

29 November 2024

India | Equity Research | Company Update

Bharti Airtel

Telecom

Reasonable valuation; upgrade to BUY

We upgrade Bharti Airtel (Bharti) to **BUY** (from Add) as we believe its valuation rerating is supported by solid fundamentals. Five key parameters, which influence telcos' valuations, have shown remarkable recovery, and may either sustain or improve further. Therefore, Bharti's EV/EBITDA valuation, in our view, may hold with more headroom to increase. Bharti's EV/EBITDA (Ind AS adj.) valuation at 11.3x FY26E appears to be at significant premium to APAC (excl. China) peers, which are trading at 7.1x (median); however, Bharti offers much higher EBITDA CAGR of 14.8% over the next two years vs APAC peers at just 4.5%. We prefer to compare telcos as per FCF yield, wherein Bharti at 6.7% (for FY26E) is reasonable compared to 6% for APAC peers.

Bharti's EV/EBITDA valuation multiples have rerated supported by solid fundamentals

Bharti's EV/EBITDA valuations derated from FY11 till FY20, where the company on an average traded at 7.5x one-year forward (lowest level was 5.5x). However, on consensus estimate basis, it should be even lower as consensus has been revised downwards vs average EV/EBITDA multiple of 10.4x over FY07-10. The derating was due to various events: 1) sharp rise in competitive intensity wherein 122 new licenses were issued in CY08, but they were subsequently cancelled in CY12; 2) Bharti failed to secure pan-India data spectrum in CY10; 3) Bharti entered Africa through expensive acquisition of Zain Africa operations; 4) spectrum renewal significantly increased capital employed for running telecom business in India and 5) RJio's foray into India telecom in CY16; it disrupted the industry and increased the pace of technology rollout, reducing profitability and increasing capital requirement.

In contrast, Bharti's current one-year forward EV/EBITDA multiple stands at 11.9x, and on an average at 9.7x over FY21 to FY25-TD.

Five key parameters help explain valuations for telcos in general, and Bharti in particular – EBITDA growth and gross block increase, net debt and ROCE, and AGR (incl. NLD) market share trend. We see very high correlation between Bharti's EV/EBITDA valuation progression and performance of five key metrics. Bharti's EV/EBITDA valuation rerating is supported by sharp improvement in each of these metrics, and are therefore, completely justified. Our estimates for Bharti over FY25-28E suggest each of these five parameters could show further improvement, helping Bharti sustain valuations in base case or could enable further rerating.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	14,99,824	16,67,466	18,93,490	20,94,819
EBITDA	7,82,918	9,03,229	10,53,852	11,89,350
EBITDA Margin (%)	52.2	54.2	55.7	56.8
Net Profit	1,31,311	2,59,631	3,20,794	4,22,492
EPS (INR)	22.8	45.1	52.2	68.8
EPS % Chg YoY	46.4	97.7	15.7	31.7
P/E (x)	68.4	34.6	29.9	22.7
EV/EBITDA (x)	14.0	11.8	10.2	8.8
RoCE (%)	11.2	13.2	16.8	19.9
RoE (%)	16.5	27.0	26.1	29.7

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Market Data

Market Cap (INR)	9,339bn
Market Cap (USD)	1,10,558mn
Bloomberg Code	BHARTI IN
Reuters Code	BRTI.BO
52-week Range (INR)	1,779 /960
Free Float (%)	47.0
ADTV-3M (mn) (USD)	125.5

Price Performance (%)	3m	6m	12m
Absolute	0.3	13.8	58.4
Relative to Sensex	3.6	8.7	39.0

ESG Score	2023	2024	Change
ESG score	74.9	74.5	(0.4)
Environment	51.8	56.9	5.1
Social	73.4	75.0	1.6
Governance	86.5	85.4	(1.1)

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

29-10-2024: [Q2FY25 results review](#)

07-08-2024: [Q1FY25 results review](#)

Prefer FCF yield (over EV/EBITDA) to compare valuations with APAC peers

Bharti's FY26E EV/EBITDA (Ind AS adj.) valuation at 11.3x is at a significant premium to APAC peers (excl. China), which are trading at 7.1x. However, Bharti's EBITDA is expected to grow at 14.8% CAGR over FY25-27E vs peers' growth (much lower) at 4.5% CAGR over the same period.

Considering telcos globally are known and owned for strong FCF and dividend payouts, we would prefer to compare valuations on FCF yield basis. Bharti's FCF yield for FY26E stands at strong 6.7% compared to APAC peers (excl. China) that are trading at 6%. Notably, Bharti's FCF is sustainable, and may continue to grow for the next couple of years. Therefore, on FCF yield basis, Bharti's valuation appears to be reasonable.

Risks

Downside risks: 1) Market share loss in India mobile business, and 2) rise in competitive and regulatory intensities.

