Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharti Airtel

Strong operational metrics, Maintain Buy

Telecom	Sharekhan code: BHARTIARTL		
Reco/View: Buy ↔	CMP: **Rs. 817**	Price Target: **Rs. 1,010** ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 19.61

Updated Oct 10, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 4,86,268 cr
52-week high/low:	Rs. 877 / 629
NSE volume: (No of shares)	72.8 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	267.2 cr

Shareholding (%)

Promoters	55.1
FII	21.9
DII	18.8
Others	4.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-3.6	4.2	27.1	19.3
Relative to Sensex	-2.6	1.3	9.7	12.4

Sharekhan Research, Bloomberg

Summary

- We reiterate Buy on Bharti Airtel with an unchanged PT of Rs. 1,010. The stock is our preferred pick in the telecom space on account of its industry leading ARPU, growing subscriber base coupled with increased data monetisation, and expected tariff hikes in the telecom sector. The stock trades at 10/8.7x its FY2023/FY2024E EV/EBIDTA.
- The company continued robust subscriber additions, adding 8.05 lakh subscribers as per the latest TRAI data on telecom subscribers for October. The company has also gained more revenue market share (RMS) than Reliance Jio in Q2FY2023, aided by stronger growth in the lucrative urban markets and superior monetisation of data usage.
- Steady progression of 5G rollout augurs well for the company as it aims to capture market share gains. Sector revenue is expected to increase sequentially in Q3FY2023, led by decent 4G additions and rising data usage in the festive quarter.

Bharti Airtel continued strong subscriber additions in October, adding 8.05 lakh subscribers compared to 4.12 lakh the previous month. With industry leading ARPUs of Rs. 190, the company continues to achieve greater traction in the telecom space. Africa business revenue growth, which contributes ~30% to the top line, continues to be on a strong footing and grew by 4% q-o-q in USD terms at $1,308 million for Q2FY2023. Airtel has been steadily rolling out 5G services at select locations with plans to progressively cover the entire country by March 2024. The company is well placed to capture market share gains from 5G rollout, as it has a high-value customer base and greater compatibility with leading handset makers, although mass availability of handsets would determine the pace of scalability at retail consumer level.

Robust subscriber addition: Bharti Airtel continued to add robust subscriber numbers, adding 4.12 lakh subscribers and 8.05 lakh subscribers for September and October respectively. TRAI data indicated that Airtel has widened its customer market share to 31.92% (31.8%) over the previous month. Visitor Location Register (VLR), reflecting the number of active users on a mobile network, indicated that Airtel had 98.08% of its users active on the network, which was 92.79% for Jio and 86.20% for Vodafone Idea.

Revenue market share gains: Recent financial data from TRAI indicates that Bharti Airtel has gained more revenue market share (RMS) than Reliance Jio in the fiscal second quarter, helped by a combination of stronger growth in the lucrative urban markets and superior monetisation of data usage. Higher postpaid subscriber addition and better monetisation of data usage have probably contributed to faster acceleration for Bharti Airtel in metros and 'A' circles compared to Jio. Airtel's AGR (including NLD) market share rose 83 bps sequentially to 36.3% in the September quarter. Jio's quarter revenue share gain was lower at 56 bps to 41.4%, while that of Vodafone idea slipped by 20 bps sequentially to 17.5%, as per data from TRAI.

5G rollout steady: Bharti Airtel launched its 5G services during IMC 2022 on October 1, 2022. So far, Airtel 5G Plus Service can be experienced in three airports and 11 cities. Airtel has been steadily rolling out 5G services at select locations with plans to progressively cover the entire country by March 2024. The company is well placed to capture market share gains from 5G rollout as it has a high-value customer base and greater compatibility with leading handset makers, although mass availability of handsets would determine the pace of scalability at retail consumer level.

Tariff revision initiatives: The company has embarked on a market-testing tariff in two of its circles – Haryana (B Circle) and Odisha (C Circle) by withdrawing its entry-level minimum recharge pack of Rs. 99, which used to be valid for 28 days. Now Airtel offers a Rs. 155 recharge pack, which offers unlimited voice, 1GB of data, and 300 SMS. While the revisions may not have any meaningful impact on Q3FY2023 numbers but follow-up by peers and extension of tariff revision to other circles could move the revenue needle decisively in favour of the telecom industry. With the huge capex and investment required for the 5G push, we expect the company to take tariff hikes of 8-10% each for Q4FY2023, Q4FY2024, and Q4FY2025.

