

BSE SENSEX 38,961 S&P CNX 11,672

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Stock Info

Bloomberg	BHARTI IN
Equity Shares (m)	5,131
M.Cap.(INRb)/(USDb)	1762.5 / 25.2
52-Week Range (INR)	366 / 254
1, 6, 12 Rel. Per (%)	2/9/-10
12M Avg Val (INR M)	2310
Free float (%)	32.9

Financials Snapshot (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	807.8	839.0	920.8
EBITDA	258.2	265.1	308.5
NP	-35.0	-27.7	-11.5
EPS (INR)	-8.8	-5.4	-2.2
EPS Gr. (%)	NM	NM	NM
BV/Sh. (INR)	178.7	182.5	180.3
RoE (%)	-5.0	-3.4	-1.2
RoCE (%)	-2.5	1.8	3.1
P/E (x)	NM	NM	NM
P/BV (x)	1.9	1.9	1.9
EV/EBITDA (x)	9.6	10.2	8.7

Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	67.1	67.1	67.1
DII	13.3	13.9	12.4
FII	17.6	17.2	18.5
Others	2.0	1.8	2.0

FII Includes depository receipts

CMP: INR344 TP: INR400 (+16%)

Buy

Bharti announces Africa IPO price band

Surprisingly at steep discount to pre-IPO value

- Bharti Airtel (BHARTI) has set a price band of USD1.0-1.3 (GBP0.8-1.0) for its Africa business IPO. This will lead to post issue equity dilution of 16-19%, leaving BHARTI's stake at 55-57%.
- The announced price band comes as a surprise, given that it is at 15-32% discount to the pre-IPO price at an equity/enterprise value of USD4.7b/USD7.9b at the higher end of the range.
- At the FY21 EBITDA estimate of USD1.6b (10% CAGR over FY19-21), the IPO is priced at EV/EBITDA of 4.4x/4.8x at the lower/higher end of the band, much lower than our estimate of 7x.

Contours of Africa IPO

BHARTI has announced the price range of its Africa business IPO at USD1.0-1.3 (GBP0.8-1.0). At this price, the company will issue 595m-744m shares, looking to raise about USD750m (i.e. INR52.5b). This should lead to post issue dilution of 16%-19.4%, leaving BHARTI's stake at 55.2%-57.4%.

Re-pricing at steep discount to pre-IPO value

The price came as a surprise, as it is at 15-32% discount to the pre-IPO price of USD1.48. The pre-IPO first round was announced last fiscal in Oct'18 (by six global investors), and since then the Africa business performance has improved (EBITDA up 23% YoY in 4QFY19). The second round too was conducted just five months back in Jan'19, when the company raised USD200m via the Qatar Investment Authority Fund at a similar pricing and 4.35% dilution. This now values BHARTI's Africa business at equity value/enterprise value of USD3.9b/USD7.1b at the lower end of the band and USD4.7b/USD7.9b at the higher end of the band. The pre-IPO value was at equity value/enterprise value of USD4.6b/USD8.1b – yet retaining 68.5% holding by BHARTI.

Valuation and view

Given that typically pre-IPO happens at a discount to the IPO price, we were expecting the IPO price to be higher than that in the pre-IPO rounds. At FY21E EBITDA of USD1.6b – factoring 10% CAGR over FY19-21, the IPO is priced at EV/EBITDA of 4.4x/4.8x at the lower/higher end of the band, much lower than our estimate of 7x. We have yet not adjusted our numbers but expect this to exert pressure on the company's valuation. We maintain our Buy rating with SOTP-based target price of INR400.

