

BUY **Bharti Airtel****Q1FY24: Steady performance; ARPU improvement to continue**Telecommunications ▶ Result Update ▶ **August 5, 2023****TARGET PRICE (Rs): 1,000**

Bharti Airtel (Airtel) reported steady operating performance, with a beat on revenue/EBITDA, reporting growth of 4%/4.8% QoQ. India Wireless revenue increased 4.3%QoQ, with margin up by 97bps QoQ to 54.8%. The revenue growth was led by strong data subscriber adds (+5.5mn vs +7.4mn in 4Q) and postpaid adds (833k vs. 663k in Q4). ARPU is up 3.3%QoQ to Rs200. Airtel will benefit from: i) subscriber gain from Vi, with the launch of 5G; ii) mix change, even without any tariff hike, as it can move users from 2G to 4G/5G; iii) the historically higher pass-through of the increase in revenue to EBITDA. Its Enterprise and Home segments would see robust mid-term growth (FY23-26E CAGR of 13% and 20%). We raise our TP to Rs1,000/sh (earlier Rs920), as we increase our India mobile revenue and roll it forward by a quarter; retain BUY.

Bharti Airtel: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	11,65,469	13,91,448	14,94,769	16,74,383	19,01,734
EBITDA	5,75,339	7,12,735	7,99,175	9,31,756	10,79,775
Adj. PAT	25,563	90,157	1,32,649	2,00,782	3,14,675
Adj. EPS (Rs)	7.1	14.0	16.5	33.6	52.7
EBITDA margin (%)	49.4	51.2	53.5	55.6	56.8
EBITDA growth (%)	26.8	23.9	12.1	16.6	15.9
Adj. EPS growth (%)	0.0	96.1	18.0	103.9	56.7
RoE (%)	2.7	8.7	10.9	14.4	19.7
RoIC (%)	5.1	10.0	10.2	13.8	19.9
P/E (x)	207.7	58.9	40.0	26.4	16.9
EV/EBITDA (x)	11.9	10.4	8.9	7.1	5.7
P/B (x)	5.6	4.7	4.0	3.6	3.1
FCFF yield (%)	(1.8)	2.4	2.5	6.8	8.7

Source: Company, Emkay Research

Q1: Robust 4G-data and postpaid customer addition; ARPU reaches Rs200

Key positives in Q1 included: i) 4G data customer addition still strong at 5.6mn additions, though it saw moderation from the Q4 addition of 7.4mn. ii) Data volume on network grew 7.2% QoQ (vs. 9.7%QoQ growth for RJio). iii) Usage per subscriber was up 4% QoQ to 21.6GB. iv) Post-paid addition was also strong, at 833k in Q1 vs. 663k in Q4. v) ARPU improvement of 3.5%QoQ to Rs200. vi) Network opex was flat QoQ and employee expenses declined 0.5% QoQ, aiding margin expansion for Airtel. vii) Home Broadband and Enterprise revenue continued to record healthy performance, with 6% sequential growth in each. viii) Operating FCF increased to Rs92.6bn (vs. Rs73.7bn in 4Q), leading to QoQ decline in net debt.

Bharti Airtel has levers to improve ARPU, even without tariff hike

Bharti Airtel has levers to improve ARPU even without a tariff hike which include: **i) prepaid feature phone to smartphone conversion**, as the entry-level feature phone plan is priced at Rs155, while the entry-level smartphone data plan starts at Rs239; this implies a ~50% jump on moving to a smartphone; **ii) prepaid to postpaid conversion** leading to a ~75% jump in ARPU; **iii) data monetization**, with impulse buying of data allowance; and **iv) international roaming**, with focus on driving penetration of prepaid that simplifies pricing (one price plan across the world). Such measures can help India mobile ARPU increase to Rs215 by Q2FY25E. We expect a tariff hike only by mid-FY25E.

Outlook: Mix change; Airtel's Enterprise, Home Broadband to aid growth

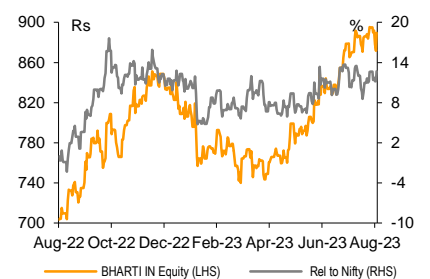
We see Airtel benefitting from the mix change, even without any tariff hike. Moreover, Airtel has prepaid its spectrum dues till FY26, besides having cash & cash equivalent of Rs58.8bn as of end-Q1FY24 and pending calls on rights issue of ~Rs156bn; this give us comfort on cash-flow. We also like the company's industry-leading KPIs and high customer stickiness, which aid high pass-through of revenue to EBITDA. Airtel's Enterprise and Home Broadband segments grant the company added growth levers. **Key risks:** 1) Faster adoption of 5G SA; and 2) Currency depreciation in African markets.

Target Price – 12M	Jun-24
Change in TP (%)	8.7
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	12.4
CMP (04-Aug-23) (Rs)	889.7

Stock Data	Ticker
52-week High (Rs)	902
52-week Low (Rs)	681
Shares outstanding (mn)	5,592.6
Market-cap (Rs bn)	5,168
Market-cap (USD mn)	62,380
Net-debt, FY24E (Rs mn)	17,66,888
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	5,133.4
ADTV-3M (USD mn)	62.0
Free float (%)	-
Nifty-50	19,517
INR/USD	82.8
Shareholding, Jun-23	
Promoters (%)	55.0
FPIs/MFs (%)	21.5/19.7

Price Performance

(%)	1M	3M	12M
Absolute	2.8	12.7	28.1
Rel. to Nifty	2.2	5.5	14.1

1-Year share price trend (Rs)**Santosh Sinha**santosh.sinha@emkayglobal.com
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Q1FY24 earnings call highlights

