

Nov 02, 2022

**RESULT REPORT Q2 FY23** | Sector: Telecom

# Bharti Airtel Ltd

## Premiumization & data monetization drive ARPU

### Our view

The 2QFY23 consolidated operating profits at Rs 176bn (+27%YoY; +6.4% QoQ), stood in-line with our and street estimates. Strong YoY growth was led primarily by 24% YoY improvement in ARPU led by price increase undertaken in Nov'21, however QoQ improvement was led by improved data monetization and premiumization in subscriber base. While Ebitda and Ebitda margins continued to improve with uptrading but RoCE for India mobility business continues to be at ~8%, which is a rather inadequate return in perspective of required investment, thereby underlining the need for further ARPU rectification. Bharti is geared up for pan India 5G roll out by Mar'24, and most device ecosystem across manufacturers is almost ready to operate Bharti's 5G network. While the 5G use cases appear limited in the near to medium term, but in the longer run there are strong prospects for multiple use cases across industries. Maintain BUY.

### Result Highlights

- **Revenue:** Bharti's consol. revenue at Rs 345.3bn (+22% YoY; +5.2% QoQ), stood in-line with estimates. The YoY growth was largely driven by 4% YoY growth in total subscriber base to 501mn and 24% YoY increase in India mobile ARPU to Rs 190. ARPUs improved primarily on up-trading, premiumization and data monetization.
- **Operating Profits:** EBITDA at Rs 176bn, stood higher by 27% YoY and 6.4% QoQ. A sequential as well as YoY improvement in ARPU, coupled with QoQ addition of 5.04mn 4G subscribers in India, aided profits. The consolidated EBITDA margins at 51%, stood better QoQ on concerted cost optimization and lower SUC charges.
- **Profit/(Loss) After Tax:** On after tax basis, Bharti Reported an adjusted Profit of Rs 29.8 bn (+133% YoY; +21% QoQ).
- **Customer Base:** The total customer base on consolidated basis stood at 501mn a net addition of 21mn subscribers on YoY basis and 5mn on QoQ basis. Of the above the India mobile subscriber stood at 328mn, with an addition of 4mn subs on a YoY basis and 0.5mn on QoQ basis.
- **Capex:** While the total Capex during the quarter stood at Rs 70.5bn, the capex in India mobile services stood at Rs 39bn. Going ahead, while there is no specific capex guidance, but capex is likely to accelerate in near term to high intensity 5G roll out and network expansion in the rural areas.
- **Debt:** The consolidated net debt (excluding lease obligations) stood at Rs 1573bn (1QFY23: Rs 1195bn) . Consolidated net debt for the company including leases stood at Rs 2096bn (1Q: Rs 1673bn). The Net Debt-EBITDA ratio (annualized) for the quarter stood at 2.96x ( vs 1QFY23: 2.52x).

### Valuation

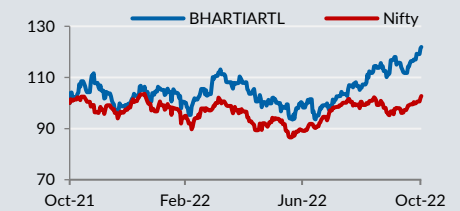
We value BHARTI on SOTP basis at Rs 930/sh (Mar'24), as we roll estimates forward, implying a target EV/EBITDA multiple of 7.7x FY25e, vs 6.2x as implied by CMP. We estimate an operating earnings CAGR (FY22-25e) of 15%, backed by expectations of continual subscriber gain and ARPU improvement.

Reco	: <b>BUY</b>
CMP	: Rs 836
Target Price	: Rs 930
Potential Return	: 11%

### Stock data (as on Nov 01, 2022)

Nifty	18,145
52 Week h/l (Rs)	841/629
Market cap (Rs/USD mn)	4821318/58294
Outstanding Shares (mn)	5,563
6m Avg t/o (Rs mn):	5,727
Div yield (%):	0.4
Bloomberg code:	BHARTI IN
NSE code:	BHARTIARTL

### Stock performance



	1M	3M	1Y
Absolute return	4.5%	20.3%	17.8%

### Shareholding pattern (As of Jun '22 end)

Promoter	55.1%
FII+DII	38.8%
Others	4.0%

### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	930	910

### Financial Summary

(Rs bn)	FY22	FY23E	FY24E	FY25E
Revenue	1165	1385	1571	1696
YoY %	15.6	18.8	13.4	8.0
EBIDTA	575	691	805	879
YoY %	26.2	20.1	16.3	9.2
PAT	83	107	187	246
YoY %	n.a.	29.0	74.6	31.3
ROE	9.6	11.0	16.7	18.5
EPS	15.1	19.5	34.1	44.7
P/E	55.3	42.9	24.5	18.7
BV	166.8	188.5	220.6	263.3
EV/EBITDA	10.6	8.3	7.0	6.2

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## India Mobile Business

- **Revenue:** India mobile revenue stood at Rs 189.6bn (+25% YoY; +4% QoQ); The sequential improvement in ARPU to 190 (+24% YoY; +3.7% QoQ) along with 4G subscriber addition of 5mn QoQ taking the 4G base to 210mn and total subscriber base to 328mn, were key revenue drivers in the quarter. The improvement in ARPU was primarily backed by monetization of data packs, upgradation of subscriber base from feature phone to 4G and pre-paid to post paid.
- **EBITDA:** stood at Rs 99.3bn (+33% YoY; +6.4% QoQ); primarily on higher ARPU; EBITDA margin sequentially higher at 52.4% on cost optimization efforts.
- **Capex:** Total India Capex stood higher by 7% QoQ but 2% lower YoY at Rs 56.8 bn which included mobile business capex of Rs 39.1bn (-15.5% YoY; +6% QoQ)
- **Infrastructure:** By the end of 2QFY23, total number of towers stood at 253,998 compared to 245,626 in the previous quarter and total number of base stations increased to 787,498, from 766,673 in 1QFY22.
- **Operating Cashflow:** stood higher by 70% YoY and 5% QoQ at Rs 69.2bn
- **ARPU:** stood at Rs 190 vs Rs 153 last year same quarter and Rs 183 in previous quarter. BHARTI firmly believes that current ARPUs are inadequate for reasonable return on capital, and ARPUs need to improve to Rs 200 and then to Rs 300 eventually.
- **Subscriber base:** The total India consumer base stood at 364mn, a net addition of 1mn subscribers QoQ; of which the mobile subscriber base stood at 328mn (+0.5 mn QoQ)
- **Data subscriber:** base increased by 5.8mn QoQ to 219mn, on continued up-trading by consumers and new additions; 4G subscriber base increased to 210.3mn (+5mn QoQ). Higher smart-phone ASPs driven by expensive chipsets, slowed accretion in 4G base to some extent during the quarter.
- **Data traffic:** improved by 7.3% QoQ to 13.5 tnMB; as data usage per sub improved to 20.7 GB (+4.1%QoQ).
- **Voice traffic:** declined by 1.5% QoQ to 1063bn minutes; voice usage per customer declined as well to 1082min (from 1Q: 1104 mins)