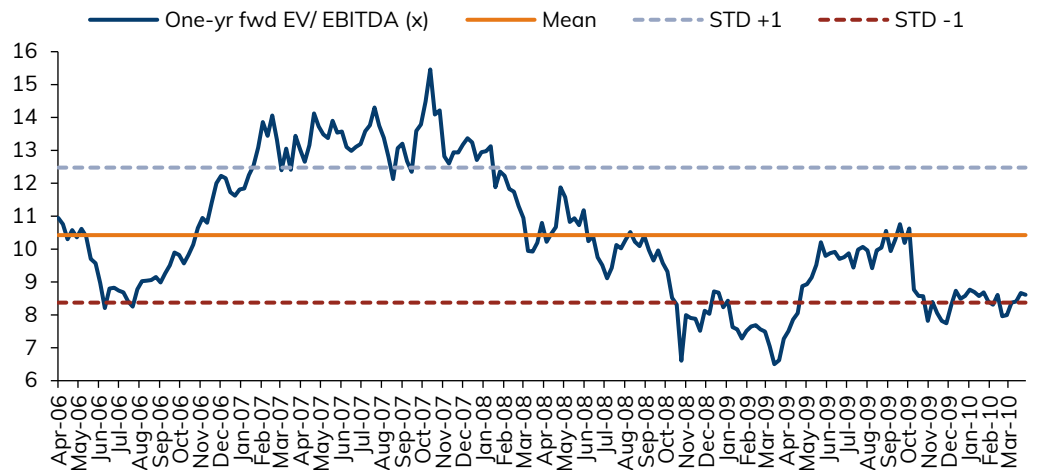
Bharti's EV/EBITDA evolution and the five key parameters influencing it

In this note, we are evaluating Bharti's valuation during different periods and how has been the performance of the five parameters during the period. We believe these five parameters (discussed in the note) influence valuations for most telcos - 1) EBITDA growth and gross block growth – these indicate FCF trajectory and incremental return ratios; 2) net debt and pre-tax ROCE – these indicate the health of the company and 3) the most important parameter for any telco is revenue market share trends.

FY07-10: Valuations peaked on strong performance in key parameters

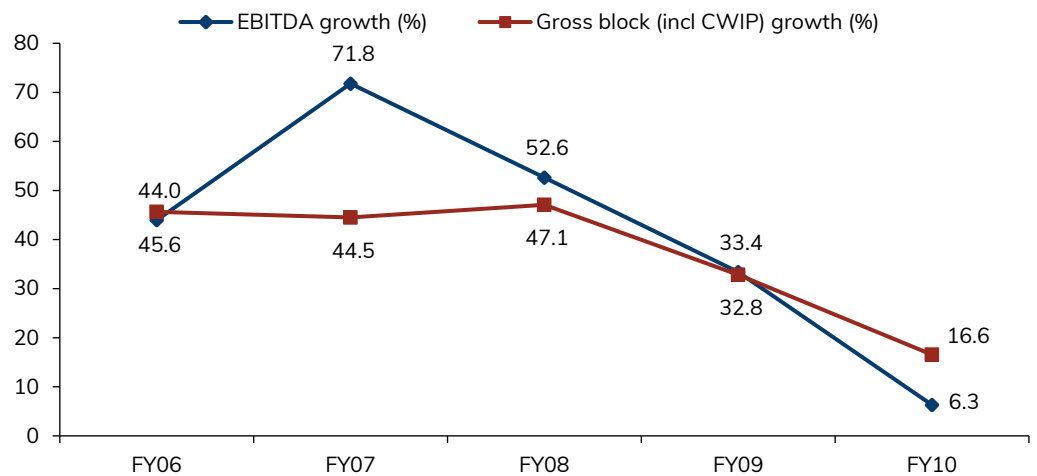
Bharti's stock traded at higher EV/EBITDA valuation averaging 10.4x during FY07-10. During the period, Bharti's EBITDA growth was faster than the gross block increase; negligible net debt and healthy return ratio supported higher valuations.

Exhibit 1: FY07-10: Bharti's EV/EBITDA multiple average was 10.4x one-year forward



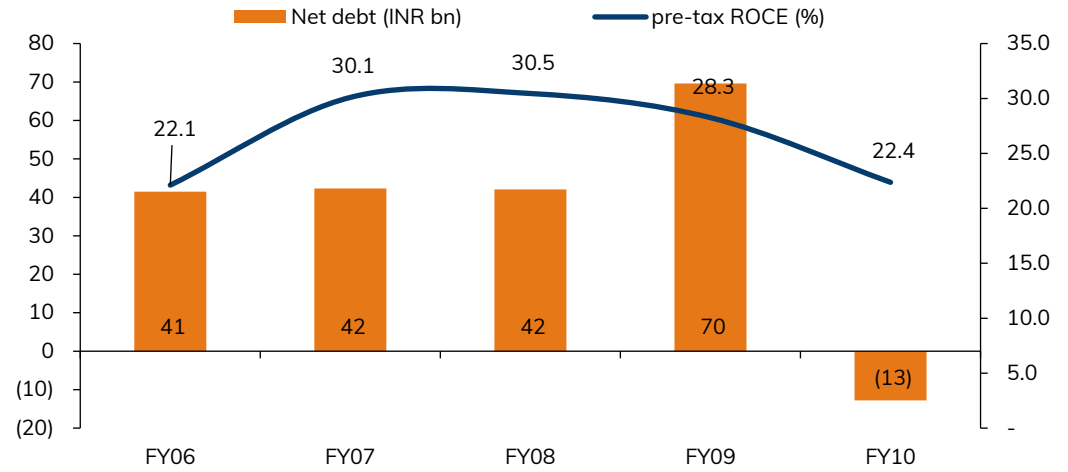
Source: Company data, Bloomberg, I-Sec research

