

Consistent Indian operations aided in ARPU and customer base expansion

Q2FY24 Result Update | Sector: Telecom | November 02, 2023

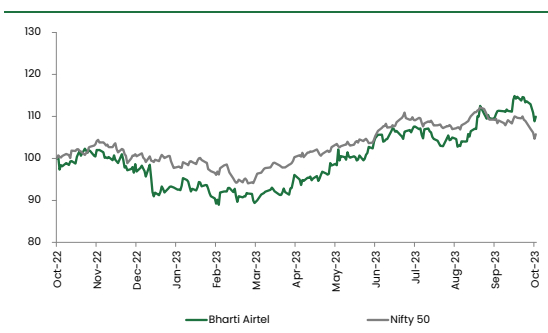
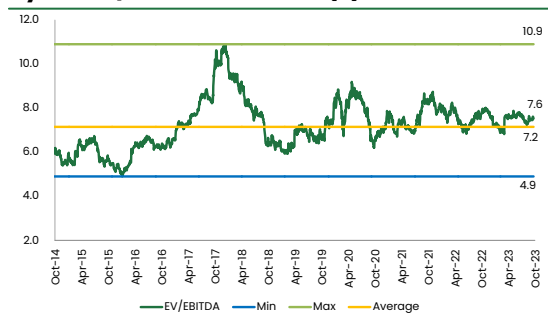
BUY

CMP (Rs)	913
Target Price (Rs)	1,049
Potential Upside	14.9%
Sensex	63,591
Nifty	18,989

Key Stock data	
BSE Code	532500
NSE Code	BHARTIARTL
Bloomberg	BHARTI:INN
Shares o/s, Cr (FV 5)	560.5
Market Cap (Rs Cr)	522,350
3M Avg Volume	4,636,369
52 week H/L	960/736

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	55.0	55.0	54.8
FII	21.0	21.5	21.9
DII	19.9	19.7	19.8
Others	4.1	3.9	3.6

1 Year relative price performance

1 year EV/EBITDA Forward (x)

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Decent revenue growth: Bharti Airtel performance was largely in line with our expectations as its revenue came in at Rs 37,044 Cr with a growth of 7.3% YoY, primarily driven by Indian operations. Amongst key divisions, Mobile services India grew by 11% YoY to Rs 20,952 Cr on the back of healthy customer addition followed by healthy growth in Home Services and Airtel business. On the flipside, Mobile services Africa declined by 1.6% YoY to Rs 10,277 Cr, due to devaluation of Nigeria Naira and other currencies.

Indian operations aided in margin expansion: EBITDA for the quarter came in at Rs 19,514 Cr, up by 10.9% YoY and consequently EBITDA margin improved by 172bps YoY to 52.7%. It was 6th consecutive quarter of margin improvement for the company, benefiting from improved realizations from quality users and its focus on cost optimization through its war on waste programs resulting in better operating efficiency.

Healthy addition of data usage customer aid in ARPU expansion: During the quarter it added ~11 Mn customers of which ~3.7 Mn were added in its Indian Mobile service business. Furthermore, the participation of data consumers improved by ~140bps QoQ/500bps YoY to ~71.8%. All these factors coupled with a high active user base aided the company to expand its ARPUs by 1.5% QoQ/6.8% YoY to Rs 203.

Robust outlook in the postpaid business: The net addition of postpaid customers during the quarter was ~1 Mn, increasing its mobile services postpaid user base to ~21.5 Mn. The company has indicated that it will continue to focus on increasing its postpaid customer base as a part of its strategy which shall further support addition of quality customers and APRUs expansion.

Consistent performance from non-core segments: Its Homes business revenue grew by 23.3% YoY to Rs 1,221 Cr and EBITDA was at Rs 607 Cr up by 21.9% YoY, benefiting from healthy net customer addition of ~471k. Airtel business revenue came in at Rs 5,110 Cr with a growth of 10% YoY and EBITDA of Rs 2,058 Cr, up by 13% YoY. Its non-core segments continue to post steady performance aiding in overall growth of the company.