Our Call

Valuation – Strong operational metrics, Maintain Buy: We reiterate Buy on Bharti Airtel with an unchanged PT of Rs. 1,010. The stock is our preferred pick in the telecom space on account of its industry leading ARPU, growing subscriber base coupled with increased data monetisation and on expectation of gradual tariff hikes in the telecom space. The stock trades at 10/8.7x its FY2023/FY2024E EV/EBIDTA.

Key Risks

Increasing competition could keep up the pressure on realisations. The decline in data volume growth and slowdown in Africa could affect revenue growth.

Valuation (Consolidated) Rs cr

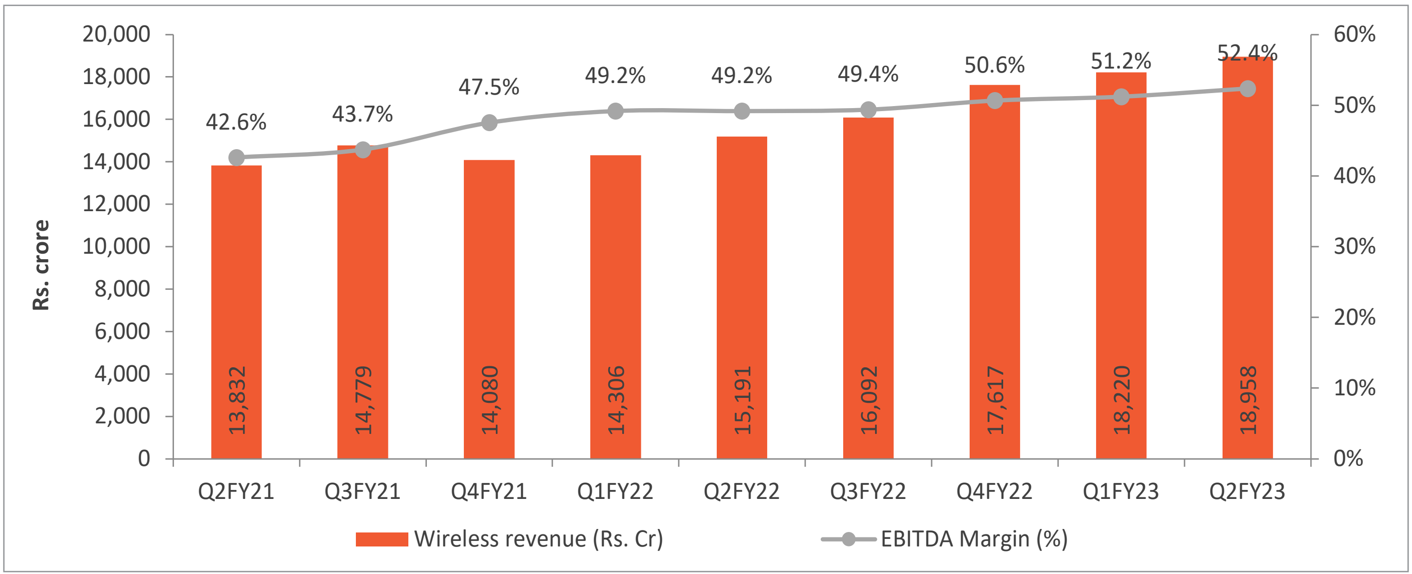
Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,00,615.8	1,16,546.9	1,39,784.6	1,57,103.9
OPM (%)	45.1	49.4	51.7	53.3
Adjusted PAT	-1,468.5	4,865.5	8,865.2	12,621.2
% YoY growth	NM	NM	82.2	42.4
Adjusted EPS (Rs.)	-2.7	7.6	12.7	18.0
P/E (x)	NM	106.6	64.3	45.1
P/B (x)	8.1	7.2	6.0	4.1
EV/EBITDA (x)	13.0	11.7	10.0	8.7
RoNW (%)	-2.0	6.3	8.2	12.2
RoCE (%)	8.3	11.5	11.9	10.9

