

Bharti Airtel

 BSE SENSEX
 57,200

 S&P CNX
 17,102

CMP: INR716
TP: INR920 (+29%)
Buy


Bloomberg	BHARTI IN
Equity Shares (m)	5,884
M.Cap.(INRb)/(USDb)	4075.5 / 54.3
52-Week Range (INR)	782 / 490
1, 6, 12 Rel. Per (%)	6/19/6
12M Avg Val (INR M)	9309
Free float (%)	44.1

Financials & Valuations (INR b)

INR Billion	FY22E	FY23E	FY24E
Net Sales	1,167	1,388	1,552
EBITDA	577	723	830
Adj. PAT	33	75	108
EBITDA Margin (%)	49.5	52.1	53.5
Adj. EPS (INR)	5.9	13.4	19.3
EPS Gr. (%)	-553	126	44
BV/Sh. (INR)	122	163	183

Ratios

Net D:E	2.0	1.0	0.6
RoE (%)	5.2	9.4	11.2
RoCE (%)	7.6	10.6	13.1
Div. Payout (%)	0.0	0.0	0.0

Valuations

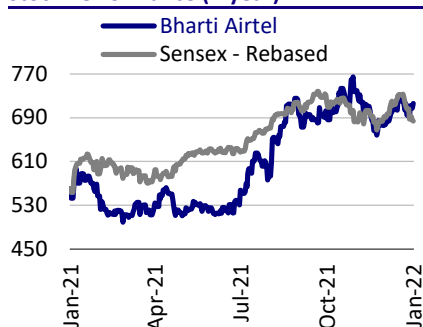
EV/EBITDA (x)	9.4	6.9	5.6
P/E (x)	121	53	37
P/BV (x)	5.9	4.4	3.9
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	3.4	8.1	9.7

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	55.9	55.9	56.2
DII	19.5	19.2	21.8
FII	19.4	19.9	17.8
Others	5.2	5.1	4.2

FII Includes depository receipts

Stock Performance (1-year)



Google acquires stake in Airtel

Deal contours

In a strategic move, Google will invest up to USD1b in a partnership with Bharti Airtel as part of its Google for India Digitization Fund. The deal includes an investment of USD700m (INR52.24b) to acquire 71.2m shares at INR734/share, implying 1.3% stake in Bharti Airtel on a diluted basis. Additionally, it will invest up to USD300m toward commercial agreements over the next five years.

Strategic focus

The partnership will focus on: a) enabling affordable access to smartphones across price ranges to Airtel customers, b) co-create India-specific use cases for 5G, and c) accelerate the Cloud ecosystem for enterprises, particularly SMEs, across India.

For Google, this could be more than an enabling investment

Airtel is already using Google's 5G-ready Evolved Packet Core and Software Defined Network platforms. It now plans to explore scaling up deployment of Google's network virtualization solutions to deliver a better network experience. So, this deal may be more than an enabling investment to build commercials for Google in India which may not require investment of INR52.2b. Certainly Google sees the advantage of tying up with a large Telecom provider to create front-end solutions.

How could Bharti benefit?

Bharti could leverage Google's tech platform to explore monetization of its digital offering. It could: a) leverage the opportunity of a large pool (over 300m) of feature phone subscribers in the market through Google enabled affordable devices, and b) leverage Google's 5G technology solutions to offer use cases to SMEs/consumers, including Cloud services. Over time it can derive a big value through new growth areas.

Highlights from the management interaction

- The device partnership will enable it to offer: a) handset lending, b) attractive pricing through cash back and other incentives, c) e-commerce partnership led benefits, and d) data analytics, which helps in tracking potential smartphone customer upgrades.
- There are no plans to offer subsidies at present and there is no device exclusivity in the deal.
- Airtel's contribution against Google's USD300m investment will be part of its USD2.5b capex spends.

Aliasgar Shakir - Research Analyst (Aliasgar.Shakir@MotilalOswal.com)

Harsh Gokalgandhi - Research Analyst (Harsh.Gokalgandhi@MotilalOswal.com)

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Valuation and view

The stock is trading at 5.6x consolidated EV/EBITDA on a FY24E basis, while the implied India business is trading at 8.5x. We value Bharti's India/Africa Mobile business at a FY24E EV/EBITDA of 10x/4x, arriving at our SoTP-based TP of INR920. We expect a 20% EBITDA CAGR for Bharti over FY22-24E. We see a potential re-rating upside in both the India and Africa businesses on the back of steady earnings growth in each region from a tariff hike, ARPU mix improvement, and market share gains. We see an additional EBITDA potential of INR100b if VIL is unable to infuse large-scale capital and improve its ARPU/revenue to sustainable levels. Strong earnings growth could drive healthy FCF of INR425.7b/INR488.1b in FY23E/FY24E as it may outpace the capex requirement.

