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Bharti Airtel Ltd is world's leading provider of telecommunication services with presence in 16 countries across Asia and Africa. It had over 444 million customers across its operations at the end of September 2018.

🔗 **Weak India wireless business performance drags overall revenue:** Bharti Airtel reported 6% YoY decline in consolidated revenue in Q2FY19 mainly due to weak India mobile operations which was impacted by continued ARPU down-trading as a result of pricing pressure. Revenue from India mobile operations plunged 16% YoY due to continued ARPU contraction. Overall ARPU plunged 30% YoY to Rs 101 in Q2FY19. Mobile data traffic more than tripled (YoY basis) in Q2FY19. On the voice front, continued rise in penetration of bundled offers resulted in 58.5% YoY growth in minutes traffic in Q2FY19. Among other India businesses, Airtel business registered 19% YoY growth in Q2 while Digital TV segment reported 9% YoY growth in revenue. We expect ARPU to recover to Rs 104 in FY20E considering tariff stabilization in the sector.

🔗 **Africa delivered strong revenue and EBITDA performance:** While Airtel's India operations remained under pressure, its Africa operation continued its improved performance. Africa revenue rose by 9% YoY led by strong growth in data, voice minutes and transaction value of Airtel money. Data traffic volumes rose by 53% YoY while data usage per customer was up 12% YoY in the quarter. Total minutes on the network rose by 36% YoY. The company's overall customer base in Africa rose by 19% YoY driven by healthy data customer addition (up 32% YoY). Gross ARPU stood at US\$ 3.0 in Q2FY19 as against US\$ 3.2 in Q2FY18. Notably, Bharti Airtel has recently announced equity issuance of USD1.25bn in Airtel Africa to reduce debt, which currently stands at ~USD5bn (Rs367bn).

🔗 **Higher opex and weak India wireless performance dragged overall EBITDA margin:** Bharti Airtel disappointed on the margin front with bps decline in EBITDA margin impacted by higher network operating costs (up 11% YoY), increase in marketing expenses and weak India mobile services margin. India wireless margin deteriorated significantly, (down 1350 bps YoY) to 20.9% impacted by higher opex, thus taking the overall India business EBITDA margin to 28.5% (down 930 bps YoY). Conversely Africa business continued its impressive performance with 390bps expansion to 37.1% driven by higher revenue growth and cost control initiatives. Hence, consolidated EBITDA margin contracted by 566 bps YoY to 30.6%. We expect overall EBITDA margin to remain under pressure in FY19E and expect it to recover in FY20E supported by healthy Africa margin and improvement in India wireless business led by tariffs stabilization.

**Outlook and Valuation:**

We believe near-term challenges will persist in India's mobility segment considering Reliance Jio's aggressive push to grab subscriber market share. Though ARPU is expected to remain under pressure in the near term due to downtrading of subscribers, it is expected to recover in the medium to long term considering ongoing consolidation in the sector and industry repair, which will help Airtel drive market share gains. We believe deleveraging of balance sheet with USD1.25bn equity infusion in the Africa business will help company meet rising investment in network. Further, higher data consumption driven by increasing smartphone penetration & investments in up-gradation and expansion of network towers and increase in content consumption will drive next phase of growth for Bharti Airtel. Hence, we recommend 'BUY' rating on the stock with a TP of Rs. 329 based on SOTP methodology.

**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	298
<b>Target (Rs.)</b>	329
<b>Potential Upside</b>	10%
<b>Duration</b>	Long Term
Face Value (Rs.)	5
52 week H/L (Rs.)	547/277
Decline from 52WH (%)	45%
Rise from 52WL (%)	8%
Beta	1.1
Mkt. Cap (Rs.Cr)	119,302

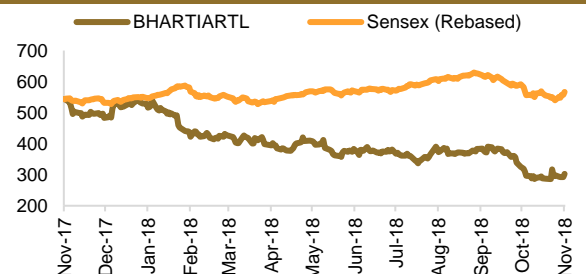
**Fiscal Year Ended**

Y/E	FY17	FY18	FY19E	FY20E
Revenue (Rs.Cr)	95,468	83,688	82,286	87,248
Adj. profit (Rs.Cr)	4,970	1,906	(617)	(2,420)
Adj. EPS (Rs.)	12.4	4.8	-1.5	-6.1
P/E (x)	24.0	62.6	-	-
P/BV (x)	1.8	1.7	1.8	1.9
ROE (%)	7.4	2.8	-0.9	-3.7