Exhibit 2: FY07-10: Bharti's EBITDA grew faster than capex, but started deteriorating from FY10



Source: Company data, I-Sec research

Exhibit 3: FY07-10: Bharti had healthy ROCE with strong balance sheet

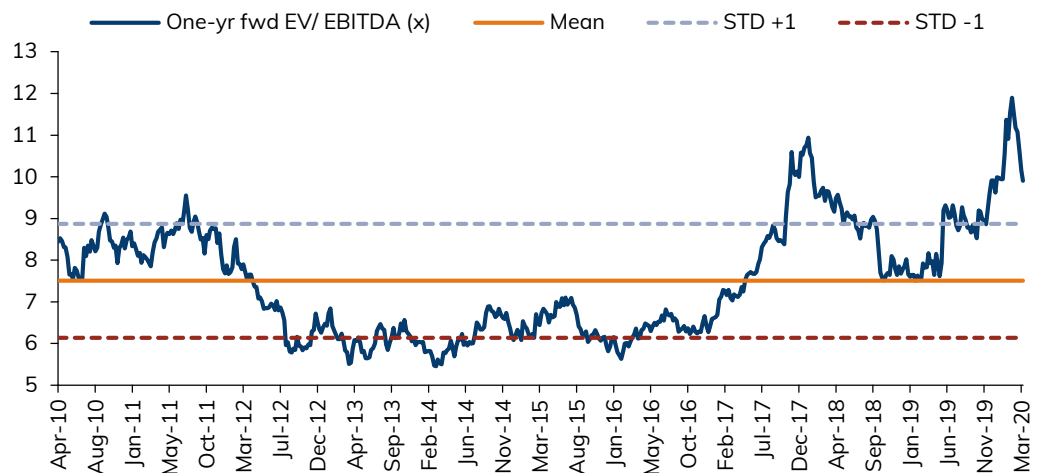


Source: Company data, I-Sec research

FY11-20: Bharti’s valuations significantly derated as key parameters deteriorated

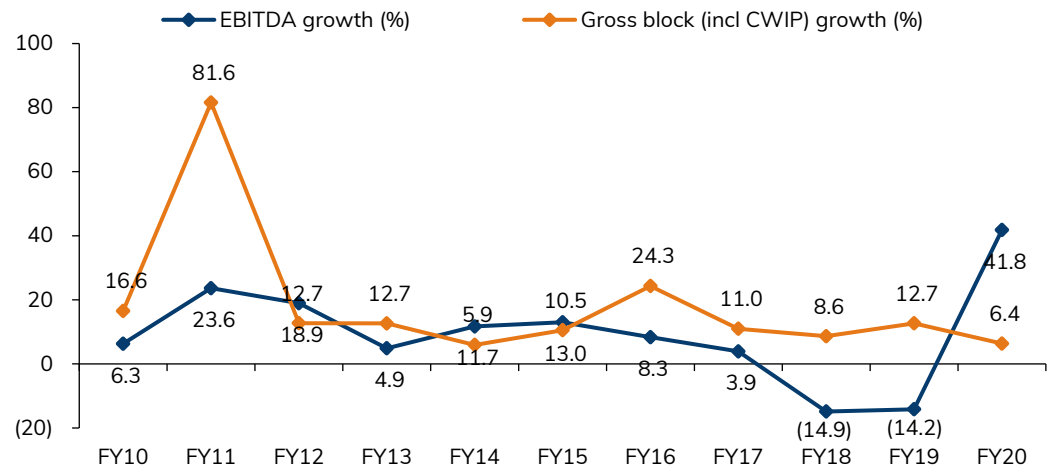
Bharti’s EV/EBITDA valuation derated and averaged 7.5x during FY11-20. The derating can be attributed to sharp deterioration in five key parameters - Bharti’s EBITDA growth lagged gross block increase, net debt jumped multi-fold and return ratio dipped sharply. Bharti also lost AGR (incl NLD) market share during the period.

Exhibit 4: FY11-20: Bharti’s EV/EBITDA multiple average was 7.5x one-year forward



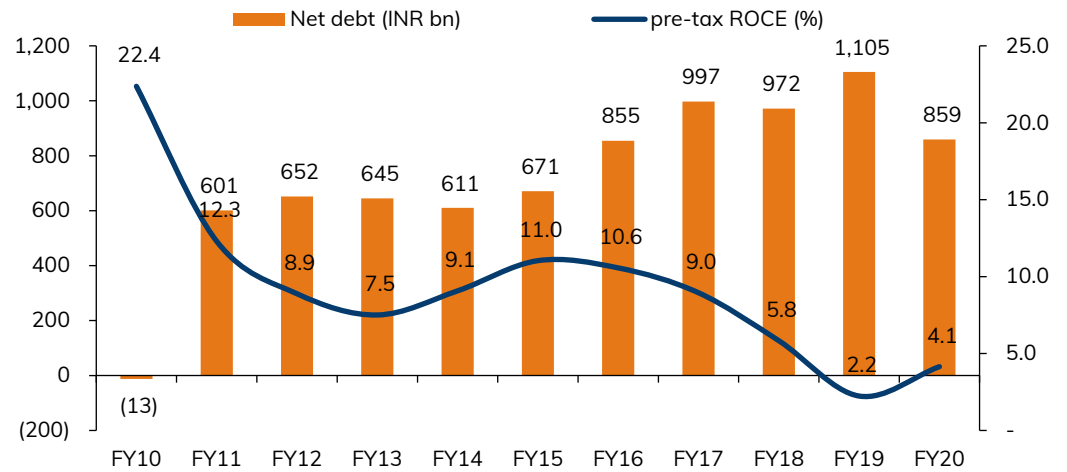
Source: Company data, Bloomberg, I-Sec research

