

BSE SENSEX
35,867

S&P CNX
10,793

CMP: INR318

TP: INR380 (+20%)

Buy



Stock Info

Bloomberg	BHARTI IN
Equity Shares (m)	3,997
M.Cap.(INRb)/(USD\$b)	1271 / 17.9
52-Week Range (INR)	437 / 277
1, 6, 12 Rel. Per (%)	4/-10/-31
12M Avg Val (INR M)	2313
Free float (%)	32.9

Financials Snapshot (INR b)

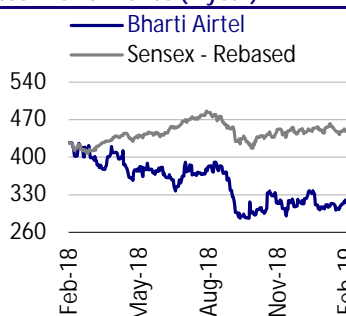
Y/E Mar	2019E	2020E	2021E
Net Sales	817.5	852.7	935.3
EBITDA	254.1	261.6	303.3
NP	-30.5	-22.6	-11.9
EPS (INR)	-7.6	-5.6	-3.0
EPS Gr. (%)	NM	NM	NM
BV/Sh. (INR)	148.8	143.1	140.2
RoE (%)	-4.7	-3.9	-2.1
RoCE (%)	0.1	1.0	1.9
P/E (x)	NM	NM	NM
P/BV (x)	2.1	2.2	2.3
EV/EBITDA (x)	9.5	9.4	7.9

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	67.1	67.1	67.1
DII	13.9	12.7	12.1
FII	17.2	18.4	18.8
Others	1.8	1.8	2.0

FII Includes depository receipts

Stock Performance (1-year)



A mammoth fund raising plan approved

- Bharti Airtel's (BHARTI) board has approved an INR320b fund raise, which includes a rights issue of INR250b and perpetual bonds with equity credit of INR70b (foreign denominated).
- Issue price of INR220/share implies an issuance of 1,134m rights shares, which would result in 22% post equity dilution.
- The fund raise is likely to bring down net debt/EBITDA sharply to 3.5x (FY19), as against the current estimate of 4.5x. Additionally, the plans of Africa IPO and Bharti Infratel stake sale will help raise INR400b, which should reduce its net debt to INR475b (net debt to EBITDA of 1.6x) by FY21.
- Moreover, we believe that capex intensity has peaked out, which should reduce its annual cash burn from INR169b in FY19 to positive FCF of -INR43b in FY21, thus restricting the increase in net debt.
- In our view, despite the steep dilution, the fund raising plan is a welcome positive which will allow BHARTI to be self-sufficient and manage operations without any ARPU increase. Maintain Buy with a target price of INR380.

INR320b fund raising – INR250b rights issue and INR70b perpetual bonds

- BHARTI's board has approved INR320b fund raise via an INR250b rights issue and INR70b (foreign denominated) perpetual bonds with equity credit.
- The INR250b rights issue will be raised in the ratio of 19:67 (i.e., 19 shares for every 67 shares held) at a price of INR220/share (which is a steep ~30% discount to CMP). This implies 1,134m rights shares, resulting in post equity dilution of 22%.
- Since the rights issue is at a discount, the dilution in earnings should result in a correction of the stock price from INR318 now to INR296 over the record date.
- FY19 net debt stands at INR1,148b, with net debt/EBITDA of ~4.5x. However, post the INR250b fund raise, FY19 net debt/EBITDA would come down sharply to 3.5x with net debt of INR898b.

Africa IPO and stake sale in Bharti Infratel on the cards

Bharti Africa IPO (~USD1.5b or INR105b) and the 53.5% Bharti Infratel stake sale (INR290b) could help raise overall INR400b. BHARTI had recently transferred 32% of its stake in Bharti Infratel to its wholly owned subsidiary – Nettle Infrastructure Investments, indicating its plans for stake sale. This could further reduce net debt to ~INR475b (FY21E) with net debt/EBITDA of 1.6x.

