

Broadband segment boosts earnings...

GTPL Hathway (GTPL) reported a strong Q2FY21 operating performance. Ex-EPC revenues were at ₹ 497.3 crore, up 10.4% YoY. Revenues at ₹ 575.6 crore, were down 7.1% YoY as EPC revenues for Q2FY21 were lower at ₹ 78.3 crore due to disruptions. Subscription and broadband revenues were at ₹ 267.7 crore and ₹ 67 crore, respectively. Reported EBITDA increased 8.7% YoY to ₹ 129.9 crore. EBITDA margins at 22.6%, were up 328 bps YoY as Q2FY20 had higher proportion of EPC revenue. Core EBITDA was up 15% YoY to ₹ 124.3 crore with margins at 25%, up 100 bps YoY. PAT at ₹ 45.1 crore, was up 56.3% YoY.

Steady growth in subscription revenues

Subscription revenues reported 2.6% growth YoY. Placement/carriage income was up 20% to ₹ 132.3 crore, which led growth in CATV business. On subscription front, ARPU generated was at ₹ 123 (vs. ₹ 120 in Q1FY21). Active subscribers (7.9 million) and paying subscribers (7.3 million) registered growth of 100K each compared to the decline in Q1FY21. The management indicated there is no issue on LCO receivables front and no provisions will be necessary. GTPL is planning further expansion in Telangana, Maharashtra, Tripura, etc. The company aims to reach 11-12 million customers in three years driven by these expansions. We build in 7.5% subscription revenues CAGR in FY20-22E. The company also envisages a wider role of LCO under *NTO 2* in package structuring, albeit the applicability of the same hinges on court's ruling.

Broadband segment continues to post strong gains

Broadband revenue growth of 68.3% YoY to ₹ 67 crore, was due to strong addition of 80K subscribers during the quarter leading to 535K subscribers and ARPU growth (up 3.6% YoY at ₹ 430) as customers opted for higher priced plans. The management said they are aiming at 225-250K subscribers' addition in FY21E, compared to 80K in FY20. The company has also augmented its capex plans (revised guidance of ₹ 250-260 crore vs. earlier guidance of ₹ 210-220 crore) and additional capex will be incurred in broadband segment. GTPL's hybrid STBs would be rolled out in Q3FY21E. We bake in robust broadband revenue growth of 44.7% CAGR in FY20-22E.

Valuation & Outlook

GTPL's operating performance continues to remain strong, especially in broadband segment, which reported solid traction. We remain constructive on the company given the superior financial metric vis-à-vis peer amid leadership in key markets. The company had indicated to be a net debt free company by end of FY21E and expansion in newer markets with stronghold in Gujarat provides growth opportunities. We maintain our **BUY** rating and value it at ₹ 150/share, implying target multiple of 9x FY22E core earnings.

Key Financial Summary

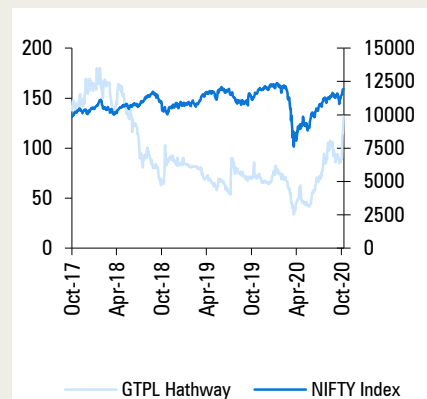
(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,091.3	1,245.8	2,394.8	2,386.6	2,206.2	(4.0)
EBITDA	295.5	318.2	461.6	546.1	579.0	12.0
PAT	61.1	18.9	77.7	184.9	189.6	
Adjusted PAT	65.3	61.8	122.7	184.9	189.6	24.3
P/E (x)	23.1	74.8	18.2	7.6	7.5	
Price / Book (x)	2.1	2.1	1.9	1.6	1.3	
EPS (₹)	5.4	1.7	6.9	16.4	16.9	
EV/EBITDA (x)	5.4	5.0	3.3	2.9	2.4	
RoCE (%)	14.9	15.8	28.7	29.6	27.8	
RoE (%)	9.9	9.3	16.8	20.9	18.1	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization	₹1413 Crore
Total Debt (FY 20)	₹215.8 Crore
Cash & Liquid Inv.(FY 20)	₹87.9 Crore
EV	₹1540 Crore
52 week H/L (₹)	139/ 33
Equity capital (₹crore)	112.5
Face value (₹)	10.0

