Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Bharti Airtel

Good Q1, Maintain Buy

Telecom	Sharekhan code: BHARTIARTL
Reco/View: Buy ↔	CMP: Rs. 890
	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 19.48

Updated Aug 07, 2023

Low Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 4,97,517 cr
52-week high/low:	Rs. 901/681
NSE volume: (No of shares)	51.05 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	269 cr

Shareholding (%)

Promoters	55.0
FII	21.5
DII	19.6
Others	4.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	12.8	12.3	28.3
Relative to Sensex	2.5	6.4	4.2	15.6

Sharekhan Research, Bloomberg

Summary

- Consolidated revenues rose 4% q-o-q (up 14.1% y-o-y) to Rs. 37,440 crore, beating our estimate. Revenue was driven by Home business, Airtel business and Mobile services India revenues which grew 25.4%/15.8% and 11.9% y-o-y respectively.
- EBITDA margin for the quarter improved by ~40Bps q-o-q/~ 200 bps y-o-y to 52.3%, in-line with our estimates, led by lower network operating expenses.
- Company reached ARPU milestone of Rs. 200 during the quarter while it continued to achieve strong growth in Mobility, Homes Services and Airtel Business. Africa Business comprising 30% of overall business continues to be resilient.
- Bharti Airtel continues to maintain pole position in Mobile India Service ARPU, reaching an ARPU milestone of Rs 200 in Q1FY24 with continued strong traction in Mobility, Homes Services and Airtel Business. 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 30.1x its FY25E EPS and 9.3x FY25E EV/EBITDA.

Q1FY24 numbers were strong as consolidated revenues increased by 4% q-o-q (up 14.1% y-o-y) to Rs. 37,440 crore, beating our estimate of Rs 36,126 crore. Revenue was driven by the Home, Airtel business and Mobile services India revenues, each of which grew 25.4%/15.8% and 11.9% y-o-y respectively. India wireless business revenue growth was strong owing to jump in ARPU at Rs 200 as well as strong 4G customer additions that rose by 5.6 million, up 2.5%q-o-q. EBITDA margin improved by ~40 bps q-o-q/~ 200 bps y-o-y to 52.3%, in-line with our estimates, led by lower network operating expenses. Reported net profit at Rs. 1612.5 crore was impacted by exceptional loss of Rs. 3416.3 crore relating to Nigerian currency devaluation. Home services revenue growth stayed strong at 25.4% y-o-y, led by strong customer additions(net additions up 2.3% q-o-q), while its ARPU declined by 1.0% q-o-q. Airtel Business revenues rose by 15.8% y-o-y, backed by robust demand for data and connectivity-related solutions. DTH business revenues declined by 1.0% y-o-y during the quarter. Consolidated capex for Q1FY24 stood at Rs. 10,485.8 crore against Rs 6398.2 crore in Q4FY23. Net debt declined to Rs. 2077 billion from Rs. 2131 billion in Q4FY23. The company reported strong revenue performance with healthy addition in 4G subscriber and strong sequential jump in ARPU. Strong growth in home business and Airtel business continued while company was able to reduce net debt during the quarter. Bharti Airtel continues to maintain pole position in Mobile India Service ARPUs, reaching ARPU milestone of Rs 200 in Q1FY24 with continued traction in Mobility, Homes Services and Airtel Business. 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 30.1x its FY25E EPS and 9.3x FY25E EV/EBITDA.

Key positives

- Mobile services (India) ARPU surged to Rs. 200, up 3.6% q-o-q
- 4G data customers were up by 24.5 million y-o-y & 5.5 million q-o-q, forming 70.4% of overall mobile customer base
- Net debt to annualized EBITDA ratio declined to 2.63x (vs. 2.83x in Q4FY23)

Key negatives

- Revenue from Digital TV Services business declined by 1% y-o-y, led by a 2.5% decline in ARPU.
- Exceptional loss (Forex loss) of Rs. 3,416 crore due to devaluation of Nigerian currency.