Cash burn could reduce on lower capex intensity and interest cost

BHARTI has incurred cumulative capex of ~INR750b over the last three years, which includes that toward 87.3k broadband site adds to 164.9k sites in Dec'18. We believe that capex intensity has peaked out now (expect capex of INR210b for FY20/21 v/s INR305b for FY19). Consequently, lower cash burn in FY20/21 and reducing interest cost due to lower debt should turn FCF positive to -INR43b by FY21 (v/s cash burn of INR169b FY19E).

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Turning self-sufficient; remain positive on Bharti

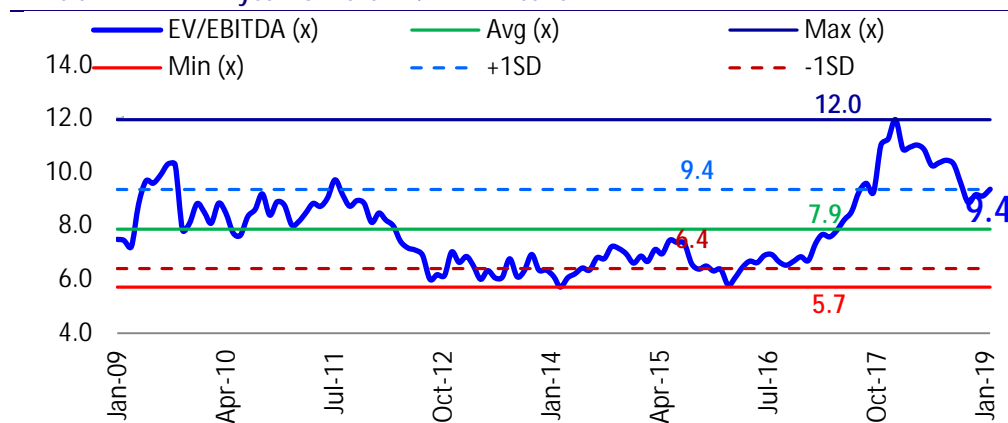
At CMP, the stock is valued at 7.9x EV/EBITDA on FY21E. Although there is a steep dilution of ~22%, it is a welcome positive. Current leverage (4.5x) is precarious, in our view. Therefore, this proactive measure, along with potential monetization of Africa business and Bharti Infratel, would allow BHARTI to remain self-sufficient, even without an ARPU increase.

Operationally, paybacks from minimum recharge vouchers, shift of feature phone to smartphones and tariff bottoming should contain EBITDA even at current pricing. ARPU turnaround could be about 4-6 quarters away when network/service gap in the market is reduced, which may compel RJio to take price increase. Maintain **Buy** with a target price of INR380.

Exhibit 1: Bharti Airtel: SOTP-based on FY21

	EBITDA (INR b)	Ownership (%)	Proportionate EBITDA (INR b)	EV/EBITDA (x)	Fair Value (INR b)	Value/Share (INR)
India SA business (excl. towers)	155	100%	155	11	1,651	413
Tower business (15% discount to fair value)		54%			244	61
Africa business	97	72%	70	11	742	186
Less: Net debt					1119	280
Total Value					3,757	380
Shares o/s (b)	4.0					
CMP						318
Upside (%)						19