Price Chart



Key Highlights

- Reported strong operating performance with robust broadband revenue growth of ~68%
- Maintain BUY with revised target price of ₹ 150/share, implying 9x FY22E core earnings

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Conference Call and business highlights

- **Hybrid box rollout in Q3:** The management said rollout of hybrid box (single package including cable, broadband and OTT services) will happen in Q3FY21 as it was delayed due to Covid-19 led disruption. The hybrid box is in production. Initially, it will be launched in phase 1 and 2
- **Broadband & cable growth guidance:** The management said strong addition of broadband subscribers would continue in H2FY21. They are targeting addition of 225-250K subscribers in FY21E. In the medium term, the company plans to acquire 1 million subscribers in two to three years. In the CATV segment, the management said subscribers' addition would be stronger in H2FY21 compared to H1FY21 as the economy is opening up. The company will target customers from DTH and unorganised segment and aims to reach 11-12 million customers in three years as it plans further expansion in Maharashtra, Telangana, Tripura, etc. The management said they are in discussions with other companies for inorganic expansion. If acquisitions happen, it will be funded through internal accruals
- **Capex guidance increased; ARPUs to remain range bound:** The company has incurred a capex of ₹ 130 crore in H1FY21. GTPL has increased capex guidance from ₹ 210-220 crore to ₹ 250-260 crore for FY21E. The additional capex will be incurred in broadband segment. Broadband ARPUs will be in range of ₹ 420-430 for FY21E. Cable ARPUs were at ₹ 123 during the quarter. The company will take a call on increase in pricing and overall package restructuring once there is more clarity on NTO 2.0
- **EPC project to complete in Q3, DoT demand not applicable:** The management said 95% of GPs are connected and the company expects to complete the EPC project in Q3FY21E. The management reiterated their stance that DoT demand of ₹ 935 crore is not applicable as the company does not operate in the telecom segment
- **Receivables increased; no provision necessary:** The management said trade receivables increased owing to increase in receivables from broadcasters. Receivables breakup: placement & carriage income - ₹ 151 crore, broadband- ₹ 28 crore, subscription - ₹ 158 crore, EPC- ₹ 120 crore. The company said provision for receivables from LCOs will not be necessary in FY21E while the company has received partial amount of receivables, for which provisions were made earlier
- **Other highlights**
 - Out of 3.72 million broadband home pass, 65% home pass is available for FTTx conversion. Data consumption per customer was 195 GB/month as on Q2FY21, up 55% YoY
 - Gross debt : ₹ 171.8 crore, net debt : ₹ 70.1 crore