## Other Business Highlights:

- **Airtel Business:** Revenue up 16.8% YoY & 6.8% QoQ to Rs 46.6bn; EBITDA/EBITDA margin stood at Rs 18.3bn/ 39.2%
- **Home Services:** Revenue up by 39% YoY and 6.8% QoQ to Rs 9.9bn; ARPU at Rs 646 (vs 652 in 1QFY23); total subscriber base increased to 5.2mn (from 4.8mn in 1QFY23).
- **Digital TV:** Revenue at Rs 7.3bn (-8.7% YoY & -2.6% QoQ); subscriber base declined sequentially to 15.8mn; ARPU at 145 (1QFY23:143)
- **Africa:** Revenue up 21.6% YoY & 7.7% QoQ to Rs 104.4bn and EBITDA stood at Rs 51.2bn (+22.8% YoY; +8.2% QoQ); ARPU moderated to USD 3.1 (from USD 2.9 in 1QFY23)
- **South Asia:** Revenue at Rs 695mn (-27.5%YoY; +4.2% QoQ); EBITDA: a loss of Rs 141mn vs a loss of Rs 108mn in 1QFY23

## Exhibit 1: Comparison with estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	345,268	345,285	341,149	0.00	1.21	IN-line with estimates
EBITDA	175,938	176,839	174,049	-0.51	1.09	
EBITDA Margin (%)	50.96	51.22	51.02	-26bps	-6bps	
Adj. PAT	29,789	35,155	23,274	-15.26	27.99	

## Exhibit 2: Earnings snapshot - Consolidated

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY22	2QFY23	y/y(%)	q/q(%)	1HFY22	1HFY23	y/y(%)
Revenue	283,264	298,666	315,003	328,046	345,268	21.9	5.2	551,800	673,314	22.0
Expenditure	145,159	151,638	154,600	162,752	169,330	16.7	4.0	283,892	332,082	17.0
Operating profit	138,105	147,028	160,403	165,294	175,938	27.4	6.4	267,908	341,232	27.4
EBITDA margin (%)	48.8	49.2	50.9	50.4	51.0	220 bps	57 bps	49	51	213 bps
Other income	1,088	1,971	186	1,922	2,019	85.6	5.0	3,186	3,941	23.7
Interest	39,641	43,671	40,593	45,109	49,403	24.6	9.5	81,898	94,512	15.4
Depreciation	82,472	85,472	85,826	87,814	89,468	8.5	1.9	159,609	177,282	11.1
Share of JV/Associates	(5,988)	(6,161)	(7,136)	(1,628)	(3,567)	n.a.	n.a.	(10,935)	(5,195)	n.a.
Exceptional	(7,221)	(398)	(9,062)	0	0	n.a.	n.a.	(7,526)	0	n.a.
PBT	30,289	26,415	50,368	35,921	42,653	40.8	18.7	48,048	78,574	63.5
Tax	10,308	9,908	13,218	11,233	12,864	24.8	14.5	18,653	24,097	29.2
Profit from discontinued ops	0	0	0	0	0	n.a.	n.a.	0	0	n.a.
Reported PAT	19,981	16,507	37,150	24,688	29,789	49.1	20.7	29,395	54,477	85.3
Adj. PAT	12,760	16,109	28,088	24,688	29,789	133.5	20.7	21,869	54,477	149.1
FDEPS (Rs)	0.7	0.6	1.2	0.8	1.0	49.1	20.7	1.0	1.8	85.3

## Exhibit 3: Earnings snapshot - Standalone

(Rs mn)	2QFY22	3QFY22	4QFY22	1QFY22	2QFY23	y/y(%)	q/q(%)	1HFY22	1HFY23	y/y(%)
Net Revenue	198,904	209,127	225,004	233,189	243,333	22.3	4.3	387,188	476,522	23.1
Expenditure	100,328	105,060	110,643	114,372	117,277	16.9	2.5	195,878	231,649	18.3
Operating profit	98,576	104,067	114,361	118,817	126,056	27.9	6.1	191,310	244,873	28.0
EBITDA margin (%)	49.6	49.8	50.8	51.0	51.8	224 bps	85 bps	49.4	51.4	198bps
Interest	24,432	25,821	27,154	32,819	35,441	45.1	8.0	55,821	68,260	22.3
Depreciation	68,478	70,872	72,166	73,046	73,696	7.6	0.9	132,248	146,741	11.0
Exceptional	-	-	-	-	-	-	-	-	-	n.a.
PBT	5,665	7,374	15,041	12,953	16,919	198.6	30.6	3,241	29,872	821.6
Tax	416	976	3,857	1,877	4,085	882.0	117.6	(376)	5,963	n.a.
Reported PAT	5,249	6,398	11,184	11,075	12,834	144.5	15.9	3,617	23,909	561.0
Adj. PAT	5,249	6,398	11,184	11,075	12,834	144.5	15.9	3,617	23,909	561.0
Operating Cashflow	40,583	57,529	71,594	65,937	69,217	70.6	5.0	76,182	135,154	77.4
Capex	57,993	46,538	42,767	52,880	56,840	(2.0)	7.5	115,128.2	109,719.3	(4.7)

