

Broad-based Growth; Gain in Market Share Continues

Est. Vs. Actual for Q2FY24: Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **MISS**

Changes In Estimates post Q2FY24

FY24E/FY25E: Revenue: 1%/1%; EBITDA: 1%/1%; PAT: 2%/2%

Recommendation Rationale

- The company's digital portfolio is gaining momentum along with market share gains
- The company continued a strong share of 4G/5G net ads in the market with the 4G customer base growing by 7.7 Mn QoQ and 27.2 Mn YoY. This forms 69% of the overall customer base now.
- ARPU continues to be the best in the industry and average data usage per customer stands healthy at 21.7 GB/month.
- The management is confident of gaining longer-term demand momentum on the backdrop of the strong digital services portfolio, better rural conversion to 4G, and better cash flow management.

Sector Outlook: Positive

Company Outlook & Guidance: The company has a strong focus on quality customers with increasing ARPU and revenue. The management is confident of gaining industry-leading growth backed by strong rural penetration and a better service portfolio.

Current Valuation: SOTP based

Current TP: 1,155/share (Earlier TP: Rs 1025/share)

Recommendation: Given the company's strong recovery potential backed by strong conversion, rising digital portfolio, and moderated capex, **we maintain our BUY recommendation on the stock.**

Financial Performance

In Q2FY24, Bharti Airtel Ltd. (Bharti) reported revenue of Rs 37,044 Cr, down 1.1% QoQ but up 7.3% YoY, which stood below our expectations. This was mainly on account of the devaluation of Nigeria's Naira and other currencies during the period. The company posted an operating profit of Rs 19,514 Cr with operating margins growing by 40bps, largely led by larger 4G conversions and a better service mix. Its net profit for Q2FY24 stood at Rs 2,960 Cr, registering a growth of 38% QoQ.

Outlook

From a long-term perspective, we believe Bharti Airtel would continue to gain market share, backed by the highest penetrations, and with minimum Capex requirements. With a stronger digital portfolio supported by rising per-user data, we are positive about the future growth of Airtel.

Valuation & Recommendation

We **maintain** our **BUY** rating on the stock given the company's superior margins, stronger subscriber growth, and higher 4G conversions. We value the stock at Rs 1,155/share based on SOTP valuation and the TP indicates a robust upside of 26% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	37,044	-1%	20%	38507	-4%
EBITDA	19,514	0%	26%	11844	65%
EBITDA Margin	52%	50 bps	205 bps	52%	1%
Net Profit	2,093	-12%	92%	3850	-46%
EPS (Rs)	2.36	-12%	92%	2.7	-13%

Source: Company, Axis Research

(CMP as of 01 November 2023)

CMP (Rs)	914
Upside /Downside (%)	26%
High/Low (Rs)	961/736
Market cap (Cr)	5,13,201
Avg. daily vol. (6m)Shrs.	5,94,320
No. of shares (Cr)	5.56

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	49.2	49.2	49.2
FIIs	16.0	9.2	10.8
MFs / UTI	12.6	11.8	11.4
Banks / FIs	22.3	29.9	28.8
Others	49.2	49.2	49.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	4,740	5,309	5,946
EBITDA	744	833	933
Net Profit	440	498	563
EPS (Rs)	19.57	22.13	25.01
PER (x)	20.70	18.30	16.19
P/BV (x)	12.5	11.3	10.3
EV/EBITDA (x)	3.1	2.8	2.5
ROE (%)	19%	19%	19%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	1%	1%
EBITDA	2%	1%
PAT	2%	2%

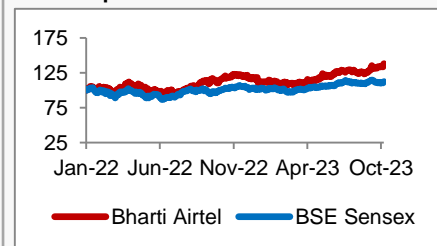
ESG disclosure Score**

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure	59
Total ESG Disclosure Score	51

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Highlights

- **Capex:** The management is expecting similar Capex levels to continue. It will also spend on broadband, enterprise, and data centres. 4G-related radio Capex is likely to decline.
- **ARPU:** Bharti Airtel has the leading ARPU in the industry. The management expects ARPU to improve from the current level of 203 due to a richer customer mix. Aided by strong customer conversion from 2G to 4G/5G and other services, it continues with its ARPU trajectory and expects it to reach Rs 300 going ahead.
- **Huge revenue and profit growth potential:** The company's business fundamentals remain strong and continue to improve. The management foresees huge potential for continued strong revenue and profit growth, supported by expanding distribution in rural areas, investments in the network, and increasing 4G coverage. Furthermore, strategic investment opportunities are available in tower sales, minority, and IPO investments in mobile money, among others.
- **Improvement in the Home Segment:** The management sees improvement in the Home Segment with multiple solutions in one go. It has a strong strategy of Hunting (offering different solutions to existing customers (mainly 50 Mn customers having strong financial conditions) and mining new customers.
- **Cost optimization initiatives:** The company has identified more than 2,500 sights for reducing the network cost which will help to reduce the operating cost.

