Bharti Airtel Ltd

Soft Q4, Maintain Buy

Telecom	Sharekhan code: BHARTIARTL
Reco/View: Buy ↔	CMP: Rs. 1,312
	Price Target: Rs. 1,550 ↑

↑ 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		↔	

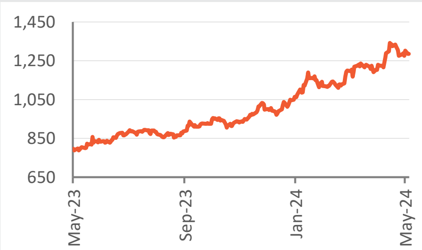
Company details

Market cap:	Rs. 7,93,264 cr
52-week high/low:	Rs. 1,364 / 784
NSE volume: (No of shares)	60.48 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	281.0 cr

Shareholding (%)

Promoters	53.5
FII	24.4
DII	19.2
Others	3.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	17.0	38.1	64.4
Relative to Sensex	7.6	15.7	27.0	47.3

Sharekhan Research, Bloomberg

Summary

- Consolidated revenues stood at Rs. 37,599 crore, down 0.8% q-o-q/up 4.4% y-o-y missing our estimates by 3.3%, impacted by currency devaluation in Africa.
- Consolidated EBITDA margin lagged expectations at 51.5%, down 78 bps q-o-q/42 bps y-o-y, missing our estimates of 52.7%. Growth was driven by the Home business, Mobile services India, Airtel business revenues and Digital TV which grew 20%/ 12.9%/14.1% and 5.5% y-o-y respectively.
- In the medium term, management sees strong growth tailwinds in non-mobile parts of its portfolio which are homes, B2B, and digital TV.
- We maintain Buy on Bharti Airtel with a revised price target of 1,550(raised target multiple to 11x FY26E EV/EBITDA to factor tariff hikes over FY25-26E). At CMP, the stock trades at 23.7x its FY26E EPS and 10x FY26E EV/EBITDA.

Bharti Airtel reported consolidated revenue of Rs 37,599 crore, down 0.8% q-o-q/ up 4.4% y-o-y missing our estimates by 3.3%, impacted by currency devaluation in Africa. India Business revenues stood at Rs 28,513, up 12.9% y-o-y, driven by strong and consistent performance across the portfolio. Growth was driven by led by the Home business, Mobile services India, Airtel business revenues and Digital Tv which grew 20%/ 12.9%/14.1% and 5.5% y-o-y respectively. Growth in India mobile services revenue was led by strong 4G/5G customer additions and increase in ARPU. India Mobile Services ARPU saw marginal growth rising by 0.5% q-o-q to Rs. 209 while 4G/5G data customers grew steadily by 12.8% y-o-y/ 3% q-o-q reaching 253 million subscribers. Consolidated EBITDA margin fell short of expectations at 51.5%, down 78 bps q-o-q/42 bps y-o-y, missing our estimates of 52.7% owing to higher license fees & spectrum charges, employee expenses, network operating expenses and sales & marketing expenses. The Africa business reported revenue decline of 10% q-o-q to $1,118 million (up 3% y-o-y in CC terms) on account of currency devaluation in Africa. The company reported net profit at Rs. 2,072 crore which was impacted by an exceptional item of Rs. 2,456 crore. Consolidated capex stood at Rs. 10,516 crores, up 13.4% q-o-q. India business generated operating free cash flows of Rs 6,769.7 crore, up 54% y-o-y. With the company maintaining industry leading ARPU, we believe the company is well placed to benefit from tariff hikes which are likely post elections. Further, after a high capex due to 5G rollout in FY24, moderation in capex in FY25 will be another positive. We maintain Buy on Bharti Airtel with a revised price target of 1,550 (raised target multiple to 11x FY26E EV/EBITDA to factor tariff hikes over FY25-26E). At CMP, the stock trades at 23.7x its FY26E EPS and 10x FY26E EV/EBITDA.

Key positives

- 4G/5G data customers grew 12.8% y-o-y/ 3% q-o-q reaching 252.7 million subscribers.
- Home Services subscribers touched 7.6 million, up 5% q-o-q.
- Data usage per customer grew 2.9% q-o-q/11.5% y-o-y to 22.6 GB
- Monthly churn reduced to 2.4% in Q4FY24 from 2.9% in Q3FY24.