## Exhibit 4: Segmental highlights

	Units	2QFY22	3QFY22	4QFY22	1QFY22	2QFY23	y/y(%)	q/q(%)	1HFY22	1HFY23	y/y(%)
<b>India Mobile Business</b>											
Revenue	Rs mn	151,914	160,917	176,168	182,200	189,576	24.8	4.0	294,969	371,777	26.0
EBITDA	Rs mn	74,679	79,434	89,215	93,281	99,258	32.9	6.4	145,014	192,539	32.8
Ebitda mgn	%	49.2	49.4	50.6	51.2	52.4	320bps	116bps	49.2	51.8	263bps
Op. CF	Rs mn	28,386	49,700	63,038	56,336	60,150	111.9	6.8	54,977	116,486	111.9
Capex	Rs mn	46,293	29,734	26,178	36,945	39,107	(15.5)	5.9	90,037	76,053	(15.5)
Subscribers	mn	323	323	326	327	328	1.3	0.15	322	328	1.6
ARPU	Rs/sub	153	163	178	183	190	23.8	3.7	150	187	24.6
<b>Home Services</b>											
Revenue	Rs mn	7,127	7,969	8,762	9,265	9,898	38.9	6.8	13,659	19,163	40.3
EBITDA	Rs mn	3,779	4,358	4,774	4,927	4,983	31.9	1.1	7,008	9,910	41.4
Ebitda mgn	%	53.0	54.7	54.5	53.2	50.3	268bps	284bps	51.3	51.7	41bps
Op.CF	Rs mn	279	295	(194)	(1,677)	(903)	n.a.	n.a.	(383)	(2,580)	n.a.
Capex	Rs mn	3,500	4,062	4,968	6,604	5,886	68.2	(10.9)	7,392	12,490	69.0
Subscribers	mn	3.8	4.2	4.5	4.8	5.2	36.4	8.7	4	5	39.5
ARPU	Rs/sub	661	657	650	652	646	(2.3)	(0.9)	671	649	(3.3)
<b>Digital TV Services</b>											
Revenue	Rs mn	7,979	7,912	7,552	7,482	7,288	(8.7)	(2.6)	16,074	14,770	(8.1)
EBITDA	Rs mn	5,314	5,319	4,952	4,779	4,352	(18.1)	(8.9)	10,735	9,131	(14.9)
Ebitda mgn	%	66.6	67.2	65.6	63.9	59.7	690bps	417bps	66.8	61.8	497bps
Op CF	Rs mn	2,736	945	1,809	2,310	1,298	(52.6)	(43.8)	5,225	3,608	(31.0)
Capex	Rs mn	2,579	4,374	3,143	2,470	3,054	18.4	23.6	5,510	5,523	0.2
Subscribers	mn	18.0	18.1	17.6	17.4	15.8	(12.3)	(9.5)	18	17	(7.8)
ARPU	Rs/sub	148	146	142	143	155	4.8	8.7	149	149	(0.3)
<b>Airtel Business</b>											
Revenue	Rs mn	39,953	41,059	41,798	43,656	46,646	16.8	6.8	77,846	90,302	16.0
EBITDA	Rs mn	15,922	15,824	16,451	17,011	18,293	14.9	7.5	30,607	35,305	15.3
Ebitda mgn	%	39.9	38.5	39.4	39.0	39.2	-63bps	25bps	39.3	39.1	-22bps
Op. CF	Rs mn	10,301	7,456	7,973	10,150	9,501	(7.8)	(6.4)	18,418	19,651	6.7
Capex	Rs mn	5,622	8,368	8,478	6,861	8,792	56.4	28.2	12,189	15,653	28.4
<b>South Asia</b>											
Revenue	Rs mn	958	975	984	667	695	(27.5)	4.2	1,909	1,362	(28.7)
EBITDA	Rs mn	(141)	(209)	(160)	(108)	(141)	n.a.	n.a.	(252)	(249)	n.a.
Ebitda mgn	%	-14.8	-21.4	-16.3	-16.2	-20.3	550bps	405bps	-13.2	-18.3	507bps
Capex	Rs mn	1,414	512	388	221	130	(90.8)	(41.3)	2,392	351	(85.3)
Op CF	Rs mn	(1,555)	(721)	(548)	(329)	(271)	n.a.	n.a.	(2,644)	(600)	n.a.
Subscribers	mn	2.8	2.9	2.9	2.9	3.0	5.9	2.7	2.80	2.92	4.3

	Units	2QFY22	3QFY22	4QFY22	1QFY22	2QFY23	y/y(%)	q/q(%)	1HFY22	1HFY23	y/y(%)
<b>Africa</b>											
Revenue	Rs mn	85,916	91,053	91,871	97,021	104,452	21.6	7.7	167,689	201,473	20.1
EBITDA	Rs mn	41,743	45,190	45,865	47,381	51,252	22.8	8.2	81,016	98,633	21.7
Ebitda mgn	%	48.6	49.6	49.9	48.8	49.1	48bps	23bps	48.3	49.0	64bps
Op. CF	Rs mn	31,428	31,225	29,049	36,501	37,752	20.1	3.4	62,906	74,253	18.0
Capex	Rs mn	10,315	13,965	16,816	10,880	13,500	30.9	24.1	18,110	24,380	34.6
Subscribers	mn	123	126	128	132	135	9.7	2.4	122	133	9.3
ARPU	USD	3.1	3.3	3.2	2.90	3.10	(1.2)	6.9	3.1	3.0	(3.6)

## CON-CALL HIGHLIGHTS

- SUC benefit stemming from telecom sector reforms helped improve Ebitda margin
- 5G spectrum auction optically increased debt levels, while deleveraging continues
- Instituted prudent measures for cost control and reduction of wasteful expenditure
- EBITDA margin improved on SUC reforms and cost optimization
- S. Asia and India, RoCE is at 8%, which is low and tariff correction is needed to restore RoCE commensurate to risk involved in the business
- Customer stickiness and premiumization key pillars of strategy
- Payments banks has crossed 50mn monthly users, and clocked USD 25 bn as annualized GMV, which translates into annual revenue run rate of Rs 12.33bn
- Digital services clocked in annualized revenue of Rs 9.6bn; business built on three parts: 1) underlying digital infrastructure including data infrastructure 2) digital experience layer and 3) digital services layers
- Airtel Business: registered strong sequential growth, largest listed B2B player in the space, gained revenue market share in the business. Emerging business solution such as C PASS, Security, Data Center and IOT are key value propositions
- Homes: Broadband continued to grow, present in 1060 cities along with LCOs; total customer base of 217000 customers.
- DTH business saw a decline of 2.6%; deployed strategy to double down in largest cable market of South India, Maharashtra and Bengal, simplified pricing and focus on high value market; streamlined definition of customer, customer has to give revenue in rolling 30 day period to be recognized as customer
- Up-trading, feature to smart phone, data monetization based on digital capabilities, users buying extra data when allowance runs out, lead to approved ARPU of Rs 190.
- 5mn 4G net additions also paved way for stronger ARPU
- Leaders in post paid segment
- Overall premiumization strategy in every segment ; aiming multiple engagement points with customers to improve stickiness.
- Advantage of Airtel 5G is that it works seamless across device ecosystem
- Xiami, Oppo, Vivo , Real MI are ready, One plus and Samsung to be fully ready in few days, Apple to be ready by mid Nov'22 to early Dec'22
- With Anchor band riding on underlying 4G layer, 5G provides additional 100 meters coverage
- NSA deployed by Airtel is more power efficient
- By Mar 24 aims to cover all towns and key rural areas
- As network grows more data would move to 5 G
- Airtel has also started testing SA mode of 5G which could be relevant for enterprise solutions
- Testing millimetre wave spectrum for fixed wireless access
- Use cases are still nascent, however in future use cases could span across experiential education using virtual reality, connected ambulance, productivity enhancement in manufacturing, industrial and agriculture segment
- In last 10 years population coverage has improved from 87% to 96% with still more headroom to growth
- 40% of 4G net adds coming from rural areas

