

Steady performance...

About the stock: Bharti Airtel (Airtel) is India's second largest telecom operator with a ~32.7 crore wireless customers in India and ~13.2 crore subscribers across 14 African countries. It enjoys industry leading ARPU in the wireless business.

Q1FY23 Results: Airtel saw residual benefits of tariff hikes during the quarter.

- Consolidated topline came in at ₹ 32,805 crore, up 4.1% QoQ, 22.2% YoY with India wireless revenues up 3.4% QoQ (up 27.4% YoY) at ₹ 18220 crore, led by residual pass through of tariff hike driving ARPU, which came in at ₹ 183, up 2.8% QoQ
- Overall margins were at 50.4%, down 53 bps QoQ mainly owing to lower Africa margins, which were at 48.8%, down 110 bps QoQ. India wireless margins were at 51.2% (up 55 bps QoQ). Overall India margin was up 13 bps QoQ at 51%. PAT came in lower at ₹ 1606.9 crore, owing to higher derivatives/forex fluctuation loss of ₹ 511.9 crore and lower profit from associates of ₹ 162.8 crore (vs. ₹ 600 crore expected)
- Reported net debt (excluding lease liability) was at ~₹ 1.195 lakh crore (down by ~₹ 4035 crore QoQ) given the strong free cash flows

What should investors do? Airtel's share price has been up ~89% over the past five years.

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

Target Price and Valuation: We value Airtel at unchanged target price of ₹ 860.

Key triggers for future price performance:

- Any further tariff hike as its pass through would bolster margins
- 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 coverage.

- A play on enterprise communication and improving balance sheet
- BUY with target price of ₹ 1260



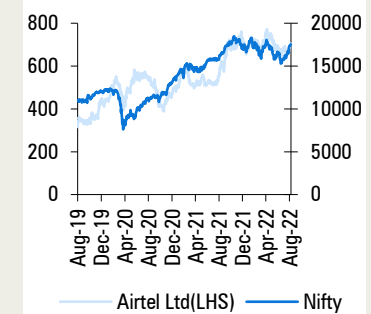
Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	3,93,732
Total Debt (₹ Crore) - FY22	1,69,678
Cash & Inv (₹ Crore) - FY22	9,221
EV (₹ Crore)	5,54,189
52 week H/L	782/ 574
Equity capital	2,795.0
Face value	5.0

Shareholding pattern

	Oct-21	Dec-21	Mar-22	Jun-22
Promoters	55.9	55.9	55.9	55.9
DII	19.1	17.8	17.7	18.4
FII	19.9	19.4	19.4	18.5
Other	5.1	6.9	7.0	7.2

Price Chart



Key risks

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

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	87,539	1,00,616	1,16,830	4.1	1,37,912	1,56,586	15.8
EBITDA (₹ crore)	36,482	45,372	57,817	10.4	71,273	84,929	21.2
Net Profit (₹ crore)	(32,183)	(15,084)	4,538	3.6	11,633	20,968	114.9
Adjusted PAT (₹ crore)	(4,075)	(1,300)	2,840		11,633	20,968	
EPS (₹)	(59.0)	(27.6)	8.1		19.2	34.6	
P/E (x)	NA	NA	86.8		36.7	20.3	
Price / Book (x)	5.0	6.5	5.9		5.1	4.1	
EV/EBITDA (x)	14.0	11.9	9.5		7.9	6.2	
RoCE (%)	4.1	6.4	9.1		12.1	16.0	
RoE (%)	(5.3)	(2.2)	4.3		13.9	20.1	

