

**BSE SENSEX**  
46,104

**S&P CNX**  
13,529


Bloomberg	BHARTI IN
Equity Shares (m)	5,456
M.Cap.(INRb)/(USDb)	2744.4 / 37.3
52-Week Range (INR)	612 / 381
1, 6, 12 Rel. Per (%)	-2/-47/-1
12M Avg Val (INR M)	10782
Free float (%)	43.8

**Financials & Valuations (INR b)**

Y/E March	FY20	FY21E	FY22E
Sales	875.4	1,012.5	1,058.4
EBITDA	366.1	464.6	545.6
Adj. PAT	-40.7	9.6	24.3
EBIT Margin (%)	41.8	45.9	51.5
Adj. EPS (INR)	-7.5	1.8	4.5
EPS Gr. (%)	-14.6	-123.5	153.9
BV/Sh. (INR)	141.4	114.7	119.2

**Ratios**

Net D:E	1.5	2.0	1.9
RoE (%)	-5.5	1.4	3.8
RoCE (%)	3.6	15.2	6.8
Payout (%)	0.0	0.0	0.0

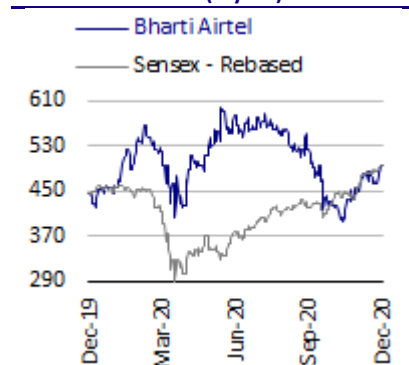
**Valuations**

EV/EBITDA (x)	11.3	8.7	7.4
P/E (x)	NM	289.6	114.1
P/BV (x)	3.6	4.4	4.3
Div. Yield (%)	0.0	0.0	0.0

**Shareholding pattern (%)**

As On	Sep-20	Jun-20	Sep-19
Promoter	56.2	56.2	62.7
DII	21.7	18.4	13.2
FII	17.6	20.2	22.4
Others	4.5	5.2	1.7

FII Includes depository receipts

**Stock Performance (1-year)**

**CMP: INR503**
**TP: INR650 (+29%)**
**Buy**
**Earnings outlook steady; price hike likely soon**
**Gaining competitive ground**

The swift ~20% recovery in the stock after the recent fall has triggered deliberations on its earnings outlook, the possibility of a tariff hike, and capex intensity. Based on our recent channel checks, we note that:

- **BHARTI's earnings outlook remains strong**, given the steady 4G subscriber additions, which are likely to see 2-3% QoQ ARPU growth, and strong EBITDA growth.
- A price hike, which looked uncertain in the last 6-9 months, has now started to look imminent with the weakening of industry subscriber growth.
- Our recent interactions with industry experts indicate a potential price hike of 15-20% in the next two months. Competitive pricing in postpaid and FTTH segment by peers have had a limited impact on earnings.
- Capex could reduce by ~15% in FY21E. Spectrum auction, which could entail investments of INR130b, looks unlikely to happen by 4QFY21E.
- We continue to remain bullish on BHARTI (with a TP of INR650), given its strong earnings outlook, potential tariff hikes soon, well-capitalized Balance Sheet, potential FCF generation, and strong competitive position.

**See India wireless revenue/EBITDA QoQ growth steady at 2-3%/4-5%**

- **4G subscriber additions to remain healthy:** Our channel checks indicate that BHARTI continues to gain competitive ground, adding strong 4G subscribers in the festive season, after the recent healthy additions in 2QFY21. The company should be able to maintain its 35-40% incremental 4G subscriber market share. This would turn out to be 3-4m monthly 4G subscriber additions in 3QFY21E.
- **ARPU to grow through mix benefit:** In line with the last two quarters (1Q and 2QFY21), we expect an improvement in the subscriber mix to generate ~2% ARPU growth.
- Our channel checks indicate that BHARTI saw a limited impact from the recently launched competitive postpaid tariffs by its peers, given the sticky nature of its customer profile and follow-up price cuts in FTTH. IDEA's recent INR50 tariff rise could support industry tariff hikes.

