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Steady performance; Tariff hike - the next monitorable

About the stock: Bharti Airtel (Airtel) is India's second largest telecom operator with ~35.2 crore wireless customers in India and ~15.3 crore subscribers across 14 African countries. It enjoys industry leading ARPU in the wireless business in India

Q4FY24 Performance: India wireless revenues were up 2% QoQ (up 12.9% YoY) at ₹ 22066 crore, with strong subscriber addition of 6.7 mn in Q4. The Average Revenues per User (ARPU) came at ₹ 209, up 0.5% QoQ and ~8% YoY. Muted ARPU growth QoQ was owing to lesser number of days in Q4. It witnessed healthy 4G Net adds of 7.8 mn with 4G data sub base at 252.7 mn. The post-paid subscriber base also saw robust addition of ~751k subscribers at 23.1 mn. Africa Revenues at ₹ 9293.3 crore, were down 9.8% QoQ, due to Naira devaluation. Consolidated EBITDA came in at ₹ 19365 crore, with margins of 51.5%, down 78 bps QoQ as Africa Margins at 46.5% was down 260 bps QoQ. India margins at 53.6%, was down 30 bps QoQ, with wireless margins at 55.1%, flat QoQ.

Investment Rationale:

- Wireless Business on a strong footing:** The wireless business of Airtel is on a strong footing wherein it leads in key metrics such as ARPU (7.8% growth in FY24 vs. ~2% for Jio, driven by upgrades and mix improvement), margins (India margins of 53.8% in FY24, up 168 bps YoY vs. 52.4% for Jio (100 bps improvement) along with cash flow generations.
- Focus on improving ARPU and return ratios ahead:** With considerable 5G coverage expansion done and SIM consolidation led benefits likely to moderate (as Vi has raised funds), we expect the operators to focus on ARPU and RoCE improvement. We have baked in Tariff hike of ~20% in Q2FY25, with pass through to be reflected in next 2-3 quarters, thereafter. Airtel's ARPU is expected to witness ~13% CAGR over FY24-26E to ₹ 261, also aided by some mix improvement. Tariff Hike will also drive India margins improvement of 300 bps from 53.8% in FY24 to 56.8% in FY26.
- Non-wireless business – healthy outlook:** In the Enterprise segment, 10% of portfolio is data centre (growing at 14-15%), 40% domestic business (growing at 18%-20%) benefitting from adjacencies such as IoT, cloud services, CPaaS, security services etc and 50% of global business (lumpy growth). The portfolio mix ensures a healthy Enterprise segment growth ahead. Similarly, Broadband business is likely to witness a push with Fixed Wireless Access deployment across 25 cities.

Rating and Target Price

- Airtel remains in sweet spot to maintain its relative strength among peers in consolidated industry with a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share. We maintain our **BUY** rating and value it at target price of ₹ 1630

Key Financial Summary

(Year-end March)	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR (FY24-26E)
Net Sales (₹ crore)	1,00,616	1,16,539	1,39,145	1,49,982	13.2	1,63,520	1,87,771	11.9
EBITDA (₹ crore)	45,372	57,526	71,274	78,292	25.0	86,100	1,02,477	14.4
Net Profit (₹ crore)	(15,084)	4,247	8,346	7,467		17,302	25,722	
Adj. PAT (₹ crore)	(1,150)	3,528	8,156	11,305	LP	17,302	25,722	50.8
EPS (₹)	(27.6)	7.6	14.7	13.0		28.4	42.2	
P/E (x)	NA	178.0	91.9	104.2		47.6	32.0	
Price / Book (x)	12.5	11.4	9.9	9.5		8.3	6.6	
EV/EBITDA (x)	20.3	16.2	13.8	12.5		10.9	8.7	
RoCE (%)	6.4	9.0	10.3	11.9		13.7	16.9	
RoE (%)	(2.0)	5.3	10.5	13.8		17.4	20.5	