Key performance highlight and outlook

India wireless business –decent performance

The residual flow through of tariff hike drove the ARPU higher to ₹ 183, up 2.8% QoQ (albeit tad lower than RJio's ~4.8% growth). **Overall sub base saw an addition of 1.3 mn QoQ at 327.3 mn (our expectation was addition of 2 million). It witnessed 4G net adds of ~4.5 mn during the quarter, with 4G data sub base at 205.3 mn (overall data customers base of 213.3 mn).** The post-paid subscriber base was up by ~249,000 at 18.1 mn. Data usage per sub was up 3.6% QoQ to 19.5 GB. Voice usage per customer was up 2% QoQ to 1104 minutes. **Key highlight was expansion in India wireless margins (only telco to witness sequential margin expansion).** The company reiterated its ARPU target of ₹ 200 in the near term and ARPU of ₹ 300 over the medium-to-longer term. We highlight that the management does expect further round of tariff increase for pre-paid customers while it refrained from stating a timeline. **We, expect monthly ARPU to reach ₹ 213 in FY24 vs. current level of ₹ 183, driven by another round of tariff hike & higher wallet share of premium subscribers.**

Non-wireless remains robust




In the broadband business, **Airtel witnessed strong growth driven by healthy net customer additions of 310,000 subs during the quarter to 4.8 mn.** The collaboration with local digital cable operator on a partnership model has enabled the company to be present in 983 cities **(added 136 cities during Q1FY23) with 1.7 mn home passes added on accelerated rollout.** We note that the company had also reiterated robust opportunity on the Enterprise side (total market size of ~₹ 35,000 crore) and adjacent areas like CPaaS, data centre, cloud communication, cyber security, IoT with similar market size. **During the quarter, the company saw superior growth compared to peers and added to market share gains in the enterprise segment.**

Other highlights

- **5G:** The company indicated that **it would deploy 5G under Non-Standalone (NSA) mode given the lower total cost of ownership and lack of devices for standalone (SA) mode.** It reiterated that 700 MHz is no different from 800/900 MHz in terms of propagation while its coverage is better in the deep inside and far flung area. It expects the coverage fall-back to be provided by 800/900 MHz, if needed, for Airtel. The company also informed that 700 MHz would require extra antenna, three extra radios, power and rental. Thus, it would have a cost per GB disadvantage by ~50%. **Therefore, company does not expect any major spectrum outlay in the next couple of years for 700 Mhz. The company expects to launch 5G soon and reach 5000 towns by March, 2024. The 5G launch will entail advancement of capex by 18 months, with three years' capex likely to be at similar levels of ~₹ 75000 crore as a chunk of 4G capex will be displaced. It also said that pricing difference between 4G and 5G has not been decided but stressed that ARPUs would need to increase from current levels**
- **Residual rights issue calls:** The company will evaluate the calls for residual ~₹ 15000+ crore of rights issue in the next few month post evaluation of the business cash flow profile amid some acceleration of capex
- **On fixed wireless access (FWA):** Over the period, the cost per fibre broadband home pass has been brought down substantially to ~\$30-35 and much lower in LCO aided setup with blended cost at ~US\$50 per connected home while cost of wireless router is ~US\$200. Thus, unless the router costs crashes, fibre rollout is more cost effective

Bharti Airtel continues to report resilient numbers, especially on the Indian wireless business front. The continued margin expansion remains a key positive. The non-wireless business momentum along with Africa performance, continues to be robust. Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. We remain constructive on Airtel and maintain our BUY rating on the stock with an unchanged SOTP based target price of ₹ 860/share.

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Revenue	32,804.6	32,738.9	26,853.6	31,500.3	22.2	4.1	
Employee Expenses	1,123.5	1,203.0	1,034.5	1,164.2	8.6	-3.5	
Marketing Expenses	3,468.5	3,090.8	2,779.4	2,990.6	24.8	16.0	
Access Charges	1,869.8	1,873.0	1,616.6	1,750.5	15.7	6.8	
Network Operating	6,682.8	6,872.7	5,797.3	6,545.8	15.3	2.1	
License Fee	3,130.6	3,056.4	2,645.5	3,008.9	18.3	4.0	
EBITDA	16,529.4	16,343.0	12,980.3	16,040.3	27.3	3.0	
EBITDA Margin (%)	50.4 	49.9 	48.3 	50.9	205 bps	-53 bps	
Depreciation	8,781.4	8,650.0	7,713.7	8,582.6	13.8	2.3	
Interest	4,510.9	3,955.6	4,225.7	4,059.3	6.7	11.1	
Exceptional Items	0.0	0.0	-30.5	-906.2	-100.0	-100.0	
Total Tax	1,123.3	1,253.6	834.5	1,321.8	34.6	-15.0	
PAT	1,606.9	2,263.8	283.5	2,007.8	466.8	-20.0	
Subscribers (Mn)	327.3	328.0	321.2	326.0	1.9	0.4	
ARPU	183	184	146.1	178.3	25.4	2.8	
	1.26	2.1		-1.3			

