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## Telecom

### Company update

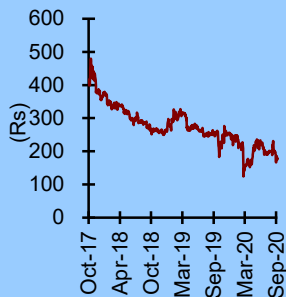
Target price: Rs245

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	53.5	53.5	53.5
Institutional investors	45.8	45.6	45.5
MFs and others	1.3	2.0	2.6
FI/Insurance	1.2	1.5	1.8
FII	43.3	42.1	41.1
Others	0.7	0.9	1.0

Source: NSE

### Price chart



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# Bharti Infratel

**BUY**  
**Maintained**  
**Rs179**

## Risk-reward favourable again!

At CMP, Bharti Infratel (BHIN) provides a huge margin of safety and an opportunity to earn dividend of Rs17.8 per share. This means the effective price of buying BHIN is Rs160 per share. Our working shows, in worst case of VIL shutdown, the fair value of BHIN dips to Rs130-150 per share. However, the probability of VIL shutting down has been reducing with staggered AGR payment and the company's efforts to raise fresh capital. Further, any tariff hike, which is imminent, will increase confidence among investors. The new scheme of arrangement also provides additional security in terms of merged entity share pledge by Vodafone Plc. We believe 5G will open up new business opportunities such as higher core rentals, and small cell and fiber business. Reiterate BUY with an unchanged target price of Rs245.

► **VIL's going concern status still under risk, but probability reducing.** BHIN's worst case would be shutdown of VIL, which will significantly impact its financials: tenancy, cash EBITDA and FCF will be cut by 34%, 47% and 46% respectively. But, the risk to VIL's going concern status has been reducing with AGR payout now staggered over 10 years and the company in process of raising fresh capital. The situation for VIL is much better now than a few months back. Further, as part of merger (BHIN-Indus Towers), VIL is making advance payment of Rs26bn towards MSA (rental), and Vodafone Plc has pledged its holding in the proposed merged entity worth Rs82.5bn (17% of post-merger market cap at CMP), which provides safety for 12 months' rental.

The stock will get more credibility on VIL confirming itself as a going concern based on two key events: 1) significantly large tariff hike or floor price implementation (in favour of operators), and 2) successful fund raising or strategic stake sale. Further, VIL may not require much of cash funding for the next two years considering the moratorium on deferred spectrum liability. Having said that, if competitive intensity remains high and VIL is unable to raise funds, then we don't see VIL continuing as going concern.

► **Post-merger capital structure to improve, but still sub-optimal.** We don't see much hurdle to completion of the merger between BHIN and Indus Towers with the new scheme of arrangement. The merger requires final approval from NCLT (though already received in the old scheme of arrangement) as there have been changes in the merger scheme. As per the agreement, VIL will receive ~Rs40bn in cash towards its 11.15% stake in Indus Towers and the merged entity would make dividend payout of Rs48bn within three months of merger. This cash payout would mean the merged entity would turn into a net-debt company from net-cash. However, 'net debt to equity' will be 30% and 'net debt to cash EBITDA' (FY22E) is at 0.8x, which is much lower than the targeted 2x 'net debt to EBITDA'.

Market Cap	Rs331bn/US\$4.5bn
Reuters/Bloomberg	BHRI.BO / BHIN IN
Shares Outstanding (mn)	1,849.6
52-week Range (Rs)	295/121
Free Float (%)	46.5
FII (%)	41.1
Daily Volume (US\$/'000)	33,590
Absolute Return 3m (%)	(21.2)
Absolute Return 12m (%)	(27.3)
Sensex Return 3m (%)	8.7
Sensex Return 12m (%)	4.6