Source: Company, ICICI Direct Research



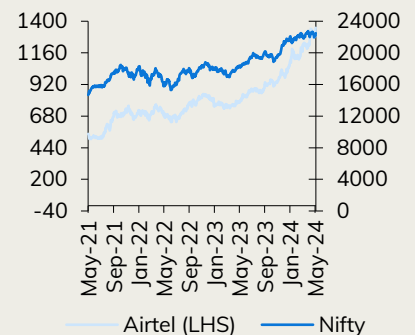
Particulars

Particulars	₹ crore
Market Cap	7,64,180
Total Debt	2,15,592
Cash & Inv	10,985
EV	9,68,787
52 week H/L	1360/ 784
Equity capital	2,877
Face value (₹)	5.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	55.0	54.8	54.6	53.5
DII	19.7	19.8	19.7	19.4
FII	19.7	20.2	21.0	24.4
Other	5.7	5.2	4.8	2.8

Price Chart



Key risks

- Delay in Tariff Hike;
- Increased competitive intensity post Vi revival

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Key performance highlight and outlook

India wireless business – Healthy; Tariff hike likely

The ARPU at ₹ 209, was up 0.5% QoQ, given the lower number of days. Overall sub base saw a strong addition of 6.7 mn QoQ at 352.2 mn. The key highlight of Q4 was healthy 4G Net adds of 7.8 mn during the quarter, with 4G data sub base at 252.7 mn. The post-paid subscriber base also saw robust addition of ~751k subscribers at 23.1 mn. The company reiterated Tariff hike need for marked improvement in RoCEs. **With considerable 5G coverage expansion done and SIM consolidation likely to moderate as Vi has raised funds, we expect all the operators to focus on ARPU and RoCE improvement. We have baked in Tariff hike of ~20% in Q2FY25, with pass through to be reflected in next 2-3 quarters, thereafter. Airtel's ARPU is expected to witness ~13% CAGR over FY24-26E to ₹ 261, also aided by some mix improvement. Tariff Hike will also drive India margins improvement of 300 bps from 53.8% in FY24 to 56.8% in FY26.**

Non-wireless business outlook robust

In the broadband business, Airtel witnessed healthy net customer additions of 331100 during the quarter to ~7.6 mn. The collaboration with local digital cable operator on a partnership model has enabled Airtel to be present in 1290 cities. 43% of customer addition is happening on converged platform. Broadband business is likely to witness a push with Fixed Wireless Access deployment across 25 cities ahead. During the quarter, the company saw a strong growth of 5.1% QoQ, 14.1% YoY, at ₹ 5462 crore in the Enterprise segment, driven by robust domestic business growth. **In the Enterprise segment, 10% of portfolio is data centre (growth 14-15%), 40% domestic business (growth 18%-20%) and 50% of global business (lumpy growth). We note that the company had also reiterated robust opportunity on domestic Enterprise side and adjacent areas like CPaaS, cloud communication, cyber security, IOT etc.**

Business segment highlights and Call Takeaways

Business highlights (India)

- **Overall revenues & EBITDA:** Overall India revenues were at ₹ 28,513 crore, up 2.5% QoQ, 12.6% YoY. Adjusted for the Beetel acquisition, revenue grew 1.7% QoQ. Overall Indian margin was down 30 bps QoQ, up 56 bps YoY at 53.6%. **FY24 India revenues were up 12% YoY at ₹ 109693 crore**
- **Wireless revenues & EBITDA:** India wireless revenues were up 2% QoQ (up 12.9% YoY) at ₹ 22066 crore, with ARPU at ₹ 209, up 0.5 QoQ, sequential growth being lower, given the lower number of days. Overall sub base saw a strong addition of 6.7 mn QoQ at 352.2 mn. India wireless margins were at 55.1% (flat QoQ). **FY24 India Wireless revenues were up 12% YoY at ₹ 85049 crore, with margins of 55%, up 219 bps YoY.**
- **Subscriber base and 4G addition:** Overall sub base saw a strong addition of 6.7 mn QoQ at 352.2 mn. The key highlight of Q4 was healthy 4G Net adds of 7.8 mn during the quarter, with 4G data sub base at 252.7 mn. The post-paid subscriber base also saw robust addition of ~751k subscribers at 23.1 mn
- **Minutes and data usage:** Data usage per sub was up 2.9% QoQ at 22.6 GB per month. Voice usage per customer was up 2.8% QoQ to 1158 minutes. Total minutes on the network were up 4.2% QoQ to 1210 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were up 3.4% QoQ at ₹ 1315 crore, Airtel business (enterprise) revenues were up 5.1% QoQ, 14.1% YoY, at ₹ 5462 crore and DTH reported revenues witnessed a decline of 1.8% QoQ at ₹ 769 crore