Key Risks to our Estimates and TP

- The cut-throat competition may reduce the market share, leading to reductions in the revenue growth momentum.

India

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	32,805	34,527	35,804	36,009	37,440	37,044
Net revenue	1,870	1,931	1,935	1,885	1,997	1,814
EBITDA	30,935	32,596	33,869	34,124	35,443	35,229
<i>EBITDA / Total revenues</i>	3,131	2,951	2,842	2,828	2,940	2,964
EBIT	6,683	7,130	7,328	7,402	7,404	7,424
Profit before Tax	1,124	1,209	1,235	1,263	1,257	1,379
Income tax expense	1,567	1,782	1,912	1,984	2,060	1,959
Profit after Tax (before exceptional items)	1,902	1,930	2,098	1,950	2,184	1,989
Non-Controlling Interest	14,405	15,002	15,416	15,427	15,844	15,716
Net income (before exceptional items)	16,529	17,594	18,453	18,697	19,599	19,514
Capex	50.4%	51.0%	51.5%	51.9%	52.3%	52.7%
Operating Free Cash Flow	8,781	8,947	9,298	9,406	9,654	9,734
Cumulative Investments	7,748	8,647	9,156	9,291	9,945	9,779

Source: Company, Axis Securities

India - Mobile Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	18,220	18,958	19,353	19,549	20,392	20,952
EBITDA	9,328	9,926	19,353	10,523	11,166	20,952
<i>EBITDA / Total revenues</i>	51.2%	52.4%	53.8%	53.8%	54.8%	54.9%
EBIT	3,133	3,670	4,031	4,081	4,519	4,678
Capex	3,695	3,911	6,379	6,647	7,829	5,686
Operating Free Cash Flow	5,634	6,015	4,033	3,876	3,338	5,818
Cumulative Investments	2,80,817	3,27,899	3,31,586	3,35,936	3,40,206	3,44,083

Source: Company, Axis Securities

India - Home Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	926	990	1,034	1,097	1,162	1,221
EBITDA	493	498	517	553	586	607
<i>EBITDA / Total revenues</i>	<i>53.2%</i>	<i>50.3%</i>	<i>50.0%</i>	<i>50.4%</i>	<i>50.4%</i>	<i>49.8%</i>
EBIT	177	220	228	268	285	290
Capex	660	589	497	428	500	757
Operating Free Cash Flow	-168	-90	21	125	87	-150
Cumulative Investments	12,084	12,661	13,663	13,899	14,324	14,682

Source: Company, Axis Securities

India - Digital Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	748	729	739	729	740	751
EBITDA	478	435	413	408	426	421
<i>EBITDA / Total revenues</i>	<i>63.9%</i>	<i>59.7%</i>	<i>55.9%</i>	<i>56.0%</i>	<i>57.6%</i>	<i>56.1%</i>
EBIT	142	78	92	65	97	37
Capex	247	305	453	354	384	375
Operating Free Cash Flow	231	130	-40	54	42	46
Cumulative Investments	12,392	12,696	13,150	12,927	12,974	13,035

Source: Company, Axis Securities

India - Airtel Business Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	4,366	4,665	4,778	4,785	5,055	5,110
EBITDA	1,701	1,829	1,905	1,968	1,998	2,058
<i>EBITDA / Total revenues</i>	<i>39.0%</i>	<i>39.2%</i>	<i>39.9%</i>	<i>41.1%</i>	<i>39.5%</i>	<i>40.3%</i>
EBIT	1,223	1,328	1,411	1,475	1,478	1,529
Capex	686	879	766	1,560	614	960
Operating Free Cash Flow	1,015	950	1,139	408	1,384	1,097
Cumulative Investments	24,245	25,155	28,001	29,137	29,861	30,632

