

**Target: Rs.238**
**CMP Rs.185 (5.0x FY23 EV/EBITDA)**
**BUY**

Index Details	
Sensex	39,879
Nifty	11,739
Industry	Telecom

**Bharti Infratel Ltd (BHIN)** the market leader in the domestic telecom tower space is a proxy play on India's telecom story. At present its consolidated asset base comprises of 95,801 towers (~16% of the industry) and post-merger with Indus Towers, its asset base would grow to ~1,70,000 towers, thereby consolidating its market share to ~29%.

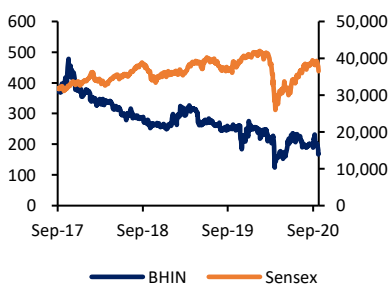
Scrip Details	
Mkt Cap (Rs Cr)	34,218
O/S Share (Cr)	184.96
3 M Avg Vol (000)	863.8
52 Wk H/L (Rs)	296/121
Div Yield (%)	5.7
FVPS (Rs)	10.0

Over the recent past, due to the disruption in the mobile telecom business a number of incumbents had to shut shop. This led to a reduction in the tenancy ratio from 2.25X (FY18) to the current 1.82X. With the disruption done with, we believe that the tenancy ratio has bottomed out. However, even at the flat tenancy we expect the tower count to grow a CAGR of 2.2% to 1,01,680 towers by FY23.

Shareholding Pattern	
Shareholder	%
Promoters	53.51
Institutional	45.50
Public	0.99
Total	100.00

In line with the above we expect revenue / EBITDA / net earnings to grow at a CAGR of 2.7% / 3.9% / -3.0% to Rs.15,869 / Rs.8,341 / Rs.3,008 cr over the forecast period. Implicit in the revenue is a CAGR growth of 3.4% in rental inflation. The deferred tax gain of Rs.231 cr in FY20 is creating the optics of a negative growth in net earnings. Adjusted for the deferred tax gain, the net earnings are expected to grow at CAGR of 1.7% over FY20-23. Consequently, RoE is expected to decline from 24.4% in FY20 to 21.5% in FY23, while RoCE improves by 34bps to 15.3%.

#### BHIN vs. Sensex



Our forecast does not take into consideration the infrastructure rollout for 5G. This would require a more dense network, thereby leading to a long term growth story of BHIN. The 5G network is relatively more asset light (than the existing network), resulting in a shorter rollout time leading to a faster growth in profitability.

Data consumption in India has grown at a CAGR of 115.2% from 0.26 GB per user per month in CY14 to 12.00 GB in CY19 on account of increased smartphone penetration and continuing evolution of mobile ecosystem in the past 5 years. We expect this growth rate to remain sustained given the drastic shift in work culture effected by the pandemic.

#### Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
<b>FY19</b>	14,582	6,073	2,494	41.6	17.1	13.5	78.5	17.2	13.9	13.4	2.3	5.5
<b>FY20</b>	14,647	7,442	3,299	50.8	22.5	17.8	73.2	24.4	14.9	10.1	2.5	5.5
<b>FY21E</b>	14,453	7,488	2,842	51.8	19.7	15.4	73.7	20.9	14.4	12.0	2.5	5.5
<b>FY22E</b>	15,240	7,986	3,007	52.4	19.7	16.3	74.8	21.7	15.1	11.4	2.5	5.2
<b>FY23E</b>	15,869	8,341	3,008	52.6	19.0	16.3	75.7	21.5	15.3	11.4	2.4	5.0

**BHIN with its consistent cash flow of Rs.4,000-5,000 cr per annum is well placed to fund the future capex without having to resort to any significant dilution. We believe that BHIN should continue to remain a steady compounder given that its net earnings should continue to grow at a steady rate.**

**We initiate coverage on BHIN with a BUY for a DCF based intrinsic value of Rs.238 (29% upside). At the current market price, it also provides a good dividend yield of 5.7%.**

