Positive sum game

Tacit government support drives our view of sustained tariff hikes until 2030, driving 13% FY24-28E industry revenue CAGR vs 11% earlier. Conducive industry structure, favourable regulatory stance and adjacent opportunities that global telcos lack, viz. enterprise and home entertainment services, keep us positive despite Indian telecom's FY24 re-rating. Reinstate BUY on Airtel which remains the best play on telecom tariff reset and events like Jio's IPO. Turn BUYers on VI and Indus Towers. The latter would see increased RoCE with VI being able to fund its network expansion. Continued government support by way of converting FY26/27E deferred statutory payments into equity, tariff hikes and external capital availability would let VI thrive. We initiate Bharti Hexacom as BUYers and our top sector pick. Among large-caps, our pecking order is Airtel>Indus>VI.

Long period of gradual ARPU reset

We expect a 20% tariff hike in Sep-24 and biennial 12% tariff increases till 2034 followed by CPI-linked price hikes. Telecom would remain affordable at 1.29% of GDP consumer spends in FY30, similar to FY16 (pre-Jio). In 2024, telcos would also introduce metered plans (10-15GB/month) and introduce large allowance (5GB/day) instead of current ARPU-dilutive free unlimited 5G data. VI's precarious financial position despite capital raise would push the sector to keep hiking rates. Regulatory push could drive global OTT players to fund network investments through 'internet traffic taxes'. An 80% discount to retail prices levied on OTTs for 30% of telcos' traffic will boost Hexacom, Jio/VI and Airtel (C)'s FY24 cash EBITDA by 30%, 15% and 5% respectively.

Focus on adjacencies to continue

As mobile capex tapers for Airtel/Jio, their investments in fiberisation and services to pursue adjacencies in home and enterprise services would continue. This coupled with increased enterprise adoption of productivity enhancement tools and home entertainment FTTH bundles by consumers would enable telcos expand relevant TAM from adjacencies to expand to US$20bn in 2030 from current US$5bn. Jio and Airtel would emerge as key beneficiaries enabling high RoCE due to asset sweating of existing and incremental mobile investments. Jio's right to win is higher vs Airtel in homes due to its lower return expectation threshold and synergies with its retail business. Superior client engagement would enable Airtel to continue expanding on its enterprise lead, scaling up offerings like cloud services that are layered on its differentiated infrastructure. We expect these services to account for 1/4th of FY24-30E incremental telco sector revenue.

Elevated incremental returns with limited risks

Telecom would witness divergent capex trends with Airtel/Jio seeing a steep fall even as VI invests both in 4G/5G in FY25-28E. Airtel and Jio would focus on asset sweating and would see their FY25-27 capex drop by 23%/14% vs FY22-24. Fiber and data centres would see incremental investments along with B2C/B2B monetisation. We expect higher rollout of tower by Airtel in FY25-27E, resulting in Indus Towers' capex being 86% higher than FY22-24.

Premium valuations to sustain as telcos enjoy a prolonged Goldilocks period

Benign government stance is evidenced by royalty reduction, favourable financing rates for spectrum and tacit support to VI. This coupled with increased ability of telcos to exploit adjacencies enable Indian telcos to consistently grow revenues faster than nominal GDP unlike global telcos. Reverse DCF implied FY24-42E ARPU CAGR for Airtel, Hexacom and VI is 6-12%, which is reasonable in the context of 10-15% ARPU CAGR over FY19-24. Regulations and industry structure are key risks.

Key Recommendations

Reliance Industries	**SELL**
Target Price: ₹2,600	Downside: (11%)
Bharti Airtel	**BUY**
Target Price: ₹1,663	Upside: 17%
Vodafone Idea	**BUY**
Target Price: ₹21	Upside: 24%
Indus Towers	**BUY**
Target Price: ₹411	Upside: 22%
Bharti Hexacom	**BUY**
Target Price: ₹1,550	Upside: 39%

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CONTENTS

The Narrative in Charts 3
Prolonged ARPU reset with new usage linkages 6
- A brief history of Indian telecom tariffs and ARPU 6
- The case for prolonged tariff hikes 9
- Telcos to move to segmentation and usage-based pricing 10
- Government's accommodative stance to continue 13
- Telecom to remain affordable even after price hikes 14

Scalability beyond mobile connectivity intact 17
- Home entertainment is where telcos have a strong play 17
- B2B revenue scalability: Hyperscalers' pull-back is temporary 19
- Indian telcos TAM expansion efforts and our prognosis 21
- 'Internet taxes' from OTT players could be an upside for telcos 22

Elevated FCF with limited risks 26
- Funding availability no longer a constraint for telecom 26
- 6G investment isn't a risk as 5G's monetisation has failed 27
- Tower capex to subside for Airtel/Jio, fibre spends to continue 28

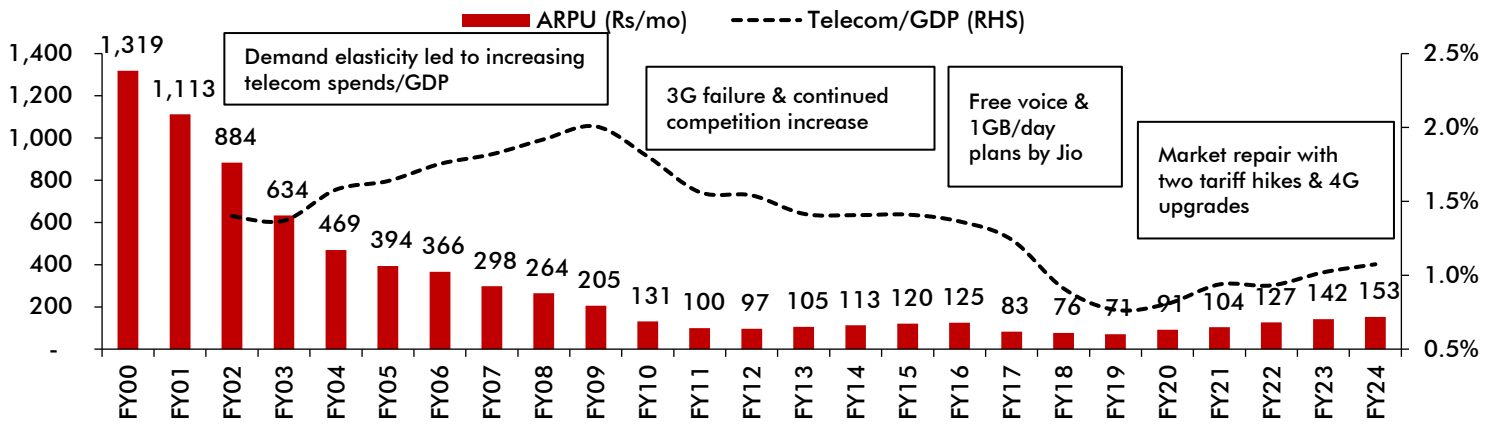
Defensive with growth characteristics 31
- Bellwether Airtel to continue leading the sector 31
- Indian telecom merits premium valuation vs. global peers 32
- Indus Towers still trades at a discount to global peers 34
- Our valuation framework for the telecom sector 35
- CATALYSTS & RISKS 39
- Reliance Industries (RELIANCE IN, SELL) 40
- Bharti Airtel (BHARTI IN, BUY) 40
- Vodafone Idea (IDEA IN, BUY) 40
- Indus Towers (INDUSTOW IN, BUY) 40
- Bharti Hexacom (BHARTIHE IN, BUY) 40

COMPANIES

Bharti Airtel (BUY): Combo of growth and yield 41
RIL (SELL): Jio IPO beckons 49
Vodafone Idea (BUY): Back in business 57
Indus Towers (BUY): Utility with growth 77
Bharti Hexacom (BUY): Low-risk tariff hike beneficiary 97

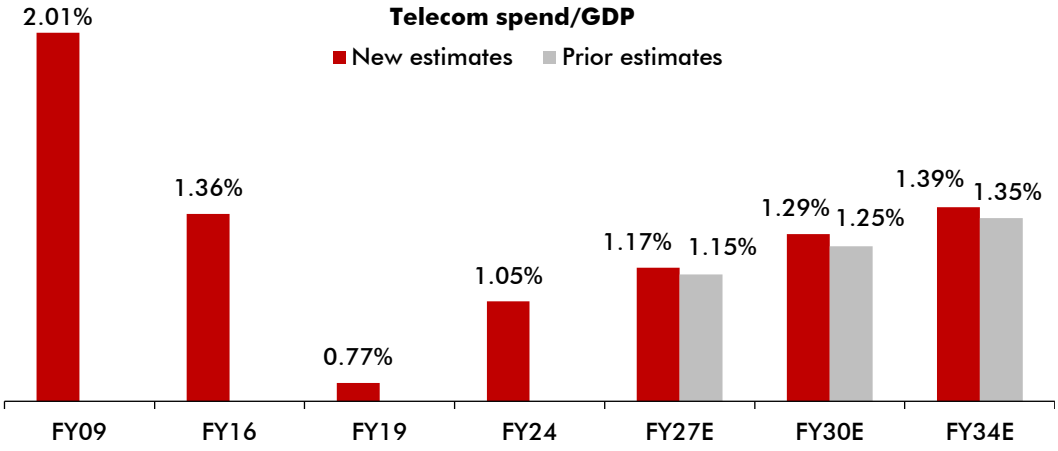
The Narrative in Charts

Exhibit 1: After a lost decade, Indian telecom has seen tariff repair and recovery of telecom spends since FY20



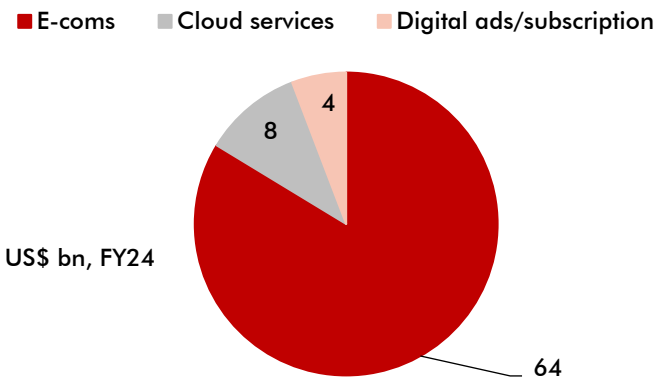
Source: Company, Ambit Capital research

Exhibit 2: Despite assuming decade-long tariff hikes, we only factor in gradual telco spend rise



Source: Company, Ambit Capital research

Exhibit 3: For OTTs, telco payments will be small price to pay for continued access to a large and growing TAM



Source: FICCI EY, Nasscom, Ambit Capital research

Exhibit 4: OTT payments to telcos could range from 0.3-9.0% of their TAM

		Discount to retail pricing (₹9.13/GB)				
		50%	60%	80%	85%	90%
% of telco traffic for which LTGs pay	10%	1.7%	1.4%	0.7%	0.5%	0.3%
	20%	3.4%	2.7%	1.4%	1.0%	0.7%
	30%	5.1%	4.1%	2.0%	1.5%	1.0%
	40%	6.8%	5.4%	2.7%	2.0%	1.4%
	50%	8.5%	6.8%	3.4%	2.6%	1.7%

Source: Company, Ambit Capital research

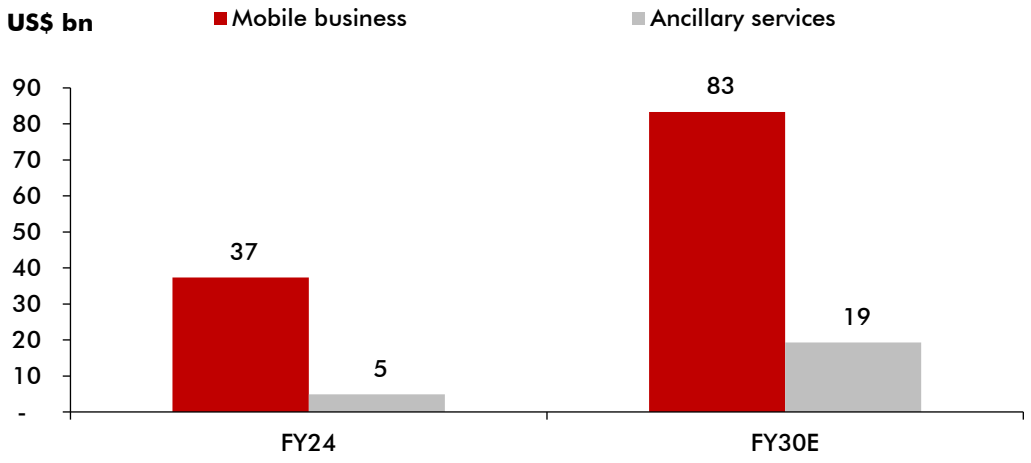
Exhibit 5: We expect telcos to grow ancillary revenues at 26% CAGR in FY24-30E as they tap into adjacencies

Segment (US$bn)	Market	~Telco revenues	Market	~Telco revenues	Role of telcos	Telcos' right to win	Telcos' standing		
	FY24	FY24	FY30E	FY30E			Airtel	VIL	Jio
Home entertainment & digital advertising	10.3	2.3	21.8	7.2	Content distribution and FTTH				
Cloud services and data centres	9.3	0.2	27.7	2.8	Co-location services in their infrastructure, low-latency connectivity				
Managed services	8.0	0.1	38.6	1.9	Service provider, software re-seller and hardware security				
Communication Platforms as a Service (CPaas)	3.6	2.2	10.8	7.0	Telcos have built their platforms and are targeting large enterprises with their reliable termination services				
Internet of Things (IoT)	0.1	0.1	0.5	0.4	Device connectivity and platform for service provisioning and asset tracking				
Total market opportunity	31.4	4.9	99.3	19.3	We expect telcos to increase the market share to 19% by FY30E from 16% presently				

Source: Company, DSCI, NASSCOM, FICCI EY report, Media reports, Ambit Capital research; Note: CPaaS includes B2B text messaging revenue; market size estimate is basis Airtel's internal assessment; For cloud services, we have assumed the size of the public cloud market. The home entertainment market comprises subscription for linear TV services, home broadband and OTT services

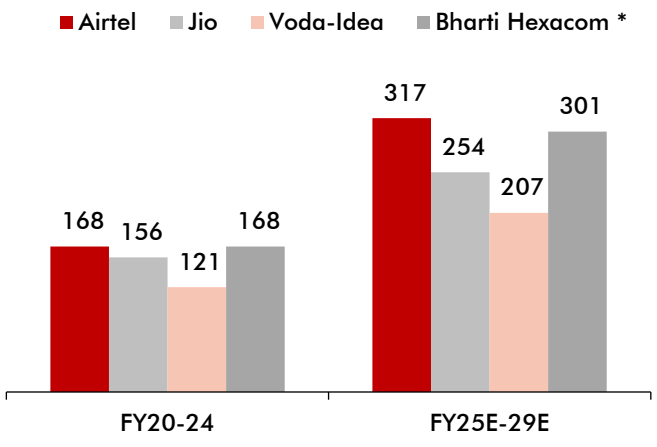
Note: - Strong; - Relatively Strong; - Average; - Relatively weak

Exhibit 6: Ancillary services likely to account for 24% of incremental FY24-30E telecom revenue



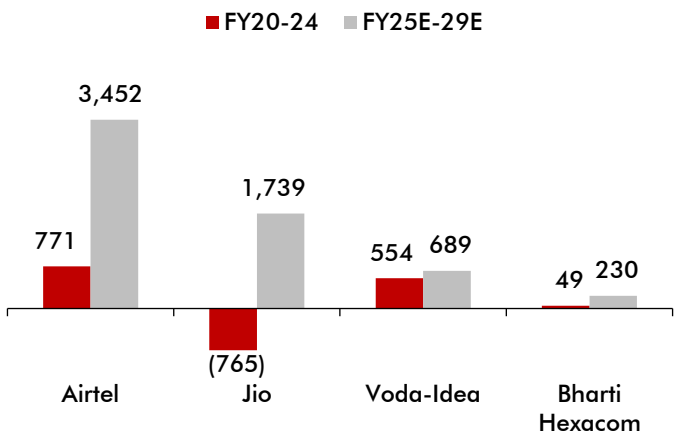
Source: Company, Ambit Capital research; Note: above reflects ancillary services revenue for telcos

Exhibit 7: Tariff hike led ARPU growth...