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Exhibit 1: Working for Bharti Airtel's stake post dilution (USD)

Particulars	Pre IPO placement	Qatar investment	IPO range (USD1/GBP0.8)	IPO range (USD1.3/GBP1.0)
Amount raised (USD m)	1,250	200	750	750
Pre transaction - no of shares (m)	2,122	2,964	3,098	3,098
No of shares issued (m)	842	135	744	595
Post transaction - no of shares (m)	2,964	3,098	3,842	3,693
Price (USD)	1.5	1.5	1.0	1.3
(Discount)/Premium vs prior transaction		0%	-32%	-15%
Post issue dilution	28.4%	4.3%	19.4%	16.1%
Bharti's stake post dilution	71.59%	68.5%	55.2%	57.4%
Market Cap (USD m)	4,400	4,599	3,873	4,654
Debt (USD m)	3,750	3,550	3,254	3,254
Enterprise Value (USD m)	8,150	8,149	7,127	7,908
FY21E EBITDA (USD m)			1,635	1,635
EV/EBITDA (x)			4.4	4.8

Source: MOFSL, Company

Exhibit 2: Bharti Airtel: SOTP-based on FY21

	EBITDA (INR b)	Ownership (%)	Proportionate EBITDA (INR b)	EV/ EBITDA (x)	Fair Value (INR b)	Value/ Share (INR)
India SA business (excl. towers)	158	100%	158	13	2,133	416
Tower business (15% discount to fair value)		53.5%			244	48
Africa business	114	68.5%	78	7	588	115
Less net debt					917	179
Total Value					2,047	400
Shares o/s (b)	5.1					
CMP						344
Upside (%)						16

Source: Company, MOFSL

Exhibit 3: Consol. revenue grew 2% QoQ; EBITDA margin expanded 150bp QoQ to 32.2% (INR b, %) in 4QFY19

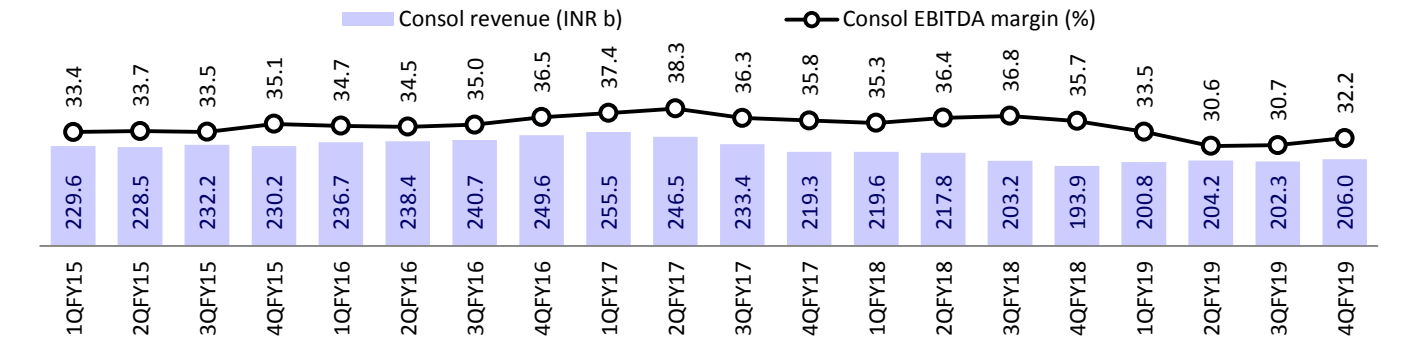


Exhibit 4: India mobile revenue grew 4% QoQ; EBITDA margins expanded 500bp QoQ to 24.1% in 4QFY19

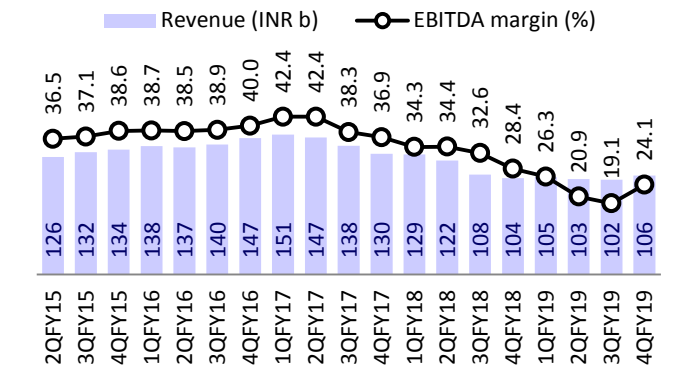


Exhibit 5: Africa revenue fell 2% QoQ; EBITDA margin expanded 50bp QoQ to 43.8% in 4QFY19

