Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Bharti Airtel Ltd

In-line Q3, Maintain Buy

Telecom	Sharekhan code: BHARTIARTL
Reco/View: Buy ↔	CMP: Rs. 775 / 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 Dec 08, 2022

Low Risk

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

Source: Morningstar

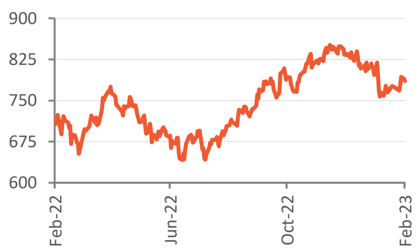
Company details

Market cap:	Rs. 4,61,704 cr
52-week high/low:	Rs. 877 / 629
NSE volume: (No of shares)	71.9 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	267.3 cr

Shareholding (%)

Promoters	55.1
FII	21.7
DII	19.0
Others	4.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.7	-5.8	10.0	9.3
Relative to Sensex	-4.0	-4.9	7.0	4.4

Sharekhan Research, Bloomberg

Summary

- Bharti Airtel reported consolidated revenue of Rs. 35,804 crore, up 19.9% y-o-y (beating our estimates by 1.3%), backed by strong and consistent performance delivery across the portfolio. EBITDA margin improved to 51.5% (up ~230 bps y-o-y/~60bps q-o-q), slightly lower than our estimates of 51.7%.
- Mobile services India revenues up 20.8% y-o-y, led by continued 4G customer addition and increase in ARPU. Mobile ARPU increased to Rs 193 in Q3FY23 vs Rs 163 in Q3FY22 was slightly below street expectations. Mobile data consumption up by 22.5% y-o-y and consumption per customer was at 20.3 GB per month. 4G data customers were up 21.2 mn y-o-y/6.4 mn q-o-q
- Management expressed satisfaction to see lower churn than expected after hiking the entry-level tariff plan in two circles initially and, hence, it has rolled the plan in additional circles. Capex is expected to be elevated given the 5G and rural rollout.
- We continue to prefer Bharti Airtel, given the company's industry-leading ARPUs, growing 4G subscriber mix, healthy network capacity, and strong free cash flow (FCF) generation. Hence, we maintain Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,010.

Bharti Airtel (Airtel) reported strong revenue growth for Q3FY23, at Rs 35,804 crore, up 3.7 q-o-q /19.9%, y-o-y beating our estimates led by strong and consistent performance delivery across the portfolio EBITDA margin improved to 51.5% (up ~230 bps y-o-y/~60bps q-o-q).was slightly lower than our estimates of 51.7%. Adjusted net profit stood at Rs. 1,588 crore (up 96.7% y-o-y) and was impacted by an exceptional charge of Rs. 669.8 crore. The exceptional charge of Rs. 669.8 crore was on account of provision for licence fee related to earlier periods in one of the group's wholly owned subsidiaries. EBITDA margin at 51%, up ~60 bps, also beat our estimates. Revenue of Mobile services India revenues up 20.8% y-o-y, led by continued 4G customer addition and increase in ARPU. Mobile ARPU increased to Rs. 193 in Q3FY23 vs Rs. 163 in Q3FY22, slightly below street's expectations. Mobile data consumption was up 22.5% y-o-y and consumption per customer stood at 20.3 GB per month. 4G data customers increased by 21.2 mn y-o-y and 6.4 mn q-o-q, 65% of the overall mobile customer base. Africa business reported revenue growth of 3.4% q-o-q (versus 2.8% q-o-q in Q1FY2023) in USD terms at $1,350 million. EBITDA margin was at 49.1% for the quarter, down 70 bps q-o-q. Management said they are looking at 5G to act as a lever and a pivot to really drive core growth. Management stated 5G is now live in 70 cities and will be live in about 300 cities by March 2023 and would look at covering all of them by March 2024. We continue to prefer Bharti Airtel, given the company's industry-leading ARPUs, growing 4G subscriber mix, healthy network capacity, and strong free cash flow (FCF) generation. Hence, we maintain Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,010.