Source: Company, Ambit Capital research

Exhibit 8: ...and moderating capex to be key FCF drivers



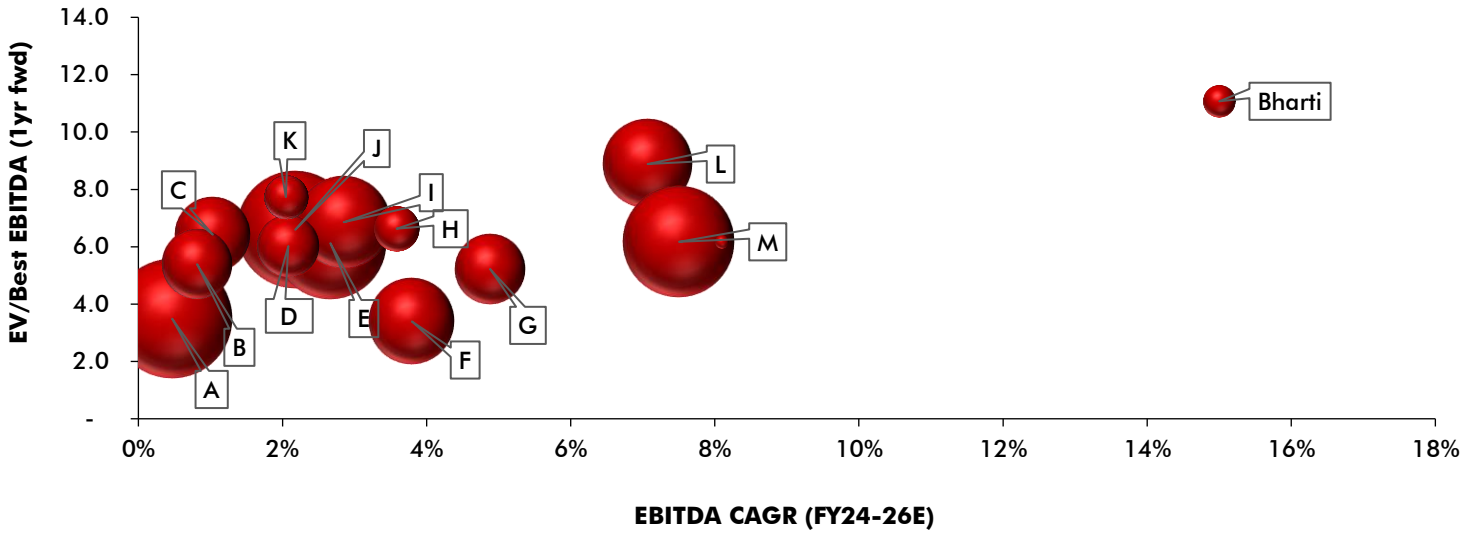
Source: Company, Ambit Capital research

Exhibit 9: Our view on the telecom sector & key recommendations

Company	Rating	TSR (12 months)	FY19-24 Revenue CAGR	FY24E-30E Revenue CAGR	Long-term drivers (ex-tariff hikes)	RoCE (FY24)	RoCE (FY27E)	WACC	Terminal Growth Rate (FY42E)
Bharti Airtel	BUY	18%	20%	16%	Scalability of non-mobile revenues	8%	18%	11%	5%
Bharti Hexacom	BUY	35%	35%	17%	Increase in teledensity/4G adoption	13%	27%	12%	5%
VIL	BUY	24%	4%	14%	Reversal of subscriber loss trends & favourable govt. stance	-3%	3%	14%	4%
RIL*	SELL	-11%	23%	18%	Jio IPO in 2025	5%	9%	11%	5%
Indus Towers	BUY	25%	4%	9%	Improvement in tenancy and incremental tower addition	12%	16%	11%	4%

*Source: Company, Ambit Capital research; *we present revenue CAGR for Jio, upside is for our RIL TP*

Exhibit 10: Airtel merits premium valuations vs. global telcos with its 15% EBITDA CAGR vs. negligible growth for global telcos



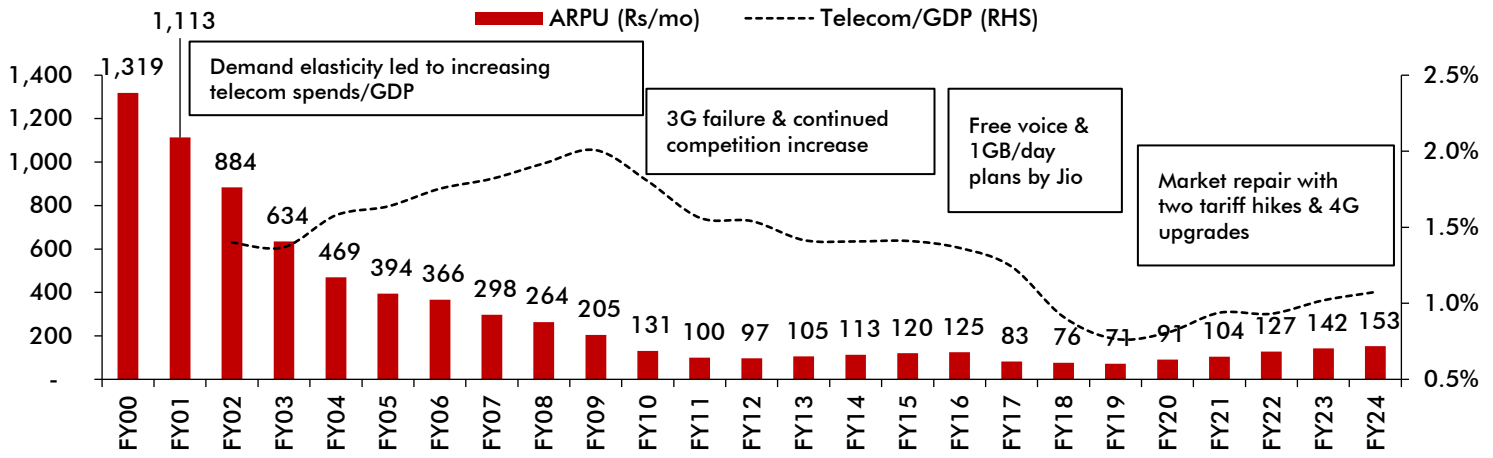
Source: Company, Ambit Capital research, Note: size of the bubble represents FY24E US$ revenue for companies, here A - China Mobile, B - Orange, C - Charter Comm, D - KDDI, E - AT&T, F - China Telecom, G - America Movil, H - Saudi Telecom, I - Nippon Telegraph, J - Verizon, K - BCE, L - T-Mobile, M - Deutsche Telekom

Prolonged ARPU reset with new usage linkages

Telcos followed the Dec-19 price hike of 30-50% with 20% increase in Dec-21. With Airtel/Jio completing 5G rollouts, government support enabling VI's funding and conclusion of 2024 national polls, we expect 20% tariff hike in 2QFY25 followed by biennial 12% tariff increases till 2034 followed by CPI-inflation linked price hikes. Along with the 2024 tariff hike, we expect Airtel/VI to introduce metered plans (10-15GB/month) while retaining GB/day plans. In 2024, telcos will also withdraw ARPU-dilutive unlimited 5G data offers. With government being a key player in the telecom sector with 95%/23% of VI's debt/equity owed to it, we see continuation of tariff hikes such that industry is viable. The government has demonstrated its commitment to improve the financial health of the sector by its tacit approval of tariff hikes, reduction of royalty by a third in Aug-22 and moratorium on spectrum/AGR dues.

A brief history of Indian telecom tariffs and ARPU

Exhibit 11: After a lost decade, Indian telecom has seen tariff repair and recovery of telecom spends since FY20



Source: Company, Ambit Capital research

We present a history of telecom tariffs/spending which we characterise in the below four phases:

Phase I, demand elasticity (FY00-10)

This lasted till 2010 as telcos exploited expanded networks pan-India. Regulatory changes ushered in by the National Telecom Policy 1999 (NTP-1999) was the key catalyst as it allowed telcos to roll out networks with limited upfront investments.

- Industry ARPU dropped to ₹131/- in FY10 from ₹1,319/- in FY00.
- Yet industry revenue CAGR was 17% in FY02-10, resulting in telecom revenue/GDP growing to 1.8% from 1.4%.

Phase II, internecine competition, regulatory squeeze and 3G failure (FY10-15)

This phase was characterised by new entrants like Telenor, MTS, Videocon, Tata Teleservices (GSM) and RCom (GSM) exerting themselves to grab market share:

- New entrants introduced per second pricing for voice services that the then incumbents had to match.
- Incumbents as well as new entrants aggressively bid for 3G spectrum in 2010.
- 3G proved to be a failure owing to regulatory and technology challenges. Spectrum availability was limited and the handset/app ecosystem was still-born.
- Industry ARPU dropped to ₹120/- in FY15 from ₹131/- in FY10 while telecom revenues/GDP declined to 1.4% from 1.8%.

Phase III: Jio's entry & regulatory headwinds shocked telcos (FY16-19)

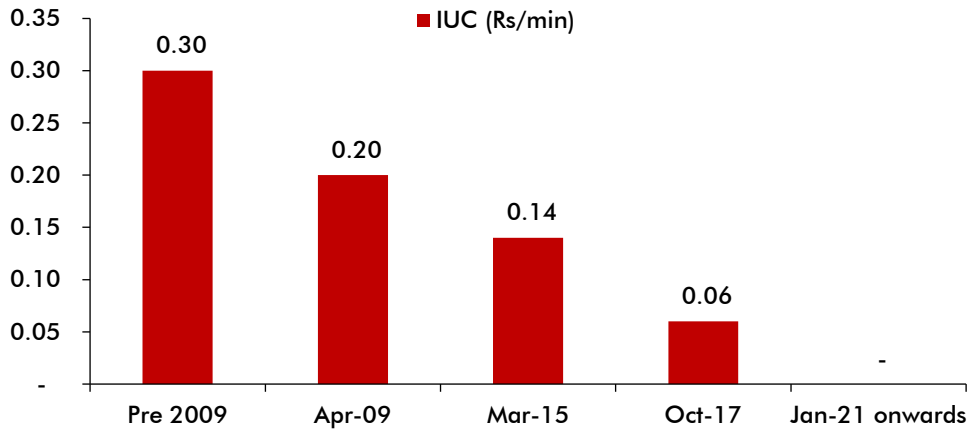
- In our Feb-18 note, we detailed how Jio's entry into telecom was unprecedented and had no global parallels. It offered a free six-month trial commencing Sep-16.
- Jio started charging for services from Apr-17 with below-industry first pricing innovations. Its initial ₹309/- pricing for 84 days was at a ~25% discount to the industry's FY16 ₹125/- ARPU but came with:
  - Free unlimited (UL) voice at a time when even new entrants were charging >₹0.3/min for voice calls.
  - 1GB+ daily data allowances to all customers at a time when incumbents were offering 1GB monthly data allowances.
  - Even prior to commercial launch, Jio's cumulative investments stood at US$30bn in FY16, ~25% higher than that of then market leader Airtel. Jio was able to do so thanks to cash flow support it got from RIL. Further, unlike RIL's prior telecom entry in the '90's which was marred by a wrong technology choice, this time Jio backed 4G, which emerged as the right choice. It was able to create massive data capacity that the then telcos couldn't match with their networks dominated by 2G and 3G.
  - Additionally, the regulator's stance that was permissive of under-cutting and freebies, unlike the scenario in developed markets, also played a pivotal role in Jio's fast success.
- Jio's impactful entry led to the exit of several weak telcos. In Mar-16 to Oct-17, Airtel acquired Videocon, Telenor, Aircel, Tikona and Tata Tele. Vodafone and Idea Cellular also announced merger in Mar-17 that was finally consummated in Sep-18 after statutory approvals.
- This phase was marked by a steep decline in ARPU to ₹71/- in FY19 vs. ₹120/- in FY15. Telecom spending to GDP collapsed to 0.8%, among the lowest globally.

Phase IV: Regulatory change led tariff repair

- **The background to tariff hikes**: The TRAI lower IUC rates in tandem with technology advancements and scale of the industry. These underwent dramatic changes after Jio's entry. In Oct-17, TRAI cut IUC by 57% to ₹0.06/min and finally did away with the charge on 1st Jan 2021. Till 2019, since Jio was a new operator and hence a 2nd SIM card for most users, it had a 65:35 off-net outgoing to incoming call mix. This meant that Jio was shelling out large amounts of money to Airtel and VI even as it provided free voice services to its users. In Oct-19, Jio estimated that it paid ₹135bn as net IUC charges to rival network operators since its launch. TRAI cited technology advances and migration to 4G networks as the key reason for cutting IUC in Oct-17 and finally doing away with it in Jan-21.

In Jan-03, the telecom regulator announced a 'Calling Party Pays' regime, putting an end to charg telcos for receiving incoming ca compensate the recipient users' for network services in offnet made or received from to networks) calls, the TRAI introdu regulated inter-operator pay Interconnect Usage Charge (IUC was a charge levied by rec network's operator on the originator's network provider.