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs bn)	146	146	152	161
Net Income (Rs bn)	25	33	30	33
EPS (Rs)	13.4	17.8	16.4	17.6
% Chg YoY	0.3	33.4	(8.2)	7.7
P/E (x)	13.4	10.0	10.9	10.2
CEPS (Rs)	25.5	33.8	33.0	34.8
EV/E (x)	5.1	5.2	5.0	4.7
Dividend Yield (%)	8.4	5.9	9.1	9.8
RoCE (%)	12.6	17.0	14.0	15.1
RoE (%)	15.7	23.5	22.3	23.9

- **Changing shareholding structure – rise in supply of stock or independent tower company?** The new shareholding structure makes no promoter owning majority stake in the merged entity. Bharti Airtel will be the largest shareholder with 36.7% stake followed by Vodafone Plc at 28.2% while Providence PE will have 3.3%. We see near-term stock supply only from Providence PE, which may monetise its stake as it had earlier opted for part cash-out. Bharti Airtel and Vodafone Plc had earlier shown interest in selling their stakes; however, considering their large holdings, we don't anticipate them to sell in the open market creating supply glut. It could be a structured deal such as forming InvIT (though BHIN management has earlier denied it, but the situation has since evolved), or bringing in a strategic investor. We see reduction in stake by Bharti Airtel and Vodafone Plc would make the merged entity more independent, which may drive some rerating in the valuations with reduction in conflict of interest (customer and owner are same as of now).
- **Other opportunities brightening.** BHIN has long been talking about emerging opportunities such as denser network, small cell and fiber. We see these businesses having much better prospectus in the 5G era. However, we don't see 5G rollout in India before FY23, but in the long run these opportunities can surely be monetised by tower companies, in our view.
  - We understand 5G antenna and radio come under single unit, and distributed antennas take much higher space than traditional single RAN / antenna, which was used extensively during 4G. Rollout of 4G was mostly loading, which had minimal benefit as rental revenue for tower companies. In contrast, 5G rollout will come with much higher revenue opportunity for tower companies in terms of both: 1) higher space occupied in existing tower, and 2) higher network rollout due to use of much lower spectrum band (3,300-3,600MHz).
  - We have already seen rising rollout of small cells at target locations such as malls, stadiums and other crowded locations to decongest the network. However, in 5G, small cell will have much bigger role for boosting the base coverage. This could be a really big opportunity though we have limited understanding on small cell economics as of now.
  - Fiber is a really big opportunity and BHIN (and the proposed merged entity) anchor tenants Bharti Airtel and VIL are under-fiberised. They have ambition to eventually increase number of fiberised towers, which may be crucial requirement for rollout of 5G services. We also see operators have limited headroom to incur such large capex, which could have much longer payback period. Further, Bharti Airtel and VIL are looking to monetise their fiber company (which was created last year). The proposed merged entity, which would have strong balance sheet, may look at buying these assets with two anchor tenants (similar to tower company), and can execute large capex over next few years. BHIN / Indus Towers have been rolling out fiber in 'smart cities', which should have allowed them to perfect the business model.

**Table 1: Bharti Infratel (standalone) – In worst case, its EBITDA (recurring cash) is likely to dip by 44% vs our FY22E base case estimate**