# Bharti Airtel Ltd

- Looking to bridge coverage gaps vis a vis market leader
- Airtel has built low cost sites in rural areas to expand coverage and drive profitability
- Revenue and profitability being monitored across every tower location
- Market share: Has grown market share, scope for growth is there; rural market is an opportunity to close gap with number one player. Strategy based on customer premiumization and stickiness. Airtel's 5G technology would work on every device, 16 models (out of 27 model) of Samsung are ready, rest to ready by 10-12 Nov'22., One Plus all 17 models are ready; Vivo all 34 models are ready and Real Me all 24 models are ready to work on Airtel's network. Xiomi 23 and Oppo's 14models will work on Airtel. Apple has 13 models which should be ready by Mid Dec. Competition experimenting with new tech would not have similar advantage of readiness, which provides Airtel a window of opportunity
- Cash Usage: Would continue to pare down the debt, prepayment would be undertaken where necessary. Rolling out of 5G and rural focus could see elevation of capex as well as advancement of capex from FY24-25 to FY23-24
- 8.5% of return on capital is pretty low, and doesn't justify the investment in infrastructure, therefore reform in tariff is needed
- Subscriber growth trend: Pressure on semiconductor availability and prices, which has pushed up smart phone prices. The entry level smart phone prices have gone up from Rs 6000 to almost Rs 9000 which has limited the ability to switch from feature to smart phone on part of economically challenged consumers. Some improvement seen in 4G addition but scope for further improvement
- Key Risks: Supplies of equipment, talent retention/attrition
- Improvement in ARPU: Improved and sophisticated understating of customer, has led to quality of customer acquisition improving, feature phone to smart phone switch, premiumization from prepaid to post-paid. Data top up and monetization also helped in the quarter.
- Data/Digital Revenue: Three stream of digital revenue a) Market based (content and financial services) b) Advertising and c) Airtel IQ (SaaS model) which solves specific problems using core stack
- SG&A: increased due to multiple market initiatives and rolling out of new outlets
- SUC pending: Next quarter to have full benefit in the range of Rs 250 cr in next quarter
- Tower addition: Unlikely to add more sites over next 2-3 years, specifically for 5G, because its not needed as of now, would only be adding leaner towers in rural areas which would be lower operating costs sites , would look for site addition in 5G when capacity addition is required after 4-5 years
- Ebitda Margins: 5G would load on additional costs on P&L, therefore looking to use renewable (solar etc) for reducing energy bills, to use efficiency and reduce channel and customer acquisition costs as well
- Customer churn is high due to churn in lower quality segment, if newer sims are available at lower prices churn rises at lower quality customer level
- IOT & M2M connections: M2M and IOT disclosed to differentiate with rest of postpaid, and includes electronic metering, large contracts , the individual ARPU would be low but the size in terms of volume is large in case of M2M. As more and more automation takes centre stage and efficiency in operations (metering , logistics etc) is needed this business would continue to grow at a rapid pace
- Vision for non-mobile business: Rs 40-50,000 cr market for C PaaS, Data Center, Cyber Security are new opportunity areas. In connectivity as well, significant opportunities exist in B2B space in Tech, Banking, IT-ITES. Home broadband is also a growing opportunity.
- Head count addition in 9M period: To onboarding of off role employees to attend to the MSME segment

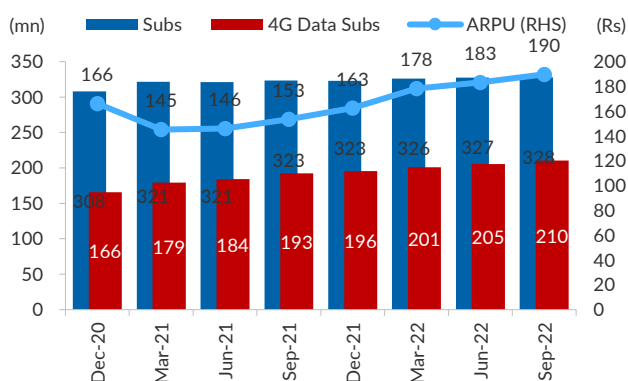
# Bharti Airtel Ltd

- Peak Capex: FY24 would see roll out of 5G and rural network and therefore there could be advancement of some capex from FY25 to FY24, annual runrate otherwise has been 23-24000 cr per year



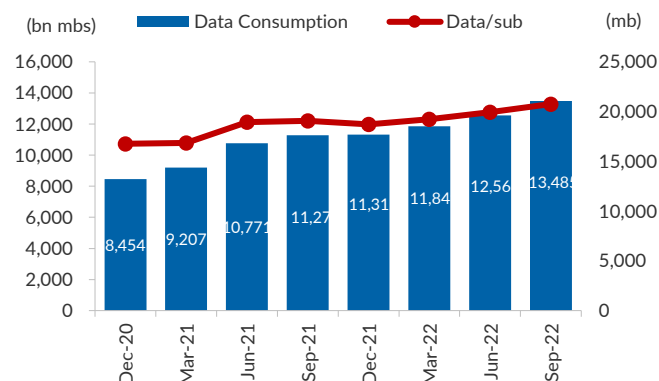
## CHARTS

**Exhibit 5: India Mobile: Wireless subscriber base improved to 328mn (+0.1% QoQ); the 4G subscriber base increased to 210mn (+2.5% QoQ)**