**Price hike on the anvil**

- A price hike, which looked uncertain in the last 6-9 months due to the challenging economic scenario, has started to look imminent with weakening subscriber growth across players. Our recent interactions with industry experts indicate a potential price hike of 15-20% in the next two months.

- **IDEA could take the lead:** Reducing subscriber growth, weak liquidity position, and requirement for fund raising is likely to compel it to hike prices. BHARTI has indicated it may follow tariff hikes by its peers. RJio's may follow its peers by maintaining its discount intact. However, a steep churn, post the previous price hike, may restrain RJio from taking the lead in price hikes.
- We see low likelihood of a TRAI floor price regulation as tapering competitive intensity and market consolidation in the last four years may leave limited justification for a floor price now, though it may compel telcos to take the lead in price hikes.
- IDEA's recent postpaid price increase creates a positive environment. However, we have received mixed indications from our channel checks as we understand telcos are offering price discounts selectively to restrict the churn in certain large circles. This makes us slightly cautious as there exists a risk of it spreading to more circles if players prioritize market share over pricing. Though we see limited possibility for it, given the current consolidated market construct and need for price hike across telcos. We have not build in any material price hike into our model.

#### **FY21E capex to be lower than FY20**

- **FY21E capex down ~15%:** We expect capex in 2HFY21E to be similar to 1H capex of ~INR90b/INR110b at the India/consolidated level. Thus, FY21E capex should stand at INR180b/INR220b, which is ~15% lower when compared to FY20 levels.
- Spectrum is expected to expire by 2QFY22 and would require an early auction, which was agreed upon during our recent regulatory channel checks.
- **Delay in the auction process:** However, our channel checks suggest mixed reviews about the progress of the auction. The Cabinet's approval, and issue of Notice Inviting Application (NIA) required before the auction, is running behind schedule for the auctions to happen during Mar'21. To complete the auction by Mar'21, the government needs to expedite the process and should roll out NIA's by Dec'20 or early Jan'21.
- Our workings indicate that BHARTI could incur a one-time capex of INR130b for spectrum renewal at the reserve price.

#### **FTTH is gaining traction on the back of increased targets. New partnership model with LCOs to increase home passes**

- **Smaller players witnessing healthy growth:** Recent wired broadband subscriber additions indicate that smaller players are still a competing force in the industry as they added ~75% of total subscribers (i.e. 1.4m) during 1HFY21. These smaller cable operators have better regional and local connectivity than the bigger players.
- **New LCO model gaining traction:** BHARTI's recent partnering with LCOs is gaining traction and should see an acceleration in subscriber growth (potentially 10-20% annualized) in the coming quarters. LCOs can use BHARTI's fiberized tower backhaul and build last mile connectivity to increase home passes. In this model, last mile connectivity would be owned by the LCO. However, the customer would use BHARTI's interface, billing and OTT (Airtel Xstream)

platform and service, thus allowing it to reach customers and increase its brand presence with lower capex.

- **Increased focus on smaller cities:** Initially, BHARTI restricted its target to reaching the top 100 cities, given the high investment and low business viability. However, the low investment requirement in the LCO model allows it to expand to additional cities. It has thus increased its target market to 150 cities. RJio has a mammoth target to reach 1,600 cities. However, its current subscriber base of a mere ~1m explains that its focus is limited to top cities.
- **ARPU cuts to be offset by subscriber growth:** The recent cut in home broadband ARPUs may have an insignificant impact on BHARTI as it contributes lower single digits to its earnings. The ARPU cut is likely to be offset by accelerating subscriber growth in the smaller cities through the LCO model.

#### Valuation and view

- We continue to remain bullish on BHARTI given its strong earnings outlook (even without a price hike) and improving RoCE and FCF generation potential. We expect it to generate post-interest FCF of INR64b in FY22E after factoring in the spectrum renewal cost of INR130b.
- We value BHARTI on a SoTP basis to arrive at our target price of INR650/share – we assign an FY22E EV-to-EBITDA of 11x to the Indian business and 6x to the African business. Our higher target multiple for the India Wireless business captures expected gains from any potential ARPU increase or higher market share gains – both of which are not fully captured in our model.