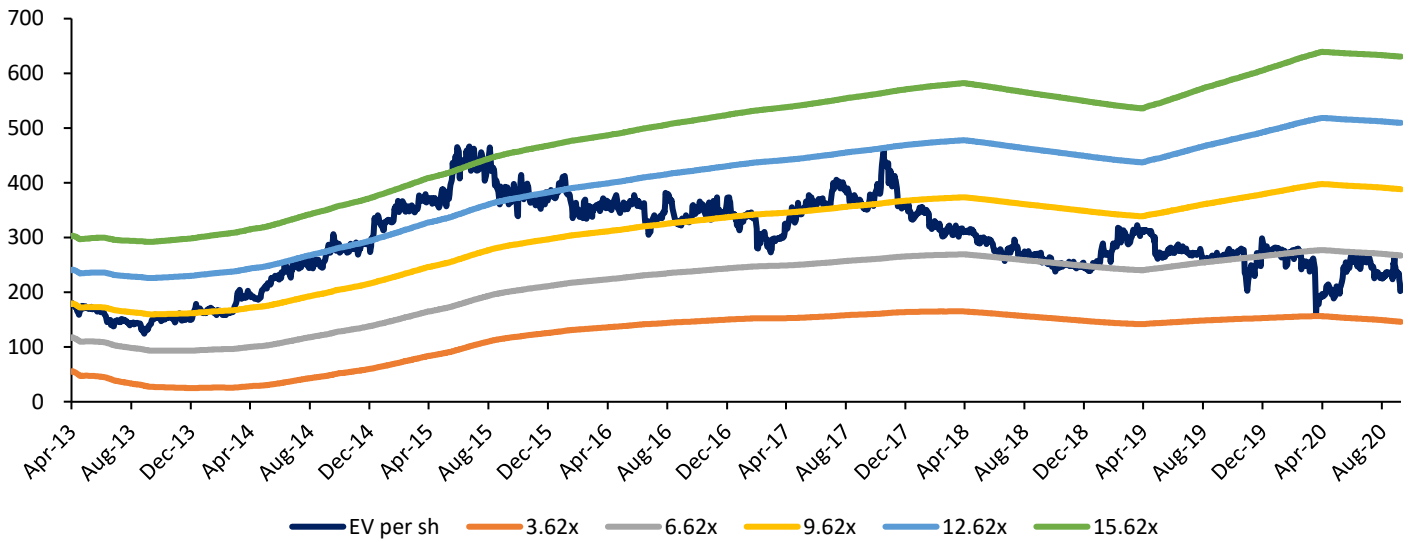
**Our optimism stems from the following:**

- **Accelerated data network rollout by JIO and Airtel, to serve the increased data demand, has improved tower requirement in the past 12 months. Despite the loss of VIL, BHIN added 3,095 towers in FY20, compared to 826 in FY19, 805 in FY18 and 1,838 in FY17. The momentum is expected to continue due to burgeoning data demand on account of WFH culture.**
- **Pan India presence with a consolidated market share of over 20% in telecom tower space. This could mean faster sweating of assets and lighter capex requirement going forward.**
- **BHIN, in partnership with the government, started a Smart City project in Bhopal and created a shared model of smart poles and a network of the optical fiber at the cost of Rs.125 cr. It is a pilot project and commenced commercial operation in FY20. In line with this achievement, Indus Tower also won the bid for Vadodara and Dehradun Smart City projects.**

