

Bharti Airtel

Refer to important disclosures at the end of this report

Consistent delivery continues

- Bharti Airtel delivered yet another steady quarter. India wireless ARPU grew 2.8% qoq to Rs183. The company delivered healthy data subscriber additions of 4.8mn, outpacing our estimates of 3mn, supporting 3.4% qoq revenue growth in the India mobile segment.
- After two successive quarters of double-digit growth, home broadband growth moderated but still grew at a healthy 5.7% qoq, while the enterprise segment's revenue accelerated to 4.7% qoq. DTH decline continued for the fourth consecutive quarter, down 0.9% qoq.
- Capex spends will see an increase in FY23 due to advancement of 5G rollout (in-line with management's guidance at its analyst meet in March 2022). We maintain our consolidated capex estimates of Rs290bn/year (excluding spectrum) till FY25E.
- We had tweaked our estimates post the auctions to factor in (if) spectrum purchase, (ii) SUC savings, and (iii) tariff hike in Q4FY23, and maintain those estimates. Capex spends and tariff hike timeline will be keenly watched. Retain Buy with an unchanged TP of Rs850.

In-line performance: For Q1FY23, Bharti Airtel's consolidated revenue and EBITDA grew by 4.1% qoq and 3% qoq, respectively. The India wireless segment grew by 3.4% qoq, aided by robust subscriber additions and ARPU growth. Home broadband and business segments grew by healthy 5.7% and 4.4% qoq, respectively, while DTH declined by another 1% qoq. India mobility EBITDA margin continued to expand, up 60bps qoq, despite the fuel price rise. India network opex was down 1% qoq, as the company has renewed tower rental deal with Indus Towers at a discounted price. Margin declined by 53bps qoq to 50.4% due to higher other operating expenses. RPAT declined 20% qoq to Rs16.1bn due to 11% growth in finance costs. Net debt inched up to Rs1.7trn due to higher lease obligations. Increased lease obligations are on account of MSA renewals (no impact on EBITDA). Core net debt stood at Rs1.19trn vs. Rs1.23trn in the last quarter. Capex for the quarter grew to Rs64bn from Rs60bn in Q4FY22. Capex for India mobility segment also recovered sharply, up 41% qoq to Rs36.9bn, after declining in the past two quarters.

Outlook: Bharti Airtel's spectrum purchase in the recently concluded auction reflects a well-thought-out strategy, with pan-India 5G capacity spectrum purchase along with selective 4G spectrum in the key circles. The company is set to launch its 5G services later this month and targets to cover 5,000 towns by March 2024. However, with the ecosystem at a very nascent stage globally and lack of evidence regarding the monetization of 5G, we have not factored any revenue from 5G yet. Competitive intensity/strategy in 5G from Jio will be closely watched out for. The focus now shifts to the tariff hike quantum and timeline, which has become more crucial for the company to deleverage its balance sheet and improve ROCEs. **Key risks:** 1) delays in wireless tariff hike; 2) increased competitive intensity for land grab in 5G; 3) currency depreciation in African markets; and 4) further stake increase in Indus Towers.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Telecommunications \(Page 13\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	1,019,888	1,165,469	1,361,507	1,533,853	1,654,547
EBITDA	464,348	575,339	700,167	819,775	896,298
EBITDA Margin (%)	45.5	49.4	51.4	53.4	54.2
APAT	(90,387)	29,098	110,436	204,969	232,876
EPS (Rs)	(16.2)	5.2	19.8	36.7	41.7
EPS (% chg)	(212.3)	0.0	279.5	85.6	13.6
ROE (%)	(9.4)	3.1	10.5	15.8	15.2
P/E (x)	(43.6)	135.3	35.7	19.2	16.9
EV/EBITDA (x)	11.6	9.5	8.1	6.5	5.6
P/BV (x)	4.3	4.1	3.4	2.7	2.4

Source: Company, Emkay Research, [ansoor@whitemarquesolutions.com](#) use and downloaded at 08/10/2022 07:57 PM

CMP Rs 704 as of (August 9, 2022)	Target Price Rs 850 (■) 12 months
Rating BUY (■)	Upside 20.7 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(2.6)/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs. Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	19.8	36.7
Consensus	21.1	33.2
Mean Consensus TP (12M)	Rs 879	

Stock Details

Bloomberg Code	BHARTI IN
Face Value (Rs)	5
Shares outstanding (mn)	5,563
52 Week H/L	782 / 573
M Cap (Rs bn/USD bn)	4,043 / 50.76
Daily Avg Volume (nos.)	7,256,581
Daily Avg Turnover (US\$ mn)	62.1

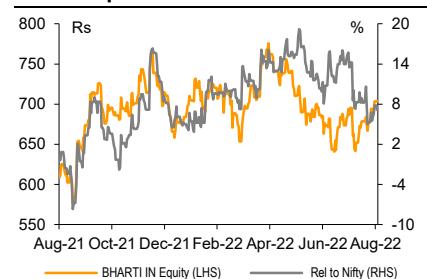
Shareholding Pattern Jun '22

Promoters	55.9%
FII's	18.5%
DII's	20.2%
Public and Others	5.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	1	(1)	(1)	18
Rel. to Nifty	(6)	(7)	(2)	9

