

November 6, 2024

Tariff hike flow through boosts Q2...

About the stock: Bharti Airtel (Airtel) is India's second largest telecom operator with ~35.2 crore wireless customers in India and ~15.7 crore subscribers across 14 African countries. It enjoys industry leading ARPU in the wireless business in India

Q2FY25 Performance: Revenues at ₹ 41473 crore, was up 7.7% QoQ and 12% YoY. India wireless revenues were up 10.3% QoQ (up 18.5% YoY) at ₹ 24837 crore, driven by strong growth in Average Revenues per User (ARPU), which came at ₹ 233, up 10.3% QoQ and ~14% YoY. While overall subscriber base saw a decline of 2.9 mn to 351.6 mn due to tariff hike led SIM consolidation, it witnessed healthy 4G Net adds of 4.2 mn in Q2, with 4G data sub base at 263.6 mn. The post-paid subscriber base also saw addition of ~768k subscribers at 24.7 mn. Africa Revenues at ₹ 10163 crore, were up 5.5% QoQ. Consolidated EBITDA was at ₹ 21846 crore, with margins of 52.7%, up 150 bps QoQ, driven by India wireless margins at 57.1%, up 145 bps QoQ, while Africa Margins at 46.4% was up 124 bps QoQ.

Investment Rationale:

- Wireless Business on a strong footing:** The wireless business of Airtel is on a strong footing and clearly showed superior tariff hike flow through. It continued to lead in key metrics such as a) ARPU (10.3% growth vs. ~7.4% for Jio), and b) margins (Wireless margins of 57.1%, up 145 bps QoQ vs. 53.1% for Jio (49 bps improvement QoQ) along with strong cash flow generations (FCF generation of ₹ 7033 crore in Q2).
- Healthy ARPU growth and margin expansion ahead:** Airtel's ARPU is expected to witness ~12% CAGR over FY24-27E to ₹ 285, as we bake in another 10% tariff hike in H2FY26 alongwith mix led improvement. We also highlight that stepped-up tariff will also drive India margins improvement of 300 bps from 53.8% in FY24 to 56.8% in FY27.
- Non-wireless business – Broadband and Enterprise adjacencies to drive growth:** There is a significant runway for growth ahead in the Homes Broadband business as Airtel expects the overall connected homes in India, over the medium term, to double to ~80 mn vs. current levels of 42 mn. In the Enterprise segment, the company has reiterated robust opportunity on domestic Enterprise segment and adjacent areas alongwith Data Centre, while it expects global growth to be lumpy.

Rating and Target Price

- Airtel continues to maintain its relative strength among peers in a consolidated industry. With a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share, the industry leading ARPU, wireless margins and cash flows are reflective of the same. We maintain our **BUY** rating with a revised target price of ₹ 1900



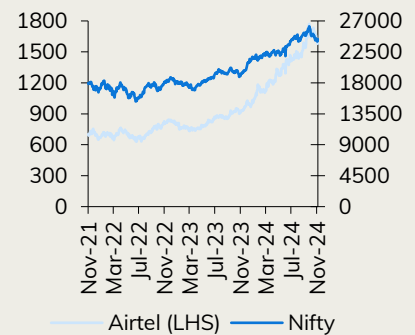
Particulars

Particulars	₹ crore
Market Cap	9,48,002
Total Debt - FY24	2,15,592
Cash & Inv - FY24	10,985
EV	11,52,609
52 week H/L	1779/ 929
Equity capital	2,992
Face value (₹)	5.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	54.6	53.5	54.6	53.5
DII	19.7	19.4	19.3	18.8
FII	21.0	24.4	24.6	25.1
Other	4.8	2.8	1.5	2.6

Price Chart



Key risks

- Any Market share loss in wireless business
- Increased competitive intensity

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Key Financial Summary

(Year-end March)	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY24-27E)
Net Sales (₹ crore)	1,39,145	1,49,982	13.2	1,66,718	1,87,252	2,10,112	11.9
EBITDA (₹ crore)	71,274	78,292	25.0	88,620	1,02,226	1,16,879	14.3
Net Profit (₹ crore)	8,346	7,467		16,888	23,287	31,173	
Adj. PAT (₹ crore)	8,156	11,305	LP	17,006	23,287	31,173	40.2
EPS (₹)	14.7	13.0		28.2	38.3	51.2	
P/E (x)	107.9	121.9		56.2	41.5	31.0	
Price / Book (x)	11.6	11.1		9.3	7.7	6.2	
EV/EBITDA (x)	16.2	14.7		12.6	10.4	8.6	
RoCE (%)	10.3	11.9		13.2	15.8	18.4	
RoE (%)	10.5	13.8		16.7	18.6	19.9	

