Stock Update

Sharp margin beats in India wireless business

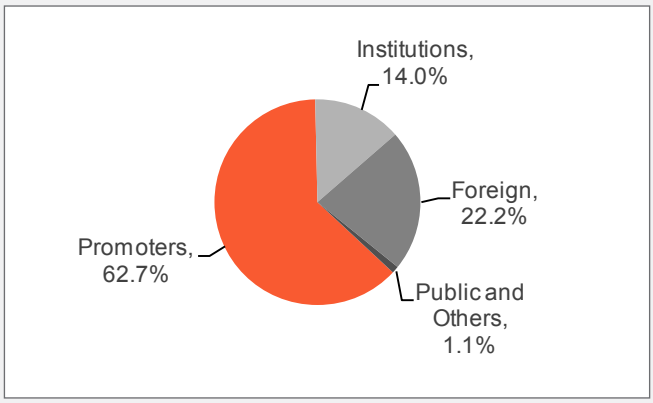
Bharti Airtel

Reco: Buy | CMP: Rs353

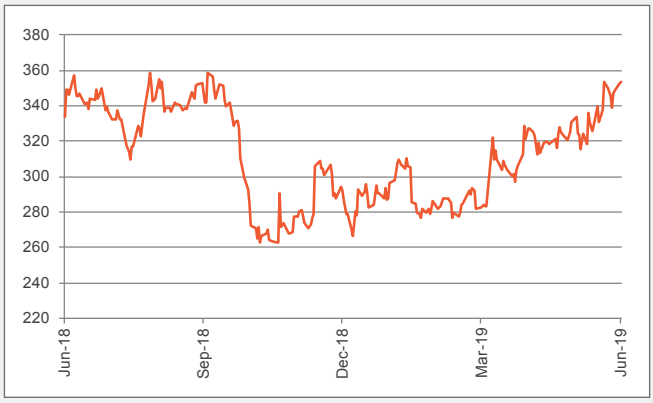
Company details

Price target:	Rs390
Market cap:	Rs181,355
52-week high/low:	Rs366 / 254
NSE volume: (No of shares)	75.7 lakh
BSE code:	532454
NSE code:	BHARTIARTL
Sharekhan code:	BHARTIARTL
Free float: (No of shares)	191.3 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	24.9	20.2	1.6
Relative to Sensex	2.8	11.6	7.8	-12.1

After conclusion of the rights issue, Bharti Airtel (Airtel) has reported detailed operating metrics for Q4FY2019. Key highlights in the operating metrics are – 1) higher-than-expected revenue growth (4.3% q-o-q) as well as operating margin expansions (24.1% vs. our estimate of 19.5%) in India wireless business. In addition, the quarter witnessed a steep increase in India wireless ARPU to Rs. 123 (18.6% q-o-q) and healthy expansion in India wireless network metrics, including revenue sites, total MBB towers, etc.; 2) strong growth in overall data customer base (7% q-o-q) and 4G data subscribers (13% q-o-q). Further, the quarter saw robust growth in data traffic (15% q-o-q) as well as data usage per customer (5% q-o-q); 3) healthy subscriber addition and steady ARPU in DTH business despite impact from TRAI's new tariff order; 4) steady improvement in Africa operating margin performance; and 5) mixed performance in other segments: Telemedia/digital TV revenue grew by 0.6%/1.7% q-o-q, respectively, while enterprise/ passive infra revenue declined by 3.5%/3.6% q-o-q.

- **India wireless business margins surprised positively:** Consolidated EBITDA grew by 6.6% q-o-q to Rs. 6,632 crore, above our estimates, led by 31.6% q-o-q growth in India wireless EBITDA. Strong EBITDA growth in India wireless business was led by robust revenue growth and higher cost-efficiency measures. As a result, EBITDA margin in India wireless business expanded by 500 BPS q-o-q to 24.1%, above our estimates. Management of Airtel highlighted a one-off cost write-back in SG&A. Adjusting the one-off cost reversal, India wireless EBITDA growth is estimated at around 20% q-o-q to Rs. 2,340 crore and adjusted EBITDA margin remains at around 22%, which is significantly higher-than-our estimate of 19.5%.

- **Other segments – Mixed performance:** Despite challenges owing to implementation of new tariff order by TRAI, DTH business revenue/EBITDA grew by 1.7%/2.6% q-o-q during the quarter, ahead of estimates as well as better than the performance of its peers. However, EBITDA of telemedia/enterprise/passive infra segments declined by 5.1%/2.9%/4% q-o-q, respectively, in Q4FY2019. ARPU of DTH business increased marginally by 0.6% q-o-q in Q4FY2019, while ARPU of telemedia declined by 0.7% q-o-q. Africa EBITDA margin witnessed a steady improvement of 10 BPS q-o-q during the quarter.

- **Capex intensity likely to be moderated:** Management has highlighted that capex intensity has peaked out in FY2019, with capex of around Rs. 28,700 crore. Management expects moderation in capex in FY2020E with a strong portfolio of sites and spectrums. Post huge investments on improving network capabilities for the past couple of years, we believe the company would lower its capex requirements for FY2020E. As Airtel focuses on enhancing customer experience, strengthening of network as well as platform with a focus on content would constitute a higher chunk of capex going forward. Further, management believes that for the 3.5GHz spectrum, the reserve price of Rs. 50,000 crore-55,000 crore for 100 MHz quantity is exorbitant. Management indicated that the company would not able to participate for 5G airwave at such high prices and would consider bidding in auctions at a lower level.

- **Proceeds from rights issue to bring down net debt/EBITDA level:** Net debt stood at Rs. 1,12,990 crore (including financial lease), implying net debt/EBITDA of around 4.4x. The proceeds from recently concluded rights issue would de-leverage the balance sheet by bringing down consolidated net debt/EBITDA to 3.4x. We have factored in the proceeds from rights issue and dilution in our model. Further, potential value unlocking of its holdings in its subsidiaries and divestment of its tower business (Airtel plans to reduce its stake by over 50% in the merged entity) would further help to reduce debt level and provide flexibility in participating in the upcoming spectrum auction.

- **Maintain Buy with a revised PT of Rs. 390:** Although India wireless revenue as well as EBITDA growth on sequential basis is a positive surprise during the quarter, the sustainability of this growth momentum needs to be monitored in the coming quarters given the higher competitive intensity environment. We believe the planned value unlocking of its holdings in its subsidiaries and divestment of tower business stake would provide financial flexibility to reduce net debt/EBITDA level to around 2.6x (recent rights issue proceeds are expected to reduce this ratio to 3.4x) and provide cash flow support. Given the resilient performance in a tough environment and some signs of stability in India wireless business, we maintain our Buy rating on the stock with a revised price target (PT) of Rs. 390.

Valuation Rs cr

Particulars	FY18	FY19	FY20E	FY21E
Revenue	82,638.8	80,780.2	87,576.0	93,800.2
EBITDA margin (%)	36.4	32.0	31.5	32.7
Net profit	1,099.0	(4,743.9)	(3,530.7)	(770.2)
EPS (Rs.)	2.7	(11.9)	(6.9)	(1.5)
P/E	128.6	NM	NM	NM
EV/EBITDA (x)	7.6	8.9	8.3	7.5
RoCE (%)	6.7	2.6	2.1	3.4
RoE (%)	1.4	(5.8)	(5.5)	(1.2)

Source: Company, Sharekhan Research

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