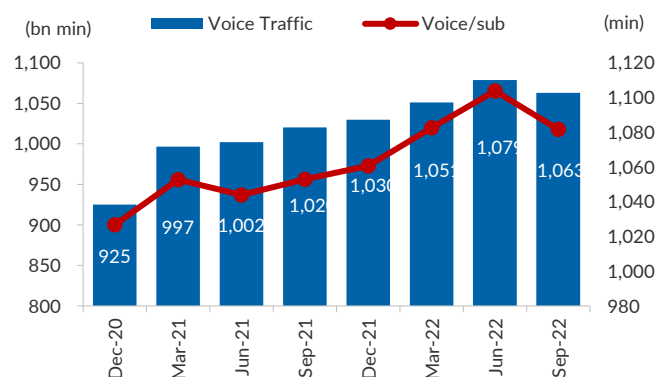
Source: Company, YES Sec - Research

**Exhibit 6: The data traffic improved by 7.4% QoQ on 4.2% QoQ higher per subscriber consumption**



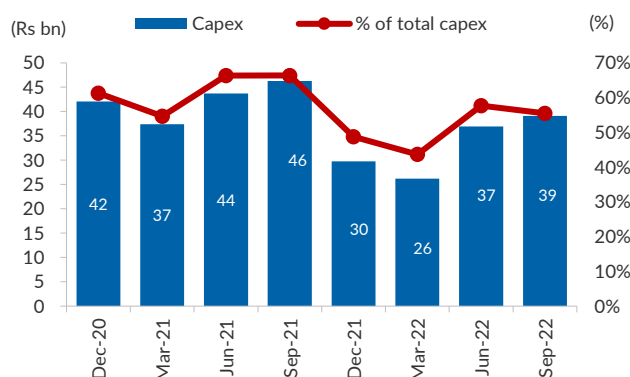
Source: Company, YES Sec - Research

**Exhibit 7: Voice traffic declined by 1.5% QoQ with usage per sub declining as well by 2%**



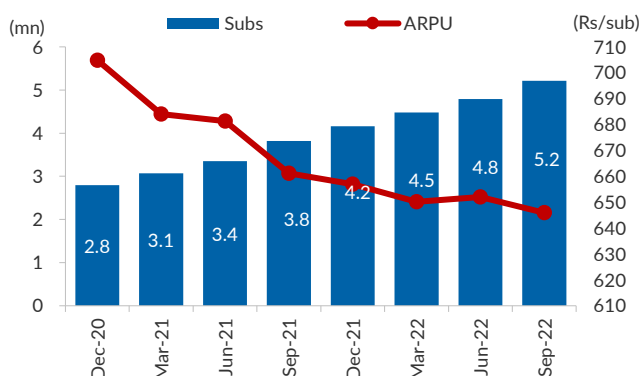
Source: Company, YES Sec - Research

**Exhibit 8: Capex during the quarter stood QoQ 6% higher at Rs 39.1bn**



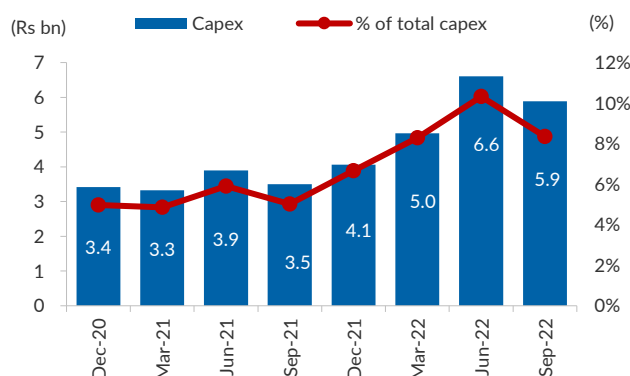
Source: Company, YES Sec - Research

**Exhibit 9: Home broadband subscriber base increased to 5.21mn (+8.7% QoQ). ARPU however stood QoQ lower at Rs 646 (1Q: Rs 652)**