Outlook & Valuations: Bharti Airtel maintains industry leading performance with ARPUs of Rs 203 along with high active user base and a market share of ~32.5%. Going ahead, it will focus on developing its 5G infrastructure across India while also targeting nearly 60k high potential villages and postpaid additions which will prove to be the next growth leg for the company. Furthermore, its other segments like Airtel Business, Home Services and Digital services all have been delivering consistent growth. Factoring this, we estimate its revenue/EBITDA/PAT to grow at 18%/20.9%/20% CAGR over FY23-25E and have maintained **Buy** rating and revised target price upwards to **Rs 1,049**.

Financial Summary - consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	116,547	139,145	164,191	193,745
EBITDA	57,534	71,274	86,693	104,235
EBITDAM (%)	49.4	51.2	52.8	53.8
PAT (After minority interest)	4,255	8,346	6,104	12,017
PATM (%)	3.7	6.0	3.7	6.2
EPS (Rs)	7.6	14.7	10.8	21.2
EV/EBITDA (x)	11.6	10.3	8.6	7.2
P/E (x)	120.0	62.1	84.9	43.1
RoE (%)	4.1	12.5	12.8	14.1

Source : RBL Research

Resilient Indian operations aid revenue growth, African business impacted by currency devaluation

Margin expansion on the back of cost optimizations measure and higher realization from 4G/5G users

Concall & other key highlights: 1) Installed ~11.1k towers across India during the quarter to strengthen its network coverage. 2) Capex during the quarter was ~Rs 7,847 Cr, spent towards rural expansion and network upgrades. 3) Successfully tested India's first RedCap technology in partnership with Ericsson on its 5G network. 4) Increased its presence to 1,239 cities in Home Business.

P&L Account Quarterly - consolidated

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net sales	37,044	34,527	7.3	37,440	(1.1)
Network operating expenses	7,424	7,130	4.1	7,404	0.3
Access charges	1,814	1,931	(6.0)	1,997	(9.2)
License fee / Spectrum charges	2,964	2,951	0.4	2,940	0.8
Personnel costs	1,379	1,209	14.1	1,257	9.7
Sales & Marketing expense	1,959	1,782	9.9	2,060	(4.9)
Other overheads	1,989	1,930	3.1	2,184	(8.9)
EBITDA	19,514	17,594	10.9	19,599	(0.4)
EBITDA Margin (%)	52.7	51.0	172 bps	52.3	33 bps
Depreciation	9,734	8,947	8.8	9,654	0.8
Interest	5,186	4,940	5.0	5,614	(7.6)
Other income	330	202	63.6	348	(5.1)
Share of profit / (loss) from associates	586	357	64.3	590	(0.7)
EO gains / (loss)	(1,570)	-	-	(3,416)	-
PBT	3,940	4,265	(7.6)	1,853	112.6
Tax	1,847	1,286	43.5	333	455.0
Effective tax rate (%)	46.9	30.2	1671 bps	18.0	2891 bps
Reported PAT	2,093	2,979	(29.7)	1,520	(102.0)
Minority Interest	752.5	833.7	(9.7)	(92.3)	-
PAT (after minority interest)	1,341	2,145	(37.5)	1,613	(16.9)

Source : RBL Research

Revenue Break Up

Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Mobile Services India	20,952	18,882	11.0	20,392	2.7
Mobile Service Africa	10,277	10,445	(1.6)	11,317	(9.2)
Mobile Service S.A	93	70	34.2	93	(0.1)
Airtel Business	5,110	4,665	9.5	5,055	1.1
Homes Service	1,221	990	23.3	1,162	5.0
Digital TV Servies	752	729	3.1	740	1.5
Others	30	20	47.5	30	0.3
Total	38,435	35,800	7.4	38,790	(0.9)
Less: Inter Segmental	1,391	1,274	9.2	1,350	3.1
Total Revenue	37,044	34,527	7.3	37,440	(1.1)