Source: Company; Sharekhan estimates

Stock Update

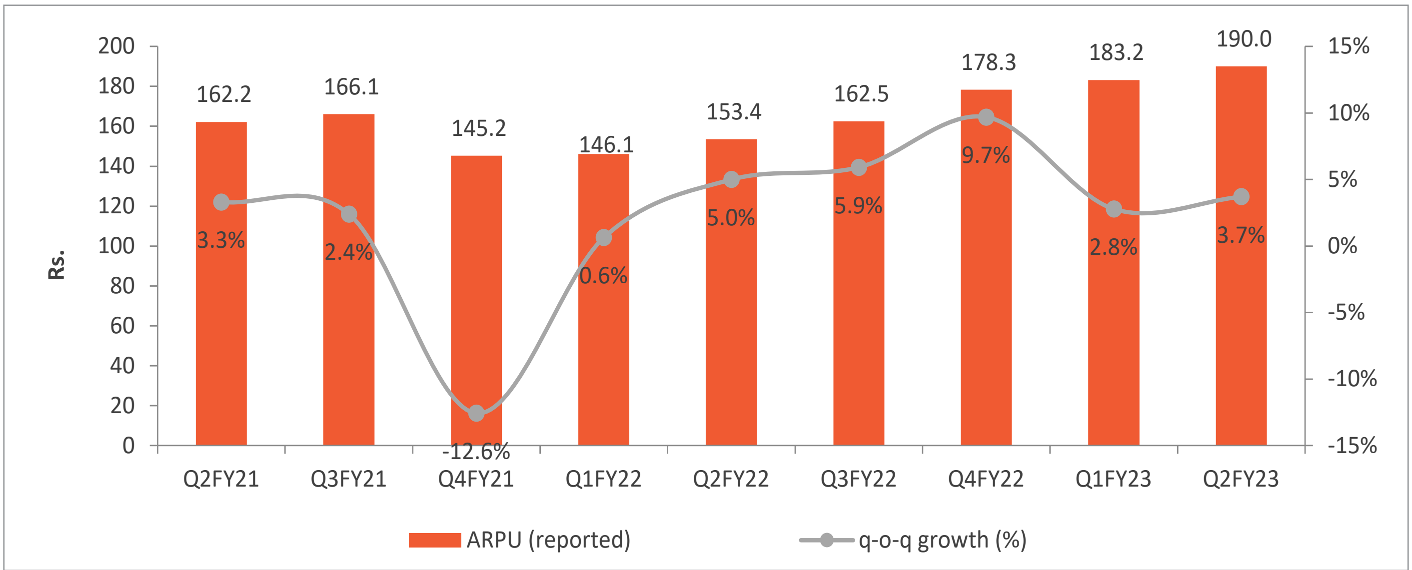
Company Update

India wireless revenue trend



Source: Company; Sharekhan Research

ARPU trend



Source: Company; Sharekhan Research

Outlook and Valuation

Sector view - Large addressable market

Reliance Jio's entry in the Indian telecom space led to reversal of pricing paradigm that benefited incumbent telecom players. After extensive consolidation, the structure of the telecom industry has changed from more than eight players to three private and one government operator now. The momentum has now shifted towards data. As smartphones are becoming more affordable, the uptake of data services is increasing. India has become the second largest telecommunications market and has the second-highest number of internet users in the world. We believe higher bundling with home entertainment, partnerships with content providers, and increasing data consumption due to work for home and online education could be major growth drivers going ahead.