Exhibit 5: FY11-20: Bharti's EBITDA growth lagged gross block increase



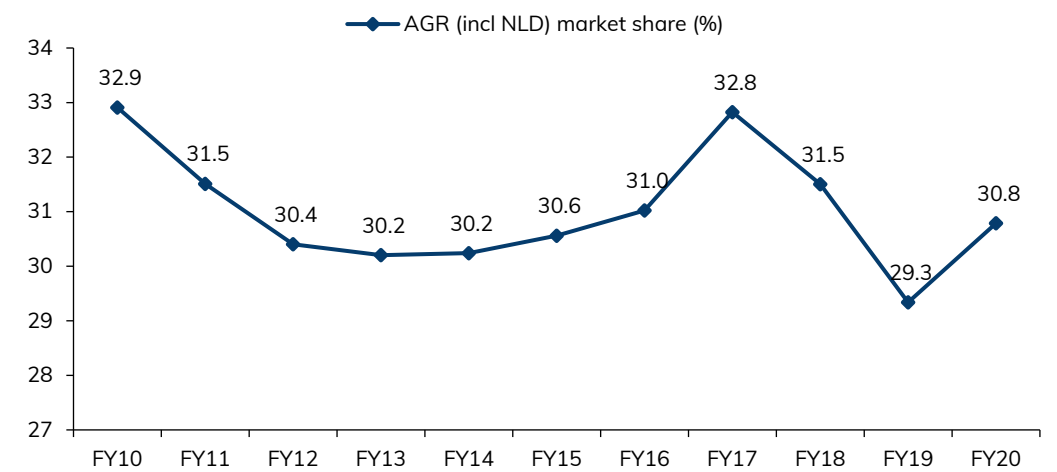
Source: Company data, I-Sec research

Exhibit 6: FY11-20: Bharti's net debt rose, and return ratios dipped sharply



Source: Company data, I-Sec research

Exhibit 7: FY11-20: Bharti's AGR (incl NLD) market share also fell

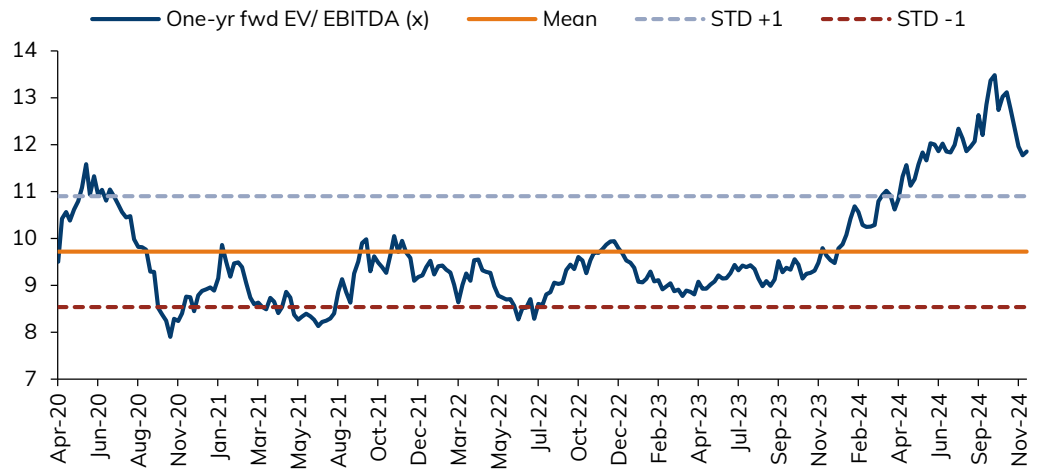


Source: Company data, I-Sec research

FY21-25TD: Bharti's valuations rerated as key parameters showed remarkable recovery

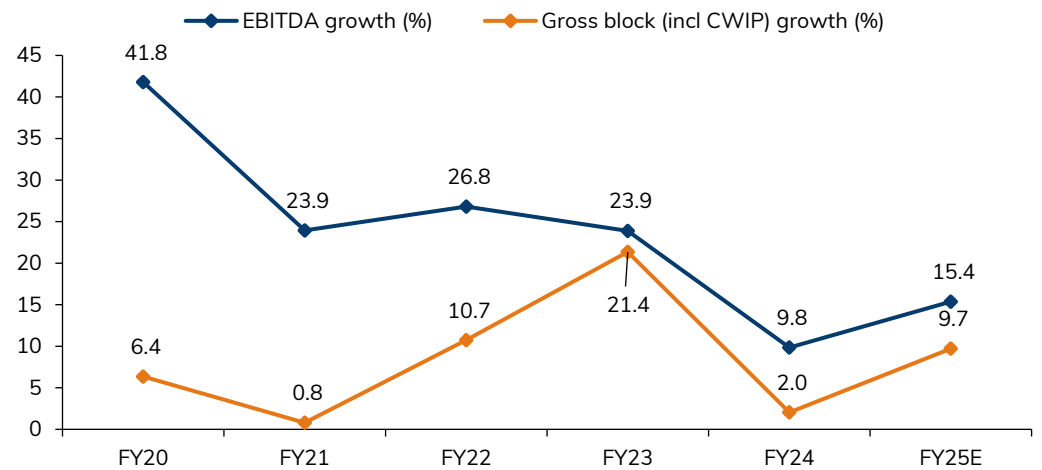
Bharti's EV/EBITDA valuation rerated and averaged 9.7x during FY21-25TD. The rerating can be attributed to remarkable recovery in five key parameters - Bharti's EBITDA growth started outperforming gross block increase; deleverage cycle began from internal accruals and return ratio recovered sharply. Bharti's AGR (incl NLD) market share also improved sharply.