Source: Company, ICICI Direct Research

Key performance highlight and outlook

India wireless business – Healthy Tariff hike flow through

We highlight that ARPU at ₹ 233, up 10.3% QoQ and ~14% YoY, much higher than Jio which had 7.4% QoQ ARPU growth, clearly showing a healthy tariff hike flow through. Overall sub base saw a decline of 2.9 mn during the quarter to 351.6 mn due to tariff hike led SIM consolidation, albeit much lower than Jio which witnessed. The key highlight of the quarter was healthy 4G Net adds of 4.2 mn during the quarter, with 4G data sub base at 263.6 mn. The post-paid subscriber base also saw robust addition of ~768k subscribers at 24.7 mn. **Airtel's ARPU is expected to witness ~12% CAGR over FY24-27E to ₹ 285, as we bake in another 10% tariff hike in H2FY26 alongwith continued mix led improvement. We also highlight that stepped-up tariff will also drive India margins improvement of 300 bps from 53.8% in FY24 to 56.8% in FY27.**

Leadership Transition – part of structured succession process

The company announced that **as per part of structured succession process, Shashwat Sharma, currently Chief Operation Officer, will be appointed MD & CEO of Bharti Airtel Ltd on January 1, 2026.** In preparation for this role, he has been appointed CEO designate of the Company. As the CEO designate, Shashwat will be responsible for the entire end-to-end consumer business. Meanwhile, current MD and CEO Gopal Vittal, has been appointed Vice Chairman of Bharti Airtel Ltd, wherein he will take on broader telecom responsibilities across the group. He will be appointed to the Board of Airtel Africa Plc as the Bharti nominee director to provide strategic guidance. In addition, he will be responsible for driving group synergies in select areas such as Network strategy, digital & technology, procurement and talent. Gopal will be responsible for mentoring and grooming Shashwat to take over as MD & CEO.

Non-wireless business –Broadband addition strong driven by FWA; Enterprise growth remain moderate

In the broadband business, Airtel witnessed healthy net customer additions of 583000 during the quarter to ~8.6 mn. The collaboration with local digital cable operator on a partnership model has enabled Airtel to be present in 1345 cities. **The management indicated that there is significant runway for growth ahead in the Homes Broadband, as it expects the overall connected homes in India, over the medium term, to double to 80 mn vs. current levels of 42 mn.** During the quarter, the company saw a growth of 3.3% QoQ, 10.7% YoY, at ₹ 5656 crore in the Enterprise segment, driven by domestic business growth, while there were macro headwinds in the global segment. **In the Enterprise segment, ~10% of portfolio is data centre, ~40% domestic business and 50% of global business. We note that the company has reiterated robust opportunity on domestic Enterprise side and adjacent areas alongwith Data Centre, while it expects global growth to be lumpy.**

Business segment highlights and Call Takeaways

Business highlights (India)

- **Overall revenues & EBITDA:** Overall India revenues were at ₹ 31,561 crore, up 8.7% QoQ, 16.9% YoY. Overall Indian margin was up 109 bps QoQ, 86 bps YoY at 54.8%.
- **Wireless revenues & EBITDA:** India wireless revenues were up 10.3% QoQ (up 18.5% YoY) at ₹ 24,837 crore, driven by strong growth in Average Revenues per User (ARPU), which came at ₹ 233, up 10.3% QoQ and ~14% YoY, with flow through of tariff hike undertaken in July, 2024.
- **Subscriber base and 4G addition:** Overall sub base saw a decline of 2.9 mn during the quarter to 351.6 mn due to tariff hike led SIM consolidation, albeit much lower than Jio which witnessed. Churn rate for Bharti was up 40bp QoQ at 3.2% (vs 2.8% in Q1FY25). The key highlight of the quarter was healthy 4G Net adds of 4.2 mn during the quarter, with 4G data sub

base at 263.6 mn. The post-paid subscriber base also saw robust addition of ~768k subscribers at 24.7 mn

