

# Bharti Infratel

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
26,272	7,831
Bloomberg	BHIN IN
Equity Shares (m)	1,888.7
M.Cap. (INR b) / (USD b)	493.0/8.2
52-Week Range (INR)	275/126
1, 6, 12 Rel. Per (%)	1/26/43

## Financials & Valuation (INR Billion)

Y/E March	2015E	2016E	2017E
Net Sales	117.7	131.3	145.8
EBITDA	49.2	56.4	64.2
Adj. NP	19.2	23.0	29.1
Adj. EPS (INR)	10.2	12.2	15.4
Gr. (%)	26.4	19.9	26.5
BV/Sh (INR)	98.4	101.8	106.1
RoE (%)	10.5	12.2	14.8
RoCE (%)	8.5	9.7	11.7
Div. payout	71.9	71.7	72.3

## Valuations

P/E (x)	25.7	21.4	16.9
P/BV (x)	2.7	2.6	2.5
EV/EBITDA (x)	8.9	7.6	6.4
Div. Yield (%)	2.8	3.3	4.3

**CMP: INR261**
**TP: INR300**
**Buy**

- **1QFY15 EBITDA marginally below estimates; QoQ PAT decline led by lower other income:** BHIN's 1QFY15 consolidated EBITDA grew 2.3% QoQ to INR11.8b (est INR12b). Consolidated revenue grew 1.9% QoQ to INR 28.4b led by 2% increase in rental revenue and 1.8% increase in energy and other reimbursements. PAT declined 2% QoQ to INR4.63b (est INR 4.35b) on lower other income (4QFY14 included INR284m pertaining to earlier periods).
- **Co-location additions remain healthy:** Roll-out intensity remains healthy with co-location additions at 3,118 in 1QFY15 vs average of 1,695/qtr during 1HFY14 and 3,602/qtr in 2HFY14. Towers/co-locations grew 0.5/1.9% QoQ. Average sharing factor increased from 1.96x in 3QFY14 to 1.99x in 4QFY14 and 2.02x in 1QFY15.
- **Sharing revenue per operator flat QoQ:** Consolidated sharing revenue per operator remained flat QoQ at INR34,113 (0.4% below est). Sharing revenue per operator has been largely flat QoQ for past few quarters, implying that positive contribution from loading is getting offset by decline in rentals due to new tenancies.
- **INR4.5/sh interim dividend:** Board approved interim dividend of INR4.5/sh as compared to final dividend of INR4.4/sh for full year FY14 announced post 4QFY14 results. Announcement of a high interim dividend provides visibility on cash utilization policy and indicates potential upside to our current estimate of ~72% dividend pay-out (including dividend distribution tax).

## Increasing estimates; upgrade to Buy

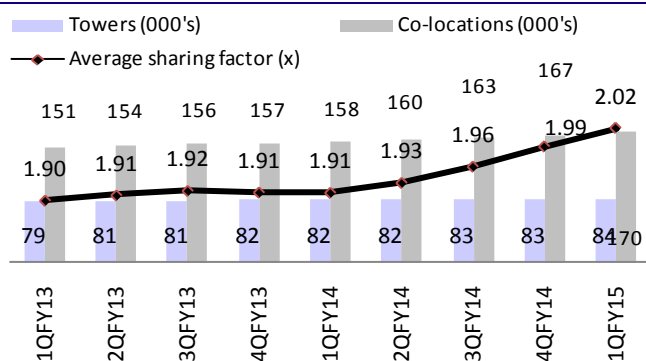
- Bharti Infratel is well positioned, with one of the top-3 GSM incumbents as anchor tenant across its portfolio.
- While our EBITDA estimates are largely unchanged, we are upgrading PAT by 4-6% on lower finance costs. We expect 10%/13%/23% CAGR in revenue/EBITDA/EPS (FY14-16), led by 3%/8% CAGR in towers/co-locations.
- The stock trades at 21.4x 16E EPS and 7.6x EV/EBITDA. Maintain **Buy** with a revised target price of INR300 based on SOTP/DCF.

