

Broadband segment shines again...

GTPL Hathway (GTPL) reported a robust Q3FY21 operating performance. Ex-EPC revenues were at ₹ 544.6 crore, up 24.8% YoY. Revenues at ₹ 647.2 crore were down 4% YoY as EPC revenues for Q3FY21 were lower at ₹ 102.6 crore. Subscription and broadband revenues were at ₹ 271.8 crore and ₹ 77.8 crore, respectively. Reported EBITDA increased 15.9% YoY to ₹ 141 crore. EBITDA margins at 21.8%, were up 374 bps YoY as Q3FY20 had higher proportion of EPC revenue. Core EBITDA was up 27% YoY to ₹ 133.7 crore with margins at 24.5%, up 40 bps YoY. PAT at ₹ 45.2 crore, was up 36.8% YoY.

Expansion in new markets holds the key

Subscription revenues was up 5.3% YoY. Placement/carriage income was up sharply by ~58% YoY at ₹ 164 crore, driving the growth in CATV business. On subscription front, ARPU generated was at ₹ 123, flattish QoQ. Active subscribers (7.9 million) and paying subscribers (7.3 million) registered growth of 50K each compared to the growth of 100K in Q2FY21 as corporate customer acquisition was hindered in November due to intermittent lockdown. The company is targeting 50% growth in cable TV subscribers over next two to three years on the back of expansion in newer markets and also through inorganic route. We build in ~9% subscription revenues CAGR in FY21E-23E. The company will take a call on increase in pricing once there is more clarity on NTO 2.0 or if normalcy settles in.

Broadband segment growth momentum continues

Broadband segment reported staggering growth of 84.4% YoY to ₹ 77.8 crore, led by continued strong addition of 50K subscribers during the quarter leading to 585K subscribers and ARPU growth (up 7.2% YoY at ₹ 445) as customers opted for higher priced plans. The company is targeting 100% increase in subscribers over the next three years. The company has incurred capex of ₹237 crore in 9MFY21 and capex guidance for FY21 and FY22E stands at ₹300 crore. GTPL's hybrid STBs would be rolled out in Q4FY21E. We estimate robust broadband revenue growth of 27.5% CAGR in FY21-23E, on a higher base.

Valuation & Outlook

GTPL's resilient operating performance has been a result of solid traction in broadband segment. We remain constructive on the company given the superior financial metric with leadership in its key markets. The company's consistent debt reduction provides comfort and expansion in newer markets with stronghold in Gujarat provides growth opportunities. We rollover our valuations and maintain **BUY** rating. We value the company at ₹ 175/share (previous TP: ₹ 150), implying target multiple of 8x FY23E core earnings.



Particulars

Particular	Amount
Market Capitalization	₹ 1565 Crore
Total Debt (FY20)	₹ 215.8 Crore
Cash & Liquid Inv. (FY20)	₹ 87.9 Crore
EV	₹ 1693 Crore
52 week H/L (₹)	163/ 33
Equity capital (₹ crore)	112.5
Face value (₹)	10.0

Key Highlights

- Reported robust operating performance with sharp broadband revenue growth of ~84%
- Maintain BUY with revised target price of ₹ 175/share, implying 8x FY23E core earnings

Key risk to our call

- Slower than anticipated broadband growth will affect revenue estimates
- CATV segment ramp-up below estimates coupled with uncertainty over NTO 2.0

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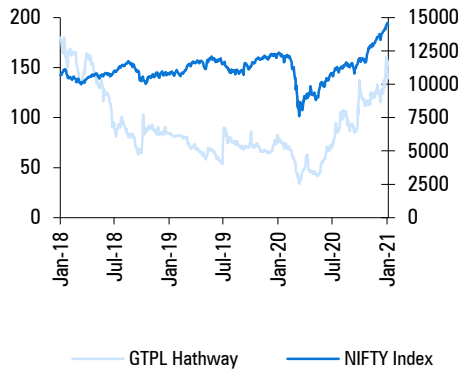
Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,245.8	2,394.8	2,419.7	2,311.9	2,539.3	2.0
EBITDA	318.2	461.6	537.8	602.2	693.8	14.5
PAT	18.9	77.7	182.0	195.5	244.5	
Adjusted PAT	61.8	122.7	182.0	195.5	244.5	25.8
P/E (x)	82.9	20.1	8.6	8.0	6.4	
Price / Book (x)	2.4	2.1	1.8	1.5	1.2	
EPS (₹)	1.7	6.9	16.2	17.4	21.7	
EV/EBITDA (x)	5.5	3.6	3.1	2.5	1.8	
RoCE (%)	15.8	28.7	30.9	30.3	30.1	
RoE (%)	9.3	16.8	20.6	18.6	19.3	

