

Stock Update

Resilient performance relative to modest expectations

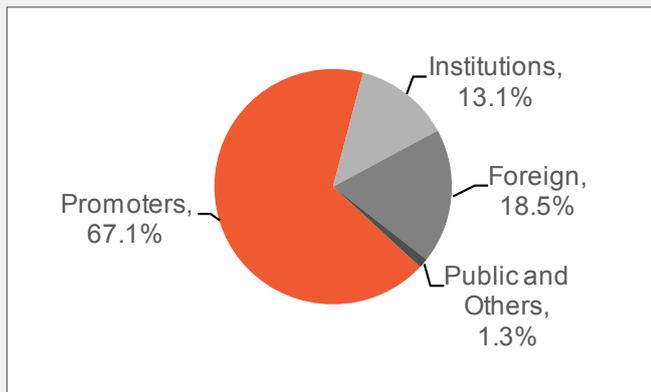
Bharti Airtel

Reco: Buy | CMP: Rs420

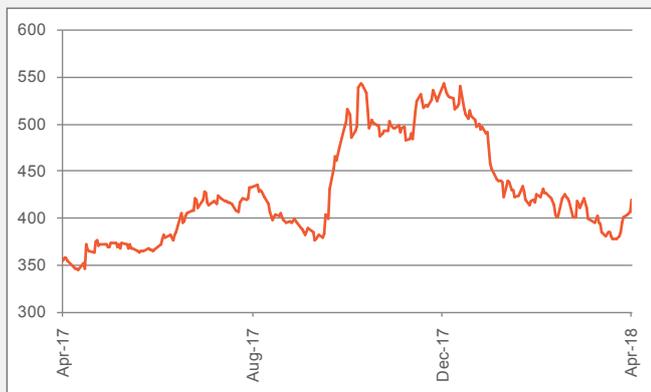
Company details

Price target:	Rs520
Market cap:	Rs167,811 cr
52-week high/low:	Rs565/336
NSE volume: (No of shares)	46.2 lakh
BSE code:	532454
NSE code:	BHARTI
Sharekhan code:	BHARTI
Free float: (No of shares)	131.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.6	-11.0	-18.6	18.9
Relative to Sensex	-7.3	-7.2	-23.5	0.6

Key points

- In line revenues performance, declining in ARPU trend continues:** The consolidated revenue of Bharti Airtel (Airtel) declined by 3.3% on a sequential basis (down 10.3% y-o-y) to Rs. 19,710 crores in Q4FY2018, broadly in-line with expectations. The decline in overall revenues was mainly due to the ongoing tariff war with RJio, 3.3% q-o-q/13.1% y-o-y drop in India business and disinvestment in some of assets in Africa and Bangladesh. Africa (14 countries) reported revenue growth of 1% q-o-q/10.7% y-o-y on constant currency terms, led by robust growth in data and Airtel money transaction value. During Q4FY18, revenue of the India wireless business declined by 3.7% q-o-q/20.2% y-o-y to Rs. 10,353 crores, owing to a cut in the International interconnect rate (revenue loss of Rs 124 crore owing to 43% cut in rates to 30 paise a minute, effective February 1, 2018) and continued fierce price war with RJio. ARPU for the quarter declined by 5.9% q-o-q/26.7% y-o-y to Rs. 116, owing to competitive tariff to retain revenue market shares and international termination rates (ITR) rate cut. Total data customer increased 22% q-o-q/50% y-o-y to 86 million during the quarter. India data usage on its network grew by 39% q-o-q/584% y-o-y in Q4FY2018, while usage per customer grew by 23% q-o-q/395% y-o-y to 6.6 GB per customer.
- Resilient operating performance, Africa continues to perform well:** For Q4FY2018, operating profit margin (OPM) of the company contracted by 140BPS q-o-q to 35.5% despite continued healthy OPM performance in the African business, a tad ahead of our expectations, due to 420 bps drop in operating margin of India wireless business. Africa's EBITDA margin expanded by 50 BPS q-o-q/1,050 BPS y-o-y to 36% (higher margin than India wireless business). India wireless EBITDA declined by 9.2% q-o-q/21.8% y-o-y, owing to lower revenue (taking aggressive tariff plan route) and reduction in 43% cut in ITR (impact of Rs. 82 crore). India business recorded loss at PBT level for the first time in last 15 years. The net loss (before exceptional item) in India business stood at Rs. 652 crores in Q4FY18, while net profit from the African business increased by 43% q-o-q to Rs. 698.7 crore during Q4FY2018. The net profit in African business largely offset the loss in India business, Airtel's net profit during the quarter declined by 73%QoQ/78%YoY to Rs 83 crore.