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(₹Crore)	FY19	FY20	FY21E	FY22E	
Total operating Income	1,245.8	2,394.8	2,386.6	2,206.2	
Growth (%)	20.4	92.2	-0.3	-7.6	
Operating Expenses	602.1	940.5	1,109.2	1,163.8	
EPC Costs	0.0	601.7	356.7	0.0	
Employee Expenses	147.1	142.5	120.2	176.5	
Other Expenses	178.4	248.5	254.3	286.8	
Total Operating Expenditure	927.6	1,933.2	1,840.5	1,627.1	
EBITDA	318.2	461.6	546.1	579.0	
Growth (%)	16.8	45.1	18.3	6.0	
Depreciation	201.9	231.7	262.5	275.8	
Interest	51.4	44.7	26.0	24.1	
Other Income	43.3	40.7	33.6	36.0	
Exceptional Items	64.9	68.0	-	-	
PBT	43.4	157.8	291.2	315.2	
M/PAT from associates	2.7	6.0	10.3	21.3	
Total Tax	18.5	69.8	85.0	104.3	
PAT	22.2	82.0	195.9	189.6	
Growth (%)	32.7	269.7	138.9	-3.2	
Adjusted PAT	61.8	122.7	184.9	189.6	
EPS (₹)	1.7	6.9	16.4	16.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	18.9	77.7	184.9	189.6	
Add: Depreciation	201.9	231.7	262.5	275.8	
Add: Interest Paid	51.4	44.7	26.0	24.1	
(Inc)/dec in Current Assets	-73.1	-75.5	-125.8	36.2	
Inc/(dec) in CL and Provision	72.3	210.3	-53.8	-77.1	
CF from operating activities	271.3	489.0	293.9	448.4	
(Inc)/dec in Investments	-1.0	0.4	0.0	0.0	
(Inc)/dec in Fixed Assets	-201.4	-315.3	-260.0	-200.0	
Others	-22.0	-45.9	0.0	0.0	
CF from investing activities	-224.4	-360.8	-260.0	-200.0	
Issue/(Buy back) of Equity	1.8	-0.7	0.0	0.0	
Inc/(dec) in loan funds	16.9	-129.4	-30.0	-14.0	
Interest paid	-51.4	-44.7	-26.0	-24.1	
Dividend outflow	-13.5	-13.5	-27.1	-27.1	
Others	6.2	9.3	-20.0	0.0	
CF from financing activities	-40.1	-179.0	-103.1	-65.1	
Net Cash flow	6.8	-50.9	-69.1	183.3	
Opening Cash	132.0	138.8	87.9	18.8	
Closing Cash	138.8	87.9	18.8	202.1	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	112.5	112.5	112.5	112.5	
Reserve and Surplus	552.3	615.8	773.7	936.2	
Total Shareholders funds	664.8	728.3	886.1	1,048.6	
Minority Interest	36.4	45.8	25.8	25.8	
Total Debt	345.2	215.8	185.8	171.8	
Deferred Revenue	126.7	53.9	53.9	53.9	
Lease Liabilities	0.0	25.3	25.3	25.3	
Deferred Tax Liabilities (Net)	-77.9	-64.1	-64.1	-64.1	
Total Liabilities	1,095.1	1,004.9	1,112.8	1,261.3	
Assets					
Gross Block	1,988.9	2,330.7	2,590.7	2,790.7	
Less: Acc Depreciation	821.6	1,079.9	1,342.4	1,618.2	
Net Block	1,167.3	1,250.9	1,248.3	1,172.5	
Capital WIP	32.0	32.0	32.0	32.0	
Goodwill on consolidation	46.7	74.5	74.5	74.5	
Total Fixed Assets	1,246.0	1,357.4	1,354.9	1,279.1	
Investments	14.7	14.3	14.3	14.3	
Debtors	321.3	278.6	359.6	332.4	
Loans and Advances	89.9	128.1	140.5	129.8	
Other Current Assets	114.5	212.5	244.9	246.6	
Cash	138.8	87.9	18.8	202.1	
Total Current Assets	664.5	707.2	763.8	911.0	
Creditors	299.2	574.2	523.1	483.5	
Provisions	9.5	10.9	9.9	9.2	
Other Current Liabilities	521.3	488.9	487.3	450.4	
Total Current Liabilities	830.1	1,074.0	1,020.3	943.1	
Net Current Assets	-165.6	-366.8	-256.4	-32.2	
Application of Funds	1,095.1	1,004.9	1,112.8	1,261.3	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	1.7	6.9	16.4	16.9	
Cash EPS	19.6	27.5	39.8	41.4	
BV	59.1	64.8	78.8	93.2	
DPS	1.0	1.0	2.0	2.0	
Cash Per Share	12.3	7.8	1.7	18.0	
Operating Ratios (%)					
EBITDA Margin	25.5	19.3	22.9	26.2	
PBT / Total Operating income	9.3	9.6	11.9	13.7	
PAT Margin	5.0	5.1	7.7	8.6	
Inventory days	7.3	3.4	3.4	3.4	
Debtor days	94.1	42.5	55.0	55.0	
Creditor days	87.7	87.5	80.0	80.0	
Return Ratios (%)					
RoE	9.3	16.8	20.9	18.1	
RoCE	15.8	28.7	29.6	27.8	
RoIC	13.6	29.8	29.9	33.2	
Valuation Ratios (x)					
P/E	74.8	18.2	7.6	7.5	
EV / EBITDA	5.0	3.3	2.9	2.4	
EV / Net Sales	1.3	0.6	0.7	0.6	
Market Cap / Sales	1.1	0.6	0.6	0.6	
Price to Book Value	0.0	0.0	0.0	0.0	
Solvency Ratios (x)					
Debt/EBITDA	1.1	0.5	0.3	0.3	
Net Debt / Equity	0.3	0.2	0.2	0.0	
Current Ratio	0.6	0.6	0.7	0.7	
Quick Ratio	0.6	0.5	0.7	0.7	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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