**Shareholding Pattern**

	Mar-18	Jun-18	Sep-18
Promoters	67.1	67.1	67.1
FII's	18.5	18.3	18.3
MFs/Insti	12.5	12.6	12.8
Public	0.9	0.9	0.8
Others	1.0	1.1	1.0

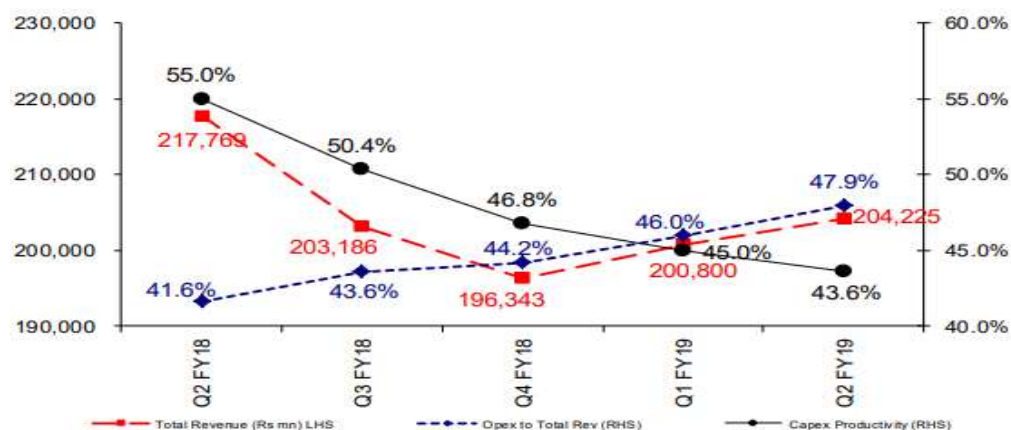
**One year price chart**



## Bharti Airtel Ltd: Business overview

Bharti Airtel Ltd is world's leading provider of telecommunication services with presence in 16 countries across Asia and Africa. It had over 444 million customers across its operations at the end of September 2018. The company's product offerings include 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high speed home broadband, Digital TV (DTH), enterprise services including national & international long-distance services to carriers. Under Homes services, it offer fixed-line telephone and broadband (DSL) services across pan-India while under Direct-To-Home (DTH) platform it offers both standard and high definition (HD) digital TV services with 3D capabilities and Dolby surround sound. It is India's leading and most trusted provider of ICT services with a diverse portfolio of services to enterprises, governments, carriers and small and medium businesses. The company also owns Tower Infrastructure pertaining to telecom operations. It owns and operate more than 39,523 telecom towers under our subsidiary Bharti Infratel Limited (on a standalone basis) with presence across all 22 telecom circles. In Africa, the company is present in 14 countries and offer post-paid, pre-paid, roaming, internet services, content, media & entertainment, and corporate solutions.

### Consolidated performance



Source: Company, In-house research

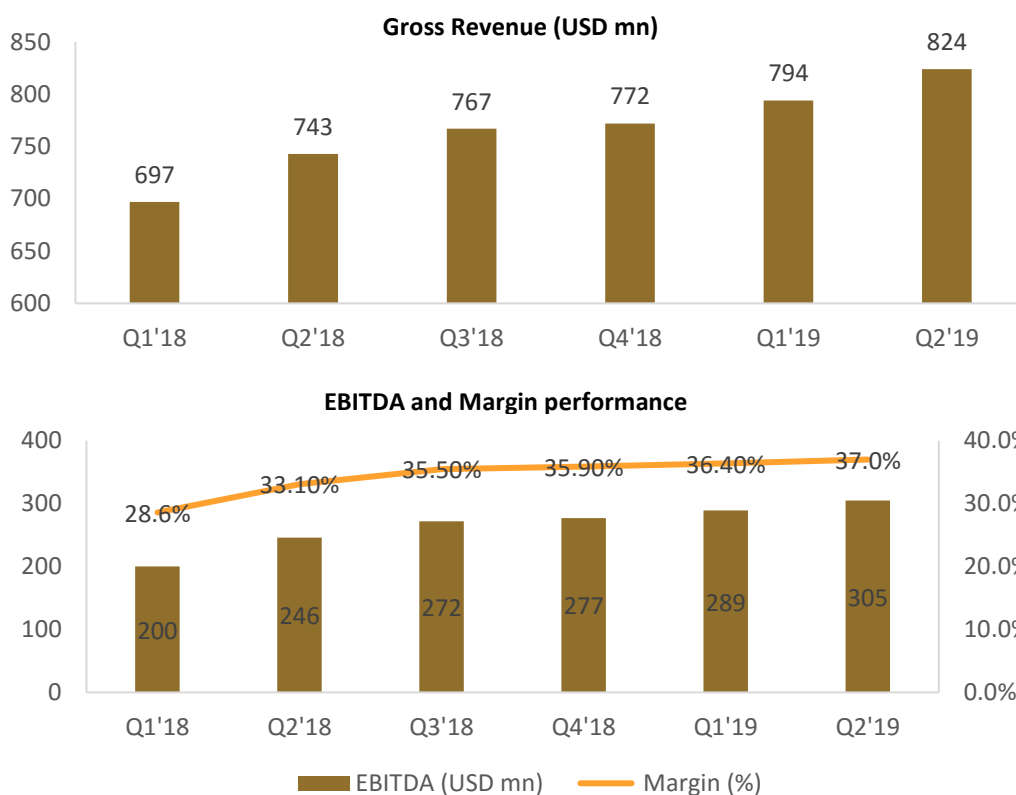
### Weak India wireless business performance drags overall revenue

