

Bharti Infratel (BHAINF)

Aspires to grow beyond tower business...

We attended the "Analyst Day" of Bharti Infratel wherein the management apprised on the Indus merger update and its "aspirational" growth path ahead. They maintained that merger with Indus is on track (currently awaiting NCLT approvals) and is expected to be complete by June, 2019. As a targeted area for future growth, the company has identified small cells, in-building solutions, fibre sharing, Wi-Fi, smart cities and managed services. Management also envisages these new services contributing at least a third of overall revenues, in the next five years. We note that amid this long term chartered growth plan, the major risk is in the current business growth visibility where continued pressure on incumbents, especially Vodafone-Idea and its preference to rationalise networks over expansion could hinder growth in the near and medium term.

Key takeaways

- Merger update:** On the merger with Indus, the company indicated that it is on track (currently awaiting NCLT approvals) and expected to be completed by June, 2019, with approval from DoT being the final step. The company reiterated that opex synergy would be savings by way of lower administrative cost, common expenses, tower operating center costs etc. Capex related savings would largely be as scale benefits (volume discounts) owing to combined buying. *Assuming ~15% cost saving on common cost of ~₹ 300-400 crore, we build in opex synergy of ~₹ 50 crore while we anticipate ~5% volume discount will result in ~₹ 180 crore annual capex savings*
- Current business outlook:** The company indicated that given the consolidated market, increasing data usage in 4G and limited spectrum (limiting loading), it expects incumbents to add to tenancies to expand capacities as network quality would be the key factor of competitive advantage. It also indicated that National Digital Communications Policy 2018 also outlines target such as 60% tower fiberisation, ease in fibre roll-out, cabling (IBS) for buildings compulsory through NBC, which bodes well for tower companies
- Future growth plans:** The company outlined its overall growth path into two segments viz. existing business and new areas. Within existing businesses, the company aims to focus on maximising organic business (as operators expand coverage of 4G/5G ahead) and through introduction of small cells and in building solutions. On the new business fronts, it has identified fibre sharing, Wi-Fi, smart cities, BTS Hotels, managed services, NetCo and data centres. The company, however, indicated that within the fibre business, first priority would be tower connectivity. Inter and intra-city fibre asset acquisition from incumbents would be considered only if it is lucrative. The company also envisages new services will contribute at least a third of overall revenues, in the next five years.

Near & medium term growth visibility remains a concern; maintain HOLD

While the company's long term plan to diversify into fibre sharing along with a foray into additional services such as Wi-Fi, Smart City and managed services is a positive move, we believe benefits from the same would accrue over a longer time horizon of three to five years. Moreover, near term growth challenges remain amid incumbents' stressed financials and balance sheet. Therefore, we maintain our **HOLD** recommendation with a DCF-based target price of ₹ 285/share. Our target price implies 8.5x FY20E EV/EBITDA on the merged entity Proforma financials.

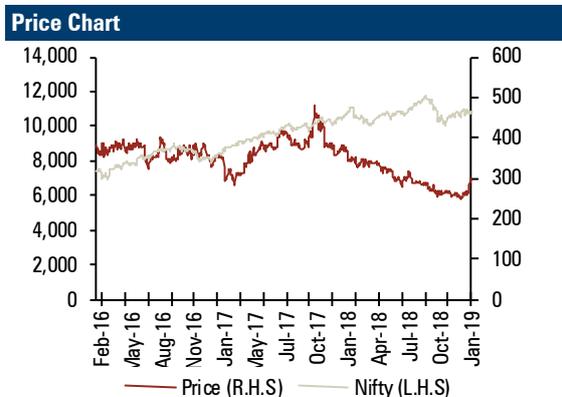
Rating matrix		
Rating	:	Hold
Target	:	₹ 285
Target Period	:	12 months
Potential Upside	:	-2%

What's changed?	
Target	Unchanged
EPS FY19E	Unchanged
EPS FY20E	Unchanged
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	13,424	14,490	14,458	14,455
EBITDA	5,897	6,380	5,733	5,768
Net Profit	2,747	2,494	2,317	2,493
EPS (₹)	14.9	13.5	12.5	13.5

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E	19.6	21.6	23.2	21.6
Target P/E	19.2	21.1	22.7	21.1
EV / EBITDA	8.8	7.6	8.4	8.4
P/BV	3.5	3.2	3.4	3.6
RoNW	17.7	14.7	14.6	16.7
RoCE	20.1	21.1	19.9	21.1

