

4G, postpaid subscriber addition key positive...

About the stock: Bharti Airtel (Airtel) is India's second largest telecom operator with ~33.2 crore wireless customers in India and ~13.9 crore subscribers across 14 African countries. It enjoys industry leading ARPU in the wireless business in India.

Q3FY23 Results: Airtel reported a healthy set of numbers.

- The key highlight of Q3 was **healthy 4G subscribers net addition of ~6.4 mn along with robust addition of ~653,000 post-paid subscribers**. India wireless revenues were up 2.5% QoQ (up 20.3% YoY) at ₹ 19353 crore, with subscriber addition of 4.4 mn and **ARPU at ₹ 193.4, up 1.9% QoQ led by upgrades and improving subscriber mix**
- Consolidated EBITDA came in at ₹ 18453 crore, up 4.9% QoQ, with margins of 51.5%, up 58 bps QoQ. **India wireless margins was at 53.8% (up 150 bps QoQ) were driven by lower SUC charges**. Overall Indian margin was up 95 bps QoQ at 52.7%. Africa margin was at 49.1%, flat QoQ
- Reported net debt (excluding lease liability) was at ~₹ 1.55 lakh crore (down ₹ 2448 crore, led by cash flow generation). The capex spends for the quarter were at ₹ 9314 crore vs. ₹ 7047 crore in Q2, on account of 5G roll out

What should investors do? Airtel's share price has been up ~104% in the past five years.

- Favourable industry structure of three players (two being strong), government relief and fund raise has put Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. We maintain our **BUY** rating

Target Price and Valuation: We value Airtel at a target price of ₹ 920

Key triggers for future price performance:

- Relative market share gain from VIL, given its stressed balance sheet and long-term potential driven by growth opportunity from 5G
- Timing/strategy on tariff hike as its pass-through would bolster margins

Alternate Stock Idea: Besides Airtel, we like Sterlite Tech in our telecom coverage.

- A play on 5G & FTTH (in India and globally)
- BUY with target price of ₹ 220



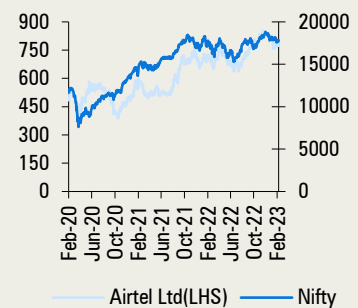
Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	4,39,612
Total Debt (₹ Crore) - FY22	1,69,678
Cash & Inv (₹ Crore) - FY22	9,221
EV (₹ Crore)	6,00,069
52 week H/L	860/ 629
Equity capital (₹ crore)	2,836
Face value (₹)	5.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	55.9	55.9	55.1	55.1
DII	17.7	18.4	17.5	17.7
FII	19.4	18.5	20.0	21.7
Other	7.0	7.2	7.4	5.5

Price Chart



Key risks

Key Risk: (i) Delay in Tariff hike; (ii) Increased competitive intensity

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR (FY22-25E)
Net Sales (₹ crore)	87,539	1,00,616	1,16,830	4.1	1,39,895	1,53,209	1,65,676	12.3
EBITDA (₹ crore)	36,482	45,372	57,817	10.4	71,763	80,196	89,057	15.5
Net Profit (₹ crore)	(32,183)	(15,084)	4,538	3.6	8,234	16,695	23,071	71.9
Adjusted PAT (₹ crore)	(4,075)	(1,300)	2,840		8,904	16,695	23,071	
EPS (₹)	(59.0)	(27.6)	8.1		14.5	29.4	40.7	
P/E (x)	NA	NA	95.5		53.4	26.3	19.1	
Price / Book (x)	5.5	7.2	6.5		5.5	4.5	3.7	
EV/EBITDA (x)	15.1	12.8	10.2		8.4	7.3	6.1	
RoCE (%)	4.1	6.4	9.1		12.3	14.9	17.0	
RoE (%)	(5.3)	(2.2)	4.3		11.1	17.2	19.2	

Source: Company, ICICI Direct Research;

Key performance highlight and outlook

India wireless business –Strong 4G/postpaid sub addition!