Source: Company, Axis Securities

India - Mobile Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Customer Base	3,62,471	3,63,874	3,69,280	3,75,344	3,82,861	3,89,452
VLR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Additions	1,264	490	4,446	3,169	3,150	3,743
Pre-Paid (as % of total Customer Base)	94.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Monthly Churn	0	0	0	0	0	0
Average Revenue Per User (ARPU)	183.2	189.8	193.4	193.3	199.8	202.8
Revenue per site per month	2,47,085	2,48,848	2,46,976	2,40,112	2,40,413	2,38,415
Total Revenues	18,713	24,885	22,539	23,345	25,401	25,395
Mobile Services	1,89,221	2,06,763	2,12,738	2,15,904	2,27,197	2,34,949
Others	-2,095	42,085	12,649	17,547	26,812	19,002
	15,649	61,722	(23,461)	8,064	20,558	(58)
Voice						
Minutes on the network	10,78,961	10,63,011	12,02,641	11,24,343	11,48,793	11,47,713
Voice Average Revenue Per User (ARPU)						
Voice Usage per customer	1,088	1,082	1,094	1,122	1,138	1,123

Source: Company, Axis Securities

India - Homes Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Homes Customers	4,793	5,210	5,642	6,046	6,460	6,931
Net Additions	310	417	432	404	413	471
Average Revenue Per User (ARPU)	652	646	624	614	608	595
Average Revenue Per User (ARPU)	8	8	8	7	7	7
Revenue	907	969	1,015	1,595	1,141	1,195

Source: Company, Axis Securities

India - Digital Services

India	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Digital TV Customers	17,422	15,771	15,985	15,946	15,918	15,749
Net additions	(136)	66	214	(39)	(28)	(169)
Average Revenue Per User (ARPU)	143	155	154	153	154	159
Average Revenue Per User (ARPU)	2	2	2	2	2	2
Monthly Churn	0	0	0	0	0	0
Revenue	748	772	734	731	735	755

Source: Company, Axis Securities

SOTP Valuation

Segments	FY25E EBITDA (Rs Bn)	FY25E EBITDA/ Share (Rs)	Multiple (X)	Enterprise Value (Rs Bn)	Value Per Share (Rs)
India Wireless	481.3	86.1	12.8	6,161	1,200
Telemedia services	28.0	5.0	8.0	224	44
Enterprise	67.1	12.0	8.0	537	105
DTH	18.3	3.3	6.0	110	21
Wireless - Africa	199.0	35.6	9.0	949	185
Others*	(22.3)	(4.0)	6.0	(134)	(26)
Sub-total	771.4	138.0	9.5	7,847	1,528
Consol Equity	0	0	0	355	64
Enterprise Value	0	0	0	8,202	1,592
(-) Net Debt	0	0	0	2,243	437
Target Price (Rs)	0	0	0	5,958	1,155

Source: Company, Axis Securities

Result Update (Consolidated)

(Rs Cr)

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total revenues	31,500	32,805	34,527	35,804	36,009	37,440
Access charges	1,751	1,870	1,931	1,935	1,885	1,997
Net revenue	29,750	30,935	32,596	33,869	34,124	35,443
License fees	3,009	3,131	2,951	2,842	2,828	2,940
Network costs	6,546	6,683	7,130	7,328	7,402	7,404
Employee costs	1,164	1,124	1,209	1,235	1,263	1,257
Sales & Marketing	1,533	1,567	1,782	1,912	1,984	2,060
General & Administration	1,458	1,902	1,930	2,098	1,950	2,184
Total Opex	13,710	14,405	15,002	15,416	15,427	15,844
EBITDA	16,040	16,529	17,594	18,453	18,697	19,599
<i>EBITDA / Total revenues</i>	<i>50.9%</i>	<i>50.4%</i>	<i>51.0%</i>	<i>51.5%</i>	<i>51.9%</i>	<i>52.3%</i>
D&A	8,583	8,781	8,947	9,298	9,406	9,654
EBIT	7,458	7,748	8,647	9,156	9,291	9,945
Finance cost (net)	4,059	4,511	4,940	4,686	5,163	5,614
JV / Associates gain/(loss)	714	163	357	-368	601	590
Other income	19	192	202	258	285	348
Non-operating income / (expenses), (net)	0	0	0	0	0	0
Profit before Tax	4,131	3,592	4,265	4,359	5,014	5,269
Income tax expense	1,322	1,123	1,286	1,076	788	333
Exceptional Loss/(gain) (net of tax)	-906	0	0	670	0	3,416
Profit after tax (after exceptional items)	3,715	2,469	2,979	2,614	4,226	1,520
Non-Controlling Interest	0	0	0	0	0	0
Net income	3,715	2,469	2,979	2,614	4,226	1,520
Capex	5,997	6,398	7,047	9,314	5,000	5,000
Operating Free Cash Flow	10,043	10,206	10,674	9,287	13,697	14,599