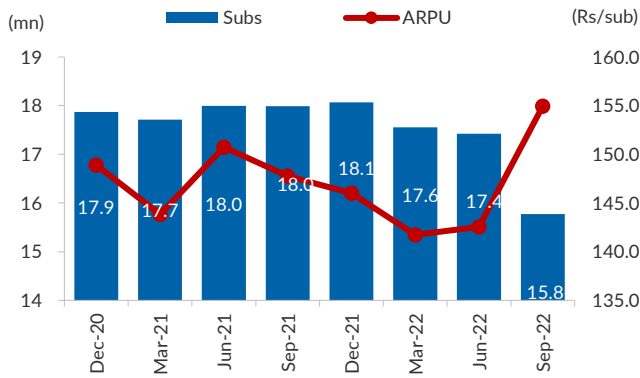
Source: Company, YES Sec - Research

**Exhibit 10: Capex in the home broadband segment stood at 5.9bn, sequentially lower by 11%**



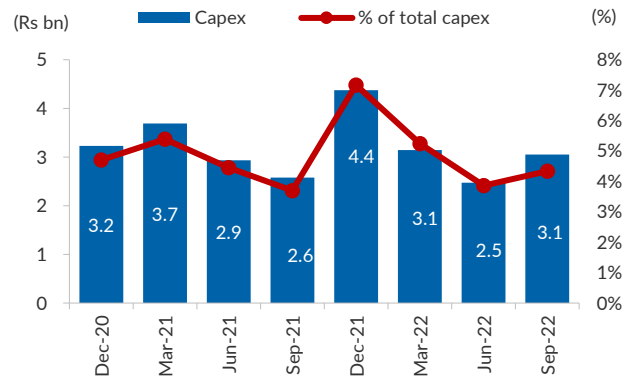
Source: Company, YES Sec - Research

**Exhibit 11: Digital TV subscriber base stood lower by 9.5% QoQ lower at 15.8mn; ARPU at 155 (+8.7% QoQ)**



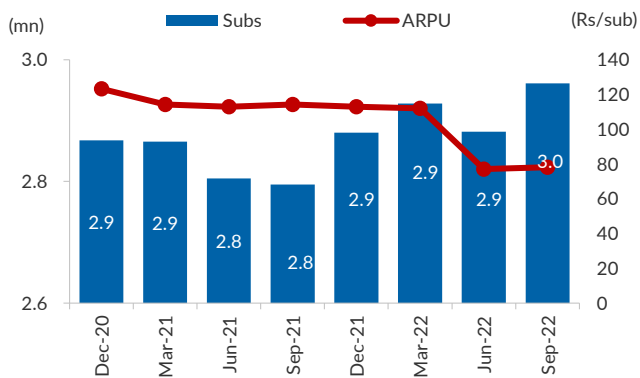
Source: Company, YES Sec - Research

**Exhibit 12: The capex in the Digital TV segment stood 24% QoQ higher at Rs 3.05bn**



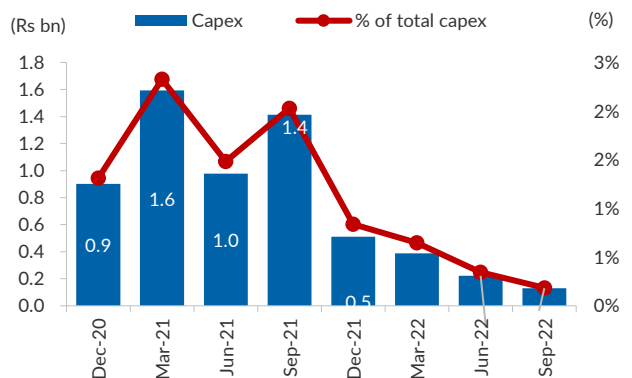
Source: Company, YES Sec - Research

**Exhibit 13: South Asia: subscriber base improved QoQ to 2.96mn; ARPU also stood flat at 78**



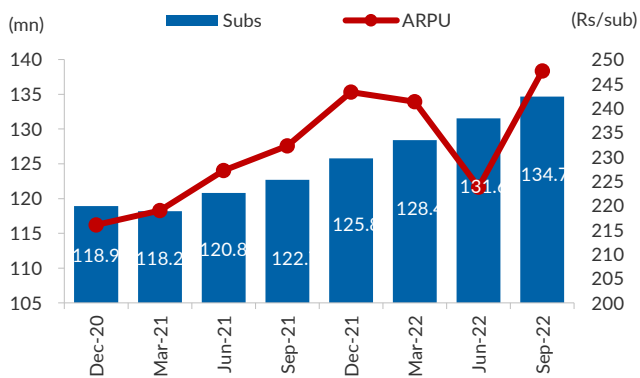
Source: Company, YES Sec - Research

**Exhibit 14: Capex in S. Asia stood QoQ lower at 0.13bn**



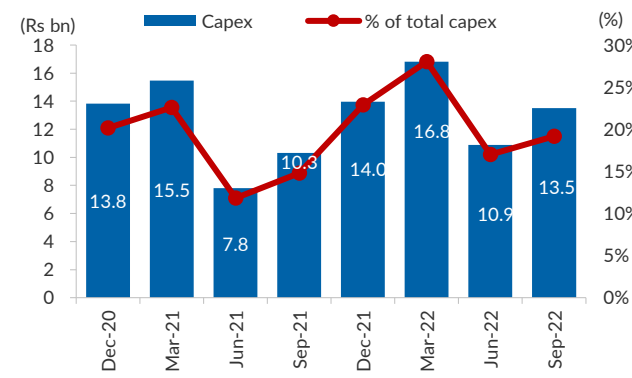
Source: Company, YES Sec - Research

**Exhibit 15: Africa buss. had QoQ increase in subscriber base to 135mn; ARPU stood higher at Rs 248**



Source: Company, YES Sec - Research

**Exhibit 16: Africa had a QoQ higher capex of Rs 13.5bn**



Source: Company, YES Sec - Research

## VIEW & VALUATION

### BUY with a TP of Rs 930/sh.

We value BHARTI on SOTP basis at Rs 930/sh, implying a target EV/EBITDA multiple of 7.7x FY25e, vs 6.2x as implied by CMP. We estimate an operating earnings CAGR (FY22-25e) of 15%, backed by expectations of continual subscriber gain and ARPU improvement.

### Exhibit 17: Valuation table

	EBITDA (Rsmn)	EV (Rs mn)	Multiple	Rs /sh
<b>India</b>				
Mobile Services	498,687	3,490,808	7	636
Homes Services	41,185	288,292	7	52
Digital TV Services	31,725	190,352	6	35
Airtel Business	123,751	866,259	7	158
<b>Africa</b>				
	238,322	1,429,932	6	260
<b>South Asia</b>				
	(629)	(3,147)	5	(1)
<b>Total EV</b>		<b>6,262,496</b>		<b>1,140</b>
Debt		2,033,809		370
Cash & Eq		868,922		158
<b>Equity</b>		<b>5,097,609</b>		<b>928</b>

## Exhibit 18: Key Assumptions

	Unit	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e	FY25e
<b>India Subscriber Base</b>										
Mobile Services	mn	263.8	290.8	311.0	281.8	300.7	328.7	333.6	338.8	328.7
Homes Services*	mn	2.1	2.2	2.2	2.4	2.7	5.3	6.3	7.3	5.3
Digital TV Services	mn	12.5	13.7	15.0	16.3	17.5	17.3	22.5	28.5	17.3
Airtel Business*	mn	1.7	1.7	1.8	5.7	7.3	14.8	16.9	19.5	14.8
<b>India ARPU</b>										
Mobile Services	Rs/sub	178.3	133.6	108.0	136.5	157.6	160.1	188.3	211.5	217.7
Homes Services*	Rs/sub	1112.9	978.3	841.9	797.4	740.0	670.7	671.4	680.0	680.0
Digital TV Services	Rs/sub	230.5	230.8	230.8	151.2	147.1	146.6	142.2	140.0	140.0
Airtel Business*	Rs/sub	5304.6	5404.2	5786.4	2828.7	1681.4	1416.7	1126.0	1110.0	1110.0
<b>Africa</b>										
Subscriber	mn	78.9	83.8	95.5	105.3	116.2	124.4	135.9	147.2	159.4
ARPU	USD/sub	3.5	3.2	2.7	2.7	2.8	3.2	3.3	3.3	3.3
<b>South Asia</b>										
Subscriber	mn	5.5	2.1	2.5	2.8	2.9	2.9	3.0	3.1	3.2
ARPU	Rs/sub	152.8	165.2	153.4	136.7	123.3	113.3	78.9	80.0	80.0