Exhibit 8: FY21-25TD: Bharti's EV/EBITDA multiple average has been 9.7x one-year forward



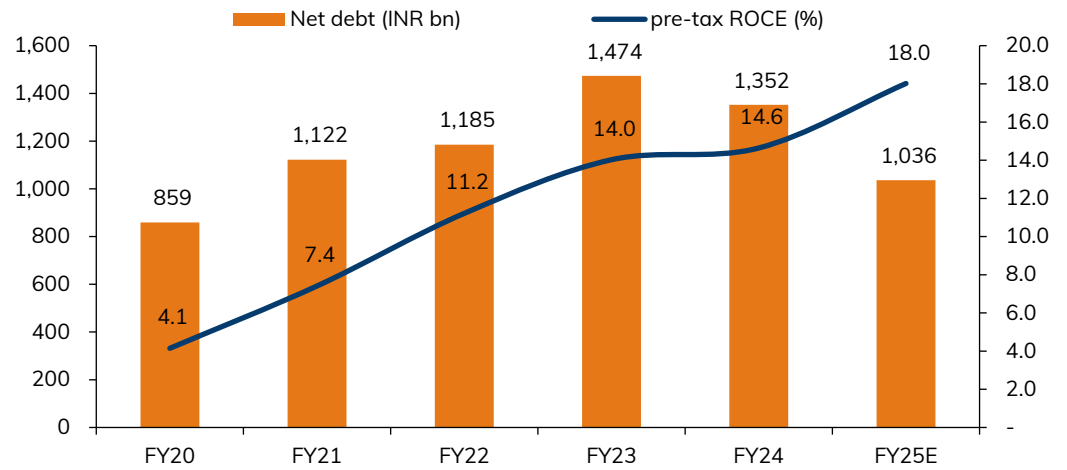
Source: Company data, Bloomberg, I-Sec research

Exhibit 9: FY21-25TD: Bharti's EBITDA grew significantly faster than gross block



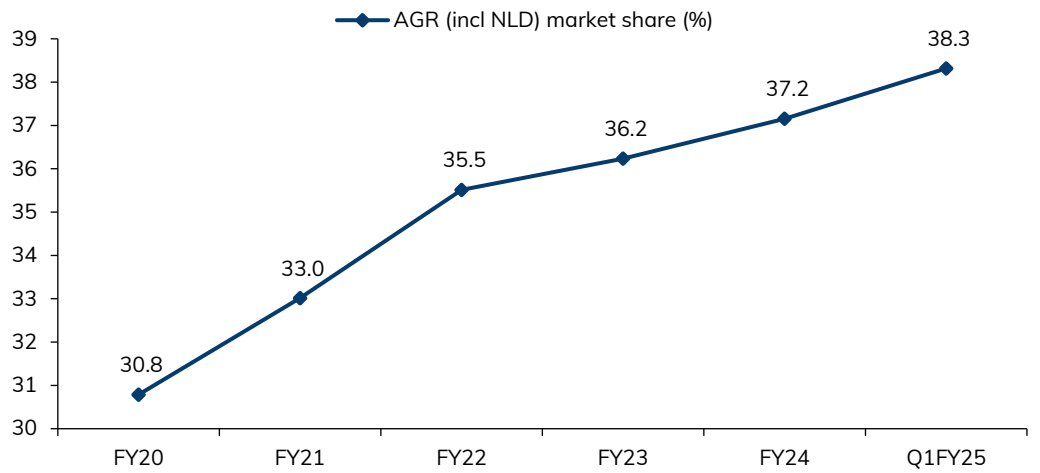
Source: Company data, Bloomberg, I-Sec research

Exhibit 10: FY21-25TD: Deleveraging cycle began, and return ratio recovered sharply



