

Google's investment – a strategic move!

About the company:

- Bharti Airtel (Airtel) is India's second largest telecom operator with a revenue market share of ~36% as on Q2FY22. The company has ~35.5 crore wireless customers in India (November, 2021) and ~12.9 crore subscribers across operations in 14 African countries. It enjoys industry leading ARPU and margins in the wireless business.

Event:

- Google announced investment of up to \$1 billion in partnership with Airtel as part of its Google for India Digitisation Fund. The deal includes investment of \$700 million to acquire 1.2% ownership (on fully diluted basis) and up to \$300 mn toward potential multi-year commercial agreements
- Albeit small, the investment outlines global tech giants' reaffirmation that India is a two strong player market and a strategic tie-up is key. Moreover, the commercial agreements are likely to provide a boost to the company's competitive position (in the form of improving handset affordability), network and the company's focus on emerging space including cloud.**
- We believe given Airtel's superior subscriber quality, it is poised to witness maximum pass through of tariff**

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:

- Tariff hike flow through to boost Airtel's India ARPU, India EBITDA by 20%, 30%, respectively, from current levels
- Relative market share gain from VIL, given its stressed balance sheet and long term potential driven by growth opportunity from 5G

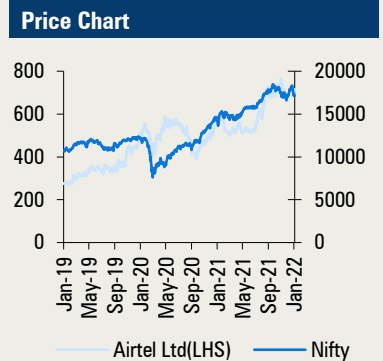
Alternate Stock Idea: Besides Airtel, we like Tata Comm. in our telecom space

- Play on enterprise communication and improving balance sheet
- BUY with target price of ₹ 1,775



Particulars	
Particulars	Amount
Market Capitalisation (₹ Crore)	3,93,119
Total Debt (₹ Crore) - FY21	1,62,785
Cash & Inv (₹ Crore) - FY21	14,071
EV (₹ Crore)	5,41,833
52 week H/L	782/ 495
Equity capital	2,977.7
Face value	5.0

Shareholding pattern				
	Jun-21	Sep-21	Oct-21	Dec-21
Promoters	55.9	55.9	55.9	55.9
DII	20.4	20.7	19.1	17.8
FII	18.1	18.1	19.9	19.4
Other	5.6	5.4	5.1	6.9



Key risks

- Key Risk:** (i) Any subscriber churn; (ii) Increased competitive intensity

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Key Financial Summary

(Year-end March)	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	FY24E	3 y CAGR (FY21-24E)
Net Sales (₹ crore)	87,539	1,00,616	0.8	1,16,947	1,34,597	1,45,899	13.2
EBITDA (₹ crore)	36,482	45,372	5.9	58,258	69,920	76,612	19.1
Net Profit (₹ crore)	(32,183)	(15,084)	PL	5,747	15,762	20,555	LP
Adjusted PAT (₹ crore)	(4,075)	(1,300)		4,994	15,762	20,555	
EPS (₹)	(59.0)	(27.6)		9.6	26.5	34.5	
P/E (x)	NA	NA		74.2	27.0	20.7	
Price / Book (x)	5.1	6.6		5.0	4.0	3.4	
EV/EBITDA (x)	14.9	11.8		8.6	6.7	5.7	
RoCE (%)	4.1	6.4		9.1	13.0	15.0	
RoE (%)	(5.3)	(2.2)		5.8	14.8	16.2	