Key negatives

- India Mobile Services ARPU saw muted growth rising by 0.5% q-o-q to Rs. 209 (up 2.5% q-o-q in Q3FY24).
- Home Business ARPU declined to Rs. 577 from Rs. 583 in Q3FY24.
- DTH ARPU declined to Rs. 160 from Rs. 163 in Q3FY24.

Management Commentary

- Feature phone to smartphone upgradation, prepaid to postpaid upgradation and driving a higher share of wallet through data monetization, as well as growth in the penetration of international roaming are the key drivers for ARPU.
- For DTH, the strategy of focusing on key markets of the South of Maharashtra, and of Bengal, combined with the pivot to convergence, is yielding positive green shoots.
- In the medium term, management sees strong growth tailwinds in non-mobile parts of its portfolio which are homes, B2B, and digital.
- Moderation on wireless capex is expected in FY25 after reaching peak level capex in FY24 due to 5G rollout. The company has stopped all investments in 4G, and the entire capacity enhancements is now only in 5G.
- The company expects to rollout 25,000 sites to plug the gap where its market share is weak.

Revision in estimates – We have revised earnings estimates to factor Q4FY24 performance ,currency devaluation in Africa business and anticipated tariff hikes.

Our Call

Valuation – Maintain Buy with revised PT of Rs. 1,550: The company reported decent numbers in Q4FY24 for India and Africa business but the consolidated result missed estimates due to impact of currency devaluation in Africa. Bharti's non-mobile India business continues to see increased traction improving generation of free cash flows. With the company maintaining industry leading ARPU, we believe the company is well-placed to benefit from tariff hikes which are likely post elections. Further, post elevated capex due to 5G rollout in FY24, moderation in capex in FY25 will be another positive. We maintain Buy on Bharti Airtel with revised price target of 1,550 (raised target multiple to 11x FY26E EV/EBITDA to factor tariff hikes over FY25-26E). At CMP, the stock trades at 23.7x its FY26E EPS and 10x FY26E 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	FY24	FY25E	FY26E
Revenue	1,16,546.9	1,39,144.8	1,49,982.4	1,70,138.3	1,95,960.3
OPM (%)	49.4	51.2	52.2	54.1	55.7
Adjusted PAT	4,865.5	9,015.7	15,039.3	24,861.1	32,685.1
% Y-o-y growth	NM	85.3	66.8	65.3	31.5
Adjusted EPS (Rs.)	7.6	15.1	25.5	42.1	55.4
P/E (x)	171.9	86.8	51.5	31.1	23.7
P/B (x)	11.9	10.2	9.7	8.8	4.2
EV/EBITDA (x)	17.1	14.6	13.1	11.9	10.0
RoNW (%)	6.3	7.7	9.0	27.1	22.0
RoCE (%)	11.5	12.9	12.9	16.5	16.3

