

Decade of consolidation behind us, Bharti Airtel preferred pick.

Decade of consolidation:

The Indian telecom industry has undergone a decade of consolidation. From a peak of 16 players in 2010, the industry today has 4 players, 3 private and one national player. The tariff war unleashed by Jio has resulted in this consolidation. Due to aggressive pricing by Jio, the industry is suffering from suboptimal ROEs, negative free cash flow and resulted into Vodafone Idea on the verge of bankruptcy. The AGR verdict has further worsened the woes of Vodafone Idea.

In five years of operation, Jio has garnered more than 400 million subscribers and has a dominant revenue market share of 39.80%. The gain in subscribers for Jio has come at the expense of Vodafone Idea and other marginal players. Vodafone Idea has lost more than 140 million subscribers since Idea has tied up with Vodafone. Due to Jio's aggressive tariffs, the average revenue per user (ARPU) has fallen from more than Rs 300 to less than Rs 150 currently. The fall in the ARPU has happened despite a boom in the data usage. Data consumption in India has exploded from 147.12MB/month per subscriber in 2016 to currently 12.33GB/month per subscriber.

What can change:

We believe Jio has attained dominant share of the total subscribers and revenue market. It has till date invested more than USD 20 bn in the business. While the company reports profit and has better balance sheet strength as compared to peers, the return on equity is sub optimal. Sub optimal ROEs along with requirement of recurring capex on network upgradation, 5G capex etc should lead to tariff hike by industry players including Jio, sooner than later. Further, we believe continuing the tariff war is incrementally detrimental for Jio given its dominant market share, both in terms of subscriber and industry revenues. Given our base case scenario of tariffs normalizing over the next few years, we expect Bharti Airtel Ltd to be a key beneficiary.

Long term demand drivers intact:

It is estimated that the use of smart phones will increase by 820 mn in the next 2 years. Young population will drive the demand for data due to an increase in activity on social media platforms, OTT content, video streaming and Online Gaming. IOT will play a huge role in the demand for connectivity. Digital payments are growing at an exponential rate and it will continue to do so which is based on the idea of a cashless economy. The transition from 2G/3G to 4G/5G will eventually lead to high revenue business for the telecom operators.

What will work in favour of Bharti Airtel:

Upgradation by customers to 4G is an indication of continuous upward trajectory of revenues from the mobile business. Airtel had total 321.4mn customers in India at the end of FY21, 188.6mn data customers at the end of FY21, of which 179.3mn were mobile 4G customers. Airtel exited the year with industry best ARPU of Rs 145. The price charged for data per GB in India is the lowest among the world and therefore tariff hikes is inevitable which would help to sustain and generate sufficient return on the capital employed. Recently, Airtel hiked minimum prepaid tariffs for its low-end customers (Rs 79 now from Rs 49 earlier), and minimum charges for corporate postpaid customers (from Rs 199 to Rs 299). Initially, the telco was reluctant to make the first move in raising tariffs, but it finally took the plunge that is expected to push up its ARPU. This is the first tariff hike in the

industry after all three telcos decided to raise tariffs in December 2019. Price hikes in the 4G prepaid segment will drive the market reset.

Bharti Airtel is also predominant payer in Africa. Airtel Africa is a subsidiary through which it conducts its operations in Africa (14 countries) contributes upto 25% of the total revenue of Bharti Airtel. As on March 31, 2021, the Company had 118.2 million customers in Africa across 14 countries as compared to 110.6 million customers in the previous year, marking an increase of 6.9%. Over the last few years, Airtel Africa revenues have grown by 10.3% and operating profits have grown by 16.7%. The company was recently listed on the London stock exchange.

Apart from the mobile services, Airtel has multiple segments such as Airtel Business, Airtel Home services and Airtel Digital TV Services. **All these businesses are also witnessing strong traction in the last few years. Bharti has continued to invest in these businesses with an aim to achieve critical business size over the next few years. We expect Bharti Airtel will monetize these businesses in the coming years.**

Valuation & Outlook :

Overall, we believe the telecom industry has seen a decade of consolidation and ultra-low tariffs. We expect return on equity and cash flows to improve as tariffs move up. Bharti Airtel earnings can see a disproportionate improvement as tariffs inch up. We recommend a **BUY** on Bharti Airtel with a **price target of Rs 863**. We value the company at **8.5X FY 2024 EV/EBIDTA**.

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