

Strong India Business; ARPU Gains Continues

Est. Vs. Actual for Q3FY24: Revenue – **MISS**; EBITDA Margin – **BEAT**; PAT – **BEAT**

Changes In Estimates post Q3FY24

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 7.4 Mn QoQ and 28.2 Mn YoY. This forms 71% of the overall customer base now.
- ARPU continues to be the best in the industry and average data usage per customer stands healthy at 22 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 robust rural penetration and a superior services portfolio. The Capex, however, will remain moderate in FY25.

Current Valuation: SOTP based

Current TP: 1,400/share (Earlier TP: Rs 1155/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 Q3FY24, Bharti Airtel Ltd. (Bharti) reported revenue of Rs 37,900 Cr, up 2.3% QoQ and up 5.85% 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 19,815 Cr leveraging higher 4G conversions and a better service mix. Its operating margins, however, declined marginally by 40bps. Its net profit for Q3FY24 stood at Rs 2,876 Cr, registering a robust growth of 37% 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 1,400/share based on SOTP valuation and the TP indicates a robust upside of 23% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,198	-3%	9%	1253	-4%
EBITDA	135	27%	-15%	112	21%
EBITDA Margin	11%	230 bps	(300) bps	9%	21%
Net Profit	104	15%	75%	54	93%
EPS (Rs)	2.6	15%	75%	2.5	4%

Source: Company, Axis Research

(CMP as of 06 February 2024)

CMP (Rs)	1138
Upside /Downside (%)	23%
High/Low (Rs)	1,201/736
Market cap (Cr)	6,40,061
Avg. daily vol. (6m) Shrs.	5,94,320
No. of shares (Cr)	5.56

Shareholding (%)

	Jun-23	Sep-23	Dec-23
Promoter	49.2	49.2	49.2
FII	16.0	9.2	10.8
MFs / UTI	12.6	11.8	11.4
Banks / FI	22.3	29.9	28.8
Others	49.2	49.2	49.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	1,55,048	1,99,918	2,13,188
EBITDA	81,530	1,21,441	1,30,791
Net Profit	21,535	57,372	62,953
EPS (Rs)	38.5	102.6	157.4
PER (x)	18.3	6.9	4.5
P/BV (x)	3.2	2.2	1.2
EV/EBITDA (x)	7.1	4.8	3.6
ROE (%)	17.7	32.0	26.0

Change in Estimates (%)

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

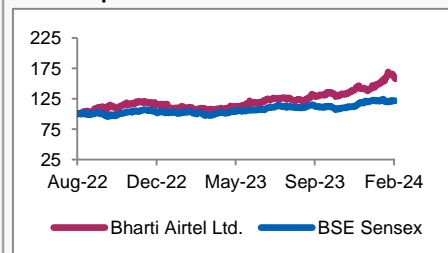
ESG disclosure Score**

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure Score	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: AceEquity, Axis Securities

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Key Highlights

- **Capex:** Capex is elevated because of the 5G rollout this year however capex will be moderated in FY25. 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 is the leading ARPU in the industry. The management expects ARPU to improve from the current level of 208 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.

Valuation & 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. 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 1,400/share based on SOTP valuation and the TP indicates a robust upside of 23% from the CMP.**

SOTP Valuation

Segments	FY26E EBITDA (Rs Bn)	FY26E EBITDA/ Share (Rs)	Multiple (X)	Enterprise Value (Rs Bn)	Value Per Share (Rs)
India Wireless	472.1	84.5	15.0	7,082	1,379
Telemedia services	29.3	5.2	12.0	352	69
Enterprise	67.3	12.0	12.0	808	157
DTH	18.6	3.3	12.0	223	43
Wireless - Africa	207.3	37.1	10.3	1,132	220
Others*	(49.1)	(8.8)	10.0	(491)	(96)
Sub-total	745.5	133.4	13.1	9,105	1,773
Consol Equity				355	64
Enterprise Value				9,460	1,837
(-) Net Debt				2,243	437
Target Price (Rs)					1,400

Source: Company, Axis Securities

Results Review
(Rs Cr)