Source : RBL Research

Healthy performance from Indian operations

Strong growth in consolidated EBIT, up by 15.4% YoY

EBIT Break Up

Particulars, Rs Cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Mobile Services India	4,678	3,638	28.6	4,519	3.5
Mobile Service Africa	3,492	3,570	(2.2)	3,794	(8.0)
Mobile Service S.A	(51)	(45)	-	(48)	-
Airtel Business	1,543	1,322	16.8	1,477	4.5
Tower Infrastructure	552	359	53.8	592	(6.8)
Homes Service	289	219	32.2	284	1.9
Digital TV Services	37	89	(57.7)	102	(63.4)
Others	22	3	-	3	-
Total EBIT	10,562	9,153	15.4	10,722	(1.5)

Source : RBL Research

Highest ARPUs at Rs 203, added ~1 Mn customers in the postpaid user base

India Wireless KPIs

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
Wireless Traffic (Bn min)	1,148	1,063	8.0	1,149	(0.1)
Total Subscribers (Mn)	389	364	7.0	383	1.7
Data Subscribers (Mn)	246	219	12.2	238	3.2
4G Subscribers	237	210	12.9	230	3.4
ARPU (Rs)	203	190	6.8	200	1.5
MOU (min)	1,123	1,082	3.8	1,138	(1.3)
Data Traffic (Mn mb)	15,749	13,485	16.8	14,915	5.6
Data Usage per Subscriber (GB)	22	21	4.5	21	2.8
Monthly Churn (%)	2.9%	3.3%	-40 bps	2.8%	10 bps