- **Capex guidance:** Capex for 5G will be front-loaded. Q1FY24 capex for the India business was ~Rs93bn, while full-year capex for FY24 will be in the Rs280-310bn range. Capex will be spent in 5G radio rollout, transport infrastructure, broadband rollout and data centers. Capex is happening for 5G. 4G capex is currently related to rural coverage and not to capacity addition.
- **Focus on network cost:** The network cost takeout program has been delivering a fairly strong outcome. Operating cost per site per month was lower than prior quarters', as the company has identified 150,000 sites that are more than Rs0.1mn per month, in terms of network OpEx per site.
- **Very early days to assess impact of JioBharat:** The feature-phone segment accounts for 18% of the company's revenue; and customers change their phone only once in 4 years. Also, the pricing of JioPhone is higher vs. the cheapest feature phone in the market. Airtel's focus on converting feature-phone users to smartphone users will continue. Airtel will not focus on feature phones and will help customers buy smartphones using a modest cash loan on locked devices.
- **Upgradation to 5G phone to take time:** 30% offloading of traffic from 4G to 5G is ongoing. Only 14-15% of the devices in the network are 5G. Moreover, only 48% of the smartphone shipments now consist of 5G devices; hence it will take time for the full upgradation to happen.
- **Focus on postpaid to continue:** Around 6% of the users are on postpaid for the company vs. ~40% for Brazil. Company can add postpaid subscribers by: i) converting users from prepaid to postpaid; ii) adding postpaid subscribers from competition, particularly Vi, which has not launched 5G; iii) using a family plan similar to Verizon's almost a decade ago; and iv) following the go-to market strategy, by spreading stores closer to the point of consumption. Company has kick-started well in July, on the postpaid front.
- **More applications needed for 5G:** Current applications do not need high speed. Newer applications need to come to utilize the full potential of 5G. Even a 5-6mps speed is sufficient for current applications.
- **Fixed wireless access (FWA) in the uneconomical category:** Cost of the FWA CPE is USD160 vs. per home-pass cost of USD90 for fiber, which makes FWA economically unattractive. The chipset cost remains high. Airtel is ready with FWA boxes. Network slicing is allowed in NSA and Airtel can also offer some amount of (not very high) slicing on NSA in case of FWA.
- **5G-related opex included in operating costs:** Airtel has started including 5G-related opex in network cost. Company will consider inclusion of this cost circle by circle.
- **Further operating leverage benefits:** are expected from stripping out costs in the 75,000-100,000 category of sites, increase in ARPU and further tariff increase.
- **DTH subscriber decline largely due to seasonality,** led by pullback of cricket in the Hindi belt. Southern markets continued to do well for the company, with positive net additions.
- **B2B (Enterprise):** In SD-WAN, Company won 2 large multi-year deals from banking customers. In the cloud, Company won a multi-year deal from the state government for supply installation as well as commissioning of extra data servers and migration of existing applications with data. CPaaS continues to look strong and datacenters continue to fill up fast.
- **Payment Bank:** The bank reached a quarterly revenue rate of Rs4bn. Annualized revenue run rate now stands at over Rs16bn vs. ~Rs15bn in Q4.

Q1 results: Lead by Airtel in ARPU, while Jio leads in subs addition and data consumption

- **Airtel reported better financial performance vs. Jio:** Airtel's India wireless revenues increased 4.3% QoQ vs. RJio's revenue growth of 2.8% QoQ. Airtel's India wireless EBITDA margins increased by 97bps QoQ to 54.8%. In comparison, EBITDA margin was flattish QoQ at 52.3% for RJio.
- **Airtel conversion of 2G users to 4G helps ARPU:** Airtel's ARPU was up 3.5%QoQ to Rs200, while Jio's ARPU was up 1% QoQ (incl. JioFibre), in 1QFY24. Better ARPU growth was

supported by conversion of 2G users to 4G (Airtel added 5.6mn 4G subs in Q1), an advantage that Jio does not have.

- **Jio is adding subscribers at a faster pace:** Airtel has reported net subs addition of 3.1mn (vs. 3.2mn in Q4). Jio reported net subscriber addition of 9.2mn (also includes home broadband subscribers; we estimate 8.3mn wireless addition).
- **Jio data consumption also saw faster growth in Q1:** Airtel's data volume on network grew 7.2% QoQ in Q1 (vs. 9.7% QoQ growth for RJio). Airtel's usage per subscriber was up 4% QoQ to 21.6GB (vs. 20% QoQ to 24.9GB for RJio). Faster growth for RJio in Q1 may be attributable to IPL held in Q1. MOU for Airtel was up 1.4% QoQ to 1,138min. For Jio, it was flat QoQ, at 1,003min per user.

Change in estimates

We adjust our estimate to account for the Nigeria currency devaluation, and thus cut our Africa FY24E/FY25E revenue by 12%/15%. India mobile revenue increases by 2.5% each, on the ARPU beat. As a result, our consol. revenue for FY24E/FY25E reduces 2.4%/3.3%. Our FY24E/FY25E margin estimate increases by ~100/150bps.

Exhibit 1: Changes in estimates

(Rs mn)	FY24			FY25			FY26
	Old	Revised	% Change	Old	Revised	% Change	Introduced
Revenue	15,31,722	14,94,769	-2.4	17,31,737	16,74,383	-3.3	19,01,734
EBITDA	8,03,183	7,99,175	-0.5	9,37,171	9,31,756	-0.6	10,79,775
EBITDA Margin (%)	52.4	53.5	103 bps	54.1	55.6	153 bps	56.8
PAT	1,26,608	98,486	-22.2	2,11,688	2,00,782	-5.2	3,14,675
EPS (Rs)	21.2	16.5	-22.3	35.5	33.6	-5.2	52.7

Source: Company, Emkay Research

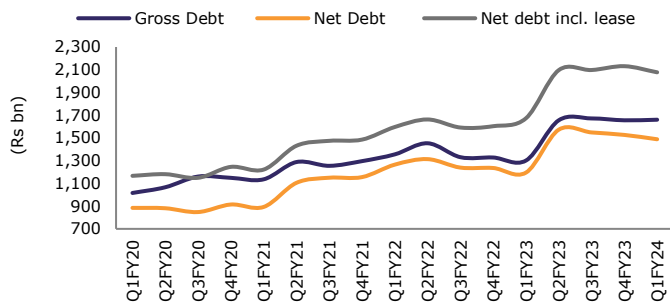
Exhibit 2: SoTP-based valuation

	Jun-24E
Core India business (ex-towers, ex-Africa)	
Enterprise value (Rs bn)	6,596
EBITDA (Rs bn)	733
EV/EBITDA (x)	9.0
Net debt (Rs bn)	1,316
Equity value (Rs bn)	5,280
Equity value/share (Rs)	885
Indus Towers - Valuation	
Target market cap (Rs bn)	499
Airtel's shareholding	48.0%
Airtel's share	239
Per Share value (Rs)	40
Africa business valuation	
Enterprise value (Rs bn)	1,060
EBITDA (Rs bn)	236
EV/EBITDA (x)	4.5
Net debt (Rs bn)	268
Equity value (Rs bn)	792
Airtel's stake	55%
Per share value (Rs)	73
Target Price (Rs/share)	1,000

