

## Muted performance; KPIs resilient...

**About the stock:** Bharti Airtel (Airtel) is India's second largest telecom operator with ~33.5 crore wireless customers in India and ~14 crore subscribers across 14 African countries. It enjoys industry leading ARPU in the wireless business in India.

**Q4FY23 Results:** Airtel reported a muted set of numbers.

- Given the lower number of days, ARPU, revenue performance was muted. **India wireless revenues were up 1% QoQ (up 11% YoY) at ₹ 19549 crore**, with **subscriber addition of 3.2 mn and average revenues per user (ARPU) coming in at ₹ 193.3, flat QoQ and up 8.4% YoY**. The key highlight of Q4 was **healthy 4G subscribers net addition of ~7.4 mn along with robust addition of ~663,000 postpaid subscribers (highest in the last two years)**
- EBITDA came in at ₹ 18697 crore, up 1.3% QoQ, with margins of 51.9%, up 38 bps QoQ. India wireless margins were at 53.8% (flat QoQ). Overall, India margin was up 33 bps QoQ at 53.1% aided by broadband and enterprise
- Reported net debt (excluding lease liability) was at ~₹ 1.53 lakh crore (down ₹ 2179 crore, led by cash flow generation. Capex spends were elevated at ₹ 11436 crore vs. ₹ 9314 crore in Q3, on account of 5G rollout

**What should investors do?** Airtel's share price has been up ~145% in the past five years.

- While near term tariff hike visibility is hazy, favourable industry structure of three players (two being strong) has put Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share. We maintain our **BUY** rating

**Target Price and Valuation:** We value Airtel at a target price of ₹ 925.

### 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, albeit visibility is hazy currently 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

### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales (₹ crore)	87,539	1,00,616	1,16,830	1,39,145	10.7	1,52,556	1,65,161	8.9
EBITDA (₹ crore)	36,482	45,372	57,817	71,274	18.8	79,720	88,701	11.6
Net Profit (₹ crore)	(32,183)	(15,084)	4,538	8,346		13,505	19,486	
Adjusted PAT (₹ crore)	(4,075)	(1,300)	2,840	9,016	36.7	13,505	19,486	47.0
EPS (₹)	(59.0)	(27.6)	8.1	14.7		23.8	34.3	
P/E (x)	NA	NA	98.8	54.5		33.7	23.3	
Price / Book (x)	5.7	7.4	6.7	5.9		5.0	4.1	
EV/EBITDA (x)	15.7	13.2	10.6	9.3		8.0	6.8	
RoCE (%)	4.1	6.4	9.1	10.3		12.5	14.3	
RoE (%)	(5.3)	(2.2)	4.3	11.6		14.8	17.6	

Source: Company, ICICI Direct Research;



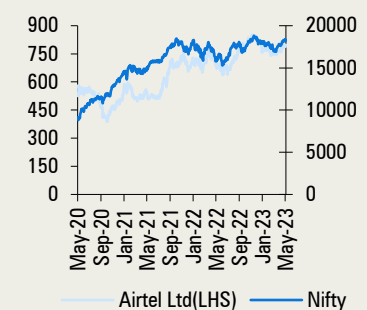
### Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	4,54,991
Total Debt (₹ Crore) - FY23	2,26,020
Cash & Inv (₹ Crore) - FY23	12,843
EV (₹ Crore)	6,68,168
52 week H/L	860/ 629
Equity capital (₹ crore)	2,837
Face value (₹)	5.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	55.9	55.1	55.1	55.0
DII	18.4	17.5	17.7	19.9
FII	18.5	20.0	21.7	21.0
Other	7.2	7.4	5.5	4.1

### Price Chart



### Key risks

- Key Risk:** (i) Any subscriber churn; (ii) Increased competitive intensity

### Research Analyst

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## Key performance highlight and outlook