Stock data	
	Amount
Market Capitalization (₹ crore)	53,860.4
Total Debt (₹ crore)	1,690.1
Cash and Investments (₹crore)	6,787.2
EV (₹ crore)	48,763.3
52 week H/L (₹)	482/ 283
Equity capital (₹ crore)	1,849.6
Face value (₹)	10.0



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Exhibit 1: Merged entity Proforma financials

₹ crore	Infratel Standalone			Indus Towers			Combined Entity		
	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Tower (No.)	39,523	40,146	40,630	123,639	124,230	124,230	163,162	164,376	164,860
Tenancies (No.)	88,665	81,883	85,400	278,408	238,491	243,310	367,073	320,374	328,709
Tenancy Ratio (x)	2.3	2.1	2.1	2.3	2.1	1.9	2.3	2.1	2.0
Revenues	6,618	6,803	6,916	18,742	18,226	17,950	25,360	25,029	24,867
EBITDA	3,178	2,964	3,044	7,716	6,627	6,484	10,894	9,590	9,579
Margin (%)	48.0	43.6	44.0	41.2	36.4	36.1	43.0	38.3	38.5
							Target EV at 8.5x		81418
							Less: Net Debt		5,560
							Equity Value		75,858
							Diluted no. of Shares (crore)		266.1
							Fair Value (₹/share)		285