Source: Company, Emkay Research

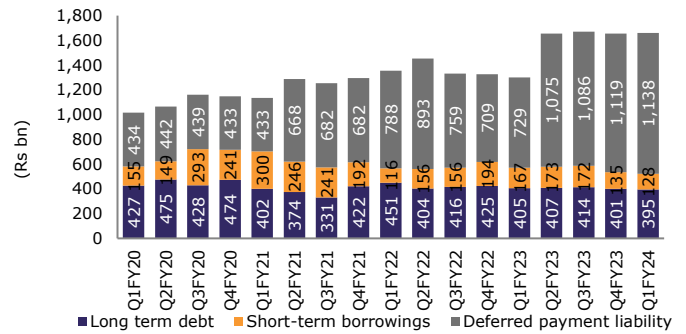
Cash flow position remains strong for Airtel

Exhibit 3: Gross and net debt stable despite elevated 5G capex



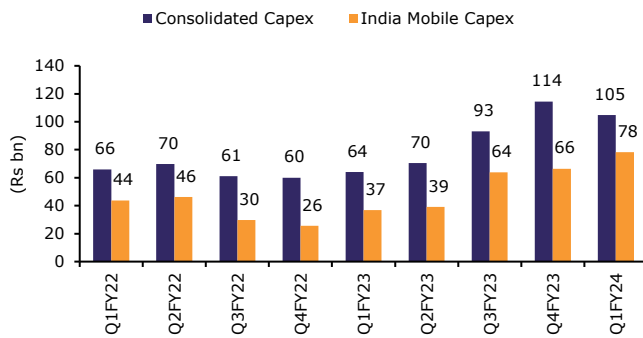
Source: Company, Emkay Research

Exhibit 4: Most of the debt is related to deferred payment liability



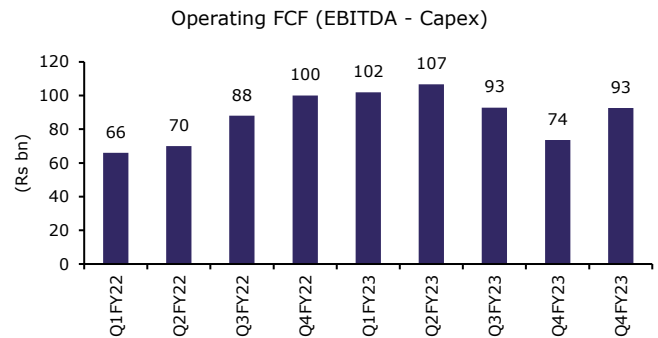
Source: Company, Emkay Research

Exhibit 5: India mobile capex has increased, on the 5G rollout



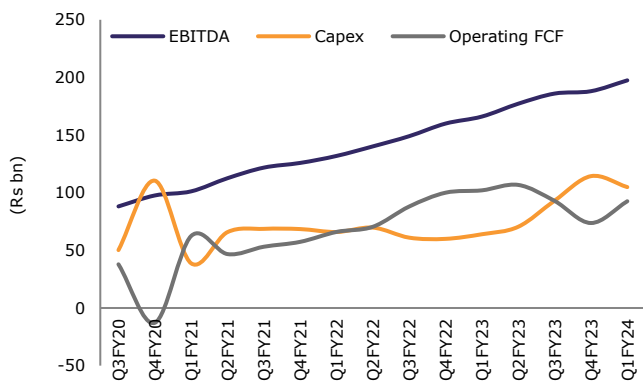
Source: Company

Exhibit 6: Lower consol. capex has led to increase in operating FCF



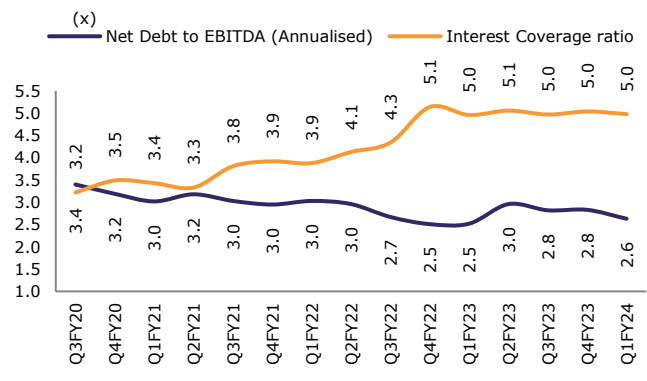
Source: Company

Exhibit 7: Operating FCF increasing with expanding EBITDA



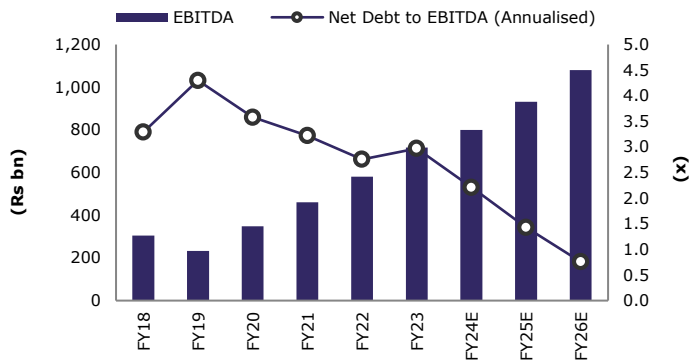
Source: Company, Emkay Research

Exhibit 8: Net debt/EBITDA is declining; coverage ratio stable



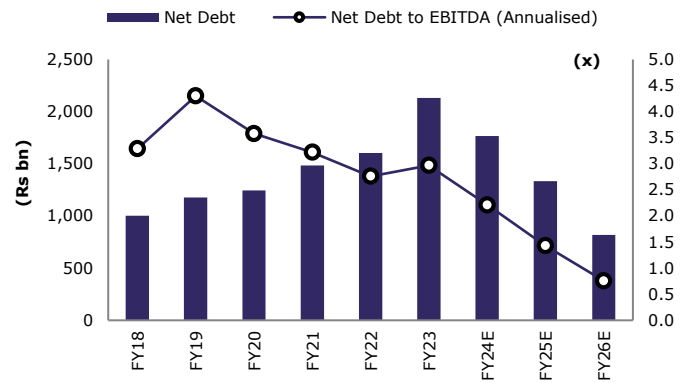
Source: Company, Emkay Research

Exhibit 9: EBITDA to improve further with ARPU



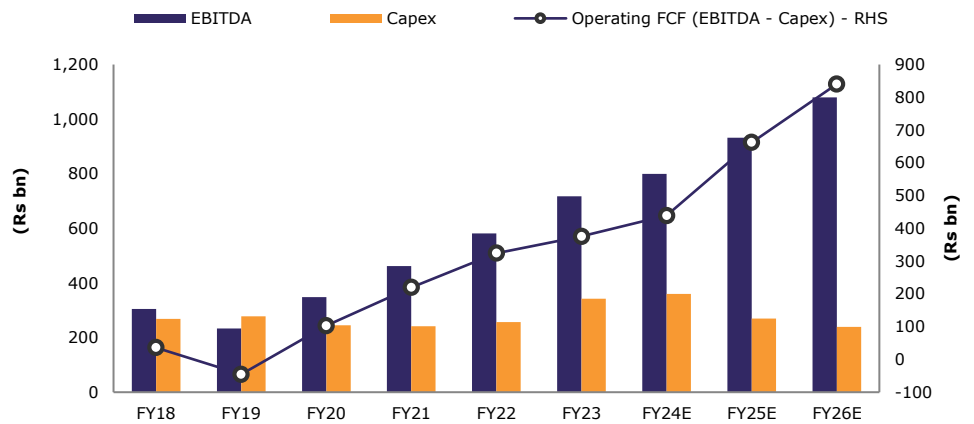
Source: Company, Emkay Research

Exhibit 10: Net debt to decline, on improving EBITDA



Source: Company, Emkay Research

Exhibit 11: Operating FCF to increase leading to deleveraging



Source: Company, Emkay Research

Bharti Airtel (India): Q1FY23 result highlights

- Bharti Airtel reported strong operating performance, with revenue/EBITDA growth of 4%/4.8% QoQ (beating the consensus/our estimates). Consol. margin was in-line, at 52.3% (+42bps QoQ).
- **Network opex was flat QoQ and employee expenses declined 0.5% QoQ**, aiding margin expansion for the company. Marketing expenses increased 7.9% QoQ and access charges were up 6% QoQ. License fees was also up, by 4% QoQ, offsetting some of the benefit from flat operating cost.
- **India Mobile revenues increased 4.3% sequentially** to Rs203.9bn (vs. our estimate of Rs200bn). India wireless EBITDA margin increased by 97bps QoQ to 54.8% (53.8% in Q4).
- **Key positives:** Data customer addition is still strong at 5.5mn, though it has moderated from the Q4 addition of 7.4mn. Data customers, as % of mobile customers, stood at 70.4% in Q1FY24 vs. 69.4% in Q4FY23. 4G data customer addition is still strong, at 5.6mn (7.4mn in Q4). Data volume on network grew 7.2% QoQ (vs. 9.7%QoQ growth for RJio), while usage per subscriber was up 4%QoQ to 21.6GB. Post-paid addition was also strong, at 833k in Q1 vs. 663k in Q4.