## Quarterly Performance

Y/E March	FY14				FY15				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY14	FY15E
Sales	26,220	26,837	27,311	27,899	28,427	29,046	29,741	30,458	108,267	117,672
YoY Change (%)	8.5	5.0	4.0	4.3	8.4	8.2	8.9	9.2	5.4	8.7
Operating expenses	15,757	16,108	16,028	16,373	16,637	16,897	17,187	17,719	64,266	68,440
EBITDA	10,463	10,729	11,283	11,526	11,790	12,149	12,555	12,739	44,001	49,232
YoY Change (%)	18.1	12.0	14.9	14.7	12.7	13.2	11.3	10.5	14.9	11.9
EBITDA margin (%)	39.9	40.0	41.3	41.3	41.5	41.8	42.2	41.8	40.6	41.8
Depreciation	5,528	5,326	5,252	5,153	5,253	5,358	5,465	5,574	21,259	21,650
Interest	1,044	1,335	792	826	784	752	752	757	3,997	3,045
Other Income	1,556	569	917	1,445	1,172	1,074	1,062	1,093	4,487	4,402
PBT	5,447	4,637	6,156	6,992	6,925	7,113	7,400	7,501	23,232	28,939
Tax	1,871	1,863	2,051	2,268	2,297	2,383	2,523	2,549	8,053	9,753
Effective Tax Rate (%)	34.3	40.2	33.3	32.4	33.2	33.5	34.1	34.0	34.7	33.7
Adjusted net profit	3,576	2,774	4,105	4,724	4,628	4,730	4,876	4,952	15,179	19,187
YoY Change (%)	67.6	12.0	61.6	64.4	29.4	70.5	18.8	4.8	51.7	26.4