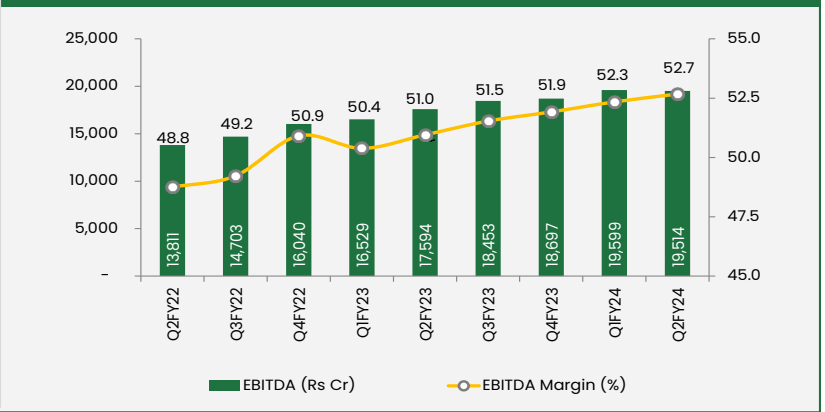
Source : RBL Research

Story in charts

Sequential decline due to impact in African business

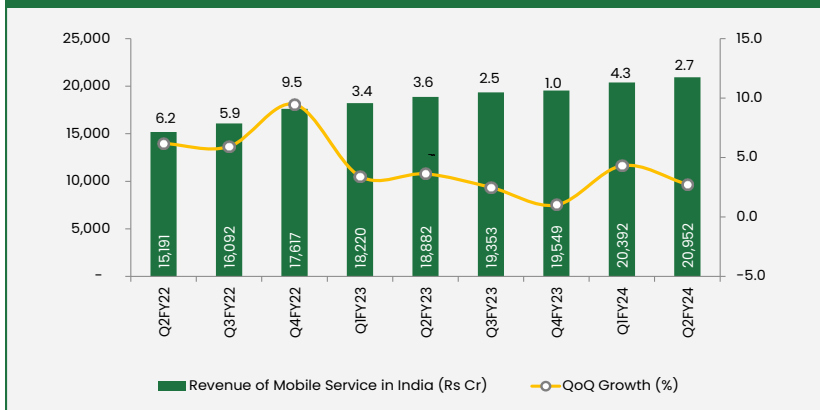


Increasing trend of EBITDA & EBITDA Margin

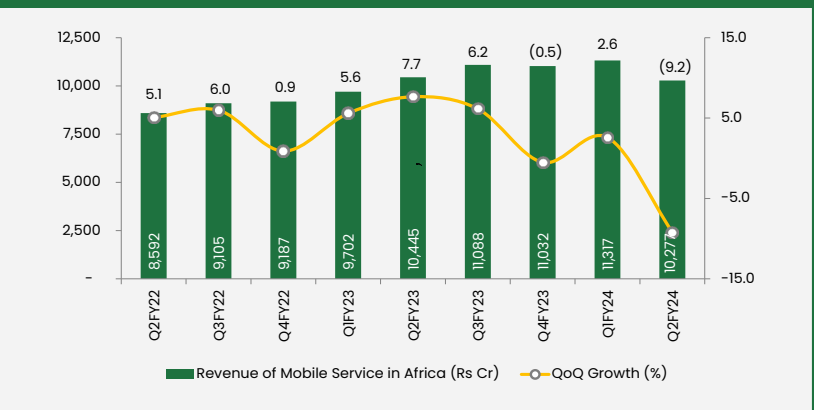


Source : RBL Research

Consistent growth aided by sticky customer base

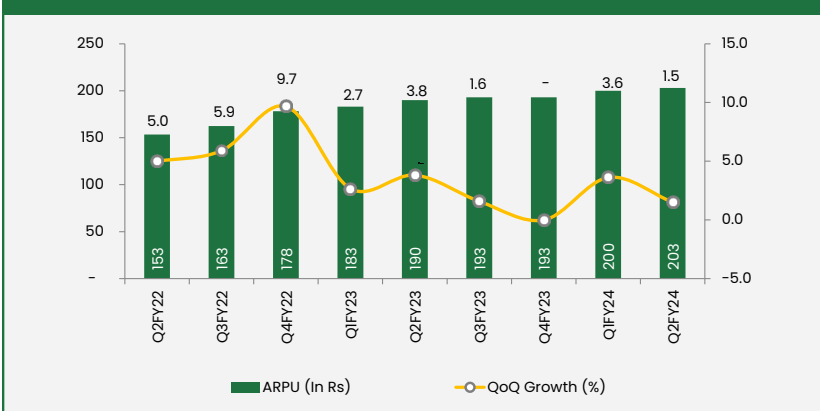


Devaluation of currency impact revenue growth

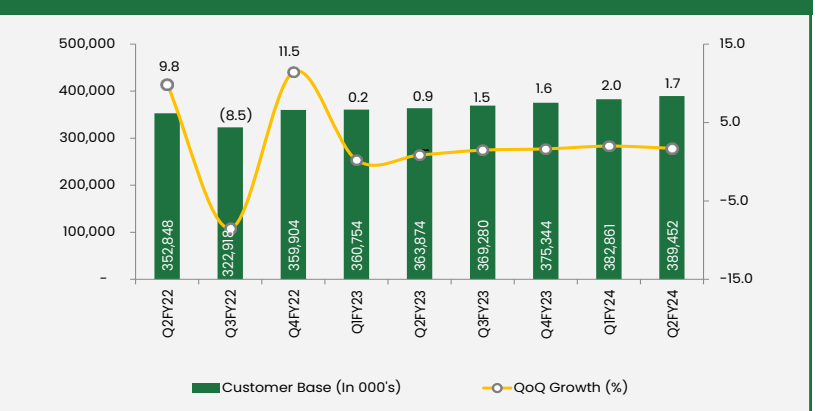


Source : RBL Research

Continue to maintain industry leading ARPUs

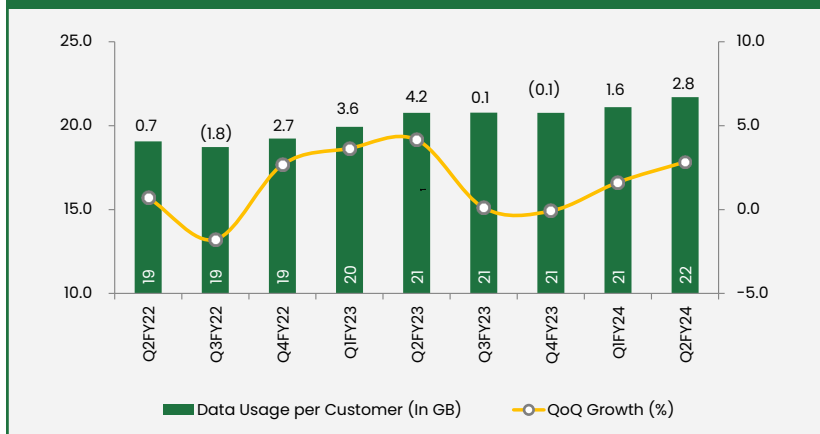


Customer addition growing at a moderate pace

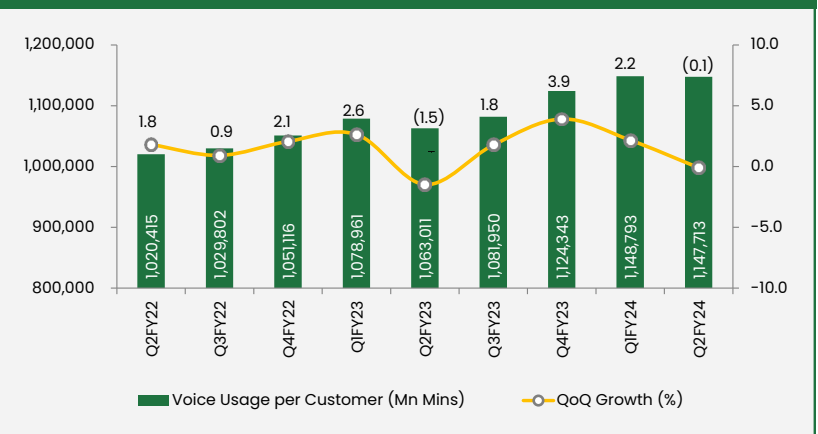


Source : RBL Research

Higher (%) of 4G customer base leads to rise in data usage



Trend of voice usage data



Source : RBL Research

P&L Account – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	116,547	139,145	164,191	193,745
Expenditure				
Network Operating Expense	25,021	28,543	32,838	38,071
Access Charges	6,761	7,621	8,374	9,397
License fees / spectrum charges	11,064	11,752	13,135	15,500
Employee Costs	4,433	4,831	5,747	6,781
Sales & marketing expense	5,304	7,245	8,210	9,203
Other Overheads	6,431	7,879	9,195	10,559
Total Expenditure	59,013	67,871	77,498	89,510
EBITDA	57,534	71,274	86,693	104,235
EBITDAM (%)	49.4	51.2	52.8	53.8
Other income	534	937	1,218	1,522
Depreciation	33,091	36,432	43,718	52,462
PBIT	24,978	35,778	44,192	53,295
Interest expenses	16,616	19,300	23,160	25,476
Share of Profit from Associates	2,423	752	-	-
PBT (before exceptional income / (loss))	10,785	17,231	21,032	27,819
Extraordinary income / (loss) (net of tax)	1,699	(670)	(4,037)	-
PBT	12,483	16,561	16,996	27,819
Tax	4,178	4,273	6,458	10,571
Reported PAT	8,305	12,287	10,537	17,248
Minority Interest	4,050	3,942	4,433	5,231
PAT (After minority interest)	4,255	8,346	6,104	12,017