Source: Company, ICICI Direct Research

Change in Estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,36,695	1,37,912	0.9	1,55,052	1,56,586	1.0	Realign estimates
EBITDA	70,349	71,273	1.3	83,633	84,929	1.5	
EBITDA Margin (%)	51.5	51.7	22 bps	53.9	54.2	30 bps	
PAT	12,868	11,633	-9.6	21,637	20,968	-3.1	
EPS (₹)	21.3	19.2		35.7	34.6		

Source: Company, ICICI Direct Research

Business Highlights (India)

- **Overall revenues & EBITDA:** Overall India revenues were at ₹ 23319 crore, up 3.6% QoQ, largely driven by healthy traction in India wireless business. **Overall Indian margin was up 13 bps QoQ at 51%** aided by wireless business margins expansion
- **Wireless revenues & EBITDA:** India wireless revenues were up **3.4% QoQ (up 27.4% YoY)** at ₹ 18220 crore, led by residual pass through of tariff hike driving ARPU, which came in at ₹ 183, up **2.8% QoQ** (tad lower than RJio's ~4.8% growth). **India wireless margins was at 51.2% (up 55 bps QoQ), aided by tariff hike benefits**
- **Subscriber base and 4G addition:** Overall sub base saw an addition of **1.3 mn QoQ at 327.3 mn** (our expectation was addition of 2 million). It witnessed **4G net adds of ~4.5 mn during the quarter, with 4G data sub base at 205.3 mn (overall data customers base of 213.3 mn)**. The post-paid subscriber base was up by ~249,000 at 18.1 mn
- **Minutes and data usage:** Data usage per sub was up 3.6% QoQ to 19.5 GB. Voice usage per customer was up 2% QoQ to 1104 minutes. Total minutes on network was up 2.6% QoQ to 1079 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were up 5.7% QoQ at ₹ 926 crore, driven by healthy net adds of 310k customers during the quarter to 4.8 mn. Airtel business (enterprise) revenues were up 4.4% QoQ at ₹ 4366 crore and DTH reported revenues witnessed a decline of 0.9% QoQ at ₹ 748 crore
- **Network capacity and capex:** The company maintained its continued access expansion in the form of sites/tower additions (~8049 sites) and capacity through mobile broadband BTS additions (14537 additions in Q1). We note that BTS addition has tapered in the last few quarters as the company has largely completed its 4G expansion. **India mobile capex was at ₹ 3695 crore (vs. ₹ 2618 crore in Q4) with overall India capex of ₹ 5288 crore (vs. ₹ 4277 crore in Q4)**

Business highlights (Africa)

- Africa revenues were up 2.9% QoQ at US\$1.26 billion. EBITDA margins were at 48.8% (down 110 bps QoQ). Airtel Money reported 10.2% QoQ revenue growth at US\$160 mn. **In rupee terms, Africa revenues were up 5.6% QoQ at ₹ 9702 crore, also aided by currency depreciation**
- Subscriber base was up by 3.1 mn QoQ at 131.5 mn with ARPU at US\$2.9 up 0.6% QoQ. Data subs base was down by 162,000 QoQ at 46.5 mn while total data usage was up 14.2% QoQ at 581.8 bn MB. Data usage per subscriber was at 4 GB per month, up 10.3% QoQ
- Africa net debt (including lease obligations) was at US\$3.06 bn (up by US\$115 million). Capex was ~US\$141 mn. Operating free cash flow for Q1FY23 was at US\$487 million