	Base case			If VIL shut shop FY22E	Change (%) FY22E
	FY20	FY21E	FY22E		
Tower	42,053	43,553	45,053	45,053	-
Tenancy	75,715	80,139	84,251	54,856	(34.9)
<i>Tenancy (x)</i>	1.80	1.84	1.87	1.22	
Rental/month (Rs)	46,352	46,328	46,761	49,158	5.1
<b>Financial (Rs mn) - adjusted for IND AS 116 impact</b>					
<i>Rent</i>	42,289	43,322	46,122	31,070	(32.6)
<i>P&amp;F pass-through</i>	25,094	26,235	28,225	19,014	(32.6)
<b>Revenue</b>	<b>67,383</b>	<b>69,557</b>	<b>74,347</b>	<b>50,083</b>	<b>(32.6)</b>
Power & fuel	23,664	25,225	27,139	19,014	(29.9)
Other expenses	11,623	12,152	12,806	12,806	-
<b>Total expenses</b>	<b>35,287</b>	<b>37,377</b>	<b>39,944</b>	<b>31,819</b>	<b>(20.3)</b>
<b>EBITDA</b>	<b>32,096</b>	<b>32,180</b>	<b>34,403</b>	<b>18,264</b>	<b>(46.9)</b>
<i>EBITDA (%)</i>	47.6	46.3	46.3	36.5	
Less:					
<i>Equalisation impact</i>	1,295	966	639	430	
<i>VIL penalty</i>	1,864	1,864	1,864		
<b>EBITDA (recurring cash)</b>	<b>28,937</b>	<b>29,350</b>	<b>31,900</b>	<b>17,834</b>	<b>(44.1)</b>
Depreciation	11,121	11,162	11,468	11,468	-
Net finance cost	(4,657)	(3,041)	(3,041)	(3,041)	
PBT	25,632	24,060	25,976	9,838	(62.1)
Tax	6,459	6,063	6,546	2,479	(62.1)
ETR (%)	25.2	25.2	25.2	25.2	
<b>PAT</b>	<b>19,173</b>	<b>17,997</b>	<b>19,430</b>	<b>7,359</b>	<b>(62.1)</b>

Source: Company data, I-Sec research

**Table 2: Indus Towers – In worst case, its EBITDA (recurring cash) is likely to dip by 48% vs our FY22E base case estimate**

	Base case			If VIL shut shop FY22E	Change (%) FY22E
	FY20	FY21E	FY22E		
Tower	1,26,949	1,30,449	1,33,949	1,33,949	-
Tenancy	2,35,396	2,44,703	2,55,267	1,68,292	(34.1)
<i>Tenancy (x)</i>	1.85	1.88	1.91	1.26	
Rental/month (Rs)	41,010	40,812	41,054	44,984	9.6
<b>Financial (Rs mn) - adjusted for IND AS 116 impact</b>					
<i>Rent</i>	1,14,388	1,17,564	1,23,154	87,657	(28.8)
<i>P&amp;F pass-through</i>	73,893	77,838	82,681	58,850	(28.8)
<b>Revenue</b>	<b>1,88,281</b>	<b>1,95,402</b>	<b>2,05,835</b>	<b>1,46,507</b>	<b>(28.8)</b>
Power & fuel	73,067	75,459	80,154	58,850	(26.6)
Other expenses	46,886	47,475	50,021	50,021	-
<b>Total expenses</b>	<b>1,19,953</b>	<b>1,22,934</b>	<b>1,30,174</b>	<b>1,08,870</b>	<b>(16.4)</b>
<b>EBITDA</b>	<b>68,328</b>	<b>72,469</b>	<b>75,661</b>	<b>37,637</b>	<b>(50.3)</b>
<i>EBITDA (%)</i>	36.3	37.1	36.8	25.7	
Less:					
<i>Equalisation impact</i>	3,881	2,925	1,918	1,365	
<i>VIL penalty</i>	4,136	4,136	4,136	-	
<b>EBITDA (recurring cash)</b>	<b>60,311</b>	<b>65,408</b>	<b>69,607</b>	<b>36,271</b>	<b>(47.9)</b>
Depreciation	26,911	27,448	27,944	27,944	-
Net finance cost	1,503	1,365	1,226	1,226	
PBT	39,914	43,655	46,491	8,467	(81.8)
Tax	10,058	11,001	11,716	2,134	(81.8)
ETR (%)	25.2	25.2	25.2	25.2	
<b>PAT</b>	<b>29,856</b>	<b>32,654</b>	<b>34,775</b>	<b>6,333</b>	<b>(81.8)</b>

Source: Company data, I-Sec research

**Table 3: The proposed merged entity between BHIN (consolidated) and Indus Towers could see EBITDA (recurring cash) dipping by 47% vs our FY22E base case estimate**