Bharti Airtel reported 6% YoY decline in consolidated revenue in Q2FY19 mainly due to weak India mobile operations which was impacted by continued ARPU down-trading as a result of pricing pressure. Revenue from India mobile operations plunged 16% YoY due to continued ARPU contraction. Overall ARPU plunged 30% YoY to Rs 101 in Q2FY19. The company's mobile services subscriber base in India fell by 2% QoQ while on a YoY basis it rose by 14%. Overall churn increased to 4.1% in Q2FY19 from 3.9% in Q2FY18. However, customer addition in the data segment remained strong with addition of 31.8 Mn customers on a sequential basis. Mobile data traffic more than tripled (YoY basis) in Q2FY19. Data usage per subscriber more than doubled to 9.2 GB/month. On the voice front, continued rise in penetration of bundled offers resulted in 58.5% YoY growth in minutes traffic in Q2FY19. Similarly, voice minutes on the network rose 1.3% YoY, however, voice usage per subscriber fell 1.1%. Among other India businesses, Airtel business registered 19% YoY growth in Q2 while Digital TV segment reported 9% YoY growth in revenue. The company incurred a capex of Rs 5,886 crore in India mobile segment during the quarter taking H1FY19 capex to Rs 12,821 crore. We expect ARPU to recover to Rs 104 in FY20E considering tariff stabilization in the sector. Further, in-order to restrict ARPU decline the company has launched minimum recharge plan in three circles of Tamil Nadu, UP West and Punjab and is targeting to rollout these across the country.

### Africa delivered strong revenue and EBITDA performance

While Airtel's India operations remained under pressure, its Africa operation continued its improved performance. Africa revenue rose by 9% YoY led by strong growth in data, voice minutes and transaction value of Airtel money. Data traffic volumes rose by 53% YoY while data usage per customer was up 12% YoY in the quarter. Total minutes on the network rose by 36% YoY. The company's overall customer base in Africa rose by 19% YoY driven by healthy data customer addition (up 32% YoY). Importantly, data customers represent 28.8% of the total customer base in Q2FY19 as compared to 26.1% in Q2FY18. On the other hand, Active Airtel Money customer base increased to 12.9 Mn, taking the total transaction value on the platform by 31%. Gross ARPU stood at US\$ 3.0 in Q2FY19 as against US\$ 3.2 in Q2FY18. Notably, Bharti Airtel has recently announced equity issuance of USD1.25bn in Airtel Africa to reduce debt, which currently stands at ~USD5bn (Rs367bn).