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Q1FY23 Highlights

- In Q1FY23, the India wireless segment grew by 3.4% qoq, aided by both subscriber addition and ARPU growth. Overall revenue for India and South Asia grew by 3.5% qoq.
 - **Data customer addition came in at 4.8mn (vs. 5.5mn in 4Q), above our estimate of 3mn. Data customer as a percentage of mobile customers was 65.2% in Q1FY23 vs. 63.9% in Q4FY22. 4G data customer addition stood at 4.5mn, down from 5.2mn in the last quarter.** Data volume on network grew 6% qoq, while usage per subscriber grew by 3.7% qoq.
 - ARPU grew 2.8% qoq to Rs183, in line with our estimate.
- Among the non-wireless segment, the home broadband segment continued its momentum, growing by 5.7%, followed by the business segment, which grew by 4.4% qoq. DTH revenue declined for the fourth straight quarter, down 0.9% qoq in Q1FY23.

Exhibit 1: India and South Asia Business Snapshot

India and South Asia Business Snapshot	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Total revenue	189,168	199,792	210,023	225,895	233,755	23.6	3.5
EBITDA	92,623	98,435	103,858	114,201	118,709	28.2	3.9
EBITDA / Total revenue	49.0%	49.3%	49.5%	50.6%	49.6%	60 bps	-96 bps
EBIT	28,447	29,508	32,508	41,567	45,373	59.5	9.2
Profit before Tax	(3,344)	5,135	6,454	14,015	12,017	(459.4)	(14.3)
Net Income	(3,892)	3,474	4,265	8,514	8,367	(315.0)	(1.7)
Capex	58,113	59,407	47,050	43,155	53,101	(8.6)	23.0
Operating Free Cash Flow	34,510	39,027	56,808	71,046	65,608	90.1	(7.7)
Cumulative Investments	3,402,128	3,472,504	3,509,005	3,538,863	3,582,331	5.3	1.2

Source: Company, Emkay Research

Financial Performance

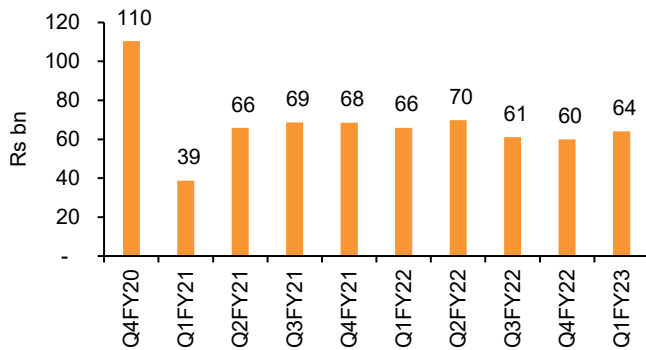
- Reported consolidated revenue came in line with our estimate at Rs328bn, up 4.1% qoq.
- **EBITDA of Rs165.3bn was up 3% qoq, implying margin of 50.4% (-50bps qoq).** Network opex grew by 2.1% qoq and license fee grew by 5.3% qoq. Employee expenses were down 3.5% qoq. There was a sharp jump in other expenses, which increased by 30% qoq. The sharp rise in other expenses can be attributed to (i) FLO liability recasting (Rs2bn), (ii) Africa operations (Rs1.5bn), and (ii) normal business operations (Rs0.5bn). **India network opex was down 1% qoq as the company has renewed tower rental deal with Indus Towers at a discounted price.**
- Consolidated RPAT stood at Rs16.1bn, down 20% qoq.
 - Finance charges jumped 11% qoq to Rs45.1bn in Q1FY23 from Rs40.6bn in Q4FY22. Other income grew to Rs1.9bn in Q1FY23 vs. Rs186mn in Q4FY22 (unusually low in 4Q).
- **India Mobile:** Revenue increased 3.4% sequentially to Rs182.2bn. EBITDA margin expanded by 60bps to 51.2%.
 - Data customer addition came in at 4.8mn (vs. 5.5mn in 4Q), above our estimate of 3mn. Data customer as a percentage of mobile customers was 65.2% in Q1FY23 vs. 63.9% in Q4FY22. 4G data customer addition stood at 4.5mn, down from 5.2mn in the last quarter. Data volume on network grew 6% qoq, while usage per subscriber grew 3.7% qoq.
- **Airtel Business (Enterprise):** Revenue rose 4.4% qoq, while EBITDA was up 3.4% qoq, with margin contraction of 40bps.
- **Home Broadband:** Revenue growth was strong at 5.7% qoq. EBITDA rose 3.2%, with margin contraction of 130bps. During the quarter, the company posted adds of 310K vs. 323K in the previous quarter. ARPU inched up marginally by 0.3% qoq.
- **DTH:** Revenue declined 0.9% qoq, while EBITDA was down 3.5%. Customer base saw a decline of 0.1mn along with flat ARPU. Monthly churn declined to 1.8% in Q1FY23 vs. 2.1% in Q4FY22.