- **Reported PAT came in at Rs16bn vs. Rs30bn in Q4, due to the Rs34bn impact from the Niara devaluation.** During Q1, the Group has recognized a foreign exchange loss of Rs34.2bn in the P&L that has been presented as an exceptional item. The related tax credit of Rs11.1bn is included under 'tax expense'/(credit). Further, net loss allocated to non-controlling interests on the above-mentioned exceptional item (net of tax) is Rs10.1bn. Accordingly, the overall exceptional loss attributable to the Group (net of tax and share of non-controlling interest) on account of this is Rs12.9mn. Adjusted for this, adj. PAT (pre-exceptional) would have been Rs29bn vs. Rs25.9bn in Q4. Finance cost on the consolidated level was up 8.7% QoQ.

Exhibit 12: India Mobile – Sequential improvement in revenue/EBITDA

India Mobile (Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	1,82,200	1,89,576	1,93,527	1,95,493	2,03,924	11.9	4.3
EBITDA	93,281	99,258	1,04,121	1,05,227	1,11,665	19.7	6.1
EBITDA margin	51.2%	52.4%	53.8%	53.8%	54.8%	696 bps	93 bps
EBIT	31,327	36,695	40,311	40,813	45,190	44.3	10.7
Capex	36,945	39,107	63,793	66,471	78,290	111.9	17.8
Operating Free Cash Flow	56,336	60,150	40,328	38,756	33,375	(40.8)	(13.9)

Source: Company, Emkay Research

Exhibit 13: KPIs improve QoQ

India Wireless KPIs	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
ARPU (Rs)	183	190	193	193	200	9.0	3.3
MOU (mins)	1,104	1,082	1,094	1,122	1,138	3.1	1.4
Traffic (bn mins)	1,079	1,063	1,082	1,124	1,149	6.5	2.2
Subscribers (mn)	327	328	332	335	339	3.4	0.9
Pre-Paid Churn	3.0%	3.3%	3.0%	2.8%	2.8%	-637 bps	-2 bps
Data metrics KPIs							
Data Subscribers (mn)	213	219.1	225	233	238	11.7	2.4
Of which no. of 3G/4G customers (mn)	205	210.3	217	224	230	11.9	2.5
As a % of customer base	65.2%	66.8%	67.8%	69.4%	70.4%	799 bps	99 bps
Total MBs on the network (bn)	12,561	13,485	13,853	14,248	15,273	21.6	7.2
Data usage/ User (GB)	19.9	20.8	20.8	20.8	21.6	8.5	4.2

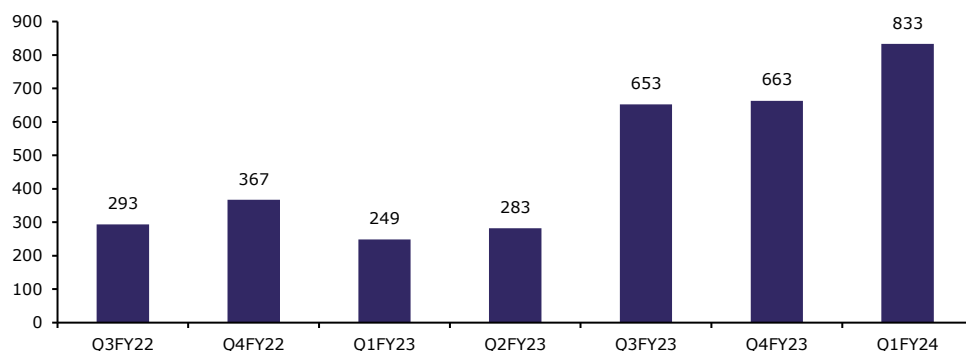
Source: Company, Emkay Research

- **Net debt (incl. lease) was Rs2.08trn** (Rs2.13trn at end-Q4). Core net debt (excl. lease) stood at Rs1.48trn vs Rs1.53trn at end-Q4.
- **Capex for the quarter came in at Rs104.8bn** (vs. Rs114.4bn in Q4), with operating FCF (EBITDA-capex) increasing to Rs92.6bn (vs. Rs73.7bn in 4Q) led by higher EBITDA and lower capex.
- India Wireless capex increased 17% QoQ to Rs78.3bn, which is attributable to the continued 5G rollout. Capex increase in India Mobile was on account of 5G-related capex.
 - **Network site** addition moderated in Q1, with 9.1k network sites added in Q1 (vs. 12.5k added in Q4), but remain at elevated levels.
 - **Mobile Broadband Base** station addition in Q1 was 20.3k vs. 26.2k in Q4, though additions remain elevated.
 - **Optic fiber addition** was also up, at 14,982R km vs. 11,748R km in Q4.