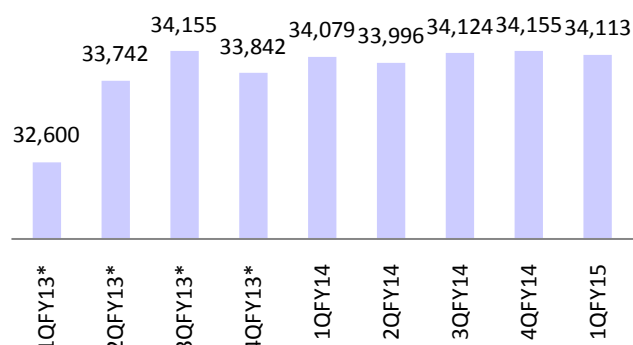
## Story in charts

### Improved momentum in tenancy demand



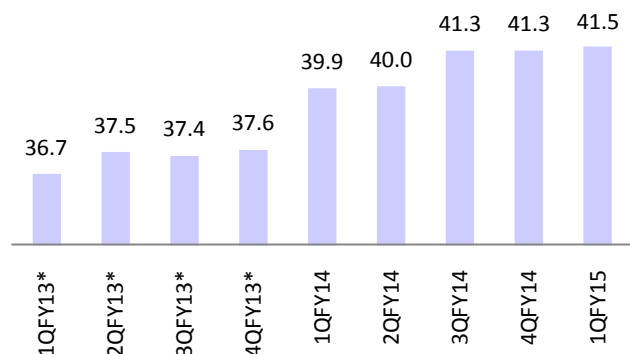
Source: Company, MOSL

### Sharing revenue per operator per month largely stable



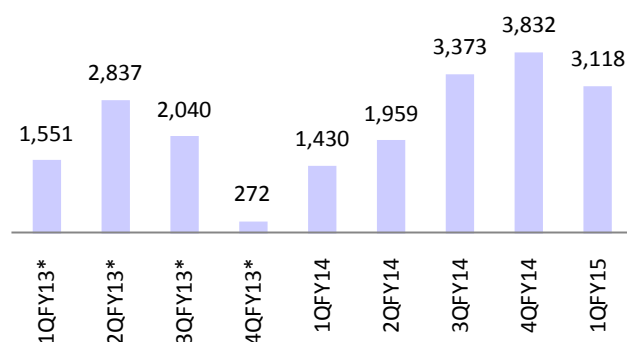
Source: Company, MOSL

### Quarterly EBITDA margin (%)



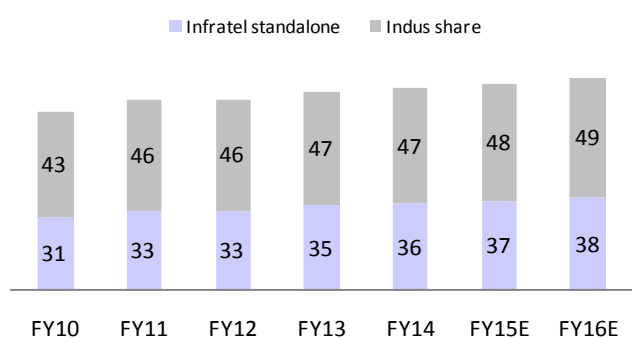
Source: Company, MOSL

### Quarterly net co-location additions



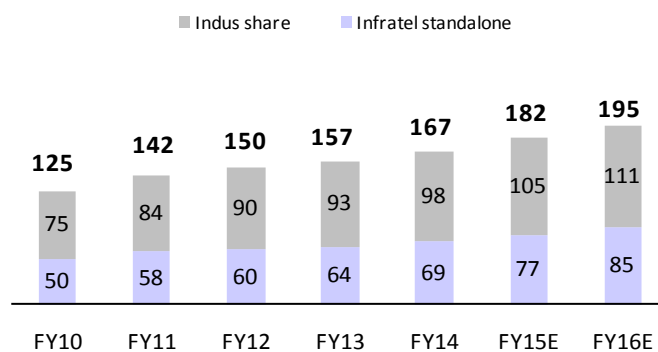
Source: Company, MOSL

### Tower portfolio break-up (000s)



Source: Company, MOSL

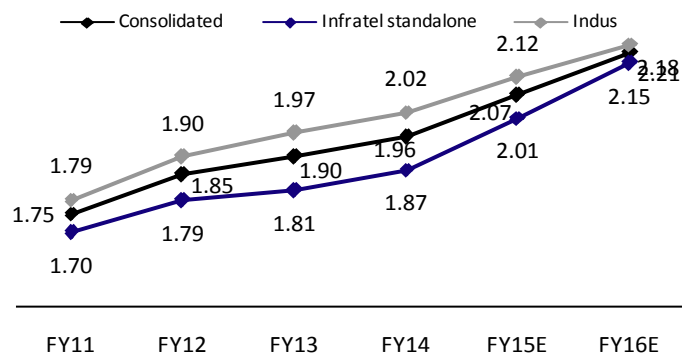
### Co-locations break-up (000s)



