

June 27, 2022

5G Auction: Not “too” financially taxing...

We expect the top two telecom operators to bid for spectrum worth ~₹ 37000-38000 crore each, assuming pan India 100 MHz for core 3300 MHz band (₹ 31700 crore), 500 MHz for 2600 MHz (₹ 3495 crore) and some 4G coverage/capacity spectrum. Most importantly, with removal of 3% floor on spectrum usage charges (SUC), the top two telcos stand to have annualised savings of ~₹ 2100-2300 crore, eventually subsidising the 5G spectrum annual payouts (of ₹ 3374 crore, for 20 years' equal payout), by ~63-68%. **Top Pick: Airtel (maintain BUY, TP - ₹ 860).**

5G Auction – Captive private network tussle remains

The Department of Telecom (DoT) notified that the auction of 5G airwaves will begin on July 26, 2022. The Cabinet has left the reserve price of 5G airwaves unchanged. We highlight that the spectrum period has been kept at 20 years. On the payments front, provision has been made for payments in 20 equal annual instalments, to be paid in advance at the beginning of each year vs. mandatory 25-50% upfront payments, required for specific spectrums, earlier. We expect bid amount for top two operators to be ~₹ 37000-38000 crore each, assuming 100 MHz for core 3300 MHz band (₹ 31700 crore), 500 MHz for 2600 MHz (₹ 3495 crore) and some 4G coverage/capacity spectrum. **On the private networks front, telcos have been allowed to provide captive non-public network (CNPN) to an enterprise using its network resources, while option has been provided for enterprises to obtain spectrum directly from the DoT. Thus, there remains a tussle between telcos/tech companies as telcos feel it would eat into enterprise segment opportunity.**

SUC charge clarification - big positive

In a relief for telecom operators, the Department of Telecommunications (DoT) removed the 3% floor rate on spectrum usage charges (SUC), a move which would in the long run make such payments zero on their entire spectrum holding as the telcos add new spectrum, which incrementally has zero SUC. Currently, the three private telcos pay 3.6-4.1% as SUC on AGR. Assuming 100 MHz for core 3300 MHz band and 500 MHz for 2600 MHz pan-India bid, it will bring the weighted average SUC on AGR drastically to 1-1.2%. **Top two telcos stand to have annualised savings of ~₹ 2100-2300 crore. Or to put in another way, it would subsidise the 5G spectrum annual payouts (of ₹ 3374 crore, for 20 years equal payout), by ~63-68%, making it a less financial taxing (read: less pressure on RoCE/cash flows).**

Airtel remains well placed

We highlight that Airtel remains in a sweet spot as it has consistently reported resilient numbers, especially on the Indian wireless business front along with strong customer stickiness. The non-wireless business momentum along with Africa performance continue to be robust. Furthermore, while SUC benefits will accrue, Airtel can also dig into residual rights funds (~₹ 15,740 crore) and possibly some external borrowing (likely to be lower than instalment coupon rate of 7.2%) to fund the 5G auction. Thus, we expect this auction to have only marginal impact of leverage. Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering.

Sector View: Positive

Top Picks in Telecom Space

	Rating	CMP	Target price	Upside
Bharti Airtel	BUY	681	860	26%

Key risks to our call

- (i) Any subscriber churn;
- (ii) Increased competitive intensity

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Top bets in Telecom Universe

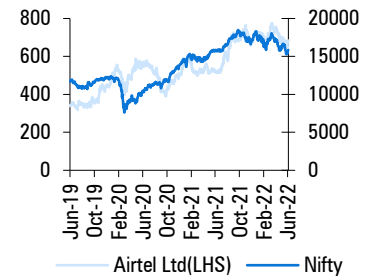
Bharti Airtel (BHAAIR)

Bharti Airtel (Airtel) is India's second largest telecom operator with ~32.6 crore wireless customers in India and ~12.8 crore subscribers across 14 African countries as of FY22. It enjoys industry leading ARPU in the wireless business

- The company has reiterated its ARPU target of ₹ 200 in the near term and ARPU of ₹ 300 over the medium-to-longer term. The management expects one round of tariff increase for pre-paid customers (upgradation of customers from prepaid to postpaid would be inadequate to reach ARPU to ₹ 200) in FY23. We do not build any further step up tariff hikes in our estimates given inflationary trends and thus can be upside if actually undertaken
- Airtel had also reiterated a robust opportunity on the enterprise side (total market size of ~₹ 35,000 crore) and adjacent areas like CPaaS, Cloud communication, cyber security, IOT with similar market size

Favourable industry structure of three players (two being strong), government relief, tariff hike and fund raise puts Airtel in a sweet spot to maintain its relative strength among peers with a formidable digital ecosystem offering. We maintain our BUY rating with unchanged target price of ₹ 860.

Price Chart



Particulars

Particulars	Amount
Market Capitalisation (₹ Crore)	3,80,651
Total Debt (₹ Crore) - FY22	1,69,678
Cash & Inv (₹ Crore) - FY22	9,221
EV (₹ Crore)	5,41,108
52 week H/L	782/ 515
Equity capital	2,795.0
Face value	5.0

Exhibit 1: Financial Summary

(Year-end March)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales (₹ crore)	87,539	1,00,616	1,16,830	4.1	1,35,061	1,49,722	13.2
EBITDA (₹ crore)	36,482	45,372	57,817	10.4	70,054	79,373	17.2
Net Profit (₹ crore)	(32,183)	(15,084)	4,538	3.6	15,243	21,623	118.3
Adjusted PAT (₹ crore)	(4,075)	(1,300)	2,840		15,243	21,623	
EPS (₹)	(59.0)	(27.6)	8.1		25.2	35.7	
P/E (x)	NA	NA	83.9		27.0	19.1	
Price / Book (x)	4.8	6.3	5.7		4.7	3.8	
EV/EBITDA (x)	13.7	11.6	9.3		7.2	5.9	
RoCE (%)	4.1	6.4	9.1		13.4	16.3	
RoE (%)	(5.3)	(2.2)	4.3		17.5	19.9	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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