Exhibit 14: India capex spent on network expansion related to 5G

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Total Capex (Rs mn)	63,982	70,469	93,136	1,14,360	1,04,858	63.9	(8.3)
India Mobile Capex (Rs mn)	36,945	39,107	63,793	66,471	78,290	111.9	17.8
Network Sites (No. of)	2,45,626	2,53,998	2,62,619	2,75,069	2,84,221	15.7	3.3
QoQ Network Sites added (No. of)	8,049	8,372	8,621	12,450	9,152	13.7	(26.5)
Mobile Broadband Base stations (No. of)	7,66,673	7,87,498	8,06,197	8,32,369	8,52,650	11.2	2.4
Mobile Broadband Base stations added (No. of)	14,537	20,825	18,699	26,172	20,281	39.5	(22.5)
Optic Fibre Network (R km)	3,61,538	3,67,976	3,76,978	3,88,726	4,03,708	11.7	3.9
Optic Fibre Network added (R km)	6,459	6,438	9,002	11,748	14,982	132.0	27.5

Source: Company, Emkay Research

Exhibit 15: Postpaid additions remain elevated (000s)

Source: Company

Segmental performance

- **DTH:** Revenue was up 1.5% QoQ, while EBITDA improved 4.5% QoQ. Customer base saw decline of 28k, though APRU was up 0.9% QoQ. Monthly churn was down to 2.2% vs. 2.3% in Q4.
- **Home Broadband:** Home broadband revenue continued to record healthy performance, with 6% sequential growth, while margin was flat QoQ. During the quarter, the company posted addition of 413K home broadband connections vs. 404K in Q4. ARPU declined 1% QoQ.
- **Airtel Business (Enterprise):** Enterprise revenue was up 5.6% QoQ, though margins are down by 160bps QoQ.

Exhibit 16: DTH performance improved

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	7,482	7,288	7,390	7,290	7,403	(1.0)	1.5
EBITDA	4,779	4,352	4,132	4,081	4,264	(10.8)	4.5
EBITDA-to-total revenue	64%	60%	56%	56%	58%	-628 bps	161 bps
Digital TV subs (mn)	15.7	15.8	16.0	15.9	15.9	1.4	(0.2)
Net additions (000s)	-322	66	214	-39	-28	NM	NM
ARPU (Rs)	158	155	154	153	154	(2.4)	0.8
Monthly Churn	2.4%	2.3%	2.0%	2.3%	2.2%	(8.8)	(5.0)

Source: Company, Emkay Research

Exhibit 17: Home services saw healthy growth QoQ; margin was flattish QoQ

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	9,265	9,898	10,343	10,966	11,621	25.4	6.0
EBITDA	4,927	4,983	5,173	5,526	5,860	18.9	6.0
EBITDA-to-total revenue	53%	50%	50%	50%	50%	-517 bps	4 bps
No. of subscribers (mn)	4.8	5.2	5.6	6.0	6.5	34.8	6.8
No. of net additions (000s)	310	417	432	404	413	33.3	2.3
Average Revenue Per User (ARPU; Rs)	652	646	624	614	608	(6.7)	(1.0)

Source: Company, Emkay Research

Exhibit 18: Enterprise segment witnessed robust growth, though margins contracted QoQ

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	43,656	46,646	47,779	47,850	50,545	15.8	5.6
EBITDA	17,011	18,293	19,050	19,680	19,979	17.4	1.5
EBITDA-to-total revenue	39%	39%	40%	41%	40%	144 bps	-160 bps

Source: Company, Emkay Research

Exhibit 19: Bharti Airtel – Financial performance

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Mobile	2,79,888	2,93,968	3,05,179	3,06,614	3,18,026	13.6	3.7
India	1,82,200	1,88,821	1,93,527	1,95,493	2,03,924	11.9	4.3
Africa	97,021	1,04,452	1,10,876	1,10,315	1,13,168	16.6	2.6
South Asia	667	695	776	806	934	40.0	15.9
Home Services	9,265	9,898	10,343	10,966	11,621	25.4	6.0
Airtel Business	43,656	46,646	47,779	47,850	50,549	15.8	5.6
Others (DTH +others)	7,572	7,492	7,651	7,590	7,703	1.7	1.5
Total gross Sales	3,40,381	3,58,004	3,70,952	3,73,020	3,87,899	14.0	4.0
Inter-segmental eliminations	12,335	12,736	12,908	12,930	13,495	9.4	4.4
Net Sales	3,28,046	3,45,268	3,58,044	3,60,090	3,74,404	14.1	4.0
Access charge	18,698	19,310	19,352	18,847	19,972	6.8	6.0
as % of sales	5.7	5.6	5.4	5.2	5.3		
Network Operating	66,828	71,303	73,284	74,018	74,036	10.8	0.0
as % of sales	20.4	20.7	20.5	20.6	19.8		
Employee Expenses	11,235	12,086	12,353	12,634	12,572	11.9	(0.5)
as % of sales	3.4	3.5	3.5	3.5	3.4		
Marketing Expenses	34,685	37,120	40,102	39,341	42,432	22.3	7.9
as % of sales	10.6	10.8	11.2	10.9	11.3		
License Fee	31,306	29,511	28,421	28,279	29,403	(6.1)	4.0
as % of sales	9.5	8.5	7.9	7.9	7.9		
Total operating expenditure	1,62,752	1,69,330	1,73,512	1,73,119	1,78,415	9.6	3.1
EBITDA	1,65,294	1,75,938	1,84,532	1,86,971	1,95,989	18.6	4.8
Depreciation	87,814	89,468	92,977	94,059	96,538	9.9	2.6
EBIT	77,480	86,470	91,555	92,912	99,451	28.4	7.0
Other Income	1,922	2,019	2,576	2,849	3,483	81.2	22.3
Interest	45,109	49,403	46,856	51,631	56,137	24.4	8.7
Non-operating expenses	0	0	6,698	0	34,163		
PBT	34,293	39,086	40,577	44,130	12,634	(63.2)	(71.4)
Tax	11,233	12,864	10,756	7,880	3,327	(70.4)	(57.8)
PAT before MI	23,060	26,222	29,821	36,250	9,307	(59.6)	(74.3)
Minority interest	8,619	8,337	10,255	12,204	-923	(110.7)	(107.6)
PAT after MI	14,441	17,885	19,566	24,046	10,230	(29.2)	(57.5)
share of associates	1,628	3,567	-3,684	6,010	5,899	262.3	(1.8)
PAT	16,069	21,452	15,882	30,056	16,125	0.3	(46.4)
(%)						(bps)	(bps)
EBITDAM	50.4	51.0	51.5	51.9	52.3	196	42
EBITM	23.6	25.0	25.6	25.8	26.6	294	76
EBTM	10.5	11.3	11.3	12.3	3.4	(708)	(888)
PATM	4.9	6.2	4.4	8.3	4.3	(59)	(404)
Effective Tax rate	32.8	32.9	26.5	17.9	26.3	(642)	848