- **Minutes and data usage:** Data usage per sub was up 0.7% QoQ at 23.9 GB per month. Voice usage per customer was up 0.6% QoQ to 1135 minutes. Total minutes on the network were up 0.4% QoQ to 1200 billion (bn) minutes
- **Non-wireless:** On the India non-wireless front, homes services (broadband) revenues were up 4.8% QoQ at ₹ 1432 crore, Airtel business (enterprise) revenues were up 3.3% QoQ, 10.7% YoY, at ₹ 5656 crore and DTH reported revenues witnessed a decline of 2.4% QoQ at ₹ 759 crore

Business highlights (Africa)

- Africa reported revenues were up 5% QoQ/ down 2.6% YoY at USD 1.2bn, YoY decline was owing to devaluation in Nigerian naira. EBITDA Margins at 46.4% was up 124 bps QoQ. **In rupee terms**, Africa Revenues at ₹ 10163 crore, were up 5.5% QoQ.
- Subscriber base was up by 1.2 mn QoQ at 157 mn. Data subs base was up by 1.6 mn QoQ at 66 mn while Data usage per subscriber was at 7.1GB per month, up 15.8% QoQ

Other Highlights

- **Consolidated debt and capex: Overall Capex was at ₹ 7675 crore vs. ₹ 8007 crore in Q1.** India capex stood at ₹ 6260 crore (~19.8% of revenue) vs. ₹ 6781 crore (23.3% of revenues) in Q1. The net debt (excl. lease liabilities) at ₹ 1.41 lakh crore was up by ₹5912 crore QoQ, mainly owing to spectrum auction (₹ 6857 crore) and Dividend payout (₹ 5440 crore).

Conference Call Highlights

- **5G and Broadband:** 5G subs base stood at 105 mn for Airtel vs. 90 mn in Q1. It is planning to accelerate the company will expand Home Broadband through FTTH and FWA offerings. However, it indicated that it will prioritize fiberisation of FWA connections based on demand. FWA deployment in locations, will largely remain where its fibre reach is insufficient. The company also indicated that cost of Customer Premise Equipment (CPE) has come down, so cost per connected home is similar in FWA and Fibre (excluding cost of spectrum).
- **ARPU Drivers:** Apart from Tariff hike flow through, the company alluded the ARPU growth drivers as a) Improving mix of post-paid subs rising by 14.9% YoY to 24.7mn; b) continued addition of 4G subs through upgradation from 2G to 4G; and c) data monetisation. The management reiterated its stance to attain ₹ 300+ ARPU, to generate reasonable RoCEs in the medium term
- **Focus on postpaid:** The company indicated that it has 80 mn existing customers on its network wherein it sees potential to upgrade to postpaid services.
- **Capex outlook:** The management indicated that absolute capex is likely to moderate in FY25. It expects lower wireless radio investment but will continue to invest in transport network. Airtel is looking to add 25k sites in FY25 (vs. 43k in FY24) in the rural areas, which is largely on track barring 3-4 circles.

Bharti Airtel continues to maintain its relative strength among peers in a consolidated industry. With a formidable digital ecosystem offering and overall efforts through premiumisation and higher wallet share, the industry leading ARPU, wireless margins and cash flows are reflective of the same. Tariff hike flow through will boost ARPU and margins, ahead. We remain constructive on Airtel and maintain our BUY rating on the stock with revised SOTP based target price of ₹ 1900/share.