Management Commentary

- Network cost takeout program delivered strong results. Network operating expenses for India declined 0.5% with lower operating cost per site per month compared to previous quarters. Identification of high-cost sites and bespoke solutions drove cost reduction along with Solar solutions, better batteries, and site reconfigurations.
- Transition from feature phones to smartphones, the addition of 5.6 million 4G net subscribers, prepaid to postpaid migration, increased data consumption and monetization, simplified international roaming, and the introduction of a new price point from Rs 99 to Rs 155 collectively drove increase in ARPU.

Revision in estimates - We have fine-tuned FY24-FY25 estimates to factor in the healthy Q1 performance and the impact of currency devaluation in Africa business.

Our Call

Valuation – Maintain Buy with unchanged PT of Rs 1010: Bharti Airtel continues to maintain pole position in Mobile India Service ARPU, reaching the milestone ARPU of Rs 200 in Q1FY24 with continued traction in Mobility, Homes and Services business. We expect 8.9%/45% Sales and PAT CAGR over FY23-25E. Hence, we maintain a Buy on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 30.1x its FY25E EPS and 9.3x FY25E 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	FY22	FY23	FY24E	FY54E
Revenue	1,16,546.9	1,39,144.8	1,47,168.2	1,64,938.9
OPM (%)	49.4	51.2	53.5	53.8
Adjusted PAT	4,865.5	8,345.9	13,789.6	17,627.8
% Y-o-y growth	*NM*	*71.5*	*65.2*	*27.8*
Adjusted EPS (Rs.)	7.6	14.0	23.1	29.5
P/E (x)	116.7	63.7	38.5	30.1
P/B (x)	8.0	6.8	5.5	5.2
EV/EBITDA (x)	12.6	10.9	10.1	9.3
RoNW (%)	6.3	7.7	15.3	16.7
RoCE (%)	11.5	12.9	11.1	12.1