Key positives

- ARPU rose to Rs. 193 from Rs 190 due to upgradation of customers from feature to smartphones and premiumisation.
- 4G data customers increased by 21.2 million y-o-y/6.4 million q-o-q.
- Airtel Business revenues increased by 16.4% y-o-y, backed by robust demand for data and connectivity-related solutions as well as emerging adjacencies.

Key negatives

- Capex rose sharply to Rs. 9,313.6 crore in Q3FY23 from Rs. 7,046.9 crore, up 32% q-o-q.
- Return on capital employed (annualised) declined to 11.9% from 12.3% q-o-q.

Management Commentary

- Management commented that entry-level pricing hike had been undertaken to simplify the portfolio. The company also expressed satisfaction to see lower churn than expected from the move and, hence, it has rolled the plan in additional circles.
- Management stated that 5G is now live in 70 cities and will be live in about 300 cities by March 2023 and would look at covering all of them by March 2024.
- The company stated capex is elevated due to 5G and rural rollout. Further, commenting on the increase in capex this quarter, management said that although capex may appear to be elevated in a particular quarter going forward, when observed over a longer time period, it would be stable.

Revision in estimates – We have fine-tuned FY2024-FY2025 EBITDA estimates, while we have increased PAT estimates to reflect lower depreciation assumptions.

Our Call

Valuation – In-line Q3, Maintain BUY: We continue to prefer Bharti Airtel, given the company's industry-leading ARPUs, growing 4G subscriber mix, healthy network capacity, and strong free cash flow (FCF) generation. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,010. At the CMP, the stock is trading at a reasonable valuation of 9.8x/8.4x its FY2023E/FY2024E EV/EBITDA.

Key Risks

Increasing competition could keep up the pressure on realisations. Continued decline in data volume growth could affect revenue growth. Slowdown in Africa operations could affect its revenue growth.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	1,00,615.8	1,16,546.9	1,39,630.4	1,54,783.9
OPM (%)	45.1	49.4	51.2	53.5
Adjusted PAT	-1,468.5	4,865.5	8,984.6	14,211.2
% Y-o-y growth	*NM*	*NM*	*84.7*	*58.2*
Adjusted EPS (Rs.)	-2.7	7.6	12.6	19.9
P/E (x)	NM	101.6	61.5	38.9
P/B (x)	7.7	6.9	5.9	4.2
EV/EBITDA (x)	12.5	11.3	9.8	8.4
RoNW (%)	-2.0	6.3	8.5	14.6
RoCE (%)	8.3	11.5	12.0	11.7