	Base case			If VIL shut shop FY22E	Change (%) FY22E
	FY20	FY21E	FY22E		
Tower	1,69,002	1,74,002	1,79,002	1,79,002	-
Tenancy	3,11,111	3,24,842	3,39,517	2,23,148	(34.3)
Tenancy (x)	1.84	1.87	1.90	1.25	
Rental/month (Rs)	42,327	42,164	42,466	46,006	8.3
<b>Financial (Rs mn) - adjusted for IND AS 116 impact</b>					
Rent	1,56,677	1,60,886	1,69,276	1,18,727	(29.9)
P&F pass-through	98,987	1,04,074	1,10,907	77,864	(29.8)
<b>Revenue</b>	<b>2,55,664</b>	<b>2,64,960</b>	<b>2,80,182</b>	<b>1,96,590</b>	<b>(29.8)</b>
Power & fuel	96,731	1,00,684	1,07,293	77,864	(27.4)
Other expenses	58,509	59,627	62,826	62,826	-
<b>Total expenses</b>	<b>1,55,240</b>	<b>1,60,311</b>	<b>1,70,119</b>	<b>1,40,690</b>	<b>(17.3)</b>
<b>EBITDA</b>	<b>1,00,424</b>	<b>1,04,649</b>	<b>1,10,064</b>	<b>55,901</b>	<b>(49.2)</b>
EBITDA (%)	39.3	39.5	39.3	28.4	
Less:					
Equalisation impact	5,176	3,891	2,557	1,795	
VIL penalty	6,000	6,000	6,000	-	
<b>EBITDA (recurring cash)</b>	<b>89,248</b>	<b>94,758</b>	<b>1,01,507</b>	<b>54,105</b>	<b>(46.7)</b>
Depreciation	38,032	38,609	39,412	39,412	-
Net finance cost	(3,154)	(1,676)	(1,815)	(1,815)	
PBT	65,546	67,715	72,467	18,304	(74.7)
Tax	16,518	17,064	18,262	4,613	(74.7)
ETR (%)	25.2	25.2	25.2	25.2	
<b>PAT</b>	<b>49,028</b>	<b>50,651</b>	<b>54,205</b>	<b>13,692</b>	<b>(74.7)</b>

Source: Company data, I-Sec research

**Table 4: Free cashflow (assuming merger)**

Rs mn	Base case			If VIL shut shop FY22E	Change (%) FY22E
	FY20	FY21E	FY22E		
EBITDA	95,248	1,00,758	1,07,507	54,105	(49.7)
Less:					
Tax	16,518	17,064	18,262	4,613	
Finance cost	(3,154)	(1,676)	(1,815)	(1,815)	
<b>CFO</b>	<b>81,885</b>	<b>85,369</b>	<b>91,061</b>	<b>51,308</b>	<b>(43.7)</b>
Capex	32,077	32,282	33,601	20,161	(40.0)
<b>FCF</b>	<b>49,808</b>	<b>53,088</b>	<b>57,460</b>	<b>31,147</b>	<b>(45.8)</b>
% of rent revenue	31.8	33.0	33.9	26.2	

Source: Company data, I-Sec research

**Table 5: Return ratios (assuming merger)**

Rs mn	Base case			If VIL shut shop FY22E
	FY20	FY21E	FY22E	
Capital employed	3,37,386	3,31,058	3,25,247	3,11,807
Invested capital	2,80,180	2,67,525	2,55,903	2,29,022
Net worth	2,75,280	2,68,953	2,63,142	2,49,702
ROCE (%) pre tax		16.8	18.9	4.6
ROIC (%) pre tax		20.5	23.7	6.1
ROE (%)		18.6	20.4	5.3