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

The ARPU at ₹ 193.3, was flat QoQ, given the lower number of days. **Overall sub base saw an addition of 3.3 mn QoQ at 335.4 mn.** The key highlight of Q4 was **healthy 4G subscribers net addition of ~7.4 mn along with robust addition of ~663,000 postpaid subscribers (highest in the last two years).** The company reiterated that given the unsustainable RoCEs of sub 9% in India and South Asia Business (12.4% on consolidated basis), a tariff hike is warranted, albeit timing is not known. **We believe that a tariff hike is not visible in near future given Jio's unwillingness to do so. We expect monthly ARPU of ₹ 211 in FY25 vs. current levels of ₹ 193, only driven by mix improvement as we do not build further step-up tariff in our estimates.**

### Broadband/enterprise outlook robust

In the broadband business, Airtel witnessed **healthy net customer additions of 404,118 during the quarter to ~6 mn.** The collaboration with local digital cable operator on a partnership model has enabled Airtel to be present in 1199 cities (added 59 cities during Q4FY23). The broadband (operating leverage, premiumisation) and enterprise segment (focusing on high margins segment) saw margin expansion. We note that the company had also reiterated robust opportunity on Enterprise side and adjacent areas like *CPaaS, data centre, cloud communication, cyber security, IOT* with similar market size. During the quarter, **the company saw flattish Enterprise revenues as the company had let go of some low margin deals and reiterated that growth moderation in Airtel business is not a concern.** The management indicated that the underlying growth trajectory was strong and funnel looks strong. Bharti's connectivity market share was up 220 bps to ~34% while the company remains market leader in IoT with 53% share. The new business such as cloud, IoT are growing over 50%. **The company indicated that 50 out of top 500 enterprise customers have grown 300% YoY in Airtel Business segment while top 500 customers saw ~25% YoY growth in FY23.**

## Conference call and business segment highlights

### Conference Call Highlights

- Rural and Top 150 town focus:** The company indicated that its focus on 60000 high potential villages, where it is focusing on capturing 4G sub market have yielded results and the company has comparable revenue market share in India at ₹ 38.7%, which is a lifetime high. It will also **focus on top 150 towns (40% of overall market and 80% market for postpaid).** It will use levers such as 5G (as a pivot to grow high value postpaid), drive high value broadband (75% of broadband need is in 150 towns) and omni channel approach across services. On the enterprise segment (~95% enterprise segment is in 150 towns), it is going deep as well as stepping up investments in adjacent areas such as CPaaS, IoT, cloud, etc
- Relaunched "war on waste":** The steps here would on cutting down on inefficient segment of costs like a) network cost (relocating high cost sites, bringing energy cost down, etc), b) sales cost (lowering inefficient channels), c) capex (stopped 4G capacity expansion and traffic offload to 5G) and d) war on failure of interactions
- 5G:** The company indicated that 5G is now live in 3500 cities. It indicated that it will be live in all urban areas and major rural pockets will be covered by March 2024. On the non-standalone (NSA) technology, it is giving better coverage, lower capex and lower carbon footprint. It added that standalone technology is ready for the enterprise segment. Further, while overall India capex over three years (of ~₹ 75000 crore) will remain similar while some frontloading will be seen, given the 5G rollouts and tapering in FY25
- Network capacity, measures, capex:** The company maintained its continued access expansion in the form of sites/tower additions (~12450 sites) and capacity through mobile broadband BTS additions (26172 additions in Q4 largely for 5G in our view). For FY23, the company added 37,492 sites and

### ESG Disclosure Score\*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	29.4	40.1	50.7
Social	49.0	51.6	51.6
Governance	87.4	87.4	87.4
<b>Overall ESG Score</b>	<b>55.3</b>	<b>59.7</b>	<b>63.2</b>

*Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

~33,650 km of fibre along with strong focus on leveraging FTTH to drive tower fiberisation. The company continues to relocate high-cost sites and ~66,500 sites have been identified for specific actions around energy, rental, as well as re-engineering the site. **India mobile capex remained elevated at ₹ 6647 crore (vs. ₹ 6379 crore in Q3) with overall India capex of ₹ 8989 crore (vs. ₹ 8095 crore in Q3) on account of 5G rollout**

- **Fixed wireless access (FWA):** As per the company, FWA router costs remain high at US\$180-200 compared to a cost of ~US\$100-120 per connected house using FTTH. It also indicated that the experience on fibre is unmatched, FWA rollouts may be focused on areas where taking fibre connectivity is a challenge