ARPU at ₹ 193.4, up 1.9% QoQ, was driven by **data monetisation, premiumisation and bundling through Airtel Black**. We highlight the overall ARPU improvement was better than Jio, which saw ~0.6% QoQ growth in ARPU. Overall sub base saw a modest addition of 0.5 mn QoQ at 327.8 mn. The key highlight of Q3 was **healthy 4G subscribers net addition of ~6.4 mn, along with robust addition of ~653,000 postpaid subscribers** (vs. ~283,000 in Q2). The company indicated that given the unsustainable RoCEs of sub 9% in India and South Asia business, a tariff hike is warranted. **We highlight that while the management does expect a further round of tariff increase for prepaid customers in the near term, it refrained from stating the timeline. We expect monthly ARPU to reach ₹ 213 in FY25 vs. current levels of ₹ 193, driven by mix improvement as we do not build further step-up tariff in our estimates.**

Non-wireless segment remains robust

In the broadband business, Airtel witnessed strong growth driven by **healthy net customer additions of 432,000 during the quarter to 5.6 mn**. The collaboration with local digital cable operator on partnership model has enabled Airtel to be present in 1140 cities (added 80 cities during Q3FY23). We note that the company had also reiterated robust opportunity on Enterprise side (total market size of ~₹ 40,000 crore) and adjacent areas like *CPaaS, Data Centre, Cloud communication, cyber security, IOT* with similar market size. During the quarter, the company saw superior growth compared to peers and added to the market share gains in the enterprise segment. **The company indicated that 50 out of top 500 customers have grown 300% YoY in Airtel business segment.**

Other highlights

- **Rural and Top 150 town focus:** Airtel stressed on the need to bridge the rural coverage (currently at 96% for Airtel) with Jio given. Therefore, in the near to medium term, it would focus on expanding coverage there with the aid of data science and field study for demand. It intends to build lower cost lean sites to expand in rural areas. It has **identified 60000 high potential villages, of which 40000 high potential clusters of communities is where the company will be focusing to capture 4G sub market**. It will also focus on **top 150 towns with levers such as 5G (as a pivot to grow high value postpaid), One transport band (Use Data science to plan fiberisation) and go to market approach in the enterprise segment** (going deep as well as stepping up investments in adjacent areas such as CPaaS, in IoT, in cloud, and in salesforce)
- **Relooking at war on waste:** The steps here would **be cut on energy costs, use data science to identify areas of high costs and squeeze 4G capacity to offload on 5G**
- **5G:** The company indicated that **5G is now live in 70 cities and will be live in about 300 cities by March 2023**. All Urban areas will be covered by March 2024. On the non-standalone (NSA) technology, the commercial trials are giving it 30% higher coverage than what it would have had if it had gone with standalone (SA) technology. It reiterated that overall India capex over three years (of ~₹ 75000 crore) will remain similar while some front loading will be seen over Q4 and FY24, given the 5G rollout
- **Base tariff hike** was seen across 17 circles from 99 to ₹ 155. **We expect 2-3% net bump up on ARPU on this move.**

Bharti Airtel continues to report resilient numbers especially on the Indian wireless business front. The improvement in ARPUs, premium customer addition and continued margin expansion remain a key positive. The non-wireless business momentum along with Africa performance, continues to be robust. Favourable industry structure of three players (two being strong), government relief and fund raise puts Airtel in sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. We remain constructive on Airtel and maintain our BUY rating on the stock with an SOTP based target price of ₹ 920/share.