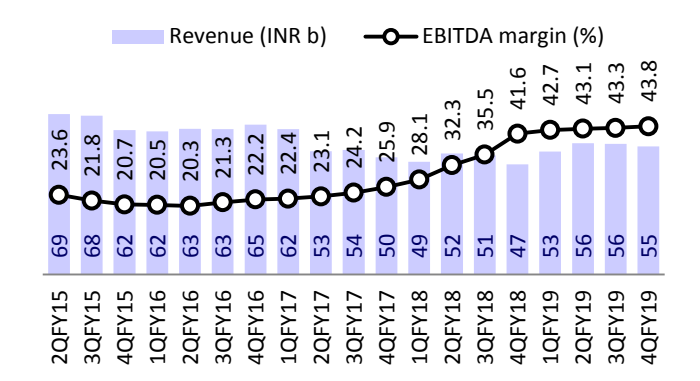


Exhibit 6: India mobile subs base fell marginally by 1% QoQ; ARPU grew 19% QoQ to INR123 in 4QFY19

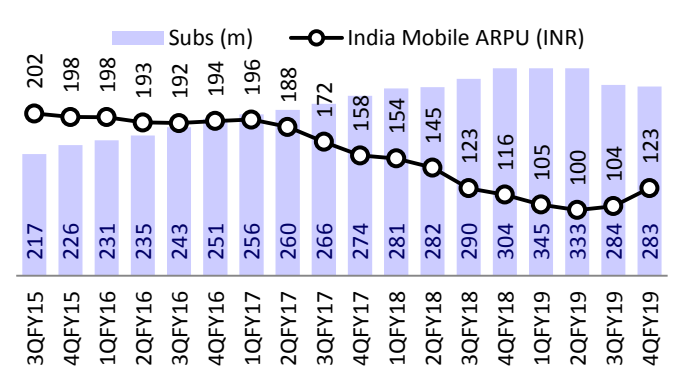
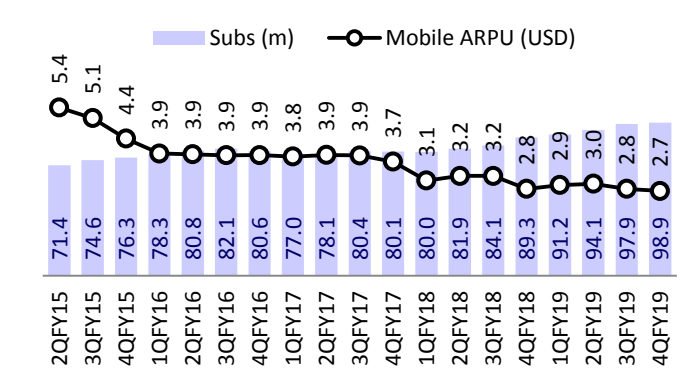