Source: Company; Sharekhan estimates

Key result highlights

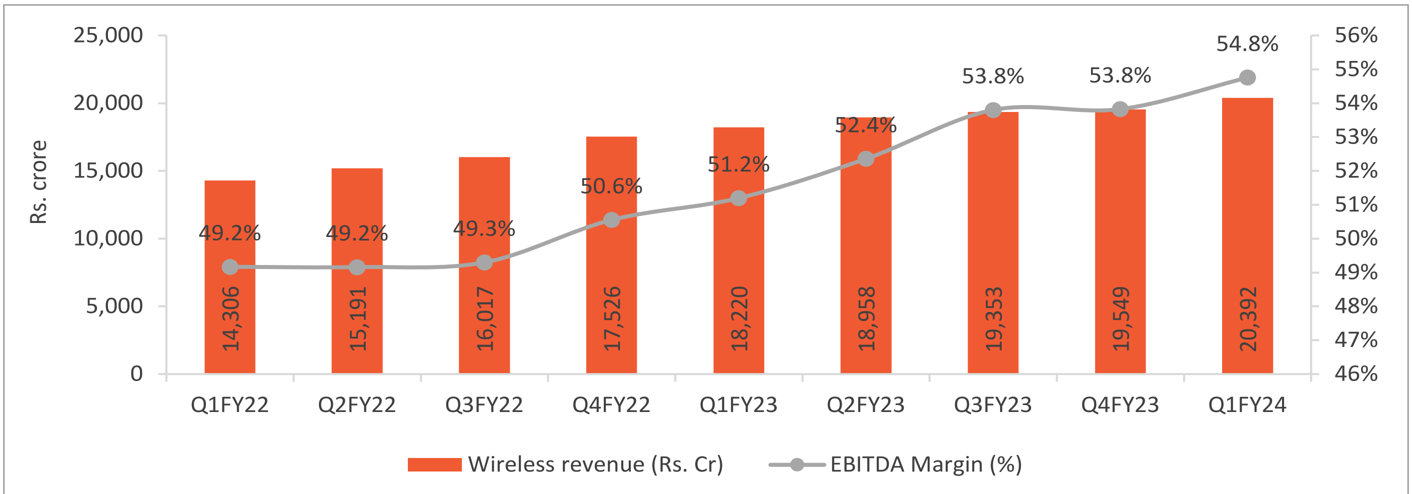
- **India wireless business:** The India mobile services business grew by 4.3% q-o-q and 11.9% y-o-y to Rs. 19,549 crores, led by continued 4G customer addition with strong sequential jump in ARPU at Rs 200. 4G data customers were up by 24.5 million y-o-y & 5.5 million q-o-q, forming 70.4% of the overall mobile customer base. The reported strong improvement in average revenue per user (ARPU) to Rs. 200 from Rs 193, up 3.6% q-o-q. Company reported highest ever postpaid net adds of 0.8 million in Q1FY24. Mobile data consumption was up by 21.6% y-o-y with consumption per customer at 21.1 GB per month.
- **Africa business:** Africa business reported a decent revenue growth of 2.7% q-o-q/9.5% y-o-y at $1,377 million(up 20% y-o-y in constant currency). EBITDA margins improved to 49.5%, up 40 bps q-o-q. Africa business generated operating FCF of $543 million versus $368 million in Q4FY23. The customer base stood at 143.1 million while Capex for the quarter was Rs 1,150 crore.
- **Airtel business:** Airtel business' revenues rose by 15.8% y-o-y/5.6% q-o-q, backed by robust demand for data and connectivity-related solutions. Airtel Business EBITDA margin fell 1.6% to 39.5% in Q1FY24. Operating cash flow for Q1 stood at Rs 13,840 crore while capex stood at Rs 6140 crore.
- **Homes services business:** Home Service business continued to report strong revenues at Rs 1162 crore, 25.4 y-o-y/ 6% q-o-q. It continued to accelerate its presence with 414,000 customer net additions in Q1FY24 . However, the ARPU was down 6.7% y-o-y/1.0 q-o-q .
- **Digital TV:** Digital TV continues to consolidate its strong market position with 15.9 million customers at the end of the quarter. Revenue from Digital TV Services business declined by 1% y-o-y, led by a 2.5% decline in ARPU. DTH segment lost 28,000 customers due to seasonality and reduced cricket viewership in the Hindi belt. However, core Southern markets performed well with positive net additions. Market-specific strategies and focus on the convergence portfolio aim to increase ARPU and customer stickiness, particularly through Airtel Black. Currently, 25% of DTH acquisitions occur through the converged plans.
- **Capex:** Management highlighted that capital expenditure for the quarter is around 9,300 crores and is expected to align with the guidance of Rs 28,000-31,000 crore for the full year. They emphasized that CapEx is necessary for future-proofing initiatives such as 5G radio rollout, transport infrastructure, broadband rollout, and data centers, all of which present significant growth opportunities. Additionally, despite the increased capex, the net debt to EBITDA ratio for India has decreased from 3.43 in the Q4FY23 to 3.19 in the Q1FY24.
- **Geographic opportunity:** The company identified two significant geographic opportunity segments- rural areas and the top 150 cities. In the rural segment, expansion of the network into 60,000 high potential villages is per expectation, driven by the precise planning of the network using digital tools and data science, resulting in higher revenue per site and lower operating costs. In the top 150 cities, the company focuses on quality customer opportunity, targeting over 80% of postpaid broadband converged homes and 100% of B2B opportunities. Through the utilization of digital tools, Airtel aims to leverage its network, channels, and resources to win in these cities.
- **Levers to ARPU:** Transition from prepaid to postpaid, family plan proposition lever, introduction of 5G which acts as a powerful incentive to attract and retain customers, while the strategic expansion of neighborhood stores further capitalises on local market opportunities.
- **Net Debt & FCF :** Operating FCF improved to Rs 9260.3 crore, up by 25% q-o-q. Net debt to annualised EBITDA (including the impact of leases) declined to 2.63x in Q1FY24 from 2.83x in Q4FY23. Company has paid Rs. 8024 crore to the Department of Telecommunications towards part prepayment of deferred liabilities pertaining to spectrum acquired in auction of year 2015.
- **Exceptional loss:** Central Bank of Nigeria (CBN) has devalued the Nigerian Naira by around 62% against the US Dollar. This devaluation led to a foreign exchange loss of Rs. 3416.3 crore for the company, which has been reported as an exceptional item in the profit and loss statement.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net Sales	37,440.0	32,804.6	14.1	36,009.0	4.0
License fees & Spectrum charges	2,940.3	3,130.6	-6.1	2,827.9	4.0
Employee expenses	1,257.2	1,123.5	11.9	1,263.4	-0.5
Access & InterConnection Charges	1,997.2	1,869.8	6.8	1,884.7	6.0
Network Operating Expenses	7,403.6	6,682.8	10.8	7,401.8	0.0
Other Expenses	2,183.6	1,901.6	14.8	1,949.7	12.0
Operating Profit	19,598.5	16,529.4	18.6	18,697.1	4.8
Net Finance Charges (Including Exchange Fluctuation)	5,613.7	4,510.9	24.4	5,163.1	8.7
Depreciation & Amortisation	9,653.8	8,781.4	9.9	9,405.9	2.6
Tax Expense	332.7	1,123.3	-70.4	788.0	-57.8
Reported Net Income	1,612.5	1,606.9	0.3	3,005.6	-46.4
Adjusted Net Income	5,028.8	1,606.9	213.0	3,005.6	67.3
EPS	2.8	2.5	13.5	5.0	-44.6
Margins (%)					
OPM	52.3	50.4	196	51.9	42
NPM (Adj)	13.4	4.9	853	8.3	508
Tax rate	0.3	32.8	-3,249	0.2	8

