

Raising funds to fuel future growth

Bharti Airtel's has Board approved Rights issue of up to Rs 21,000 Cr with the following terms of the Issue:

- 1) Rights Issue Price: Rs 535/- per fully paid-up equity share (including a premium of Rs 530/- per equity share).
- 2) Terms of payment of Issue Price: 25% on application and balance in two more additional calls based on the company's requirements within an overall time horizon of 36 months.
- 3) Rights Entitlement Ratio: 1 equity share for every 14 equity shares held by eligible shareholders as on the record date.
- 4) The promoter and promoter group will collectively subscribe to the full extent of their aggregate rights entitlement. In addition, they will also subscribe to any unsubscribed shares in the Issue.

The investments would be channelised in areas such as 5G, fibre, and data centre business. The capital raising will give the company the "fuel for growth" and "go the extra mile" to leverage opportunities that are "around the corner".

We recommend a BUY rating on the stock with SOTP based valuation at Rs 700 indicating 13% upside from CMP owing to the company's better margins, stronger subscriber growth, and higher data consumption.

strongly position for market share gain

Airtel is gaining momentum with strong customer addition and market share gain. The management is confident of gaining further momentum moving ahead aided by favourable macroeconomic conditions like dive to digital, rising consumptions of the data, increasing penetration in tier 2 and 3 cities, rising use of DTH and other digital services. The management also guided for the ARPU of 200/month to be reached by the end of this fiscal and eventually to 300 levels.

Our Take:

We believe Bharti Airtel has a resilient business structure from a long-term perspective. EBITDA margins are likely to expand in the near term because of better execution. We main our **BUY** recommendation based on **SOTP valuation of Rs 700**. The target price implies a potential upside of 13% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	2020	2021E	2022E	2023E
Net Sales	86,835	1,00,616	1,07,792	1,21,559
EBIDTA	36,034	45,372	52,241	59,380
Net Profit	-32,349	-7,506	6,789	14,665
EPS (Rs)	(63.0)	(14.6)	12.4	26.7
PER (x)	(9.1)	(39.3)	46.4	21.5
EV/EBIDTA (x)	10.5	9.1	8.2	7.0
P/BV (x)	3.4	3.8	3.7	3.2
ROE (%)	(37.7)	(9.6)	8.0	14.7
Debt/Equity (%)	134.7	173.5	167.5	134.5

Source: Company, Axis Research

(CMP as of 30th Aug, 2021)

CMP (Rs)	620
Upside /(Downside (%))	13%
High/Low (Rs)	644/394
Market cap (Cr)	Rs 3,40,695
Avg. daily vol. (6m) Shrs.	57,16,581
No. of shares (Cr)	545

Shareholding (%)

	Mar-20	Jun-20	Sep-20
Promoter	56.2	56.2	56.2
FII's	20.2	17.6	17.8
MFs / UTI	12.8	14.4	14.0
Banks / FI's	0.0	0.1	0.0
Others	10.8	11.8	12.0

Financial & Valuations

Y/E Mar (Rs Cr)	2021E	2022E	2023E
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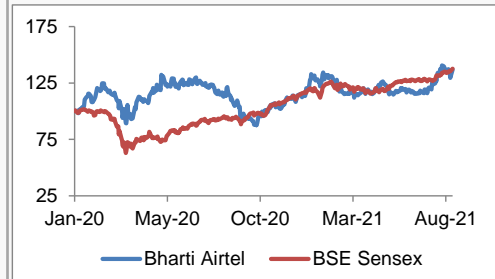
ESG disclosure Score**

Particulars	Score
Environmental	27
Social	45
Governance	68

Total ESG Disclosure Score 41

Source: Bloomberg, Scale: 0.1-100

Relative performance



Source: Capitaline, Axis Securities

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Other Concall Highlights

- 1) Sunil Mittal said the company's debt is at an 'extraordinary' level and there is an opportunity to accelerate growth. Airtel will take a special place amongst Indian corporates and said that he has never felt more confident about this.
- 2) This capital will help improve the leverage position for the company and simultaneously provide the fuel to accelerate investments across several parts of Airtel's portfolio to drive for competitive and profitable growth.
- 3) The management has also said that in terms of 5G connectivity status in India, Mittal feels 5G will become a reality in H2 next year for the majority of circles. The spectrum pricing auction will be made attractive.
- 4) The capacity expansion will not be significant in the upcoming years for the 5G and will follow the current levels of the Capex.