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Net sales	1,00,616	1,16,547	1,39,145	1,57,219
Growth, %	16	16	19	13
Total income	1,00,616	1,16,547	1,39,145	1,57,219
Raw material expenses	-10,352	-6,761	-7,621	-8,653
Employee expenses	-4,115	-4,433	-4,831	-5,314
Other Operating expenses	-53,797	-57,894	-66,626	-89,889
EBITDA (Core)	45,372	57,534	71,274	65,934
Growth, %	25.9	26.8	23.9	(7.5)
Margin, %	45.1	49.4	51.2	41.9
Depreciation	-29,404	-33,091	-36,432	-39,523
EBIT	15,967	24,443	34,842	26,411
Growth, %	87.0	53.1	42.5	(24.2)
Margin, %	15.9	21.0	25.0	16.8
Interest paid	-15,091	-16,616	-16,901	-17,878
Other Non-Operating Income	643	534	937	1,353
Non-recurring Items	0	0	0	0
Pre-tax profit	1,426	10,785	19,629	12,093
Tax provided	-8,933	-4,178	-4,273	-1,571
Profit after tax	-7,506	6,607	15,356	10,522
Others (Minorities, Associates)	0	0	0	0
Net Profit	-7,506	6,607	15,356	10,522
Growth, %	(76.8)	(188.0)	132.4	(31.5)
Net Profit (adjusted)	(7,506)	6,607	15,356	10,522
Unadj. shares (bn)	549.2	559.0	559.0	559.0
Wtd avg shares (bn)	549.2	559.0	559.0	559.0

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY21	FY22E	FY23E	FY24E
Cash & bank	17,582	12,980	19,088	14,649
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	37,209	38,659	39,033	39,109
Total current assets	54,791	51,640	58,121	53,758
Investments	0	0	0	0
Gross fixed assets	2,52,641	2,71,414	2,75,280	2,75,464
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	2,52,641	2,71,414	2,75,280	2,75,464
Non-current assets	38,597	32,806	32,435	32,973
Total assets	3,65,450	3,82,132	4,69,456	4,51,173
Current liabilities	1,11,636	1,14,026	1,21,964	1,21,964
Provisions	0	0	0	0
Total current liabilities	1,11,636	1,14,026	1,21,964	1,21,964
Non-current liabilities	1,53,165	1,57,695	2,18,225	2,18,225
Total liabilities	2,64,801	2,71,721	3,40,189	3,40,189
Paid-up capital	2,746	2,795	2,795	2,795
Reserves & surplus	75,629	82,235	97,591	1,08,113
Shareholders' equity	1,00,649	1,10,411	1,29,267	1,10,984
Total equity & liabilities	3,65,450	3,82,132	4,69,456	4,51,173

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY21	FY22	FY23E	FY24E
Pre-tax profit	1,426	10,785	19,629	12,093
Depreciation	29,404	33,091	36,432	39,523
Chg in working capital	14,948	1,254	1,131	-606
Total tax paid	-9,010	-3,340	-4,646	-1,571
Other operating activities	0	0	0	0
Cash flow from operating activities	37,747	41,644	52,509	49,431
Capital expenditure	-38,827	-51,864	-40,299	-39,706
Chg in investments	0	0	0	0
Chg in marketable securities	9,774	-1,451	-374	-76
Other investing activities	-2,603	-6,560	-12,647	-3,542
Cash flow from investing activities	-41,522	-56,001	-52,193	-41,041
Free cash flow	-3,775	-14,356	316	8,389
Equity raised/(repaid)	179	49	0	0
Debt raised/(repaid)	20,222	6,922	59,807	0
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	17,690	10,078	63,308	-28,805
Net chg in cash	13,915	-4,278	63,623	-20,416
Opening cash balance	31,688	17,582	12,980	19,088
Closing cash balance	17,582	12,980	19,088	14,649