Other Highlights

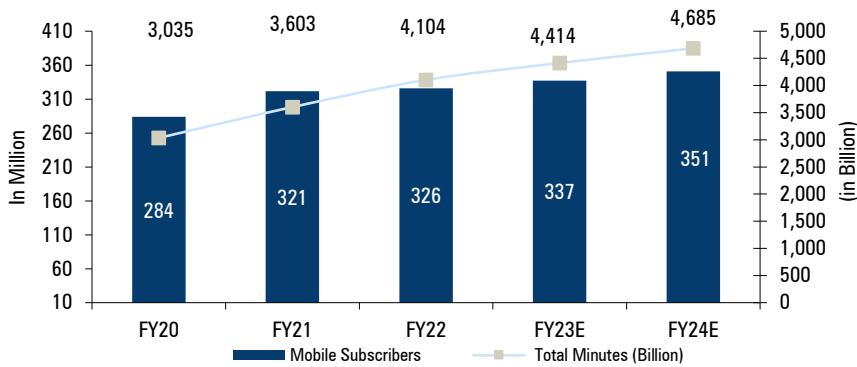
- **Consolidated debt and capex:** Total capex spend for the quarter was at ₹ 6398 crore vs. ₹ 5997 crore in Q4. **Reported net debt (excluding lease liability) was at ~₹ 1.195 lakh crore (down by ~₹ 4035 crore QoQ) aided by strong cash flows**
- **5G:** As expected, the focus of Airtel was on the core spectrum for 5G, 3300 MHz (mid band) and 26 GHz (millimetre wave band), which attracted maximum bids. It bought 100 MHz pan India of 3300 MHz spectrum and 800 MHz Pan India of millimetre wave band. Airtel also selectively bolstered its mid-band spectrum by adding on to 1800/2100 bands. **The outlay was ₹ 43084 crore and assuming, the operator opts for 20 year payout, annual equated instalment will be ₹ 3853 crore**

Exhibit 1: Segmental revenues and EBITDA

Revenues - ₹ crore	FY20	FY21	FY22	FY23E	FY24E
India	71,111	75,366	85,469	1,02,068	1,17,414
Mobility	45,966	55,568	63,205	76,798	88,908
Broadband	2,245	2,334	3,039	4,001	4,885
Enterprise	13,233	14,408	16,070	18,264	20,556
Passive Infrastructure	6,742				
DTH+ Others	2,924	3,056	3,154	3,005	3,065
Africa	24,217	28,863	35,061	40,439	44,495
South Asia	455	425	387	277	280
Total Gross Revenue	95,783	1,04,654	1,20,917	1,42,783	1,62,189
Intersegmental Elimination	-7,789	-4,038	-3,983	-4,871	-5,603
Net Revenue	87,539	1,00,616	1,16,830	1,37,846	1,56,586
EBITDA ₹ crore	FY20	FY21	FY22E	FY23E	FY24E
India & South Asia	26,376	32,841	40,912	51,909	63,016
Africa	10,726	13,298	17,207	19,264	21,713
Gross EBITDA	37,102	46,139	58,119	71,174	84,729
Intersegmental Elimination	620	767	301	-99	-200
Reported EBITDA	36482	45372	57817	71273	84929