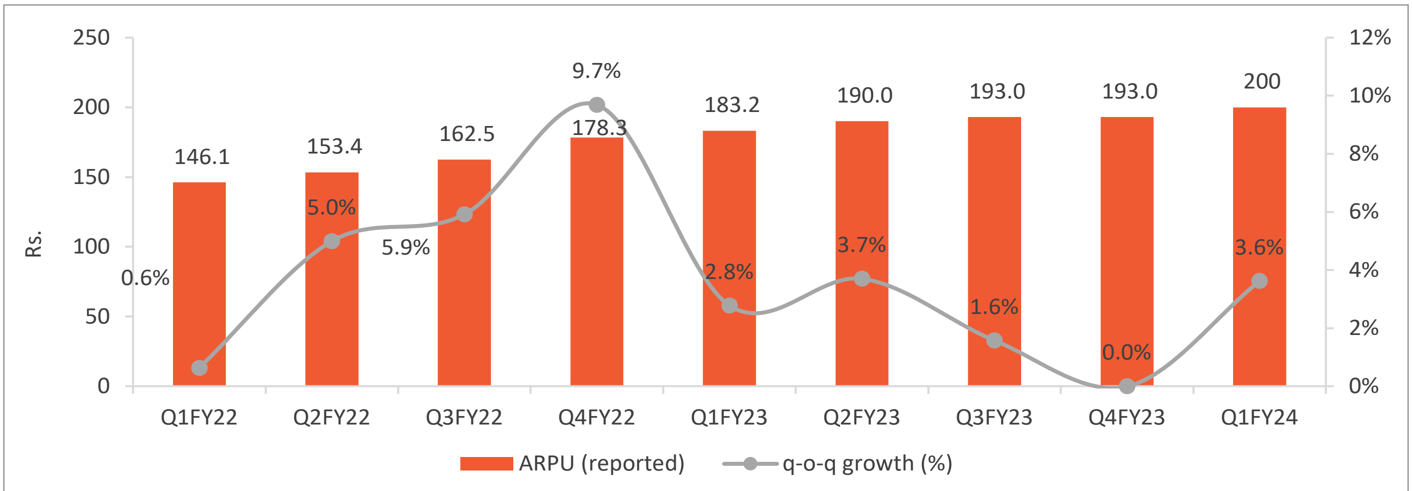
Source: Company, Sharekhan Research

India wireless revenue trend



Source: Sharekhan Research

ARPU trend q-o-q



Source: Sharekhan Research

Outlook and Valuation

■ Sector view - Large addressable market

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.

