Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Bharti Airtel Ltd

Decent Q4, Maintain Buy

Telecom	Sharekhan code: BHARTIARTL

Reco/View: Buy	↔	CMP: **Rs. 792**	Price Target: **Rs. 1,010**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- For Q4FY23 Consolidated revenues increased by 0.6% q-o-q (up 14.3% y-o-y) to Rs. 36,009 crores, in-line with our estimate of Rs. 36,407 crores. EBITDA margin for the quarter improved by ~40 bps q-o-q to 51.9%, ahead of our estimate of 51.4%, led by lower access charges and other expenses while Employee expenses and License fees & Spectrum charges remained stable.
- ARPU of India wireless business was flat q-o-q at Rs. 193 but missed our ARPU estimates of 197. Data customer base increased 3.3%/11.6% q-o-q/y-o-y respectively. Addition of 4G customers accelerated during the quarter by 7.4 million, up 3.4%q-o-q (11.6% y-o-y).
- Home broadband business' revenue growth continued to remain strong at 6% q-o-q, led by 7.2% q-o-q growth in volume, while its ARPU declined by 1.5% q-o-q. Airtel business revenue was flat for the quarter while DTH business declined by 1.4% q-o-q during the quarter.
- We continue to prefer Bharti Airtel, given the growing 4G subscriber additions, accelerated 5G rollout, continued traction in Enterprise and Home Business and industry leading ARPUs. Hence, we maintain Buy recommendation on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 33.2/23.9x its FY24E/ FY25E EPS respectively.

Bharti Airtel reported largely in-line revenue in Q4, while EBITDA margin beat our estimates. Consolidated revenues increased by 0.6% q-o-q (up 14.3% y-o-y) to Rs. 36,009 crores, in line with our estimate of Rs. 36,407. EBITDA margin for the quarter improved by ~40 bps q-o-q to 51.9%, ahead of our estimate of 51.4%, led by lower access charges and other expenses while other cost remained stable. ARPU of India wireless business was flat on a sequential basis at Rs. 193 and missed our ARPU estimates of 197. The company saw a robust growth in home services and enterprise business, while revenue in DTH business continued to decline sequentially. Reported net profit came at Rs. 3005 crores versus our estimate of Rs 2495 crore. India wireless business revenue growth was muted owing to flat ARPU at Rs 193 and 1% q-o-q growth in subscribers. Data customer base increased 3.3%/11.6% q-o-q/y-o-y during the quarter. Addition of 4G customers accelerated by 7.4 million, up 3.4%q-o-q (11.6% y-o-y).Home broadband revenue growth continued to remain strong at 6% q-o-q, led by a 7.2% q-o-q growth in volume, while its ARPU declined by 1.5% q-o-q during the quarter. Airtel business revenue was flat while DTH business declined by 1.4% q-o-q during the quarter. We continue to prefer Bharti Airtel, given the growing 4G subscriber additions, accelerated 5G rollout, continued traction in Enterprise and Home Business and industry leading ARPUs. Hence, we maintain a Buy recommendation on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 33.2/23.9x its FY24E/ FY25E EPS, respectively.

Key positives

- 4G data customers were up 23.3 million y-o-y/ 7.4 million q-o-q, forming 67% of overall mobile customer base
- Airtel's business revenue was up by 14.5% y-o-y, backed by robust demand for data and connectivity-related solutions as well as emerging competencies.

Key negatives

- India Mobile ARPU remained flat q-o-q at Rs.193
- Revenue from Digital TV Services business declined by 3% y-o-y, led by a 2.6% decline in ARPU.

Management Commentary

- The management commented that currently 5G network is available in approximately 3,500 cities and towns out of the 7,000 total in India. The company is consistently expanding its coverage and adding around 35 to 40 new cities every day with the goal to complete the coverage in urban areas by the end of this year and they also aim to extend their network to important rural areas.
- The management expects capex for the entire year to be ~Rs 28,500 crore. The company will not be investing in 4G capacities going forward. As the urban coverage for 5G nears completion this year, the wireless capex for 5G is expected to decrease as compared to the current year. The focus will then shift towards expanding coverage to top villages, with a thorough evaluation of expansion plans for FY25.