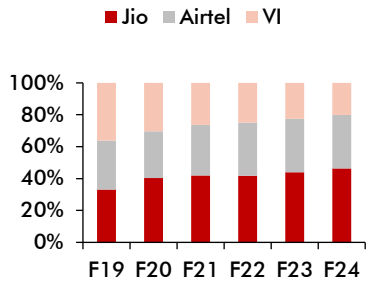
Exhibit 12: After Jio's entry, TRAI lowered IUC rates and finally eliminated them in 2021



Source: Company, Ambit Capital research

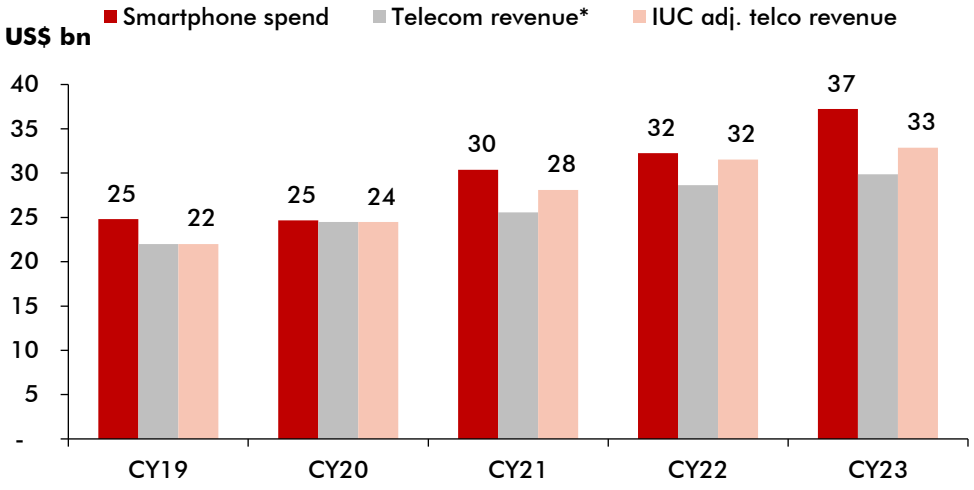
- **Elimination of IUC hurt Airtel & VI**, which, till Oct-18 weren't charging their users for incoming calls. With declining IUC rates, Airtel & VI introduced a 'minimum recharge' priced at ₹35/- for 28 days. This was their only metered plan providing feature-phone/2G users a limited number of outgoing voice minutes.
- **Adverse AGR verdict drove the first big tariff hike**: In Oct-19, the Supreme Court gave an adverse verdict in the long-standing AGR case that posed existential threats to Airtel and VI. The industry's precarious position amid unsustainable tariffs led telcos to hike rates by 30-50%.
- **Airtel & VI raised entry rates**: Further, after IUC was eliminated, Airtel and VI decided to hike their minimum recharge plan rates to ₹79/- for 28 days in Jul-21 from ₹49/-.
- **2nd tariff hike due to continued financial stress**: In Dec-21, given continued financial stress, telcos hiked tariffs by 20%.
- In 2023, Airtel eliminated its minimum recharge plan while VI has done so in 17 of the 22 circles pan-India. Both Airtel and Jio now only have UL voice plans.
- Even after two tariff hikes, telecom spending/GDP is only at 1.07% in FY24, an improvement from FY19's 0.77% but below pre-Jio 1.36% in FY16 and far lower than 2% spend heydays of FY09.
- Despite industry consolidation and VI's weakness, we believe that telcos have been going slow on tariff repair due to:
  - **Covid**, which hurt the affordability of marginal telecom users and their ability to upgrade to smartphones.
  - **Rising smartphone prices due to chip shortages**. Average selling price (ASP) of India's 146mn smartphones shipped have risen 56% in 2019-23. Consumer spending on smartphones has increased 51% in this period. Even if we consider 10% additional revenue for telcos in CY23 on account of IUC charges to make it comparable with 2019 reporting, telco revenues which we compute by adding Jio, Airtel India and VI's revenues are up 33%.

VI ceded ground to Airtel/Jio



Source: Company, Ambit Capital research; Not reflects subscriber market share

Exhibit 13: Rising smartphone costs could have been the reason for telcos to go slow on price hikes



*Source: Company, IDC, Ambit Capital research; *telecom revenue is taken as the summation of Airtel India, RJIL (S) and VI's revenues, Note: we have computed smartphone spend based on media reports that highlight IDC data on smartphone shipments and ASP; we increase CY21-23 telco revenue by 10% to arrive at IUC adj. telco revenue*

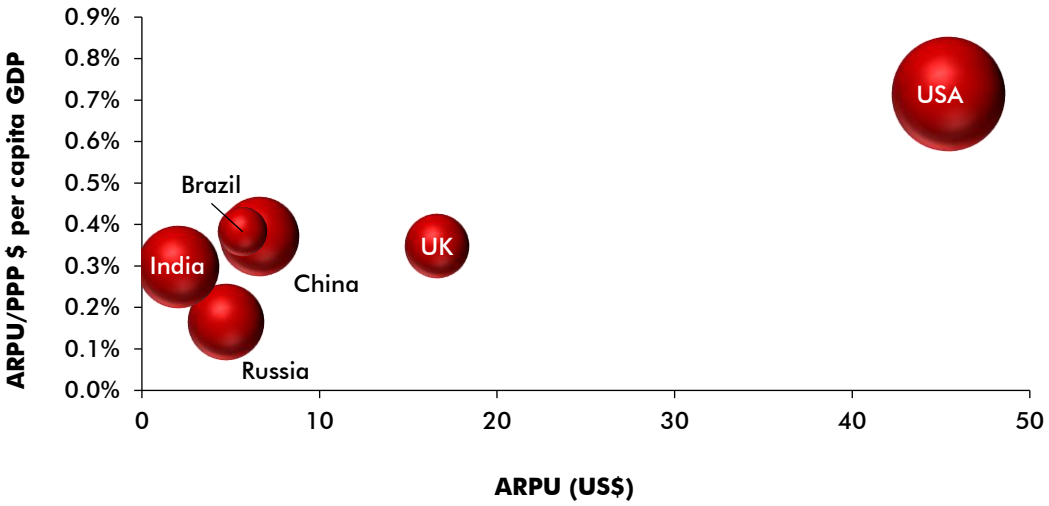
- VI's continued weakness that Airtel and Jio are looking to encash on by keeping tariffs low.

The case for prolonged tariff hikes

India's tariffs are no more the lowest in proportion to per capita GDP (PPP)...

The often cited narrative of Indian telecom is that tariffs are the lowest in the world and operators are generous in their data offerings. We note that tariffs are low but appear to be in tandem with per capita GDP (PPP adjusted US$). That said, data usage levels/connection in India is second only to the US market and comparable/higher than other key EMs.

Exhibit 14: India's ARPUs are low, but comparable to EM peers when adjusted for per capita income

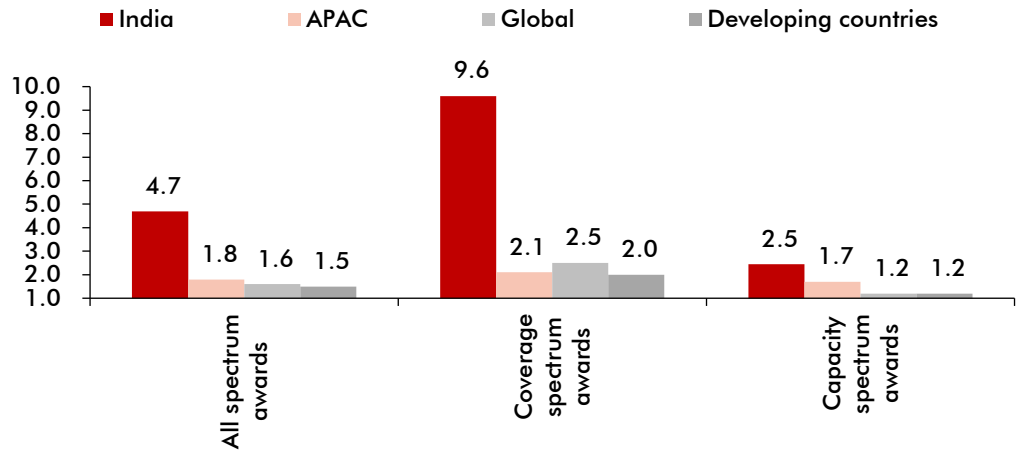


Source: Company, Ambit Capital research; Note: Size of the bubble reflects data traffic/mobile connection (GB/month)

...and spectrum is the most expensive & hence low returns with current ARPU levels

Spectrum, network hardware, IT and energy costs are key elements of a telco's costs. Apart from spectrum, which is a function of government policy, other costs are mostly similar for all telcos globally. Employee costs which vary by country and are a function of per capita GDP are a small component of telcos' opex. India's regulatory stance of restricting spectrum supply in a competitive market (2010-16) led to telcos being saddled with high-cost spectrum.

Exhibit 15: Indian telcos are saddled by very high spectrum cost of US$/100MHz/capita/year...

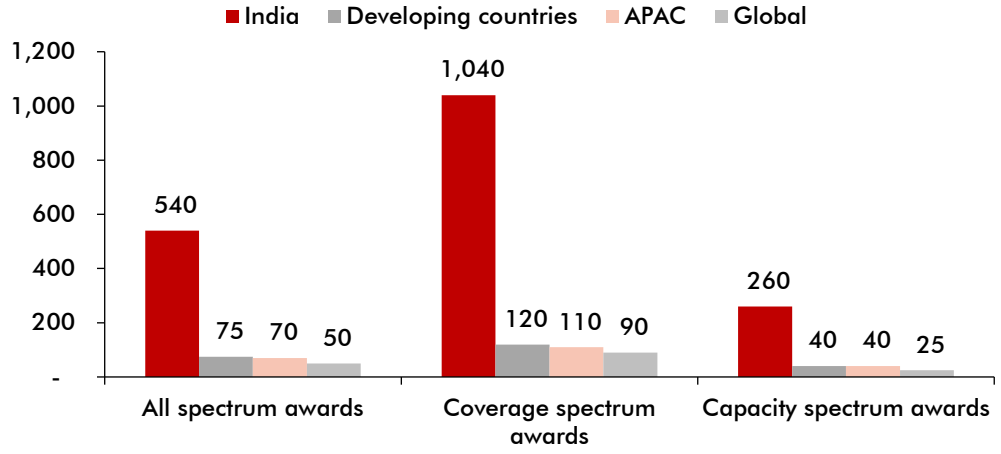


Source: TRAI, GASMA Intelligence, Ambit Capital research; Note: Above reflects median unit prices of spectrum awards in 2010-21 adjusted for inflation, PPP, operator revenues and licence duration. Coverage spectrum represents 1800/2100MHz and sub-GHz bands, with the remainder being capacity spectrum

ARPU increase vital for government to continue receiving spectrum instalment payments

We believe that this is the key reason why Indian telcos continue to earn lower than cost of capital returns (<10% pre-tax RoCE in FY24) despite continental scale and tariffs being at par with global peers adjusted for PPP per capita GDP. Since spectrum payment is in instalments and owed to the government over a twenty year time period, we think that it is in the government's interest to ensure recovery of spectrum dues from all operators. The government has already taken a hit on recovery of some dues – some exiting telcos haven't honoured spectrum obligations and it allowed VI to defer instalments, converting ₹161bn of interest arising from deferral into equity.

Exhibit 16: ...with spectrum prices per mn. US$ of revenue reflecting even greater mispricing



Source: TRAI, GASMA Intelligence, Ambit Capital research; Note: Above reflects median unit prices of spectrum awards in 2010-21 adjusted for inflation, PPP, operator revenues and licence duration. Coverage spectrum represents 1800/2100MHz and sub-GHz bands, with the remainder being capacity spectrum

Telcos to move to segmentation and usage-based pricing

...the architecture of pricing in India is quite broken because people who can afford to pay a lot more are paying a lot less simply because of these unlimited plans which are like effectively one-size-fits-all plan. If you look at markets like Indonesia or Thailand or any of the markets in Asia you will find small, medium, large, extra-large and there is a pathway to upgradation that unfortunately is not the case in India, but this is not something that where we can do alone. This needs to be something that we would be happy to follow if this happens. On 5G that is another problem actually with the free data that is running. Obviously there is some headwind in terms of monetization, but again it is a competitive market. We have responded to what we have seen happening in the market place and hopefully at some point we will see if sanity prevails. – Gopal Vittal, MD & CEO, Bharti Airtel in the company's May-24 4QFY24 earnings webinar

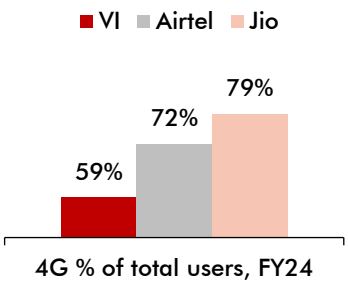
Prior to Jio's entry, Airtel and VI had numerous tariff plans that linked pricing to voice and data usage. But Jio pushed the industry to UL voice plans and large data allowances (1GB+ daily). While we expect tariffs to move up biennially at 12% CAGR till 2030, we expect 20% price hike in 2024.

Currently duration and GB/day+ allowance are two key prepaid tariff variables...

With Airtel and VI moving to UL voice plans, data allowance and duration are the only key pricing variables for smartphone users.

- All three telcos have a 'voice plan', which offers 2GB/6GB/24GBdata for 28/84/365 days and UL voice. This plan cutting across durations, offers ~500MB data/week, which is too less for smartphone users who even have limited data needs.
- Their 'data plans', which are preferred by smartphone users offer at least 1GB daily data allowances.

Telcos have migrated majority of their users to 4G

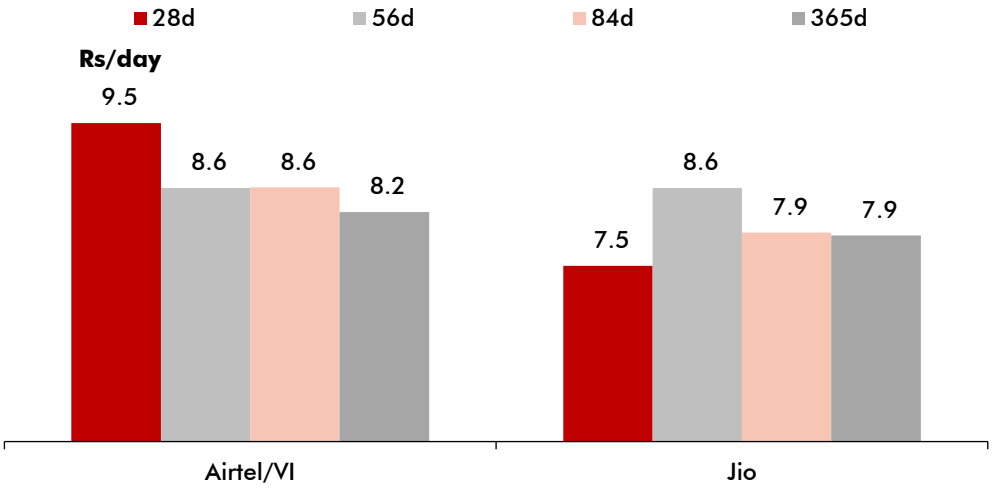


Source: Company, Ambit Capital research; Note: we assume 100mn JioPhone users

To minimise churn and missed days of recharge, telcos have:

- Kept their most popular packs in multiples of 7 days (7d), viz. 28d, 56d, 84d and 365d.
- Encouraged users to commit to long duration packs, offering additional data and discounted pricing. E.g. in their annual packs, Airtel/VI offer double the daily data allowance at 13% lower ₹/day pricing. Jio offers only additional data in its long duration packs and has kept its 28d plans most affordable.

Exhibit 17: Unlike Jio, Airtel/VI offer discounted pricing to lock-in users for longer durations



Source: Company, Ambit Capital research; Note: Above presents daily pricing of entry tier plans across duration buckets. The 28d, 56/84d and 365d entry 1GB/day+ plans offer 1GB, 1.5GB and 2GB daily allowance.

