

Retail Equity Research

Bharti Airtel Limited

Telecom

BSE CODE: 532454

NSE CODE: BHARTIARTL

Bloomberg CODE: BHARTI:IN

SENSEX: 42,597

BUY

12M Investment period

Rating as per Large Cap

CMP Rs. 472

TARGET Rs. 544

RETURN 15%

(Closing: 09-11-20)


KEY CHANGES:
TARGET ↓

RATING ↔

EARNINGS ↓

Robust subscriber additions drive revenue

Bharti Airtel Limited is a leading global telecommunications company with operations in 16 countries across Asia and Africa. The company had around 440 million customers across its operations at the end of Q2FY21.

- Surging data usage with increased customer base helped Q2FY21 ARPU upwards translating to a 22.0% YoY growth in consolidated revenues.
- EBITDA grew 31.7% YoY, as margin expanded 340bps to 45.2% on higher revenues and lower operational expenses.
- PAT came in at Rs. 763cr loss owing to higher borrowing costs and taxes. Adj. loss stood at Rs. 714cr (vs. Rs. 4,187cr loss in Q1FY21).
- Sequential improvements in ARPUs on continued growth in subscriber base, coupled with equally strong growth seen in broadband and DTH verticals bodes well for Bharti Airtel. We reiterate our BUY rating on the stock with a revised TP of Rs. 544 based on SOTP methodology.

Topline flourishes as remote working becomes the new normal

Q2FY21 revenue rose 22.0% YoY (+7.7% QoQ) to Rs. 25,785cr, aided by improving ARPUs on the back of strong net subscriber growth and higher consumption registered across telecom, broadband and DTH services during the quarter. Domestic mobile services revenues grew 25.9% YoY to Rs. 13,832cr, while from its Africa business went up to Rs. 7,166cr (+21.14% YoY). Company's overall telecom subscriber base currently stands at 152.7mn (+ 50mn YoY), directly benefited from continued declines in subscriber base of its rival Vodafone Idea. Meanwhile, Tower Infrastructure segment revenue reported lower revenues for the quarter at Rs. 913cr (-17.3% YoY). Overall ARPU levels improved to Rs. 162 (vs. Rs. 157 in Q1FY21), whereas churn rate hit an all-time low of 1.7%.

Losses narrow down as margins broaden

EBITDA grew 31.7% YoY (+11.9% QoQ) to Rs. 11,642cr, with EBITDA margin expanded 340bps YoY to 45.2% on strong revenue growth and lower costs. Other expenses rose 21.1% YoY to Rs. 1,553cr on continued investment in network. Meanwhile, net borrowing costs increased 18.0% YoY. Adj. net loss (excl. an exceptional amount of Rs. 49cr towards employee restructuring costs) narrowed down to Rs. 714cr (vs. Rs. 4,187cr loss in Q1FY21).

Key highlights

- The company added nearly 130k and about 549k customers in home broadband and DTH segments, respectively.
- Telecom postpaid segment registered 700k net additions, taking the overall net subscriber additions in its telecom business to 13.9mn during the quarter.
- Company partnered with AWS to deliver innovative cloud solutions to large and SME customers in India.
- Company decided to sell off its JV AirtelTigo where it has a 49% stake to the Ghana govt. as part of its strategy to exit markets where it does not rank among the top two telecom providers.

Valuation and Outlook

Bharti Airtel benefited from continued slide in subscriber base of its peers. Improving ARPUs coupled with company's strategy to tap exiting markets bodes well for the firm's performance. Nonetheless, AGR overhang remains as company's required to pay off its dues in 10% annual installments. We maintain a long-term optimistic outlook, and reiterate our BUY rating on the stock with a revised TP of Rs. 544 based on SOTP.

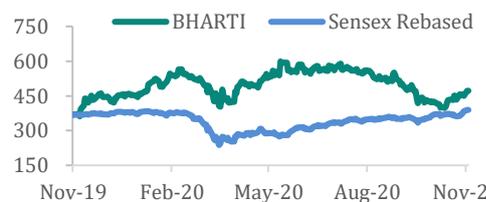
Company Data

Market Cap (cr)	Rs. 257,450
Enterprise Value (cr)	Rs. 417,874
Outstanding Shares (cr)	545.6
Free Float	44.0%
Dividend Yield	0.4%
52 week high	Rs. 612
52 week low	Rs. 351
6m average volume (cr)	0.2
Beta	0.8
Face value	Rs. 5