Source: Company, MOSL

Exhibit 2: BHARTI: 1-year forward EV/EBITDA band

Source: Bloomberg, MOSL

Exhibit 3: Proposed fund raising - INR320b; INR250b via rights issue

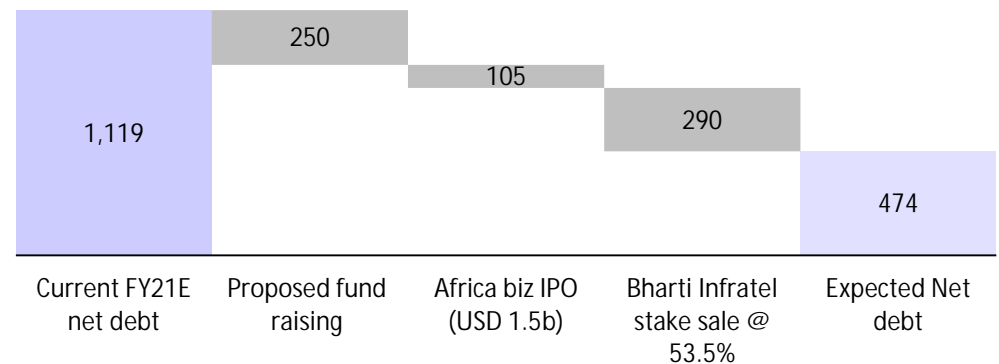
Particulars	INR b
Proposed funds raising (INR b)	320
- Rights issue	250
- Perpetual bonds (foreign denominated)	70
Right issue price of INR220 implies 1,134m shares to be issued	
Rights issue (INR b)	250
Issue Price (INR)	220
Rights entitlement ratio	19:67
No of right shares (m)	1,134

Source: MOSL, Company

Exhibit 4: Right shares to result in 22% post equity dilution

Particulars	
Existing no of shares (m)	3,997
New shares to be issued (m)	1,134
Total shares post fund raising (m)	5,131
Post equity dilution (%)	22%

Source: MOSL, Company

Exhibit 5: Net debt expected to decrease to ~INR475b

Source: MOSL, Company

Exhibit 6: Cash burn could go down to ~INR260b by FY21 (INR b)

Particulars	FY19E	FY20E	FY21E
Current estimates			
Capex	305	210	210
Interest cost	119	114	110
Total cash burn	423	324	320

Source: MOSL, Company

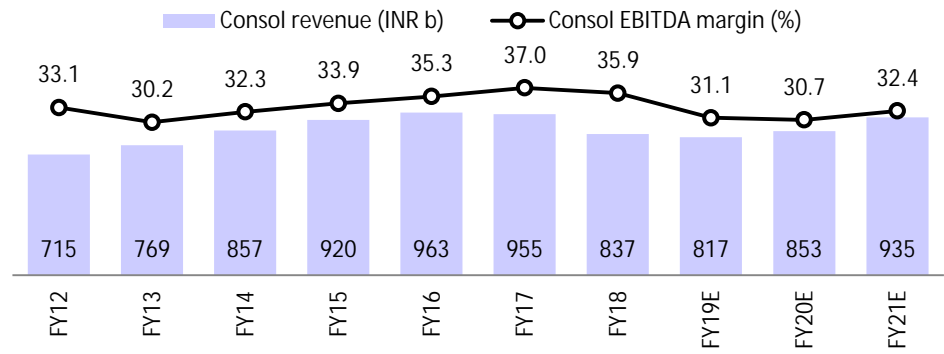
Exhibit 7: Post fund raise and potential Africa IPO/BHIN stake monetization

Particulars	FY19E	FY20E	FY21E
Capex	305	210	210
Interest cost	119	71	49
Total cash burn	423	281	259

Source: MOSL, Company

Story in charts

Exhibit 8: Consol. revenue and EBITDA margin to gradually inch up (INR b, %)



Source: MOSL, Company

Exhibit 9: India mobile revenue and EBITDA margin to witness an uptick

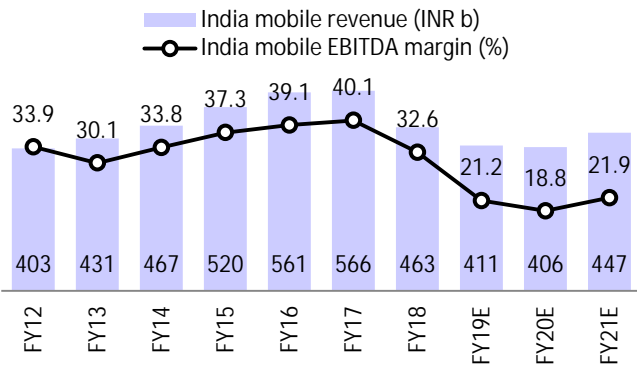
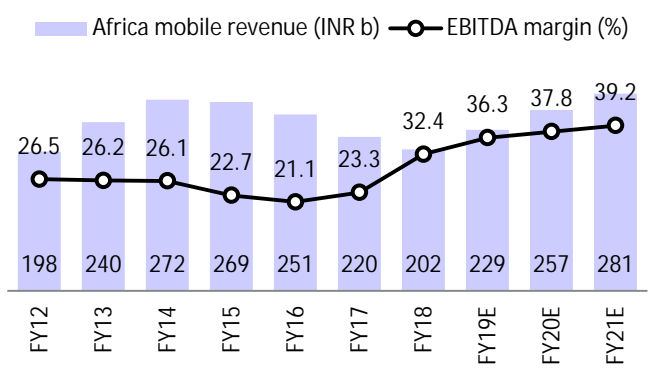