Source: Company, MOSL

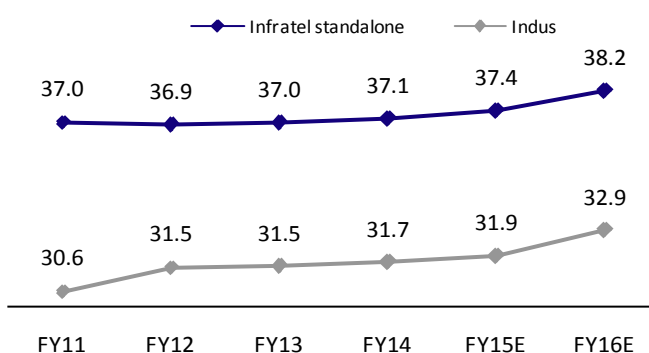
## Story in charts

### Average sharing factor (x)



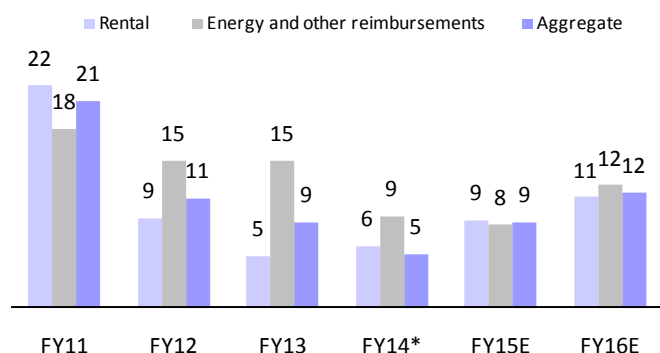
Source: Company, MOSL

### Sharing revenue per operator (INR 000s/month)



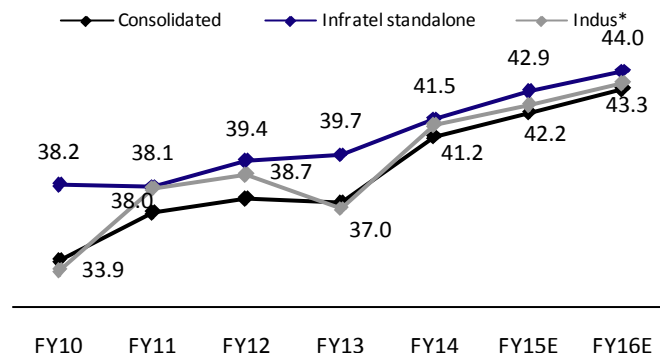
Source: Company, MOSL

### Consolidated revenue growth (%)



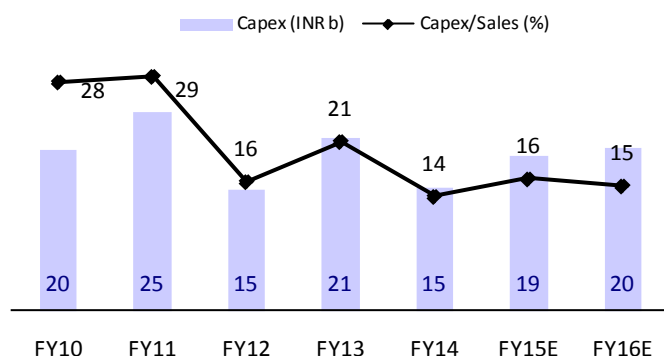
Source: Company, MOSL

### EBITDA margin (%)



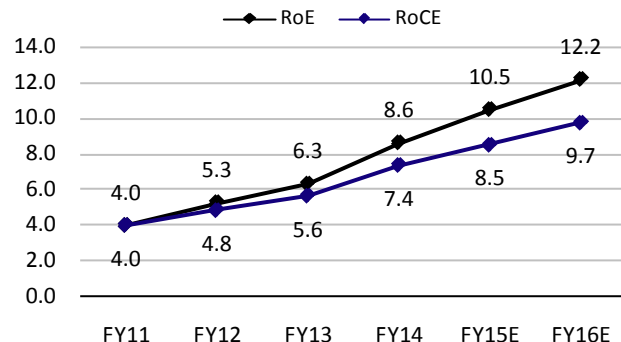
Source: Company, MOSL

### Annual Capex and capex/sales



Source: Company, MOSL

### Return ratios remain low but continue to improve (%)



Source: Company, MOSL

**Bharti Infratel - Consolidated P&L (INR m)**

	1QFY14	4QFY14	1QFY15	YoY%	QoQ%	1QFY15E	v/s est (%)
<b>Consolidated Revenue</b>	<b>26,220</b>	<b>27,899</b>	<b>28,427</b>	<b>8.4</b>	<b>1.9</b>	<b>28,745</b>	<b>-1.1</b>
-Rent	16,084	16,936	17,271	7.4	2.0	17,388	-0.7
-Energy and other reimbursements	10,136	10,963	11,156	10.1	1.8	11,357	-1.8
Operating Expenses	15,757	16,373	16,637	5.6	1.6	16,777	-0.8
<b>Consolidated EBITDA</b>	<b>10,463</b>	<b>11,526</b>	<b>11,790</b>	<b>12.7</b>	<b>2.3</b>	<b>11,968</b>	<b>-1.5</b>
<b>EBITDA margin (%)</b>	<b>39.9</b>	<b>41.3</b>	<b>41.5</b>	<b>157bps</b>	<b>16bps</b>	<b>41.6</b>	<b>-16bps</b>
Depreciation and amortization	5,528	5,153	5,253	-5.0	1.9	5,359	-2.0
EBIT	4,935	6,373	6,537	32.5	2.6	6,609	-1.1
Net finance cost	-512	-619	-388	-24.2	-37.3	-62	529.5
<b>Profit Before Taxes</b>	<b>5,447</b>	<b>6,992</b>	<b>6,925</b>	<b>27.1</b>	<b>-1.0</b>	<b>6,670</b>	<b>3.8</b>
Tax	1,871	2,268	2,297	22.8	1.3	2,316	-0.8
Effective Tax Rate (%)	34.3	32.4	33.2	-118bps	73bps	34.7	-155bps
<b>Proforma Profit After Tax</b>	<b>3,576</b>	<b>4,724</b>	<b>4,628</b>	<b>29.4</b>	<b>-2.0</b>	<b>4,354</b>	<b>6.3</b>