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	59.0	56.2	56.2
FII's	20.3	20.2	17.6
MFs/Insti	15.9	18.4	21.8
Public	0.7	1.2	2.0
Others	4.2	4.0	2.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-15.8%	-11.0%	27.9%
Absolute Sensex	12.0%	34.6%	5.6%
Relative Return*	-27.8%	-45.6%	22.2%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	87,539	103,296	116,725
Growth (%)	8.4	18.0	13.0
EBITDA	36,610	46,430	56,451
EBITDA Margin (%)	41.8	44.9	48.4
Adj. PAT	8,051	(763)	6,912
Growth (%)	(419.6)	n.m.	n.m.
Adj. EPS	15.9	(1.4)	12.7
Growth (%)	(368.6)	n.m.	n.m.
P/E	27.8	n.m.	37.2
P/B	2.9	4.1	3.7
EV/EBITDA	10.4	9.0	7.3
ROE (%)	n.m.	n.m.	10.1
D/E	1.5	1.6	1.4

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	25,785	21,131	22.0	23,939	7.7	49,724	41,869	18.8
EBITDA	11,642	8,837	31.7	10,408	11.9	22,050	17,071	29.2
EBITDA margins	45.2	41.8	340bps	43.5	170bps	44.3	40.8	350bps
Depreciation	7,421	6,935	7.0	7,227	2.7	14,648	13,694	7.0
EBIT	4,221	1,902	121.9	3,181	32.7	7,402	3,378	119.2
Interest	3,760	3,187	18.0	3,456	8.8	7,217	6,580	9.7
Other Income	107	662	(83.9)	647	(83.5)	754	1,050	(28.2)
Exceptional Items	(49)	(30,711)	99.8	(11,746)	99.6	(11,795)	(32,180)	63.3
PBT	518	(31,334)	n.m.	(11,374)	n.m.	(10,856)	(34,333)	68.4
Tax	552	(8,504)	n.m.	3,818	(85.5)	4,369	(9,111)	n.m.
Share of profit from Associate	(42)	316	n.m.	167	n.m.	124	409	(69.6)
Minority Interest	729	215	239.5	742	(1.7)	1,471	689	113.7
Reported PAT	(763)	(23,045)	96.7	(15,933)	95.2	(16,696)	(25,911)	35.6
Adjustments	49	30,711	(99.8)	11,746	(99.6)	11,795	32,180	(63.3)
Adj. PAT	(714)	7,666	n.m.	(4,187)	83.0	(4,901)	6,270	n.m.
No. of shares	545.6	513.2	6.3	545.3	0.1	545.6	513.2	6.3
Adj. EPS (Rs.)	(1.3)	14.9	n.m.	(7.7)	83.0	(9.0)	12.2	n.m.

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	101,983	115,751	103,296	116,725	1.3	0.8
EBITDA	45,585	55,466	46,430	56,451	1.9	1.8
Margins (%)	44.7	47.9	44.9	48.4	20bps	50bps
Adj. PAT	(2,401)	8,683	(763)	6,912	68.2	(20.4)
Adj. EPS	(4.4)	15.9	(1.4)	12.7	68.2	(20.4)

Sum-of-the-parts Valuation

Particulars	Basis	Multiple	Year	% holding	Value (Rs. cr.)	Value/share (Rs.)
India and SA	EV/EBITDA	10.0	FY22E	100.0%	379,343	696
Africa	EV/EBITDA	7.0	FY22E	56.0%	63,711	117
Tower	15% Holdco discount			53.5%	19,614	15,660
Enterprise Value					458,714	841
Net Debt					(136,958)	(251)
Minority Interest					(24,958)	(46)
Equity value					296,798	544

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	82,639	80,780	87,539	103,296	116,725
% change	(13.4)	(2.2)	8.4	18.0	13.0
EBITDA	30,079	25,764	36,610	46,430	56,451
% change	(14.9)	(14.3)	42.1	26.8	21.6
Depreciation	19,243	21,348	27,690	29,480	30,004
EBIT	10,836	4,416	8,920	16,950	26,447
Interest	8,072	9,589	12,382	14,453	14,315
Other Income	503	3,441	(39,384)	(10,573)	1,161
PBT	3,267	(1,732)	(42,847)	(8,076)	13,293
% change	(57.7)	n.m.	n.m.	(81.2)	(264.6)
Tax	1,084	(3,419)	(12,182)	2,423	4,653
Tax Rate (%)	33.2	197.4	28.4	(30.0)	35.0
Reported PAT	1,099	409	(32,183)	(12,558)	6,912
Adj*	793	(2,929)	40,234	11,795	-
Adj PAT	1,892	(2,519)	8,051	(763)	6,912
% change	(61.9)	n.m.	n.m.	n.m.	n.m.
No. of shares (cr)	399.7	426.6	507.5	545.3	545.3
Adj EPS (Rs.)	4.7	(5.9)	15.9	(1.4)	12.7
% change	(61.9)	n.m.	n.m.	n.m.	n.m.
DPS (Rs.)	5.3	2.5	2.0	2.4	2.8
CEPS (Rs.)	52.9	44.1	70.4	52.7	67.7