Exhibit 10: Africa revenue and EBITDA margin to reach new highs



Source: MOSL, Company

Exhibit 11: Expect India wireless APRU to witness a turnaround by FY21

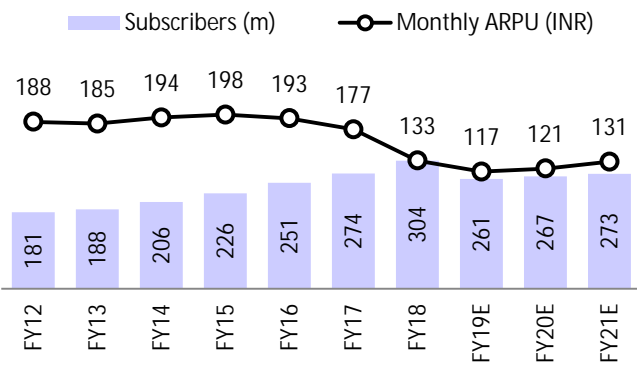
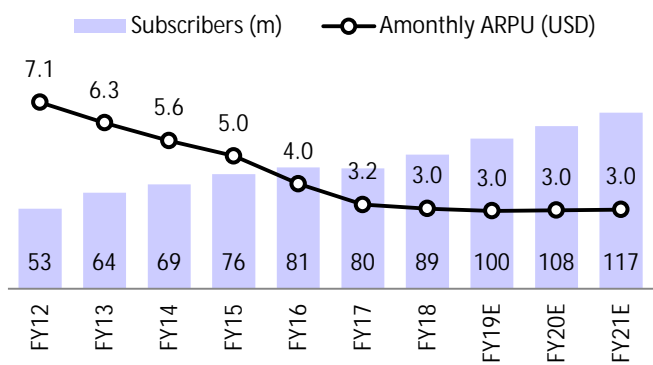