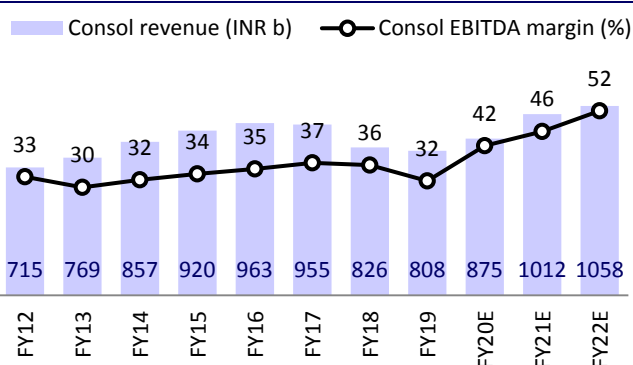
**Exhibit 1: FY22E based SoTP**

	EBITDA (INR b)	Ownership	Proportionate EBITDA (INR b)	EV-to-EBITDA	Fair value (INR b)	Value per share
India standalone business (excluding towers)	352	100%	352	11	3,870	709
Tower business (15% discount to its fair value)		53.5%			235	43
Africa business	154	55.2%	85	6	509	93
Less: Net debt					1,074	197
<b>Total value</b>					<b>3,540</b>	<b>650</b>
Shares outstanding (b)	5.5					
<b>CMP</b>						<b>503</b>
<b>Upside (%)</b>						<b>29</b>