**BHIN's network is future ready for the rollout of advanced technologies.**

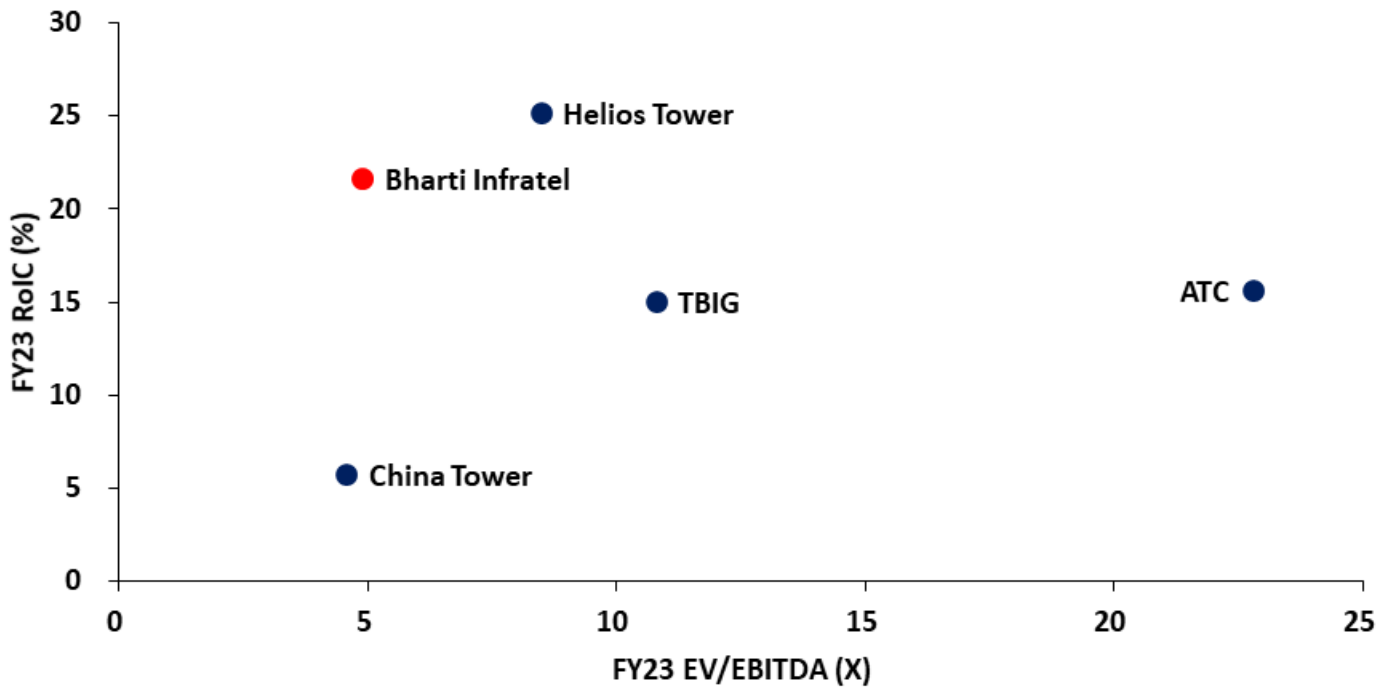
- **Strong balance sheet with negligible debt and moderate capex to sustain the high free cash flows and maintain its dividend payout trend.**