...with data usage/subscriber being lower than 1GB/day

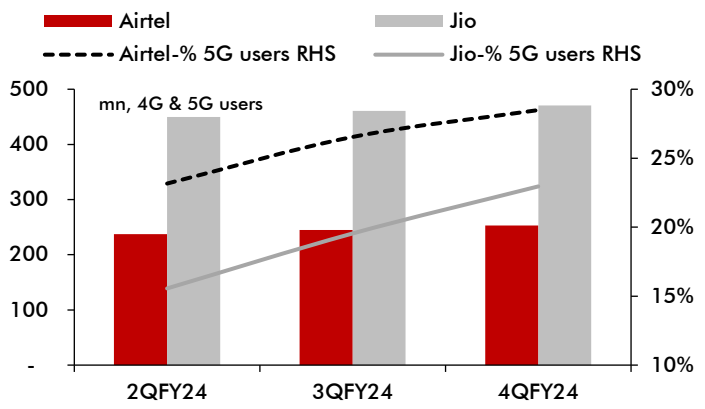
On the surface, it appears that Jio has the highest monthly data usage per subscriber (all data for 4QFY24) at 28.7GB vs. Airtel's 22.6GB and VI's 15.8GB.

- Jio reports per capita monthly data usage considering home broadband (JioFiber and Jio AirFiber) and enterprise services usage as well.
- Airtel's data usage/sub is for its mobile data users, 97% of whom are using 4G/5G.
- VI reports average data usage by 4G subscribers.

Adjusting for Jio's homes data usage, which we estimate to be 23% of 3QFY24 overall data throughput, we estimate monthly data consumption/sub for Jio's 4G and 5G users at 20GB and 31GB respectively. 5G data usage is skewed due to UL data offers by both Jio and Airtel.

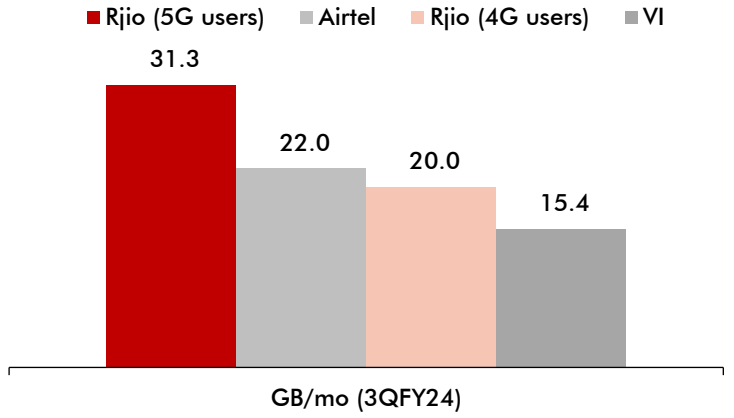
- This data indicates that most smartphone users are unlikely to be in need of daily data allowances exceeding 1GB.
- Users opt for higher data allowances like 1.5GB/2GB per day only while opting for longer duration packs as those come with minimum 1.5GB/d (56d/84d) and 2GB/d (365d) data allowances.

Exhibit 18: Airtel/Jio expanded 5G networks & on-boarded users



Source: Company, Ambit Capital research; Note: 5G users are computed as percentage of total 4G smartphone and JioPhone users

Exhibit 19: 5G users consume 57% higher data than those on 4G



Source: Company, TRAI, Ambit Capital research

Expect a landmark 2024 tariff hike with new 'usage' plans and withdrawal of 5G freebie

We are not charging customers separately for the 5G data offering that we are giving them today, which pretty much means that 30% of the network data today or network usage is being given free of cost – Anshuman Thakur, Head of Strategy, Reliance Jio in the company's Apr-24 4QFY24 earnings presentation.

- The Dec-19 tariff hike was 30-50% but an all-round tariff hike.
- In Dec-21, when telcos took price hikes, they introduced packs in new duration periods like 14-24 days, 77 and 336 days. This was done to provide consumers an option to recharge for the same denomination as before albeit with lower duration.
- In the Sep-24 tariff hike, we expect telcos to roll out new affordable plans that won't have any daily data restrictions, but come with 10/15GB allowance for 28 days.
  - Telcos are likely to price the 10GB/28d pack only slightly higher than the current 1GB/day pack as they would want to move users from current 1GB daily data allowances to metered plans.
  - Further, with Airtel and Jio completing pan-India 5G coverage and getting +20% of their users to 5G, we see no reason for them to continue with this free data offer.

On a ₹/GB/day basis, we exp
packs to be 30-40% cheaper
packs, encouraging users to up

Exhibit 20: We expect all telcos to introduce 'light' usage packs...

₹/28 days	Airtel/VI				
	Nov-19	Dec-19	Dec-21	Sep-24	Sep-26
10GB/mo				270	299
15GB/mo				315	349
1GB/d	169	219	265	325	365
1.5GB/d	219	249	299	375	420
2GB/d	249	298	359	449	499
5GB/d				649	699

Source: Company, Ambit Capital research

Exhibit 21: ...and 'all you can binge' 5G packs (5G/d)

₹/28 days	Jio				
	Nov-19	Dec-19	Dec-21	Sep-24	Sep-26
10GB/mo				219	249
15GB/mo				249	275
1GB/d		174	209	270	299
1.5GB/d	149	199	239	299	349
2GB/d	198	299	299	359	399
5GB/d				499	599

Source: Company, Ambit Capital research

Postpaid and bundled plans to emerge as a key focus area

Today about 6% of our users are on postpaid. If I look at markets like Thailand that number is well past the teens, if I look at markets like Brazil it is almost 40% to 50%. So the upside opportunity in postpaid is clearly high, and I think India over a period of time will start moving more and more towards postpaid that has to happen – Gopal Vittal in Airtel's 1QFY24 earnings call (Aug-23)

All three telcos have made a concerted effort to get users to their postpaid plans. This enables telcos to:

- **Improve customer stickiness and monetisation:** Entry postpaid pricing is ₹399/month + GST for Jio and ₹499/month + GST for Airtel/VI vs. prepaid pricing of ₹209 and ₹265/- inclusive of GST for 28 days.
- **Ability to cross-sell bundled plans**: Both Jio and Airtel are highly focused on offering postpaid bundled with FTTH and DTH services. These plans are a win-win for the telco and the consumer. The former gets increased revenue from households that can afford multiple services while the latter gets discounted pricing and simplified billing for multiple services they avail. In its 4QFY24 earnings call, Airtel said that 43% of its home broadband customer addition is happening via converged plans.

Airtel says that it has 80mr scored customers whom it b could move to postpaid. The 3.5x its current postpaid use – Gopal Vittal in Airtel's 4 earnings call

Exhibit 22: Snapshot of our expectations across segments of the telecom market

	Pre-Jio	Post-Jio	What's changing now?
Feature-phone users	No service outage if user doesn't recharge as incumbent telcos earned IUC from new entrants	*Minimum recharge plans with validity of 20+ days *SIM disconnection if users don't recharge for over 30 days after their plan expiry	*Steady price increases but no change in offering as these users are only 20-33% of subscribers and declining for telcos
Prepaid data users	*GB/month packages *Users opted for additional data allowances	*Voice plans with unlimited (UL) minutes *While telcos provide a UL voice plan with 2GB/data for 28 days, the most popular data plan is 1GB+/day	*Telcos to launch metered plans (10/15GB per mo) to link ARPU & data usage *More SKUs with a greater push towards content bundles
Prepaid vs. postpaid	*Recharges/transactions were offline posing interruption risks. Users found it hard to buy add-ons/top-ups *Both voice and data were metered *Too many plans (SKUs)	*Easy to recharge online *Prepaid also offers UL voice *Prepaid has daily limits vs. postpaid offers monthly limits & data carry-forward	*First party and third party bundling of services like postpaid, home broadband, entertainment & OTT *More B2B deals as telco bundles become prominent for sampling of services like content and financial services

Source: Company, Ambit Capital research

Government's accommodative stance to continue

Conduct of 2022 5G Auction, increased the overall spectrum availability for the telecom service providers (TSPs) by allocating the highest-ever quantum of spectrum, i.e., 52 GHz, at the highest-ever auction value. Also, healthy cash flow for TSPs enabled them to make capital investments in 5G technology, leading to the rollout of 5G network in the country, which is acknowledged as the fastest 5G rollout in the world. The efficacy of all the measures is reflected in the increasing cumulative gross revenue of all telecom service providers, which has already crossed ₹3 lakh crore (₹3tn). – Government of India, in its Feb-24 Whitepaper on the Indian Economy

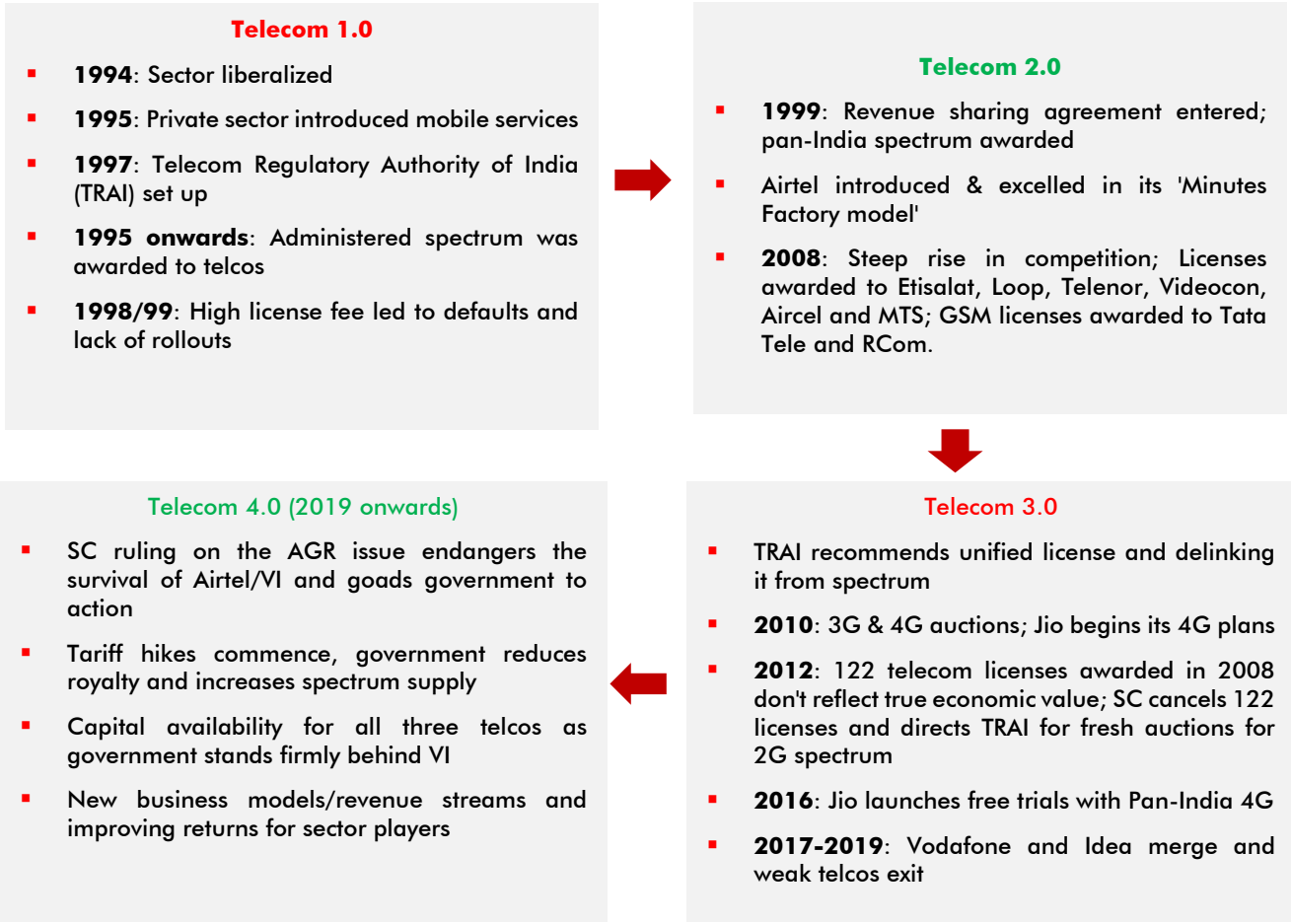
We believe that the government is a crucial participant in the telecom sector and has a key role to play in shaping the sector's return profile:

- It decides on the terms and conditions of the license and spectrum allocation. Unlike other consumer-oriented sectors, this is important as telcos use spectrum as raw material to provide services.
- Since the 2019 Supreme Court AGR verdict which debilitated and threatened the existence of Airtel and VI, the government has taken several steps to improve the health of the telecom sector, including:
  - Deferral of spectrum auction instalments preserving NPV for two years in Oct-19.
  - An elaborate reforms package in Sep-21 that allowed telcos to defer spectrum and AGR instalment payments for four years.
  - In the above reforms, the government also gave telcos the option to convert instalments arising from deferment of spectrum dues into equity. VI opted for the same. Further, after the moratorium, if a telco isn't able to pay the said deferred AGR/spectrum instalments, the government has the option to convert the deferment into equity.

- Along with the 2022 auctions, the government reduced spectrum usage charges (SUC) to nearly zero, providing an incentive for telcos to bid for 5G spectrum and improve their financial health. Telcos' pay royalty on adjusted gross revenues (excludes non-telecom revenue) to the government as license fee (8%) and SUC. The latter used to range over 4.3-4.7%. But due to the 5G auctions, telcos were able to reduce their SUC to 0.3-0.5%, implying a near one-third reduction in royalty.

- Apart from the above actions, the government chose to stay silent on tariff hikes, implying tacit approval.

Exhibit 23: Indian telecom is entering its prime phase with the government's blessings



Source: Company, Ambit Capital research

Telecom to remain affordable even after price hikes

The government's seriousness in ensuring a three-player industry construct leads us to believe that tariff hikes will be prolonged and ensure that VI survives.

VI's still precarious state and low current tariffs lead us to build in price hikes for longer

We believe that VI's recent ₹200bn fund raise via FPO was driven by the government's unwavering commitment to preserving the telecom industry's three-player construct that requires:

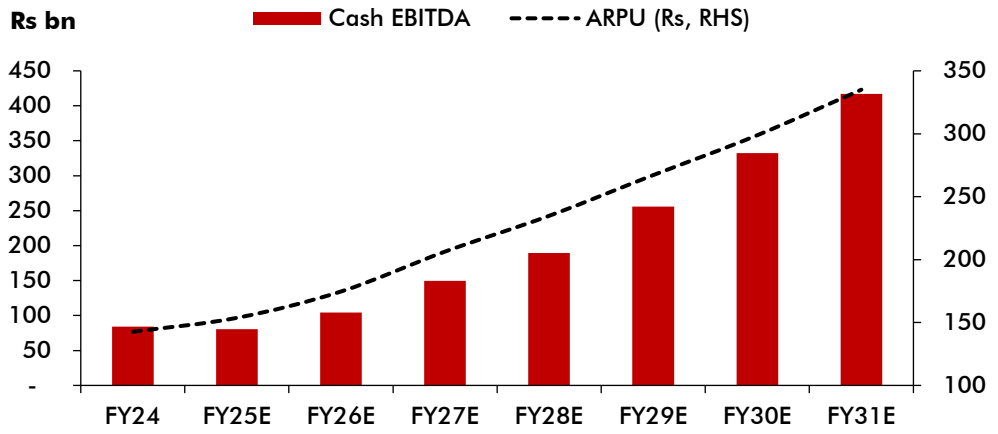
- Continued tacit approval for tariff hikes
- Favourable royalty (licence fee & SUC) and spectrum availability regime
- No arbitrary legal cases or penalties like the AGR case

We outline our assumptions on tariffs and VI's customer profile:

- A 20% tariff hike in Sep-24 followed by biennial 12% tariff hikes till 2034
- VI to hold on to its customers and upgrade 85% of its users to 4G/5G from current 59%

"India's economic growth nee thriving telecoms sector. We n multiple operators to preserve competition & protect consum TV Somanthan, India's Financ Secretary in an Apr-24 media interaction

Exhibit 24: Our tariff assumptions imply trebling of VI's cash EBITDA by FY28 and 6x by FY31...