Revision in estimates – We have fine-tuned FY2024-FY2025 EBITDA estimates.

Our Call

Valuation – Decent Q4, Maintain BUY: Bharti Airtel has been investing heavily in network infrastructure, which has enabled it to provide better coverage and faster speeds to its customers. We expect a ~11%/54% Sales and PAT CAGR, respectively over FY23- 25E. We continue to prefer Bharti Airtel, given the growing 4G subscriber additions, accelerated 5G rollout, continued traction in Enterprise and Home Business and industry-leading ARPUs. Hence, we maintain a Buy recommendation on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 33.2/23.9x its FY24E/ FY25E EPS respectively.

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	FY22	FY23	FY24E	FY54E
Revenue	1,16,546.9	1,39,144.8	1,52,353.0	1,71,472.5
OPM (%)	49.4	51.2	53.5	53.5
Adjusted PAT	4,865.5	8,345.9	14,221.3	19,819.5
% Y-o-y growth	NM	71.5	70.4	39.4
Adjusted EPS (Rs.)	7.6	14.0	23.8	33.2
P/E (x)	103.8	56.6	33.2	23.9
P/B (x)	7.1	6.1	4.4	3.5
EV/EBITDA (x)	11.6	10.1	9.1	8.4
RoNW (%)	6.3	7.7	14.7	15.5
RoCE (%)	11.5	12.9	11.6	12.2

Source: Company; Sharekhan estimates

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 Mar 08, 2023

Low Risk

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

Source: Morningstar

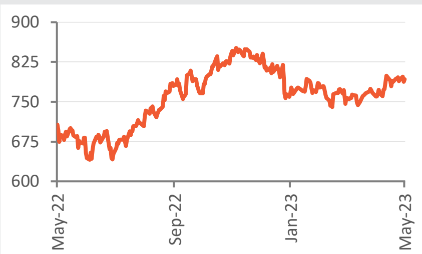
Company details

Market cap:	Rs. 4,72,769 cr
52-week high/low:	Rs. 877 / 629
NSE volume: (No of shares)	30.6 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	268.4 cr

Shareholding (%)

Promoters	55.0
FII	21.0
DII	19.8
Others	4.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.3	2.0	-5.4	13.8
Relative to Sensex	1.2	1.1	-5.2	0.2

Sharekhan Research, Bloomberg

Key result highlights

- **India wireless business:** Revenues of India wireless business grew by 1% q-o-q and 11.5% y-o-y to Rs. 19,549 crores, led by continued 4G customer addition while ARPU remained flat. 4G data customers were up by 23.3 million y-o-y & 7.4 million q-o-q, forming 67% of overall mobile customer base. The reported Average Revenue Per User (ARPU) for this quarter was INR 193 but this quarter had two fewer days than usual. The management stated that if the data is normalised by excluding those two days and calculated on a one-day basis, the normalized ARPU stands at Rs 195. The increase in ARPU was primarily driven by smartphone upgrades, data monetization efforts, and a modest impact from raising the tariff on the entry plan from INRRs. 99 to Rs. 155. Mobile data consumption was up by 20.2% y-o-y with consumption per customer at 20.3 GB per month.

- **Africa business:** Africa business reported revenue degrowth of 0.6% q-o-q at $1,341 million. EBITDA margin stayed flat q-o-q at 49.1%. Africa business generated operating FCF of $368 million vs $516 million in Q3FY23. The customer base stood at 140.0 million while Capex for the quarter was Rs 2,394 crore.