**EV/EBITDA 1 year forward band chart**



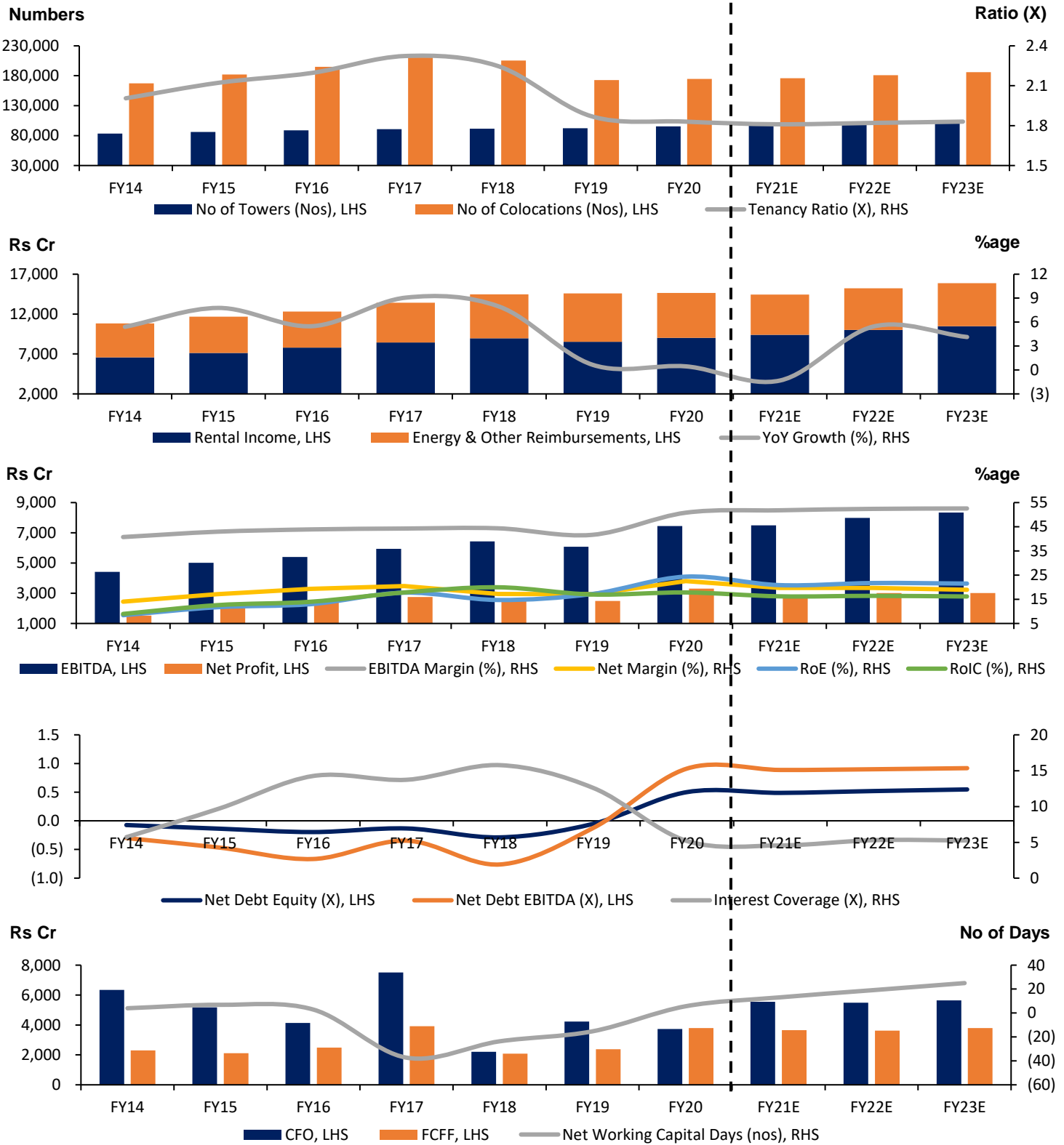
Source: BSE & Ventura Research

**Global telecom tower peer comparison**



Source: Bloomberg & Ventura Research

\*We have not considered GTL Infra because they report negative EBIT



Source: Company Reports & Ventura Research

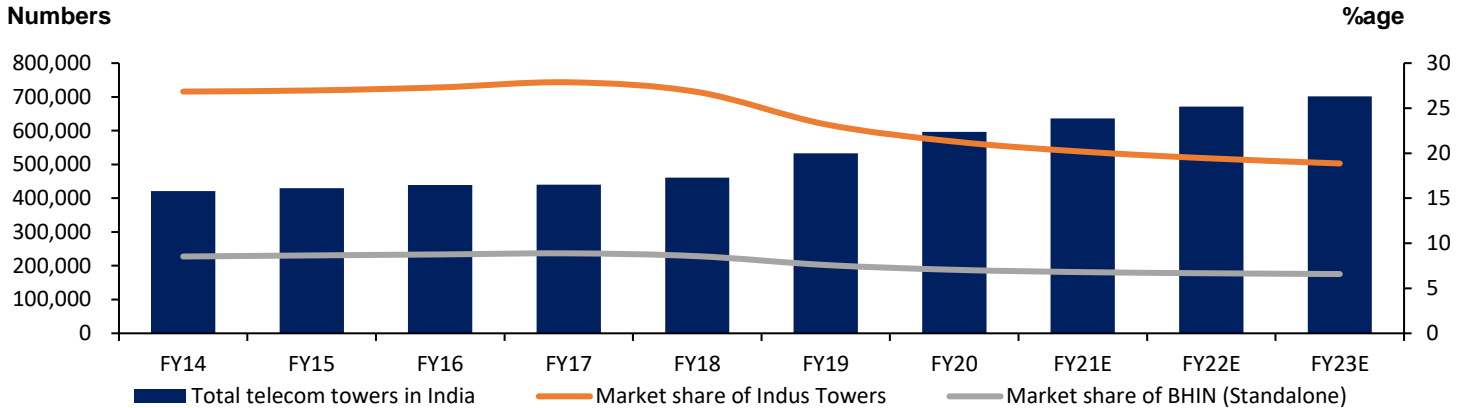
**Quarterly Financial Performance**

Financial Figures are in Rs Cr	FY18	FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21	Q2FY21E	Q3FY21E	Q4FY21E	FY21E	FY22E	FY23E
No of Towers (Nos)	91,451	92,277	92,632	93,421	94,244	95,372	95,372	95,801	96,248	96,695	97,142	97,142	99,482	101,680
Monthly rent / tower (Rs)	82,094	77,323	81,503	80,210	81,113	79,153	80,236	78,219	82,008	83,237	81,794	80,575	84,854	86,947
No of Colocations (Nos)	205,596	172,724	173,247	173,406	174,150	174,581	174,581	174,216	174,209	175,018	175,827	175,827	181,057	186,074
Monthly rent / colocation (Rs)	35,918	41,124	43,560	43,050	43,797	43,038	43,121	42,871	45,202	45,987	45,190	44,516	46,074	47,641
Tenancy Ratio (X)	2.25	1.87	1.87	1.86	1.85	1.83	1.83	1.82	1.81	1.81	1.81	1.81	1.82	1.83
Rental Income	8,969	8,524	2,261	2,239	2,283	2,251	9,034	2,243	2,362	2,409	2,378	9,393	10,011	10,494