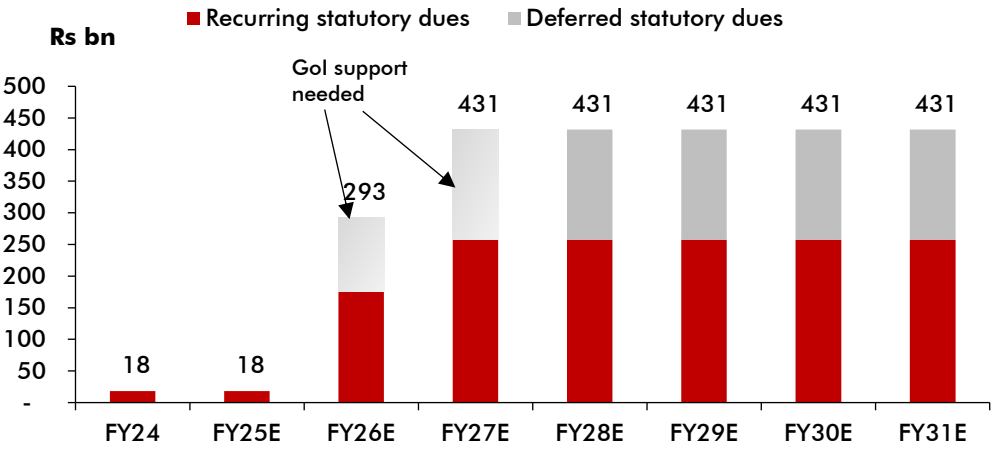
Source: Company, Ambit Capital research

The government has categorically stated that it doesn't intend to take over VI. If we assume that government opts to convert FY26/27E deferred statutory (spectrum & AGR) dues into equity at ₹21 and ₹ 24/share (our fair value for VI), its shareholding in VI will increase to 35.7% from current 23.8%. In this scenario:

- Government stake doesn't increase beyond 50%.
- We assume that VI's improving cash profits due to tariff hikes and no subscriber losses (unlike in FY19-24) will enable it to raise external debt/equity capital to fund capex and statutory payments for FY28-30.

In recent media interactions, Akshaya Moondra, VI's CEO stated that the company might 'initially need some support from the government' after the current moratorium on spectrum and AGR dues ends in Sep-25.

Exhibit 25: ...but even then VI requires support from lenders and the government to survive

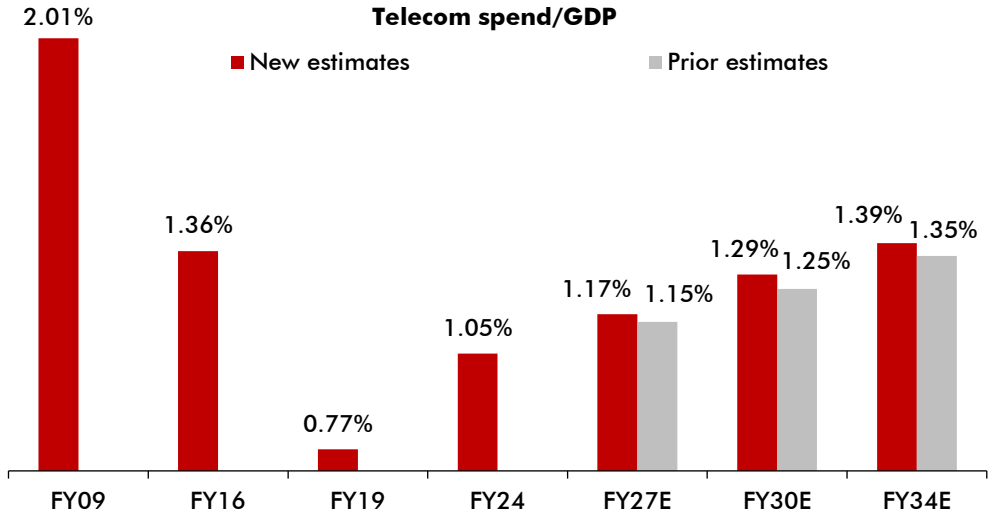


Source: Company, Ambit Capital research

Tariff hikes won't be onerous to consumers...

After the 2024 20% tariff hike, we assume 12% biennial tariff hike till 2034. This will ensure that we believe consumers won't face any bill shock and will be acclimatised to steady price increases.

Exhibit 26: Despite assuming decade-long tariff hikes, we only factor in gradual telco spend rise



Source: Company, Ambit Capital research

...who are likely to curtail handset upgrades

We believe that the tariff war and benign pricing environment in FY09-19 created a nominal consumer surplus of US$28bn, which is likely to have been used to fund smartphone purchases. We arrive at this figure by computing the differential in notional spending had telecom services remained at FY09's 2% of GDP vs. actual telecom spends. Conversely, now as the pendulum swings in favour of increased spends for telecom services, we expect consumers to hold on to their mobile handsets for longer and curtail smartphone spending. Additional spend over and above what's justified by nominal GDP growth in FY27/FY30E is US$8/18bn, which is 15%/28% of then smartphone expenditure if one assumes spending to remain constant as a percentage of GDP.

The Sep-24, 20% tariff hike could also have a temporaary dampening effect on mass consumption, especially in 2HFY25 & 1HFY26 as telco tariff hikes result in additional ~₹300-350bn spending from recent smartphone users.

Scalability beyond mobile connectivity intact

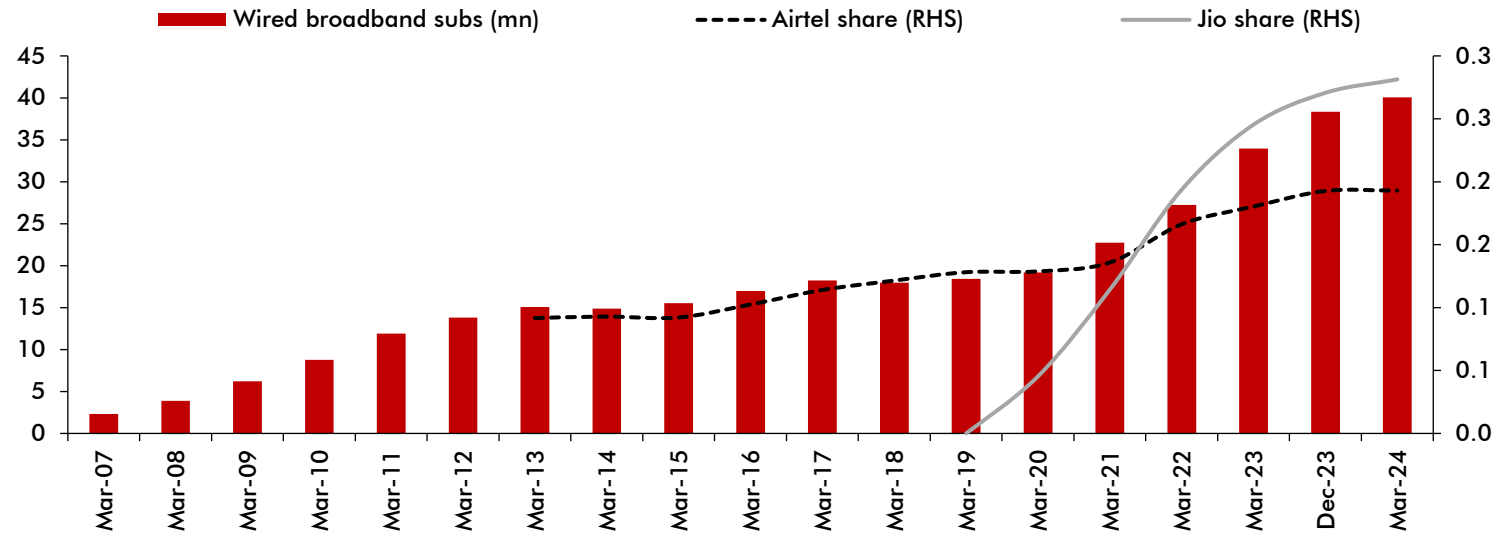
As mobile capex tapers for Airtel/Jio, their investments in fiberisation and services to pursue adjacencies in home and enterprise services would continue. We expect relevant TAM from adjacencies to expand to US$20bn in 2030 from current US$5bn. Jio and Airtel would emerge as key beneficiaries, enabling high RoCE due to asset sweating of existing and incremental mobile investments. Superior client engagement would enable Airtel to continue expanding on its enterprise lead, scaling up offerings like cloud services that are layered on its differentiated infrastructure. Jio's revenue scalability in homes business is higher vs. Airtel due to its lower return expectation threshold and synergies with its retail and media businesses. Being the only large consumer market dominated by local players and telcos' weak return profile, accommodative government stance could translate into telcos earning 'internet traffic taxes' from global OTTs.

Home entertainment is where telcos have a strong play

Home broadband a large and growing market...

Fibre-to-the-home (FTTH) services are a supply constrained market especially given the abundance of OTT content that's now available in all Indian languages. As Airtel and Jio rolled expanded 4G services pan-India, they expanded fibre infrastructure in small towns. This allowed them to provide FTTH services in more and more markets. With ~40mn users paying ~₹300-350/- per month ex-GST, we estimate the market size to be ₹170bn (US$2bn).

Exhibit 27: Home broadband (wired) is a supply constrained market that exploded as Airtel and Jio made services available pan-India



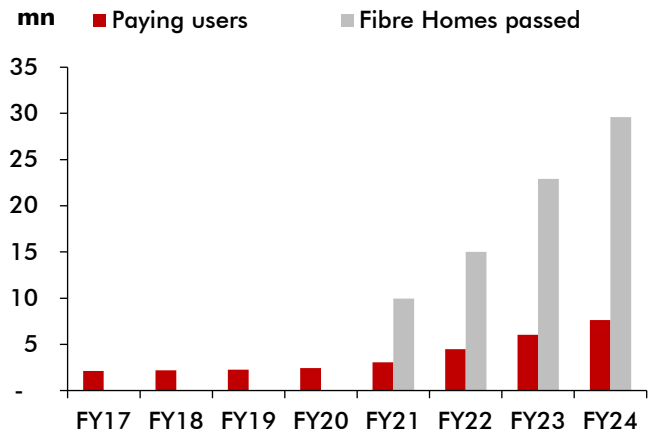
Source: Company, Ambit Capital research

Apart from fibre rollouts to support 4G/5G network expansion pan-India, both Airtel and Jio are:

- **Expanding into small towns in partnership with local cable operators (LCOs)**: in small towns where it's economically unviable to reach homes through fibre given the flat-bed housing vs. metros/big cities' apartment structure, LCOs own customer relationships and have last-mile infrastructure. Airtel/Jio are able to get consumers to spend for FTTH services with their strong brands and backend infrastructure. Akin to Airtel, Jio claims to have 1k+ cities of presence through its LCO tie-ups.

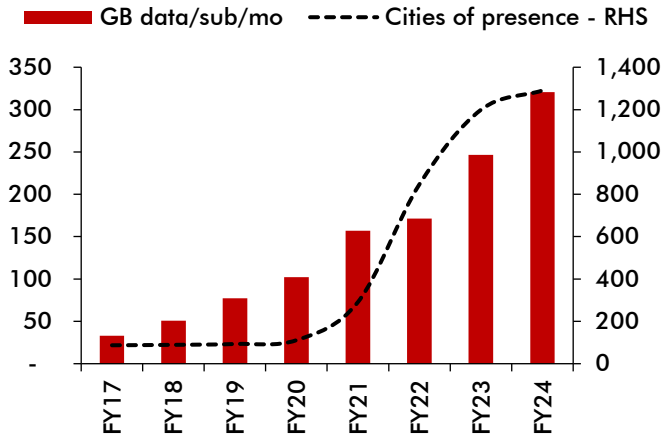
Jio appears to have ~35mn FTTH home passes vs. Airtel's 30mn.

Exhibit 28: Fiberisation is enabling Airtel to scale up FTTH users...



Source: Company, Ambit Capital research; Note: Above data is for Airtel

Exhibit 29: ...and expand presence into 1k+ towns



Source: Company, Ambit Capital research; Note: Above data is for Airtel & we assume FY24 GB/home broadband sub/mo

- **Expanding Airfiber services in markets where it's unviable to have fiber presence**: 5G's 10-100x capacity vs. 4G networks enable telcos to offer fixed wireless access (FWA) services that are marketed as a 'broadband fibre-like' experience to customers. Jio has taken a lead with its Airfiber offering and stated that services are available in 6k towns. Airtel currently offers Airfiber to customers only in a few cities as it believes that affordability could be a challenge.

While both Airtel and Jio are riding on past success with FTTH expansion, the jury is still out on FWA acting as a catalyst for non-linear market growth. While RIL has outlined an ambitious 100mn FWA addressable market by 2026 (announced in 2023) to supplement its 100mn FTTH user TAM (announced in 2022), it is placing orders of only ~7mn FWA consumer premise equipment (CPE) units in FY25-26.

While Airtel & Jio agree on FTTH expansion to 1k+ cities through the LCO model, FWA is where they differ. Jio has expanded FWA to 6k towns while Airtel is cautious as it believes that there are purchasing power constraints in small towns.

...that telcos are targeting through entertainment (DTH/OTT) bundles

We believe that the initial ~20mn FTTH users who already opted for home broadband pre-Covid did so for professional reasons given their white collar employment. Doubling of FTTH users in FY20-24 appears to be driven by:

- Smart TV purchases even by those households that don't require FTTH for occupational reasons.
- Vastly abundant content availability on free and pay OTT platforms like YouTube, ZEE5, Disney Hotstar, Sony LIV, Jio Cinema, Amazon Prime and Netflix.

Hence, we believe that the home broadband market must been viewed differently and seen as the 'home entertainment' market. Growth drivers hereon are likely to be:

- New homes that opt for FTTH/FWA connections as they upgrade their TV sets.
- Existing FTTH users opting for telco subscriptions with OTT bundles. Jio, Airtel and Tata Play prominently offer such products.