Key Highlights and call Takeaways

- **The Deal:** Google announced investment of up to \$1 billion in a partnership with Airtel as part of its Google for India Digitisation Fund. The deal includes investment of \$700 mn to acquire 1.28%, excluding rights issue share (1.2% ownership - on fully diluted basis). The equity investment in Bharti Airtel is at a price per share of ₹ 734. There will also be up to \$300 mn toward potential multi-year commercial agreements
- **Scope of commercial agreements:** The company indicated that \$300 mn toward potential multi-year commercial agreements will go towards
 - a. **Enabling affordable access to smartphone.** The company indicated that it focuses on improving affordability through lending capability & alliance (providing cash backs and incentives), software capabilities, device and ecommerce partnership (providing cash backs and incentives). Google's partnership will be on similar lines and the companies will continue to **explore further opportunities to bring down the barriers of owning a smartphone across a range of price points, in partnership with various device manufacturers. The company also clarified that it continues with its strategy to not subsidise handset**
 - b. **Networks:** Airtel is already using Google's 5G-ready Evolved Packet Core & Software Defined Network platforms, and plans to **explore scaling up the deployment of Google's network virtualisation solutions** to deliver a superior network experience Both companies will also **potentially co-create India-specific network domain use cases for 5G and other standards**
 - c. **Cloud:** Airtel indicated that Cloud is a rapidly growing ecosystem and it aims to accelerate its presence through **partnerships including distribution of suite of products**
- **Intent:** The company clarified that the deal was done from strategic intent and not from capital raising perspective as it has comfortable capital situation and is generating strong cash flows and has limited ability to dilute. Furthermore, it also clarified that there is no exclusivity in this deal with Google and has zero conflict of interest
- **Focussing on firing up five unicorn units within company:** The company highlighted that it has five digital assets (viz Wynk, Airtel payment, Airtel IQ, Cloud, data centre) as part of the company, which are unicorns in themselves with unique capabilities. It will continue to focus on scaling them up and fire them for growth along with investments in broadband, 5G and enterprise

Exhibit 1: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E	
	Old	New	% Change	Old	New	% Change	New	
Revenue	1,16,815	1,16,947	0.1	1,34,973	1,34,597	-0.3	1,45,899	Realign estimates
EBITDA	58,167	58,258	0.2	70,234	69,920	-0.4	76,612	
EBITDA Margin (%)	49.8	49.8	2 bps	52.0	51.9	-9 bps	52.5	
PAT	5,955	5,747	-3.5	14,888	15,762	5.9	20,555	
EPS (₹)	10.8	9.6		25.3	26.5		34.5	

Source: Company, ICICI Direct Research

Exhibit 2: Segmental Breakup

Revenues - ₹ crore	FY20	FY21	FY22E	FY23E	FY24E
India	71,111	75,366	86,374	1,03,394	1,13,235
Mobility	45,966	55,568	64,149	78,994	86,852
Broadband	2,245	2,334	2,942	3,445	3,802
Enterprise	13,233	14,408	16,057	17,561	19,008
Passive Infrastructure	6,742		0	0	0
Digital + Others	2,924	3,056	3,226	3,395	3,573
Africa	24,217	28,863	34,286	35,613	37,535
South Asia	455	425	401	450	450
Total Gross Revenue	95,783	1,04,654	1,21,062	1,39,457	1,51,221
Intersegmental Elimination	-7,789	-4,038	-4,011	-4,860	-5,322
Net Revenue	87,539	1,00,616	1,16,859	1,34,597	1,45,899
EBITDA ₹ crore	FY20	FY21	FY22E	FY23E	FY24E
India & South Asia	26,376	32,841	42,944	54,057	59,361
Africa	10,726	13,298	16,019	16,634	17,896
Gross EBITDA	37,102	46,139	58,963	70,691	77,257
Intersegmental Elimination	620	767	704	771	645
Reported EBITDA	36482	45372	58258	69920	76612

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	1,00,615.8	1,16,946.8	1,34,597.3	1,45,898.6
Growth (%)	14.9	16.2	15.1	8.4
Employee Expenses	4,114.6	4,415.5	4,747.7	5,114.4
Marketing Expenses	9,687.1	11,605.9	13,044.3	13,871.4
Access Charges	10,352.1	6,855.0	7,738.1	8,332.6
Network Operating	21,981.9	24,351.0	25,917.1	27,611.9
License Fee	9,108.4	11,381.1	13,229.9	14,356.3
Other Costs	0.0	0.0	0.0	0.0
Total Operating Expenditure	55,244.1	58,688.6	64,677.3	69,286.6
EBITDA	45,371.7	58,258.2	69,920.0	76,612.0
Growth (%)	24.4	28.4	20.0	9.6
Depreciation	29,404.4	32,862.0	34,322.3	36,036.9
Interest	15,091.0	16,159.6	13,375.6	11,977.0
Other Income	642.8	613.6	700.0	800.0
Exceptional Items	4,857.8	(752.6)	-	-
PBT	-3,338.7	10,602.7	22,922.1	29,398.0
MI / Profit from associates	2,812.3	956.6	1,200.0	1,200.0
Total Tax	8,932.5	3,899.5	5,959.8	7,643.5
PAT	-15,083.5	5,746.7	15,762.4	20,554.5
Growth (%)	NA	NA	174.3	30.4
EPS (₹)	-27.6	9.6	26.5	34.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	-15,083.5	5,746.7	15,762.4	20,554.5
Add: Depreciation	29,404.4	32,862.0	34,322.3	36,036.9
Add: Interest Paid	15,091.0	16,159.6	13,375.6	11,977.0
(Inc)/dec in Current Assets	9,773.9	(4,920.9)	(5,135.7)	(2,709.3)
Inc/(dec) in CL and Prov	-14,186.9	14,964.6	15,014.9	9,613.8
Others	0.0	0.0	0.0	0.0
CF from op activities	24,998.9	64,812.0	73,339.5	75,473.0
(Inc)/dec in Investments	-2,067.6	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-22,165.9	-40,698.8	-28,000.0	-28,000.0
Others	450.5	2,884.5	-4,117.7	-4,369.6
CF from inv activities	-23,783.0	-37,814.3	-32,117.7	-32,369.6
Issue/(Buy back) of Equity	18.2	231.7	0.0	0.0
Inc/(dec) in loan funds	14,557.1	2,400.0	-25,000.0	-20,000.0
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Interest Paid	-15,091.0	-16,159.6	-13,375.6	-11,977.0
Others	-3,126.8	20,791.2	5,188.8	0.0
CF from fin activities	-3,642.5	7,263.4	-33,186.8	-31,977.0
Net Cash flow	-2,426.6	34,261.1	8,035.0	11,126.3
Opening Cash	15,892.7	13,466.1	47,727.2	55,762.2
Closing Cash	13,466.1	47,727.2	55,762.2	66,888.5