Source: MOFSL

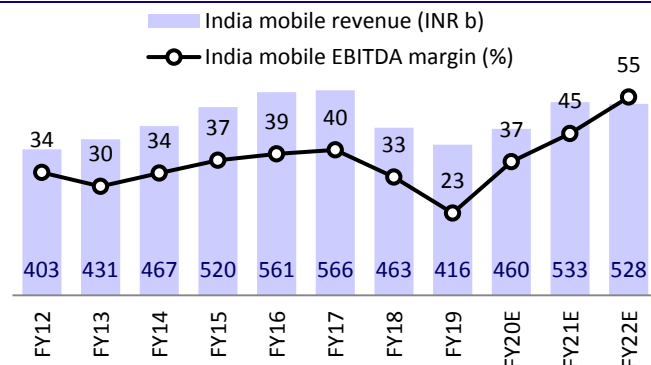
## Key Exhibits

**Exhibit 2: Revenue in FY22E to be over INR1t**



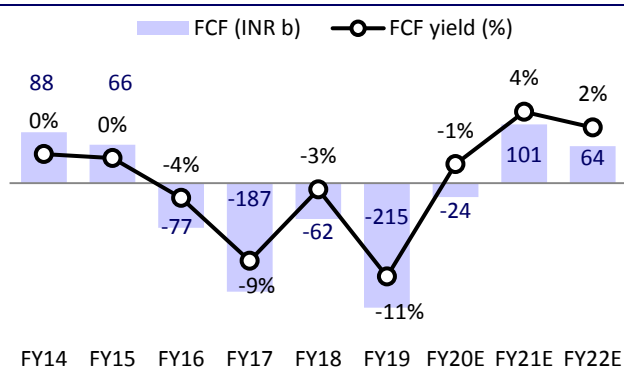
Source: Company, MOFSL

**Exhibit 3: India wireless to clock 7% CAGR over FY20-22E**



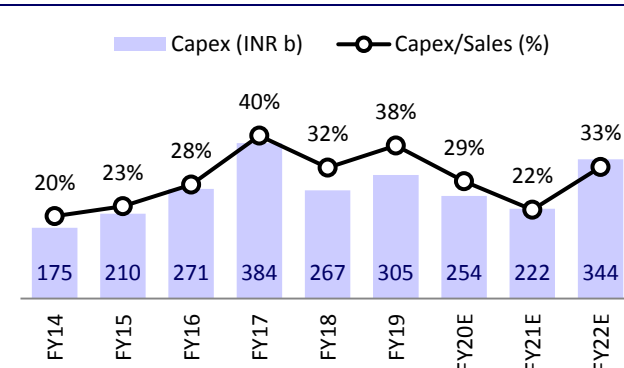
Source: Company, MOFSL

**Exhibit 4: Post-interest FCF to be INR64b**



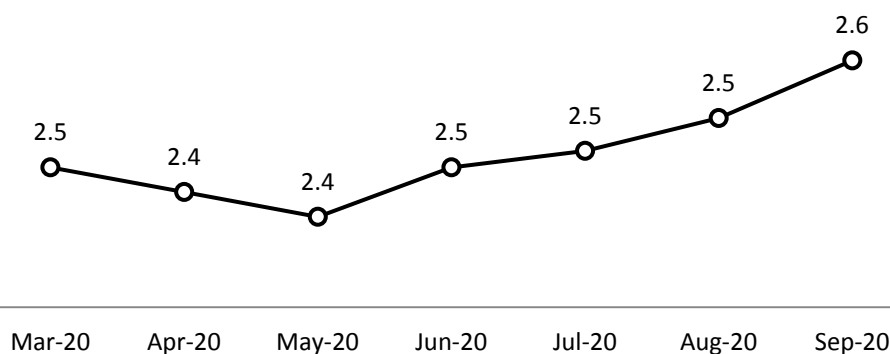
Source: company, MOFSL

**Exhibit 5: Capex to be high in FY22 due to spectrum renewal**



Source: company, MOFSL

**Exhibit 6: Added healthy broadband subscribers during 1HFY21**



Source: TRAI

## Financials and valuations

### Consolidated - Income Statement

(INR b)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Total Income from Operations</b>	<b>857</b>	<b>920</b>	<b>965</b>	<b>955</b>	<b>826</b>	<b>808</b>	<b>875</b>	<b>1,012</b>	<b>1,058</b>
Change (%)	11.5	7.3	4.9	-1.1	-13.4	-2.2	8.4	15.7	4.5
<b>Total Expenditure</b>	<b>581</b>	<b>608</b>	<b>625</b>	<b>601</b>	<b>526</b>	<b>550</b>	<b>509</b>	<b>548</b>	<b>513</b>
% of Sales	67.7	66.1	64.8	63.0	63.6	68.1	58.2	54.1	48.5
<b>EBITDA</b>	<b>277</b>	<b>312</b>	<b>340</b>	<b>353</b>	<b>301</b>	<b>258</b>	<b>366</b>	<b>465</b>	<b>546</b>
Margin (%)	32.3	33.9	35.2	37.0	36.4	31.9	41.8	45.9	51.5
Depreciation	156	155	174	198	192	213	277	305	347
<b>EBIT</b>	<b>120</b>	<b>157</b>	<b>165</b>	<b>156</b>	<b>108</b>	<b>44</b>	<b>89</b>	<b>160</b>	<b>198</b>
Int. and Finance Charges	48	48	69	77	81	96	124	140	142
Other Income	6	7	11	10	13	5	9	18	22
<b>PBT bef. EO Exp.</b>	<b>78</b>	<b>115</b>	<b>107</b>	<b>89</b>	<b>41</b>	<b>-47</b>	<b>-26</b>	<b>38</b>	<b>78</b>
EO Items	1	-8	22	-12	-8	29	-402	-118	0
<b>PBT after EO Exp.</b>	<b>79</b>	<b>107</b>	<b>128</b>	<b>77</b>	<b>33</b>	<b>-17</b>	<b>-428</b>	<b>-80</b>	<b>78</b>
Total Tax	48	54	60	35	11	-34	-122	55	31
Tax Rate (%)	61.6	50.4	46.3	45.1	33.2	197.4	28.4	-68.8	40.0
Minority Interest	2	1	8	4	11	13	15	10	22
<b>Reported PAT</b>	<b>28</b>	<b>52</b>	<b>61</b>	<b>38</b>	<b>11</b>	<b>4</b>	<b>-322</b>	<b>-146</b>	<b>24</b>
<b>Adjusted PAT</b>	<b>28</b>	<b>56</b>	<b>49</b>	<b>44</b>	<b>14</b>	<b>-35</b>	<b>-41</b>	<b>10</b>	<b>24</b>
Change (%)	43.0	102.7	-12.0	-9.5	-68.6	-350.3	16.6	-123.5	153.9
Margin (%)	3.2	6.1	5.1	4.7	1.7	-4.3	-4.7	0.9	2.3