We expect home entertainment revenue opportunity for telcos to grow at 15-20% CAGR led by increased infrastructure expansion and bundling of content.

Exhibit 30: Airtel and RIL are following a very divergent approach to target the home entertainment market

Bundling	Airtel	RIL
	Both Airtel and Jio provide 3rd party content in their bundled FTTH offerings	
Content	No content ownership	Owns Viacom18, which is merging with Disney Star India and becoming India's largest broadcaster.
Distribution	*Airtel has 23.1mn retail postpaid, 16.2mn DTH and 7.6mn FTTH users. *It offers products like Airtel Black, which bundle linear/OTT content, mobile and FTTH connections. *Airtel said that 43% of its broadband users are on converged offerings (3.26mn).	*RIL-owned MSOs, Den, Hathway and GTPL Hathway have 17.9mn users while Jio has 11.3mn FTTH users. *Jio and RIL's MSOs offer bundled content in their premium plans. *Jio is also aggressively pushing its set-top-box (STB), through which it is looking to build an ads business (Jio Ads).
Synergies within the group	*Airtel believes that being independent of content ownership enables it to provide what customers really want.	*Sanmina, manufacturing JV, produces consumer premise equipment (CPE) for Jio's FTTH, which Reliance Retail (RRL) purchases. JFSL purchases the same from RRL and leases them to consumers. *Viacom18 is one of the largest owners of live and scripted content in India. *Where do consumers figure in this complex web of inter-company dealings?
Scalability	*Airtel sees 60mn homes as the relevant market for its converged homes offering. *It is targeting a more focused TAM vs. Jio and is expanding FTTH reach to 40mn homes by FY26 vs. 30mn in FY24.	*Akin to its mobile business, RIL is targeting a much bigger TAM of 200mn, which exceeds even mass-market pay and free TV reach. *It isn't clear which RIL entity will foot the bill of the expansion. *Viacom18 is paying for free cricket while Jio is footing the billing of last-mile reach. RRL-JFSL are likely to be subsidising CPE.

Source: Company, Ambit Capital research

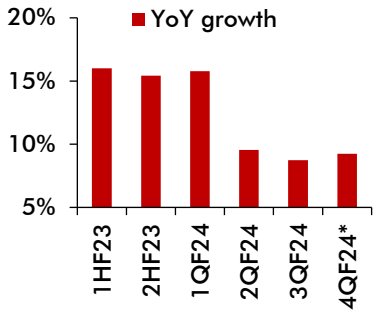
B2B revenue scalability: Hyperscalers' pull-back is temporary

The second major adjacency that telcos are pursuing where they have a strong right to win is enterprise connectivity and allied services. In this segment, telcos cater to:

- **Domestic clients** for their connectivity needs, including leased lines and data centres.
- **Global clients like OTT players and international telcos, which buy bulk bandwidth/text messages from Indian telcos**. Indian telcos also pay global telcos when they ink submarine cable capacity deals. Hence, net revenues from this segment would be lower vs. the same for domestic clients. This segment has been dragging down Airtel's B2B revenue growth in FY24. We see this as a temporary setback for the scalability of telcos' enterprise revenue streams.

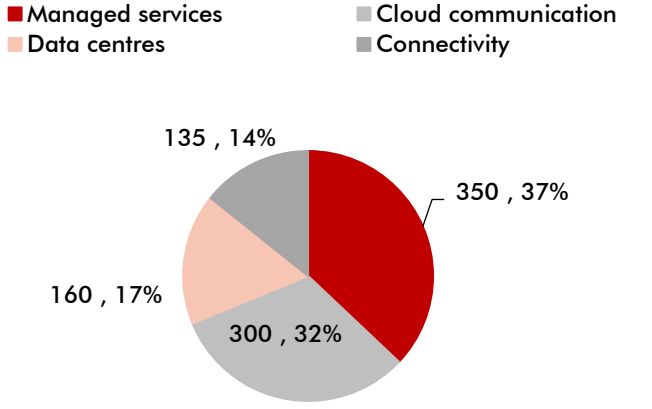
In our discussion, we focus on the domestic clients' enterprise revenue streams, which comprise connectivity, viz. the core service, and value-added services. This market is top-heavy with 500 enterprises accounting for 90% of industry revenue. We consider the 15mn GST registered businesses as the addressable market for enterprise services. But these MSMEs are likely to have low spending power and hence are contributing <10% of industry revenue.

Airtel's B2B revenue growth imp global OTT slowdown



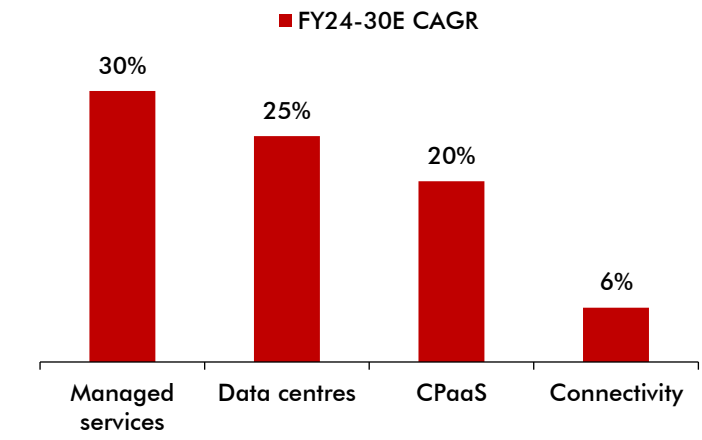
Source: Company, Ambit Capital research, we Beetel revenues from 4QFY24

Exhibit 31: Telcos are targeting ₹945bn enterprise market (FY24)...



Source: Company, Ambit Capital research; Numbers are in ₹ bn

Exhibit 32: ...where ancillary services are fast growing



Source: Company, Ambit Capital research

Core connectivity growth led by increased digitisation of enterprises

Despite a seemingly saturated connectivity market, core connectivity services is growing due to:

- Increased consumption by large clients, which expand presence in tier-2/3 markets.
- MSMEs and new customer segments that are opting for reliable enterprise connectivity vs. previously working only with mobile connections.

This segment is dominated by telcos due to their differentiated connectivity infrastructure.

Cloud communication: An area where telcos are increasing presence

Starting from simple messaging solutions like those for OTP or alerts, this segment is moving to value-added services like omni-channel messaging, viz. alerts on WhatsApp and in-app push notifications. Currently, this segment has three sets of players:

- Domestic specialists like Tanla Platforms and Route Mobile, which cater to a large number of domestic clients and buy bulk SMS' from telcos. Their ability to service a large number of clients is a strength, but reliable messaging delivery is a challenge.
- Global platforms like Twilio, for whom India is a small market.
- Telcos which have products like Haptik by Jio, Airtel IQ by Airtel and VI Cloud Telephony by VI. Telcos view cloud communication as a value-added connectivity service. They are trying to increase their wallet share of consumers by adding a software layer for customers to manage omni-channel communication reliably.

This segment witnessed +30% CAGR in FY20-24 but growth is now moderating as some global OTT apps are shifting to WhatsApp and in-app notification. Further, there are also disputes on the 'definition of international traffic'. Global OTT players wanted the TRAI to instruct telcos to allow transmission of SMS traffic under the domestic route. Telcos argue that global OTT apps are trying to bypass India's licensing and security framework by doing so. They argue that regulatory intervention at the behest of global OTT players could cause forex earnings loss of US$500-600mn (source: Airtel's submission to the TRAI), viz. ~15% of CPaaS segment revenues.

Data centres, an infrastructure play where telcos have a distinct advantage

With increased digitisation of enterprises and adoption of digital applications like payments and content, data centres have assumed increased importance. These are of two types: large data centres (DC) and edge data centres. Large DCs are designed for highly reliable data processing and storage in varied seismic zones that data integrity in extreme events like earthquakes. Telcos repurposed some of their legacy 2G infrastructure like base switching centres into edge DCs, which serve as modular and last-mile reliable data caching/storage infrastructure. These are offered to:

- Large enterprises for their shift to a private/hybrid cloud from on-premise storage.
- Hyperscalers like AWS, GCP and Azure, which are looking to offer public cloud solutions to large enterprises/MSMEs. Collaboration between telcos and hyperscalers like Google's partnership with Airtel and Jio, and adoption of tools like AI/ML tools by enterprises are key growth drivers.
- OTT players which want to provide low latency content to their consumers. Key driver of their shift to telco owned large/edge DCs is increased competition and usage by consumers.

Managed services: A vast canvas where telcos are just getting started

Telcos are looking to leverage on their enterprise relationships and differentiated infrastructure by providing managed services like IoT, cloud, software defined wide area network (SD-WAN), cybersecurity and DDOS protection solutions. These segments are currently small in India but evolved globally. Rising awareness and telco push will drive non-linear adoption among enterprises. In the past, we've discussed about Airtel's 2021 product launches in the areas of Cybersecurity, enterprise services and overall B2B partnerships.

Africa to emerge as test-bed for new solutions by telcos

We had theorised in 2021 that Africa could emerge as test-bed/sandbox for Indian telcos' innovation efforts. The same is now fructifying and both Airtel and Jio are highlighting tools that they've developed in-house to be showcased to African telcos.

- Jio is looking to deliver 4G/5G hardware and services through its subsidiary Radisys.
- Airtel has developed in-house data mesh with customer lifecycle management (CLM) capabilities and workforce software. These tools act as a digital layer for its own operations, enabling omni-channel delivery of services. Airtel is extending these tools to its own Africa operations and is in conversation with other telcos globally.

These revenue streams provide additional 'optionality' for Airtel and Jio, which have invested in such capabilities.

Indian telcos TAM expansion efforts and our prognosis

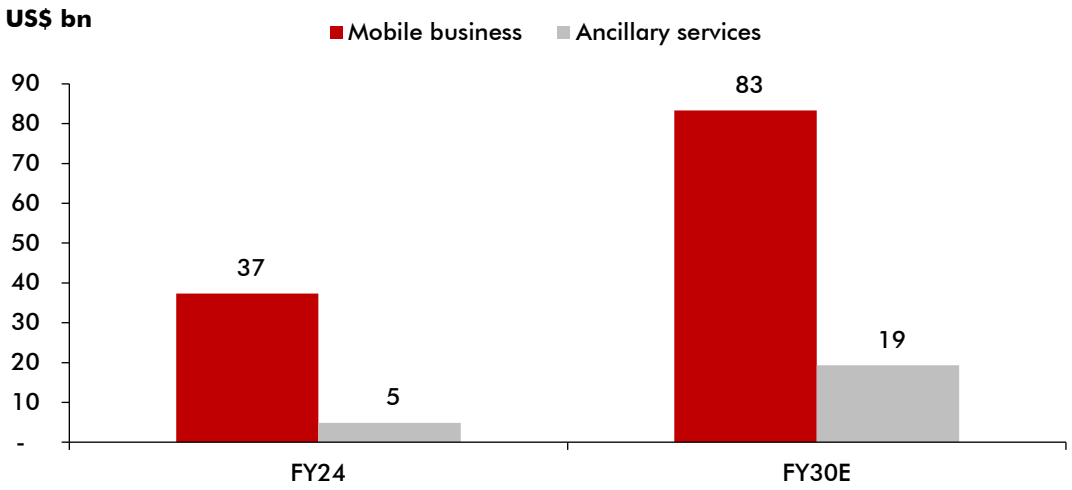
Exhibit 33: We expect telcos' ancillary revenue CAGR of 26% in FY24-30E as they tap into adjacencies

Segment (US$bn)	Market	~Telco revenues	Market	~Telco revenues	Role of telcos	Telcos' right to win	Telcos' standing		
	FY24	FY24	FY30E	FY30E			Airtel	VIL	Jio
Home entertainment & digital advertising	10.3	2.3	21.8	7.2	Content distribution and FTTH	◕	◕	◔	●
Cloud services and data centres	9.3	0.2	27.7	2.8	Co-location services in their infrastructure, low-latency connectivity	◕	●	◑	◕
Managed services	8.0	0.1	38.6	1.9	Service provider, software re-seller and hardware security	◑	◑	◔	◔
Communication Platforms as a Service (CPaas)	3.6	2.2	10.8	7.0	Telcos have built their platforms and are targeting large enterprises with their reliable termination services	◑	◕	◑	◕
Internet of Things (IoT)	0.1	0.1	0.5	0.4	Device connectivity and platform for service provisioning and asset tracking	●	◕	◑	◕
Total market opportunity	31.4	4.9	99.3	19.3	We expect telcos to increase the market share to 19% by FY30E from 16% presently				

Source: Company, DSCI, NASSCOM, FICCI EY report, Media reports, Ambit Capital research; Note: CPaaS includes B2B text messaging revenue; market size estimate is basis Airtel's internal assessment; For cloud services, we have assumed the size of the public cloud market. The home entertainment market comprises subscription for linear TV services, home broadband and OTT services

Note: ● - Strong; ◕ - Relatively Strong; ◑ - Average; ◔ - Relatively weak

Exhibit 34: Ancillary services likely to account for 24% of incremental FY24-30E telecom revenue



Source: Company, Ambit Capital research; Note: above reflects ancillary services revenue for telcos

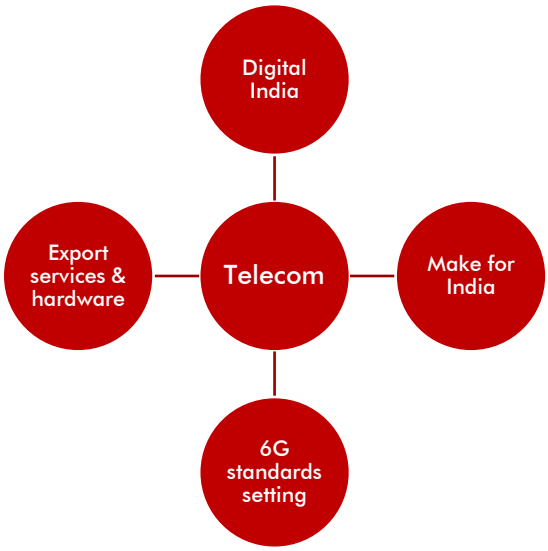
'Internet taxes' from OTT players could be an upside for telcos

"As far as India is concerned, I don't see personally that there is a huge necessity or urgency for sharing of cost for infrastructure," Sanjiv Shankar, Jt. Se'cy, Ministry of Information & Broadcasting in Mar-24. However, he also stated in the same interaction that voluntary commercial arrangements between telecommunication network operators and OTT providers may be encouraged

Telecom: A rare consumer-oriented sector dominated by local players

Unlike FMCG, auto, e-commerce and white goods, telecom is one of the few consumer-oriented sectors in India that's dominated by domestic players. The government has taken several measures like increased spectrum availability, rationalisation of royalty and procedural simplifications. The sector's importance extends beyond providing the infrastructure backbone to digital India. The government thinks more holistically about the sector, viewing it as important constituent of its 'Make in India' plans. It would like to see a thriving and competitive telecom sector that can support localisation of network hardware/services, contribute to standards' setting globally and export services and hardware.