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Balance sheet and cash generation

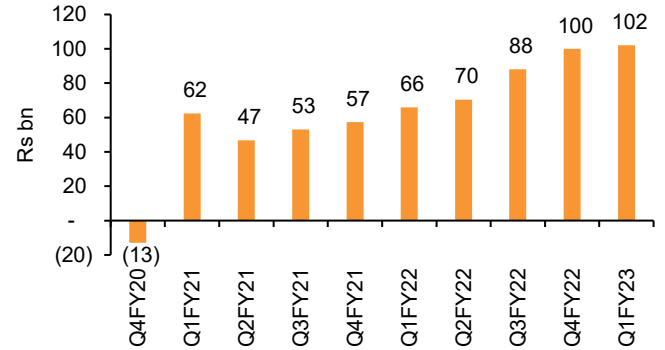
- Capex for the quarter was up 6.7% qoq and stood at Rs64bn as against Rs60bn in Q4. Capex for the India mobile business increased by 41% sequentially, after declining for the last two quarters.
- Overall cash and equivalent increased by Rs14.9bn to 75.8bn, with dividend received worth Rs14bn in Q1FY23.**

Exhibit 2: Capex recovery led by India mobility



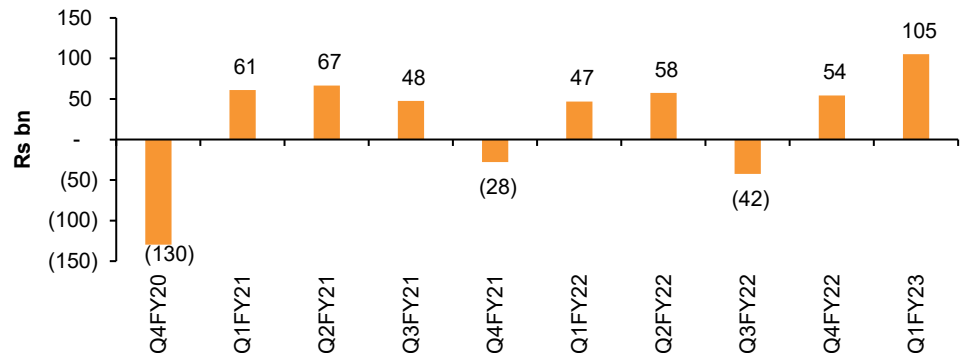
Source: Company, Emkay Research

Exhibit 3: Operating FCF (EBITDA – Capex) improves further



Source: Company, Emkay Research

Exhibit 4: FCF improves further



Source: Company, Emkay Research

Exhibit 5: Increased net debt due to lease obligations; Core debt declines

(Rs bn)	Q1FY22	Q4FY22	Q1FY23
Long-term debt, net of current portion	451	425	405
Short-term borrowings and current portion of long-term debt	116	194	167
Deferred payment liability	788	709	729
Less:	0	0	0
Cash and Cash Equivalents	85	61	76
Investments and Receivables	5	31	30
Net Debt	1,265	1,235	1,195
Lease Obligation	331	368	478
Net Debt including Lease Obligations	1,596	1,603	1,673

Source: Company, Emkay Research

Exhibit 6: India wireless KPI trends

India Wireless KPIs	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
ARPU (Rs)	146	153	163	178	183	25.4	2.8
MOU (mins)	1,044	1,053	1,061	1,083	1,104	5.7	2.0
Traffic (bn mins)	1,002	1,020	1,030	1,051	1,079	7.7	2.6
Subscribers (Mn)	321	323	323	326	327	1.9	0.4
Pre-Paid Churn	2.8%	3.0%	2.9%	2.8%	3.0%		
Data metrics							
Subscribers (mn)	193	200	203	208	213	10.5	2.3
Of which no. of 4G customers (mn)	184	193	196	201	205	11.3	2.2
As % of customer base	60.1%	61.8%	62.8%	63.9%	65.2%		
Total MBs on the network (bn)	10,771	11,271	11,312	11,849	12,561	16.6	6.0
Data usage/ User (GB)	18.9	19.1	18.7	19.2	19.9	5.3	3.6

Source: Company, Emkay Research

Exhibit 7: DTH segment KPI trends

DTH	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Digital TV subs (mn)	18.0	18.0	18.1	17.6	17.4	(3.2)	(0.8)
Net additions (000's)	282	(11)	79	(508)	(136)	(148.2)	(73.3)
ARPU (Rs)	151	148	146	142	143	(5.6)	0.6
Monthly Churn	1.4%	2.2%	2.1%	2.1%	1.8%	30.9	(13.7)

