



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. 8,82,040 cr
52-week high/low:	Rs. 1480/848
NSE volume: (No of shares)	68.42 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Free float: (No of shares)	281.3 cr

Shareholding (%)

Promoters	53.5
FII	24.4
DII	19.2
Others	3.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.0	19.9	45.9	71.2
Relative to Sensex	0.7	11.4	35.6	46.3

Sharekhan Research, Bloomberg

Bharti Airtel

Focus to shift to tariff hikes post spectrum auctions

Telecom	Sharekhan code: BHARTIARTL		
Reco/View: Buy	↔	CMP: Rs. 1,459	Price Target: Rs. 1,680
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate a Buy on Bharti Airtel with a revised PT of Rs. 1680 owing to its industry leading ARPU, incremental revenue market share gains and as it is well placed to be a key beneficiary of the expected tariff hikes over FY25-26E.
- Company has continued to narrow the revenue market share (RMS) gap with industry leader Reliance Jio, improving its RMS to 37.9% up 35/139 bps on q-o-q and y-o-y basis respectively.
- We believe tariff hikes of 15-20% are imminent post the conclusion of telecom spectrum auction with subsequent frequent tariff hikes going forward to aid the needed tariff repair.
- After an elevated capex in FY24, a decline in capex intensity in FY25 and possible tariff hikes is likely to aid a meaningful uptick in FCF generation.

Bharti Airtel has continued to narrow revenue market share (RMS) gap with industry leader Reliance Jio improving its RMS to 37.9% up 35/139 bps on q-o-q and y-o-y basis respectively as per the recent TRAI data. Market share gains have been aided by premiumization. Despite high capital expenditure incurred by Reliance Jio and Bharti Airtel to launch 5G services in 2022, tariffs have remained unchanged. We believe easy subscriber gains are unlikely for Bharti Airtel and Reliance Jio with Vodafone Idea expected to launch 5G services by year end, thus making way for imminent tariff hikes. We believe tariff hikes of 15-20% are imminent post conclusion of telecom spectrum auctions with subsequent frequent tariff hikes going forward. After an elevated capex in FY24 owing to vast 5G rollout and rural expansion, the moderation of capex in FY25 coupled with tariff hikes is likely to lead to improvement of the company's FCF profile. We reiterate Buy on Bharti Airtel with revised PT of Rs. 1680 (raised target multiple to 11.7x FY26E EV/EBITDA). Bharti is our preferred pick in the telecom space on account of its industry leading ARPU, incremental revenue market share gains and expected tariff hikes in the telecom sector. At CMP, the stock trades at 26.3x its FY26E EPS and 10.8x FY26E EV/EBITDA.

Tariff hikes seem imminent post spectrum auctions: Despite high capital expenditure incurred by Reliance Jio and Bharti Airtel to launch 5G services in 2022, tariffs have remained unchanged. Vodafone Idea has recently completed the minimum rollout requirements outlined in its spectrum licenses for its 5G network, with a likely year end launch. With Vodafone Idea in the 5G subscribers fray, easy subscriber's gains are unlikely for Bharti Airtel and Reliance Jio making way for imminent tariff hikes. Further, the 10th telecom spectrum auction is likely to accelerate the need for tariff hikes among the participants. We believe tariff hikes of 15-20% are imminent post the conclusion of spectrum auctions with subsequent frequent tariff hikes going forward to improve return ratio and aid tariff repair.

Steady gains in RMS: As per TRAI data, the telecom industry adjusted gross revenue (AGR) in the January-March quarter grew 1.9% sequentially and 9.7% on year to Rs 58,200 crore, as the premiumisation trend helped offset the drag due to the absence of any major tariff hikes. Growth was driven by a 1.2 % in Average Revenue per User (ARPU) and a 0.6% increase in subscribers. Bharti Airtel's revenue market share rose to 37.9%, up 35/139 bps on q-o-q and y-o-y basis respectively. while Reliance Jio's revenue market share rose to 42.1% up 3/45 bps on q-o-q and y-o-y basis, respectively. Bharti has continued to narrow the gap with the premiumisation trend playing out.

Slower capex intensity to improve FCF: The company's capex was elevated in FY24 driven by vast 5G rollout and rural expansion. The management believes capex to have peaked in FY24. India business generated operating free cash flows of Rs 25,564.9 crore in FY24, up 11.8%. The decline in capex intensity in FY25 and possible tariff hikes is likely to aid in meaningful uptick in FCF generation. Consolidated Net debt stood at Rs. 2,04,646 crores in Q4FY24 from Rs. 2,02,070 crore in Q3FY24.