Exhibit 35: Government sees the telecom sector playing a big role in the economy



Source: Company, Ambit Capital research

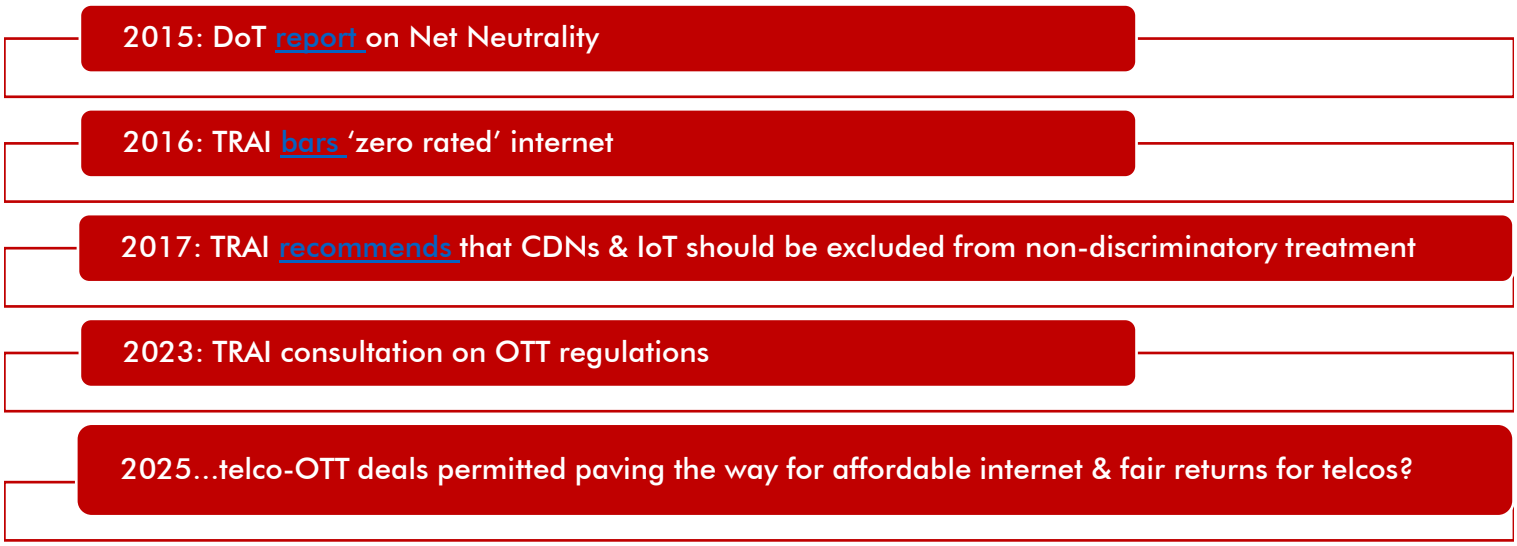
Will regulatory intervention facilitate 'internet traffic taxes?' (ITTs)

The key dilemma that the government and the sector face is, how to ensure that three private telcos thrive while services remain affordable. In Sep-20, the Telecom Department (DoT) wrote to the TRAI highlighting that:

- OTT services have reached a mature stage.
- Hence, there's a need to holistically look at various aspects of these services, including regulatory, **economic**, security, privacy and safety aspects.

The TRAI has rolled out a consultation paper to regulate OTT services that covers issues like defining OTT services, privacy, security consideration and an appropriate 'regulatory framework that promotes a competitive landscape for the benefit of consumers and service innovation'.

Exhibit 36: A brief history of net neutrality regulation in India



Source: Company, Ambit Capital research

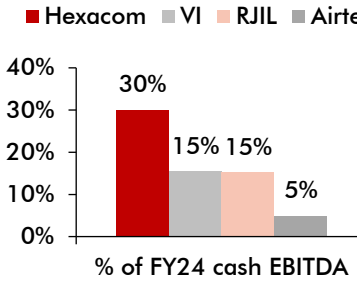
Telcos ask TRAI to remove arbitrage and tax 'large traffic generators' (LTGs)

...DTH is subject to price regulation, is subject to cross holding restrictions where the player cannot have any investments in the content company, and is subject to a license fee....If you are delivering the very same content through a broadband pipe in the form of an application into the same screen...you are subject to nothing, no regulation whatsoever...please subject everybody to the same rules...The messaging ask is the same because as a telco there is a lot of discussion and debate and as you know phishing, fraud, spam, this has become a menace today and we are liable through the license...we have given penalties on this from the regulator. But at the same time if this was delivered to an alternative technology which is over the air on any one of the messaging apps, then there is no regulation...whichever technology you use let the most efficient technology wins but let the rules be the same. – Gopal Vittal, Airtel's 2QFY24 earnings call (Nov-23)

Apart from elimination of regulatory arbitrage that currently benefits OTT players while hurting telcos, in Jan-24, the industry body Cellular Association of India (COAI), has also written a paper addressing data traffic and associated infrastructure costs. Here it outlines that:

- The low returns for telcos is a global issue. South Korea permits arrangements between OTT players and telcos. The EU is also mulling over a policy framework to ensure that big technology companies contribute to telco capex budgets.
- Data traffic has moved in tandem with telcos' capex and network capacity is finite:
  - Reduced service quality for telcos' non-LTG traffic is one outcome.
  - Raising tariffs to pay for higher infrastructure costs to support LTGs' traffic surge would unfairly burden those subscribers who aren't using LTGs.
  - Offer plans with traffic being a differentiating factor for tariffs. But this goes against the principles of net neutrality.
  - Get LTGs to fund capex that has driven traffic beyond the normal increase led by organic consumption, start-ups and MSMEs.

Hexacom to benefit the most from ITTs on LTGs

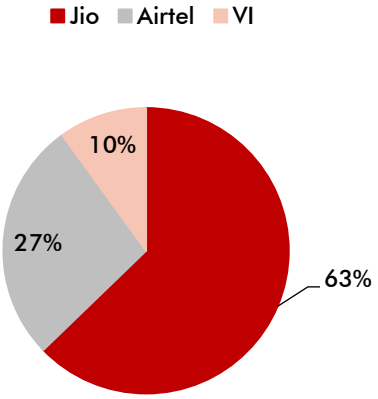


Source: Company, Ambit Capital research

Hexacom could see 30% cash EBITDA uplift followed by VI/Jio and Airtel (consol)...

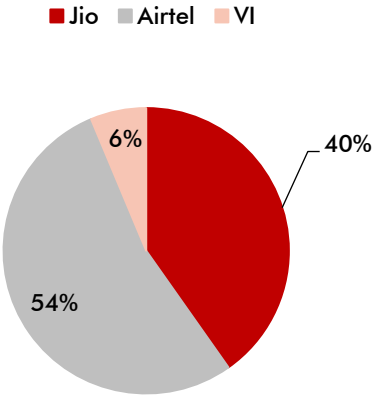
We believe that if telcos get regulatory blessings to charge ITTs from LTGs, then the same would be levied on GB of data. Assuming that (i) telcos carry a uniform 30% of LTGs' traffic that qualifies for compensation from the latter; (ii) LTGs get 80% discount on price/GB that retail users are charged (₹9.13/- in Dec-23, TRAI), then Hexacom could see 30% FY24 cash EBITDA uplift followed by Jio/VI's 15% and Airtel's 5% consol. cash EBITDA increase.

Exhibit 37: Jio dominates telcos' traffic share (FY24)...



Source: Company, Ambit Capital research; Note: Airtel consolidates Hexacom hence we don't present its numbers separately

Exhibit 38: ...while Airtel (C) is the largest in cash EBITDA

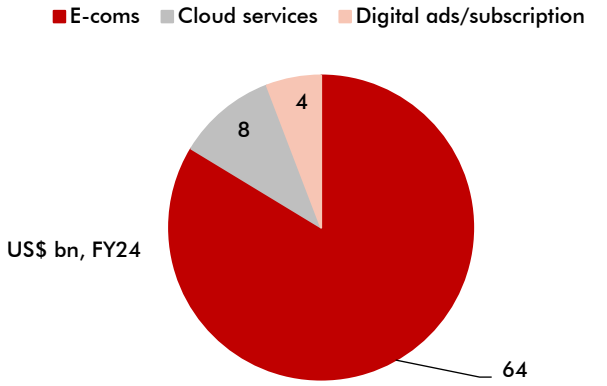


Source: Company, Ambit Capital research; Note: Pre-IndAS116 EBITDA for VI & Airtel. Airtel consolidates Hexacom hence we don't present its numbers separately

...as OTT players would have no choice but to pay as telcos allow access to a big prize

OTT payouts to telcos depend on two key parameters: discount that OTTs get to the prevalent realised tariff/GB and percentage of telco traffic for which LTGs need to compensate telcos. We are currently not factoring in any upside for telcos from OTT players through regulatory push as the regulatory discussions in this regard are still very preliminary and don't give any clear indication of their imminent levy.

Exhibit 39: For OTTs, telco payments will be small price to pay for continued access to a large and growing TAM



Source: Company, Ambit Capital research

Exhibit 40: OTT payments to telcos could range from 0.3-9% of their TAM

		Discount to retail pricing (₹9.13/GB)				
		50%	60%	80%	85%	90%
% of telco traffic for which LTGs pay	10%	1.7%	1.4%	0.7%	0.5%	0.3%
	20%	3.4%	2.7%	1.4%	1.0%	0.7%
	30%	5.1%	4.1%	2.0%	1.5%	1.0%
	40%	6.8%	5.4%	2.7%	2.0%	1.4%
	50%	8.5%	6.8%	3.4%	2.6%	1.7%

Source: TRAI, Ambit Capital research

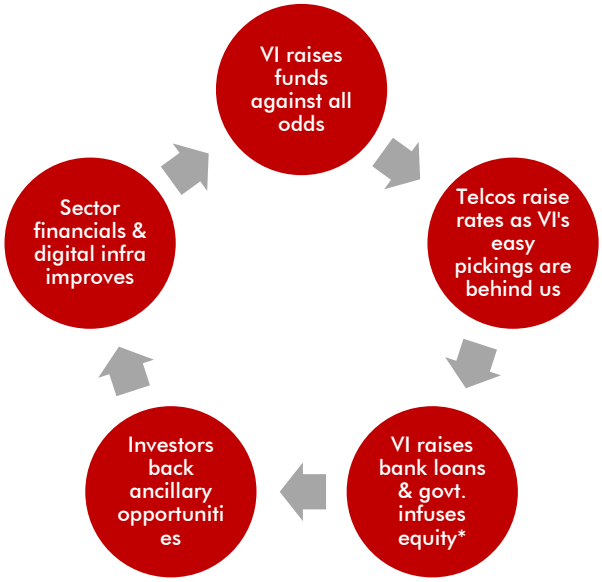
Elevated FCF with limited risks

Steady tariff hikes and conclusion of pan-India 5G rollout for Airtel and Jio will result in avg. ₹827bn and ₹329bn FCF in FY25-29E, 7% of the former's m-cap & 6% of our target equity valuation for Jio. Since the adverse Oct-19 SC AGR verdict, VI has been hamstrung and has only now been able to raise equity capital. We expect its capex to exceed cash profits till FY27E. Submarine and in-country fibre will remain a key investment area for telcos as the same is revenue generating and reusable. Capital availability won't be a challenge as evidenced by fund raising even by VI. Telcos are also opting for capital from specialists to fund their infrastructure investments, e.g. Warburg Pincus' investments in NXTRA, Airtel's data centre company. We see limited risks to Airtel/Jio's FCF generation. VI would survive due to tariff hikes and government opting to convert FY26/27 deferred payments into equity like in FY23.

Funding availability no longer a constraint for telecom

VI's unprecedented fund raise sets the ball rolling for a new virtuous cycle…

Exhibit 41: VI's funding now reinforces a three-player, sustainable industry construct



*Source: Company, Ambit Capital research; *conversion of debt into equity as per the Sep-21 telecom reforms*

Since 2010, telcos grappled with an adversarial government stance that resulted from scrutiny by the CAG and SC. This caused a massive repricing of spectrum and the telecom sector's net debt/equity increased to 2.1x in FY13 vs. 0.5x in FY10. Inadequate 3G monetization further compounded woes as evidenced by below-nominal GDP, FY12-16 revenue growth. Then Jio came and forced the industry to pivot away to a high upfront investment and low marginal cost paradigm vs. the industry's then prevalent 'minutes factory model.' In 2017, Jio said that incumbents weren't making adequate equity investments. While Airtel has raised ample amounts of capital, through its recent fund raise, VI has demonstrated that it can stay afloat given government's commitment to a three-private-player industry structure. VI's funding also puts paid concerns of:

- New entrants that could have secured a 'backdoor entry' into the sector by acquiring VI for a miniscule equity value and assumed debt lower than the value of spectrum dues owed to the government.
- Government control on tariffs given cartelisation concerns in the event of VI failing.

...that will entail continued funding, which it will find easier to raise

We expect investors to see government's conversion of VI's FY26/27 spectrum/AGR dues into equity positively as the same will be at market price and will improve the company's viability. Even if we assume conversion price similar to VI's CMP, government stake won't exceed 41%, allowing it to remain a minority shareholder. Akin to Airtel, which did multiple funding deals in 2020, VI could raise additional capital from private investors as its operational/financial state improves with network investments done from recent funding. Though even after recent US$2.2bn equity funding VI remains in a precarious state, we don't see capital as a differentiator for the sector's participants.

Exhibit 42: Airtel raised ~US$ 17bn capital via asset monetization and fresh funding to stay relevant

Particulars	Period	Amount ($bn)
Airtel sold stake in Bharti Infratel (BHIN)	2017	1.8
Africa ops' (AAF) pre-IPO proceeds	2018	1.3
Africa ops' (AAF) pre-IPO proceeds	2019	0.2
Airtel rights issue at ₹220/sh	2019	3.6
AAF IPO	2019	0.7
Subordinated Perpetual Securities	2019	1.0
QIP at ₹445/sh	2020	2.0
1.5% coupon FCCB due 2025 at ₹534/sh	2020	1.0
Carlyle acquired ~25% stake in NXTRA	2020	0.2
Airtel purchased 4.94% stake in BHIN	2020	-0.4
AAF assets stake value	2021-22	0.8
Rights issue at ₹535/sh*	2021	2.8
Google investment at ₹734/sh	2022	1.0
Sale of spectrum to Jio	2022	0.1
Total Fund Raise		**16.1**

*Source: Company, Ambit Capital research; *Airtel has called 25% of this amount and hasn't yet decided on whether to call the remainder*

Exhibit 43: VIL has arrived to the party late & will continue raising funds

Particulars	Period	Amount ($bn)
QIB Funding	2018	0.5
Preferential issue: Promoter group	2018	0.5
Sold own Towers	2018	1.2
Rights Issue at ₹12.5/sh	2019	3.6
Indus Tower-Sale consideration	2021	0.5
Vodafone group's max indemnity cover	2021	1.1
Promoter infusion (₹10/sh)	2022	0.6
OCDs issued to ATC (₹10/sh)	2024	0.2
Promoter infusion at ₹14.75/sh	2024	0.2
Equity raise via FPO at ₹11/sh	2024	2.2
Total Fund Raise		**10.6**
Govt AGR & Spectrum dues conversion*	2026	1.4
Govt AGR & Spectrum dues conversion*	2027	2.1
Total fund raise likely by 2027		**14.1**

*Source: Company, Ambit Capital research, *conversion of govt dues in FY26 & FY27 assumed with USD 1 = INR 83.3 and share price of ₹15/-*

Monetisable specialised infrastructure will attract funding

A variety of visionary services expected, but there was a lack of killer service – SK Telecom, in its Aug-23 6G Whitepaper while discussing '5G Lessons Learned'.