Energy Reimbursements	5,520	6,059	1,451	1,399	1,390	1,373	5,614	1,262	1,260	1,266	1,272	5,060	5,229	5,374
Total Revenue	14,490	14,582	3,712	3,638	3,673	3,624	14,647	3,505	3,623	3,675	3,650	14,453	15,240	15,869
Power & Fuel Cost	5,077	5,638	1,374	1,404	1,367	1,292	5,436	1,287	1,260	1,266	1,272	5,086	5,229	5,374
Employee Expenses	500	491	118	124	128	130	500	134	139	143	144	559	623	691
Repairs & Maintenance	904	806	150	185	178	193	706	167	196	197	198	757	826	862
Other Expenses	320	319	117	40	118	289	563	110	151	151	151	563	575	600
EBITDA	7,689	7,328	1,953	1,885	1,883	1,721	7,442	1,807	1,876	1,919	1,886	7,488	7,986	8,341
EBITDA Margin (%)	53.1	50.3	52.6	51.8	51.3	47.5	50.8	51.6	51.8	52.2	51.7	51.8	52.4	52.6
Monthly EBITDA / colocation (Rs)	25,738	26,756	37,629	36,250	36,121	32,908	35,714	34,538	35,903	36,627	35,832	35,615	37,296	37,866
PAT	2,494	2,494	887	964	799	650	3,299	704	700	743	695	2,842	3,007	3,008
PAT Margin (%)	17.2	17.1	23.9	26.5	21.7	17.9	22.5	20.1	19.3	20.2	19.1	19.7	19.7	19.0
Monthly PAT / colocation (Rs)	9,986	10,986	17,092	18,530	15,320	12,416	15,830	13,448	13,395	14,186	13,215	13,519	14,044	13,655