- **Enterprise business:** Airtel Business' revenue was up by 14.5% y-o-y, backed by robust demand for data and connectivity-related solutions as well as emerging competencies. The capex was elevated in the quarter for the enterprise business primarily due to specific deals related to cable investments and the purchase of bandwidth to support the network. These investments are considered lumpy. However, it is expected that these investments will be completed in subsequent quarters, indicating that the elevated Capex will decrease in the future.

- **Capex:** The management expects capex for the entire year at around Rs 28,500 crores The company will not be investing in 4G capacities going forward. The company plans to continue investing in transport infrastructure to expand tower connectivity. They are also directing investments towards other sectors like data centers and homes, adopting a strong investment strategy. As the urban coverage for 5G nears completion this year, the wireless capex for 5G is expected to decrease compared to the current year. The focus will then shift towards expanding coverage to top villages, with a thorough evaluation of expansion plans for FY25.

- **Home broadband business:** It continues to accelerate its presence with 404,000 customer net additions in Q4FY23 and reported a revenue growth of 25% YoY. However, the ARPU was down 5.5% y-o-y as the expansion of the customer base beyond the top 100 cities has resulted in a slight dilution of ARPU. However, the management stated that the business in these areas remains profitable with the company experiencing robust revenue growth with strong profit margins. Additionally, the cost of operating in these cities has been effectively managed through an innovative partnership model with local cable operators, which requires lower capex compared to the top 100 cities. Overall, despite the dilution in ARPU, the management is confident in the profitability and growth prospects of the business in these areas.

- **Digital TV:** Digital TV continues to consolidate its strong market position with 15.9 million customers at the end of quarter. The company's strategy of offering simplified pricing and differentiated converged experience to win high value customers has led to gain in market share amidst the macro challenges Revenue from Digital TV Services business declined by 3% y-o-y, led by a 2.6% decline in ARPU.

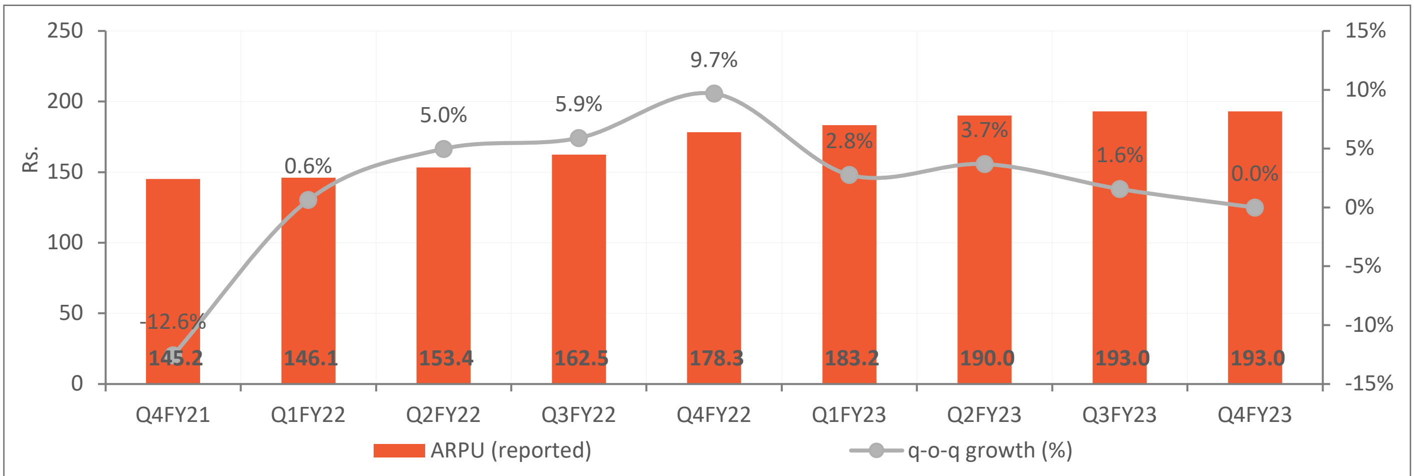
- **Capex and FCF:** Operating FCF declined by 20.6% q-o-q to Rs. 7370.7 crore. Net debt to annualised EBITDA (including the impact of leases) increased to 2.83x in Q4FY2023 from 2.82x in Q3FY2023.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Net Sales	**36,009.0**	**31,500.3**	**14.3**	**35,804.4**	**0.6**
License fees & Spectrum charges	2,827.9	3,008.9	-6.0	2,842.1	-0.5
Employee expenses	1,263.4	1,164.2	8.5	1,235.3	2.3
Access & InterConnection Charges	1,884.7	1,750.5	7.7	1,935.2	-2.6
Network Operating Expenses	7,401.8	6,545.8	13.1	7,328.4	1.0
Other Expenses	1,949.7	1,457.9	33.7	2,098.4	-7.1
Operating Profit	**18,697.1**	**16,040.3**	**16.6**	**18,453.2**	**1.3**
Net Finance Charges	5,163.1	4,059.3	27.2	4,685.6	10.2
Depreciation & Amortisation	9,405.9	8,582.6	9.6	9,297.7	1.2
Tax Expense	788.0	1,321.8	-40.4	1,075.6	-26.7
Reported Net Income	**3,005.6**	**2,007.8**	**49.7**	**1,588.2**	**89.2**
Adjusted Net Income	**3,005.6**	**1,929.4**	**55.8**	**1,588.2**	**89.2**
EPS	5.0	3.0	66.4	2.2	126.1
Margins (%)					
OPM	51.9	50.9	100	51.5	38
NPM (Adj)	8.3	6.1	222	4.4	391
Tax rate	17.9	30.6	-1,272	26.5	-865