Source: Company, Axis Securities

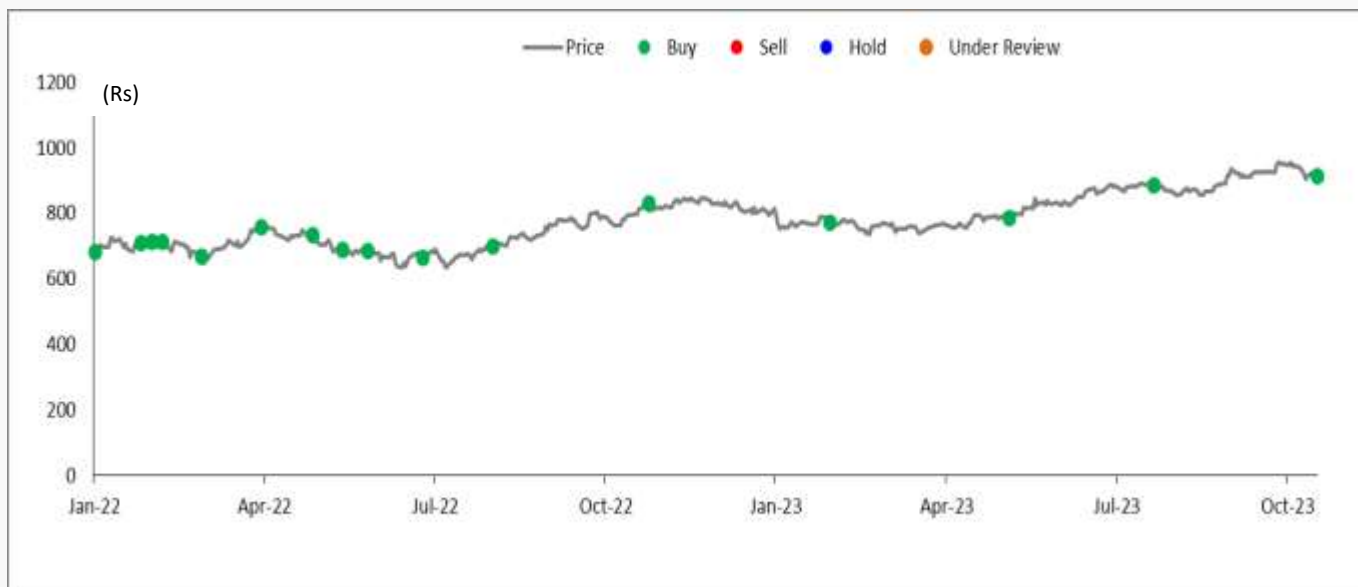
Ratio Analysis

(%)

Y/E March	FY21	FY22	FY23E	FY24E
Per Share data				
EPS (INR)	(13.7)	11.8	27.5	18.8
Growth, %	(78.3)	(186.5)	132.4	(31.5)
Book NAV/share (INR)	142.7	152.1	179.6	198.4
FDEPS (INR)	(13.7)	11.8	27.5	18.8
CEPS (INR)	39.9	71.0	92.6	89.5
CFPS (INR)	31.0	63.1	104.4	83.0
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	0.4	4.6	6.9	5.6
Return on equity (%)	(9.6)	7.8	15.3	9.5
Return on capital employed (%)	0.6	6.2	8.1	6.1
Turnover ratios				
Asset turnover (x)	0.6	0.7	0.8	0.9
Sales/Total assets (x)	0.3	0.3	0.4	0.4
Sales/Net FA (x)	0.4	0.4	0.5	0.6
Working capital/Sales (x)	(0.7)	(0.6)	(0.6)	(0.5)
Fixed capital/Sales (x)	2.3	2.1	1.8	1.6
Working capital days	(270.0)	(236.0)	(217.5)	(192.4)
Liquidity ratios				
Current ratio (x)	0.5	0.5	0.5	0.4
Quick ratio (x)	0.5	0.5	0.5	0.4
Interest cover (x)	1.1	1.5	2.1	1.5
Total debt/Equity (%)	173.1	167.7	201.6	182.5
Net debt/Equity (%)	150.7	152.4	182.6	169.3
Valuation				
PER (x)	(51.5)	59.6	25.6	37.4
Price/Book (x)	4.9	4.6	3.9	3.6
EV/Net sales (x)	5.0	4.5	4.1	3.7
EV/EBITDA (x)	11.1	9.1	8.1	8.8
EV/EBIT (x)	31.6	21.4	16.6	22.0

Source: Company, Axis Securities

Bharti Airtel Price Chart and Recommendation History



Date	Reco	TP	Research
03-Jan-22	BUY	780	Top Picks
28-Jan-22	BUY	795	Event Update
03-Feb-22	BUY	810	Top Picks
09-Feb-22	BUY	900	Result Update
02-Mar-22	BUY	810	Top Picks
04-Apr-22	BUY	870	Top Picks
02-May-22	BUY	870	Top Picks
18-May-22	BUY	900	Result Update
01-Jun-22	BUY	900	Top Picks
01-Jul-22	BUY	900	Top Picks
08-Aug-22	BUY	900	Result Update
02-Nov-22	BUY	960	Result Update
09-Feb-23	BUY	960	Result Update
18-May-23	BUY	960	Result Update
07-Aug-23	BUY	1,025	Result Update
02-Nov-23	BUY	1,155	Result Update

Source: Axis Securities

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