Source: Company data, I-Sec research

**Table 6: Worst case valuation (assuming merger) if VIL shuts shop**

FY22E	Scenario 1	Scenario 2	Scenario 3
<b>EBITDA (recurring cash)</b>	<b>54,105</b>	<b>54,105</b>	<b>54,105</b>
Multiple (x)	8.0	9.0	10.0
Enterprise value	4,32,842	4,86,947	5,41,053
Less: Net debt	84,285	84,285	84,285
<b>Equity value</b>	<b>3,48,557</b>	<b>4,02,663</b>	<b>4,56,768</b>
Outstanding shares (mn)	2,697	2,697	2,697
<b>Value per share (Rs)</b>	<b>129</b>	<b>149</b>	<b>169</b>

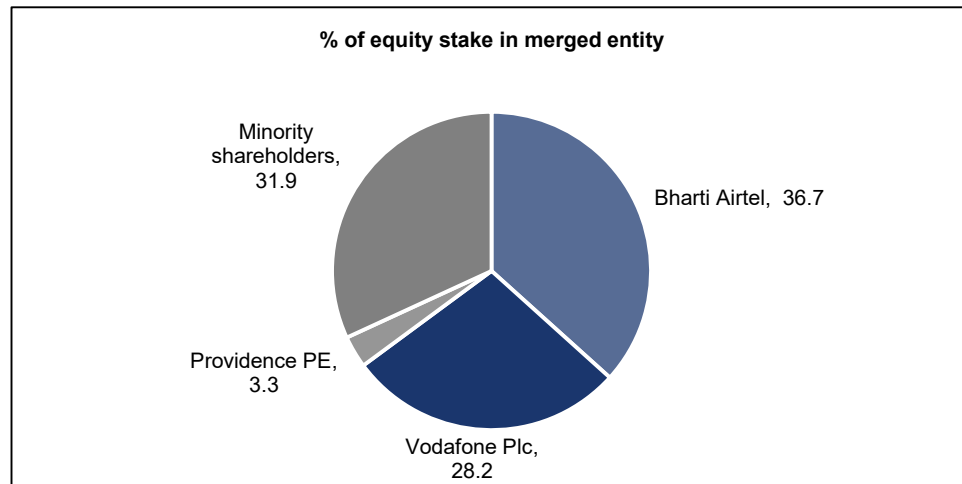
Source: Company data, I-Sec research

**Table 7: Capital structure to improve post-merger with Indus Towers**

Rs mn	
<b>Without merger</b>	<b>FY20</b>
Equity	1,35,423
Net debt	(31,669)
<b>Invested capital</b>	<b>1,03,754</b>
<i>ND/Equity (%)</i>	<i>(23.4)</i>
<b>Post merger</b>	<b>FY22E</b>
Equity	2,75,278
Net debt	84,285
<b>Invested capital</b>	<b>3,59,563</b>
<i>ND/Equity (%)</i>	<i>30.6</i>