In Cr	Q3FY24	Q2FY24	Q3FY23	% change (YoY)	% change (QoQ)
Total revenues	37,900	37,044	35,804	9%	-3%
Access charges	1,857	1,814	1,935		
Net revenue	36,043	35,229	33,869	0%	5%
License fees	3020	2964	2842	-227	199
Network costs	7,593	7,424	7,328		
Employee costs	1,323	1,379	1,235		
Sales & marketing	2,047	1,959	1,912		
General & Administration	2,245	1,989	2,098	-15%	27%
Total Opex	16,228	15,716	15,416		
EBITDA	19,815	19,514	18,453		
EBITDA / Total revenues	52%	53%	52%	-35%	-2%
D&A	10,074	9,734	9,298	-469	6
EBIT	9,741	9,779	9,156		
Finance cost (net)	6,645	5,186	4,686		
JV / Associates gain/(loss)	703	586	-368		
Other income	440	330	258	-75	2,345
Profit before Tax	4,239	5,510	4,359		
Income tax expense	1,232	1,847	1,076	-40%	0%
Exceptional Loss/(gain) (net of tax)	130	1,570	670	-	-
Profit after tax (after exceptional items)	2,876	2,093	2,614		
Net income	2,876	2,093	2,614		

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Net sales	1,39,145	1,55,048	1,99,918	2,13,188
Growth, %	19	11	29	7
Total income	1,39,145	1,55,048	1,99,918	2,13,188
Raw material expenses	-7,621	-8,167	-10,503	-10,711
Employee expenses	(4,831)	(5,429)	(5,693)	(5,921)
Other Operating expenses	-66,626	-72,159	-76,857	-80,734
EBITDA (Core)	71,274	81,530	1,21,441	1,30,791
Growth, %	24	14	49	8
Margin, %	51	53	61	61
Depreciation	(36,432)	(39,810)	(40,169)	(40,135)
EBIT	34,842	41,720	81,271	90,656
Growth, %	43	20	95	12
Margin, %	25	27	41	43
Interest paid	-16,901	-17,878	-18,196	-19,300
Other Non-Operating Income	937	1,504	1,568	1,636
Non-recurring Items	0	0	0	0
Pre-tax profit	19,629	27,805	67,090	75,374
Tax provided	-4,273	-6,270	-9,718	-12,421
Profit after tax	15,356	21,535	57,372	62,953
Others (Minorities, Associates)	0	0	0	0
Net Profit	15,356	21,535	57,372	62,953
Growth, %	132	40	166	10
Net Profit (adjusted)	15,356	21,535	57,372	62,953

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Cash & bank	19,088	14,649	14,417	15,339
Other current assets	39,033	39,109	37,672	37,744
Total current assets	58,121	53,758	52,089	53,083
Gross fixed assets	2,75,280	2,75,464	2,78,465	2,88,631
Net fixed assets	2,75,280	2,75,464	2,78,465	2,88,631
Non-current assets	32,435	32,973	33,102	33,516
Total assets	4,69,456	4,62,186	5,19,565	5,82,526
Current liabilities	1,21,964	1,21,964	1,21,964	1,21,964
Total current liabilities	1,21,964	1,21,964	1,21,964	1,21,964
Non-current liabilities	2,18,225	2,18,225	2,18,225	2,18,225
Total liabilities	3,40,189	3,40,189	3,40,189	3,40,189
Paid-up capital	2,795	2,795	2,795	2,795
Reserves & surplus	97,591	1,19,126	1,76,498	2,39,451
Shareholders' equity	1,29,267	1,21,997	1,79,376	2,42,337
Total equity & liabilities	4,69,456	4,62,186	5,19,565	5,82,526

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24E	FY25E	FY26E
Pre-tax profit	19,629	27,805	67,090	75,374
Depreciation	36,432	39,810	40,169	40,135
Chg in working capital	1,131	-606	1,163	-479
Total tax paid	-4,646	-6,270	-9,718	-12,421
Other operating activities	0	0	0	0
Cash flow from operating activities	52,509	60,731	98,848	1,02,602
Capital expenditure	-40,299	-39,993	-43,171	-50,302
Chg in investments	0	0	0	0
Chg in marketable securities	-374	-76	1,437	-72
Other investing activities	-12,647	-3,542	0	0
Cash flow from investing activities	-52,193	-41,076	-40,724	-47,920
Free cash flow	316	19,655	58,124	54,682
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	59,807	0	0	0
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	63,308	-28,805	7	8
Net chg in cash	63,623	-9,150	58,131	54,690
Opening cash balance	12,980	19,088	14,649	14,417
Closing cash balance	19,088	14,649	14,417	15,339