Exhibit 7: Africa subs base grew 1% QoQ; ARPU fell 2% QoQ in 4QFY19



Financials and Valuations

Consolidated - Income Statement							(INR m)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	8,57,461	9,20,394	9,65,321	9,54,683	8,36,879	8,07,802	8,39,035	9,20,755
Change (%)	11.5	7.3	4.9	-1.1	-12.3	-2.2	3.9	9.7
Total Expenditure	5,80,865	6,08,118	6,25,479	6,01,386	5,36,088	5,49,613	5,73,941	6,12,287
% of Sales	67.7	66.1	64.8	63.0	64.1	68.0	68.4	66.5
EBITDA	2,76,596	3,12,276	3,39,842	3,53,297	3,00,791	2,58,189	2,65,095	3,08,468
Margin (%)	32.3	33.9	35.2	37.0	35.9	32.0	31.6	33.5
Depreciation	1,56,496	1,55,311	1,74,498	1,97,730	1,92,431	2,13,475	2,33,611	2,51,645
EBIT	1,20,100	1,56,965	1,65,344	1,55,567	1,08,360	44,714	31,483	56,823
Int. and Finance Charges	48,381	48,463	69,135	76,974	80,715	95,894	82,160	80,232
Other Income	6,385	6,588	10,513	10,336	12,956	4,574	4,148	4,148
PBT bef. EO Exp.	78,104	1,15,090	1,06,722	88,929	40,601	-46,606	-46,529	-19,260
EO Items	538	-7,960	21,741	-11,697	-7,931	29,288	0	0
PBT after EO Exp.	78,642	1,07,130	1,28,463	77,232	32,670	-17,318	-46,529	-19,260
Total Tax	48,449	54,047	59,533	34,819	10,835	-34,193	0	0
Tax Rate (%)	61.6	50.4	46.3	45.1	33.2	197.4	0.0	0.0
Minority Interest	2,467	1,248	8,163	4,416	10,845	12,780	-18,862	-7,808
Reported PAT	27,726	51,835	60,767	37,997	10,990	4,095	-27,667	-11,453
Adjusted PAT	27,519	55,779	49,101	44,421	13,960	-35,026	-27,667	-11,453
Change (%)	43.0	102.7	-12.0	-9.5	-68.6	NM	NM	NM
Margin (%)	3.2	6.1	5.1	4.7	1.7	-4.3	-3.3	-1.2

Consolidated - Balance Sheet							(INR m)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	19,987	19,987	19,987	19,987	19,987	19,987	25,655	25,655
Total Reserves	5,77,573	5,99,577	6,47,706	6,54,576	6,75,357	6,94,235	9,10,900	8,99,447
Net Worth	5,97,560	6,19,564	6,67,693	6,74,563	6,95,344	7,14,222	9,36,555	9,25,102
Minority Interest	42,102	48,525	54,981	68,750	88,139	1,35,258	1,16,396	1,08,589
Total Loans	7,58,958	8,06,839	10,04,526	10,72,877	11,13,335	12,54,283	10,38,296	9,96,806
Deferred Tax Liabilities	-45,777	-44,392	-34,226	-16,766	-22,118	-82,556	-82,556	-82,556
Capital Employed	13,52,843	14,30,536	16,92,974	17,99,424	18,74,700	20,21,207	20,08,692	19,47,941
Net Fixed Assets	14,06,145	15,01,440	17,79,948	18,90,736	15,89,357	16,83,662	21,16,046	20,89,401
Total Investments	1,55,308	1,70,357	1,19,671	1,81,552	1,80,406	1,57,110	1,10,878	1,10,878
Curr. Assets, Loans & Adv.	2,07,692	2,26,519	3,10,876	2,34,170	3,26,564	4,00,829	4,18,619	3,81,314
Inventory	1,422	1,339	1,692	488	693	884	754	1,044
Account Receivables	62,441	67,252	55,039	47,402	58,830	43,006	48,943	51,962
Cash and Bank Balance	49,808	11,719	37,087	12,817	47,886	81,055	74,380	57,621
Loans and Advances	94,021	1,46,209	2,17,058	1,73,462	2,19,155	2,75,884	2,94,541	2,70,688
Curr. Liability & Prov.	4,16,302	4,67,781	5,17,520	5,07,034	6,01,786	6,41,389	6,36,851	6,33,652
Account Payables	4,04,533	4,59,472	5,07,838	4,97,348	5,77,285	6,21,206	6,10,622	6,08,949
Provisions	11,769	8,309	9,682	9,686	24,501	20,183	26,229	24,703
Net Current Assets	-2,08,610	-2,41,262	-2,06,645	-2,72,865	-2,75,222	-2,40,560	-2,18,232	-2,52,338
Appl. of Funds	13,52,843	14,30,536	16,92,974	17,99,424	18,74,700	20,21,207	20,08,692	19,47,941