Source: Company, Emkay Research

Exhibit 8: Home Services KPI trends

Home Services	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Subscribers (mn)	3.4	3.8	4.2	4.5	4.8	43.0	6.9
Net Additions (000's)	285	467	341	323	310	8.8	(3.9)
Average Revenue Per User (ARPU)	681	661	657	650	652	(4.3)	0.3

Source: Company, Emkay Research

Exhibit 9: Actual vs. Estimates (Q1FY23)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue	328,046	326,797	325,563	0%	1%	
EBITDA	165,294	163,167	163,901	1%	1%	
<i>EBITDA Margin</i>	<i>50%</i>	<i>50%</i>	<i>50%</i>	<i>46 bps</i>	<i>4 bps</i>	
PAT	16,069	22,580	24,514	-29%	-34%	Higher depreciation charge and lower profit from associates

Source: Company, Emkay Research

Exhibit 10: Summary of quarterly financials

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Mobile	225,781	238,786	252,945	269,023	279,888	24.0	4.0
India	143,056	151,913	160,917	176,168	182,200	27.4	3.4
Africa	81,773	85,915	91,053	91,871	97,021	18.6	5.6
South Asia	952	958	975	984	667	(29.9)	(32.2)
Home Services	6,531	7,128	7,969	8,762	9,265	41.9	5.7
Airtel Business	37,893	39,952	41,059	41,798	43,656	15.2	4.4
Others (DTH +others)	8,179	8,073	7,994	7,647	7,572	(7.4)	(1.0)
Total gross Sales	278,384	293,939	309,967	327,230	340,381	22.3	4.0
Inter-segmental eliminations	9,848	10,675	11,301	12,227	12,335	25.3	0.9
Net Sales	268,536	283,264	298,666	315,003	328,046	22.2	4.1
Access charge	16,166	16,708	17,232	17,505	18,698	15.7	6.8
as % of sales	6.0	5.9	5.8	5.6	5.7		
Network Operating	57,973	61,788	64,986	65,458	66,828	15.3	2.1
as % of sales	21.6	21.8	21.8	20.8	20.4		
Employee Expenses	10,345	11,010	11,336	11,642	11,235	8.6	(3.5)
as % of sales	3.9	3.9	3.8	3.7	3.4		
Marketing Expenses	27,794	28,859	30,786	29,906	34,685	24.8	16.0
as % of sales	10.4	10.2	10.3	9.5	10.6		
License Fee	26,455	26,794	27,298	30,089	31,306	18.3	4.0
as % of sales	9.9	9.5	9.1	9.6	9.5		
Total operating expenditure	138,733	145,159	151,638	154,600	162,752	17.3	5.3
EBITDA	129,803	138,105	147,028	160,403	165,294	27.3	3.0
Depreciation	77,137	82,472	85,472	85,826	87,814	13.8	2.3
EBIT	52,666	55,633	61,556	74,577	77,480	47.1	3.9
Other Income	2,098	1,088	1,971	186	1,922	(8.4)	933.3
Interest	42,257	39,641	43,671	40,593	45,109	6.7	11.1
Non-operating expenses	-305	-7,221	-398	-9,062	0		
PBT	12,812	24,301	20,254	43,232	34,293	167.7	(20.7)
Tax	8,345	10,308	9,908	13,218	11,233	34.6	(15.0)
PAT before MI	4,467	13,993	10,346	30,014	23,060	416.2	(23.2)
Minority interest	6,579	8,641	8,211	17,072	8,619	31.0	(49.5)
PAT after MI	-2,112	5,352	2,135	12,942	14,441	(783.8)	11.6
share of associates	4,947	5,988	6,161	7,136	1,628	(67.1)	(77.2)
PAT	2,835	11,340	8,296	20,078	16,069	466.8	(20.0)

Margins (%)						(bps)	(bps)
EBIDTA	48.3	48.8	49.2	50.9	50.4	205	(53)
EBIT	19.6	19.6	20.6	23.7	23.6	401	(6)
EBT	4.8	8.6	6.8	13.7	10.5	568	(327)
PAT	1.1	4.0	2.8	6.4	4.9	384	(148)
Effective Tax rate	65.1	42.4	48.9	30.6	32.8	(3,238)	218

Source: Company, Emkay Research

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Airtel Africa's Performance

Revenue and EBITDA in Q1FY23 were broadly in-line with our estimates. ARPU was flat qoq at US\$3. On the KPI front, subscriber additions were strong at 3.1mn, above our estimates of 1.9m. Data customer base fell by 0.2mn, with data customers accounting for 35.4% of the total base in Q1FY23 vs. 36.4% in Q4FY22 (decline in Francophone Africa). Monthly churn rose substantially in Nigeria, while it fell marginally for Francophone Africa and East Africa. At a consolidated level, churn stood at 4.6% in Q1FY23 vs. 4.3% in Q4FY22. Revenue for the quarter was lower by US\$34mn due to outgoing calls barred in Nigeria for those customers who had not submitted their National Identity Numbers. In terms of the balance sheet, net debt was at US\$3.1bn vs. US\$2.9bn at FY22-end.