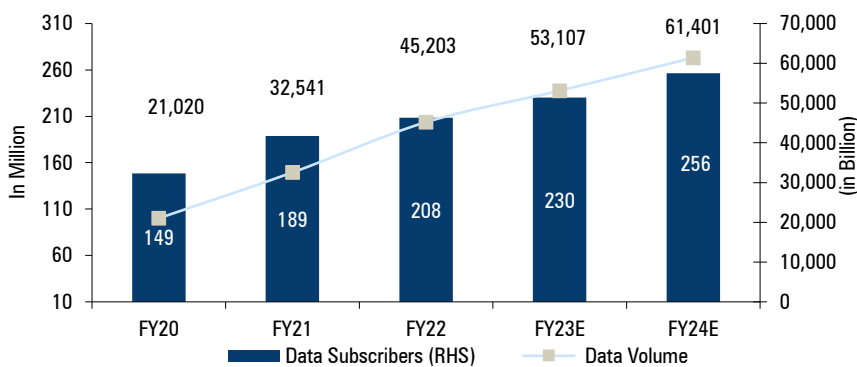
Source: Company, ICICI Direct Research *excluded tower revenues post H2FY21 after Indus Deconsolidation

Exhibit 2: India subscriber details



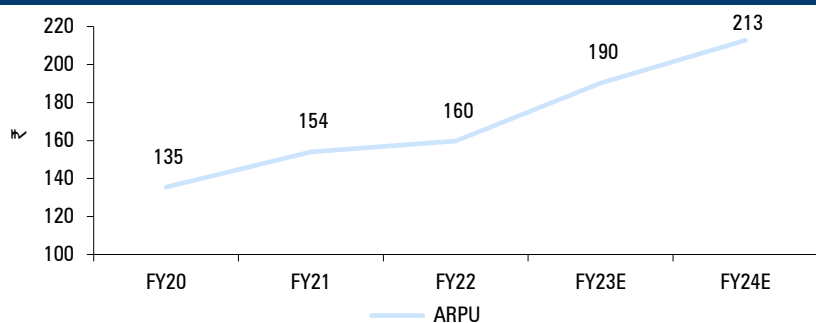
Source: Company, ICICI Direct Research

Exhibit 3: Data volume and data subs trend



Source: Company, ICICI Direct Research

Exhibit 4: India mobile ARPU trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,00,615.8	1,16,830.3	1,37,912.3	1,56,585.5
Growth (%)	14.9	16.1	18.0	13.5
Employee Expenses	4,114.6	4,433.3	4,768.4	5,316.1
Marketing Expenses	9,687.1	11,734.5	13,737.4	14,708.4
Access Charges	10,352.1	6,761.1	7,915.2	8,813.6
Network Operating	21,981.9	25,020.5	27,489.1	29,126.7
License Fee	9,108.4	11,063.6	12,729.5	13,691.4
Other Costs	0.0	0.0	0.0	0.0
Total Operating Expenditure	55,244.1	59,013.0	66,639.6	71,656.2
EBITDA	45,371.7	57,817.3	71,272.7	84,929.3
Growth (%)	24.4	27.4	23.3	19.2
Depreciation	29,404.4	33,090.7	35,581.4	38,050.3
Interest	15,091.0	16,616.2	17,588.3	16,967.8
Other Income	642.8	534.3	707.2	600.0
Exceptional Items	4,857.8	(1,698.6)	-	-
PBT	-3,338.7	10,343.3	18,810.2	30,511.2
MI / Profit from associates	2,812.3	1,627.1	1,599.1	1,000.0
Total Tax	8,932.5	4,177.9	5,578.2	8,543.1
PAT	-15,083.5	4,538.3	11,632.9	20,968.1
Growth (%)	NA	NA	156.3	80.2
EPS (₹)	-27.6	8.1	19.2	34.6