Source: Company data, Bloomberg, I-Sec research

Exhibit 11: FY21-25TD: Bharti gained AGR (incl. NLD) market share

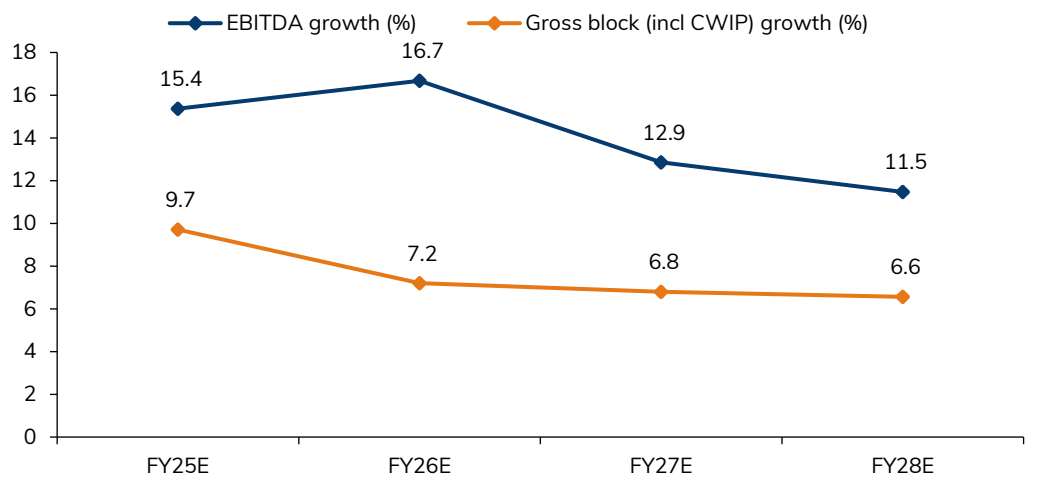


Source: Company data, Bloomberg, I-Sec research

FY25-28: What to expect?

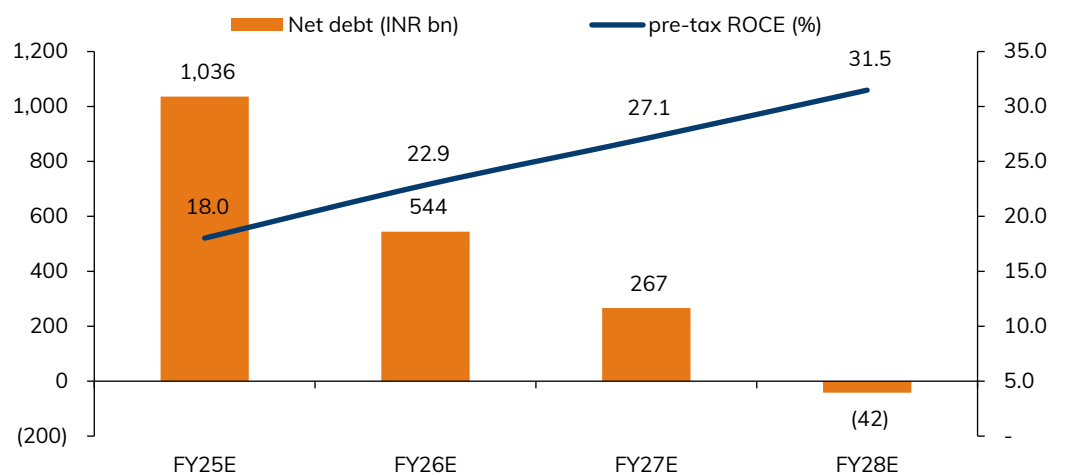
We believe Bharti’s EBITDA growth may slightly moderate on high base, but gross block increase should materially decelerate as Bharti may need very small quantum of spectrum; network capex should also moderate. Bharti is generating strong FCF which should help accelerate deleveraging, and return ratios may improve further. In our base case, we expect Bharti’s AGR (incl. NLD) market share to remain stable; however, considering Bharti’s strong incremental AGR (incl. NLD) market share, the probability of more market share gains in future cannot be ruled out. We expect Bharti’s EV/ EBITDA valuations to sustain in base case, but see headroom for further rerating.

Exhibit 12: FY25-28E: Bharti’s EBITDA growth may significantly outpace gross block increase



Source: Company data, Bloomberg, I-Sec research

Exhibit 13: FY25-28E: Deleveraging cycle to accelerate, with impressive return ratio



Source: Company data, Bloomberg, I-Sec research

Prefer FCF yield (over EV/EBITDA) to compare valuations with APAC peers

Our discussion suggests a growing concern among investors on Bharti's valuation, which as per conventional metrics, trades at a significant premium. Bharti's FY26E EV/EBITDA valuation stands at 11.3x while APAC peers (excl. China) are trading at 7.1x. However, Bharti's EBITDA is expected to grow at 14.8% CAGR over FY25-27E vs peers' growth at just 4.5% CAGR.

Considering telcos globally are known and owned for strong FCF generation, and dividend payouts, we would prefer to compare valuations on FCF yield basis. Bharti's FCF yield in FY26E stands at strong 6.7% compared to APAC peers (excl. China) trading at 6%. Notably, Bharti's FCF is sustainable, and may grow for next couple of years. Therefore, on FCF yield basis, Bharti's valuation still appears to be reasonable.