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	2,795.0	2,836.6	2,836.6	2,836.6
Reserves & Surplus	63,759	74,726	77,994	86,607
Total Shareholder's Fund	66,554	77,563	80,830	89,443
Minority interest	25,381	28,881	31,381	33,381
Non-Current Liabilities				
Total debt	169,678	226,020	241,020	253,020
Other long term liabilities	12,191	13,276	14,776	15,776
Deferred tax liabilities	2,449	2,076	2,206	2,346
Long term provision	464	474	474	474
Current Liabilities				
Trade payables	29,274	32,895	32,838	30,999
Short term provisions	24,345	25,729	26,129	26,129
Other current liabilities	33,320	39,718	45,152	53,280
Total Liabilities	363,656	446,633	474,809	504,850
Fixed Assets	90,573	95,224	104,006	106,545
Current work in process	5,955	49,425	49,157	48,889
Intangible assets	121,282	127,523	132,523	139,523
Non current investment	28,488	28,249	29,499	31,749
Other non-current assets	45,406	69,758	72,258	74,258
Deferred Tax Assets	19,925	18,952	20,202	23,602
Current Assets				
Current investments	861	4,705	6,568	9,203
Inventories	375	258	304	359
Trade receivables	4,056	3,982	4,926	5,812
Cash & Cash equivalents	13,494	13,418	13,497	14,536
Other current assets	33,241	35,139	41,869	50,374
Total Assets	363,656	446,633	474,809	504,850

Source : RBL Research

Cashflow – consolidated

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Reported PBT	12,483	16,561	16,996	27,819
Depreciation	33,091	36,432	43,718	52,462
Tax paid	(4,178)	(4,273)	(6,458)	(10,571)
Working capital Change	1,956	9,696	(1,942)	(3,158)
Operating Cash Flow (a)	43,352	58,416	52,314	66,552
Capex	(50,506)	(90,795)	(57,232)	(61,732)
Free Cash Flow	(7,154)	(32,379)	(4,918)	4,820
Investments	117	(27,957)	(5,613)	(6,885)
Investing Cash Flow (b)	(50,389)	(118,751)	(62,845)	(68,617)
Debt Issuance/ (Repaid)	6,893	56,342	15,000	12,000
Dividend Paid	(1,677)	(2,269)	(2,837)	(3,404)
Share Capital Issuance, QIP proceeds	5,024	4,932	(0)	-
Others	(3,175)	1,256	(1,553)	(5,491)
Financing Cash Flow (c)	7,065	60,261	10,610	3,105
Net Cash Flow (a + b + c)	27	(75)	79	1,039
Closing Cash	13,494	13,418	13,497	14,536

Source : RBL Research

Key ratios – consolidated

Particulars	FY22	FY23	FY24E	FY25E
Per Share Ratios				
EPS (Rs)	7.6	14.7	10.8	21.2
Book value per share (Rs)	119.1	136.7	142.5	157.7
Profitability Ratios				
EBITDA Margin (%)	49.4	51.2	52.8	53.8
PBT Margin (%)	10.7	11.9	10.4	14.4
Net Profit Margin (%)	3.7	6.0	3.7	6.2
RoCE (%)	6.9	7.5	8.2	9.3
RoE (%)	4.1	12.5	12.8	14.1
Efficiency				
Fixed Asset Turnover (x)	1.2	1.2	1.1	1.3
Debtor (Days)	13	10	11	11
Interest Cover Ratio (x)	1.5	1.8	1.9	2.0
Debt-Equity Ratio (x)	2.5	2.9	3.0	2.8
Valuation Ratios				
P/E (x)	120.0	62.1	84.9	43.1
P/B (x)	7.7	6.7	6.4	5.8
EV/EBIDTA (x)	11.6	10.3	8.6	7.3

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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