Source: Company; Sharekhan estimates

Key result highlights

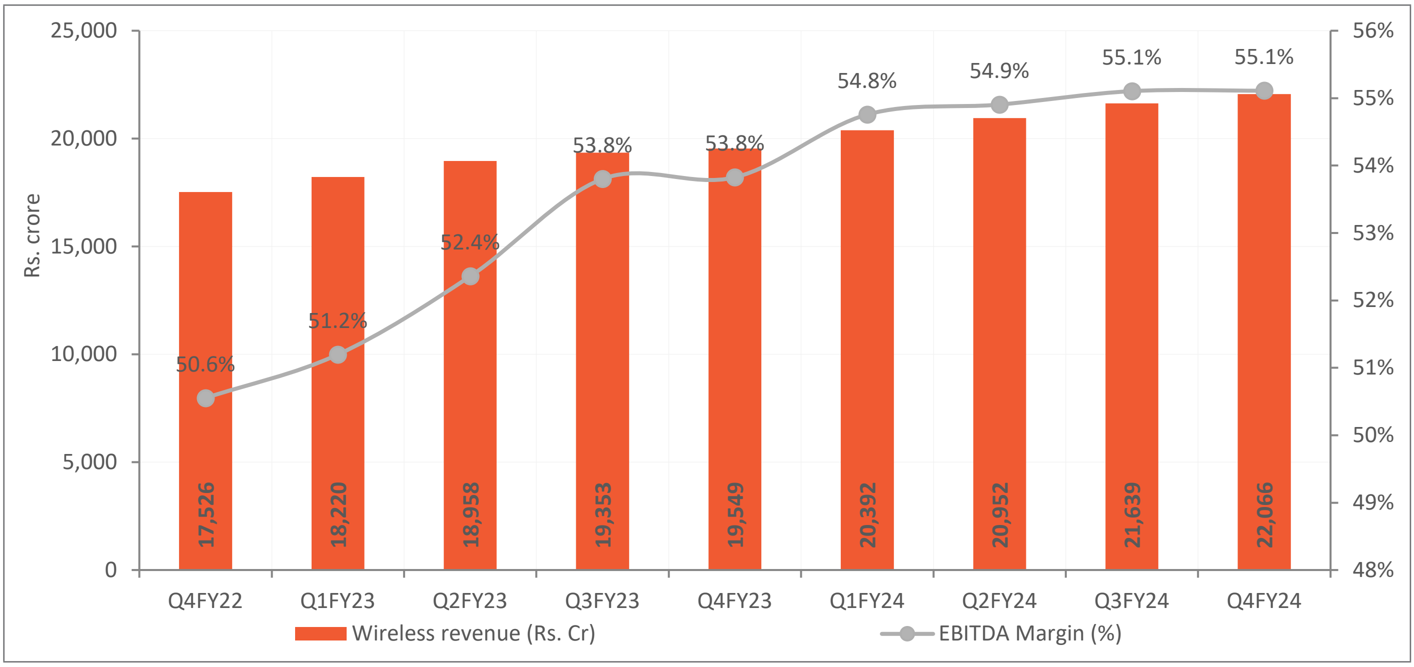
- **India wireless business:** The India mobile services revenues rose to Rs. 22,066 crore up 12.9% y-o-y/2% q-o-q led by strong 4G/5G customer additions and a slight increase in ARPU. Mobile ARPU rose to Rs 209 up 0.5% q-o-q. 4G/5G data customers were up by 28.6 million y-o-y/7.8 million q-o-q forming 72% of the overall mobile customer base. Mobile data consumption was up by 2.9% q-o-q/11.5% y-o-y with consumption per customer at 22.6 GB per month.
- **Africa business:** The Africa business reported a revenue decline of 10% q-o-q to $1,118 million (up 3% y-o-y in constant currency terms) on account of currency devaluation in Africa. Subscriber additions rose 1% q-o-q while ARPU stood at $2.62, up 1.5% q-o-q. EBITDA margin (in constant currency) stood at 47.4%, down 148 bps y-o-y.
- **Airtel business:** Airtel business' revenues stood at Rs 5462 crore, up 7% q-o-q/14.1% y-o-y backed by synergies from the emerging portfolio. EBITDA margins fell by 160 bps to 38.1%.
- **Home services business:** The segment continued to report strong revenues at Rs 1315.5 crore, up 3.4% q-o-q/20% y-o-y. It continued to accelerate its presence with 331,000 net customer additions in Q3FY24 . However, the ARPU was down 1.0% q-o-q to Rs 577.
- **Digital TV:** Digital TV revenues stood at Rs 769 crore, down 1.8% q-o-q/up 5.5% y-o-y. Digital Tv net additions should be at 9,000.
- **Free cash flows & capex:** India business generated operating free cash flows of Rs 6769.7 crore, down 6% q-o-q/54% y-o-y. Consolidated capex stood at Rs. 10516.3 crore, 13.4% q-o-q. Net debt stood at Rs. 2,04,646 crores from Rs. 2,02,070 crore in Q3FY24

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Net Sales	37599	36009	4.4	37900	-0.8
License fees & Spectrum charges	3111	2828	10.0	3021	3.0
Employee expenses	1364	1263	8.0	1323	3.1
Access & InterConnection Charges	1850	1885	-1.8	1857	-0.4
Network Operating Expenses	7599	7402	2.7	7593	0.1
Other Expenses	2244	1950	15.1	2245	0.0
Operating Profit	19365	18697	3.6	19815	-2.3
Net Finance Charges (Including Exchange Fluctuation)	5203	5163	0.8	6645	-21.7
Depreciation & Amortisation	10075	9406	7.1	10074	0.0
Tax Expense	710	788	-9.9	1232	-42.4
Reported Net Income	2072	3006	-31.1	2442	-15.2
Adjusted Net Income	4527	3006	50.6	2572	76.0
EPS	3.5	5.0	-30.3	4.2	-15.8
Margins (%)			**Bps**		**Bps**
OPM	51.5	51.9	-42.0	52.3	-78.0
NPM (Adj)	12.0	8.3	369.0	6.8	525.0