Our Call

Valuation – Maintain Buy with revised PT of Rs 1680: The company has improved its RMS and is narrowing the gap with industry leader Reliance Jio while maintaining industry leading ARPUs aided by premiumization. Further strong growth momentum across Home Services, Mobile services India, Airtel business revenues and Digital Tv continues to aid Bharti Airtel India Business. We reiterate Buy on Bharti Airtel with a revised PT of Rs. 1680 (raised target multiple to 11.7x FY26E EV/EBITDA). The stock is our preferred pick in the telecom space on account of its industry-leading ARPU, incremental revenue market share gains and as it is well placed to be a key beneficiary of the expected tariff hikes over FY25-26E. At CMP, the stock trades at 26.3x its FY26E EPS and 10.8x FY26E EV/EBITDA.

Key Risks

Increasing competition could keep up the pressure on realisations. The decline in data volume growth and slowdown in Africa could affect revenue growth.

Valuation (Consolidated)

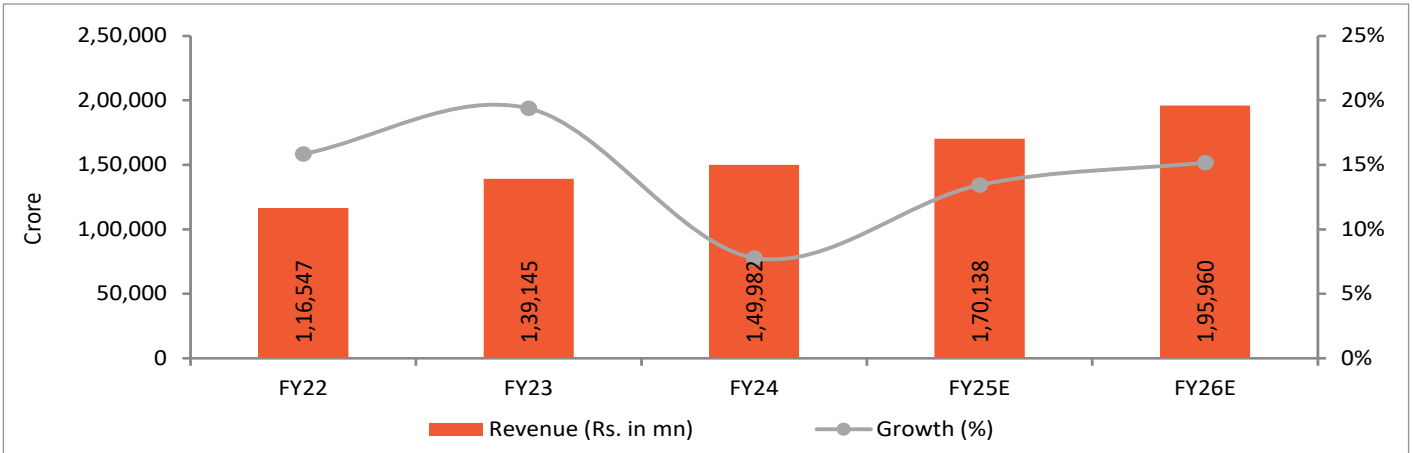
Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,16,547	1,39,145	1,49,982	1,70,138	1,95,960
OPM (%)	49.4	51.2	52.2	54.1	55.7
Adjusted PAT	4,865	9,016	15,039	24,861	32,685
% Y-o-y growth	NM	85.3	66.8	65.3	31.5
Adjusted EPS (Rs.)	7.6	15.1	25.5	42.1	55.4
P/E (x)	191.1	96.5	57.2	34.6	26.3
P/B (x)	13.3	11.4	10.8	9.8	4.7
EV/EBITDA (x)	18.7	15.8	14.3	12.9	10.8
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