### Business highlights (India)

- **Overall revenues & EBITDA:** Overall India revenues were at ₹ 25321 crore, up 2.4% QoQ, 12.5% YoY, largely driven by healthy traction in broadband (homes), while wireless remained muted. **Overall Indian margin was up 33 bps QoQ at 53.1%**, aided by Airtel business and broadband margins expansion. FY23, India revenues were up 19.2% YoY at ₹ 97934 crore
- **Wireless revenues & EBITDA:** India wireless revenues were up 1% QoQ (up 11% YoY) at ₹ 19549 crore, with ARPU at ₹ 193.3, flat QoQ, **given the lower number of days** and subscriber addition of 3.2 mn QoQ at 335.4 mn). **The company indicated intent to drive data monetisation, premiumisation and bundling through Airtel Black remain to push APRU forward. India wireless margins were at 53.8% (flat QoQ)**
- **Subscriber base and 4G addition:** Overall sub base saw addition of 3.2 mn QoQ at 335.4 mn. **Key highlights were a healthy 4G subscribers net addition of ~7.4 mn along with robust addition of ~663,000 post-paid subscribers (highest in the last two years)**
- **Minutes and data usage:** Data usage per sub was flattish QoQ at 20.3 GB. Voice usage per customer was up 2.6% QoQ to 1122 minutes. Total minutes on the network were up 3.9% QoQ to 1124 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were up 6% QoQ at ₹ 1097 crore, Airtel business (enterprise) revenues were flat QoQ at ₹ 4785 crore and DTH reported revenues witnessed a decline of 1.4% QoQ at ₹ 729 crore

### Business highlights (Africa)

- Africa revenues were down 0.7% QoQ at US\$1.34 billion on weak seasonality. EBITDA margins were at 49.1% (flat QoQ). Airtel Money reported 0.7% QoQ revenue decline at US\$187.4 mn. **In rupee terms, Africa revenues were down 0.5% QoQ at ₹ 11031 crore**
- Subscriber base was up by 1.5 mn QoQ at 140 mn with ARPU at US\$3.1, flat QoQ. Data subs base was up by 3.4 mn QoQ at 54.6 mn while total data usage was up 5.7% QoQ at 749.9 bn MB. Data usage per subscriber was at 4.7 GB per month, down 0.8% QoQ

### Other Highlights

- **Consolidated debt and capex:** Total capex spends for the quarter were at ₹ 11436 crore vs. ₹ 9314 crore in Q3, on account of 5G rollout. Reported net debt (excluding lease liability) was at ~₹ 1.526 lakh crore (down ₹ 2179 crore, led by cash flow generation) despite elevated capex


**Bharti Airtel continues to report resilient numbers, especially on the Indian wireless business front. The premium customer addition and continued margin expansion remain key positives. While near term tariff hike visibility is hazy, favourable industry structure of three players (two being strong) has put Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share. We remain constructive on Airtel and maintain our BUY rating on the stock with an SOTP based target price of ₹ 925/share.**

**Exhibit 1: Variance Analysis**

	Q4FY23	Q4FY23E	Q4FY22	Q3FY23	YoY (%)	QoQ (%)	Comments
Revenue	36,009.0	35,946.1	31,500.3	35,804.4	14.3	0.6	
Employee Expenses	1,263.4	1,274.4	1,164.2	1,235.3	8.5	2.3	
Marketing Expenses	3,934.1	3,920.2	2,990.6	4,010.2	31.5	-1.9	
Access Charges	1,884.7	2,011.7	1,750.5	1,935.2	7.7	-2.6	
Network Operating	7,401.8	7,557.2	6,545.8	7,328.4	13.1	1.0	
License Fee	2,827.9	2,812.3	3,008.9	2,842.1	-6.0	-0.5	
EBITDA	18,697.1	18,370.3	16,040.3	18,453.2	16.6	1.3	
EBITDA Margin (%)	51.9	51.1	50.9	51.5	100 bps	38 bps	
Depreciation	9,405.9	9,399.9	8,582.6	9,297.7	9.6	1.2	
Interest	5,163.1	4,632.5	4,059.3	4,685.6	27.2	10.2	
Exceptional Items	0.0	0.0	-906.2	669.8	-100.0	-100.0	
Total Tax	788.0	1,497.5	1,321.8	1,075.6	-40.4	-26.7	
PAT	3,005.6	2,440.4	2,007.8	1,588.2	49.7	89.2	
Subscribers (Mn)	335.4	328.8	326.0	332.2	2.9	1.0	
ARPU	193.3	193.6	178.3	193	8.4	-0.1	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY24E			FY25E			
	Old	New	% Change	Old	New	% Change	
Revenue	1,53,209	1,52,556	-0.4	1,65,676	1,65,161	-0.3	Realign estimates
EBITDA	80,196	79,720	-0.6	89,057	88,701	-0.4	
EBITDA Margin (%)	52.3	52.3	-9 bps	53.8 	53.7	-5 bps	
PAT	16,695	13,505	-19.1	23,071	19,486	-15.5	Bake in higher depreciation
EPS (₹)	29.4	23.8		40.7	34.3		