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	Q2FY23	YoY (%)	QoQ (%)	Comments
Revenue	35,804.4	35,180.3	29,866.6	34,526.8	19.9	3.7	
Employee Expenses	1,235.3	1,283.9	1,133.6	1,208.6	9.0	2.2	
Marketing Expenses	4,010.2	3,663.6	3,078.6	3,712.0	30.3	8.0	
Access Charges	1,935.2	1,986.4	1,723.2	1,931.0	12.3	0.2	
Network Operating	7,328.4	7,377.3	6,498.6	7,130.3	12.8	2.8	
License Fee	2,842.1	2,813.8	2,729.8	2,951.1	4.1	-3.7	
EBITDA	18,453.2	18,055.3	14,702.8	17,593.8	25.5	4.9	
EBITDA Margin (%)	51.5	51.3	49.2	51.0	231 bps	58 bps	
Depreciation	9,297.7	9,050.0	8,547.2	8,946.8	8.8	3.9	
Interest	4,685.6	4,593.5	4,367.1	4,940.3	7.3	-5.2	
Exceptional Items	669.8	0.0	-39.8	0.0	-1,782.9	#DIV/0!	
Total Tax	1,075.6	1,469.4	990.8	1,286.4	8.6	-16.4	
PAT	1,588.2	2,712.4	829.6	2,145.2	91.4	-26.0	
Subscribers (Mn)	332.2	328.8	322.9	327.8	2.9	1.4	
ARPU	193.4	193.6	162.5	190	19.0	1.9	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

(₹ Crore)	FY24E			FY25E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,55,975	1,53,209	-1.8	1,69,014	1,65,676	-2.0	We now do not bake any step up tariff hike and assume tariff growth only through mix improvement ahead
EBITDA	84,163	80,196	-4.7	92,535	89,057	-3.8	
EBITDA Margin (%)	54.0	52.3	-162 bps	54.7	53.8	-100 bps	
PAT	20,185	16,695	-17.3	25,524	23,071	-9.6	
EPS (₹)	33.3	29.4		42.2	40.7		

Source: Company, ICICI Direct Research

Business Highlights (India)

- **Overall revenues & EBITDA:** India revenues were at ₹ 24962 crore, up 2.6% QoQ, largely driven by healthy traction across segment. **Overall Indian margin was up 95 bps QoQ at 52.7%**, aided by wireless business
- **Wireless revenues & EBITDA:** India wireless revenues were up 2.5% QoQ (up 20.3% YoY) at ₹ 19353 crore, with **subscriber addition of 4.4 mn and ARPU at ₹ 193.4, up 1.9% QoQ** (higher than RJio's ~0.6% growth). **The company indicated that ARPU growth was driven by data monetisation, premiumisation and bundling through Airtel Black. India wireless margins was at 53.8% (up 150 bps QoQ) was driven by lower SUC charges after new spectrum purchase.** Recall, that spectrum purchased in last auction had zero SUC, while the Department of Telecommunications (DoT) had also removed the 3% floor rate on spectrum usage charge. We highlight that bulk of SUC led benefit has not flown into EBITDA
- **Subscriber base and 4G addition:** Overall sub base saw modest addition of 4.4 mn QoQ at 332.2 mn. **Key highlights were a) healthy 4G net adds of ~6.4 mn during quarter, with 4G data sub base at 216.7 mn (overall data customers base of 225.3 mn), b) the post-paid subscriber base, which also saw robust addition of ~653,000 subscribers (vs. 283,000 in Q2) at 19 mn**
- **Minutes and data usage:** Data usage per sub was flattish QoQ to 20.3 GB. Voice usage per customer was up 1.1% QoQ to 1093 minutes. Total minutes on network was up 1.8% QoQ to 1082 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were up 4.5% QoQ at ₹ 1034 crore, Airtel business (enterprise) revenues were up 2.4% QoQ at ₹ 4778 crore and DTH reported revenues witnessed growth of 1.4% QoQ at ₹ 739 crore
- **Network capacity and capex:** The company maintained its continued access expansion in the form of sites/tower additions (~8621 sites) and capacity through mobile broadband BTS additions (18699 additions in Q3). **India mobile capex was at ₹ 6379 crore (vs. ₹ 3911 crore in Q2) with overall India capex of ₹ 8095 crore (vs. ₹ 5684 crore in Q2) on account of 5G rollout**

Business highlights (Africa)