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	20,342	21,757	(4,494)	16,921	36,917
Non-cash adj.	10,467	(4,668)	23,815	2,590	8,834
Changes in W.C	(955)	2,982	(1,192)	2,283	1,333
C.F. Operation	29,854	20,070	18,129	21,795	47,084
Capital exp.	(25,248)	(29,050)	(20,585)	(19,254)	(22,193)
Change in inv.	(3,332)	92	(8,839)	250	300
Other invest.CF	613	457	(1,068)	-	-
C.F - Investment	(27,968)	(28,501)	(30,492)	(19,004)	(21,893)
Issue of equity	(39)	9,869	51,892	-	-
Issue/repay debt	4,007	10,588	(10,818)	5,000	(8,000)
Dividends paid	(3,265)	(4,662)	(1,826)	(1,309)	(1,527)
Other finance.CF	1,217	(6,332)	(20,103)	(14,453)	(14,315)
C.F - Finance	1,921	9,464	19,144	(10,762)	(23,841)
Chg. in cash	3,807	1,033	6,781	(7,971)	1,350
Closing cash	6,671	8,064	15,893	7,921	9,272

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	6,671	8,064	15,893	7,921	9,272
Accounts Receivable	5,883	4,301	4,606	5,435	6,141
Inventories	69	88	157	189	222
Other Cur. Assets	20,876	20,411	55,988	47,947	50,404
Investments	9,261	11,088	11,709	11,981	12,176
Gross Fixed Assets	157,296	182,307	202,633	221,887	244,080
Net Fixed Assets	70,608	81,523	113,662	103,888	95,107
CWIP	5,209	8,843	3,997	4,951	5,905
Intangible Assets	121,135	120,100	115,878	114,473	114,488
Def. Tax (Net)	2,933	8,938	27,016	24,314	21,883
Other Assets	7,937	11,800	11,873	11,502	11,150
Total Assets	250,582	275,156	360,779	332,602	326,749
Current Liabilities	51,848	54,831	98,707	89,265	84,845
Provisions	721	682	755	793	832
Debt Funds	111,334	125,428	148,228	141,433	133,433
Other Liabilities	8,330	9,267	10,960	10,789	10,203
Equity Capital	1,999	1,999	2,728	2,728	2,728
Reserves & Surplus	67,536	69,424	74,417	60,550	65,936
Shareholder's Fund	69,534	71,422	77,145	63,278	68,663
Minority Interest	8,814	13,526	24,985	27,044	28,772
Total Liabilities	250,582	275,156	360,779	332,602	326,749
BVPS (Rs.)	174	167	152	116	126

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	36.4	31.9	41.8	44.9	48.4
EBIT margin (%)	13.1	5.5	10.2	16.4	22.7
Net profit mgn.(%)	1.3	0.5	n.m.	n.m.	5.9
ROE (%)	1.6	0.6	n.m.	n.m.	10.1
ROCE (%)	5.7	2.1	3.6	7.3	11.5
W.C & Liquidity					
Receivables (days)	26.0	19.4	19.2	19.2	19.2
Inventory (days)	0.7	0.8	1.5	1.6	1.8
Payables (days)	278.8	247.5	241.9	244.6	248.2
Current ratio (x)	0.4	0.4	0.6	0.5	0.6
Quick ratio (x)	0.2	0.2	0.3	0.2	0.2
Turnover & Leverage					
Gross asset T.O (x)	0.6	0.5	0.5	0.5	0.5
Total asset T.O (x)	0.3	0.3	0.3	0.3	0.4
Int. coverage ratio (x)	1.3	0.5	0.7	1.2	1.8
Adj. debt/equity (x)	1.4	1.5	1.5	1.6	1.4
Valuation					
EV/Sales (x)	3.1	3.2	4.4	4.0	3.5
EV/EBITDA (x)	8.6	10.1	10.4	9.0	7.3
P/E (x)	76.1	n.m.	27.8	n.m.	37.2
P/BV (x)	2.1	1.8	2.9	4.1	3.7

Recommendation Summary



Dates	Rating	Target
8-May-18	HOLD	422
6-Nov-18	HOLD	313
16-Sep-19	HOLD	363
9-Dec-19	HOLD	485
14-Feb-20	BUY	608
30-Jun-20	BUY	693
6-Aug-20	BUY	645
9-Nov-20	BUY	544

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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