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	-15,083.5	4,538.3	11,632.9	20,968.1
Add: Depreciation	29,404.4	33,090.7	35,581.4	38,050.3
Add: Interest Paid	15,091.0	16,616.2	17,588.3	16,967.8
(Inc)/dec in Current Assets	9,773.9	(463.5)	(5,527.4)	(4,478.8)
Inc/(dec) in CL and Prov	-14,186.9	2,419.7	15,893.0	13,923.4
Others	0.0	0.0	0.0	0.0
CF from op activities	24,998.9	56,201.3	75,168.2	85,430.8
(Inc)/dec in Investments	-2,067.6	-1,731.8	0.0	0.0
(Inc)/dec in Fixed Assets	-23,878.7	-49,580.8	-71,000.0	-28,000.0
Others	2,163.3	1,799.6	-4,117.7	-4,369.6
CF from inv activities	-23,783.0	-49,513.0	-75,117.7	-32,369.6
Issue/(Buy back) of Equity	18.2	49.0	231.7	0.0
Inc/(dec) in loan funds	14,557.1	6,892.7	10,000.0	-20,000.0
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Interest Paid	-15,091.0	-16,616.2	-17,588.3	-16,967.8
Others	-3,126.8	3,014.3	5,188.8	0.0
CF from fin activities	-3,642.5	-6,660.2	-2,167.8	-36,967.8
Net Cash flow	-2,426.6	28.1	-2,117.3	16,093.4
Opening Cash	15,892.7	13,466.1	13,494.3	11,376.9
Closing Cash	13,466.1	13,494.3	11,376.9	27,470.3

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	2,746	2,795	3,027	3,027
Reserve and Surplus	56,207	63,759	80,581	1,01,549
Total Shareholders funds	58,953	66,554	83,608	1,04,576
Total Debt	1,62,785	1,69,678	1,79,678	1,59,678
Deferred Tax Liability	1,611	2,449	2,449	2,449
Others	38,160	38,036	33,918	29,548
Total Liabilities	2,61,508	2,76,717	2,99,652	2,96,251
Assets				
Gross Block	3,20,386	3,69,739	4,40,739	4,68,739
Less: Acc Depreciation	1,58,625	1,91,715	2,27,297	2,65,347
Net Block	1,61,762	1,78,023	2,13,442	2,03,392
CWIP	5,727	5,955	5,955	5,955
Goodwill	32,906	33,831	33,831	33,831
Right of Use	28,812	32,229	32,229	32,229
Investments	29,891	31,622	31,622	31,622
Debtors	3,638	4,056	4,788	5,436
Loans and Advances	14,326	12,090	14,272	16,204
Other Current Assets	19,245	21,526	24,140	26,038
Cash	13,466	13,494	11,377	27,470
Total Current Assets	50,675	51,167	54,577	75,149
Creditors	27,872	29,274	34,761	39,468
Other Current Liabilities	56,648	57,665	68,071	77,288
Total Current Liabilities	84,520	86,939	1,02,832	1,16,756
Net Current Assets	-33,845	-35,773	-48,256	-41,607
Others Assets	36,256	30,829	30,829	30,829
Application of Funds	2,61,508	2,76,717	2,99,652	2,96,251

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-27.6	8.1	19.2	34.6
Cash EPS	26.2	67.3	78.0	97.5
BV	108.1	119.1	138.1	172.8
DPS	0.0	0.0	0.0	0.0
Cash Per Share	24.7	24.1	18.8	45.4
Operating Ratios				
EBITDA Margin (%)	45.1	49.5	51.7	54.2
EBIT Margin (%)	15.9	21.2	25.9	29.9
PAT Margin (%)	-1.3	2.4	8.4	13.4
Inventory days	0.0	0.0	0.0	0.0
Debtor days	13.2	12.7	12.7	12.7
Creditor days	101.1	91.5	92.0	92.0
Return Ratios (%)				
RoE	-2.2	4.3	13.9	20.1
RoCE	6.4	9.1	12.1	16.0
RoIC	11.4	15.5	19.3	28.4
Valuation Ratios (x)				
P/E	-25.5	86.8	36.7	20.3
EV / EBITDA	11.9	9.5	7.9	6.2
EV / Net Sales	5.4	4.7	4.1	3.4
Market Cap / Sales	3.9	3.4	2.9	2.5
Price to Book Value	6.5	5.9	5.1	4.1
Solvency Ratios				
Debt/EBITDA	3.6	2.9	2.5	1.9
Debt / Equity	2.8	2.5	2.1	1.5
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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