Source: Company; Sharekhan estimates

Key result highlights

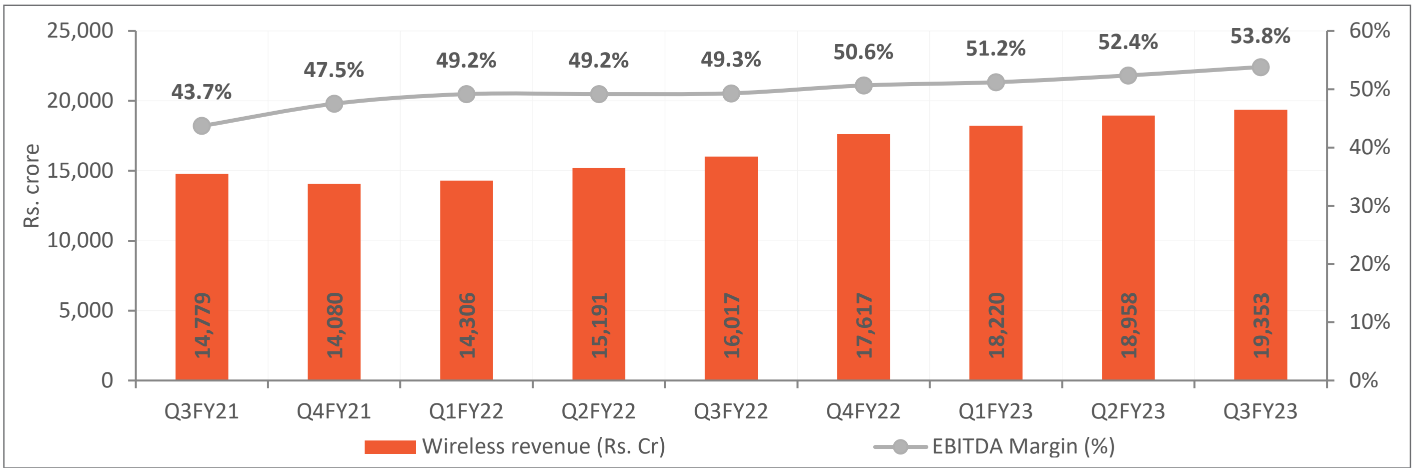
- **Africa business:** Africa business reported revenue growth of 3.4% q-o-q (versus 2.8% q-o-q in Q1FY2023) in USD terms at $1,350 million. EBITDA margin was at 49.1% for the quarter, down 70 bps q-o-q. Africa business generated operating FCF of $551 million, up 11.5% q-o-q.
- **Strong performance from India wireless business:** Revenue of India wireless business grew by 4% q-o-q and 20.8% y-o-y/2.8% q-o-q to Rs. 19,353 crore, led by continued 4G customer addition and increased ARPU. 4G data customers were up 21.2 million y-o-y/6.4 million q-o-q in Q3FY23, forming 65% of the overall mobile customer base. The company has added around 18.9 million subscribers in the postpaid segment. Overall, customer net additions came at 0.4 million q-o-q, while churn ratio declined to 3.0% from 3.3% q-o-q. ARPU grew by 1.6% q-o-q to Rs. 193 due to upgradation of customers from feature to smartphones, prepaid to postpaid, premiumization, and the company's ability to win quality customers. EBITDA margin of India wireless business improved by 144 bps q-o-q basis to 53.9%, while EBITDA increased by 4.9% q-o-q. Overall data usage on the network was up 2.7% q-o-q/22.5% y-o-y, while usage per customer grew by 0.1% q-o-q (up 11% y-o-y) to 20.8GB per subscriber. Voice traffic improved to 1,081 billion minutes from 1063 billion minutes q-o-q.
- **Growth momentum continued for the Enterprise business:** Airtel Business revenues was up by 16.4% YoY, backed by robust demand for data and connectivity-related solutions as well as emerging adjacencies, driven by demand for connectivity, communication platform as a service (CPaaS) across global and domestic businesses, IoT, cybersecurity, cloud, and data centres. EBITDA stood at Rs. 19,050 million during the quarter as compared to Rs. 15,641 million in the corresponding quarter last year (22% y-o-y growth). EBITDA margin stood at 39.9% in the current quarter, as compared to 38.1% in the corresponding quarter last year.
- **5G rollout timelines:** Management is looking at 5G to act as a lever and a pivot to really drive core space growth. Management stated that 5G is now live in 70 cities and will be live in about 300 cities by March 2023 and would look at covering all of them by March 2024.
- **Growth in home broadband business to continue:** Homes business segment continued its strong momentum and delivered a revenue growth of 29.8% YoY, on the back of growing need for reliable and consistent broadband in India. The company added 4,32,000 customers during the quarter to reach a total base of 5.6 million. The company continues to accelerate our rollouts on the back of innovative asset light local cable operator partnership model and are now live in 1,140 cities through this model. Revenue from home broadband grew by 30% y-o-y, led by strong 26.6% y-o-y growth in subscriber addition.
- **Digital TV:** Digital TV customer base at 16 mn in Q3FY23, healthy growth over Q2FY23: Digital TV business added 2,14,000 customers – highest in the last eight quarters in a challenging industry on account of the company's strategy of simplified pricing and differentiated converged experience to win high-value customers. Focus on high-value channels and quality acquisitions has yielded customer gains, leading to an overall base of 16 million at the end of the quarter. Revenue from Digital TV Services business declined by 7% y-o-y, led by a 4.2% decline in ARPU.
- **Capex and FCF:** Capex rose sharply to Rs. 9,313.6 crore in Q3FY23 from Rs. 7,046.9 crore, up 32% q-o-q. Operating FCF declined by 13% q-o-q to Rs. 9,287.2 crore. Net debt to annualised EBITDA (including the impact of leases) decreased to 2.82x in Q3FY2023 from 2.96x in Q2FY2023. Commenting on the increase in capex this quarter, the company said that although capex may appear to be elevated in a particular quarter, it will be stable over longer time period.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
Net Sales	**35,804.4**	**29,866.6**	**19.9**	**34,526.8**	**3.7**
License fees & Spectrum charges	2,842.1	2,729.8	4.1	2,951.1	-3.7
Employee expenses	1,235.3	1,133.6	9.0	1,208.6	2.2
Access & Inter-Connection Charges	1,935.2	1,723.2	12.3	1,931.0	0.2
Network Operating Expenses	7,328.4	6,498.6	12.8	7,130.3	2.8
Other Expenses	2,098.4	1,636.1	28.3	1,929.7	8.7
Operating Profit	**18,453.2**	**14,702.8**	**25.5**	**17,593.8**	**4.9**
Net Finance Charges (Including Exchange Fluctuation)	4,685.6	4,367.1	7.3	4,940.3	-5.2
Depreciation & Amortisation	9,297.7	8,547.2	8.8	8,946.8	3.9
Tax Expense	1,075.6	990.8	8.6	1,286.4	-16.4
Reported Net Income	**1,588.2**	**829.6**	**91.4**	**2,145.2**	**-26.0**
Adjusted Net Income	**1,588.2**	**807.3**	**96.7**	**2,145.2**	**-26.0**
EPS (Rs.)	2.2	1.3	74.0	3.1	-27.3
Margin (%)					
OPM	51.5	49.2	231	51.0	58
NPM (Adj.)	4.4	2.7	173	6.2	-178
Tax rate	26.5	48.9	-2,241	32.9	-640