- ♦ **Outlook: Relief on ARPU is still some time away, Africa business looks strong:** Having similar network capabilities along with access to capital, the fierce competition in gaining market share among the three large telecom players is expected to continue in FY2019. Further, the pressure on ARPU will continue as adoption of bundle plans increases for Airtel. However, as most of 2G customers are with Airtel (being a leading player), upgrade to Airtel 4G platforms (offering 30GB free data plan) would help in improving ARPU. Given the lower ARPU as well as pricing, Airtel will focus on gaining market share by adding new customers through investment on its networks and value-added services (contents on its digital platforms). On the margin front, the operating performance in India could be sustainable in FY2019 despite the integration of Telenor and Tata Teleservices, led by reduction in SG&A expenses (owing to structural changes in India wireless industry) and ongoing re-engineering process (improve the cost efficiencies). In Africa, Airtel plans to strengthen its distribution network and introduce bundle packs aggressively to attract more customers as it sees more opportunities to grow.
- ♦ **Valuation – Maintain Buy, revised target price to Rs. 520:** We have revised our estimates for FY2019/FY2020 on account of less visibility of significant ARPU improvement in the near-to-medium term owing to continued pricing aggression from RJio (coming out aggressive plans in regular intervals), prioritizing to retain market share over profitability and anticipation of lower scope in improving further operating performance in African business. Nevertheless, with favourable earnings traction in the African market and more value-added services, Airtel will emerge stronger with its balance sheet strength coupled with industry consolidation (three-player market, with the exit of smaller players). At current levels, the stock is largely factoring the visible negatives and any positive surprise on competitive pricing would act as re-rating trigger for the stock. We believe these consolidation events could help Airtel to maintain its revenue market share with improving profitability in long-term. Given the resilient performance in cashflow, margins and market share in a tough environment, we maintain our Buy rating on the stock with a revised price target of Rs. 520.

Valuations

Particulars	Rs cr			
	FY17	FY18	FY19E	FY20E
Revenue	95,468.3	83,687.9	91,402.6	1,04,247.5
EBITDA margin (%)	37.1	36.2	36.1	37.0
Net profit	4,969.5	1,099.0	1,871.5	4,770.1
EPS (Rs)	12.4	2.7	4.7	11.9
P/E	33.8	152.8	89.7	35.2
EV/EBITDA (x)	6.5	7.6	7.0	6.0
RoCE (%)	10.7	6.8	7.6	10.0
RoE (%)	6.8	1.9	2.8	6.6

Results

Particulars	Rs cr				
	Q4FY18	Q4FY17	YoY (%)	Q3FY17	QoQ (%)
Net sales	19,709.6	21,980.6	-10.3	20,388.2	-3.3
License fees & spectrum charges	1,747.6	2,085.0	-16.2	1,754.2	-0.4
Employee expenses	994.9	1,049.8	-5.2	958.6	3.8
Access & interconnection charges	2,028.8	2,276.1	-10.9	1,953.9	3.8
Network operating expenses	4,807.1	5,162.8	-6.9	4,736.5	1.5
Other expenses	1,714.2	1,807.5	-5.2	1,856.4	-7.7
Operating profit	7,005.2	7,906.0	-11.4	7,538.4	-7.1
Interest expenses	1,829.3	1,916.2	-4.5	2,088.2	-12.4
Depreciation	4,899.1	4,941.8	-0.9	4,837.5	1.3
Tax	-302.1	175.3	-272.3	37.9	-897.1
Reported net income	82.9	373.4	-77.8	305.8	-72.9
EPS (Rs)	0.2	0.9	-77.8	0.8	-72.9
Margins (%)			BPS		BPS
OPM	35.5	36.0	-43	37.0	-143
NPM	0.4	1.7	-128	1.5	-108

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; For any queries or grievances kindly email

igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE: INB/INF011073351 / BSE-CD; NSE: INB/INF/INE231073330 ; MSEI: INB/INF/INE261073333 / INE261073330 ; DP: NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004; PMS-INP000005786 ; Mutual Fund-ARN 20669 ; Research Analyst: INH000000370; For any complaints email at igc@sharekhan.com ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T & C on www.sharekhan.com ; Investment in securities market are subject to market risks, read all the related documents carefully before investing.