- Africa revenues were up 3.2% QoQ at US\$1.35 billion. EBITDA margins were at 49.1% (flat QoQ). Airtel Money reported 6.8% QoQ revenue growth at US\$189 mn. **In rupee terms, Africa revenues were up 6.2% QoQ at ₹ 11088 crore, also aided by currency depreciation**
- Subscriber base was up by 3.8 mn QoQ at 138.5 mn with ARPU at US\$3.1 up 2.1% QoQ. Data subs base was up by 2.7 mn QoQ at 51.3 mn while total data usage was up 7.1% QoQ at 709.6 bn MB. Data usage per subscriber was at 4.6 GB per month, up 2.8% QoQ

Other Highlights

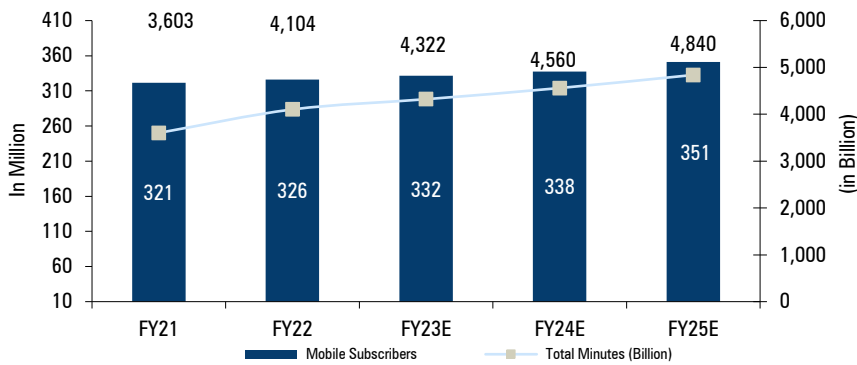
- **Consolidated debt and capex:** Total capex spends for the quarter were at ₹ 9314 crore vs. ₹ 7047 crore in Q2, on account of 5G roll out. Reported net debt (excluding lease liability) was at ~₹ 1.55 lakh crore (down ₹ 2448 crore, led by cash flow generation)
- **5G handset adoption and FWA:** Currently ~35-40% shipment is 5G. Overall 11% of Airtel customers have 5G enabled phones and it expects it to climb to 20+% by March 2024. The company indicated that 5G FWA router cost ~US\$ 180-200, while fiber based equipment cost is ~US\$ 25-30 dollar and even assuming 30-32% penetration, cost of one homepass is ~US\$ 100 \$. Thus, FWA cost is almost double of fiber. It expects it to come down over time and is working on pilots on FWA currently.
- There was one-time exceptional charge of ₹ 670 crore on account of provision for license fee related to earlier periods in one of the Group's wholly-owned subsidiaries and loss profit from associates of ₹ 368 crore.

Exhibit 3: Segmental revenues and EBITDA

Revenues - ₹ crore	FY21	FY22	FY23E	FY24E	FY25E
India	75,366	85,469	1,01,921	1,10,974	1,21,014
Mobility	55,568	63,205	76,223	82,124	88,902
Broadband	2,334	3,039	4,038	4,847	5,670
Enterprise	14,408	16,070	18,705	21,024	23,434
Passive Infrastructure					
DTH+ Others	3,056	3,154	2,955	2,979	3,009
Africa	28,863	35,061	42,357	47,036	49,923
South Asia	425	387	284	280	280
Total Gross Revenue	1,04,654	1,20,917	1,44,562	1,58,290	1,71,217
Intersegmental Elimination	-4,038	-3,983	-4,667	-5,081	-5,541
Net Revenue	1,00,616	1,16,830	1,39,681	1,53,209	1,65,676
EBITDA ₹ crore	FY21	FY22E	FY23E	FY24E	FY24E
India & South Asia	32,841	40,912	51,242	57,871	64,858
Africa	13,298	17,207	20,650	22,996	24,662
Gross EBITDA	46,139	58,119	71,892	80,868	89,520
Intersegmental Elimination	767	301	129	672	463
Reported EBITDA	45372	57817	71763	80196	89057