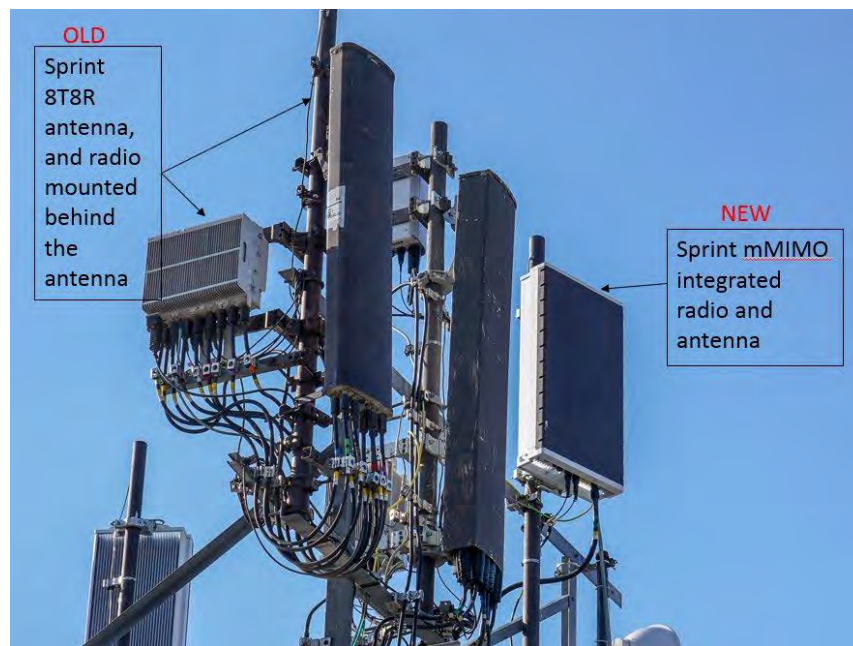
Source: Company data, I-Sec research

**Chart 1: Post-merger shareholding pattern of merged entity**



Source: Company data, I-Sec research

**Chart 2: 5G radio is anticipated to be integrated with antenna (massive MIMO, or distributed antenna)**



Source: Company data, I-Sec research

**Table 8: Bharti Infratel's SoTP-based valuation**

<b>Business Segments (Rs/sh)</b>	<b>WACC (%)</b>	<b>Equity Value</b>	<b>Stake (%)</b>	<b>Holdco discount (%)</b>	<b>Equity value</b>
Bharti Infratel standalone	11.3	165	100.0		165
Indus Towers	11.3	238	42.0	20.0	80
<b>Bharti Infratel (consolidated) - Value per share</b>					<b>245</b>

Source: Company data, I-Sec research

## Financial summary

Table 9: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>145,823</b>	<b>146,472</b>	<b>151,626</b>	<b>160,798</b>
<b>Operating Expenses</b>	<b>85,811</b>	<b>72,972</b>	<b>75,493</b>	<b>80,248</b>
<b>EBITDA</b>	<b>60,012</b>	<b>73,500</b>	<b>76,134</b>	<b>80,550</b>
<i>% margins</i>	41.2	50.2	50.2	50.1
Depreciation & Amortisation	22,239	29,571	30,681	31,700
Net Interest	3,060	8,642	8,945	9,282
Other Income	6,665	5,547	3,976	4,022
<b>Recurring PBT</b>	<b>41,378</b>	<b>40,834</b>	<b>40,483</b>	<b>43,591</b>
Add: Extraordinaries	-	-	-	-
Less: Taxes	16,083	7,847	10,202	10,985
- Current tax	16,083	7,847	10,202	10,985
- Deferred tax	-	-	-	-
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>24,938</b>	<b>32,987</b>	<b>30,281</b>	<b>32,606</b>
<b>Recurring Net Income</b>	<b>24,720</b>	<b>32,987</b>	<b>30,281</b>	<b>32,606</b>

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	51,378	55,934	58,458	58,303
of which cash & cash eqv.	1,371	2,039	4,420	7,313
Total Current Liabilities & Provisions	39,075	38,898	40,210	42,106
<b>Net Current Assets</b>	<b>12,303</b>	<b>17,036</b>	<b>18,248</b>	<b>16,197</b>
<b>Investments</b>	<b>47,973</b>	<b>54,383</b>	<b>54,383</b>	<b>54,383</b>
of which				
Strategic/Group	-	-	-	-
Other Marketable	47,973	54,383	54,383	54,383
<b>Net Fixed Assets</b>	<b>128,356</b>	<b>174,499</b>	<b>170,177</b>	<b>166,447</b>
<b>Goodwill</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>174,890</b>	<b>242,209</b>	<b>242,237</b>	<b>242,237</b>
<b>Liabilities</b>				
Borrowings	23,492	107,218	107,218	107,218
Deferred tax liability	6,153	(389)	(1,324)	(1,324)
Minority Interest				
Equity Share Capital	18,496	18,496	18,496	18,496
Face Value per share (Rs)	10.0	10.0	10.0	10.0
Reserves & Surplus	126,749	116,884	117,847	117,847
<b>Net Worth</b>	<b>145,245</b>	<b>135,380</b>	<b>136,343</b>	<b>136,343</b>
<b>Total Liabilities</b>	<b>174,890</b>	<b>242,209</b>	<b>242,237</b>	<b>242,237</b>