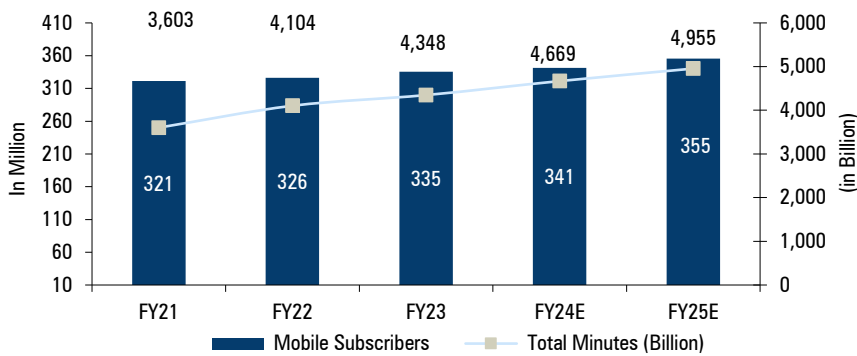
Source: Company, ICICI Direct Research

**Exhibit 3: Segmental revenues and EBITDA**

Revenues - ₹ crore	FY21	FY22	FY23	FY24E	FY25E
<b>India</b>	<b>75,366</b>	<b>85,469</b>	<b>1,01,510</b>	<b>1,10,293</b>	<b>1,20,478</b>
Mobility	55,568	63,205	75,925	81,985	88,966
Broadband	2,334	3,039	4,047	4,826	5,646
Enterprise	14,408	16,070	18,593	20,541	22,896
Passive Infrastructure					
DTH+ Others	3,056	3,154	2,945	2,941	2,971
<b>Africa</b>	<b>28,863</b>	<b>35,061</b>	<b>42,266</b>	<b>47,015</b>	<b>49,900</b>
<b>South Asia</b>	<b>425</b>	<b>387</b>	<b>294</b>	<b>280</b>	<b>280</b>
<b>Total Gross Revenue</b>	<b>1,04,654</b>	<b>1,20,917</b>	<b>1,44,071</b>	<b>1,57,588</b>	<b>1,70,658</b>
Intersegmental Elimination	-4,038	-3,983	-4,631	-5,032	-5,497
<b>Net Revenue</b>	<b>1,00,616</b>	<b>1,16,830</b>	<b>1,39,145</b>	<b>1,52,556</b>	<b>1,65,161</b>
<b>EBITDA ₹ crore</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY24E</b>
<b>India &amp; South Asia</b>	<b>32,841</b>	<b>40,912</b>	<b>50,991</b>	<b>57,395</b>	<b>64,490</b>
<b>Africa</b>	<b>13,298</b>	<b>17,207</b>	<b>20,728</b>	<b>23,362</b>	<b>25,030</b>
<b>Gross EBITDA</b>	<b>46,139</b>	<b>58,119</b>	<b>71,719</b>	<b>80,758</b>	<b>89,520</b>
Intersegmental Elimination	767	301	446	1038	819
<b>Reported EBITDA</b>	<b>45372</b>	<b>57817</b>	<b>71274</b>	<b>79720</b>	<b>88701</b>