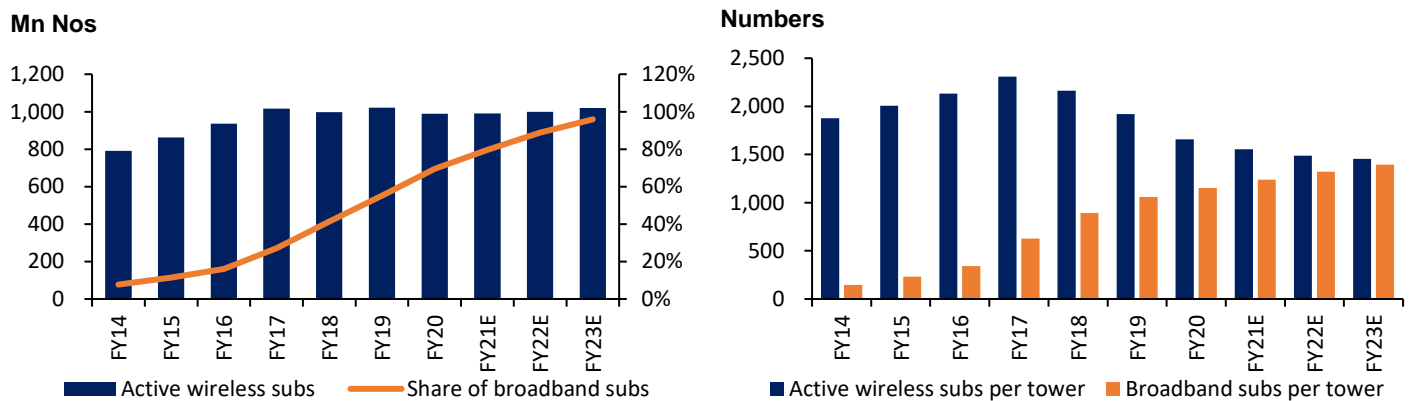
Source: Company Reports & Ventura Research

**Key risk and concern areas**

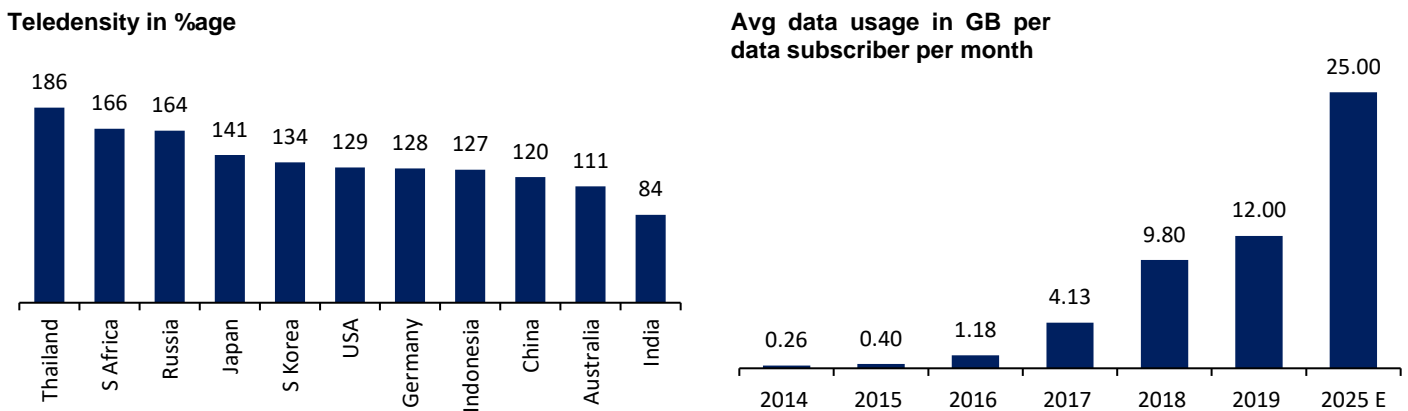
- Slower than expected data demand could delay the tower requirements from telecom operators
- The inability of operators to maintain or increase capex on network infrastructure due to financial constraints
- Governmental licensing of the spectrum and restriction / revocation of tenant's spectrum licenses
- Infrastructure bottleneck and increase in land prices for tower installation could affect the operating performance
- Disruption in wireless technology with the 5G rollout, which requires fiber infrastructure and multiple cell sites.
- Competition from large international players like ATC in the domestic market could impact BHIN's market share and restricts its growth.