Business highlights (Africa)

- Africa revenues reported revenue declined 9.7% QoQ/16.4% YoY to US\$ 1.1bn, affected by the >50% QoQ devaluation in the Nigerian Naira. EBITDA margins were at 46.5% was down 260 bps QoQ. **In rupee terms, Africa revenues were ₹ 9293.3 crore, down 9.8% QoQ**

- Subscriber base was up by 1.6 mn QoQ at 153 mn with ARPU at US\$2.6, up 1.5% QoQ. Data subs base was up by 2.9 mn QoQ at 63 mn while Data usage per subscriber was at 5.5 GB per month, up 5.4% QoQ

Other Highlights

- Consolidated debt and capex:** India capex stood at ₹ 8491 crore (~29% of revenue) in Q4FY24; and ₹ 33353 crore (~29% of revenue) in FY24. B2B segment capex was higher in Q4FY24 owing to a few one-off investments in data centres and sub-sea cable fibre expansion on certain milestones. Consolidated Capex for FY24 was ₹ 39482 crore. The net debt (excl. lease liabilities) at ₹ 1.41 lakh crore was down by ₹1386 crore QoQ, clearly reflecting stable cash flow generation despite elevated capex

Conference Call Highlights

- 5G:** 5G subs base stood at 72mn for Airtel. While, it has already started trial for SA-5G in one circle and is adding another circle, the management reiterated advantage of rolling out NSA-5G from better experience, better coverage at lower opex and power cost. The company now plans to rollout FWA on SA-5G and it has gone live on FWA in 25 cities (gradually moving them to SA-5G). It is planning to accelerate FWA deployment in locations where its fibre reach is insufficient.
- Focus on postpaid:** The company indicated that it has 18mn existing customers on its network (based on credit scores data) wherein it sees potential to upgrade to postpaid services.
- Capex outlook:** The absolute capex is likely to moderate in FY25, Airtel is looking to add 25k sites in FY25 (vs. 43k in FY24). It expects lower wireless radio investment but will continue to invest in transport network. It would also maintain investing in the Home Services and Enterprise businesses, given the opportunities.
- The company indicated that it is still some time away from framing a firm dividend policy. It, however, reiterated that it plans to use capital for deleveraging and raise its dividend payout.

Bharti Airtel continues to report resilient numbers, especially on the Indian wireless business front. Airtel remains in sweet spot to maintain its relative strength among peers in consolidated industry with a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share. Imminent Tariff hike will boost ARPU and margins, ahead. We remain constructive on Airtel and maintain our BUY rating on the stock with an SOTP based target price of ₹ 1630/share.

Exhibit 1: Valuation Table

	Q4FY24	Q3FY23	Q3FY24	YoY (%)	QoQ (%)
Revenue	37,599	35,804.4	37,899.5	5.0	-0.8
Employee Expenses	1,363.9	1,235.3	1,323.0	10.4	3.1
Marketing Expenses	4,311.0	4,010.2	4,291.8	7.5	0.4
Access Charges	1,850.1	1,935.2	1,856.8	-4.4	-0.4
Network Operating	7,598.6	7,328.4	7,592.6	3.7	0.1
License Fee	3,110.7	2,842.1	3,020.5	9.5	3.0
EBITDA	19,364.8	18,453.2	19,814.8	4.9	-2.3
EBITDA Margin (%)	51.5	51.5	52.3	-4 bps	-78 bps
Depreciation	10,075.2	9,297.7	10,074.3	8.4	0.0
Interest	5,203.3	4,685.6	6,644.9	11.0	-21.7
Exceptional Items	2,455.5	669.8	130.2	266.6	1,785.9
Total Tax	709.8	1,075.6	1,232.0	-34.0	-42.4
PAT	2,071.6	1,588.2	2,442.2	30.4	-15.2
Adjusted PAT	2,951.8	2,258.0	2,491.6	30.7	18.5
Subscribers (Mn)	352.3	332.2	345.6	6.0	1.9
ARPU	208.9	193.4	208	8.0	0.5