Exhibit 1: Bharti's FY24E-based SoTP

	EBITDA (INR b)	Ownership	Proportionate EBITDA (INR b)	EV/EBITDA	Fair value (INR b)	Value/share
India standalone business (excl. towers)	609	100%	609	10	6,365	1,082
Tower business (at a 15% discount to its fair value)		41.7%			234	40
Africa business	221	55.2%	122	4	434	74
Less: Net debt					1,618	275
Total value					5,415	920
Shares o/s (b)	5.9					
CMP						716
Upside (%)						29

Source: MOFSL

Exhibit 2: Equity dilution

Preferential issue	
Amount (USD m)	700
Amount (INR b)	52
Issue price	734
No. of shares (m)	71.2
Existing shares	5,492
Total shares post issue	5,563
Equity dilution	1.3%
Further infusion (USD m)	300

Source: MOSL, Company

Highlights from the management interaction**Key takeaways**

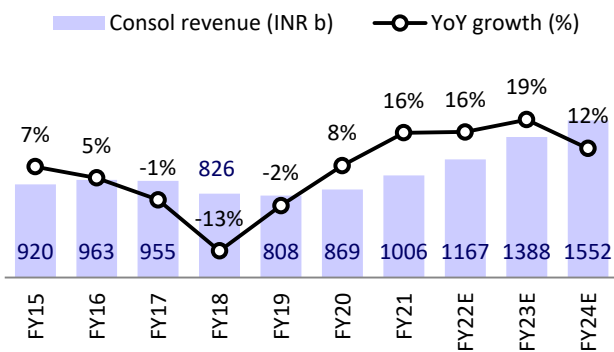
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Concall notes

- The deal’s focus is on three areas – devices, network improvement, and Cloud ecosystem enablement.
- The device partnership will enable it to offer: a) handset lending, b) attractive pricing through cash back and other incentives, c) e-commerce partnership led benefits, and d) data analytics, which helps in tracking potential smartphone customer upgrades.
- There are no plans to offer subsidies at present and there is no device exclusivity in the deal.
- Airtel has 1m SME customers. It aims to serve these customers via this partnership and grow the number of customers.
- Airtel’s contribution against Google’s USD300m investment will be part of its USD2.5b capex spends.
- It will not be directly competing with Google in Cloud services. Airtel caters to hyper Cloud players, apart from the SMEs.
- Airtel invests in digital startups, with distinct technology, where it believes that the technology will improve its process and provide added advantage in customer offerings.

