

Strong Business Matrix; ARPU Gains Continue

Est. vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**

Changes In Estimates post Q4FY24

FY25E/FY26E: Revenue: 1%/1%; EBITDA: 1%/1%; PAT: 2%/2%

Recommendation Rationale

- The company's digital portfolio is gaining momentum along with market share gains
- The company maintained a strong share of 4G/5G net ads in the market, with the 4G customer base expanding by 7.8 Mn QoQ and 28.6 Mn YoY. This now constitutes 72% of the overall customer base.
- The company's ARPU continues to be the best in the industry and average data usage per customer stands healthy at 22.6 GB/month.
- The management is confident of gaining longer-term demand momentum on the backdrop of the strong digital services portfolio, better rural conversion to 4G, and better cash flow management.

Sector Outlook: Positive

Company Outlook & Guidance: The company has a strong focus on quality customers with increasing ARPU and revenue. The management is confident of gaining industry-leading growth backed by robust rural penetration and a superior services portfolio. The Capex, however, will remain moderate in FY25.

Current Valuation: SOTP based

Current TP: 1,575/share (Earlier TP: Rs 1,520/share)

Recommendation: Given the company's strong recovery potential backed by strong conversion, rising digital portfolio, and moderated Capex, **we maintain our BUY recommendation on the stock.**

Financial Performance

In Q4FY24, Bharti Airtel Ltd. (Bharti) reported revenue of Rs 37,599 Cr, down 1% QoQ but up 4.4% YoY (below our expectations). This was mainly on account of the devaluation of Nigeria's Naira and other currencies during the period. The company posted a healthy operating profit of Rs 19,365 Cr, leveraging higher 4G conversions and a better service mix. Its operating margins, however, declined marginally by 78bps. Its net profit for Q4FY24 stood at Rs 2,068 Cr, registering a decline of 28% QoQ.

Outlook

From a long-term perspective, we believe Bharti Airtel would continue to gain market share, backed by the highest penetrations, and with minimum Capex requirements. With a stronger digital portfolio supported by rising per-user data, we are positive about the future growth of Airtel.

Valuation & Recommendation

We **maintain** our **BUY** rating on the stock given the company's superior margins, stronger subscriber growth, and higher 4G conversions. We value the stock at Rs 1,575/share based on SOTP valuation and the TP indicates a robust upside of 20% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	37,599	-1%	4%	39165	-4%
EBITDA	16,384	-2%	4%	12255	34%
EBITDA Margin	52%	(78)	(42)	50%	3%
Net Profit	2,068	-28%	-51%	5,309	-61%
EPS (Rs)	3.61	28%	51%	3.4	6%

Source: Company, Axis Research

(CMP as of 15 May 2024)

CMP (Rs)	1,312
Upside /Downside (%)	20%
High/Low (Rs)	1,364/784
Market cap (Cr)	7,44,237
Avg. daily vol. (6m) Shrs.	5,94,320
No. of shares (Cr)	5.56

Shareholding (%)

	Sep'23	Dec'23	Mar'24
Promoter	54.8	54.6	53.5
FII's	21.8	22.7	24.4
MFs / UTI	11.3	11.3	11.1
Banks / FI's	0.1	0	0
Others	12.0	11.4	11.1

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	1,49,982	1,92,684	2,04,828
EBITDA	78,292	1,15,117	1,23,546
Net Profit	20,900	53,873	58,846
EPS (Rs)	37.4	96.4	147.1
PER (x)	18.8	7.3	4.8
P/BV (x)	3.2	2.2	1.2
EV/EBITDA (x)	7.4	5.1	3.8
ROE (%)	17.2	30.8	25.1

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	1%	1%
EBITDA	1%	1%
PAT	2%	2%

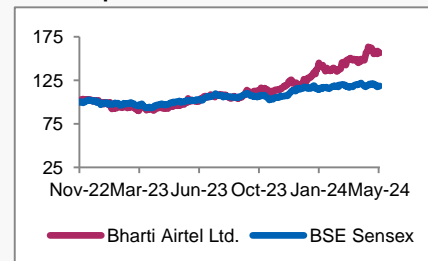
ESG disclosure Score**

Environmental Disclosure	44
Social Disclosure Score	60
Governance Disclosure Score	59
Total ESG Disclosure Score	51