Source: Company, ICICI Direct Research

Exhibit 2: Key Metric and Assumption

Assumptions	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India									
Wireless Subs (Mn)	304.2	282.6	283.7	321.4	326.0	335.4	352.3	366.6	381.4
ARPU	132	113	135	154	160	189	204	228	261
Total Minutes (Bn)	1,946	2,811	3,035	3,603	4,104	4,348	4,667	4,979	5,213
MOU (mins)	561	798	893	992	1,056	1,096	1,131	1,154	1,162
Africa									
Subscriber base	89.3	98.9	110.6	118.2	128.4	140.0	152.7	162.1	172.0
ARPU (\$)	3.1	2.9	2.6	2.9	3.2	2.3	2.6	2.6	2.6
Total Minutes	162.0	207.3	250.1	322.9	378.7	439.1	504.4	553.2	606.1
MoU	159	184	199	235	256	273	287	293	302

Source: Company, ICICI Direct Research

Exhibit 3: Segmental Breakup of Revenues and EBITDA

Revenues - ₹ crore	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India	71,111	75,366	85,469	1,01,510	1,13,885	1,31,152	1,54,140
Mobility	45,966	55,568	63,205	75,925	85,049	98,945	1,17,993
Broadband	2,245	2,334	3,039	4,047	4,970	5,775	6,887
Enterprise	13,233	14,408	16,070	18,593	20,821	23,306	26,104
Passive Infrastructure	6,742						
DTH+ Others	2,924	3,056	3,154	2,945	3,045	3,125	3,156
Africa	24,217	28,863	35,061	42,266	41,184	38,172	40,515
South Asia	455	425	387	294	377	360	360
Total Gross Revenue	95,783	1,04,654	1,20,917	1,44,071	1,55,446	1,69,684	1,95,015
Intersegmental Elimination	-8,244	-4,038	-4,370	-4,926	-5,464	-6,164	-7,245
Net Revenue	87,539	1,00,616	1,16,539	1,39,145	1,49,982	1,63,520	1,87,771
EBITDA ₹ crore	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
India & South Asia	26,376	32,841	40,912	50,991	58,485	69,529	84,246
Africa	10,726	13,298	17,207	20,728	20,102	17,602	18,998
Gross EBITDA	37,102	46,139	58,119	71,719	78,587	87,131	1,03,245
Intersegmental Elimination	620	767	593	446	295	1031	768
Reported EBITDA	36482	45372	57526	71274	78292	86100	102477