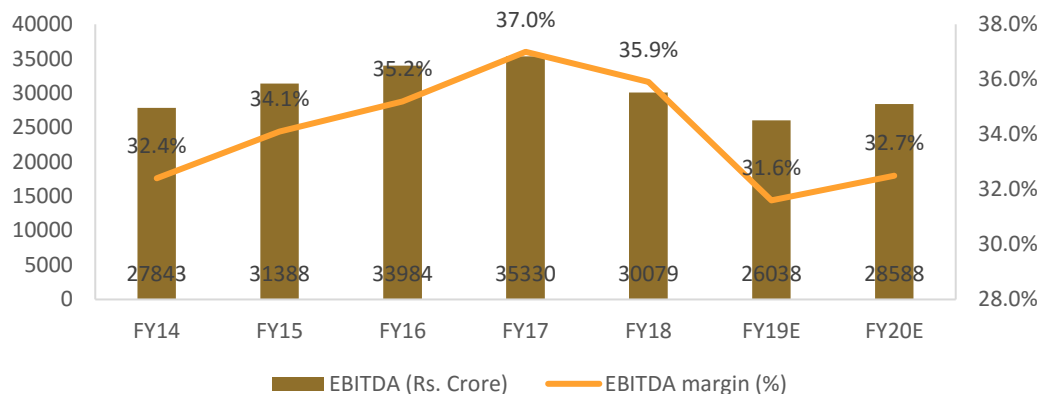
#### Airtel Africa on solid footing



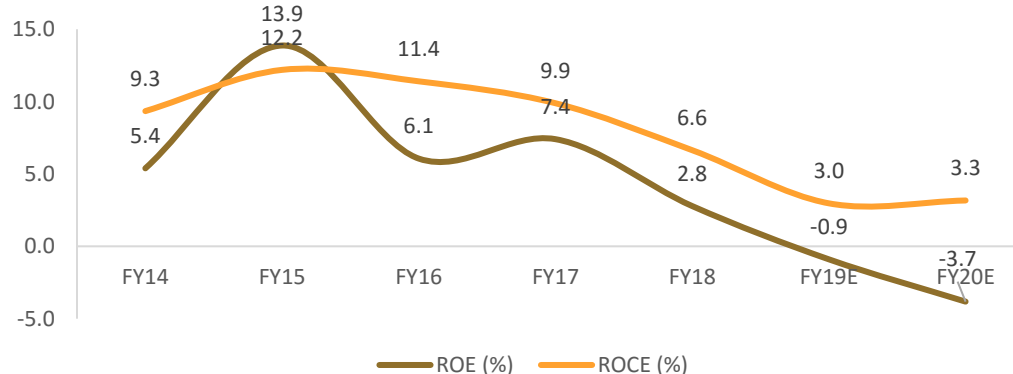
### Higher opex and weak India wireless performance dragged overall EBITDA margin

Bharti Airtel disappointed on the margin front with bps decline in EBITDA margin impacted by higher network operating costs (up 11% YoY), increase in marketing expenses and weak India mobile services margin. India wireless margin deteriorated significantly, (down 1350 bps YoY) to 20.9% impacted by higher opex, thus taking the overall India business EBITDA margin to 28.5% (down 930 bps YoY). Conversely Africa business continued its impressive performance with 390bps expansion to 37.1% driven by higher revenue growth and cost control initiatives. Hence, consolidated EBITDA margin contracted by 566 bps YoY to 30.6%. We expect overall EBITDA margin to remain under pressure in FY19E and expect it to recover in FY20E supported by healthy Africa margin and improvement in India wireless business led by tariffs stabilization. Notably, the company surprised on the bottomline front by registering PAT of Rs118.8 crore as against our expectation of a loss, supported by one-time deferred tax gain of Rs2,633 crore in the quarter.

### EBITDA margin to recover in FY20E



### Return ratios trend



### Outlook and Valuation

We believe near-term challenges will persist in India's mobility segment considering Reliance Jio's aggressive push to grab subscriber market share. Though ARPU is expected to remain under pressure in the near term due to downtrading of subscribers, it is expected to recover in the medium to long term considering ongoing consolidation in the sector and industry repair, which will help Airtel drive market share gains. We believe deleveraging of balance sheet with USD1.25bn equity infusion in the Africa business will help company meet rising investment in network. Further, higher data consumption driven by increasing smartphone penetration & investments in up-gradation and expansion of network towers and increase in content consumption will drive next phase of growth for Bharti Airtel. Hence, we recommend 'BUY' rating on the stock with a TP of Rs. 329 based on SOTP methodology.