Exhibit 14: Bharti's valuation is reasonable on FCF yield, offers stronger EBITDA growth

Company	Country	MCap (US\$bn)	CAGR (%) - CY24-26E			EV/EBITDA (x)		P/B (x)		ROE (%)		FCF yield (%)	
			Revenue	EBITDA	EPS	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E	CY24E	CY25E
China Mobile Ltd.	China	203	3.7	2.9	5.6	3.6	3.5	1.1	1.1	10.2	10.4	13.7	9.4
China Telecom	China	77	4.1	4.2	8.1	3.8	3.6	0.9	0.9	7.3	7.6	3.7	7.2
China Unicom	China	25	3.1	1.7	10.1	1.5	1.5	0.5	0.5	5.7	6.0	3.9	12.5
Indosat	Indo	5	6.0	7.1	18.1	4.8	4.5	2.3	1.5	15.5	16.2	6.8	7.7
Telekomunikasi Indo	Indo	17	3.5	(0.6)	3.8	4.2	4.0	1.8	1.8	16.9	17.4	8.3	9.2
XL Axiata	Indo	2	5.8	5.2	15.4	4.2	3.9	1.0	1.0	6.9	7.9	4.0	7.2
Axiata Group	Mala	5	3.7	4.7	27.5	5.6	5.4	1.0	1.0	3.2	4.3	5.3	6.0
Maxis Berhad	Mala	6	2.2	1.4	5.5	8.7	8.6	4.8	4.5	24.1	25.2	6.9	6.3
Telekom Malaysia	Mala	5	2.8	3.1	3.8	5.8	5.7	2.5	2.3	16.9	16.0	8.3	7.5
Advanced Info Service	Thai	24	2.7	4.0	9.8	9.7	9.3	8.7	8.3	36.3	37.8	6.3	6.5
True Corporation	Thai	11	0.3	5.6		8.2	7.7	4.6	3.9	3.5	11.2	4.1	4.6
Chunghwa Telecom	Taiwan	29	2.1	0.9	1.8	11.3	11.0	2.5	2.4	9.7	10.1	4.5	4.8
Far Eastone Telecomm	Taiwan	10	2.1	5.8	13.1	10.8	10.0	3.6	3.6	13.6	15.4	5.6	5.4
Taiwan Mobile	Taiwan	13	6.7	2.9	9.1	12.0	11.7	4.0	4.0	16.2	17.7	4.8	5.5
Globe Telecom	Phil	5	4.1	4.5	9.5	7.4	7.1	1.8	1.8	14.4	14.5	2.7	4.2
PLDT Inc	Phil	5	4.4	4.9	5.9	5.6	5.3	2.4	2.1	32.2	29.7	1.9	3.8
Median (incl China)			3.6	4.1	9.1	5.7	5.5	2.3	2.0	14.0	14.9	5.0	6.4
Median (excl China)			3.5	4.5	9.3	7.4	7.1	2.5	2.3	15.5	16.0	5.3	6.0
Bharti Airtel	India	111	12.1	14.8	37.5	13.3	11.3	8.2	7.1	42.5	26.1	5.9	6.7

Source: Company data, Bloomberg, I-Sec research, Prices as on 27th Nov'24

Exhibit 15: Bharti's SoTP-based valuation

INR mn	FY27E
India business (ex Tower)	
EBITDA (adj IND AS 116)	8,77,665
Multiple (x)	12.5
EV	1,09,70,815
Less net debt	2,22,076
Equity value...(a)	1,07,48,738
Tower business (DCF from Indus model)	
EV	8,81,208
Less net debt	(31,916)
Equity value	9,13,124
Stake (%)	48
Attributable Equity value...(b)	4,37,843
Airtel Africa	
EBITDA (adj IND AS 116)	1,63,999
Multiple (x)	4.0
EV	6,55,997
Less net debt	44,454
Equity value	6,11,543
Stake (%)	53
Bharti attributable Equity value...(c)	3,25,341
Bharti Airtel Equity value	1,15,11,922
Outstanding shares (mn)	6,145
Equity value per share (INR)	1,875
Equity value per share (INR)	1,875

Source: Company data, Bloomberg, I-Sec research

Exhibit 16: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	53.5	53.2	53.2
Institutional investors	43.7	43.8	43.9
MFs and other	11.1	11.0	10.7
FIs/ Banks	0.0	1.2	1.2
Insurance Cos.	6.6	6.5	6.3
FIIIs	26.0	25.1	25.7
Others	2.8	3.0	2.9

Source: Bloomberg, I-Sec research

Exhibit 17: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 18: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	14,99,824	16,67,466	18,93,490	20,94,819
Operating Expenses	7,16,906	7,64,237	8,39,639	9,05,469
EBITDA	7,82,918	9,03,229	10,53,852	11,89,350
EBITDA Margin (%)	52.2	54.2	55.7	56.8
Depreciation & Amortization	3,95,376	4,41,660	4,72,004	4,97,329
EBIT	3,87,542	4,61,569	5,81,848	6,92,021
Interest expenditure	2,26,477	1,58,823	1,31,932	1,07,989
Other Non-operating Income	14,354	-	-	-
Recurring PBT	1,75,419	3,02,747	4,49,916	5,84,032
Profit / (Loss) from Associates	27,094	26,663	32,039	36,808
Less: Taxes	41,210	80,446	1,19,022	1,54,122
PAT	1,34,209	2,22,301	3,30,894	4,29,911
Less: Minority Interest	10,910	39,733	42,140	44,227
Extraordinaries (Net)	(75,723)	2,00,000	-	-
Net Income (Reported)	74,670	4,09,231	3,20,794	4,22,492
Net Income (Adjusted)	1,31,311	2,59,631	3,20,794	4,22,492