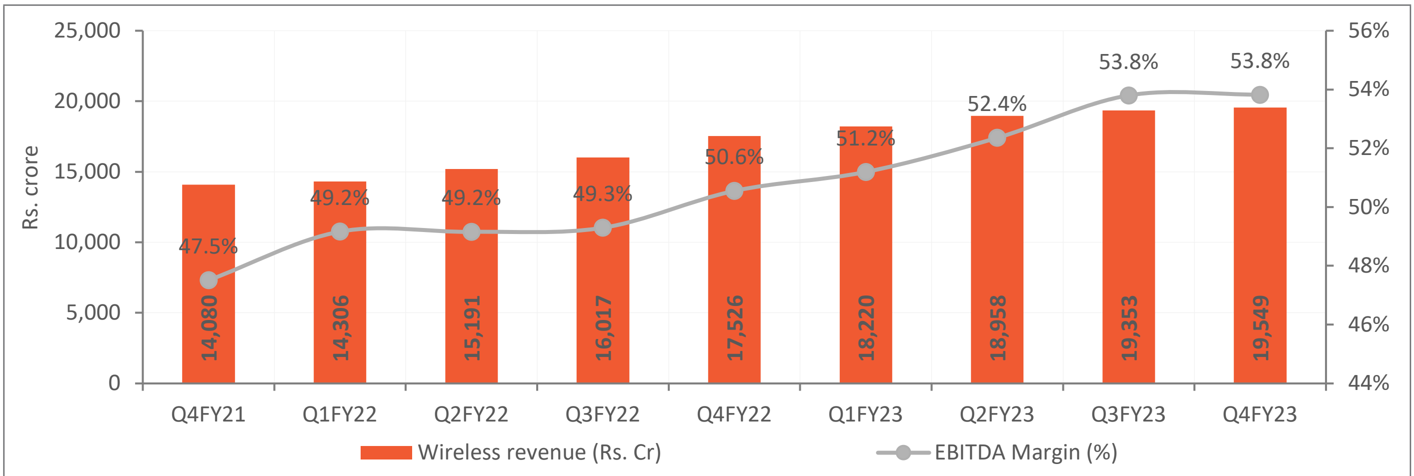
Source: Company; Sharekhan Research

ARPU trend q-o-q



Source: Sharekhan Research

India wireless revenue trend



Source: Sharekhan Research

Outlook and Valuation

■ Sector View – Large addressable market

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.