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	2,746	2,978	2,978	2,978
Reserve and Surplus	56,207	82,745	1,03,696	1,24,250
Total Shareholders funds	58,953	85,722	1,06,674	1,27,228
Total Debt	1,62,785	1,65,185	1,40,185	1,20,185
Deferred Tax Liability	1,611	1,611	1,611	1,611
Others	38,160	34,744	30,626	26,257
Total Liabilities	2,61,508	2,87,262	2,79,096	2,75,281
Assets				
Gross Block	3,35,533	3,76,231	4,04,231	4,32,231
Less: Acc Depreciation	1,75,484	2,08,346	2,42,668	2,78,705
Net Block	1,60,049	1,67,885	1,61,563	1,53,526
CWIP	5,727	5,727	5,727	5,727
Goodwill	34,619	34,619	34,619	34,619
Right of Use	28,812	28,812	28,812	28,812
Investments	29,891	29,891	29,891	29,891
Debtors	3,638	4,228	4,866	5,275
Loans and Advances	14,326	16,651	19,165	20,774
Other Current Assets	19,245	21,250	23,234	23,926
Cash	13,466	47,727	55,762	66,889
Total Current Assets	50,675	89,857	1,03,028	1,16,863
Creditors	27,872	33,642	38,720	41,971
Other Current Liabilities	56,648	65,842	75,779	82,142
Total Current Liabilities	84,520	99,484	1,14,499	1,24,113
Net Current Assets	-33,845	-9,627	-11,472	-7,250
Others Assets	36,256	29,956	29,956	29,956
Application of Funds	2,61,508	2,87,262	2,79,096	2,75,281

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-27.6	9.6	26.5	34.5
Cash EPS	26.2	64.8	84.1	95.0
BV	108.1	143.9	179.1	213.6
DPS	0.0	0.0	0.0	0.0
Cash Per Share	24.7	80.1	93.6	112.3
Operating Ratios				
EBITDA Margin (%)	45.1	49.8	51.9	52.5
EBIT Margin (%)	15.9	21.7	26.4	27.8
PAT Margin (%)	-1.3	4.3	11.7	14.1
Inventory days	0.0	0.0	0.0	0.0
Debtor days	13.2	13.2	13.2	13.2
Creditor days	101.1	105.0	105.0	105.0
Return Ratios (%)				
RoE	-2.2	5.8	14.8	16.2
RoCE	6.4	9.1	13.0	15.0
RoIC	11.5	18.6	29.6	38.6
Valuation Ratios (x)				
P/E	-25.9	74.2	27.0	20.7
EV / EBITDA	12.6	9.3	7.2	6.2
EV / Net Sales	5.7	4.6	3.8	3.3
Market Cap / Sales	4.2	3.6	3.2	2.9
Price to Book Value	6.6	5.0	4.0	3.4
Solvency Ratios				
Debt/EBITDA	3.6	2.8	2.0	1.6
Debt / Equity	2.8	1.9	1.3	0.9
Current Ratio	0.4	0.4	0.4	0.4
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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