

Stock Update

Good quarter, maintain Buy

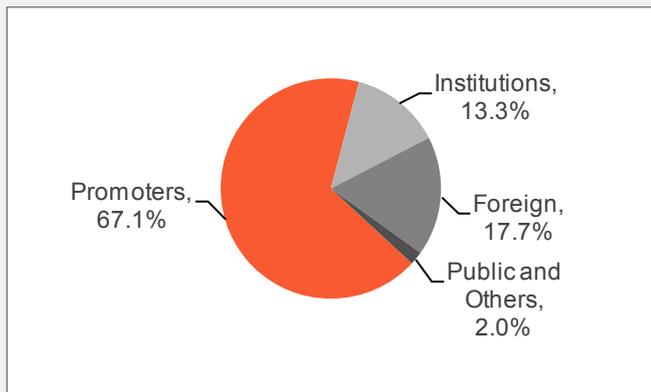
Bharti Airtel

Reco: Buy | CMP: Rs323

Company details

Price target:	Rs350
Market cap:	Rs129,136 cr
52-week high/low:	Rs366/300
NSE volume: (No of shares)	75.7 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTIARTL
Free float: (No of shares)	131.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.8	17.6	19.1	-7.1
Relative to Sensex	2.5	12.5	7.7	-17.0

Key points

- India wireless revenue ahead of estimates:** For Q4FY2019, Bharti Airtel (Airtel) delivered better-than-expected revenue performance, led by healthy revenue growth of 4.3% q-o-q in India wireless business. Consolidated revenue grew by 1.8% q-o-q (up 6.2% y-o-y) to Rs. 20,602 crore. Revenue growth in India wireless business during the quarter was led by increasing share of 4G users, minimum recharge plans and consciously removing low-end customers. Airtel has not disclosed any details of India businesses owing to ongoing rights issue, however it has reported segmental EBIT performance. Africa revenue growth in constant currency (CC) terms remained muted on a sequential basis at \$807 million in Q4FY2019. Notably, Airtel has minimised the gap with Reliance JIO in terms of India wireless revenue growth on a sequential basis.
- Margins beat, net profit aided by one-off gains:** EBITDA margin of the company improved by 145BPS q-o-q to 32.2% in Q4FY2019, ahead of our estimates. Effectively, consolidated EBITDA beat our estimates by 8.7% and grew by 6.6% q-o-q to Rs. 6,632 crore. EBITDA margin of Africa unit expanded by 50 BPS q-o-q and 220 BPS y-o-y to 43.8% (restated owing to the adoption of IFRS 16 and resulted in a boost to EBITDA). Reported net profit during the quarter increased by 24.1% q-o-q (up 29.3% y-o-y) to Rs. 107 crore, led by one-time exceptional gain of Rs. 2,022 crore. Excluding one-time exceptional gain, adjusted net loss during the quarter stood at Rs.1,914.9 crore.
- Strong growth in DTH business despite challenges:** Despite challenges owing to implementation of new tariff order by TRAI, DTH business revenue grew by 1.7% q-o-q during the quarter, ahead of estimates. Telemedia/Home service revenue increased by 0.6% q-o-q in Q4FY2019, while enterprise revenue declined by 3.5% q-o-q. Passive infra revenue during the quarter declined by 3.6% q-o-q.
- Fund raising likely to bring down net debt/EBITDA, though dilutive for fair value:** Airtel is in the midst of around Rs. 25,000 crore rights issue, which is expected to close on May 17, 2019. Airtel's board had approved its fund-raising plan of Rs. 32,000 crore, comprising Rs. 25,000 crore equity via rights issue and Rs. 7,000 crore

(foreign denominated) through perpetual bond with equity credit. The company's board has fixed rights issue price at Rs. 220 (which is at a steep 32% discount to last market price). This implies new rights shares to be issued of 113.6 crore, which would result in a 22.1% dilution in total equity base (post rights issue). Further, successful completion in rights issue would result in the correction of the stock price. We believe the proceeds from this fund-raising programme would significantly de-leverage the balance sheet by bringing down consolidated net debt/EBITDA to 3.1x from current level of 4.4x and provide additional financial flexibility to further strengthen its network capabilities. In addition, planned Africa IPO and divestment of Bharti Infratel stake would further help to reduce debt level and participate in the upcoming spectrum auction.

- ♦ **Rights issue to improve balance sheet, maintain Buy:** We have fine-tuned our earnings estimates for FY2020E on account of better-than-expected operating performance and have introduced FY2021E numbers in this note. Although better-than-expected sequential India wireless revenue growth is a positive surprise during the quarter, the sustainability of this growth momentum needs monitoring in the coming quarters. Despite the steep dilution, the recent fund-raising plan through rights issue would allow Airtel to de-leverage the balance sheet in bringing down net debt/EBITDA to 3.1x. Further, planned equity raise from Africa IPO and divestment of tower business stake would further provide financial flexibility to limit the rising of net debt/EBITDA level, which could reduce interest cost. Given the resilient performance in terms of market share in a tough environment, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 350.

Valuations

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Revenue	82,638.8	80,780.2	87,751.0	95,407.6
EBITDA margin (%)	36.4	32.0	30.8	31.0
Net profit	1,099.0	(4,743.9)	(5,301.3)	(2,287.7)
EPS (Rs.)	2.7	(11.9)	(10.3)	(4.5)
P/E	117.6	NM	NM	NM
EV/EBITDA (x)	7.6	8.9	8.5	7.8
RoCE (%)	6.7	2.6	1.8	2.7
RoE (%)	1.4	(5.8)	(8.4)	(3.8)

Results

Particulars	Rs cr				
	Q4FY19	Q4FY18	YoY %	Q3FY19	QoQ %
Net sales	20,602.2	19,394.5	6.2	20,231.3	1.8
License fees and spectrum charges	1,728.8	1,747.6	-1.1	1,746.9	-1.0
Employee expenses	942.9	994.9	-5.2	953.0	-1.1
Access and interconnection charges	2,441.0	2,028.8	20.3	2,446.2	-0.2
Network operating expenses	5,962.2	4,807.1	24.0	5,753.9	3.6
Other expenses	1,854.9	1,714.2	8.2	2,057.0	-9.8
Operating profit	6,631.6	6,929.9	-4.3	6,218.2	6.6
Interest expenses	2,532.3	1,829.3	38.4	1,944.8	30.2
Depreciation	5,493.4	4,899.1	12.1	5,472.3	0.4
Tax	137.4	-302.1	-145.5	-182.4	-175.3
Reported net income	107.2	82.9	29.3	86.4	24.1
Adjusted net income	-1,914.9	407.6	PL	-1,327.5	44.2
EPS (Rs.)	-4.8	0.2	PL	-3.3	44.2
Margins (%)			BPS		BPS
OPM	32.2	35.7	-354	30.7	145
NPM (reported)	0.5	0.4	9	0.4	9

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 licensing 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 or its associates or 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 at the end of the month immediately preceding the date of publication of the research report 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. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

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; email id: compliance@sharekhan.com;

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 / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

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.