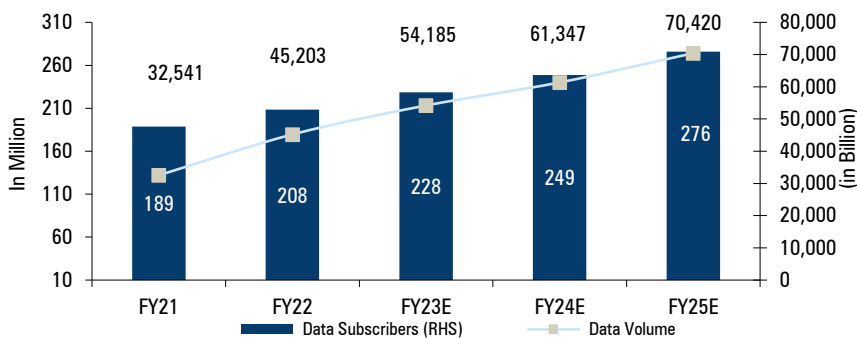
Source: Company, ICICI Direct Research *excluded tower revenues post H2FY21 after Indus Deconsolidation

Exhibit 4: India subscriber details



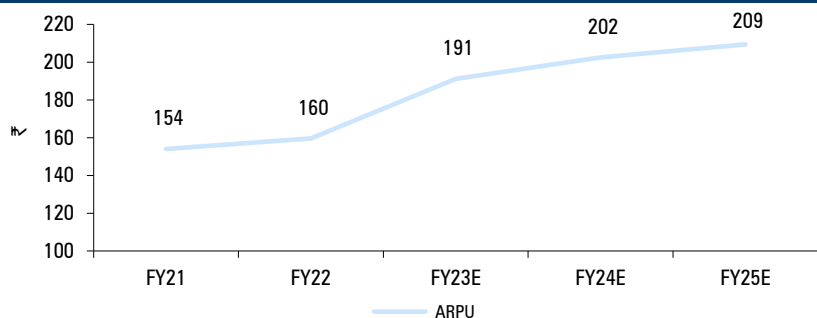
Source: Company, ICICI Direct Research

Exhibit 5: Data volume and data subs trend



Source: Company, ICICI Direct Research

Exhibit 6: India mobile ARPU trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total operating Income	1,16,830.3	1,39,894.9	1,53,208.6	1,65,676.1
Growth (%)	16.1	19.7	9.5	8.1
Employee Expenses	4,433.3	4,869.3	5,336.0	5,765.8
Marketing Expenses	11,734.5	15,031.7	16,201.9	15,802.3
Access Charges	6,761.1	7,773.7	8,628.7	9,333.6
Network Operating	25,020.5	28,679.2	30,916.0	32,767.5
License Fee	11,063.6	11,778.0	11,930.6	12,950.0
Total Operating Expenditure	59,013.0	68,131.8	73,013.1	76,619.1
EBITDA	57,817.3	71,763.1	80,195.5	89,057.0
Growth (%)	27.4	24.1	11.8	11.0
Depreciation	33,090.7	36,372.7	38,302.2	41,419.0
Interest	16,616.2	18,769.3	16,767.8	14,767.8
Other Income	534.3	851.7	840.0	840.0
Exceptional Items	(1,698.6)	669.8	-	-
PBT	10,343.3	16,803.0	25,965.6	33,710.2
MI / Profit from associates	1,627.1	3,370.0	2,000.0	1,200.0
Total Tax	4,177.9	5,199.2	7,270.4	9,438.9
PAT	4,538.3	8,233.8	16,695.2	23,071.3
Growth (%)	NA	81.4	102.8	38.2
EPS (₹)	8.1	14.5	29.4	40.7