10th Telecom Spectrum Auction

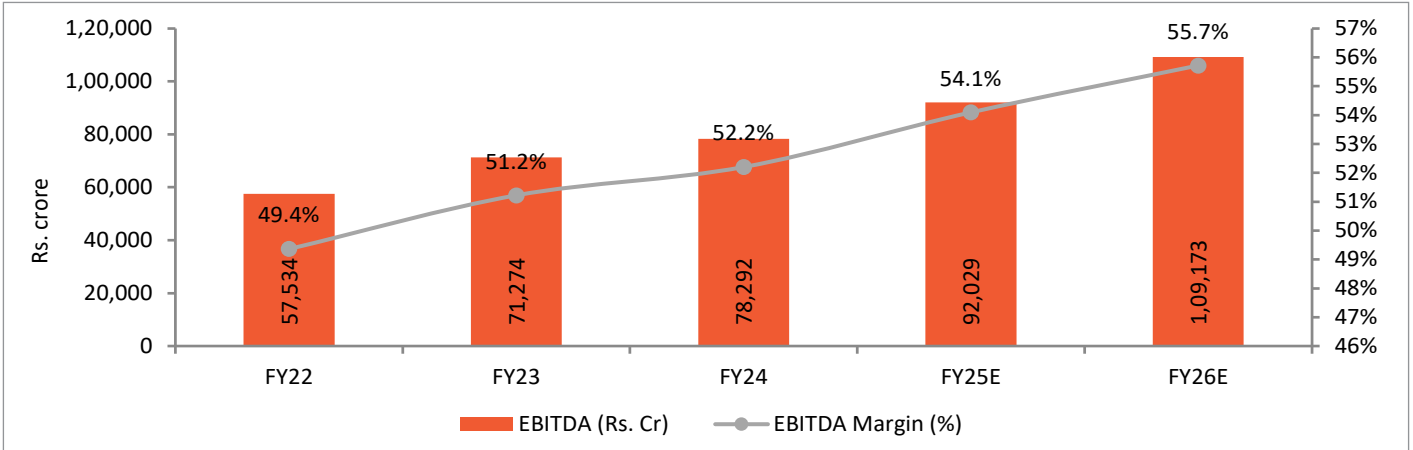
The company has acquired 97 MHz spectrum by winning back spectrum that was expiring in the current year and additionally purchased spectrum to enhance its mid-band spectrum holding across the select circles. With this purchase, Bharti Airtel will have the largest mid-band spectrum pool in the country. The Company has spent total consideration of Rs 6,857 crore to secure the spectrum. The spectrum has been secured for 20 years. The spectrum purchase is in line with the company's stated strategy to build a large pool of mid-band holding to deliver seamless 4G and 5G services across the country. The company has bolstered its sub-giga hertz and mid-band holding and is set to deliver the best possible experience to its customers.

Revenue trend



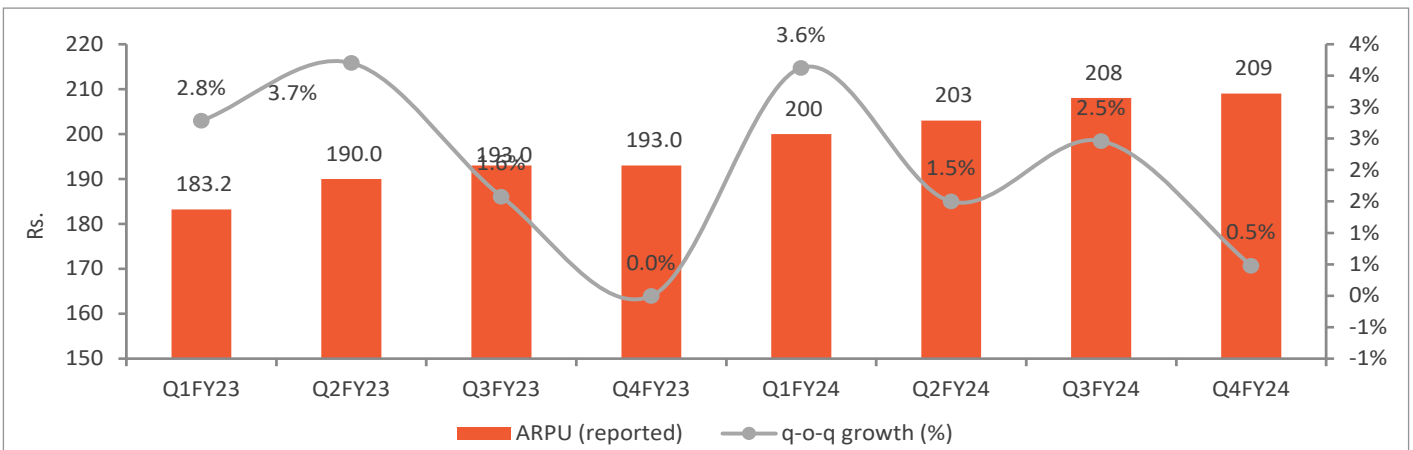
Source: Company, Sharekhan Research

EBITDA & EBITDA margin trend



Source: Company, Sharekhan Research

ARPU trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Large addressable market

Reliance Jio's 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, 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.