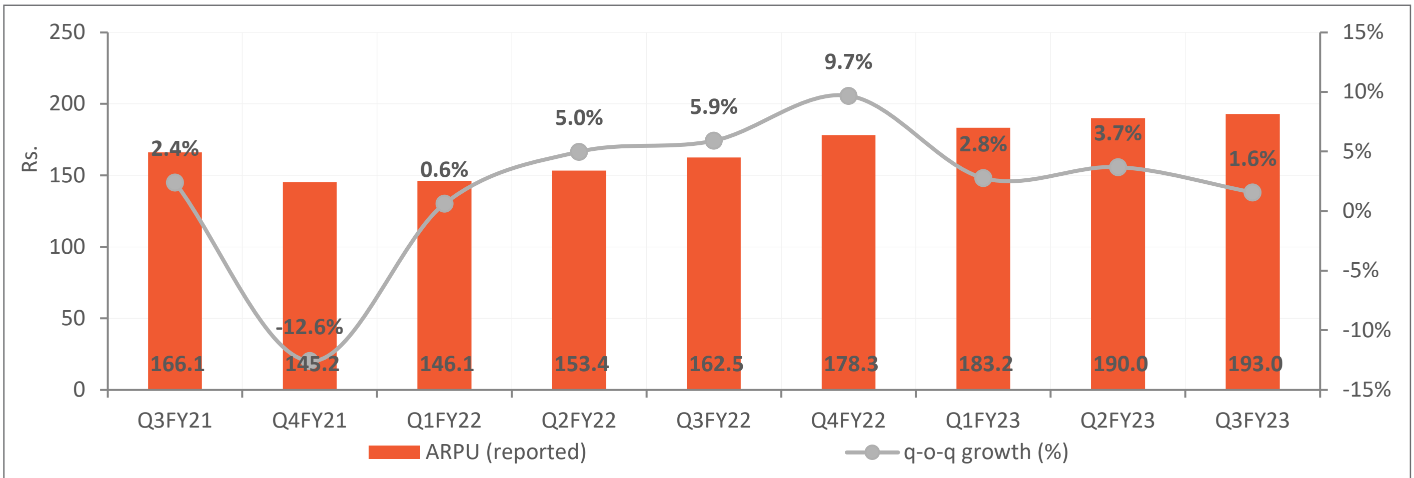
Source: Company; Sharekhan Research

India wireless revenue trend



Source: Sharekhan Research

ARPU trend q-o-q



Source: Sharekhan Research

Outlook and Valuation

■ Sector View – Large addressable market

Reliance Jio's (subsidiary of Reliance Industries) 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.