- Overall growth is slightly slower than recent trends due to some specific challenges in this quarter, largely as a result of the effect of voice customers barred in Nigeria and the loss of tower sharing revenue, following the recent sales of towers in Tanzania, Madagascar, and Malawi.
- On a reported basis, consolidated revenue stood at US\$1.26bn (+13% yoy and 2.9% qoq). EBITDA stood at US\$614mn (+15% yoy and 0.6% qoq) with margin at 48.8% (-107bps qoq).
 - Voice revenue rose 9% sequentially. Voice ARPU sequentially declined by 1.6% to US\$1.6.
- Data revenue increased by 6.6% qoq. This was driven by higher data ARPU and higher data usage per customer.
 - Data customer base fell to 35.4% in Q1FY23 vs. 36.4% in Q4FY22 (as a percentage of total customer base).
 - During the period, total MBs on network jumped by 14.2% qoq.
- **PAT fell by 12.8% qoq on reported basis to US\$163mn.** Net finance costs increased to US\$156mn in Q1FY23 due to higher foreign exchange losses and higher interest on lease obligations. It was partially offset by lower interest costs due to debt reduction (including the repayment of \$505m bonds in March 2022).
- Total tax charges were US\$19mn lower mainly due to the initial recognition of a deferred tax credit of US\$21mn in Kenya.

Exhibit 11: Consolidated Airtel Africa Financials

Consolidated Airtel Africa (USD mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)
Total revenue	1,112	1,160	1,219	1,222	1,257	13.1	2.9
EBITDA	534	564	605	610	614	15.0	0.6
EBITDA margin	48.0%	48.6%	49.6%	49.9%	48.8%	81 bps	-109 bps
Net Income	125	160	174	187	156	24.8	(16.6)
Capex	106	139	187	224	141	33.0	(37.0)
Operating FCF (EBITDA - Capex)	428	424	418	386	473	10.5	22.4

Source: Company, Emkay Research

Consolidated KPIs

- Subscriber base expanded by 3.1mn (vs. our estimate of 1.9mn) to stand at 131.6mn vs. 128.4mn in Q4FY22.
 - Data customer base fell to 46.5mn vs. 46.7mn at the end of the previous quarter (35.4% of subscriber base vs. 36.4% in Q4).
 - Monthly churn rose marginally to 4.6% as against 4.3% in the previous quarter.
- ARPU at US\$3 was flat qoq. Voice ARPU fell 1.6% qoq, while data ARPU grew 3% qoq.
- Mobile money revenue increased to US\$160mn (+10.2% qoq). Transaction value grew by 13.7% qoq, while the number of active customers increased by 5.6%.
- Total capex was at US\$141mn in Q1FY23 vs. US\$224mn in Q4FY22.
- Net debt came in at US\$3.1bn, with **Net Debt to EBITDA (annualized) at 1.3x**.

Exhibit 12: KPIs - An overview

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY	QoQ
ARPU (\$) (in CC terms)	2.8	2.8	3.0	2.9	2.9	4.4%	0.6%
Subscribers ('000)	120.8	122.7	125.8	128.4	131.6	8.9%	2.4%
Data metrics							
Data Customer base (000's)	42.4	43.9	45.1	46.7	46.5	9.8%	-0.4%
As % of total base	35.1%	35.8%	35.9%	36.4%	35.4%	30 bps	-99 bps
Network sites	26,104	26,751	27,422	28,797	29,412	12.7%	2.1%
of which 3G sites	24,701	25,600	26,278	27,782	28,513	15.4%	2.6%
Total MB's on network (mn)	410723	448912	478813	509303	581771	41.6%	14.2%
Data ARPU (\$)	2.9	2.9	2.9	2.9	3.0	3.4%	3.4%
Data Usage per customer (\$)	3302	3455	3586	3715	4099	24.1%	10.3%

Source: Company, Emkay Research

Other highlights

- **Payment Service Bank in Nigeria:** On April 29, 2022, the company announced that the Central Bank of Nigeria had confirmed that Smartcash Payment Service Bank Limited had received final approval for a full Payment Service Bank Licence, affording the Group the opportunity to deliver a full suite of mobile money services into Nigeria. On May 19, 2022, the company announced that Smartcash had commenced operations in Nigeria.
- On June 6, 2022, the company announced the purchase of 58 MHz of additional spectrum in the DRC, spread across 900, 1800, 2100, and 2600 MHz bands, for a gross consideration of US\$42mn.
- On July 15, 2022, the company announced that Airtel Kenya had purchased 60 MHz of additional spectrum in the 2600 MHz band from the Communications Authority of Kenya for a gross consideration of US\$40mn.
- **Early repayment of notes:** On July 8, 2022, the company announced the settlement of a cash tender offer, redeeming US\$450mn of the US\$1bn of 5.35% guaranteed senior notes due 2024.