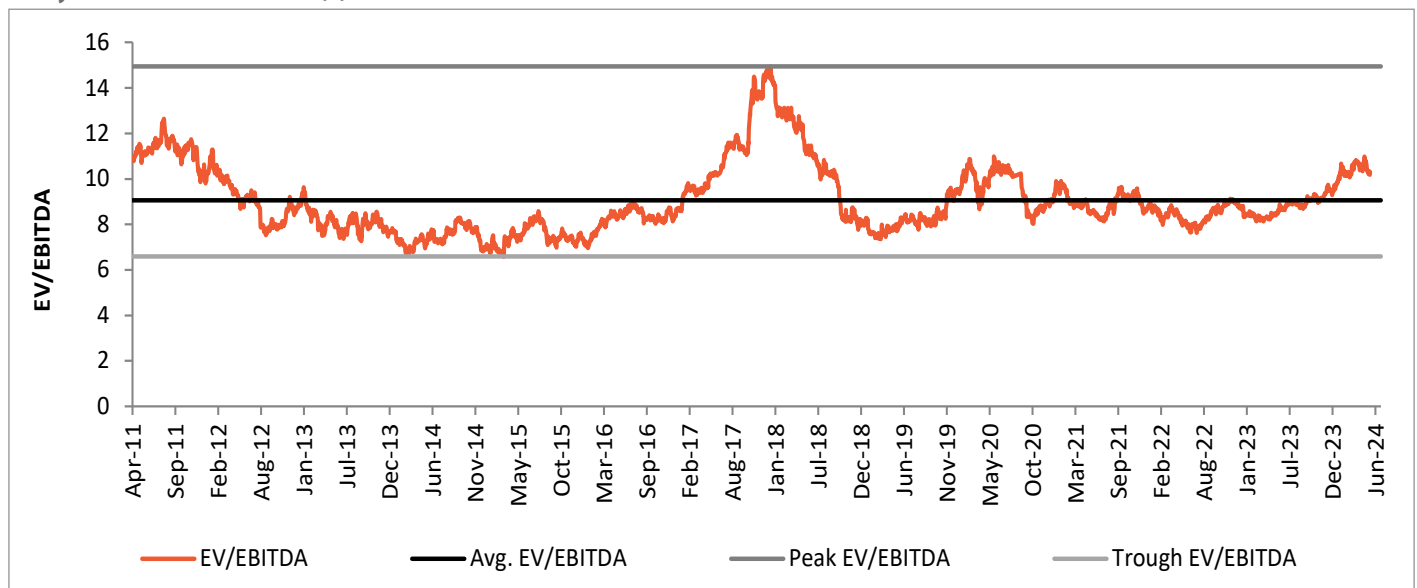
■ Company outlook - Better positioned to gain market share

Though Airtel will be able to withstand competition in the wireless business, we believe its 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 expected tariff increase and better cost management. Higher digitisation would enable the company increase monetisation of digital assets and value-added services, a reduced churn 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 1680

The company has improved its RMS and is narrowing the gap with industry leader Reliance Jio while maintaining industry leading ARPU's aided by premiumization. Further strong growth momentum across Home Services, Mobile services India, Airtel business revenues and Digital Tv continues to aid Bharti Airtel India Business. We reiterate Buy on Bharti Airtel with a revised PT of Rs. 1680 (raised target multiple to 11.7x FY26E EV/EBITDA). The stock is our preferred pick in the telecom space on account of its industry-leading ARPU, incremental revenue market share gains and as it is well placed to be a key beneficiary of the expected tariff hikes over FY25-26E. At CMP, the stock trades at 26.3x its FY26E EPS and 10.8x FY26E 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

The company's India Business is experiencing strong uptick driven by strong and consistent performance across the portfolio along with increase in market share. The company held a substantial portion of 4G/5G net additions in the market, witnessing a growth of 7.8 Mn QoQ and 28.6 Mn YoY in the 4G customer base, now comprising 72% of the total customer base. The company is maintaining the industry's leading ARPU and is witnessing increase in revenue market share owing to premiumisation.

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	4.29
2	Capital Group Cos Inc/The	3.71
3	SBI Funds Management Ltd	2.82
4	ICICI Prudential Asset Management	1.79
5	BlackRock Inc	1.7
6	Vanguard Group Inc/The	1.68
7	Republic of Singapore	1.46
8	HDFC Asset Management Co Ltd	1.33
9	Alphabet Inc	1.25
10	FMR LLC	1.14

Source: Bloomberg

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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 deteriorating 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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