AJCON GLOBAL
YOUR FRIENDLY FINANCIAL ADVISOR

Investor's delight: Bharti Airtel Limited – "BUY" **30th July, 2020**

CMP: Rs. 552, Target price: Rs. 680, Upside: 23 percent, FV: Rs. 5, Market Cap: Rs. 3,00,492 crores, 52 week High/Low: Rs. 611.7/Rs. 321.6

We like Bharti Airtel as it is one of the major beneficiaries of ongoing COVID-19 crisis and has stood tall against competition. The Company registered a strong operating performance in Q1FY21 as well.

The Company's Q1FY21 consolidated revenues witnessed a rise of 15.4 percent to Rs. 23,939 crore. Overall customer base stands at ~420 million across 16 countries. Consolidated mobile data traffic at 7,019 PBs in the quarter has registered a healthy YoY growth of 73.5 percent.

India revenues for Q1'21 at Rs. 17,589 crore have increased by 14.6 percent on YoY basis. Mobile revenues have witnessed a YoY growth of 18.5%. ARPU in Q1FY21 stood at Rs. 157 as compared to Rs. 129 in Q1'20 led by full impact of the tariff hikes in the previous quarter alongside its continuing focus on quality customers. 4G data customers1 have increased by 45.3% to 138.3 Mn from 95.2 Mn in the corresponding quarter last year while traffic has increased to 74.09 PB/day vs 42.90 PB/day in the corresponding quarter last year.

The Company's headline pricing remained stable, albeit at low levels. The Company continuex to remain focused on providing value to customers through its rewards platform, Airtel Thanks. This has led to the second consecutive quarter of ARPU increase.

Engagement parameters continue to be best in industry – average data usage per data sub at 16.3 GBs/month; while voice usage was at 994 mins/sub/month. Airtel Business continues to accelerate its revenue growth momentum with a 9.2 percent on YoY growth led by growth across all its segments – connectivity revenues from global business, domestic enterprise business besides solutions such as data centres, cloud, IOT. In the new world order of work from home post COVID-19, the company remains excited about this area of business and has continued to invest to ensure strong growth. Digital TV revenue witnessed a growth of 9.3% YoY on an underlying basis, on the back of strong customer additions growth of 5.1% to 16.8 Mn from 16.0 Mn in the corresponding quarter last year. The rollout of the new tariff order also helped Airtel in improving its market share and revenue growth. Effective March 1, 2020 onwards, the company has implemented new guidelines of NCF (Network Carriage Fees) under the new tariff order. Homes business segment continues to remain steady and witnessed a revenue growth of 1.4% YoY. Although on a YoY basis, customer base increased by 4.5 percent, growth was impacted during the quarter on account of closure of several commercial establishments owing to COVID. The company continues to invest in this segment with all new roll-outs fully being on fibre. In order to augment its footprint across the length and breadth of the country; the company continues to capture demand in unwired cities through a LCO partnership model which is now live in 14 cities.

Consolidated EBITDA witnessed an increase of 25.3 percent on YoY basis to Rs. 10,639 crore in Q1FY21. This led to an improvement in EBITDA margin to 44.4 percent. Incremental EBITDA margins across businesses remained healthy, with mobile services clocking an incremental EBITDA margin of 4.9 p.p. YoY on account of retooling many costs.

Consolidated EBIT increased by 107.4 percent on YoY basis to Rs. 3,328 crore. The Consolidated Net Loss before exceptional items for the quarter stands at Rs. 436 crore. The Consolidated Net Loss after exceptional items for the quarter stands at Rs. 15,933 crore.

Net loss (before exceptional items) for Q1'21 at Rs 436 crore, Net loss (after exceptional items) for Q1'21 at Rs 15,933 Crore.

Total Capex spend for the quarter of Rs. 3,975 crore.

The Net Debt-EBITDA ratio (annualized) and including the impact of leases as on June 30, 2020 is at 2.74 times as compared to 3.43 times as on June 30, 2019.

Supreme Court ruling on AGR matter: Pursuant to the judgment of the Hon'ble Supreme Court of India on October 24, 2019 ('Court Judgment') including subsequent supplementary judgments, and in the absence of any potential reliefs, the Group provided for Rs. 368,322 Mn for the periods upto March 31, 2020 on the basis of demands received and the period for which demands have not been received having regard to assessments carried out in earlier years and the guidelines / clarifications in respect of License Fees and Spectrum Usage Charges ('AGR Provision'). The Hon'ble Supreme Court on June 11, 2020 directed the telecom operators to file their proposals, as to the time frame required by them to make the payment and what kind of securities, undertakings and guarantees should be furnished to ensure that the Adjusted Gross Revenue ('AGR') dues are paid.

During Q1FY21 quarter, Airtel and Carlyle entered into an agreement whereby Carlyle will acquire approximately 25% stake in Airtel's Data Centre business at a valuation of US$1.2 billion, subject to customary approvals. All of the above underscore the significant growth potential in an emerging Digital India.

Consequently, without prejudice and on prudence, during the quarter ended June 30, 2020 the Group has further recorded an incremental provision of Rs. 107,444 Mn (including net interest on total provision created considering interest rate as per the affidavit filed by DoT on March 16, 2020 with effect from the date of Court Judgment) to give effect of the differential amount between DoT Demand along with provision for subsequent periods for which demands have not been received computed based the terms of the License Agreement, Court Judgment and the guidelines / clarifications and AGR Provision, which has been presented as exceptional item.

In a statement, Gopal Vittal, MD and CEO, India & South Asia, said:
We are going through an unprecedented crisis caused by COVID. Despite this, our teams have served the country well and kept our custo ers connected. Data traffic growth surged by ~73% YoY even as 4G net additions slowed down to 2 Million caused by supply chain shocks in the device eco system. Revenues grew by 15% Y-o-Y and performance was satisfactory across all segments. Our flagship "War on Waste" program, helped improve EBITDA margin by 1.6% over the previous quarter. To serve our customers even better, we have launched a company-wide program to improve our customer experience. We continue to invest in the best of emerging technologies to make our networks future ready. We have made rapid strides in our digital business, with nearly 155 million monthly active users across Airtel Thanks, Wynk, Xstream and our payments platforms. Today, 60 percent of Airtel's entire business goes through its digital channels. We are most excited about the string of partners we are attracting in order to build greater stickiness and ultimately growth from our digital assets.

We recommend a "BUY" at CMP of Rs. 552 with a target price of Rs. 680. At Rs. 552, the stock trades at EV/EBITDA multiple of 15.6x. No doubt, the stock has rallied significantly in last 4 months. However, the current prevailing situation and outperformance in Q1FY20 will rerate the Company. The robustness in operating performance will command a premium to its existing EV/EBITDA multiple. Our conviction on this Company stems from the fact that the Company's operating performance would be good in coming quarters and will continue to be major beneficiary of digital wave in COVID-19 crisis.

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Buy – Absolute return of 20% and above
Accumulate – Absolute return between 15% and above
Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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For research related queries contact:

Mr. Akash Jain – Vice President (Research) at, 022-67160431 (D)

CIN: L74140MH1986PLC041941

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Website: www.ajcononline.com

Registered and Corporate office
408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062