## FINANCIALS

### Exhibit 19: Income statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Revenue</b>	836,879	807,802	862,315	1,006,158	1,165,469	1,385,229	1,570,684	1,696,303
Total Expense	536,088	549,775	508,263	552,441	590,130	694,095	765,847	817,100
<b>Operating Profit</b>	<b>300,791</b>	<b>258,027</b>	<b>354,052</b>	<b>453,717</b>	<b>575,339</b>	<b>691,134</b>	<b>804,837</b>	<b>879,203</b>
Other Income	17,476	20,835	17,676	6,428	5,343	6,206	6,516	6,842
Depreciation	192,431	213,475	273,731	294,044	330,907	358,129	371,124	384,315
<b>EBIT</b>	<b>125,836</b>	<b>65,387</b>	<b>97,997</b>	<b>166,101</b>	<b>249,775</b>	<b>339,210</b>	<b>440,230</b>	<b>501,729</b>
Interest	95,703	113,656	140,164	150,910	166,162	200,847	198,271	179,671
Shr of JV & Assoc.	(10,609)	(3,556)	(828)	928	(24,232)	(12,329)	(14,268)	(14,268)
Extraordinary Item	(7,931)	29,288	(400,892)	(159,145)	16,986	-	-	-
<b>PBT</b>	<b>32,670</b>	<b>(17,319)</b>	<b>(442,231)</b>	<b>(144,882)</b>	<b>124,831</b>	<b>150,692</b>	<b>256,227</b>	<b>336,327</b>
Tax	10,835	(34,193)	(124,266)	89,325	41,779	43,569	69,181	90,808
<b>PAT</b>	<b>21,835</b>	<b>16,874</b>	<b>(306,642)</b>	<b>(123,640)</b>	<b>83,052</b>	<b>107,123</b>	<b>187,046</b>	<b>245,519</b>
Adj. PAT	29,766	(12,414)	94,250	35,505	66,066	107,123	187,046	245,519
<b>Pat attributable</b>	<b>10,990</b>	<b>4,095</b>	<b>(321,832)</b>	<b>(150,835)</b>	<b>52,653</b>	<b>75,930</b>	<b>155,994</b>	<b>214,452</b>
EPS	4	3	(56)	(23)	15	20	34	45

### Exhibit 20: Balance sheet

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	19,987	19,987	27,278	27,460	27,950	27,950	27,950	27,950
Reserves	675,357	694,235	744,170	562,067	634,135	730,274	906,336	1,140,871
Non Controlling Interest	88,139	135,258	249,847	222,739	253,807	277,065	277,065	277,065
<b>Net worth</b>	<b>783,483</b>	<b>849,480</b>	<b>1,021,295</b>	<b>812,266</b>	<b>915,892</b>	<b>1,035,289</b>	<b>1,211,351</b>	<b>1,445,886</b>
Debt	1,113,335	1,254,283	1,482,281	1,627,852	1,696,779	2,099,889	1,939,889	1,819,889
Deferred & Current tax liab (net)	(7,666)	(69,854)	(260,852)	(190,797)	(171,516)	(175,190)	(175,190)	(175,190)
<b>Total Capital Employed</b>	<b>1,889,152</b>	<b>2,033,909</b>	<b>2,242,724</b>	<b>2,249,321</b>	<b>2,441,155</b>	<b>2,959,988</b>	<b>2,976,050</b>	<b>3,090,585</b>
Fixed assets	706,079	815,228	1,136,622	1,146,163	1,228,011	1,203,415	1,193,446	1,186,519
Intangible Assets	1,165,925	1,193,087	1,155,933	1,088,633	1,212,822	1,000,787	1,044,752	1,095,030
CWIP	97,512	96,342	42,823	57,265	59,547	59,547	59,547	59,547
Investments (Current & Non Current)	161,586	157,110	254,765	275,504	293,491	296,505	296,505	296,505
<b>Net working capital</b>	<b>(241,950)</b>	<b>(227,858)</b>	<b>(347,419)</b>	<b>(318,244)</b>	<b>(352,716)</b>	<b>399,734</b>	<b>381,799</b>	<b>452,984</b>
Inventories	693	884	1,569	2,660	3,750	3,750	3,750	3,750
Sundry debtors	58,830	43,006	46,058	36,377	40,562	80,480	90,384	97,988
Cash & Bank Balance	66,706	81,055	158,927	134,661	131,485	883,565	868,922	944,839
Other assets	219,155	275,884	519,845	496,912	446,705	473,381	473,381	473,381
Sundry creditors	277,675	280,031	250,199	278,721	292,741	355,958	369,153	381,490
Other current liabilities	309,659	348,656	823,619	710,133	682,477	685,484	685,484	685,484
<b>Application of Funds</b>	<b>1,889,152</b>	<b>2,033,909</b>	<b>2,242,724</b>	<b>2,249,321</b>	<b>2,441,155</b>	<b>2,959,988</b>	<b>2,976,050</b>	<b>3,090,585</b>

## Exhibit 21: Cash flow statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBT	32,670	(17,319)	(430,908)	(34,315)	124,831	150,692	256,227	336,327
Depreciation & amortization	192,431	213,475	273,731	294,044	330,907	358,129	371,124	384,315
Interest expense	95,703	113,656	140,164	150,910	166,162	200,847	198,271	179,671
(Inc)/Dec in working capital	25,739	(5,624)	435,006	(103,001)	107,936	(4,832)	3,291	4,733
Tax paid	(18,230)	(19,391)	(21,051)	(20,584)	(30,331)	(40,145)	(69,181)	(90,808)
Less: Interest/Dividend Income Received								
Other operating Cash Flow	64,927	15,039	(39,576)	58,282	(29,331)	(2,636)	0	0
<b>Cash flow from operating activities</b>	<b>393,241</b>	<b>299,836</b>	<b>357,365</b>	<b>345,336</b>	<b>670,174</b>	<b>662,056</b>	<b>759,732</b>	<b>814,237</b>
Capital expenditure	(271,211)	(348,616)	(504,452)	(250,727)	(539,226)	(121,499)	(405,120)	(427,665)
Inc/(Dec) in investments	(13,638)	6,574	(89,784)	116,799	31,935	(6,375)	0	0
Add: Interest/Dividend Income Received	(19,550)	(19,860)	(7,871)	(137,538)	(49,922)	3,361	0	0
<b>Cash flow from investing activities</b>	<b>(304,399)</b>	<b>(361,902)</b>	<b>(602,107)</b>	<b>(271,466)</b>	<b>(557,213)</b>	<b>(124,513)</b>	<b>(405,120)</b>	<b>(427,665)</b>
Inc/(Dec) in share capital	0	0	7,291	182	490	0	0	0
Inc/(Dec) in debt	39,054	140,948	(15,680)	138,163	29,451	403,110	(160,000)	(120,000)
Dividend Paid	(19,332)	(25,263)	0	0	(10,984)	(10,984)	(10,984)	(10,984)
Interest expense	(95,703)	(113,656)	(140,164)	(150,910)	(166,162)	(200,847)	(198,271)	(179,671)
Others	37,667	74,386	471,166	(85,571)	31,068	23,258	0	0
<b>Cash flow from financing activities</b>	<b>(38,313)</b>	<b>76,415</b>	<b>322,613</b>	<b>(98,136)</b>	<b>(116,137)</b>	<b>214,537</b>	<b>(369,255)</b>	<b>(310,655)</b>
<b>Net cash flow</b>	<b>50,529</b>	<b>14,349</b>	<b>77,872</b>	<b>(24,266)</b>	<b>(3,176)</b>	<b>752,080</b>	<b>(14,643)</b>	<b>75,917</b>
Ending Cash Balance	66,706	81,055	158,927	134,661	131,485	883,565	868,922	944,839