Source Company data, I-Sec research

Exhibit 19: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	5,80,066	5,46,565	7,52,264	8,91,680
of which cash & cash eqv.	1,63,399	1,32,246	3,23,875	4,51,710
Total Current Liabilities & Provisions	10,79,652	10,87,752	11,69,054	12,38,742
Net Current Assets	(4,99,586)	(5,41,186)	(4,16,790)	(3,47,062)
Investments	3,16,023	3,13,328	3,13,328	3,13,328
Net Fixed Assets	23,77,688	24,52,255	24,18,857	23,67,667
ROU Assets	5,59,367	5,59,367	5,59,367	5,59,367
Capital Work-in-Progress	1,69,041	1,69,041	1,69,041	1,69,041
Total Intangible Assets	2,65,017	2,65,017	2,65,017	2,65,017
Other assets	1,54,721	1,62,090	1,82,137	1,99,993
Deferred Tax Assets	-	-	-	-
Total Assets	31,73,230	32,10,871	33,21,916	33,58,310
Liabilities				
Borrowings	15,19,165	11,69,165	8,69,165	7,19,165
Deferred Tax Liability	(1,67,310)	(1,06,185)	(8,118)	(8,118)
Provisions	-	-	-	-
Other Liabilities	1,28,978	1,32,069	1,49,379	1,64,799
Equity Share Capital	28,766	28,766	30,726	30,726
Reserves & Surplus	7,91,422	10,75,115	13,26,683	14,53,430
Total Net Worth	8,20,188	11,03,881	13,57,409	14,84,156
Minority Interest	2,35,451	2,75,184	3,17,323	3,61,550
Total Liabilities	31,73,230	32,10,871	33,21,916	33,58,310

Source Company data, I-Sec research

Exhibit 20: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	3,78,995	3,75,991	3,85,064	4,14,733
% growth (YOY)	5.9	4.4	2.8	12.0
EBITDA	1,98,148	1,93,648	1,97,077	2,18,472
Margin %	52.3	51.5	51.2	52.7
Other Income	(3,360)	(1,834)	(1,761)	(1,048)
Extraordinaries	(1,302)	(24,555)	7,350	(8,537)
Adjusted Net Profit	24,422	20,716	41,600	35,932

Source Company data, I-Sec research

Exhibit 21: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	7,64,846	11,10,572	10,64,935	10,72,036
Working Capital Changes	24,136	6,169	64,496	55,671
Capital Commitments	(5,22,062)	(4,34,349)	(3,53,430)	(3,57,513)
Free Cashflow	2,66,920	6,82,392	7,76,002	7,70,195
Other investing cashflow	20,023	2,695	-	-
Cashflow from Investing Activities	20,023	2,695	-	-
Issue of Share Capital	6	-	1,57,290	-
Interest Cost	(1,40,263)	-	-	-
Inc (Dec) in Borrowings	(17,591)	(3,50,000)	(3,00,000)	(1,50,000)
Dividend paid	(41,845)	(1,25,539)	(2,24,556)	(2,95,745)
Others	3,521	(1,58,823)	(1,31,932)	(1,07,989)
Cash flow from Financing Activities	(2,77,785)	(7,16,240)	(5,84,373)	(6,42,359)
Chg. in Cash & Bank balance	9,158	(31,153)	1,91,629	1,27,836
Closing cash & balance	90,521	1,32,246	3,23,875	4,51,710

Source Company data, I-Sec research

Exhibit 22: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	22.8	45.1	52.2	68.8
Adjusted EPS (Diluted)	22.8	45.1	52.2	68.8
Cash EPS	81.2	98.9	115.2	135.3
Dividend per share (DPS)	8.0	21.8	36.5	48.1
Book Value per share (BV)	142.6	191.9	220.9	241.5
Dividend Payout (%)	35.1	48.4	70.0	70.0
Growth (%)				
Net Sales	7.8	11.2	13.6	10.6
EBITDA	9.8	15.4	16.7	12.9
EPS (INR)	46.4	97.7	15.7	31.7
Valuation Ratios (x)				
P/E	68.4	34.6	29.9	22.7
P/CEPS	19.2	15.8	13.6	11.5
P/BV	10.9	8.1	7.1	6.5
EV / EBITDA	14.0	11.8	10.2	8.8
EV / Sales	7.3	6.4	5.7	5.0
Dividend Yield (%)	0.5	1.4	2.3	3.1
Operating Ratios				
Gross Profit Margins (%)	-	-	-	-
EBITDA Margins (%)	52.2	54.2	55.7	56.8
Effective Tax Rate (%)	23.5	26.6	26.5	26.4
Net Profit Margins (%)	8.8	15.6	16.9	20.2
NWC / Total Assets (%)	(15.7)	(16.9)	(12.5)	(10.3)
Net Debt / Equity (x)	1.6	0.9	0.4	0.2
Net Debt / EBITDA (x)	2.5	1.9	1.1	0.8
Profitability Ratios				
RoCE (%)	11.2	13.2	16.8	19.9
RoE (%)	16.5	27.0	26.1	29.7
RoIC (%)	15.7	19.1	25.1	32.0
Fixed Asset Turnover (x)	3.9	4.4	4.8	5.1
Inventory Turnover Days	0.9	0.9	0.8	0.8
Receivables Days	11.5	10.8	10.8	10.8
Payables Days	85.5	78.2	78.2	78.2

Source Company data, I-Sec research

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