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Total operating income	1,39,145	1,49,982	1,63,520	1,87,771	
Growth (%)	19.4	7.8	9.0	14.8	
Employee Expenses	4,831	5,323	5,409	5,891	
Marketing Expenses	15,125	16,794	17,121	18,944	
Access Charges	7,621	7,519	8,224	8,999	
Network Operating	28,543	30,019	33,090	35,747	
License Fee	11,752	12,036	13,576	15,713	
Total Operating Exp	67,871	71,691	77,420	85,294	
EBITDA	71,274	78,292	86,100	1,02,477	
Growth (%)	23.9	9.8	10.0	19.0	
Depreciation	36,432	39,538	41,698	46,943	
Interest	19,300	22,648	19,942	18,188	
Other Income	937	1,435	1,400	1,400	
Exceptional Items	670	7,572	0	0	
PBT	15,809	9,970	25,860	38,746	
MI / Profit from associates	3,189	-1,618	800	1,400	
Total Tax	4,273	4,121	7,758	11,624	
PAT	8,346	7,467	17,302	25,722	
Growth (%)	96.5	-10.5	131.7	48.7	
EPS (₹)	14.7	13.0	30.1	44.7	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Profit after Tax	8,346	7,467	17,302	25,722	
Add: Depreciation	36,432	39,538	41,698	46,943	
Add: Interest Paid	19,300	22,648	19,942	18,188	
(Inc)/dec in Current Assets	-1,706	-2,289	-3,761	-6,737	
Inc/(dec) in CL and Prov	11,402	9,624	9,969	17,490	
Others	0	0	0	0	
CF from op activities	73,774	76,987	85,150	1,01,606	
(Inc)/dec in Investments	-4,013	1,191	-5,000	-25,000	
(Inc)/dec in Fixed Assets	-90,852	-38,908	-30,000	-30,000	
Others	-18,689	-262	-500	-3,300	
CF from inv activities	-1,13,555	-37,979	-35,500	-58,300	
Issue/(Buy back) of Equity	42	40	171	0	
Inc/(dec) in loan funds	56,342	-10,428	-20,000	-20,000	
Interest Paid	-19,300	-22,648	-19,942	-18,188	
Others	2,913	-3,051	-10	-10	
CF from fin activities	39,997	-36,087	-39,782	-38,198	
Net Cash flow	216	2,921	9,868	5,108	
Opening Cash	13,494	13,419	16,340	26,208	
Closing Cash	13,419	16,340	26,208	31,316	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY23	FY24	FY25E	FY26E	
Liabilities					
Equity Capital	2,837	2,877	3,047	3,047	
Reserve and Surplus	74,726	79,142	96,434	1,22,146	
Total Shareholders funds	77,563	82,019	99,481	1,25,193	
Total Debt	2,26,020	2,15,592	1,95,592	1,75,592	
Deferred Tax Liability	2,076	2,512	2,512	2,512	
Others	42,632	36,443	35,943	32,643	
Total Liabilities	3,48,292	3,36,566	3,33,528	3,35,940	
Assets					
Net Block	1,88,973	2,20,865	2,09,167	1,92,224	
CWIP	49,425	16,904	16,904	16,904	
Goodwill	33,774	26,502	26,502	26,502	
Right of Use	54,647	55,937	55,937	55,937	
Investments	35,636	34,445	39,445	64,445	
Debtors	3,982	4,728	5,154	5,919	
Loans and Advances	13,182	11,868	12,939	14,858	
Other Current Assets	22,215	25,071	27,334	31,388	
Cash	13,419	16,340	26,208	31,316	
Total Current Assets	52,797	58,007	71,636	83,481	
Creditors	32,895	35,133	38,528	44,242	
Other Current Liabilities	65,447	72,833	79,407	91,183	
Total Current Liabilities	98,342	1,07,965	1,17,935	1,35,425	
Net Current Assets	-45,545	-49,959	-46,299	-51,944	
Others Assets	31,382	31,872	31,872	31,872	
Application of Funds	3,48,292	3,36,566	3,33,528	3,35,940	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	14.7	13.0	28.4	42.2
Cash EPS	78.9	81.7	96.8	119.2
BV	136.7	142.6	163.2	205.4
DPS	4.0	8.0	10.0	10.0
Cash Per Share	23.7	28.4	43.0	51.4
Operating Ratios				
EBITDA Margin (%)	51.2	52.2	52.7	54.6
EBIT Margin (%)	25.0	25.8	27.2	29.6
PAT Margin (%)	5.9	7.5	10.6	13.7
Inventory days	0.0	0.0	0.0	0.0
Debtor days	10.4	11.5	11.5	11.5
Creditor days	86.3	85.5	86.0	86.0
Return Ratios (%)				
RoE	10.5	13.8	17.4	20.5
RoCE	10.3	11.9	13.7	16.9
RoIC	21.6	20.5	26.0	38.8
Valuation Ratios (x)				
P/E	91.9	104.2	47.6	32.0
EV / EBITDA	13.8	12.5	10.9	8.7
EV / Net Sales	7.1	6.5	5.8	4.7
Market Cap / Sales	5.6	5.2	4.8	4.1
Price to Book Value	9.9	9.5	8.3	6.6
Solvency Ratios				
Debt/EBITDA	3.2	2.8	2.3	1.7
Debt / Equity	2.9	2.6	2.0	1.4
Current Ratio	0.4	0.4	0.4	0.4
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

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