Exhibit 12: Expect Africa ARPU to remain steady



Source: MOSL, Company

Exhibit 13: India mobile total cell site base and additions

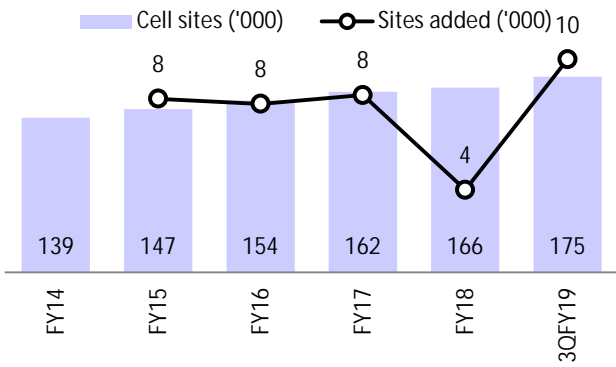


Exhibit 14: India mobile broadband sites base and additions

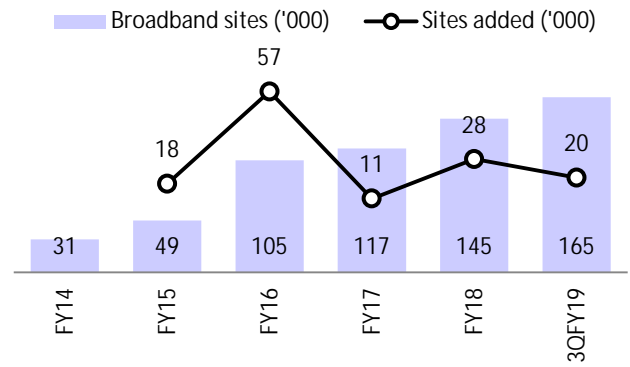


Exhibit 15: Consolidated net debt and net debt/EBITDA

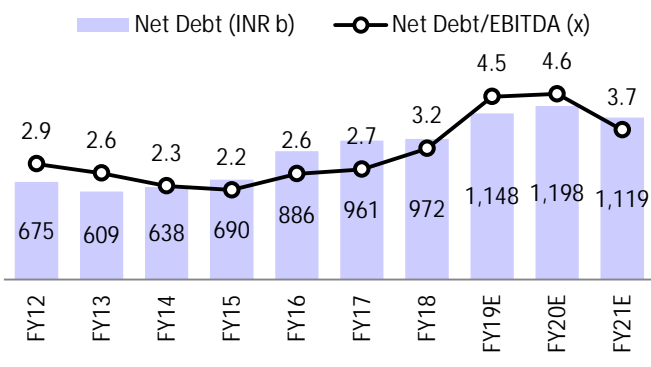


Exhibit 16: Capex as % of revenue to come down over FY19-21

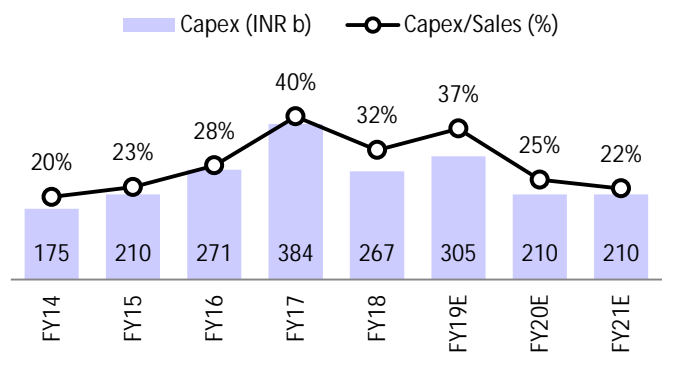
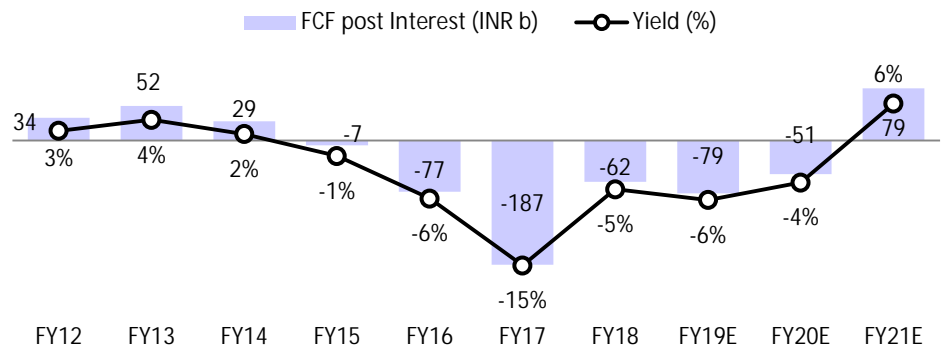


Exhibit 17: Expect FCF post interest to turn positive by FY21 (INR b, %)