**Revenue Drivers**

	1QFY14	4QFY14	1QFY15	YoY%	QoQ%	1QFY15	v/s est (%)
<b>Consolidated</b>							
Total Towers	82,321	83,368	83,778	1.8	0.5	83,768	0.0
Total Co-locations	158,038	167,202	170,320	7.8	1.9	171,202	-0.5
Average sharing factor	1.91	1.99	2.02			2.02	-0.2
Sharing revenue per operator per month	34,079	34,155	34,113	0.1	-0.1	34,254	-0.4

**Bharti Infratel Standalone**

Total Towers	35,288	35,905	36,112	2.3	0.6		
Total Co-locations	64,345	69,137	70,544	9.6	2.0		
Average sharing factor	1.82	1.90	1.94				
Sharing revenue per operator per month	37,097	37,346	37,204	0.3	-0.4		

**Indus Towers (100% basis)**

Total Towers	111,983	113,008	113,490	1.3	0.4		
Total Co-locations	223,078	233,488	237,562	6.5	1.7		
Average sharing factor	1.99	2.05	2.08				
Sharing revenue per operator per month	32,075	32,145	32,075	0.0	-0.2		

**Balance sheet metrics (INR m)**

	1QFY14	4QFY14	1QFY15	YoY%	QoQ%
Capex	3,062	5,631	4,798	56.7	-14.8
Capex/Sales	11.7	20.2	16.9	520bps	-331bps
Net Debt	-32,173	-43,020	-48,315	50.2	12.3

Source: Company, MOSL

**Bharti Infratel: SOTP Valuation**

	Value (INR b)	Value (INR/sh)	Implied FY16 EV/Tower (INR m)	Implied FY16 EV/EBITDA (x)
Standalone (Mar-15)	281	148	7.3	10.1
Indus (Mar-15)	679		5.8	9.7
Indus value (42%)	285			
Indus value post holdco discount of 20%	228	121	4.6	7.7
<b>Total Enterprise value</b>	<b>509</b>	<b>269</b>	<b>5.8</b>	<b>9.0</b>
Net Cash	57	30		
Shares o/s (m)	1,889			
<b>Fair value</b>	<b>566</b>	<b>300</b>		
CMP		261		
<b>Upside</b>		<b>15%</b>		

Source: Company, MOSL

## Bharti Infratel: A Snapshot

	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
<b>Towers (000s)</b>							
Consolidated	78	79	82	83	85	88	90
YoY (%)	6	1	4	2	2	3	3
Net additions	4.5	0.6	3.0	1.3	1.8	2.6	2.6
-Infratel Standalone	2.2	0.4	2.0	0.8	1.0	1.5	1.5
-Indus	5.5	0.6	2.5	1.2	2.0	2.5	2.5
<b>Co-locations (000s)</b>							
Consolidated	142	150	157	167	182	196	210
YoY (%)	14	6	4	7	9	8	7
Net additions	17.3	7.8	6.7	10.6	14.7	13.9	13.9
-Infratel Standalone	7.6	2.5	3.4	5.6	8.0	8.0	8.0
-Indus	23.0	12.6	7.8	12.0	16.0	14.0	14.0
<b>Average sharing factor (x)</b>							
Consolidated	1.75	1.85	1.90	1.96	2.07	2.18	2.28
-Infratel Standalone	1.70	1.79	1.81	1.87	2.01	2.15	2.28
-Indus	1.79	1.90	1.97	2.02	2.12	2.21	2.28
<b>Sharing revenue per operator (INR '000/month)</b>							
Consolidated	34.7	34.6	34.7	33.9	34.2	35.1	36.2
YoY (%)		0	0	-2	1	3	3
-Infratel Standalone	37.0	36.9	37.0	37.1	37.4	38.2	39.3
-Indus	30.6	31.5	31.5	31.7	31.9	32.9	33.9
<b>Revenue break-up (INR b)</b>							
Rental revenue	55.6	60.7	63.8	65.8	71.6	79.6	88.1
YoY (%)	22	9	5	3	9	11	11
-Bharti Infratel standalone	23.9	26.1	27.4	29.6	32.9	37.2	42.1
-Indus	69.6	78.4	82.3	86.5	92.5	101.2	110.0
<b>Energy and other reimbursements</b>	29.5	33.9	38.9	42.5	46.1	51.7	57.7
YoY (%)	18	15	15	9	8	12	11
-Bharti Infratel standalone	13.9	15.5	17.2	20.4	22.7	26.1	29.9
-Indus	37.1	41.8	56.1	52.3	55.5	60.7	65.9
<b>Total revenue</b>	85	95	103	108	118	131	146
YoY (%)	21	11	9	5	9	12	11
-Bharti Infratel standalone	38	42	45	50	56	63	72
-Indus	107	120	138	139	148	162	176
<b>Power and fuel cost (INR b)</b>	30	34	38	41	44	49	55
YoY (%)	19	11	13	7	8	12	11
% of revenue	35	36	37	38	37	38	38
Power and fuel cost per tower (INR '000/month)	33	36	39	41	43	48	51
<b>EBITDA (INR b)</b>	31	35	38	44	49	56	64
YoY (%)	29	13	8	15	12	15	14
EBITDA margin (%)	36.8	37.4	37.3	40.6	41.8	43.0	44.1
EBITDA per tower (INR m)	0.41	0.45	0.48	0.53	0.58	0.65	0.72