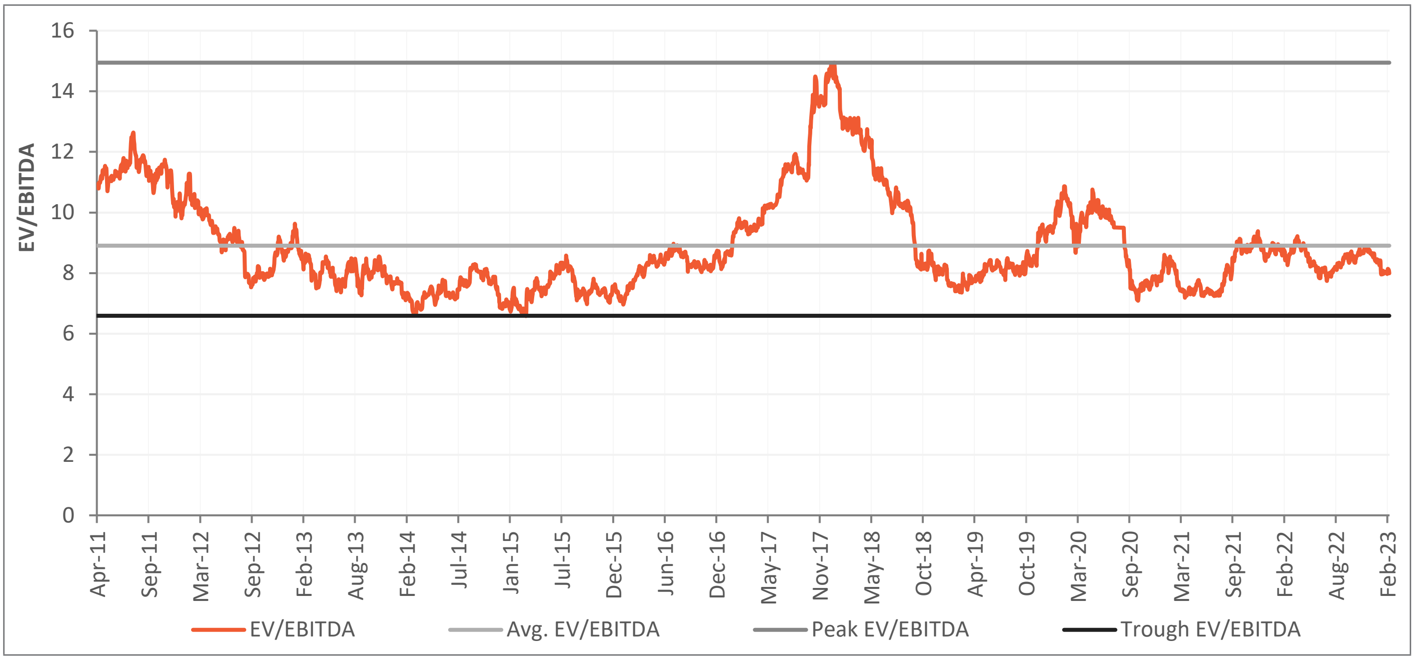
■ Company Outlook – Better positioned to gain market share

Though 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 – In-line Q3, Maintain Buy

We continue to prefer Bharti Airtel, given the company's industry-leading ARPUs, growing 4G subscriber mix, healthy network capacity, and strong free cash flow (FCF) generation. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 1,010. At the CMP, the stock is trading at a reasonable valuation of 9.8x/8.4x its FY2023E/FY2024E EV/EBITDA.

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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.27
2	Capital Group Cos Inc/The	3.80
3	SBI Funds Management Ltd	2.96
4	EUROPACIFIC GROWTH FUND	2.28
5	ICICI Prudential Asset Management	2.05
6	Vanguard Group Inc/The	1.40
7	BlackRock Inc	1.34
8	Alphabet Inc	1.28
9	Republic of Singapore	1.26
10	HDFC Asset Management Co Ltd	1.11

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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