**Despite market competition, BHIN & Indus maintained strong market share**


Source: TRAI, Company Reports & Ventura Research

**Active subscribers remained flat since FY17, but share of broadband improved significantly**


Source: TRAI & Ventura Research

**India's tele-density is lower than countries in the developed world providing opportunity for growth**


Source: TRAI, World Bank & Ericsson

**Key management personnel**

Key Person	Designation	Description
<b>Mr Akhil Gupta</b>	Chairman	He is a Chartered Accountant by qualification with over 30 years of professional experience. He has also completed an “Advanced Management Program” at the Harvard Business School in the year 2002. Apart from Bharti Infratel, He is currently the Chairman of TAIPA (Tower and Infrastructure Providers Association) and President of TSSC (Telecom Sector Skill Council). He represents the Indian Telecom Industry and Bharti regularly at various forums and important seminars in India and abroad.
<b>Mr DS Rawat</b>	MD & CEO	He has been part of the Company since 2010. He is also a member of the Executive Council Committee of Tower and Infrastructure Providers Association (TAIPA) and the Northern Regional Council of Confederation of Indian Industry (CII). He is an engineering graduate in Electronics & Communications. He had spent his initial years of professional life as an officer with Indian Air Force. He has also done an Advanced Management Programme at the Wharton, University of Pennsylvania. He holds over 31 years of Telecom in-depth experience in handling P&L, technology, rollouts and regulatory interfaces - both from operator and supplier perspective. Previously, he has worked with leading telecom Companies like Ericsson and Huawei.
<b>Ms Pooja Jain</b>	CFO	Ms. Pooja Jain is a Chartered Accountant. She has over 17 years of experience including 11 years in Bharti Infratel and 3 years in Bharti Airtel. She has widespread experience in financial reporting, controls and compliances. She has been a key functional resource in Initial Public Offer (IPO) of Bharti Infratel in 2012 and during the demerger of 12 circles of Bharti Infratel to the subsidiary company Bharti Infratel Ventures and later merger of Bhmti Infratel Ventures with the joint venture company (Indus Towers). She is currently heading shared services in the Company and entemrise risk management.