Source: Company, MOSL

**Common-size P&L on per tower basis (INR m)**

	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>	<b>FY17E</b>
Rental revenue	0.73	0.77	0.79	0.80	0.85	0.92	0.99
Energy and other reimbursement revenue	0.39	0.43	0.48	0.51	0.55	0.60	0.65
<b>Total revenue</b>	<b>1.12</b>	<b>1.20</b>	<b>1.27</b>	<b>1.31</b>	<b>1.40</b>	<b>1.52</b>	<b>1.64</b>
<b>YoY (%)</b>		<b>7</b>	<b>6</b>	<b>3</b>	<b>7</b>	<b>9</b>	<b>8</b>
Power and fuel costs	0.40	0.43	0.47	0.49	0.52	0.57	0.62
Rent	0.13	0.13	0.13	0.11	0.11	0.11	0.12
Other expenses	0.18	0.19	0.19	0.18	0.18	0.18	0.18
<b>Total operating costs</b>	<b>0.71</b>	<b>0.75</b>	<b>0.80</b>	<b>0.78</b>	<b>0.81</b>	<b>0.87</b>	<b>0.92</b>
<b>YoY (%)</b>		<b>6</b>	<b>6</b>	<b>-3</b>	<b>5</b>	<b>7</b>	<b>6</b>
<b>EBITDA</b>	<b>0.41</b>	<b>0.45</b>	<b>0.48</b>	<b>0.53</b>	<b>0.58</b>	<b>0.65</b>	<b>0.72</b>
<b>YoY (%)</b>		<b>9</b>	<b>6</b>	<b>12</b>	<b>10</b>	<b>12</b>	<b>11</b>
<b>EBITDA margin (%)</b>	<b>36.8</b>	<b>37.4</b>	<b>37.3</b>	<b>40.6</b>	<b>41.8</b>	<b>43.0</b>	<b>44.1</b>
Depreciation and amortization	0.27	0.27	0.28	0.26	0.26	0.27	0.28
<b>EBIT</b>	<b>0.15</b>	<b>0.18</b>	<b>0.20</b>	<b>0.27</b>	<b>0.33</b>	<b>0.38</b>	<b>0.45</b>
Other income	0.02	0.02	0.04	0.05	0.05	0.06	0.07
Finance cost	0.06	0.05	0.05	0.05	0.04	0.04	0.03
<b>PBT</b>	<b>0.10</b>	<b>0.14</b>	<b>0.19</b>	<b>0.28</b>	<b>0.34</b>	<b>0.40</b>	<b>0.49</b>
Tax	0.03	0.05	0.07	0.10	0.12	0.14	0.16
<b>PAT</b>	<b>0.07</b>	<b>0.10</b>	<b>0.12</b>	<b>0.18</b>	<b>0.23</b>	<b>0.27</b>	<b>0.33</b>
<b>YoY (%)</b>		<b>32</b>	<b>30</b>	<b>48</b>	<b>24</b>	<b>17</b>	<b>23</b>
<b>PAT margin (%)</b>	<b>6.5</b>	<b>7.9</b>	<b>9.7</b>	<b>14.0</b>	<b>16.3</b>	<b>17.5</b>	<b>20.0</b>

Source: Company, MOSL

## Bharti Infratel: an investment profile

### Company description

Bharti Infratel is the passive infrastructure subsidiary of Bharti Airtel. It holds 42% stake in Indus towers - a joint venture between the top 3 GSM incumbents – Bharti (42%), Vodafone (42%) and Idea (16%). On a consolidated basis, it has a tower portfolio of 83,000 towers. Bharti Infratel and Indus towers together account for ~38% of the Indian wireless tower base.