Exhibit 13: Key revenue assumptions

Revenue (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
India and Asia							
Mobile	419,977	464,216	559,923	635,923	757,891	876,861	935,887
Home Service	22,391	22,451	23,342	30,390	40,070	49,394	59,087
Airtel business	124,537	132,330	144,075	160,703	181,817	203,635	228,072
Passive	68,185	67,424	34,084	0	0	0	0
Others	41,904	29,238	30,685	31,893	30,074	31,075	32,346
Africa	223,463	242,170	288,632	350,613	394,563	419,326	449,372
Total gross revenue	900,457	957,830	1,080,741	1,209,523	1,404,415	1,580,292	1,704,763
Less: Eliminations	92,655	82,439	60,854	44,051	42,998	46,439	50,216
Net Revenue	807,802	875,391	1,019,887	1,165,472	1,361,416	1,533,853	1,654,547

Source: Company, Emkay Research

Exhibit 14: SoTP-based valuation

Particulars	Jun'23E
Core India business (ex-towers, ex-Africa)	
Enterprise value (Rs bn)	5,783
EBITDA (Rs bn)	632
EV/EBITDA (x)	9.2
Net debt (Rs bn)	1,338
Equity value (Rs bn)	4,444
Equity value (Rs/share)	746
Indus Towers valuation	
Target market cap (Rs bn)	552
Bharti's shareholding (%)	47.8%
Bharti's share	264
Per Share value (Rs/share)	44
Africa business valuation	
Enterprise value (Rs bn)	870
EBITDA (Rs bn)	207
EV/EBITDA (x)	4.2
Net debt - (Rs bn)	226
Equity value (Rs bn)	644
Bharti's stake	55%
Per share value (Rs/share)	60
Target Price (Rs/share)	850

Source: Emkay Research

Con-Call Highlights

- **India Wireless:** Current post-paid mobile connections stand at 18.1mn. The company is confident of reaching ARPU of Rs200 in the near term and Rs300 in the medium term.
 - There has been 50% reduction in upgradation from 2G to 4G due to higher smartphone prices. Currently, only 8-9% of devices support 5G with 30-35% devices being shipped are 5G enabled. By March 2023, 80-90% devices being shipped should be 5G enabled.
 - **5G Strategy:** Strategically accumulated largest pool of mid-band spectrum over the last few years; this will help in rollout of NSA. The ecosystem for SA mode is still under-developed. The company will not spend incrementally on spectrum purchases in foreseeable future. Aim to roll out 5G as soon as possible and target to cover pan-India 5K towns by March 2024. The company has the right to win in 5G because (i) focused on quality customers only; (ii) powerful enterprise business; (iii) compelling digital capabilities to lead 5G game; (iv) set of digital services each of which plays role in reducing churn; and (v) stellar track record. No decision on 5G pricing yet. Globally, 5G has not given incremental ARPU to operators.
- **Home broadband:** Added 1.7mn home passes through LCO model in Q1FY23. Added 310,000 customers and reported 5.7% qoq revenue growth despite some offset benefit in Q4FY22. Demand continues to explode in this segment. Consistently adding 300K+ customers every quarter.
- **Enterprise:** Outperformed other listed companies to gain further market share. The company is now the number one B2B player in India. Strategy of going wide and deep has been very successful, IoT is outperforming the market by a margin; all IoT connections are post-paid (11.1mn).
- **DTH:** Consistently grown market share despite the decline in revenue. NTO has led to complexities. The management expect some recovery in the coming quarters.
- Depreciation increase is due to normal course of business. Rise in other operating expenses was due to (i) FLO liability recasting (Rs2bn), (ii) Africa Business (Rs1.5bn), and (iii) Normal business activities (Rs0.5bn).
- **Capex:** Three-year cumulative capex spends will not change; some amount of it will be advanced in FY23 due to 5G rollout.

Key Financials (Consolidated)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Total Revenue	1,019,888	1,165,469	1,361,507	1,533,853	1,654,547
Expenditure	555,540	590,130	661,340	714,078	758,250
EBITDA	464,348	575,339	700,167	819,775	896,298
Depreciation	296,529	330,907	352,035	369,340	399,630
EBIT	167,819	244,432	348,132	450,435	496,668
Other Income	7,625	7,000	7,922	2,867	3,032
Interest expenses	150,491	164,284	179,024	162,614	167,035
PBT	24,953	87,148	177,029	290,688	332,665
Tax	92,456	41,779	55,829	80,870	92,056
Extraordinary Items	(60,448)	16,986	0	0	0
Minority Int./Income from Assoc.	(27,195)	(40,503)	(34,119)	(36,000)	(40,000)
Reported Net Income	(150,835)	46,084	110,436	204,969	232,876
Adjusted PAT	(90,387)	29,098	110,436	204,969	232,876