Valuation and Outlook

Airtel gaining the market share consistently and manage to deliver industry-leading ARPU without increasing the tariff hikes. The management also indicated ARPU to reach 200 / month by the end of this fiscal and eventually to 300/ month levels. We believe in Airtel track record of delivering profitable growth in a tough environment thereby reaffirming our confidence in management's ability to deliver in the longer term. **We maintain a BUY rating and target price of Rs 700/share** indicating 13% upside from CMP.

SOTP Valuation

Segments	FY23E EBITDA (Rs Bn)	FY23E EBITDA/ Share (Rs)	Multiple (X)	Enterprise Value (Rs Bn)	Value Per Share (Rs)
India Wireless	370.4	67.4	9.3	3,444	671
Telemedia services	22.3	4.1	6.0	134	26
Enterprise	50.5	9.2	6.0	303	59
DTH	23.4	4.3	5.3	124	24
Wireless - Africa	152.6	27.8	7.5	603	117
Others*	(28.9)	(5.3)	4.5	(130)	(25)
Sub-total	590.2	107.5	7.6	4,477	872
Consol Equity	0	0	0	355	65
Enterprise Value	0	0	0	4,832	937
(-) Net Debt	0	0	0	1,215	237
Target Price (Rs)	0	0	0	3,617	700

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	86,835	1,00,616	1,07,792	1,21,559
Growth, %	7	16	7	13
Total income	86,835	1,00,616	1,07,792	1,21,559
Raw material expenses	-10,740	-10,352	-8,352	-9,667
Employee expenses	-3,728	-4,115	-4,253	-4,607
Other Operating expenses	-49,355	-53,797	-54,290	-60,752
EBITDA (Core)	36,034	45,372	52,241	59,380
Growth, %	39.6	25.9	15.1	13.7
Margin, %	41.5	45.1	48.5	48.8
Depreciation	-27,496	-29,404	-29,098	-26,800
EBIT	8,537	15,967	23,143	32,580
Growth, %	90.9	87.0	44.9	40.8
Margin, %	9.8	15.9	21.5	26.8
Interest paid	-13,222	-15,091	-14,837	-12,040
Other Non-Operating Income	1,037	643	698	673
Non-recurring Items	-40,180	0	0	0
Pre-tax profit	-43,390	1,426	10,789	22,562
Tax provided	12,301	-8,933	-4,000	-7,897
Profit after tax	-31,090	-7,506	6,789	14,665
Others (Minorities, Associates)	-1,259	0	0	0
Net Profit	-32,349	-7,506	6,789	14,665
Growth, %	1,288.4	(76.8)	(190.4)	116.0
Net Profit (adjusted)	(32,349)	(7,506)	6,789	14,665
Unadj. shares (bn)	513.4	513.4	549.2	549.2
Wtd avg shares (bn)	513.4	513.4	549.2	549.2

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Cash & bank	31,688	17,582	31,601	32,112
Marketable securities at cost	0	0	0	0
Debtors	0	0	0	0
Inventory	0	0	0	0
Loans & advances	0	0	0	0
Other current assets	46,983	37,209	37,392	37,325
Total current assets	78,671	54,791	68,993	69,436
Investments	0	0	0	0
Gross fixed assets	2,43,219	2,52,641	2,50,437	2,48,683
Less: Depreciation	0	0	0	0
Add: Capital WIP	0	0	0	0
Net fixed assets	2,43,219	2,52,641	2,50,437	2,48,683
Non-current assets	38,889	38,597	39,175	39,763
Total assets	3,69,336	3,65,271	3,76,033	3,84,086
Current liabilities	1,31,488	1,11,636	1,09,143	1,08,739
Provisions	0	0	0	0
Total current liabilities	1,31,488	1,11,636	1,09,143	1,08,739
Non-current liabilities	1,27,162	1,53,165	1,58,834	1,52,628
Total liabilities	2,58,650	2,64,801	2,67,978	2,61,366
Paid-up capital	2,567	2,567	2,746	2,746
Reserves & surplus	83,135	75,629	82,418	97,083
Shareholders' equity	1,10,687	1,00,470	1,08,055	1,22,720
Total equity & liabilities	3,69,336	3,65,271	3,76,033	3,84,086