Source: Company Reports

## Financial & Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E	Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
<b>Income Statement</b>						<b>Per Share Data (Rs) &amp; Yields (%)</b>					
Revenue	14,582	14,647	14,453	15,240	15,869	Adjusted EPS	13.5	17.8	15.4	16.3	16.3
YoY Growth (%)	0.6	0.4	(1.3)	5.4	4.1	Adjusted Cash EPS	25.5	33.8	32.1	34.5	36.1
Total Expenses	8,509	7,205	6,965	7,254	7,527	Dividend Per Share	15.0	10.5	15.1	15.4	15.7
YoY Growth (%)	5.5	(15.3)	(3.3)	4.1	3.8	Dividend Yield	8.1	5.7	8.2	8.3	8.5
EBITDA	6,073	7,442	7,488	7,986	8,341	FCFF Per Share	12.8	20.5	19.8	19.5	20.5
Margin (%)	41.6	50.8	51.8	52.4	52.6	FCFF Yield	14.4	9.0	9.4	9.5	9.0
Depreciation	2,224	2,957	3,094	3,373	3,663	Adjusted BVPS	78.5	73.2	73.7	74.8	75.7
EBIT	3,849	4,485	4,394	4,614	4,678	<b>Return Ratios (%)</b>					
Margin (%)	26.4	30.6	30.4	30.3	29.5	Return on Equity	17.2	24.4	20.9	21.7	21.5
Other Income	667	555	436	345	301	Return on Capital Employed	13.9	14.9	14.4	15.1	15.3
Finance Cost	306	864	962	870	889	Return on Invested Capital	17.0	17.8	16.2	16.4	16.2
Exceptionals	108	92	70	70	70	<b>Leverage Ratio (X)</b>					
PBT	4,102	4,083	3,798	4,019	4,020	Total Debt to Equity	0.2	0.8	0.7	0.6	0.6
Margin (%)	28.1	27.9	26.3	26.4	25.3	Net Debt to Equity	(0.1)	0.5	0.5	0.5	0.5
Reported Tax	1,608	785	956	1,011	1,012	Net Debt to EBITDA	(0.1)	0.9	0.9	0.9	0.9
Tax Rate (%)	39.2	19.2	25.2	25.2	25.2	Interest Coverage	12.6	5.2	4.6	5.3	5.3
PAT	2,494	3,299	2,842	3,007	3,008	<b>Valuation Multiples (X)</b>					
Margin (%)	17.1	22.5	19.7	19.7	19.0	P/E Ratio	13.7	10.4	12.0	11.4	11.4
<b>Balance Sheet</b>						P/BV Ratio	2.4	2.5	2.5	2.5	2.4
Share Capital	1,850	1,850	1,850	1,850	1,850	EV/EBITDA Ratio	5.5	5.5	5.5	5.2	5.0
Total Reserves	12,675	11,688	11,781	11,988	12,146	EV/Sales Ratio	2.3	2.8	2.8	2.7	2.6
Shareholders' Fund	14,525	13,538	13,630	13,837	13,995	<b>Cash Flow Statement</b>					
Long Term Lease Liability	0	5,736	5,653	5,656	5,629	PBT	4,102	4,083	3,798	4,019	4,020
Other LT Financial Liabilities	575	254	259	273	284	Adjustments	1,977	254	2,993	2,760	2,930
Long Term Borrowings	471	70	50	0	0	Change in Working Capital	(329)	(836)	(289)	(279)	(294)
Long Term Provisions	701	771	862	961	1,066	Tax Paid	(1,608)	(785)	(956)	(1,011)	(1,012)
Deferred Tax Liability	615	0	0	0	0	<b>Cash Flow from Operations</b>	<b>4,142</b>	<b>2,716</b>	<b>5,546</b>	<b>5,488</b>	<b>5,644</b>
Other Non Current Liabilities	278	172	161	169	176	Net Capital Expenditure	(1,796)	(1,871)	(2,385)	(2,878)	(3,027)
<b>Total Liabilities</b>	<b>17,166</b>	<b>20,541</b>	<b>20,615</b>	<b>20,896</b>	<b>21,150</b>	Change in Investments	2,156	(5,673)	1,388	739	525
Gross Block	34,087	36,626	39,011	41,890	44,916	<b>Cash Flow from Investing</b>	<b>359</b>	<b>(7,544)</b>	<b>(997)</b>	<b>(2,139)</b>	<b>(2,501)</b>
Accumulated Depreciation	21,526	24,483	26,737	29,157	31,752	Change in Borrowings	659	1,662	(1,461)	(250)	0
Net Block	12,561	12,143	12,274	12,733	13,164	Change in Lease Liabilities	0	6,711	(60)	3	(32)
Right of use assets	0	5,130	5,119	5,076	4,942	Equity Dividend Paid	(3,975)	(2,570)	(2,750)	(2,800)	(2,850)
Capital Work in Progress	249	155	0	0	0	Tax on Dividend Paid	(818)	(529)	0	0	0
Intangible Assets	26	22	19	19	19	Less: Finance Cost	(306)	(379)	(423)	(290)	(269)
Non Current Investments	1,842	1,700	1,719	1,822	1,932	<b>Cash Flow from Financing</b>	<b>(4,440)</b>	<b>4,895</b>	<b>(4,694)</b>	<b>(3,337)</b>	<b>(3,150)</b>
Other LT Financial Assets	499	538	526	555	577	<b>Net Cash Flow</b>	<b>61</b>	<b>67</b>	<b>(146)</b>	<b>12</b>	<b>(8)</b>
Income Tax Assets	322	450	521	521	521	Opening Balance of Cash	76	137	204	58	70
Deferred Tax Assets	0	39	80	80	80	<b>Closing Balance of Cash</b>	<b>137</b>	<b>204</b>	<b>58</b>	<b>70</b>	<b>63</b>
Other Non Current Assets	332	481	548	578	602						
Net Current Assets	1,335	(117)	(192)	(487)	(686)						
<b>Total Assets</b>	<b>17,166</b>	<b>20,541</b>	<b>20,615</b>	<b>20,896</b>	<b>21,150</b>						

Source: Company Reports & Ventura Research



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