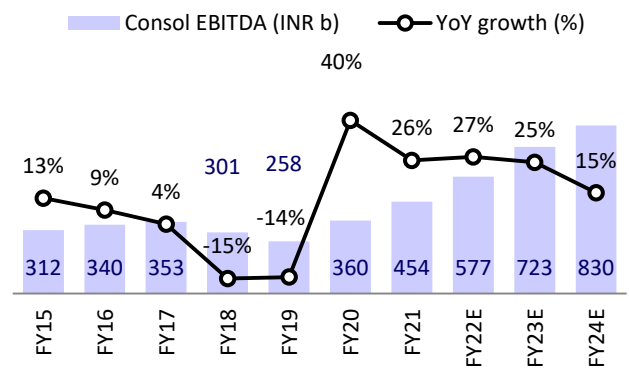
Key charts

Exhibit 1: Bharti to clock 15% revenue CAGR over FY22-24E



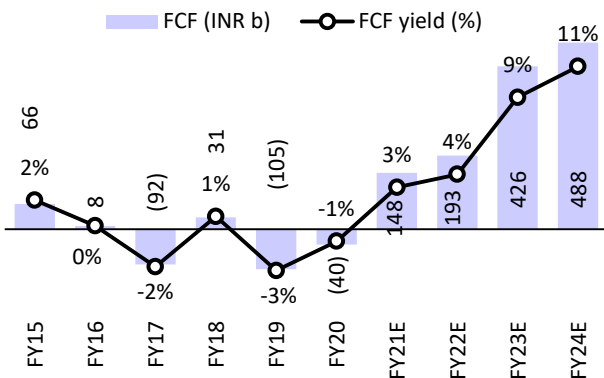
Source: Company, MOFSL

Exhibit 2: Expect EBITDA to grow at 20% over FY22-24E



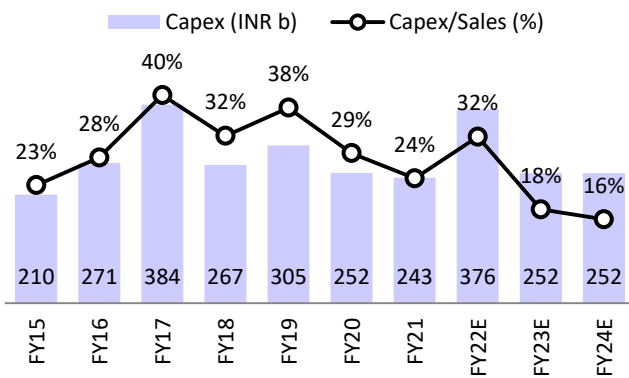
Source: Company, MOFSL

Exhibit 3: Expect FCF to grow to INR488b by FY24E



Source: company, MOFSL

Exhibit 4: Capex trend



Source: company, MOFSL

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	965	955	826	808	869	1,006	1,167	1,388	1,552
Change (%)		-1.1	-13.4	-2.2	7.6	15.7	15.9	19.0	11.8
Total Expenditure	625	601	526	550	509	552	589	665	722
As a percentage of Sales	64.8	63.0	63.6	68.1	58.6	54.9	50.5	47.9	46.5
EBITDA	340	353	301	258	360	454	577	723	830
Margin (%)	35.2	37.0	36.4	31.9	41.4	45.1	49.5	52.1	53.5
Depreciation	174	198	192	213	276	294	334	365	390
EBIT	165	156	108	44	85	160	243	358	440
Int. and Finance Charges	69	77	81	96	135	151	166	150	137
Other Income	11	10	13	5	16	6	35	36	43
PBT bef. EO Exp.	107	89	41	-47	-34	14	112	244	346
EO Items	22	-12	-8	29	-402	-159	8	0	0
PBT after EO Exp.	128	77	33	-17	-437	-145	120	244	346
Total Tax	60	35	11	-34	-123	89	47	100	138
Tax Rate (%)	46.3	45.1	33.2	197.4	28.2	-61.7	39.5	40.9	40.0
Profit from discontinued operations	0.0	0.0	0.0	0.0	7.1	110.6	0.0	0.0	0.0
Minority Interest	8	4	11	13	15	27	35	69	99
Reported PAT	61	38	11	4	-322	-151	38	75	108
Adjusted PAT	49	44	14	-35	-41	-7	33	75	108
Change (%)		-9.5	-68.6	-350.3	16.6	-82.3	-561.2	125.9	44.2
Margin (%)	5.1	4.7	1.7	-4.3	-4.7	-0.7	2.8	5.4	7.0

Consolidated Balance Sheet

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	20	20	20	20	27	27	28	29	29
Total Reserves	648	655	675	694	744	562	652	883	991
Net Worth	668	675	695	714	771	590	680	912	1,020
Minority Interest	55	69	88	135	250	223	257	326	426
Total Loans	1,005	1,073	1,113	1,254	1,176	1,628	1,508	1,285	1,186
Lease liabilities	0	0	0	0	306	0	0	0	0
Deferred Tax Liabilities	-34	-17	-22	-83	-263	-222	-222	-222	-222
Capital Employed	1,693	1,799	1,875	2,021	2,241	2,218	2,223	2,302	2,410
Net Fixed Assets	1,780	1,891	1,589	1,684	1,690	2,292	2,334	2,220	2,081
Goodwill on Consolidation	0	0	328	333	346	0	0	0	0
Capital WIP	0	0	52	88	40	0	0	0	0
Right of use assets	0	0	0	0	259	0	0	0	0
Total Investments	120	182	180	176	278	329	289	289	289
Curr. Assets, Loans, and Adv.	311	234	327	382	724	617	649	889	1,177
Inventory	2	0	1	1	2	0	2	0	2
Account Receivables	55	47	59	43	46	36	40	43	50
Cash and Bank Balance	37	13	48	62	136	81	81	291	543
Loans and Advances	217	173	219	276	541	500	526	555	581
Curr. Liability and Prov.	518	507	602	641	1,097	1,020	1,048	1,096	1,136
Account Payables	508	497	577	621	621	1,020	1,048	1,096	1,136
Provisions	10	10	25	20	476	0	0	0	0
Net Current Assets	-207	-273	-275	-259	-373	-403	-399	-207	40
Appl. of Funds	1,693	1,799	1,875	2,021	2,241	2,218	2,223	2,302	2,410