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Key Highlights

- **Capex:** Capex is elevated because of the 5G rollout this year. However, Capex will be moderated in FY25. The management is expecting similar Capex levels to continue. It will also spend on broadband, enterprise, and data centres. 4G-related radio Capex is likely to decline.
- **ARPU:** Bharti Airtel has the leading ARPU in the industry. The management expects ARPU to improve from the current level of 209 due to a richer customer mix. Aided by strong customer conversion from 2G to 4G/5G and other services, it continues with its ARPU trajectory and expects it to reach Rs 300 going ahead.
- **Huge revenue and profit growth potential:** The company's business fundamentals remain strong and continue to improve. The management foresees huge potential for continued strong revenue and profit growth, supported by expanding distribution in rural areas, investments in the network, and increasing 4G coverage. Furthermore, strategic investment opportunities are available in tower sales, minority, and IPO investments in mobile money, among others.
- **Improvement in the Home Segment:** The management sees improvement in the Home Segment with multiple solutions in one package. It has a strong strategy of Hunting (offering different solutions to existing customers (mainly 50 Mn customers having strong financial conditions) and mining new customers.
- **Cost optimization initiatives:** The company has identified more than 2,500 sights for reducing the network cost which will help to reduce the operating cost.

Key Risks to our Estimates and TP

- The cut-throat competition may reduce the market share, leading to reductions in the revenue growth momentum.

Valuation & outlook

From a long-term perspective, we believe Bharti Airtel would continue to gain market share, backed by the highest penetrations, and with minimum Capex requirements. With a stronger digital portfolio supported by rising per-user data, we are positive about the future growth of Airtel. We maintain our BUY rating on the stock, given the company's superior margins, stronger subscriber growth, and higher 4G conversions. **We value the stock with target price of Rs. 1,575 valuation and the TP indicates a robust upside of 20% from the CMP.**

SOTP Valuation

Segments	FY26E EBITDA (Rs Bn)	FY26E EBITDA/ Share (Rs)	Multiple (X)	Enterprise Value (Rs Bn)	Value Per Share (Rs)
India Wireless	472.3	84.5	16.8	7,935	1,545
Telemedia services	29.3	5.2	12.2	358	70
Enterprise	67.3	12.0	12.8	862	168
DTH	18.4	3.3	12.0	221	43
Wireless - Africa	207.3	37.1	10.6	1,165	227
Others*	(49.1)	(8.8)	10.8	(531)	(103)
Sub-total	745.5	133.4	14.4	10,009	1,950
Consol Equity	0	0	0	355	64
Enterprise Value	0	0	0	10,364	2,013
(-) Net Debt	0	0	0	2,243	437
Target Price (Rs)	0	0	0	8,120	1,575

Source: Company, Axis Research

Results Review
(Rs Cr)

In Cr	Q4FY24	Q3FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total revenues	37,599	37,900	36,009	4%	-1%
Access charges	1,850	1,857	1,885		
Net revenue	35,749	36,043	34,124	5%	-1%
License fees	3,111	3,021	2,828		
Network costs	7,599	7,593	7,402		
Employee costs	1,364	1,323	1,263		
Sales & marketing	2,067	2,047	1,984		
General & Administration	2,244	2,245	1,950	15%	0%
Total Opex	16,384	16,228	15,427		
EBITDA	19,365	19,815	18,697		
EBITDA / Total revenues	52%	52%	52%	(42)	(78)
D&A	9,734	10,074	9,406	-469	6
EBIT	9,290	9,741	9,291		
Finance cost (net)	5,203	6,645	5,163		
JV / Associates gain/(loss)	830	703	601		
Other income	317	440	285	-75	2,345
Profit before Tax	5,234	4,239	5,014		
Income tax expense	710	1,232	788	-10%	-42%
Exceptional Loss/(gain) (net of tax)	2,456	130	-	-	-
Profit after tax (after exceptional items)	2,068	2,876	4,226		
Net income	2,068	2,876	4,226	-51%	-28%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	1,39,145	1,49,982	1,92,684	2,04,828
Growth, %	19	8	28	6
Other income	0	0	0	0
Total income	1,39,145	1,49,982	1,92,684	2,04,828
Raw material expenses	-7,621	-7,519	-10,972	-11,190
Employee expenses	(4,831)	(5,323)	(5,589)	(5,812)
Other Operating expenses	-66,626	-70,406	-75,911	-79,582
EBITDA (Core)	71,274	78,292	1,15,117	1,23,546
Growth, %	24	10	47	7
Margin, %	51	52	60	60
Depreciation	(36,432)	(39,538)	(40,600)	(41,224)
EBIT	34,842	38,754	74,517	82,321
Growth, %	43	11	92	10
Margin, %	25	26	39	40
Interest paid	-16,901	-17,878	-18,196	-19,300
Other Non-Operating Income	937	1,435	1,465	1,483
Non-recurring Items	0	0	0	0
Pre-tax profit	19,629	25,021	60,596	67,412
Tax provided	-4,273	-4,121	-6,723	-8,566
Profit after tax	15,356	20,900	53,873	58,846
Others (Minorities, Associates)	0	0	0	0
Net Profit	15,356	20,900	53,873	58,846
Growth, %	132	36	158	9
Net Profit (adjusted)	15,356	20,900	53,873	58,846