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	8,57,461	9,20,394	9,65,321	9,54,683	8,36,879	8,17,463	8,52,665	9,35,311
Change (%)	11.5	7.3	4.9	-1.1	-12.3	-2.3	4.3	9.7
Total Expenditure	5,80,865	6,08,118	6,25,479	6,01,386	5,36,088	5,63,320	5,91,026	6,31,990
% of Sales	67.7	66.1	64.8	63.0	64.1	68.9	69.3	67.6
EBITDA	2,76,596	3,12,276	3,39,842	3,53,297	3,00,791	2,54,143	2,61,639	3,03,321
Margin (%)	32.3	33.9	35.2	37.0	35.9	31.1	30.7	32.4
Depreciation	1,56,496	1,55,311	1,74,498	1,97,730	1,92,431	2,11,860	2,27,943	2,43,806
EBIT	1,20,100	1,56,965	1,65,344	1,55,567	1,08,360	42,283	33,696	59,515
Int. and Finance Charges	48,381	48,463	69,135	76,974	80,715	99,554	96,185	92,030
Other Income	6,385	6,588	10,513	10,336	12,956	3,022	-788	-788
PBT bef. EO Exp.	78,104	1,15,090	1,06,722	88,929	40,601	-54,249	-63,277	-33,303
EO Items	538	-7,960	21,741	-11,697	-7,931	9,067	0	0
PBT after EO Exp.	78,642	1,07,130	1,28,463	77,232	32,670	-45,182	-63,277	-33,303
Total Tax	48,449	54,047	59,533	34,819	10,835	-43,859	-25,311	-13,321
Tax Rate (%)	61.6	50.4	46.3	45.1	33.2	97.1	40.0	40.0
Minority Interest	2,467	1,248	8,163	4,416	10,845	3,049	-15,391	-8,100
Reported PAT	27,726	51,835	60,767	37,997	10,990	-4,373	-22,576	-11,882
Adjusted PAT	27,519	55,779	49,101	44,421	13,960	-30,457	-22,576	-11,882
Change (%)	43.0	102.7	-12.0	-9.5	-68.6	-318.2	-25.9	-47.4
Margin (%)	3.2	6.1	5.1	4.7	1.7	-3.7	-2.6	-1.3

Consolidated - Balance Sheet								(INR m)
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	19,987	19,987	19,987	19,987	19,987	19,987	19,987	19,987
Total Reserves	5,77,573	5,99,577	6,47,706	6,54,576	6,75,357	5,74,735	5,52,160	5,40,278
Net Worth	5,97,560	6,19,564	6,67,693	6,74,563	6,95,344	5,94,722	5,72,147	5,60,265
Minority Interest	42,102	48,525	54,981	68,750	88,139	91,188	75,798	67,698
Total Loans	7,58,958	8,06,839	10,04,526	10,72,877	11,13,335	12,92,114	13,19,395	12,77,905
Deferred Tax Liabilities	-45,777	-44,392	-34,226	-16,766	-22,118	-22,118	-22,118	-22,118
Capital Employed	13,52,843	14,30,536	16,92,974	17,99,424	18,74,700	19,55,906	19,45,222	18,83,750
Net Fixed Assets	14,06,145	15,01,440	17,79,948	18,90,736	15,89,357	20,62,156	20,44,214	20,10,408
Total Investments	1,55,308	1,70,357	1,19,671	1,81,552	1,80,406	1,11,428	1,11,428	1,11,428
Curr. Assets, Loans & Adv.	2,07,692	2,26,519	3,10,876	2,34,170	3,26,564	3,71,925	3,67,388	4,21,326
Inventory	1,422	1,339	1,692	488	693	461	743	578
Account Receivables	62,441	67,252	55,039	47,402	58,830	53,151	63,652	64,473
Cash and Bank Balance	49,808	11,719	37,087	12,817	47,886	1,19,911	96,468	1,34,013
Loans and Advances	94,021	1,46,209	2,17,058	1,73,462	2,19,155	1,98,402	2,06,526	2,22,263
Curr. Liability & Prov.	4,16,302	4,67,781	5,17,520	5,07,034	6,01,786	5,89,604	5,77,809	6,59,413
Account Payables	4,04,533	4,59,472	5,07,838	4,97,348	5,77,285	5,66,192	5,51,245	6,31,157
Provisions	11,769	8,309	9,682	9,686	24,501	23,412	26,564	28,256
Net Current Assets	-2,08,610	-2,41,262	-2,06,645	-2,72,865	-2,75,222	-2,17,678	-2,10,420	-2,38,087
Appl. of Funds	13,52,843	14,30,536	16,92,974	17,99,424	18,74,700	19,55,906	19,45,222	18,83,750