Source:

Airtel Africa – Q1FY24 Performance

Airtel Africa logged a beat on revenue/margin expectation, though Fx dragged down PAT. Africa revenue stood at USD1,377mn (Emkay: USD1,305mn; Consensus: USD1,326mn), up 20.4%YoY on constant currency (CC) basis (9.5% YoY/2.7% QoQ, on reported basis), registering a beat on account of the lower Fx impact on topline. Mobile money revenue grew 31.2% YoY in CC terms (14% QoQ). Further, revenue growth was driven by the 19.8% YoY CC growth (4.5% QoQ) in East Africa and 13% CC growth (6% QoQ) in Francophone Africa.

QoQ, EBITDA margin was up by 38bps QoQ. EBITDA margin was up 83bps YoY on CC basis (+69bps YoY on reported basis) to 49.5% vs. our estimate of 47.3% (Consensus: 48.2%).

- **Key positives:** i) Added 3.1mn customers in Q1 (vs. +1.5 in Q4); ii) revenue (+2.7% QoQ) and margins (+38bps QoQ) are up sequentially. iii) Constant Currency ARPU is up 11.1% YoY. iv) Mobile money customer addition has picked up in Q1, at 2.8mn additions (vs. 0.1mn addition in Q4). v) Data usage per customer increased to 4.9GB per customer per month, from 4GB in the prior period.
- **Key negatives:** i) Non-operating exceptional items of USD471mn for Q1, on account of derivative and Fx losses. ii) Addition in data customers moderated QoQ (2.2mn QoQ in Q1 vs. the 3.3mn increase in Q4FY23).

Operational performance – Subscriber addition picks up QoQ: At the end of Q1FY24, the company had an aggregate customer base of 143.1mn, up 8.6% YoY (2.2% QoQ). It added 3.1mn customers in Q1 (vs. +1.5/+3.8mn/+2.9mn/+3.3mn in Q4/Q3/Q2/Q1FY23).

- ARPU was up 1.1%YoY (11.1%YoY on constant currency basis) at USD 3.2. Sequentially, it was flattish QoQ on reported basis.
- Addition in data customers moderated QoQ: Number of data customers increased by 2.2mn QoQ (vs. the 3.3mn increase in Q4FY23) to 56.8mn (39.7% of the total customers in Q1 vs. 39% in Q4).
- Mobile money customer addition has picked up in Q1, at 2.8mn additions (vs. 0.1mn addition in Q4 and 1.7mn addition in Q3).
- Data usage per customer increased to 4.9GB per customer per month (from 4GB in the prior period), while 4G data usage per customer reached 8.2GB per month (from 6.6GB in the prior period).
- Net finance cost increased to USD212mn (ex-Fx loss) vs. USD204mn largely in Q4 and USD151mn in Q1FY23. Non-operating exceptional items of USD471mn for Q1 is on account of derivative and Fx losses due to NGN devaluation in Jun-2023 (from 465 NGN/USD in May-23 to 752 NGN/USD in Jun-23). This has resulted in an exceptional tax gain of USD154mn. Hence, negative impact on profit after tax was USD317mn.

Operating free cash flow was down QoQ at USD542mn (USD368mn in Q4FY23), due to lower capex QoQ and higher EBITDA.

Net debt including lease decreased to USD3,321mn at the end of Q1FY24 vs. USD3,524mn at the end of Q4FY23. However, it is up vs. the USD3,056mn net debt at end-Q1FY23. **Net debt-to-underlying EBITDA was 1.3x as of end-Q1 vs. 1.4x at end-Q4.**

Key comments related to currency devaluation

- Due to the timing of the Nigerian 'Naira' devaluation, the weighted average NGN/USD rate used in Q1 results was 503NGN to a USD, as opposed to the closing rate of 752 NGN/USD. As a result, the impact of the Nigerian 'Naira' devaluation on reported revenue and EBITDA in Q1FY24 has been minimal, at USD45mn and USD24mn, respectively.
- If the closing rate of 752 NGN/USD were to be used, reported revenue for Q1 would have fallen 4.4% YoY (10% QoQ) to USD1,202mn vs 9.6% YoY growth, which was reported; reported EBITDA would have declined 3.5% YoY (-10% QoQ) to USD592mn, as opposed to the 11.1% growth reported. This would have led to margin of 49.2% vs. 49.5% reported.
- The Group has previously communicated that a 12-month impact of a 1% devaluation of the Nigerian Naira would have a negative impact of USD22mn on revenue.
- In line with the published sensitivity analysis, impact of devaluation, seen to date, is expected at USD850-900mn on annualized revenue. The Naira devaluation impact reported this quarter amounts to only USD45mn, reflecting the timing of the devaluation.

Key takeaways from the earnings call

- Nigeria continues to see strong trends in CC growth, across all regions.
- DRC: has seen some aggressive pricing behavior by field operators.
- Nigeria has been consistently growing at >20% in local-currency or CC terms; hence, to maintain such momentum, Company needs to keep investing in Nigeria because of the growth opportunity. In Nigeria, pricing is regulated by the Regulator, so the company will not immediately take a price hike. Management expects double-digit growth in revenue from increased usage.
- Mobile money business continues to see a fairly strong performance. Mobile money added 90k more customers in Q2 in Nigeria, and now boasts of 1.5mn customers. It attracted over USD100mn in terms of transaction value.
- Company has no plan to reduce capex, even post the currency depreciation.
- If the company considers the exchange rate for Nigeria at 752, then the leverage at the end of the year will be in the 1.4-1.5x range vs. 1.3x currently.
- For saving energy, Company is using conversion to lithium battery and use of solar panels.