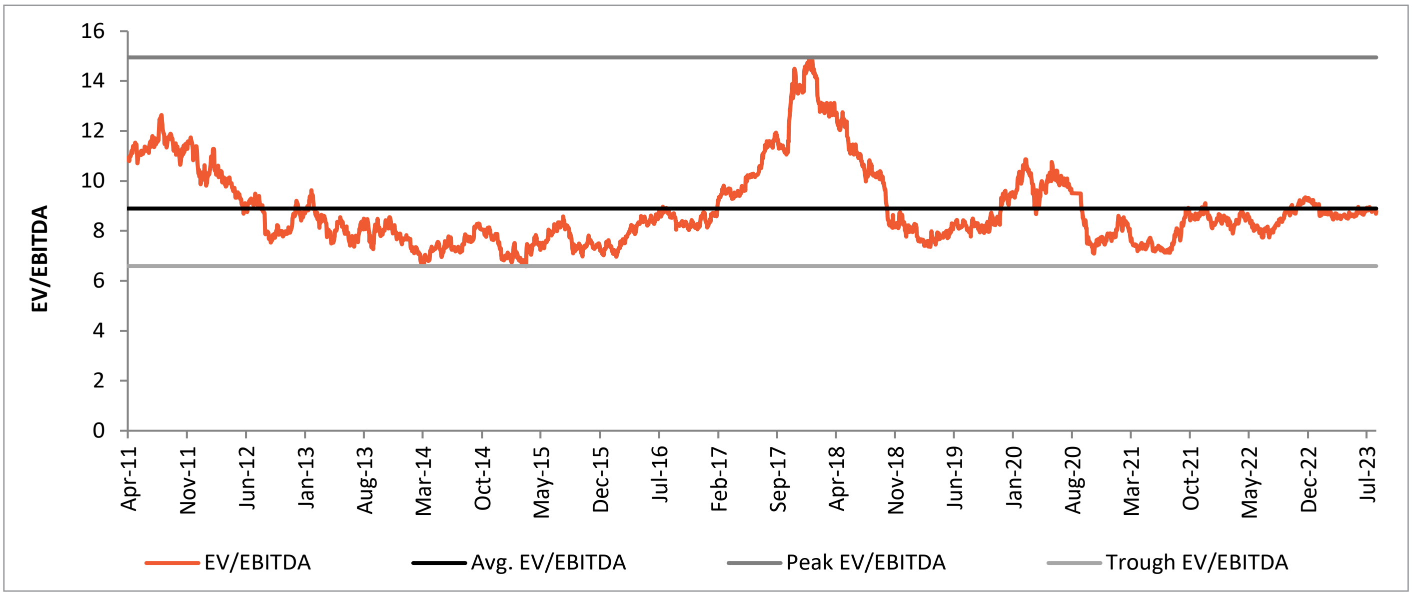
■ Company outlook - Better positioned to gain market share

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 - Maintain Buy with unchanged PT of Rs 1010

Bharti Airtel continues to maintain pole position in Mobile India Service ARPU, reaching the milestone ARPU of Rs 200 in Q1FY24 with continued traction in Mobility, Homes and Services business. We expect 8.9%/45% Sales and PAT CAGR over FY23-25E. Hence, we maintain a Buy on Bharti with an unchanged price target (PT) of Rs. 1,010. At the CMP the stock trades at 30.1x its FY25E EPS and 9.3x FY25E 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 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	Life Insurance Corp of India	4.48
2	Capital Group Cos Inc/The	3.73
3	SBI Funds Management Ltd	3.14
4	EUROPACIFIC GROWTH FUND	2.27
5	ICICI Prudential Asset Management	2.17
6	BlackRock Inc	1.62
7	Vanguard Group Inc/The	1.42
8	Alphabet Inc	1.27
9	HDFC Asset Management Co Ltd	1.27
10	NPS Trust A/c Uti Retirement Solut	1.15

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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