

Event – Bharti to raise funds via Rights issue

Bharti Airtel's board has approved fund raise of upto Rs 210 bn, via a 1:14 rights issue priced at Rs 535/ share, leading to a dilution of ~7%. As per the terms of the issue on payment of the issue price, subscribers need to pay 25% on application and the balance in two more additional calls as may be decided by the Board/ Committee of the Board from time to time based on the Company's requirements within an overall time-horizon of 36 months

□ The company may utilize the funds for

- A calibrated transition to 5G services by investing adequately in backhaul fiber network henceforth and acquiring spectrum, when auctioned by the government at an appropriate price
- Accelerating rollout of FTTH services for homes as well as businesses to tap the growing opportunity
- New areas such as data centers amid rising demand by enterprises
- The company ruled out any incremental investment in Indus Towers for now
- In the event of further industry consolidation, incremental capacity will help to service the subscriber addition and increased data consumption

Other concall highlights

- ❑ The management expects 5G spectrum auction to start in early CY22 and anticipates rollout of 5G services to begin in key cities by 2H CY22 and in other smaller cities during CY2023-24
- ❑ The recent price increase from Rs 49 to Rs 79 pan India has been accepted well. The management indicated further that it should inch up to Rs 99 in the near term. It also emphasized the need for the ARPU to reach Rs 200 by the end of FY22 and to Rs 300 in the medium term
- ❑ The net debt as of June end stood at Rs 1600 bn, which is ~3x EBITDA. The company indicated to reduce its debt and bring it at 2x debt/EBITDA in the near future
- ❑ The company indicated asset monetization of non-core assets like tower business, fiber infrastructure or real estate assets only at the right time and at right valuations
- ❑ The digital assets (B2B—Nextra, Airtel IoT, Airtel IQ, Airtel Ads and Airtel Secure, B2C—Wynk music, Airtel Thanks and Airtel Payment Bank) to remain under the flagship company. Any stake sale or strategic tie-ups will happen at the parent level

Our views

- ❑ Bharti Airtel's fund raise for increase in network capacity and debt reduction is a step in the right direction. We believe that in the event of further industry consolidation, Bharti, with a strong balance sheet and superior network, is in a favourable spot to garner increased market shares. And hence, this fund raise will aid in increase in the required capacity (if any) for additional subscriber addition and data consumption, apart from the 5G capex. Further, indication towards inching up the entry level tariff to Rs 99 from Rs 79 in the near term would help to reach closer to the targeted Rs 200/month ARPU by the end of FY22
- ❑ Over the last few years, Bharti had raised capital through various modes including debt and equity - in 2019/20, it had completed a rights issue of Rs 25,000 crs at Rs220/share, a QIP of Rs 14,350 crs at Rs 445/share and a USD 1 bn FCCB due in 2025 at Rs 534/share. This has helped the company to fund its growth trajectory, to provide for AGR liability, to build a war chest against RJIO. We have witnessed the growth trajectory (yoy revenue up ~19% in FY21) and increase in volume market share to 29.8% in Jun'21 from 28% in Mar'19. This history too provides a testimony to the strong execution capabilities of the company over the years
- ❑ The stock is trading at ~7x FY23E EV/EBITDA. We continue to remain positive on the stock and hold it in our core model portfolio.

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