Source: Company, Axis Securities

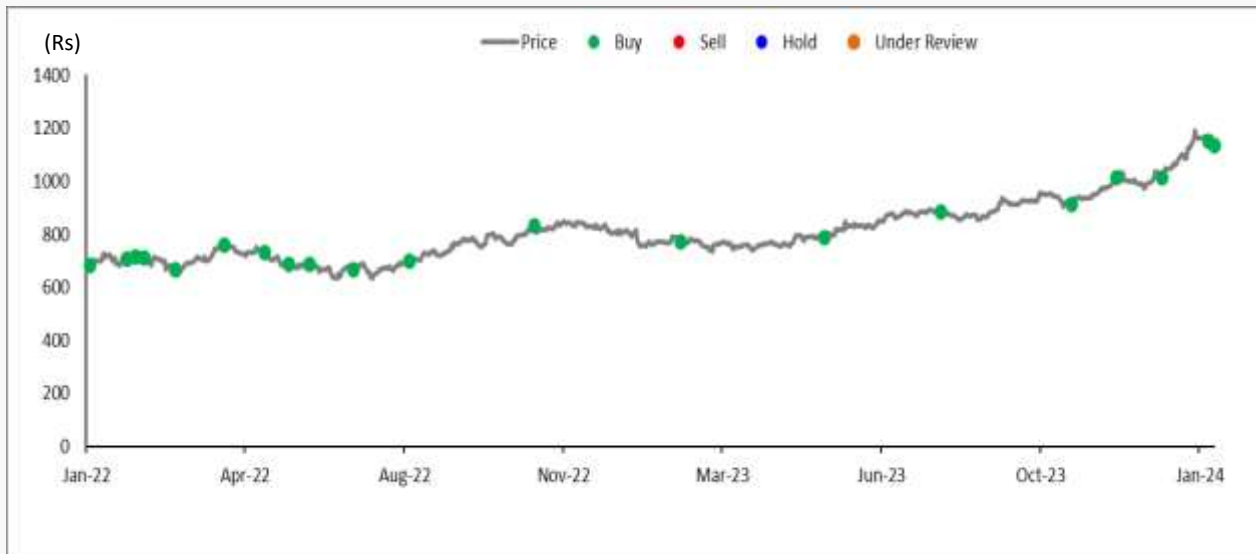
Ratio Analysis

(%)

Y/E March	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	27.5	38.5	102.6	157.4
Growth, %	132.4	40.2	166.4	53.3
Book NAV/share (INR)	179.6	218.1	320.7	605.6
FDEPS (INR)	27.5	38.5	102.6	157.4
CEPS (INR)	92.6	109.7	174.5	257.7
CFPS (INR)	104.4	102.5	169.9	247.5
DPS (INR)	0.0	0.0	0.0	0.0
Return ratios	0.0	0.0	0.0	0.0
Return on assets (%)	6.9	8.7	18.6	19.9
Return on equity (%)	15.3	17.7	32.0	26.0
Return on capital employed (%)	8.1	9.2	18.3	17.1
Turnover ratios	0%	0%	0%	0%
Asset turnover (x)	77%	87%	111%	115%
Sales/Total assets (x)	0.4	0.4	0.6	0.6
Sales/Net FA (x)	51%	56%	72%	75%
Working capital/Sales (x)	-60%	-53%	-42%	-40%
Fixed capital/Sales (x)	180%	161%	125%	122%
Receivable days	0%	0%	0%	0%
Inventory days	0.0	0.0	0.0	0.0
Payable days	0%	0%	0%	0%
Working capital days	(217.54)	(195.05)	(153.90)	(144.19)
Liquidity ratios				
Current ratio (x)	0.48	0.44	0.43	0.44
Quick ratio (x)	0.48	0.44	0.43	0.44
Interest cover (x)	2.06	2.33	4.47	4.70
Dividend cover (x)				
Total debt/Equity (%)	201.62	166.01	112.89	83.55
Net debt/Equity (%)	182.60	153.99	104.85	77.22
Valuation				
PER (x)	25.64	18.28	6.86	4.48
PEG (x) - y-o-y growth	0.19	0.45	0.04	0.08
Price/Book (x)	3.92	3.23	2.20	1.16
Yield (%)				
EV/Net sales (x)	4.15	3.75	2.91	2.20
EV/EBITDA (x)	8.10	7.13	4.79	3.58
EV/EBIT (x)	16.56	13.94	7.16	5.17

Source: Company, Axis Securities

Bharti Airtel Ltd. Price Chart and Recommendation History



Date	Reco	TP	Research
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
01-Dec-23	BUY	1,155	Top Picks
01-Jan-24	BUY	1,155	Top Picks
02-Feb-24	BUY	1,400	Top Picks
07-Feb-24	BUY	1,400	Result Update

Source: Axis Securities

About the analyst



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