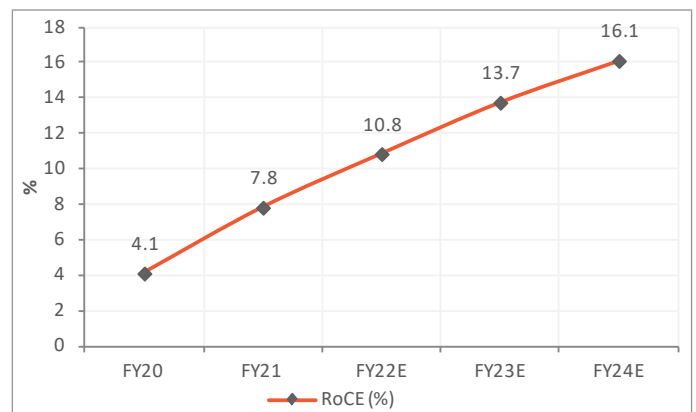
Source: Company, Sharekhan Research

Strong data growth



Source: Company, Sharekhan Research

RoCE trend (%)



Source: Company, 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, led by 4G services. 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 (WFH) 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, its FCF is set to improve going ahead with the recent tariff increase and better cost management. Higher digitisation would enable the company increase monetisation of digital assets and value-added services, a reduced churn rate across verticals, and improved wallet share from subscribers. With a comparatively strong balance sheet and adequate network investments, Airtel is well placed to grow in its core business and gain market share across its portfolio going ahead.

■ Valuation – Expect strong growth going ahead

We have raised our consolidated revenue and EBITDA estimates for FY2022/FY2023/FY2024 by 4-6%, given tariff hike across its prepaid plans. Note that we had already estimated higher ARPU for the remaining quarters of FY2022, FY2023, and FY2024. The recent price increase, steady 4G subscriber additions, continued increase of postpaid customer base, and strong growth potential in the non-wireless business are expected to boost the company's EBITDA growth at an 18% CAGR over FY2022-FY2024. At the CMP, the stock is trading at a reasonable valuation of 8x/7x its FY2023E/FY2024E EV/EBITDA. We continue to prefer Airtel, given its improving free cash flows (FCF), high 4G penetration in its India wireless subscriber base, and strong competitive position. We maintain Buy on the stock with a revised price target (PT) of Rs. 910.

One-year forward P/E (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 480 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 report improvement in ARPU. Further, the government's data localisation policies with an 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. In DTH, Airtel expects to maintain steady growth by adding new subscribers in rural areas by launching USB-enabled STBs, increasing reach in cities taking advantage of flat-screen TV upgrades, and driving up ARPUs by selling OTT boxes and hybrid HD STBs. We believe the company is well poised to deliver strong multi-year EBITDA growth phase, given recent developments in the Indian wireless industry.

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 Pvt. Ltd.	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 Pvt 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 deteriorating 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

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