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	27,460	27,950	29,777	29,777	29,777
Reserves & surplus	886,647	923,293	1,128,315	1,411,812	1,600,907
Net worth	914,107	951,243	1,158,092	1,441,589	1,630,683
Minority Interest	222,739	253,807	287,926	323,926	363,926
Loan Funds	1,627,852	1,696,779	1,827,619	1,427,619	1,177,619
Net deferred tax liability	16,107	24,488	24,488	24,488	24,488
Total Liabilities	2,780,805	2,926,317	3,298,125	3,217,622	3,196,716
Net block	2,234,797	2,440,833	2,812,178	2,734,637	2,626,048
Investment	275,504	293,491	293,491	293,491	293,491
Current Assets	892,712	842,689	852,090	868,600	919,189
Cash & bank balance	134,660	134,943	95,644	62,805	77,057
Other Current Assets	718,041	667,184	700,024	740,350	771,587
Current liabilities & Provision	679,473	710,243	719,181	738,653	701,558
Net current assets	213,239	132,446	132,909	129,947	217,631
Misc. exp	0	0	0	0	0
Total Assets	2,780,805	2,926,317	3,298,125	3,217,622	3,196,716

Cash Flow

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	17,328	80,148	169,107	287,821	329,633
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(72,213)	89,457	(39,762)	(29,877)	(73,431)
Operating Cashflow	52,407	420,965	432,709	554,432	569,074
Capital expenditure	(253,213)	(539,225)	(723,380)	(291,800)	(291,040)
Free Cash Flow	(200,806)	(118,260)	(290,671)	262,632	278,034
Investments	(20,739)	(17,987)	0	0	0
Other Investing Cash Flow	0	0	0	0	0
Investing Cashflow	(266,327)	(550,212)	(715,458)	(288,933)	(288,008)
Equity Capital Raised	182	490	1,827	0	0
Loans Taken / (Repaid)	145,571	68,927	130,840	(400,000)	(250,000)
Dividend paid (incl tax)	0	0	(19,294)	(19,294)	(19,294)
Other Financing Cash Flow	353,318	359,056	444,044	379,213	232,320
Financing Cashflow	348,580	264,189	378,393	(202,694)	(204,009)
Net chg in cash	134,660	134,943	95,644	62,805	77,057
Opening cash position	158,927	134,660	134,943	95,644	62,805
Closing cash position	134,660	134,943	95,644	62,805	77,057

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	45.5	49.4	51.4	53.4	54.2
EBIT Margin	16.5	21.0	25.6	29.4	30.0
Effective Tax Rate	370.5	47.9	31.5	27.8	27.7
Net Margin	(6.6)	3.9	8.9	13.7	14.5
ROCE	6.3	8.8	11.4	13.9	15.6
ROE	(9.4)	3.1	10.5	15.8	15.2
RoIC	(19.7)	5.4	9.0	11.5	12.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	(16.2)	5.2	19.8	36.7	41.7
CEPS	36.9	64.4	82.7	102.7	113.1
BVPS	163.5	170.2	207.2	257.9	291.7
DPS	0.0	0.0	3.0	3.0	3.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	(43.6)	135.3	35.7	19.2	16.9
P/CEPS	19.1	10.9	8.5	6.9	6.2
P/BV	4.3	4.1	3.4	2.7	2.4
EV / Sales	5.3	4.7	4.2	3.5	3.0
EV / EBITDA	11.6	9.5	8.1	6.5	5.6
Dividend Yield (%)	0.0	0.0	0.4	0.4	0.4

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	1.6	1.6	1.5	0.9	0.7
Net Debt/EBIDTA	3.1	2.7	2.5	1.7	1.2
Working Cap Cycle (days)	28.1	(0.8)	10.0	16.0	31.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16.5	14.3	16.8	12.7	7.9
EBITDA	27.3	23.9	21.7	17.1	9.3
EBIT	90.9	45.7	42.4	29.4	10.3
PAT	0.0	0.0	139.6	85.6	13.6

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Revenue	268,536	283,264	298,666	315,003	328,046
EBITDA	129,803	138,105	147,028	160,403	165,294
EBITDA Margin (%)	48.3	48.8	49.2	50.9	50.4
PAT	2,835	11,340	8,296	20,078	16,069
EPS (Rs)	0.5	2.0	1.5	3.6	2.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Nov-21	Dec-21	Mar-22	Jun-22
Promoters	55.9	55.9	55.9	55.9	55.9
FIs	19.9	19.4	19.4	19.4	18.5
DIs	19.2	19.4	19.5	19.5	20.2
Public and Others	5.1	5.2	5.2	5.2	5.3