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Cash & bank	19,088	14,649	14,417	15,339
Other current assets	39,033	39,109	37,672	37,744
Total current assets	58,121	53,758	52,089	53,083
Gross fixed assets	2,75,280	2,75,464	2,78,465	2,88,631
Net fixed assets	2,75,280	2,75,464	2,78,465	2,88,631
Non-current assets	32,435	32,973	33,102	33,516
Total assets	4,69,456	4,61,552	5,15,432	5,74,286
Current liabilities	1,21,964	1,21,964	1,21,964	1,21,964
Total current liabilities	1,21,964	1,21,964	1,21,964	1,21,964
Non-current liabilities	2,18,225	2,18,225	2,18,225	2,18,225
Total liabilities	3,40,189	3,40,189	3,40,189	3,40,189
Paid-up capital	2,795	2,795	2,795	2,795
Reserves & surplus	97,591	1,18,491	1,72,365	2,31,211
Shareholders' equity	1,29,267	1,21,363	1,75,243	2,34,097
Total equity & liabilities	4,69,456	4,61,552	5,15,432	5,74,286

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Pre-tax profit	19,629	25,021	60,596	67,412
Depreciation	36,432	39,538	40,600	41,224
Chg in working capital	1,131	-606	1,163	-479
Total tax paid	-4,646	-4,121	-6,723	-8,566
Other operating activities	0	0	0	0
Cash flow from operating activities	52,509	59,824	95,780	99,585
Capital expenditure	-40,299	-39,721	-43,601	-51,391
Chg in investments	0	0	0	0
Chg in marketable securities	-374	-76	1,437	-72
Other investing activities	-12,647	-3,542	0	0
Cash flow from investing activities	-52,193	-40,554	-40,792	-48,483
Free cash flow	316	19,271	54,988	51,102
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	59,807	0	0	0
Dividend (incl. tax)	0	0	0	0
Other financing activities	0	0	0	0
Cash flow from financing activities	63,308	-28,805	7	8
Net chg in cash	63,623	-9,535	54,995	51,109
Opening cash balance	12,980	19,088	14,649	14,417
Closing cash balance	19,088	14,649	14,417	15,339