E: MOSL estimates

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	12.3	11.1	3.5	-8.7	-7.5	-1.3	5.9	13.4	19.3
Cash EPS	55.9	60.6	51.6	44.7	43.1	52.2	65.7	78.8	89.2
BV/Share	168.8	168.8	173.9	178.7	141.4	107.3	121.6	163.2	182.5
DPS	1.4	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	10.8	12.7	43.8	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	58.3	64.4	205.0	-81.9	-95.9	-546.3	120.6	53.4	37.0
Cash P/E	12.8	11.8	13.9	16.0	16.6	13.7	10.9	9.1	8.0
P/BV	4.2	4.2	4.1	4.0	5.1	6.7	5.9	4.4	3.9
EV/Sales	4.0	4.1	4.8	5.0	6.0	5.4	4.7	3.6	3.0
EV/EBITDA	11.3	11.1	13.1	15.7	14.6	12.1	9.4	6.9	5.6
Dividend Yield (%)	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	2.1	-22.9	7.8	-26.2	-7.3	26.9	34.5	76.1	87.3
Return Ratios (%)									
RoE	7.6	6.6	2.0	-5.0	-5.5	-1.1	5.2	9.4	11.2
RoCE	6.1	5.3	4.6	-2.5	3.7	12.8	7.6	10.6	13.1
RoIC	6.4	5.4	4.5	-2.6	3.5	14.4	8.0	11.8	16.0
Working Capital Ratios									
Fixed Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.6	0.7
Asset Turnover (x)	0.6	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Inventory (Days)	1	0	0	0	1	0	1	0	0
Debtor (Days)	21	18	26	19	19	13	13	11	12
Creditor (Days)	192	190	255	281	261	370	328	288	267
Leverage Ratio (x)									
Current Ratio	0.6	0.5	0.5	0.6	0.7	0.6	0.6	0.8	1.0
Interest Coverage Ratio	2.4	2.0	1.3	0.5	0.6	1.1	1.5	2.4	3.2
Net Debt/Equity ratio	1.3	1.3	1.3	1.4	1.5	2.5	2.0	1.0	0.6

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	128	77	33	-17	-428	-31	120	244	346
Depreciation	174	198	192	213	277	297	334	365	390
Interest and Finance Charges	85	95	93	110	137	149	166	150	137
Direct Taxes Paid	-47	-32	-14	-12	-23	-22	-47	-100	-138
(Inc.)/Dec. in WC	-4	-27	6	-55	-166	30	-4	18	5
CF from Operations	338	311	311	239	-203	423	568	677	740
Others	-58	-19	-12	-39	384	59	0	0	0
CF from Operations incl. EO	279	292	299	201	181	482	568	677	740
(Inc.)/Dec. in FA	-271	-384	-267	-305	-221	-334	-376	-252	-252
Free Cash Flow	8	-92	31	-105	-40	148	193	426	488
(Pur.)/Sale of Investments	68	-1	-33	1	-88	38	41	0	0
Others	61	69	40	19	5	27	0	0	0
CF from Investments	-142	-316	-260	-285	-305	-269	-335	-252	-252
Issue of Shares	1	1	0	99	462	7	52	156	0
Inc./(Dec.) in Debt	-118	9	40	106	-180	-118	-120	-222	-99
Interest Paid	-33	-59	-44	-76	-110	-71	-166	-150	-137
Dividend Paid	-15	-9	-33	-47	-18	-27	0	0	0
Others	47	53	56	13	37	-40	0	1	0
CF from Fin. Activity	-118	-4	19	95	191	-249	-234	-215	-236
Inc./Dec. in Cash	19	-28	58	10	68	-36	0	211	252
Opening Balance	-1	18	-10	41	54	131	91	91	301
Closing Balance	18	-10	41	54	131	91	91	301	553
Less: Bank overdraft	-19	-23	-7	-8	-5	10	10	10	10
Net Closing Balance	37	13	48	62	136	81	81	291	543

E: MOFSL estimates

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai- 400 064. Tel No: 022 7188 1000.

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