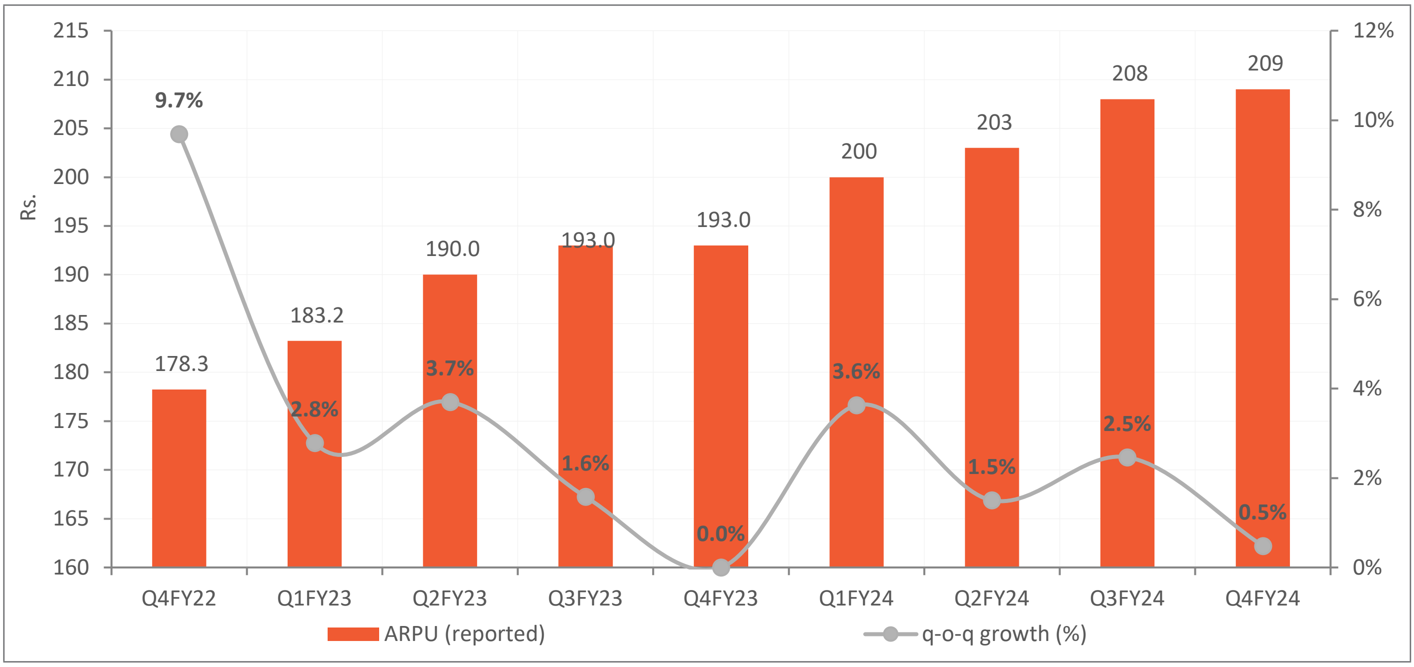
Source: Company; Sharekhan Research

India wireless revenue trend



Source: Sharekhan Research

ARPU trend q-o-q



Source: Sharekhan Research

Outlook and Valuation

■ Sector View – Large addressable market

After an 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 that 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 revised PT of Rs 1,550

The company reported decent numbers in Q4FY24 for India and Africa business but the consolidated result missed estimates due to impact of currency devaluation in Africa. Bharti's non-mobile India business continues to see increased traction improving generation of free cash flows. With the company maintaining industry leading ARPU, we believe the company is well-placed to benefit from tariff hikes which are likely post elections. Further, post elevated capex due to 5G rollout in FY24, moderation in capex in FY25 will be another positive. We maintain Buy on Bharti Airtel with revised price target of 1,550 (raised target multiple to 11x FY26E EV/EBITDA to factor tariff hikes over FY25-26E). At CMP, the stock trades at 23.7x its FY26E EPS and 10x FY26E EV/EBITDA.

One-year forward EV/EBITDA 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 pressurize realisations; and 2) Slower growth in data volumes could affect data revenue growth. 3) Slowdown in Africa operations could affect its 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	Pastel Ltd	9.22
2	INDIAN CONTINENT INVEST	4.42
3	Life Insurance Corp of India	4.30
4	Capital Group Cos Inc/The	3.75
5	SBI Funds Management Ltd	2.85
6	ICICI Prudential Asset Management	1.89
7	BlackRock Inc	1.72
8	Vanguard Group Inc/The	1.68
9	Republic of Singapore	1.47
10	HDFC Asset Management Co Ltd	1.34

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

Sharekhan

by BNP PARIBAS

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