### Key investment argument

- With a tower base of ~83,000 on consolidated basis (including 42% share of Indus towers), Bharti Infratel has ~21% share in the Indian tower industry.
- 3G/4G roll out is expected to provide stimulus to the tower demand in India.
- Robust business model with long term visibility of revenue due to long term contracts (5-15 years)
- Marquee clients including the top 3 GSM incumbents in India.

### Key investment risks

- Consolidation in telecom industry is potential headwind as it reduces tower demand.
- Sharing revenue per operator has remained largely flat despite increase in 3G sites.

### Recent developments

- Bharti Infratel signed a master service agreement for providing sites to Reliance JIO.

### Valuation and view

- While our EBITDA estimates are largely unchanged, we are upgrading PAT by 4-6% on lower finance costs. We expect 10%/13%/23% CAGR in revenue/EBITDA/EPS (FY14-16), led by 3%/8% CAGR in towers/co-locations.
- The stock trades at 21.4x 16E EPS and 7.6x EV/EBITDA. Maintain **Buy** with a revised target price of INR300 based on SOTP/DCF.

### Comparative valuations

		Bharti Infratel	Idea Cellular	Bharti Airtel
P/E (x)	FY15E	25.7	17.0	27.0
	FY16E	21.4	18.5	21.8
EV/EBITDA (x)	FY15E	8.9	6.5	6.9
	FY16E	7.6	6.8	6.0
EV/Sales (x)	FY15E	3.7	2.2	2.2
	FY16E	3.2	2.3	2.0
P/BV (x)	FY15E	2.7	2.4	2.0
	FY16E	2.6	2.1	1.9

### EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY15	10.2	9.9	3.3
FY16	12.2	11.7	4.2

### Target price and recommendation

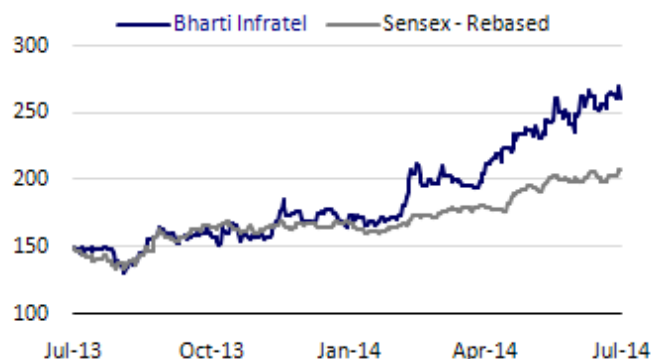
Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
261	300	14.9	Buy

### Shareholding pattern (%)

	Jun-14	Mar-14	Jun-13
Promoter	79.4	79.4	79.4
DII	1.7	2.1	2.4
FII	11.7	10.8	9.4
Others	7.3	7.6	8.8