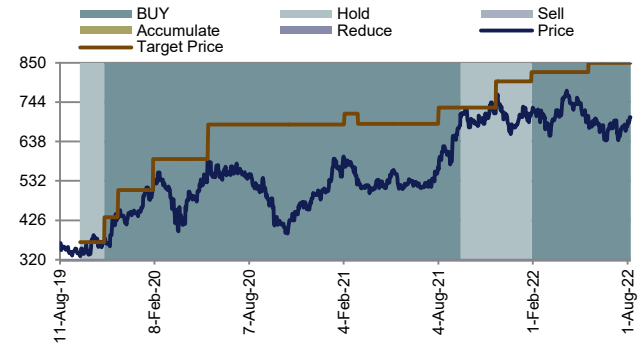
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
2-Aug-22	687	850	12m	Buy	Naval Seth
18-May-22	696	850	12m	Buy	Naval Seth
12-Apr-22	742	825	12m	Buy	Naval Seth
27-Mar-22	709	825	12m	Buy	Naval Seth
9-Feb-22	719	825	12m	Buy	Naval Seth
29-Jan-22	716	825	12m	Buy	Naval Seth
22-Nov-21	742	800	12m	Hold	Naval Seth
3-Nov-21	699	730	12m	Hold	Naval Seth
16-Sep-21	705	730	12m	Hold	Naval Seth
30-Aug-21	609	730	12m	Buy	Naval Seth
28-Aug-21	584	730	12m	Buy	Naval Seth
25-Aug-21	601	730	12m	Buy	Naval Seth
4-Aug-21	564	730	12m	Buy	Naval Seth
13-Jul-21	520	686	12m	Buy	Naval Seth
18-May-21	526	686	12m	Buy	Naval Seth
12-May-21	551	686	12m	Buy	Naval Seth
18-Mar-21	517	686	12m	Buy	Naval Seth
3-Mar-21	536	686	12m	Buy	Naval Seth
1-Mar-21	522	713	12m	Buy	Naval Seth
24-Feb-21	562	713	12m	Buy	Naval Seth
5-Feb-21	570	713	12m	Buy	Naval Seth
29-Jan-21	543	684	12m	Buy	Naval Seth
24-Dec-20	508	684	12m	Buy	Naval Seth
23-Nov-20	468	684	12m	Buy	Naval Seth
29-Oct-20	442	684	12m	Buy	Naval Seth
23-Sep-20	426	684	12m	Buy	Naval Seth
1-Sep-20	536	684	12m	Buy	Naval Seth
31-Jul-20	545	684	12m	Buy	Naval Seth
5-Jul-20	571	684	12m	Buy	Naval Seth
20-Jun-20	562	684	12m	Buy	Naval Seth
20-May-20	583	684	12m	Buy	Naval Seth
10-Mar-20	487	591	12m	Buy	Naval Seth
5-Feb-20	524	591	12m	Buy	Naval Seth
30-Dec-19	452	507	12m	Buy	Naval Seth
30-Nov-19	434	507	12m	Buy	Naval Seth
22-Nov-19	413	434	12m	Buy	Naval Seth
15-Nov-19	386	434	12m	Buy	Naval Seth
4-Nov-19	371	434	12m	Buy	Naval Seth
18-Sep-19	329	367	12m	Hold	Naval Seth

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Telecommunications



Analyst: Naval Seth

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Sector

Consumer Durables, Media & Entertainment, SMID and Telecom

Analyst bio

Naval holds an MBA in Finance and has more than 14 years of experience in equity research. His team currently covers 19 stocks spread across three different sectors.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Telecommunications	2.02	2.01	0%	0	100.00	
Bharti Airtel	1.66	1.71	3%	5	84.70	0
Indus Towers	0.16	0.16	2%	0	7.96	0
Tata Communications	0.13	0.13	3%	0	6.40	0
Vodafone Idea	0.08	0.02	-77%	-6	0.87	0
Cash	0.00	0.00	NA	0	0.07	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	6-Aug-21	4-Feb-22	6-May-22	6-Jul-22	5-Aug-22
EAP - Telecommunications	100.0	161.5	189.9	180.6	177.1	179.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	129.0	153.9	145.5	142.6	144.8

*Performance measurement base date 1st April 2019

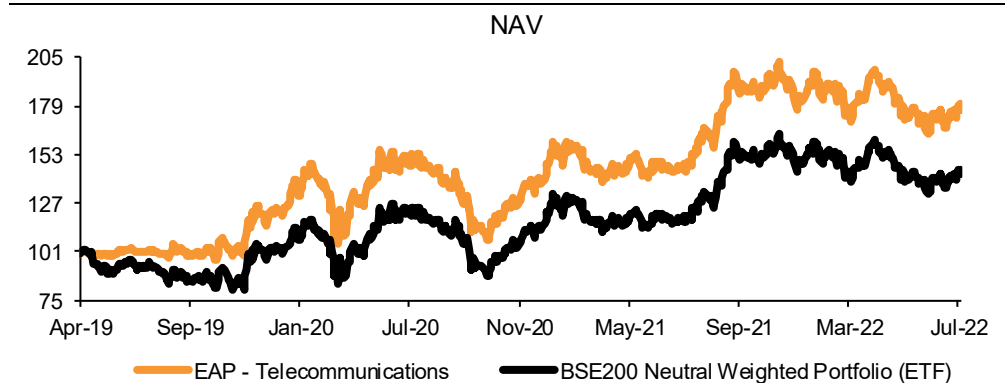
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Telecommunications	1.5%	-0.4%	-5.3%	11.3%
BSE200 Neutral Weighted Portfolio (ETF)	1.6%	-0.5%	-5.9%	12.2%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

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“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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