### Key Risks

- Increasing competition
- Exchange rate fluctuation
- Interest rate fluctuation

**Profit & Loss Account (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
<b>Total operating Income</b>	<b>95,468</b>	<b>83,688</b>	<b>82,286</b>	<b>87,248</b>
Raw Material cost	-	-	-	-
Employee cost	4,303	3,977	3,910	4,146
Other operating expenses	55,835	49,632	52,337	54,543
<b>EBITDA</b>	<b>35,330</b>	<b>30,079</b>	<b>26,038</b>	<b>28,558</b>
Depreciation	19,773	19,243	21,503	23,449
EBIT	<b>15,557</b>	<b>10,836</b>	<b>4,536</b>	<b>5,109</b>
Interest cost	9,679	9,326	10,174	10,174
Other Income	1,970	1,503	1,202	1,238
<b>Profit before tax</b>	<b>7,848</b>	<b>3,013</b>	<b>(4,436)</b>	<b>(3,826)</b>
Tax	3,482	1,084	(3,948)	(1,531)
<b>Profit after tax</b>	<b>4,366</b>	<b>1,930</b>	<b>(488)</b>	<b>(2,296)</b>
Minority Interests	442	1,085	792	808
P/L from Associates	1,045	1,061	663	683
<b>Adjusted PAT</b>	<b>4,970</b>	<b>1,906</b>	<b>(617)</b>	<b>(2,420)</b>
E/o income / (Expense)	1,170	807	507	-
<b>Reported PAT</b>	<b>3800</b>	<b>1099</b>	<b>(1124)</b>	<b>(2,420)</b>

**Balance Sheet (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	1,999	1,999	1,999	1,999
Reserves and Surplus	65,458	67,536	65,720	62,100
<b>Net worth</b>	<b>67,456</b>	<b>69,534</b>	<b>67,719</b>	<b>64,009</b>
Minority interest	6,875	8,814	9,606	10,413
Total Debt	1,07,428	1,11,334	1,19,334	1,19,334
Other non-current liabilities	4,894	7,991	7,991	7,991
<b>Total Liabilities</b>	<b>1,86,653</b>	<b>1,97,673</b>	<b>2,04,648</b>	<b>2,01,836</b>
Total fixed assets	1,44,427	1,54,393	1,62,934	1,60,485
Capital WIP	10,839	9,751	10,000	10,000
Goodwill	<b>33,808</b>	<b>32,807</b>	<b>32,807</b>	<b>32,807</b>
Investments	14,339	16,159	16,159	16,159
Net Current assets	(26,531)	(25,247)	(27,060)	(27,423)
Deferred Tax assets (Net)	1,683	1,872	1,872	1,872
Other non-current assets	8,089	7,937	7,937	7,937
<b>Total Assets</b>	<b>1,86,653</b>	<b>1,97,673</b>	<b>2,04,648</b>	<b>2,01,836</b>

**Cash Flow Statement (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Pre-tax profit	7,723	3,267	(3,773)	(3,143)
Depreciation	19,773	19,243	21,503	23,449
Chg in Working Capital	2,358	(955)	1,737	1,413
Others	1,584	9,671	8,972	8,936
Tax paid	(2,208)	(1,372)	3,948	1,531
<b>Cash flow from operating activities</b>	<b>29,231</b>	<b>29,854</b>	<b>32,387</b>	<b>32,184</b>
Capital expenditure	(38,851)	(27,292)	(30,292)	(21,000)
Chg in investments	5,859	(3,326)	-	-
Other investing cashflow	1,436	2,650	1,202	1,238
<b>Cash flow from investing activities</b>	<b>(31,555)</b>	<b>(27,968)</b>	<b>(29,089)</b>	<b>(19,762)</b>
Equity raised/(repaid)	125	3	-	-
Debt raised/(repaid)	935	9,629	8,000	-
Dividend paid	(917)	(3,265)	(1,199)	(1,199)
Other financing activities	(494)	(4,447)	(10,174)	(10,174)
<b>Cash flow from financing activities</b>	<b>(351)</b>	<b>1,921</b>	<b>(3,373)</b>	<b>(11,373)</b>
Net chg in cash	<b>(2,676)</b>	<b>3,807</b>	<b>(76)</b>	<b>1,050</b>

**Key Ratios (Consolidated)**

Y/E	FY17	FY18	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	-1.1	-12.3	-1.7	6.0
EBITDA	4.0	-14.9	-13.4	9.7
Net profit	27.3	-61.6	-132.3	292.5
<b>Margin (%)</b>				
EBITDA	37.0	35.9	31.6	32.7
NPM	5.2	2.3	-0.7	-2.8
<b>Return Ratios (%)</b>				
RoE	7.4	2.8	-0.9	-3.7
RoCE	9.9	6.6	3.0	3.3
<b>Per share data (Rs.)</b>				
EPS	12.4	4.8	-1.5	-6.3
DPS	1.0	5.3	2.5	2.5
<b>Valuation(x)</b>				
P/E	24.0	62.6	-	-
EV/EBITDA	6.6	7.7	9.3	8.5
EV/Net Sales	2.4	2.8	2.9	2.8
P/B	1.8	1.7	1.8	1.9
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	0.4	0.3	0.3	0.3
Sales/Total Assets	0.4	0.3	0.3	0.3

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Bharti Airtel Limited is a large-cap company.

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