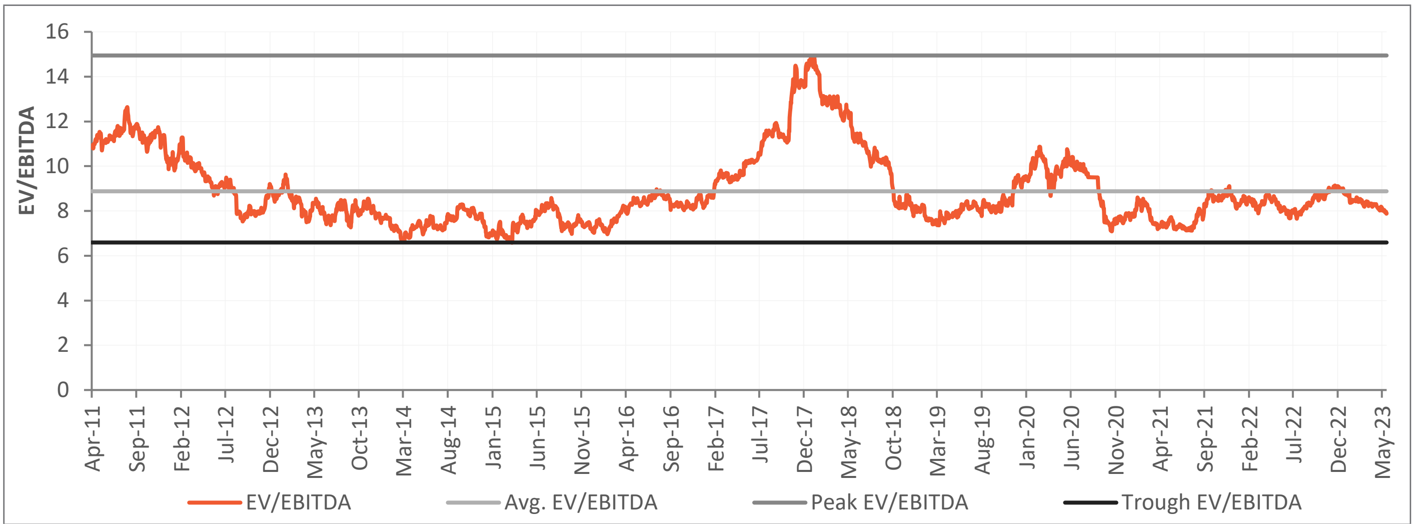
■ Company Outlook – Better positioned to gain market share

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 – Decent Q4, Maintain Buy

Bharti Airtel has been investing heavily in network infrastructure, which has enabled it to provide better coverage and faster speeds to its customers. We expect a ~11%/54% Sales and PAT CAGR, respectively over FY23- 25E. We continue to prefer Bharti Airtel, given the growing 4G subscriber additions, accelerated 5G rollout, continued traction in Enterprise and Home Business and industry-leading ARPUs. Hence, we maintain a Buy recommendation on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 33.2/23.9x its FY24E/ FY25E EPS respectively.

One-year forward P/E (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 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	INDIAN CONTINENT INVEST	5.94
2	Life Insurance Corp of India	4.32
3	Capital Group Cos Inc	3.73
4	SBI Funds Management Ltd	3.08
5	EUROPACIFIC GROWTH FUND	2.28
6	ICICI Prudential Asset Management	2.27
7	Vanguard Group Inc	1.64
8	BlackRock Inc	1.34
9	Alphabet Inc	1.28
10	HDFC Asset Management Co Ltd	1.27

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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