Exhibit 1: Variance Table

	Q2FY25	Q2FY24	Q1FY25	YoY (%)	QoQ (%)
Revenue	41,473	37,043.8	38,506.4	12.0	7.7
Employee Expenses	1,496.6	1,379.0	1,372.8	8.5	9.0
Marketing Expenses	4,832.1	3,948.4	4,600.6	22.4	5.0
Access Charges	1,821.1	1,814.4	1,908.4	0.4	-4.6
Network Operating	8,011.5	7,424.0	7,760.6	7.9	3.2
License Fee	3,465.8	2,964.3	3,156.4	16.9	9.8
EBITDA	21,846.2	19,513.7	19,707.6	12.0	10.9
EBITDA Margin (%)	52.7	52.7	51.2	0 bps	150 bps
Depreciation	11,000.0	9,734.3	10,540.1	13.0	4.4
Interest	5,423.7	5,185.8	5,152.4	4.6	5.3
Exceptional Items	853.7	1,570.3	-735.0	-45.6	-216.1
Total Tax	1,744.0	1,846.5	1,307.8	-5.6	33.4
PAT	3,593.2	1,340.7	4,159.9	168.0	-13.6
Adjusted PAT	3,911.0	2,959.8	2,925.1	32.1	33.7
Subscribers (Mn)	351.6	342.3	354.5	2.7	-0.8
ARPU	233.0	202.8	211	14.9	10.6

Source: Company, ICICI Direct Research

Exhibit 2: Key Metric and Assumption

	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
India							
Wireless Subs (Mn)	321.4	326.0	335.4	352.3	358.7	373.3	388.4
ARPU	154	160	189	204	235	261	285
Total Minutes (Bn)	3,603	4,104	4,348	4,667	4,849	5,069	5,275
MOU (mins)	992	1,056	1,096	1,131	1,137	1,154	1,154
Africa							
Subscriber base	118.2	128.4	140.0	152.7	161.4	171.3	181.8
ARPU (\$)	2.9	3.2	2.3	2.6	2.3	2.3	2.3
Total Minutes	322.9	378.7	439.1	504.4	565.4	624.4	684.2
MoU	235	256	273	287	300	313	323

Source: Company, ICICI Direct Research

Exhibit 3: Segmental Breakup of Revenues and EBITDA

Revenues - ₹ crore	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
India	75,366	85,469	1,01,510	1,13,885	1,31,785	1,49,777	1,70,240
Mobility	55,568	63,205	75,925	85,049	1,00,132	1,14,469	1,30,383
Broadband	2,334	3,039	4,047	4,970	5,837	6,940	8,276
Enterprise	14,408	16,070	18,593	20,821	22,785	25,355	28,537
Passive Infrastructure							
DTH+ Others	3,056	3,154	2,945	3,045	3,031	3,014	3,044
Africa	28,863	35,061	42,266	41,184	40,482	43,766	46,852
South Asia	425	387	294	377	94	0	0
Total Gross Revenue	1,04,654	1,20,917	1,44,071	1,55,446	1,72,361	1,93,543	2,17,092
Intersegmental Elimination	-4,038	-4,370	-4,926	-5,464	-5,643	-6,291	-6,980
Net Revenue	1,00,616	1,16,539	1,39,145	1,49,982	1,66,718	1,87,252	2,10,112
EBITDA ₹ crore	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
India & South Asia	32,841	40,912	50,991	58,944	71,702	83,839	96,612
Africa	13,298	17,207	20,728	20,102	18,734	20,717	22,285
Gross EBITDA	46,139	58,119	71,719	79,046	90,436	1,04,556	1,18,897
Intersegmental Elimination	767	593	446	754	1816	2330	2018
Reported EBITDA	45372	57526	71274	78292	88620	102226	116879
Margins	45.1%	49.4%	51.2%	52.2%	53.2%	54.6%	55.6%