Conference Call and business highlights

- **Hybrid box rollout in Q4:** The management expects rollout of hybrid box (single package including cable, broadband and OTT services) in Q4FY21 along with launch of other new services and products like combined distribution, broadband through partners and marketing activities. Price of hybrid box will complement with that of one of their partners. The company is gathering information via survey and will keep the price attractive for consumers with some benefits to migrating customers. They will ensure bundled pricing is EBITDA accretive. Negotiations with OTTs are currently going on regarding the hybrid box.
- **Broadband & cable growth guidance:** The management expects strong addition of broadband subscribers would continue going forward. They are targeting 100% growth in subscribers over next two to three years. The company will leverage CATV segment for broadband expansion. In the CATV segment, the management is targeting 50% growth in subscribers over next two to three years. CATV expansion will be via both organic and inorganic route. Customers acquisition in CATV segment was lower in Q3 on account of corporate customers due to lockdown. The company was acquiring 150-160K subscribers from new market like AP, Telangana, Tripura, etc. which was affected due to lockdown. The management is hopeful of home pass addition similar to FY20 in FY22E. Both push and pull strategies will be deployed towards CATV expansion.
- **Capex guidance increased; broadband ARPUs to increase QoQ:** The company has incurred a capex of ₹ 237 crore in 9MFY21 (₹ 127 crore in CATV and ₹ 110 crore in broadband). It has increased capex guidance from ₹ 250-260 crore to ~₹ 300 crore for FY21E. The additional capex will be incurred in broadband segment. Going ahead, capex guided for FY22 was ~₹ 300 crore with ₹160-170 crore capex in broadband segment. The management guided for ARPU growth QoQ. Broadband ARPUs are expected to stabilise in range of ₹ 475-500 going ahead as customers are opting for higher speed packages. 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 or if normalcy settles in.
- **EPC project spill over in FY22:** The management expects ~95% of EPC project completion by Q4FY21E with some spill over in FY22. Once project is completed, there will be O&M revenue of ₹ 57 crore per annum for five years which is a high margin segment.
- **No fresh doubtful debts:** The total receivables were at ₹ 337.2 crore and cash & cash equivalents was ₹ 52.3 crore. Receivables breakup: placement & carriage income - ₹ 155.1 crore, EPC- ₹ 147.3 crore. The management does not expect any fresh doubtful debts in Q4 and write back during 9MFY21 period was ₹3.9 crore.
- **Other highlights**
 - Out of 3.8 million broadband home pass, 65% home pass is available for FTTx conversion. Data consumption per customer was 205 GB/month as on end of Q3FY21, up 63% YoY
 - Gross debt: ₹ 159.5 crore, net debt: ₹ 39.2 crore
 - The management will recommend dividend to the board in FY21 similar or higher compared to dividend paid in FY20
 - Employee expenses reduced during the quarter due to outsourcing of ground functions