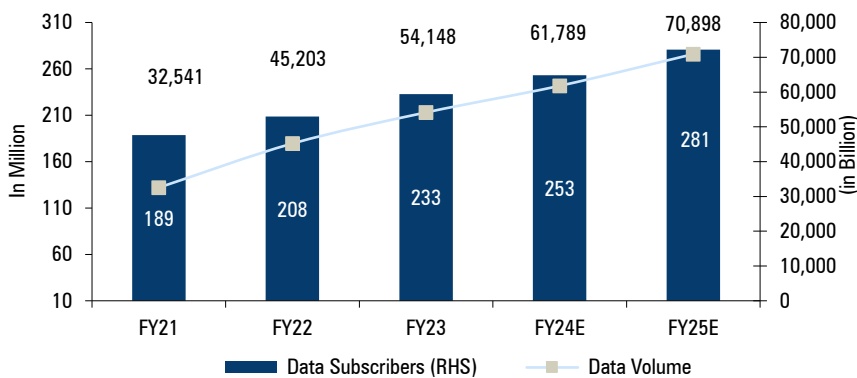
Source: Company, ICICI Direct Research \*excluded tower revenues post H2FY21 after Indus Deconsolidation

**Exhibit 4: India subscriber details**



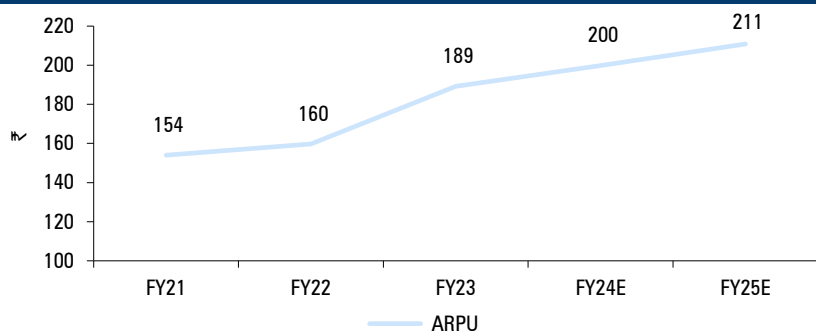
Source: Company, ICICI Direct Research

**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	FY23	FY24E	FY25E
<b>Total operating Income</b>	<b>1,16,830</b>	<b>1,39,145</b>	<b>1,52,556</b>	<b>1,65,161</b>
Growth (%)	16.1	19.1	9.6	8.3
Employee Expenses	4,433	4,831	5,290	5,720
Marketing Expenses	11,735	15,125	16,410	16,052
Access Charges	6,761	7,621	8,666	9,370
Network Operating	25,021	28,543	30,744	32,567
License Fee	11,064	11,752	11,725	12,752
Total Operating Expenditure	59,013	67,871	72,836	76,461
<b>EBITDA</b>	<b>57,817</b>	<b>71,274</b>	<b>79,720</b>	<b>88,701</b>
Growth (%)	27.4	23.3	11.9	11.3
Depreciation	33,091	36,432	38,139	41,290
Interest	16,616	19,300	21,602	19,602
Other Income	534	937	1,000	1,200
Exceptional Items	-1,699	670	0	0
PBT	10,343	15,809	20,979	29,008
MI / Profit from associates	1,627	3,189	1,600	1,400
Total Tax	4,178	4,273	5,874	8,122
<b>PAT</b>	<b>4,538</b>	<b>8,346</b>	<b>13,505</b>	<b>19,486</b>
Growth (%)	NA	83.9	61.8	44.3
<b>EPS (₹)</b>	<b>8.1</b>	<b>14.7</b>	<b>23.8</b>	<b>34.3</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	4,538	8,346	13,505	19,486
Add: Depreciation	33,091	36,432	38,139	41,290
Add: Interest Paid	16,616	19,300	21,602	19,602
(Inc)/dec in Current Assets	-464	-1,706	-2,578	-2,214
Inc/(dec) in CL and Prov	2,420	11,402	11,866	9,106
Others	0	0	0	0
<b>CF from op activities</b>	<b>56,201</b>	<b>73,774</b>	<b>82,534</b>	<b>87,270</b>
(Inc)/dec in Investments	-1,732	-4,013	0	0
(Inc)/dec in Fixed Assets	-49,581	-90,852	-35,000	-30,000
Others	1,800	-18,689	-500	-500
<b>CF from inv activities</b>	<b>-49,513</b>	<b>-1,13,555</b>	<b>-35,500</b>	<b>-30,500</b>
Issue/(Buy back) of Equity	49	42	196	0
Inc/(dec) in loan funds	6,893	56,342	-20,000	-20,000
Dividend paid & dividend tax	0	0	0	0
Interest Paid	-16,616	-19,300	-21,602	-19,602
Others	3,014	2,621	0	0
<b>CF from fin activities</b>	<b>-6,660</b>	<b>39,705</b>	<b>-41,406</b>	<b>-39,602</b>
Net Cash flow	28	-76	5,628	17,168
Opening Cash	13,466	13,494	13,419	19,047