Exhibit 20: Airtel Africa – Q1FY24 results

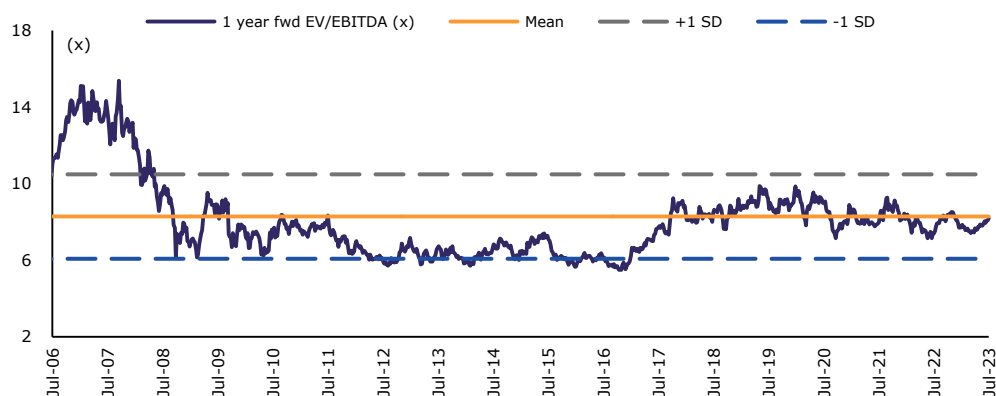
(USD mn)	Q1FY23	Q4FY23	Q1FY24	YoY Constant currency - YoY		QoQ
Revenue	1,257	1,341	1,377	9.5%	20.4%	2.7%
Expenses	645	682	695	7.8%		1.9%
Underlying EBITDA	614	659	682	11.1%	22.5%	3.5%
Underlying EBITDA margin	48.8%	49.1%	49.5%	69 bps	83 bps	38 bps
Net finance costs	151	204	212	40.4%		3.9%
Profit After Tax	178	227	-151	-184.8%		-166.5%
Non-Controlling Interest	-15	-32	-19			
Profit attributable to parent company	163	195	-170			
Basic EPS - pre-exceptional items (USD)	3.8	2.8	3.9	2.6%		39.3%
Basic EPS (USD)	4.4	5.2	-4.5	-202.3%		-186.5%
Capex	141	291	140	-0.7%		-51.9%
Operating Free Cash Flow	473	368	542	14.6%		47.3%
Operational Performance						
ARPU (USD)	3.2	3.2	3.2	1.1%	11.1%	0.0%
Total customer base (mn)	131.8	140.0	143.1	8.6%		2.2%
Customer addition (mn)	3.3	1.5	3.1	-6.1%		106.7%
Data customer base (mn)	46.5	54.6	56.8	22.2%		4.0%
Mobile money customer (mn)	27.6	31.5	34.3	24.3%		8.9%
Mobile money penetration	20.9%	22.5%	24.0%	302 bps		146 bps
Data customer penetration	35.3%	39.0%	39.7%	441 bps		69 bps

Source: Company, Emkay Research

Exhibit 21: Airtel Africa – Regional performance for mobile and mobile money

Regional performance, Mobile (USD mn)	Q1FY23	Q4FY23	Q1FY24	YoY	Cons. curr - YoY	QoQ
Nigeria						
Revenue	517	543	528	2.1%	23.0%	-2.8%
Underlying EBITDA	274	284	284	3.6%	25.2%	0.0%
Underlying EBITDA margin	52.9%	52.3%	53.7%	80 bps	94 bps	139 bps
East Africa						
Revenue	359	380	397	10.6%	19.8%	4.5%
Underlying EBITDA	168	193	195	16.1%	24.2%	1.0%
Underlying EBITDA margin	46.9%	50.8%	49.1%	217 bps	174 bps	-168 bps
Francophone Africa						
Revenue	262	282	299	14.1%	13.0%	6.0%
Underlying EBITDA	113	124	131	15.4%	14.3%	5.6%
Underlying EBITDA margin	43.2%	44.0%	43.8%	53 bps	52 bps	-16 bps
Mobile Money						
Revenue	159	176	201	26.4%	31.2%	14.2%
Underlying EBITDA	81	88	103	27.2%	32.6%	17.0%
Underlying EBITDA margin	50.6%	49.8%	51.2%	56 bps	54 bps	144 bps

Source: Company, Emkay Research

Exhibit 22: One-year forward EV/EBITDA

Source: Bloomberg

Bharti Airtel: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	11,65,469	13,91,448	14,94,769	16,74,383	19,01,734
Revenue growth (%)	15.8	19.4	7.4	12.0	13.6
EBITDA	5,75,339	7,12,735	7,99,175	9,31,756	10,79,775
EBITDA growth (%)	26.8	23.9	12.1	16.6	15.9
Depreciation & Amortization	3,30,907	3,64,318	4,06,706	4,21,069	4,38,745
EBIT	2,44,432	3,48,417	3,92,470	5,10,687	6,41,029
EBIT growth (%)	53.1	42.5	12.6	30.1	25.5
Other operating income	5,343	9,366	10,000	11,000	11,000
Other income	5,343	9,366	10,000	11,000	11,000
Financial expense	1,66,162	1,92,999	1,88,612	1,79,623	1,66,734
PBT	83,613	1,64,784	2,13,858	3,42,063	4,85,295
Extraordinary items	16,986	(6,698)	(34,163)	0	0
Taxes	41,779	42,733	64,079	1,07,258	1,38,818
Minority interest	(40,503)	(39,415)	(32,077)	(48,000)	(48,000)
Income from JV/Associates	24,232	7,521	14,947	13,976	16,197
Reported PAT	42,549	83,459	98,486	2,00,782	3,14,675
PAT growth (%)	0.0	96.1	18.0	103.9	56.7
Adjusted PAT	25,563	90,157	1,32,649	2,00,782	3,14,675
Diluted EPS (Rs)	7.1	14.0	16.5	33.6	52.7
Diluted EPS growth (%)	0.0	96.1	18.0	103.9	56.7
DPS (Rs)	0.0	3.8	3.0	3.0	3.0
Dividend payout (%)	0.0	27.2	17.9	8.8	5.6
EBITDA margin (%)	49.4	51.2	53.5	55.6	56.8
EBIT margin (%)	21.0	25.0	26.3	30.5	33.7
Effective tax rate (%)	50.0	25.9	30.0	31.4	28.6
NOPLAT (pre-IndAS)	1,22,296	2,58,063	2,74,873	3,50,555	4,57,664
Shares outstanding (mn)	5,967.4	5,967.4	5,967.4	5,967.4	5,967.4