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	4,538.3	8,233.8	16,695.2	23,071.3
Add: Depreciation	33,090.7	36,372.7	38,302.2	41,419.0
Add: Interest Paid	16,616.2	18,769.3	16,767.8	14,767.8
(Inc)/dec in Current Assets	(463.5)	(6,148.5)	(2,829.5)	(2,418.7)
Inc/(dec) in CL and Prov	2,419.7	17,371.3	9,927.2	9,296.2
Others	0.0	0.0	0.0	0.0
CF from op activities	56,201.3	74,598.7	78,862.8	86,135.6
(Inc)/dec in Investments	-1,731.8	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-49,580.8	-74,000.0	-35,000.0	-30,000.0
Others	1,799.6	-4,117.7	-4,369.6	-4,203.6
CF from inv activities	-49,513.0	-78,117.7	-39,369.6	-34,203.6
Issue/(Buy back) of Equity	49.0	40.8	196.1	0.0
Inc/(dec) in loan funds	6,892.7	8,000.0	-20,000.0	-20,000.0
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Interest Paid	-16,616.2	-18,769.3	-16,767.8	-14,767.8
Others	3,014.3	5,188.8	0.0	0.0
CF from fin activities	-6,660.2	-5,539.7	-36,571.6	-34,767.8
Net Cash flow	28.1	-9,058.7	2,921.6	17,164.2
Opening Cash	13,466.1	13,494.3	4,435.5	7,357.1
Closing Cash	13,494.3	4,435.5	7,357.1	24,521.3

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	2,795	2,836	3,032	3,032
Reserve and Surplus	63,759	77,182	93,877	1,16,948
Total Shareholders funds	66,554	80,018	96,909	1,19,980
Total Debt	1,69,678	1,77,678	1,57,678	1,37,678
Deferred Tax Liability	2,449	2,449	2,449	2,449
Others	38,036	33,918	29,548	25,345
Total Liabilities	2,76,717	2,94,062	2,86,584	2,85,452
Assets				
Gross Block	3,69,739	4,43,739	4,78,739	5,08,739
Less: Acc Depreciation	1,91,715	2,28,088	2,66,390	3,07,809
Net Block	1,78,023	2,15,651	2,12,349	2,00,930
CWIP	5,955	5,955	5,955	5,955
Goodwill	33,831	33,831	33,831	33,831
Right of Use	32,229	32,229	32,229	32,229
Investments	31,622	31,622	31,622	31,622
Debtors	4,056	4,857	5,319	5,752
Loans and Advances	12,090	14,477	15,855	17,145
Other Current Assets	21,526	24,487	25,476	26,172
Cash	13,494	4,436	7,357	24,521
Total Current Assets	51,167	48,256	54,007	73,590
Creditors	29,274	35,261	38,617	41,759
Other Current Liabilities	57,665	69,049	75,621	81,775
Total Current Liabilities	86,939	1,04,311	1,14,238	1,23,534
Net Current Assets	-35,773	-56,054	-60,230	-49,944
Others Assets	30,829	30,829	30,829	30,829
Application of Funds	2,76,717	2,94,062	2,86,584	2,85,452

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	8.1	14.5	29.4	40.7
Cash EPS	67.3	78.6	97.0	113.7
BV	119.1	141.1	170.9	211.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	24.1	7.8	13.0	43.2
Operating Ratios				
EBITDA Margin (%)	49.5	51.3	52.3	53.8
EBIT Margin (%)	21.2	25.3	27.3	28.8
PAT Margin (%)	2.4	6.4	10.9	13.9
Inventory days	0.0	0.0	0.0	0.0
Debtor days	12.7	12.7	12.7	12.7
Creditor days	91.5	92.0	92.0	92.0
Return Ratios (%)				
RoE	4.3	11.1	17.2	19.2
RoCE	9.1	12.3	14.9	17.0
RoIC	15.5	19.0	23.9	30.3
Valuation Ratios (x)				
P/E	95.5	53.4	26.3	19.1
EV / EBITDA	10.2	8.4	7.3	6.1
EV / Net Sales	5.0	4.3	3.8	3.3
Market Cap / Sales	3.7	3.1	2.8	2.6
Price to Book Value	6.5	5.5	4.5	3.7
Solvency Ratios				
Debt/EBITDA	2.9	2.5	2.0	1.5
Debt / Equity	2.5	2.2	1.6	1.1
Current Ratio	0.4	0.4	0.4	0.4
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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