Note: FII Includes depository receipts

### Stock performance (1-year)



## Financials and valuations

Income Statement (Consolidated) (INR Million)					Ratios				
Y/E March	2014	2015E	2016E	2017E	Y/E March	2014	2015E	2016E	2017E
Revenues	108,267	117,672	131,320	145,800	Basic (INR)				
Change (%)	5.4	8.7	11.6	11.0	EPS	8.0	10.2	12.2	15.4
Total Expenses	64,266	68,440	74,883	81,558	Cash EPS	19.3	21.6	24.5	28.4
EBITDA	44,001	49,232	56,437	64,242	Book Value	95.5	98.4	101.8	106.1
% of Gross Sales	40.6	41.8	43.0	44.1	DPS	5.1	7.3	8.7	11.1
Change (%)	14.9	11.9	14.6	13.8	Payout %(Incl.Div.Taxes)	64.0	71.9	71.7	72.3
Depn. & Amortization	21,259	21,650	23,337	24,514	Valuation (x)				
EBIT	22,742	27,582	33,101	39,729	P/E	32.5	25.7	21.4	16.9
Net finance cost	3,997	3,045	3,045	3,045	Cash P/E	13.5	12.1	10.6	9.2
Other Income	4,487	4,402	4,859	6,604	EV/EBITDA	10.1	8.9	7.6	6.4
PBT	23,232	28,939	34,915	43,288	EV/Sales	4.1	3.7	3.2	2.8
Tax	8,053	9,753	11,910	14,179	Price/Book Value	2.7	2.7	2.6	2.5
Rate (%)	34.7	33.7	34.1	32.8	Dividend Yield (%)	2.0	2.8	3.3	4.3
Adjusted PAT	15,179	19,187	23,005	29,109	Profitability Ratios (%)				
Change (%)	51.7	26.4	19.9	26.5	RoE	8.6	10.5	12.2	14.8
					RoCE	7.4	8.5	9.7	11.7
Balance Sheet (INR Million)					Turnover Ratios				
Y/E March	2014	2015E	2016E	2017E	Debtors (Days)	10	11	11	12
Share Capital	18,893	18,893	18,893	18,893	Asset Turnover (x)	0.87	1.17	1.39	1.70
Add. Paid up Capital	76,832	76,832	76,832	76,832	Leverage Ratio				
Reserves	84,657	90,056	96,569	104,634	Net Debt/Equity (x)	0.1	0.1	0.1	0.0
Net Worth	180,382	185,781	192,293	200,359					
Loans	26,836	26,836	26,836	26,836					
Other Liabilities	26,730	27,481	28,535	29,619					
Deferred Tax Liability	11,249	11,721	12,427	13,140					
Capital Employed	245,197	251,819	260,092	269,954					
Gross Block	285,309	304,449	324,663	344,150					
Less : Depreciation	132,104	153,754	177,090	201,604					
CWIP	1,527	1,856	1,856	1,856					
Fixed Assets	154,732	152,551	149,429	144,402					
Investments	36,343	36,343	36,343	36,343					
Other Non-Current Assets	39,317	42,856	48,002	53,444					
Curr. Assets	55,964	64,413	75,663	90,499					
Debtors	3,075	3,488	4,081	4,719					
Cash & Bank Balance	1,655	7,177	15,011	24,508					
Short-term investments	38,460	40,103	41,777	45,248					
Other Current Assets	12,774	13,646	14,794	16,024					
Curr. Liab. & Prov.	41,159	44,345	49,345	54,734					
Creditors	1,894	2,495	3,402	4,328					
Other Current Liabilities	39,265	41,850	45,943	50,406					
Net Curr. Assets	14,805	20,069	26,318	35,765					
Appl. of Funds	245,197	251,819	260,092	269,954					
E: MOSL Estimates									
					Cash Flow Statement (INR Million)				
					Y/E March	2014	2015E	2016E	2017E
					Op.Profit/(Loss) bef Tax	44,001	49,232	56,437	64,242
					Other Income	4,487	4,402	4,859	6,604
					Interest Paid	-3,997	-3,045	-3,045	-3,045
					Direct Taxes Paid	-4,414	-9,281	-11,203	-13,467
					(Inc)/Dec in Wkg. Cap.	19,414	-887	-833	-837
					CF from Op.Activity	59,491	40,421	46,215	53,498
					(inc)/Dec in FA + CWIP	-11,029	-19,469	-20,214	-19,487
					(Pur)/Sale of Investments	-35,892	-1,643	-1,675	-3,471
					Other investing activity/adj	2,983	0	0	0
					CF from Inv.Activity	-43,938	-21,112	-21,889	-22,957
					Issue of Shares	6	0	0	0
					Inc/(Dec) in Debt	-5,460	0	0	0
					Dividend paid	-9,711	-13,787	-16,493	-21,043
					CF from Fin.Activity	-15,165	-13,787	-16,493	-21,043
					Inc/(Dec) in Cash	388	5,522	7,834	9,497
					Add: Opening Balance	1,267	1,655	7,177	15,011
					Closing Balance	1,655	7,177	15,011	24,508

NOTES

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