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	-43,390	1,426	10,789	22,562
Depreciation	27,496	29,404	29,098	26,800
Chg in working capital	-41,068	14,948	-2,419	1,220
Total tax paid	12,859	-9,010	-3,676	-7,480
Other operating activities	0	0	0	0
Cash flow from operating activities	-46,784	37,747	33,774	43,108
Capital expenditure	-30,008	-38,827	-26,894	-25,046
Chg in investments	0	0	0	0
Chg in marketable securities	-26,806	9,774	-183	67
Other investing activities	28,523	-2,603	-6,560	-12,647
Cash flow from investing activities	-1,048	-41,522	-31,670	-36,343
Free cash flow	-47,833	-3,775	2,104	6,765
Equity raised/(repaid)	46,628	0	179	0
Debt raised/(repaid)	28,202	20,222	7,021	-8,371
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	85,030	17,511	7,817	-8,371
Net chg in cash	37,197	13,736	9,920	-1,606
Opening cash balance	14,923	31,688	17,582	31,601
Closing cash balance	31,688	17,582	31,601	32,112

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share data				
EPS (INR)	(63.0)	(14.6)	12.4	26.7
Growth, %	981.1	(76.8)	(184.5)	116.0
Book NAV/share (INR)	166.9	152.3	155.1	181.8
FDEPS (INR)	(63.0)	(14.6)	12.4	26.7
CEPS (INR)	(9.5)	42.7	65.3	75.5
CFPS (INR)	94.5	33.2	53.5	75.1
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	(7.3)	0.4	4.4	6.0
Return on equity (%)	(37.7)	(9.6)	8.0	14.7
Return on capital employed (%)	(11.0)	0.6	5.9	7.9
Turnover ratios				
Asset turnover (x)	0.6	0.6	0.7	0.7
Sales/Total assets (x)	0.3	0.3	0.3	0.3
Sales/Net FA (x)	0.4	0.4	0.4	0.5
Working capital/Sales (x)	(1.0)	(0.7)	(0.7)	(0.6)
Fixed capital/Sales (x)	2.7	2.3	2.1	1.8
Working capital days	(355.2)	(270.0)	(243.0)	(214.4)
Liquidity ratios				
Current ratio (x)	0.6	0.5	0.6	0.6
Quick ratio (x)	0.6	0.5	0.6	0.6
Interest cover (x)	0.6	1.1	1.6	2.7
Total debt/Equity (%)	134.7	173.5	167.5	134.5
Net debt/Equity (%)	97.7	151.0	130.4	102.4
Valuation				
PER (x)	(9.1)	(39.3)	46.4	21.5
Price/Book (x)	3.4	3.8	3.7	3.2
EV/Net sales (x)	4.4	4.1	4.0	3.4
EV/EBITDA (x)	10.5	9.1	8.2	7.0
EV/EBIT (x)	44.3	25.9	18.4	12.8

Source: Company, Axis Securities

Bharti Airtel Price Chart and Recommendation History



Date	Reco	TP	Research
03-Feb-21	BUY	676	Top Picks
05-Feb-21	BUY	737	Result Update
19-Feb-21	BUY	737	Event Update
01-Mar-21	BUY	534	Top Picks
01-Apr-21	BUY	676	Top Picks
15-Apr-21	BUY	735	Event Update
03-May-21	BUY	676	Top Picks
19-May-21	BUY	700	Result Update
01-Jun-21	BUY	700	Top Picks
01-Jul-21	BUY	700	Top Picks
01-Aug-21	BUY	700	Top Picks
04-Aug-21	BUY	700	Result Update
31-Aug-21	BUY	700	Company Update

Source: Axis Securities

About the analyst



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SELL	Less than -10%
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