### Consolidated - Balance Sheet

(INR b)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	20	20	20	20	20	20	27	27	27
Total Reserves	578	600	648	655	675	694	744	599	623
<b>Net Worth</b>	<b>598</b>	<b>620</b>	<b>668</b>	<b>675</b>	<b>695</b>	<b>714</b>	<b>771</b>	<b>626</b>	<b>650</b>
Minority Interest	42	49	55	69	88	135	250	260	283
Total Loans	759	807	1,005	1,073	1,113	1,254	1,176	1,391	1,220
Lease liabilities							306	306	306
Deferred Tax Liabilities	-46	-44	-34	-17	-22	-83	-263	-263	-263
<b>Capital Employed</b>	<b>1,353</b>	<b>1,431</b>	<b>1,693</b>	<b>1,799</b>	<b>1,875</b>	<b>2,021</b>	<b>2,241</b>	<b>2,320</b>	<b>2,197</b>
<b>Net Fixed Assets</b>	<b>1,406</b>	<b>1,501</b>	<b>1,780</b>	<b>1,891</b>	<b>1,589</b>	<b>1,684</b>	<b>1,690</b>	<b>1,994</b>	<b>1,990</b>
<b>Right of use assets</b>							259	259	259
<b>Total Investments</b>	<b>155</b>	<b>170</b>	<b>120</b>	<b>182</b>	<b>180</b>	<b>176</b>	<b>278</b>	<b>141</b>	<b>141</b>
<b>Curr. Assets, Loans &amp; Adv.</b>	<b>208</b>	<b>227</b>	<b>311</b>	<b>234</b>	<b>327</b>	<b>382</b>	<b>724</b>	<b>1,048</b>	<b>924</b>
Inventory	1	1	2	0	1	1	2	1	2
Account Receivables	62	67	55	47	59	43	46	57	51
Cash and Bank Balance	50	12	37	13	48	62	136	410	279
Loans and Advances	94	146	217	173	219	276	541	580	593
<b>Curr. Liability &amp; Prov.</b>	<b>416</b>	<b>468</b>	<b>518</b>	<b>507</b>	<b>602</b>	<b>641</b>	<b>1,097</b>	<b>1,121</b>	<b>1,117</b>
Account Payables	405	459	508	497	577	621	621	645	639
Provisions	12	8	10	10	25	20	476	476	478
<b>Net Current Assets</b>	<b>-209</b>	<b>-241</b>	<b>-207</b>	<b>-273</b>	<b>-275</b>	<b>-259</b>	<b>-373</b>	<b>-73</b>	<b>-193</b>
<b>Appl. of Funds</b>	<b>1,353</b>	<b>1,431</b>	<b>1,693</b>	<b>1,799</b>	<b>1,875</b>	<b>2,021</b>	<b>2,241</b>	<b>2,320</b>	<b>2,197</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>6.9</b>	<b>14.0</b>	<b>12.3</b>	<b>11.1</b>	<b>3.5</b>	<b>-8.7</b>	<b>-7.5</b>	<b>1.8</b>	<b>4.5</b>
Cash EPS	46.0	52.8	55.9	60.6	51.6	44.7	43.3	57.6	68.1
BV/Share	149.5	155.0	168.8	168.8	173.9	178.7	141.4	114.7	119.2
DPS	1.8	2.2	1.4	1.0	1.0	0.0	0.0	0.0	0.0
Payout (%)	30.2	19.9	10.8	12.7	43.8	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>									
P/E	73.9	36.5	41.4	45.8	145.7	NM	NM	289.6	114.1
Cash P/E	11.1	9.6	9.1	8.4	9.9	11.4	11.8	8.8	7.5
P/BV	3.4	3.3	3.0	3.0	2.9	2.8	3.6	4.4	4.3
EV/Sales	3.2	3.1	3.1	3.2	3.8	4.0	4.7	4.0	3.8
EV/EBITDA	9.9	9.1	8.8	8.8	10.3	12.5	11.3	8.7	7.4
Dividend Yield (%)	0.4	0.4	0.3	0.2	0.2	0.0	0.0	0.0	0.0
<b>Return Ratios (%)</b>									
RoE	5.0	9.2	7.6	6.6	2.0	NM	NM	1.4	3.8
RoCE	3.8	5.8	6.1	5.3	4.6	NM	3.6	15.2	6.8
RoIC	4.2	6.5	6.4	5.4	4.5	NM	3.7	15.2	6.7
<b>Working Capital Ratios</b>									
Asset Turnover (x)	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.5
Debtor (Days)	27	27	21	18	26	19	19	21	17
<b>Leverage Ratio (x)</b>									
Net Debt/Equity	0.9	1.0	1.3	1.3	1.3	1.4	1.4	1.8	1.7

### Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	79	107	128	77	33	-17	-428	-80	78
Depreciation	156	155	174	198	192	213	277	305	347
Interest & Finance Charges	59	73	85	95	93	110	137	140	142
Direct Taxes Paid	-35	-46	-47	-32	-14	-12	-23	-55	-31
(Inc)/Dec in WC	18	-2	-4	-27	6	-55	-166	-25	-11
<b>CF from Operations</b>	<b>276</b>	<b>288</b>	<b>338</b>	<b>311</b>	<b>311</b>	<b>239</b>	<b>-203</b>	<b>284</b>	<b>525</b>
Others	-14	-12	-58	-19	-12	-39	384	0	0
<b>CF from Operating incl EO</b>	<b>262</b>	<b>276</b>	<b>279</b>	<b>292</b>	<b>299</b>	<b>201</b>	<b>181</b>	<b>284</b>	<b>525</b>
(Inc)/Dec in FA	-175	-210	-271	-384	-267	-305	-221	-222	-344
(Pur)/Sale of Investments	-37	-12	68	-1	-33	1	-88	138	0
Others	-28	14	61	69	40	28	10	5	5
<b>CF from Investments</b>	<b>-240</b>	<b>-207</b>	<b>-142</b>	<b>-316</b>	<b>-260</b>	<b>-277</b>	<b>-300</b>	<b>-79</b>	<b>-339</b>
Issue of Shares	68	0	1	1	0	99	462	0	0
Inc/(Dec) in Debt	14	-72	-118	9	40	106	-180	214	-170
Interest Paid	-38	-34	-33	-59	-44	-76	-110	-140	-142
Dividend Paid	-7	-21	-15	-9	-33	-47	-18	0	0
Others	-12	31	47	53	56	13	37	0	0
<b>CF from Fin. Activity</b>	<b>26</b>	<b>-97</b>	<b>-118</b>	<b>-4</b>	<b>19</b>	<b>95</b>	<b>191</b>	<b>74</b>	<b>-312</b>
<b>Inc/Dec of Cash</b>	<b>48</b>	<b>-28</b>	<b>19</b>	<b>-28</b>	<b>58</b>	<b>19</b>	<b>73</b>	<b>279</b>	<b>-126</b>
Opening Balance	1	40	-1	18	-10	41	54	131	405
<b>Closing Balance</b>	<b>50</b>	<b>12</b>	<b>37</b>	<b>13</b>	<b>48</b>	<b>62</b>	<b>136</b>	<b>410</b>	<b>279</b>
Less Bank OD	10	13	-19	-23	-19	-8	-5	-5	-5
<b>Closing Cash Balance (with OD)</b>	<b>40</b>	<b>-1</b>	<b>18</b>	<b>-10</b>	<b>28</b>	<b>54</b>	<b>131</b>	<b>405</b>	<b>274</b>

E: MOFSL estimates



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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