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	6.9	14.0	12.3	11.1	3.5	-7.6	-5.6	-3.0
Cash EPS	46.0	52.8	55.9	60.6	51.6	45.4	51.4	58.0
BV/Share	149.5	155.0	168.8	168.8	173.9	148.8	143.1	140.2
DPS	1.8	2.2	1.4	1.0	1.0	0.0	0.0	0.0
Payout (%)	30.2	19.9	10.8	12.7	43.8	0.0	0.0	0.0
Valuation (x)								
P/E				28.6	91.1	-41.7	-56.3	-107.0
Cash P/E				5.2	6.2	7.0	6.2	5.5
P/BV				1.9	1.8	2.1	2.2	2.3
EV/Sales				2.4	2.8	3.0	2.9	2.6
EV/EBITDA				6.3	7.5	9.5	9.4	7.9
Dividend Yield (%)		0.7	0.5	0.3	0.3	0.0	0.0	0.0
Return Ratios (%)								
RoE	5.0	9.2	7.6	6.6	2.0	-4.7	-3.9	-2.1
RoCE	3.8	5.8	6.1	5.3	4.6	0.1	1.0	1.9
RoIC	4.2	6.5	6.4	5.4	4.5	0.1	1.2	2.1
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.5
Debtor (Days)	27	27	21	18	26	24	27	25
Leverage Ratio (x)								
Net Debt/Equity	0.9	1.0	1.3	1.3	1.3	1.8	1.9	1.8

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	78,643	1,07,130	1,28,463	77,233	32,670	-45,182	-63,277	-33,303
Depreciation	1,56,496	1,55,311	1,74,498	1,97,730	1,92,431	2,11,860	2,27,943	2,43,806
Interest & Finance Charges	58,788	73,252	85,461	95,466	93,255	1,18,912	1,14,283	1,10,128
Direct Taxes Paid	-35,039	-46,111	-46,836	-31,587	-13,723	43,859	25,311	13,321
(Inc)/Dec in WC	17,533	-1,639	-3,955	-27,429	5,906	14,481	-30,701	65,211
CF from Operations	2,76,421	2,87,943	3,37,631	3,11,413	3,10,539	3,43,929	2,73,559	3,99,163
Others	-14,095	-11,925	-58,208	-19,104	-12,001	0	0	0
CF from Operating incl EO	2,62,326	2,76,018	2,79,423	2,92,309	2,98,538	3,43,929	2,73,559	3,99,163
(Inc)/Dec in FA	-1,74,659	-2,09,786	-2,70,967	-3,84,045	-2,67,262	-3,04,500	-2,10,000	-2,10,000
Free Cash Flow	87,667	66,232	8,456	-91,736	31,276	39,429	63,559	1,89,163
(Pur)/Sale of Investments	-36,886	-11,649	68,115	-817	-33,322	68,978	0	0
Others	-27,955	14,088	60,595	69,308	40,326	19,418	19,418	19,418
CF from Investments	-2,39,500	-2,07,347	-1,42,257	-3,15,554	-2,60,258	-2,16,104	-1,90,582	-1,90,582
Issue of Shares	67,956	0	984	1,245	21	0	0	0
Inc/(Dec) in Debt	14,252	-72,451	-1,17,833	9,353	40,073	1,78,779	27,281	-41,490
Interest Paid	-37,620	-33,887	-32,890	-58,566	-44,041	-1,18,912	-1,14,283	-1,10,128
Dividend Paid	-6,735	-21,399	-15,304	-9,168	-32,652	0	0	0
Others	-12,182	31,210	46,925	52,866	56,085	-96,249	0	0
CF from Fin. Activity	25,671	-96,527	-1,18,118	-4,270	19,486	-36,382	-87,002	-1,51,618
Inc/Dec of Cash	48,497	-27,856	19,048	-27,515	57,766	91,443	-4,025	56,963
Opening Balance	1,311	39,575	-1,413	17,635	-9,880	28,468	1,00,493	77,050
Closing Balance	49,808	11,719	37,087	12,817	47,886	1,19,911	96,468	1,34,013

E: MOSL Estimates

NOTES

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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