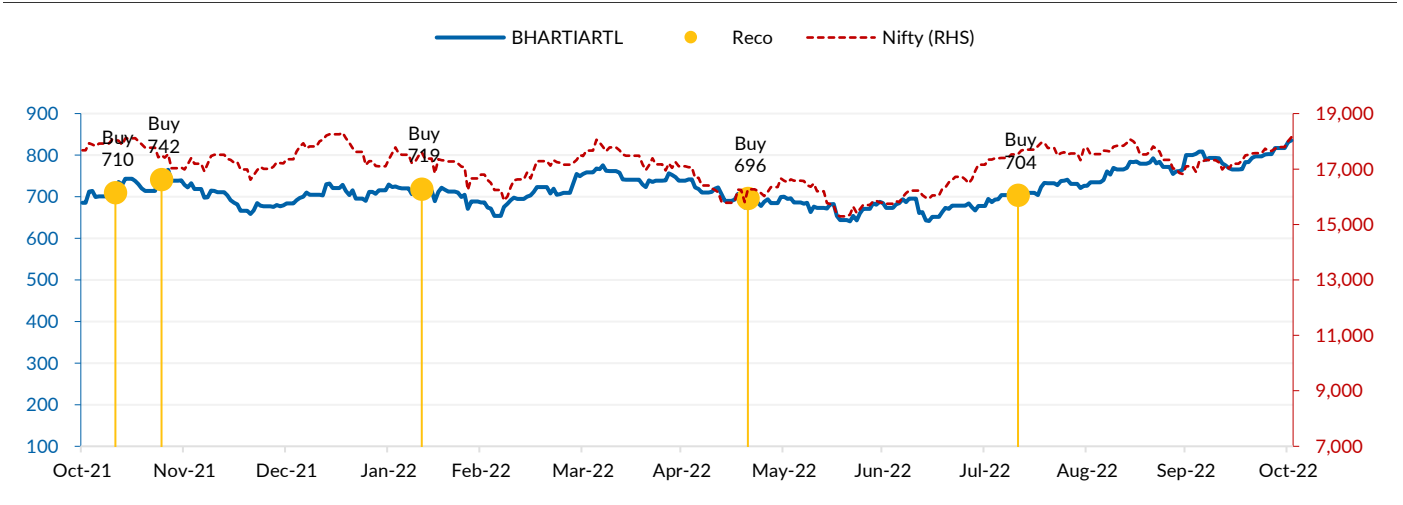
## Exhibit 22: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	0.7	(1.0)	0.7	0.9	0.7	0.7	0.7	0.7
Interest burden (x)	0.3	(0.3)	(4.5)	(0.9)	0.5	0.4	0.6	0.7
EBIT margin (x)	0.2	0.1	0.1	0.2	0.2	0.2	0.3	0.3
Asset turnover (x)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4
Financial leverage (x)	3.2	3.2	3.4	3.9	4.1	4.0	3.8	3.2
RoE (%)	2.9	2.1	(33.5)	(13.6)	9.7	11.0	16.7	18.6

## Exhibit 23: Ratio analysis

Y/e 31 Mar	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>								
Revenue growth	(12.2)	(3.4)	8.5	15.1	15.6	18.8	13.4	8.0
Op profit growth	(14.4)	(13.9)	42.4	23.8	26.2	20.1	16.3	9.2
EBIT growth	(29.3)	(57.0)	105.8	69.5	50.4	35.8	29.8	14.0
Net profit growth	(48.5)	(22.7)	n.a.	n.a.	n.a.	29.0	74.6	31.3
<b>Profitability ratios (%)</b>								
OPM	36.1	32.2	42.2	45.4	49.6	50.1	51.4	52.0
EBIT margin	13.2	5.9	11.1	16.4	21.3	24.4	27.9	29.5
Net profit margin	2.6	2.1	(34.8)	(12.2)	7.1	7.7	11.9	14.4
RoCE	6.5	2.7	4.8	7.2	10.3	12.3	14.5	16.2
RoE	2.9	2.1	(32.8)	(13.5)	9.6	11.0	16.7	18.5
RoA	0.9	0.6	(9.6)	(3.5)	2.3	2.7	4.4	5.7
<b>Per share ratios</b>								
EPS	4.0	3.1	(55.8)	(22.5)	15.1	19.5	34.1	44.7
Dividend per share	3.5	4.6	0.0	0.0	2.0	2.0	2.0	2.0
Cash EPS	39.0	41.9	(6.0)	31.0	75.4	84.7	101.6	114.7
Book value per share	142.7	154.7	186.0	147.9	166.8	188.5	220.6	263.3
<b>Valuation ratios</b>								
P/E	210.3	272.1	(15.0)	(37.1)	55.3	42.9	24.5	18.7
P/CEPS	21.4	19.9	(139.5)	26.9	11.1	9.9	8.2	7.3
P/B	5.9	5.4	4.5	5.7	5.0	4.4	3.8	3.2
EV/EBIDTA	18.4	21.9	15.5	13.1	10.6	8.3	7.0	6.2
<b>Payout (%)</b>								
Dividend payout	88.5	149.7	0.0	0.0	13.2	10.3	5.9	4.5
Tax payout	33.2	197.4	28.1	(61.7)	33.5	28.9	27.0	27.0
<b>Liquidity ratios</b>								
Debtor days	23.6	22.9	18.5	14.9	12.0	15.9	19.8	20.2
Inventory days	1.1	1.3	2.3	3.5	4.7	4.8	4.4	4.2
Creditor days	274.2	263.2	255.4	232.9	243.4	237.8	238.0	229.2

## Recommendation Tracker





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Name of the Research Analyst : Nitin Tiwari

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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**ADD:** Upside between 10% to 20% over 12 months

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