Source: Company, Axis Securities

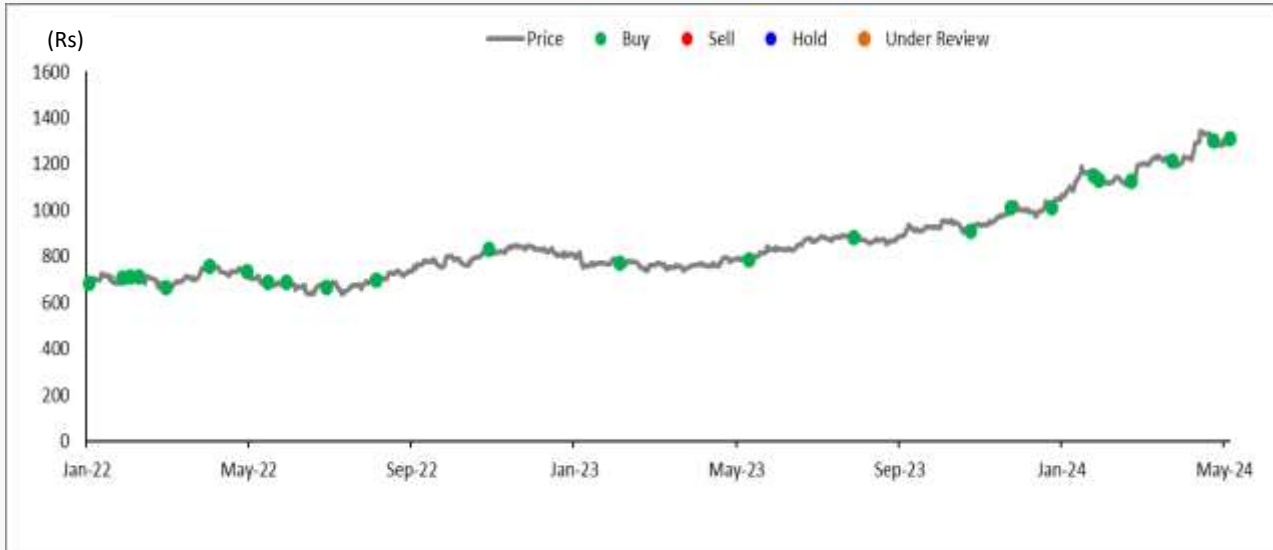
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Per Share data				
EPS (INR)	27.5	37.4	96.4	147.1
Growth, %	132.4	36.1	157.8	52.7
Book NAV/share (INR)	179.6	217.0	313.3	585.0
FDEPS (INR)	27.5	37.4	96.4	147.1
CEPS (INR)	92.6	108.1	169.0	250.2
CFPS (INR)	104.4	100.6	163.9	239.0
DPS (INR)	0.0	0.0	0.0	0.0
Return ratios	0.0	0.0	0.0	0.0
Return on assets (%)	6.9	8.5	17.6	18.7
Return on equity (%)	15.3	17.2	30.8	25.1
Return on capital employed (%)	8.1	9.0	17.4	16.4
Turnover ratios	0%	0%	0%	0%
Asset turnover (x)	77%	84%	107%	110%
Sales/Total assets (x)	0.4	0.4	0.5	0.6
Sales/Net FA (x)	51%	54%	70%	72%
Working capital/Sales (x)	-60%	-55%	-44%	-41%
Fixed capital/Sales (x)	180%	167%	130%	127%
Receivable days	0%	0%	0%	0%
Inventory days	0.0	0.0	0.0	0.0
Payable days	0%	0%	0%	0%
Working capital days	(217.54)	(201.64)	(159.67)	(150.08)
Liquidity ratios				
Current ratio (x)	0.48	0.44	0.43	0.44
Quick ratio (x)	0.48	0.44	0.43	0.44
Interest cover (x)	2.06	2.17	4.10	4.27
Dividend cover (x)				
Total debt/Equity (%)	201.62	166.88	115.55	86.49
Net debt/Equity (%)	182.60	154.80	107.32	79.94
Valuation				
PER (x)	25.64	18.84	7.31	4.79
PEG (x) - y-o-y growth	0.19	0.52	0.05	0.09
Price/Book (x)	3.92	3.25	2.25	1.20
Yield (%)				
EV/Net sales (x)	4.15	3.88	3.02	2.29
EV/EBITDA (x)	8.10	7.43	5.05	3.79
EV/EBIT (x)	16.56	15.00	7.81	5.69

Source: Company, Axis Securities

Bharti Airtel Ltd. Price Chart and Recommendation History



Date	Reco	TP	Research
04-Apr-22	BUY	870	Top Picks
02-May-22	BUY	870	Top Picks
18-May-22	BUY	900	Result Update
01-Jun-22	BUY	900	Top Picks
01-Jul-22	BUY	900	Top Picks
08-Aug-22	BUY	900	Result Update
02-Nov-22	BUY	960	Result Update
09-Feb-23	BUY	960	Result Update
18-May-23	BUY	960	Result Update
07-Aug-23	BUY	1,025	Result Update
02-Nov-23	BUY	1,155	Result Update
01-Dec-23	BUY	1,155	Top Picks
01-Jan-24	BUY	1,155	Top Picks
02-Feb-24	BUY	1,400	Top Picks
07-Feb-24	BUY	1,400	Result Update
01-Mar-24	BUY	1,400	Top Picks
01-Apr-24	BUY	1,400	Top Picks
02-May-24	BUY	1,520	Top Picks
16-May-24	BUY	1,575	Result Update

Source: Axis Securities

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