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	13,423.6	14,489.6	14,458.3	14,455.4	
Growth (%)	8.9	7.9	-0.2	0.0	
Other Income	145.6	232.6	216.6	280.0	
Total Revenue	13,569.2	14,722.2	14,674.9	14,735.4	
Rent	1,162.8	1,261.5	1,273.2	1,289.5	
Employee Expenses	467.8	500.2	491.4	504.5	
Power and Fuel	4,653.3	5,077.2	5,753.7	5,745.4	
Other Expenses	326.9	366.8	342.3	343.6	
Repairs & Maintenance	915.9	903.8	864.5	804.8	
Total Operating Expenditure	7,526.7	8,109.5	8,725.1	8,687.6	
EBITDA	5,896.9	6,380.1	5,733.2	5,767.8	
Growth (%)	9.0	8.2	-10.1	0.6	
Depreciation	2,262.5	2,346.2	2,229.7	2,293.4	
Interest	-441.3	-9.7	-172.7	-400.0	
Other Income	145.6	232.6	216.6	280.0	
PBT	4,221.2	4,276.2	3,892.8	4,154.3	
Exceptional Items	0.0	50.0	35.7	0.0	
Total Tax	1,474.2	1,732.5	1,540.0	1,661.7	
PAT	2,747.0	2,493.7	2,317.2	2,492.6	
Growth (%)	22.2	-9.2	-7.1	7.6	
EPS (₹)	14.9	13.5	12.5	13.5	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	2,747.0	2,493.7	2,317.2	2,492.6	
Add: Depreciation	2,262.5	2,346.2	2,229.7	2,293.4	
Add: Interest Paid	(441.3)	(9.7)	(172.7)	(400.0)	
(Inc)/dec in Current Assets	-369.6	-684.7	290.4	145.9	
Inc/(dec) in CL and Provisions	3,038.8	-2,086.7	-8.2	-0.8	
CF from operating activities	7,237.4	2,058.8	4,656.4	4,531.2	
(Inc)/dec in Investments	-1,066.2	-1,163.9	0.0	-200.0	
(Inc)/dec in Fixed Assets	-1,950.0	-1,937.4	-754.0	-1,252.8	
Others	-100.4	86.4	0.8	0.1	
CF from investing activities	-3,116.6	-3,014.9	-753.1	-1,452.8	
Issue/(Buy back) of Equity	-47.1	0.0	0.0	0.0	
Inc/(dec) in loan funds	-629.9	-43.3	-401.4	0.0	
Dividend paid & dividend tax	-3,562.0	0.0	-3,107.3	-3,107.3	
Add: Interest Paid	(441.3)	(9.7)	(172.7)	(400.0)	
Others	-607.6	-735.0	45.4	500.0	
CF from financing activities	-5,287.9	-788.0	-3,636.0	-3,007.3	
Net Cash flow	-1,167.1	-1,744.1	267.2	71.1	
Opening Cash	3,191.1	2,024.0	279.9	547.1	
Closing Cash	2,297.0	279.9	547.1	618.2	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	1,849.6	1,849.6	1,849.6	1,849.6	
Reserve and Surplus	13,636.9	15,104.8	14,014.6	13,099.9	
Total Shareholders funds	15,486.5	16,954.4	15,864.2	14,949.5	
Total Debt	1,735.0	1,690.1	1,288.7	1,288.7	
Deferred Tax Liability	715.0	622.3	622.3	622.3	
Others	842.9	954.6	954.6	954.6	
Total Liabilities	18,779.4	20,221.4	18,729.8	17,815.1	
Assets					
Gross Block	30,588.4	32,376.0	33,130.0	34,382.8	
Accumulated Depreciation	16,955.8	19,302.0	21,531.7	23,825.2	
Net Block	13,632.6	13,074.0	11,598.3	10,557.7	
Capital WIP	256.8	406.6	406.6	406.6	
Total Fixed Assets	13,889.4	13,480.6	12,004.9	10,964.3	
Investments	5,621.1	6,785.0	6,785.0	6,985.0	
Inventory	0.0	0.0	0.0	0.0	
Debtors	217.9	918.5	792.2	792.1	
Loans and Advances	1,354.9	1,347.9	1,210.5	1,089.2	
Other Current Assets	522.7	513.8	487.1	462.6	
Cash	2,297.0	279.9	547.1	618.2	
Total Current Assets	4,392.5	3,060.1	3,036.9	2,962.1	
Creditors	679.3	618.2	616.9	616.7	
Provisions	610.5	666.6	665.2	665.0	
Other Current Liabilities	4,598.0	2,516.3	2,510.9	2,510.4	
Total Current Liabilities	5,887.8	3,801.1	3,792.9	3,792.1	
Net Current Assets	-1,495.3	-741.0	-756.0	-830.0	
Others Assets	764.2	696.8	696.0	695.9	
Application of Funds	18,779.4	20,221.4	18,729.8	17,815.1	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
EPS	14.9	13.5	12.5	13.5	
Cash EPS	27.1	26.2	24.6	25.9	
BV	83.7	91.7	85.8	80.8	
DPS	16.0	14.0	14.0	14.0	
Cash Per Share	12.4	1.5	3.0	3.3	
Operating Ratios					
EBITDA Margin (%)	43.9	44.0	39.7	39.9	
PAT Margin (%)	20.5	17.2	16.0	17.2	
Debtor days	5.9	23.1	20.0	20.0	
Creditor days	18.5	15.6	15.6	15.6	
Return Ratios (%)					
RoE	17.7	14.7	14.6	16.7	
RoCE	20.1	21.1	19.9	21.1	
RoIC	26.0	32.7	33.1	34.4	
Valuation Ratios (x)					
P/E	19.6	21.6	23.2	21.6	
EV / EBITDA	8.8	7.6	8.4	8.4	
Market Cap / Sales	4.0	3.7	3.7	3.7	
Price to Book Value	3.5	3.2	3.4	3.6	
Solvency Ratios					
Debt/EBITDA	0.3	0.3	0.2	0.2	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	0.4	0.7	0.7	0.6	
Quick Ratio	0.4	0.7	0.7	0.6	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Telecom)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bharti Airtel (BHAAIR)	333	380	Buy	133,033	2.7	-2.7	-5.7	121.0	NM	NM	7.7	9.7	8.5	5.6	2.3	3.5	2.7	-0.9	-3.9
Bharti Infratel (BHAINF)	291	285	Hold	53,731	13.5	12.5	13.5	21.5	23.2	21.6	7.6	7.5	8.4	21.1	19.9	21.1	14.7	14.6	16.7
Idea Cellular (IDECEL)	37	40	Hold	40,574	-9.6	-10.1	-12.4	NM	NM	NM	11.3	19.8	27.4	-2.3	-3.6	-3.0	-15.3	-21.3	-28.4
Sterlite Tech. (STETEC)	287	400	Buy	11,515	8.3	13.5	16.0	34.4	21.3	18.0	16.5	18.0	11.7	29.7	27.0	27.0	28.7	33.4	29.4
Tata Comm. (TATCOM)	522	540	Hold	14,877	-11.5	0.1	9.2	NM	NM	56.8	9.8	10.1	9.3	5.9	4.2	6.6	9.4	1.3	89.2

Source: Company, ICICI Direct Research

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Sell: -10% or more;



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