<b>Closing Cash</b>	<b>13,494</b>	<b>13,419</b>	<b>19,047</b>	<b>36,215</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	2,795	2,837	3,033	3,033
Reserve and Surplus	63,759	74,726	88,231	1,07,717
Total Shareholders funds	66,554	77,563	91,264	1,10,750
Total Debt	1,69,678	2,26,020	2,06,020	1,86,020
Deferred Tax Liability	2,449	2,076	2,076	2,076
Others	38,036	42,632	42,132	41,632
<b>Total Liabilities</b>	<b>2,76,717</b>	<b>3,48,292</b>	<b>3,41,493</b>	<b>3,40,479</b>
<b>Assets</b>				
Gross Block	3,55,189	3,86,139	4,21,139	4,51,139
Less: Acc Depreciation	1,77,166	1,97,166	2,35,305	2,76,595
Net Block	1,78,023	1,88,973	1,85,834	1,74,544
CWIP	5,955	49,425	49,425	49,425
Goodwill	33,831	33,774	33,774	33,774
Right of Use	32,229	54,647	54,647	54,647
Investments	31,622	35,636	35,636	35,636
Debtors	4,056	3,982	4,365	4,726
Loans and Advances	12,090	13,182	14,452	15,647
Other Current Assets	21,526	22,215	23,138	23,797
Cash	13,494	13,419	19,047	36,215
Total Current Assets	51,167	52,797	61,003	80,385
Creditors	29,274	32,895	38,453	41,630
Other Current Liabilities	57,665	65,447	71,755	77,684
Total Current Liabilities	86,939	98,342	1,10,208	1,19,314
Net Current Assets	-35,773	-45,545	-49,205	-38,928
Others Assets	30,829	31,382	31,382	31,382
<b>Application of Funds</b>	<b>2,76,717</b>	<b>3,48,292</b>	<b>3,41,493</b>	<b>3,40,479</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	8.1	14.7	23.8	34.3
Cash EPS	67.3	78.9	91.0	107.1
BV	119.1	136.7	160.9	195.2
DPS	0.0	0.0	0.0	0.0
Cash Per Share	24.1	23.7	33.6	63.8
<b>Operating Ratios</b>				
EBITDA Margin (%)	49.5	51.2	52.3	53.7
EBIT Margin (%)	21.2	25.0	27.3	28.7
PAT Margin (%)	2.4	6.5	8.9	11.8
Inventory days	0.0	0.0	0.0	0.0
Debtor days	12.7	10.4	10.4	10.4
Creditor days	91.5	86.3	92.0	92.0
<b>Return Ratios (%)</b>				
RoE	4.3	11.6	14.8	17.6
RoCE	9.1	10.3	12.5	14.3
RoIC	15.5	21.6	28.0	36.4
<b>Valuation Ratios (x)</b>				
P/E	98.5	54.4	33.6	23.3
EV / EBITDA	10.5	9.3	8.0	6.8
EV / Net Sales	5.2	4.8	4.2	3.6
Market Cap / Sales	3.9	3.3	3.0	2.7
Price to Book Value	6.7	5.9	5.0	4.1
<b>Solvency Ratios</b>				
Debt/EBITDA	2.9	3.2	2.6	2.1
Debt / Equity	2.5	2.9	2.3	1.7
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

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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