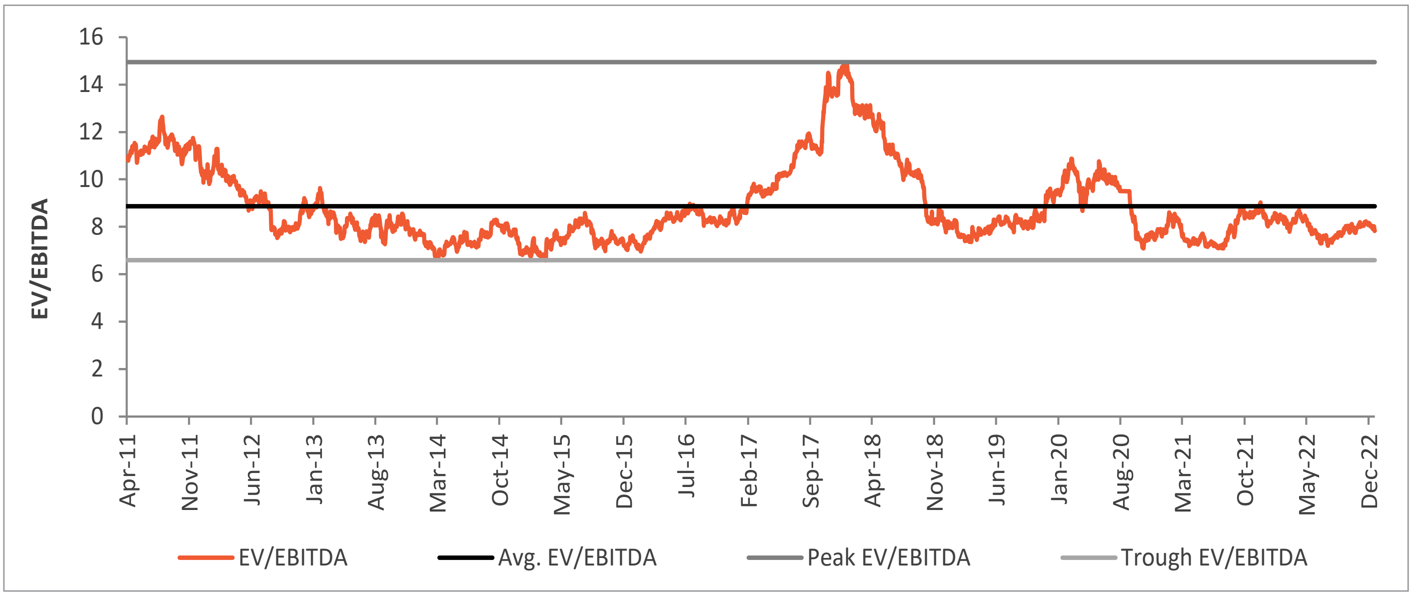
Company outlook - Better positioned to gain market share

Though Bharti Airtel will be able to withstand competition in the wireless business, we believe the company's capex will be allocated towards the non-wireless business and differentiated digital capabilities to drive its growth going ahead. Further, the company's FCF is set to improve going ahead with the recent tariff increase and better cost management. Higher digitisation would enable the company to increase monetisation of digital assets and value-added services, a reduced churn rate across verticals, and improved wallet share from subscribers. With improving cash flow generation and adequate investments in digital offerings and networks, Airtel is well placed to grow in its core business and gain market share across its portfolio going ahead.

Valuation - Strong Operational Metrics, Maintain Buy

We reiterate Buy on Bharti Airtel with an unchanged PT of Rs. 1,010. The stock is our preferred pick in the telecom space on account of its industry-leading ARPU, growing subscriber base coupled with increased data monetisation and on expectation of gradual tariff hikes in the telecom space. The stock trades at 10/8.7x its FY2023/FY2024E EV/EBIDTA.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

Established in 1995, Airtel is one of the leaders in the Indian mobile telephony space with operations in 18 countries across Asia and Africa. The company ranks among the top three mobile service providers globally in terms of subscribers. Airtel is a diversified telecom service provider offering wireless, mobile commerce, fixed line, home broadband, enterprise, and DTH services. The company expanded into Africa by acquiring Zain's Africa operations in 2010 and is present in 14 African markets. Airtel had over 485 million customers across its operations.

Investment theme

Revenue accretion from the 4G upgrade, minimum ARPU plans (rolled out across India), and recent tariff hike helped the company to report ARPU improvement. Further, the government's data localisation policies with increasing penetration of smartphones are likely to boost strong demand for data over the medium-to-long term. Despite a predatory pricing strategy from new entrants since its commercial launch in September 2016, Airtel has been resilient in sustaining its revenue market share (RMS), as it has been drastically standardising its plans to retain customers and acquiring subscribers through M&A activities. We believe the company is well poised to deliver a strong multi-year EBITDA growth phase, given recent developments in the Indian wireless industry and market repairs (tariff hike and relief from the government).

Key Risks

1) Increasing competition could pressurise realisations; and 2) Slower growth in data volumes could affect data revenue growth.

Additional Data

Key management personnel

Sunil Mittal	Chairman
Gopal Vittal	MD and CEO (India and South Asia)
Raghunath Mandava	CEO (Africa)
Soumen Ray	Chief Financial Officer
Pankaj Tewari	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	LIC New Endowment Plus	4.17
2	ICICI Prudential Asset Management	2.82
3	Capital Group Companies	2.80
4	SBI Funds Management Private Limited	2.65
5	Europacific growth fund	1.90
6	Republic of Singapore	1.61
7	The Vanguard Group Inc.	1.35
8	BlackRock Inc.	1.33
9	ICICI Prudential Life Insurance Co.	1.08
10	Government Pension Fund	1.07

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.