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Total operating income	1,49,982	1,66,718	1,87,252	2,10,112
Growth (%)	7.8	11.2	12.3	12.2
Employee Expenses	5,323	5,987	6,668	7,419
Marketing Expenses	16,794	18,499	19,288	20,962
Access Charges	7,519	7,637	8,459	9,272
Network Operating	30,019	32,293	35,347	38,385
License Fee	12,036	13,682	15,264	17,194
Total Operating Expenditure	71,691	78,098	85,027	93,233
EBITDA	78,292	88,620	1,02,226	1,16,879
Growth (%)	9.8	13.2	15.4	14.3
Depreciation	39,538	44,180	48,686	53,368
Interest	22,648	21,511	19,559	17,208
Other Income	1,435	1,118	1,000	1,120
Exceptional Items	7,572	119	0	0
PBT	9,970	23,929	34,981	47,423
MI / Profit from associates	-1,618	-768	-200	600
Total Tax	4,121	7,809	11,894	15,649
PAT	7,467	16,888	23,287	31,173
Growth (%)	-10.5	126.2	37.9	33.9
EPS (₹)	13.0	29.2	40.2	53.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	7,467	16,888	23,287	31,173
Add: Depreciation	39,538	44,180	48,686	53,368
Add: Interest Paid	22,648	21,511	19,559	17,208
(Inc)/dec in Current Assets	-2,289	-3,256	-4,046	-4,393
Inc/(dec) in CL and Prov	9,624	12,276	14,810	16,487
Others	0	0	0	0
CF from op activities	76,987	91,599	1,02,296	1,13,843
(Inc)/dec in Investments	1,191	-5,000	-25,000	-25,000
(Inc)/dec in Fixed Assets	-38,908	-36,000	-30,000	-30,000
Others	-262	-1,882	-3,700	-3,700
CF from inv activities	-37,979	-42,882	-58,700	-58,700
Issue/(Buy back) of Equity	40	116	50	0
Inc/(dec) in loan funds	-10,428	-10,000	-20,000	-20,000
Dividend paid & dividend tax	0	0	0	0
Interest Paid	-22,648	-21,511	-19,559	-17,208
Others	0	0	0	0
CF from fin activities	-33,036	-31,395	-39,509	-37,208
Net Cash flow	5,972	17,322	4,087	17,935
Opening Cash	13,419	19,391	36,713	40,800
Closing Cash	16,340	36,713	40,800	58,735

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	2,877	2,992	3,043	3,043
Reserve and Surplus	79,142	99,081	1,22,368	1,53,542
Total Shareholders funds	82,019	1,02,073	1,25,411	1,56,584
Total Debt	2,15,592	2,05,592	1,85,592	1,65,592
Deferred Tax Liability	2,512	2,512	2,512	2,512
Others	36,443	34,561	30,861	27,161
Total Liabilities	3,36,566	3,44,738	3,44,376	3,51,849
Assets				
Net Block	2,20,865	2,12,684	1,93,999	1,70,630
CWIP	16,904	16,904	16,904	16,904
Goodwill	26,502	26,502	26,502	26,502
Right of Use	55,937	55,937	55,937	55,937
Investments	34,445	39,445	64,445	89,445
Debtors	4,728	5,255	5,903	6,623
Loans and Advances	11,868	13,192	14,817	16,626
Other Current Assets	25,071	26,475	28,249	30,113
Cash	16,340	36,713	40,800	58,735
Total Current Assets	58,007	81,636	89,769	1,12,097
Creditors	35,133	39,282	44,120	49,506
Other Current Liabilities	72,833	80,960	90,931	1,02,032
Total Current Liabilities	1,07,965	1,20,241	1,35,051	1,51,538
Net Current Assets	-49,959	-38,606	-45,282	-39,441
Others Assets	31,872	31,872	31,872	31,872
Application of Funds	3,36,566	3,44,738	3,44,376	3,51,849

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	13.0	28.2	38.3	51.2
Cash EPS	82.0	102.0	118.3	138.9
BV	143.0	170.6	206.1	257.3
Cash Per Share	28.5	61.3	67.0	96.5
Operating Ratios				
EBITDA Margin (%)	52.2	53.2	54.6	55.6
EBIT Margin (%)	25.8	26.7	28.6	30.2
PAT Margin (%)	7.5	10.2	12.4	14.8
Inventory days	0.0	0.0	0.0	0.0
Debtor days	11.5	11.5	11.5	11.5
Creditor days	85.5	86.0	86.0	86.0
Return Ratios (%)				
RoE	13.8	16.7	18.6	19.9
RoCE	11.9	13.2	15.8	18.4
RoIC	20.5	25.9	37.7	59.6
Valuation Ratios (x)				
P/E	121.9	56.2	41.5	31.0
EV / EBITDA	14.7	12.6	10.4	8.6
EV / Net Sales	7.7	6.7	5.7	4.8
Market Cap / Sales	6.3	5.7	5.1	4.5
Price to Book Value	11.1	9.3	7.7	6.2
Solvency Ratios				
Debt/EBITDA	2.8	2.3	1.8	1.4
Debt / Equity	2.6	2.0	1.5	1.1
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%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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