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	6.9	14.0	12.3	11.1	3.5	-8.8	-5.4	-2.2
Cash EPS	46.0	52.8	55.9	60.6	51.6	44.6	40.1	46.8
BV/Share	149.5	155.0	168.8	168.8	173.9	178.7	182.5	180.3
DPS	1.8	2.2	1.4	1.0	1.0	0.0	0.0	0.0
Payout (%)	30.2	19.9	10.8	12.7	43.8	0.0	0.0	0.0
Valuation (x)								
P/E					99.9	NM	NM	NM
Cash P/E					6.7	7.7	8.6	7.3
P/BV					2.0	1.9	1.9	1.9
EV/Sales					3.0	3.2	3.2	2.9
EV/EBITDA					7.8	9.6	10.2	8.7
Dividend Yield (%)		0.7	0.5	0.3	0.3	0.0	0.0	0.0
Return Ratios (%)								
RoE	5.0	9.2	7.6	6.6	2.0	-5.0	-3.4	-1.2
RoCE	3.8	5.8	6.1	5.3	4.6	-2.5	1.8	3.1
RoIC	4.2	6.5	6.4	5.4	4.5	-2.6	1.8	3.2
Working Capital Ratios								
Asset Turnover (x)	0.6	0.6	0.6	0.5	0.4	0.4	0.4	0.5
Debtor (Days)	27	27	21	18	26	19	21	21
Leverage Ratio (x)								
Net Debt/Equity	0.9	1.0	1.3	1.3	1.3	1.4	0.9	0.9

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	78,643	1,07,130	1,28,463	77,233	32,670	-17,318	-46,529	-19,260
Depreciation	1,56,496	1,55,311	1,74,498	1,97,730	1,92,431	2,13,475	2,33,611	2,51,645
Interest & Finance Charges	58,788	73,252	85,461	95,466	93,255	1,10,134	1,00,258	98,330
Direct Taxes Paid	-35,039	-46,111	-46,836	-31,587	-13,723	34,193	0	0
(Inc)/Dec in WC	17,533	-1,639	-3,955	-27,429	5,906	-35,439	-29,002	17,347
CF from Operations	2,76,421	2,87,943	3,37,631	3,11,413	3,10,539	3,05,045	2,58,338	3,48,061
Others	-14,095	-11,925	-58,208	-19,104	-12,001	-60,438	0	0
CF from Operating incl EO	2,62,326	2,76,018	2,79,423	2,92,309	2,98,538	2,44,607	2,58,338	3,48,061
(Inc)/Dec in FA	-1,74,659	-2,09,786	-2,70,967	-3,84,045	-2,67,262	-3,48,616	-2,45,000	-2,25,000
Free Cash Flow	87,667	66,232	8,456	-91,736	31,276	-1,04,009	13,338	1,23,061
(Pur)/Sale of Investments	-36,886	-11,649	68,115	-817	-33,322	23,296	46,232	0
Others	-27,955	14,088	60,595	69,308	40,326	12,669	19,418	19,418
CF from Investments	-2,39,500	-2,07,347	-1,42,257	-3,15,554	-2,60,258	-3,12,651	-1,79,350	-2,05,582
Issue of Shares	67,956	0	984	1,245	21	0	2,50,000	0
Inc/(Dec) in Debt	14,252	-72,451	-1,17,833	9,353	40,073	1,40,948	-2,15,987	-41,490
Interest Paid	-37,620	-33,887	-32,890	-58,566	-44,041	-1,10,134	-1,00,258	-98,330
Dividend Paid	-6,735	-21,399	-15,304	-9,168	-32,652	0	0	0
Others	-12,182	31,210	46,925	52,866	56,085	89,817	0	0
CF from Fin. Activity	25,671	-96,527	-1,18,118	-4,270	19,486	1,20,631	-66,245	-1,39,820
Inc/Dec of Cash	48,497	-27,856	19,048	-27,515	57,766	52,587	12,744	2,659
Opening Balance	1,311	39,575	-1,413	17,635	-9,880	28,468	61,637	54,962
Closing Balance	49,808	11,719	37,087	12,817	47,886	81,055	74,380	57,621

E: MOFSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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