Exhibit 1: Price performance



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Total operating Income	2,394.8	2,419.7	2,311.9	2,539.3
Growth (%)	92.2	1.0	-4.5	9.8
Operating Expenses	940.5	1,169.4	1,256.1	1,370.2
EPC Costs	601.7	345.2	46.5	28.5
Employee Expenses	142.5	118.2	135.7	148.9
Other Expenses	248.5	249.1	271.4	297.9
Total Operating Expenditure	1,933.2	1,881.9	1,709.7	1,845.5
EBITDA	461.6	537.8	602.2	693.8
Growth (%)	16.8	16.5	12.0	15.2
Depreciation	231.7	260.1	289.0	317.4
Interest	44.7	23.9	14.1	14.1
Other Income	40.7	33.0	36.0	36.0
Exceptional Items	68.0	-	-	-
PBT	157.8	286.8	335.1	398.3
MI/PAT from associates	10.3	26.2	28.7	31.4
Total Tax	69.8	78.6	110.9	122.4
PAT	77.7	182.0	195.5	244.5
Growth (%)	32.7	134.1	7.4	25.1
Adjusted PAT	122.7	182.0	195.5	244.5
EPS (₹)	6.9	16.2	17.4	21.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	112.5	112.5	112.5	112.5
Reserve and Surplus	615.8	770.8	939.2	1,156.6
Total Shareholders funds	728.3	883.2	1,051.7	1,269.1
Minority Interest	45.8	21.1	21.1	21.1
Total Debt	215.8	120.8	100.8	100.8
Deferred Revenue	53.9	53.9	53.9	53.9
Lease Liabilities	25.3	25.3	25.3	25.3
Deferred Tax Liabilities (Net)	-64.1	-64.1	-64.1	-64.1
Total Liabilities	1,004.9	1,040.2	1,188.6	1,406.0
Assets				
Gross Block	2,330.7	2,640.7	2,940.7	3,240.7
Less: Acc Depreciation	1,079.9	1,340.0	1,629.0	1,946.4
Net Block	1,250.9	1,300.7	1,311.7	1,294.3
Capital WIP	32.0	32.0	32.0	32.0
Goodwill on consolidation	74.5	74.5	74.5	74.5
Total Fixed Assets	1,357.4	1,407.3	1,418.3	1,400.9
Investments	14.3	14.3	14.3	14.3
Debtors	278.6	331.5	253.4	278.3
Loans and Advances	128.1	129.5	136.1	149.4
Other Current Assets	212.5	214.5	222.0	280.2
Cash	87.9	28.2	165.2	368.5
Total Current Assets	707.2	703.6	776.6	1,076.4
Creditors	574.2	580.1	538.4	556.6
Provisions	10.9	11.0	10.2	10.5
Other Current Liabilities	488.9	494.0	472.0	518.4
Total Current Liabilities	1,074.0	1,085.1	1,020.6	1,085.5
Net Current Assets	-366.8	-381.4	-244.0	-9.2
Application of Funds	1,004.9	1,040.2	1,188.6	1,406.0

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	77.7	182.0	195.5	244.5
Add: Depreciation	231.7	260.1	289.0	317.4
Add: Interest Paid	44.7	23.9	14.1	14.1
(Inc)/dec in Current Assets	-75.5	-56.2	64.0	-96.4
Inc/(dec) in CL and Provisions	210.3	11.0	-64.4	64.9
CF from operating activities	489.0	420.9	498.1	544.5
(Inc)/dec in Investments	0.4	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-315.3	-310.0	-300.0	-300.0
Others	-45.9	0.0	0.0	0.0
CF from investing activities	-360.8	-310.0	-300.0	-300.0
Issue/(Buy back) of Equity	-0.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-129.4	-95.0	-20.0	0.0
Interest paid	-44.7	-23.9	-14.1	-14.1
Dividend outflow	-13.5	-27.1	-27.1	-27.1
Others	9.3	-24.7	0.0	0.0
CF from financing activities	-179.0	-170.7	-61.2	-41.2
Net Cash flow	-50.9	-59.7	136.9	203.3
Opening Cash	138.8	87.9	28.2	165.2
Closing Cash	87.9	28.2	165.2	368.5

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	6.9	16.2	17.4	21.7
Cash EPS	27.5	39.3	43.1	50.0
BV	64.8	78.5	93.5	112.8
DPS	1.0	2.0	2.0	2.0
Cash Per Share	7.8	2.5	14.7	32.8
Operating Ratios (%)				
EBITDA Margin	19.3	22.2	26.0	27.3
PBT / Total Operating income	9.6	11.5	13.5	14.8
PAT Margin	5.1	7.5	8.5	9.6
Inventory days	3.4	3.4	3.4	3.4
Debtor days	42.5	50.0	40.0	40.0
Creditor days	87.5	87.5	85.0	80.0
Return Ratios (%)				
RoE	16.8	20.6	18.6	19.3
RoCE	28.7	30.9	30.3	30.1
RoIC	29.8	32.0	35.7	42.2
Valuation Ratios (x)				
P/E	20.1	8.6	8.0	6.4
EV / EBITDA	3.6	3.1	2.5	1.8
EV / Net Sales	0.7	0.7	0.6	0.5
Market Cap / Sales	0.7	0.6	0.7	0.6
Price to Book Value	0.0	0.0	0.0	0.0
Solvency Ratios (x)				
Debt/EBITDA	0.5	0.2	0.2	0.1
Net Debt / Equity	0.2	0.1	-0.1	-0.2
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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