Source: Company data, I-Sec research

Table 11: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net sales	36,376	36,733	36,244	35,047
% growth (YoY)	(1.7)	1.0	(0.8)	0.9
EBITDA	18,783	18,772	16,990	17,672
Margin (%)	51.6	51.1	46.9	50.4
Other income	1,336	1,106	1,514	988
Add: Extraordinaries	-	-	-	-
Net profit	9,635	7,987	6,495	7,036

Source: Company data

Table 12: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>31,669</b>	<b>64,464</b>	<b>65,017</b>	<b>68,121</b>
Working Capital Changes	(8,007)	(20,640)	(709)	607
Capital Commitments	(17,438)	(18,278)	(18,685)	(19,474)
<b>Free Cashflow</b>	<b>6,224</b>	<b>25,545</b>	<b>45,623</b>	<b>49,254</b>
<b>Cashflow from Investing Activities</b>	<b>26,542</b>	<b>(863)</b>	<b>3,976</b>	<b>4,022</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	6,591	8,003	(7,991)	(8,495)
Dividend paid & Others	(38,745)	(32,017)	(39,227)	(41,888)
<b>Chg. in Cash &amp; Bank balance</b>	<b>612</b>	<b>668</b>	<b>2,381</b>	<b>2,893</b>

Source: Company data, I-Sec research

Table 13: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
Recurring EPS	13.4	17.8	16.4	17.6
Reported EPS	13.5	17.8	16.4	17.6
Recurring Cash EPS	25.5	33.8	33.0	34.8
Dividend per share (DPS)	15.0	10.5	16.4	17.6
Book Value per share (BV)	78.5	73.2	73.7	73.7
<b>Growth Ratios (%)</b>				
Operating Income	0.6	0.4	3.5	6.0
EBITDA	(5.9)	22.5	3.6	5.8
Recurring Net Income	0.3	33.4	(8.2)	7.7
Diluted Recurring EPS	0.3	33.4	(8.2)	7.7
Diluted Recurring CEPS	(2.5)	32.6	(2.6)	5.5
<b>Valuation Ratios (x)</b>				
P/E	13.4	10.0	10.9	10.2
P/CEPS	7.0	5.3	5.4	5.1
P/BV	2.3	2.4	2.4	2.4
EV / EBITDA	5.1	5.2	5.0	4.7
EV / Operating Income	2.1	2.6	2.5	2.3
EV / Operating FCF	49.0	14.9	8.3	7.6
<b>Operating Ratios</b>				
Other Income / PBT (%)	16.1	13.6	9.8	9.2
Effective Tax Rate (%)	38.9	19.2	25.2	25.2
NWC / Total Assets (%)	100.0	(0.8)	5.5	7.3
Inventory Turnover (days)	na	na	na	na
Receivables (days)	37.3	51.5	48.6	45.5
Payables (days)	89.3	92.2	93.2	93.2
Net Debt/EBITDA Ratio (x)	(0.4)	0.7	0.6	0.6
Capex % of sales	12.0	12.5	12.3	12.1
<b>Profitability Ratios (%)</b>				
Rec.Net Income Margins	17.0	22.5	20.0	20.3
RoCE	12.6	17.0	14.0	15.1
RoC	18.5	22.8	18.4	20.1
RoNW	15.7	23.5	22.3	23.9
Dividend Yield	8.4	5.9	9.1	9.8
EBITDA Margins	41.2	50.2	50.2	50.1

Source: Company data, I-Sec research

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