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	83,613	1,64,784	2,13,858	3,42,063	4,85,295
Others (non-cash items)	0	0	0	0	0
Taxes paid	(41,779)	(42,733)	(64,079)	(1,07,258)	(1,38,818)
Change in NWC	89,457	36,384	33,374	92,506	13,625
Operating cash flow	4,17,430	5,18,388	5,39,566	7,24,357	7,77,045
Capital expenditure	(5,39,225)	(3,40,968)	(3,61,800)	(2,71,040)	(2,41,040)
Acquisition of business	(49,922)	0	0	0	0
Interest & dividend income	4,052	4,052	4,052	4,052	4,052
Investing cash flow	(5,51,869)	(3,31,602)	(3,51,800)	(2,60,040)	(2,30,040)
Equity raised/(repaid)	490	416	1,502	0	0
Debt raised/(repaid)	68,927	2,16,152	(2,00,000)	(2,50,000)	(4,00,000)
Payment of lease liabilities	396	369	373	376	(38,025)
Interest paid	(1,66,162)	(1,92,999)	(1,88,612)	(1,79,623)	(1,66,734)
Dividend paid (incl tax)	0	(26,551)	(20,618)	(20,618)	(20,618)
Others	3,59,056	1,23,809	4,15,955	2,70,713	2,70,713
Financing cash flow	2,62,311	1,20,827	8,227	(1,79,528)	(3,16,639)
Net chg in Cash	1,27,872	3,07,613	1,95,993	2,84,789	2,30,367
OCF	4,17,430	5,18,388	5,39,566	7,24,357	7,77,045
Adj. OCF (w/o NWC chg.)	5,06,887	5,54,772	5,72,940	8,16,862	7,90,671
FCFF	(1,21,795)	1,77,420	1,77,766	4,53,317	5,36,005
FCFE	(2,83,905)	(11,527)	(6,794)	2,77,746	3,73,324
OCF/EBITDA (%)	72.6	72.7	67.5	77.7	72.0
FCFE/PAT (%)	(667.2)	(13.8)	(6.9)	138.3	118.6
FCFF/NOPLAT (%)	(99.6)	68.8	64.7	129.3	117.1

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	27,950	28,366	29,868	29,868	29,868
Reserves & Surplus	9,23,293	10,91,165	12,93,737	14,37,597	16,92,553
Net worth	9,51,243	11,19,531	13,23,604	14,67,465	17,22,421
Minority interests	2,53,807	2,88,814	3,20,891	3,68,891	4,16,891
Deferred tax liability (net)	24,488	20,762	20,762	20,762	20,762
Total debt	16,96,779	22,60,203	20,60,203	18,10,203	14,10,203
Total liabilities & equity	29,26,317	36,89,310	37,25,460	36,67,321	35,70,276
Net tangible fixed assets	9,05,725	9,52,241	9,87,617	8,94,493	7,57,927
Net intangible assets	8,74,509	9,37,490	8,56,094	7,74,527	6,92,790
Net ROU assets	3,22,286	5,46,466	5,47,581	5,72,243	5,92,841
Capital WIP	59,547	4,94,254	4,94,254	4,94,254	4,94,254
Goodwill	3,38,313	3,38,313	3,38,313	3,38,313	3,38,313
Investments [JV/Associates]	2,84,268	2,84,268	2,84,268	2,84,268	2,84,268
Cash & equivalents	1,44,166	1,78,885	2,93,315	4,77,710	5,91,997
Current assets (ex-cash)	7,07,746	7,34,415	7,13,902	7,26,931	7,55,669
Current Liab. & Prov.	7,10,243	7,77,022	7,89,883	8,95,418	9,37,781
NWC (ex-cash)	(2,497)	(42,607)	(75,981)	(1,68,487)	(1,82,112)
Total assets	29,26,317	36,89,310	37,25,460	36,67,321	35,70,276
Net debt	15,52,613	20,81,318	17,66,888	13,32,493	8,18,206
Capital employed	29,26,317	36,89,310	37,25,460	36,67,321	35,70,276
Invested capital	24,38,336	27,31,903	26,53,623	24,11,089	21,99,758
BVPS (Rs)	159.4	187.6	221.8	245.9	288.6
Net Debt/Equity (x)	1.6	1.9	1.3	0.9	0.5
Net Debt/EBITDA (x)	2.7	2.9	2.2	1.4	0.8
Interest coverage (x)	0.7	0.5	0.5	0.3	0.3
RoCE (%)	8.8	10.8	10.9	14.1	18.0

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	207.7	58.9	40.0	26.4	16.9
P/CE (x)	14.9	11.7	9.8	8.5	7.0
P/B (x)	5.6	4.7	4.0	3.6	3.1
EV/Sales (x)	5.9	5.3	4.7	4.0	3.2
EV/EBITDA (x)	11.9	10.4	8.9	7.1	5.7
EV/EBIT(x)	28.1	21.2	18.0	13.0	9.6
EV/IC (x)	2.8	2.7	2.7	2.8	2.8
FCFF yield (%)	(1.8)	2.4	2.5	6.8	8.7
FCFE yield (%)	(5.3)	(0.2)	(0.1)	5.2	7.0
Dividend yield (%)	0.0	0.4	0.3	0.3	0.3
DuPont-RoE split					
Net profit margin (%)	2.2	6.5	8.9	12.0	16.5
Total asset turnover (x)	0.4	0.4	0.4	0.5	0.5
Assets/Equity (x)	3.1	3.2	3.0	2.6	2.3
RoE (%)	2.7	8.7	10.9	14.4	19.7
DuPont-RoIC					
NOPLAT margin (%)	10.5	18.5	18.4	20.9	24.1
IC turnover (x)	0.5	0.5	0.6	0.7	0.8
RoIC (%)	5.1	10.0	10.2	13.8	19.9
Operating metrics					
Core NWC days	(0.8)	(11.2)	(18.6)	(36.7)	(35.0)
Total NWC days	(0.8)	(11.2)	(18.6)	(36.7)	(35.0)
Fixed asset turnover	0.3	0.3	0.3	0.4	0.4
Opex-to-revenue (%)	50.6	48.8	46.5	44.4	43.2

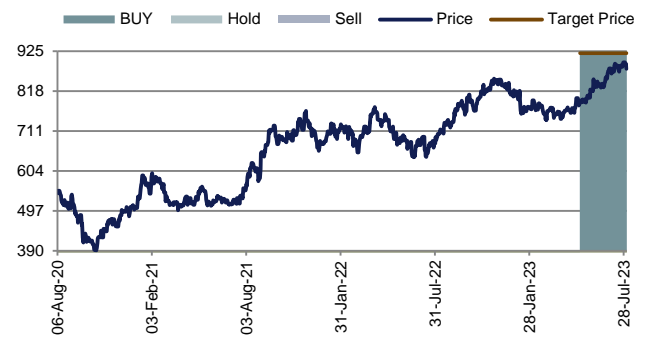
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
17-May-23	792	920	Buy	Santosh Sinha
05-May-23	787	920	Buy	Santosh Sinha

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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