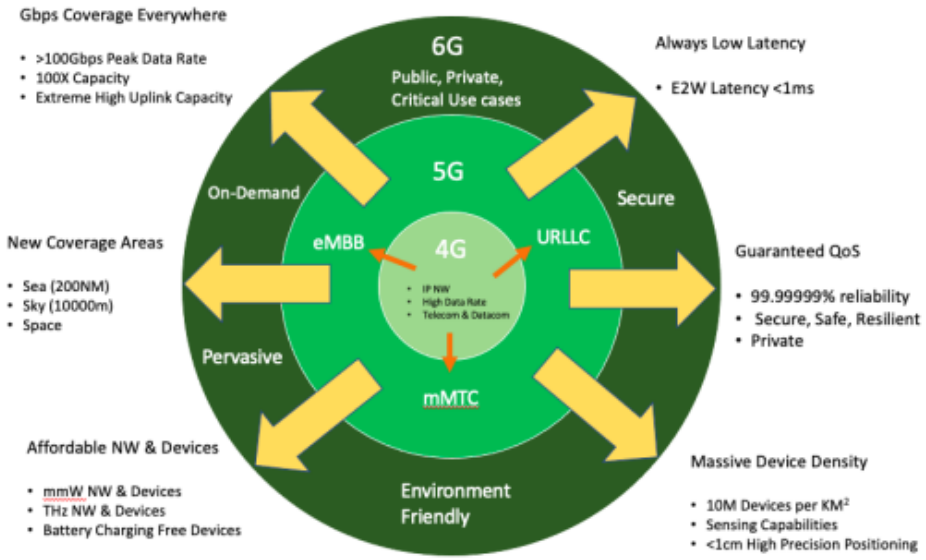
Due to its entrenched customer relationships and ahead of time investments in data centres, Airtel was able to raise funds from PE investor, Carlyle to fund its data centre expansion. As per media reports, Carlyle is now looking to encash on the same and is in talks with multiple suitors. RIL along with Brookfield asset management and Digital Realty plans to setup datacentres. The JV where all three partners hold 33.3% each is constructing data centre parks in Chennai and Mumbai. As telecom evolved from 2G to 5G, new forms of infrastructure like data centres (edge and large) and fibre assumed increased importance.

6G investment isn't a risk as 5G's monetisation has failed

Since 5G is yet to fulfil its promise in terms of monetisation, we expect telcos and governments to push for 6G only if appropriate and monetisable killer apps are uncovered.

- Video stream at mass scale as the killer app for 4G.
- Private networks for factory automation, cloud gaming, telemedicine wearables and smart cities were touted as 5G's killer apps but failed.
- Currently, 6G comes with the promise of holographic communications, massive scale AI and automated driving (source: DoT task force report, 2023).

Exhibit 44: 6G will push the boundaries of network parameters but monetisation is the key issue

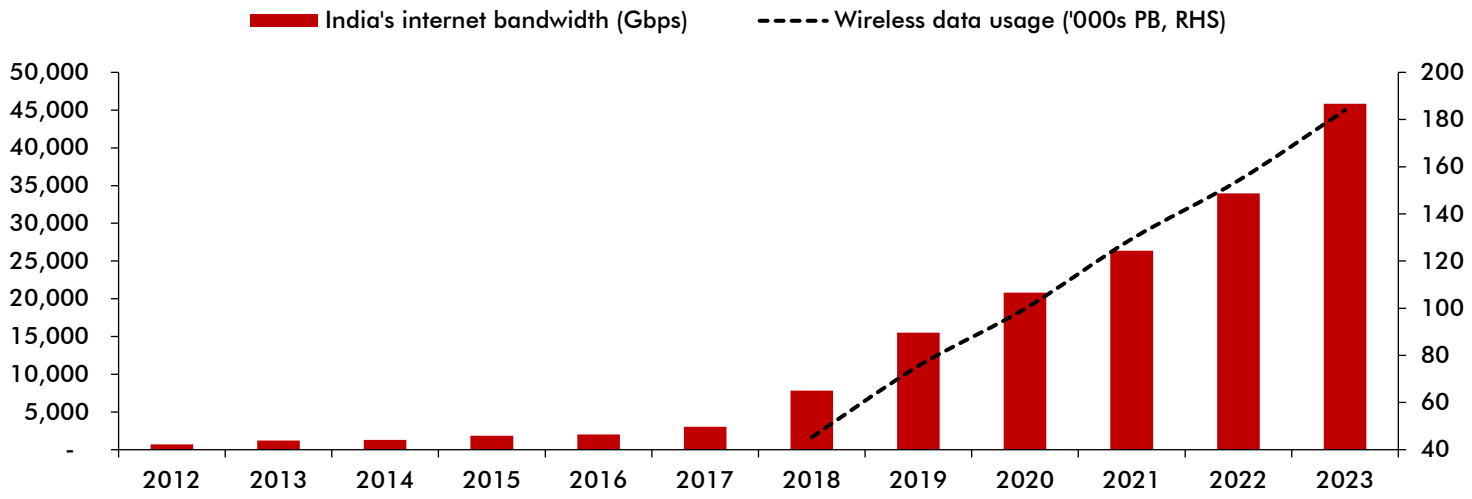


Source: DoT, Ambit Capital research

Tower capex to subside for Airtel/Jio, fibre spends to continue

The heavy capex as far as Jio is concerned, a lot of that got completed in the last fiscal year – V Srikanth, CFO, RIL in the company's Apr-24 4QFY24 earnings discussion

Exhibit 45: Telcos supported 4G and B2B-digitisation led traffic surge by investing in submarine cable capacities

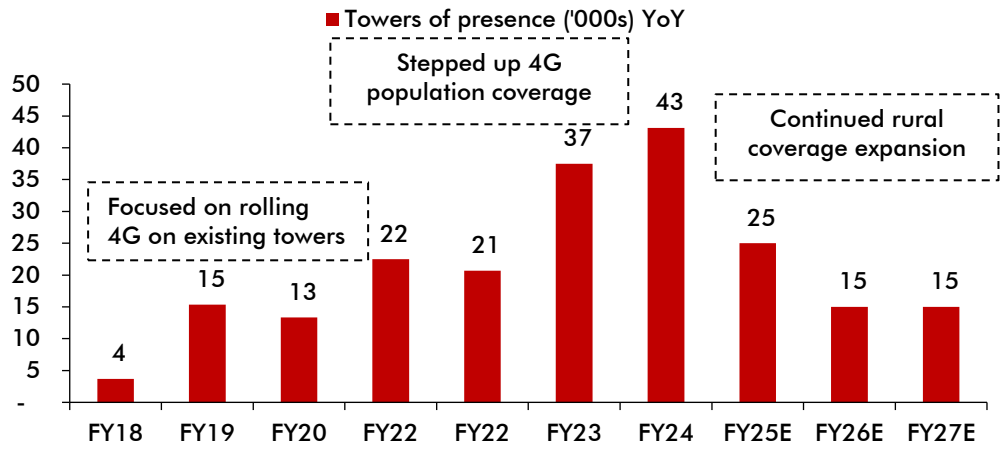


Source: TRAI, Ambit Capital research; Note: PB = Petabytes (10^15 bytes)

Airtel/Jio's 4G population coverage mostly done with only a few gaps

As of Mar-23, Airtel's 4G population coverage stood at 96.7%. It had then outlined a 'rural acceleration programme' under which it was planning to deploy 10.3k of targeted 30k sites. In its 4QFY24 earnings commentary, it outlined plans to roll out another 25k sites, especially in markets where it sees opportunity to close the gap with Jio. Even this rollout reflects a moderation in network expansion that the company had aggressively undertaken in FY24. While Jio doesn't disclose tower count, as per a government disclosure, it had presence on 50% greater number of towers vs. Airtel. Since Jio has followed a conscious strategy of making its 4G network available to the most far flung concerns of India, we believe that it's unlikely to see a major network expansion hereon for population coverage.

Exhibit 46: Airtel to continue network expansion albeit at a moderate pace vs. FY24

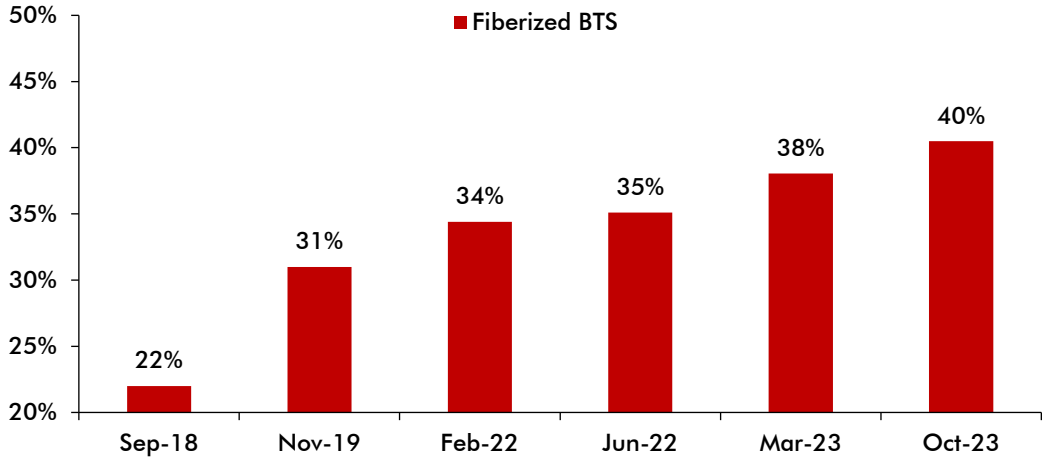


Source: Company, Ambit Capital research

Fibre to remain a key investment avenue for telcos as usage will keep rising

Apart from submarine cable internet bandwidth investments, telcos also need to invest in fibre to connect towers, more enterprise and home customers and improve network reliability. Hence, they make national, inter-city and intra-city fibre investments. As per government data, Indian telcos have 40% of their base transceiver stations (BTS') connected with fibre. This compares with 80-90% BTS' fibersation in China and is also lower than the Mar-25 target set by the government under the National Broadband Mission for 70%.

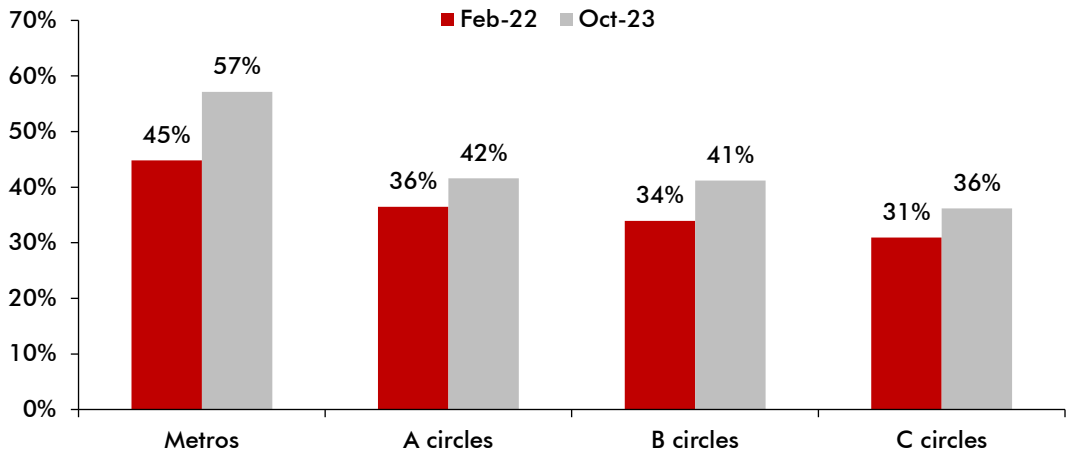
Exhibit 47: Fiberisation of towers slowed during covid, but has picked up post FY22



Source: Company, Ambit Capital research

Telcos appear to be following commercial considerations and focusing their fiberisation efforts more in metro markets. This is likely to change as 5G, FTTH and FWA spreads to smaller towns.

Exhibit 48: Telcos focus of fibre connected radio stations (BTS') is more in metros

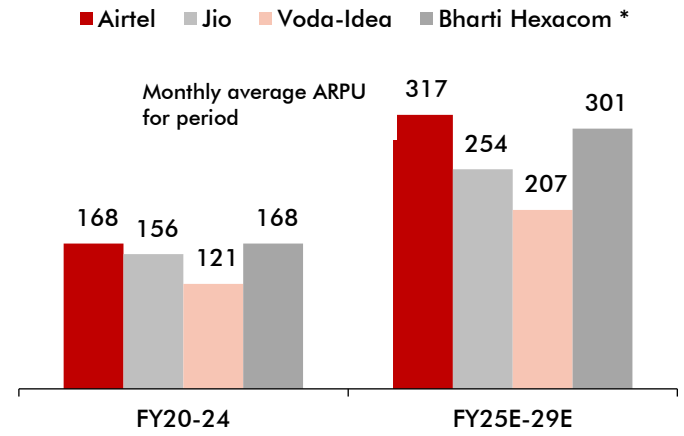


Source: National Broadband Mission, Ambit Capital research

ARPU increase to percolate into FCF gains for Airtel/Jio

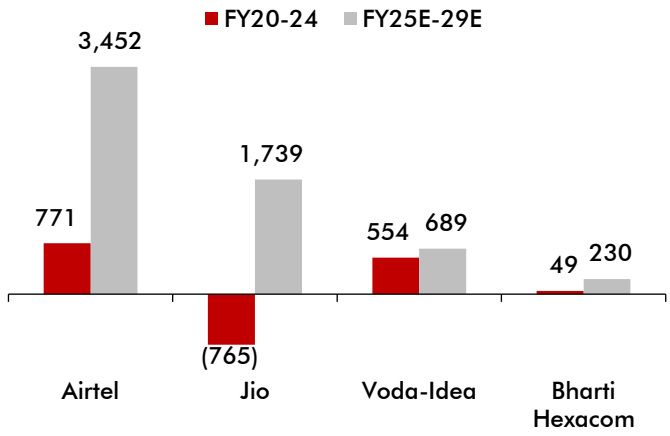
Excluding spectrum purchases that were lumpy in FY20-24 and are likely to be marginal in FY25-29E, we expect all industry participants to generate robust FCF during the next five years, supported by operational and capital efficiency. Airtel's ₹3.5trn cumulative FCF in FY25-29E up ~4x vs. FY20-24 while Jio's FY25-29 FCF would be 50% of that of Airtel vs. FCF consumption in FY20-24. Both players should see higher returns led by increased asset sweating. VIL should see only marginal FCF generation due to its focus on expanding network in the coming years. Hexacom should see its FCF sharply increase in tandem with that of Airtel.

Exhibit 49: Tariff hike led ARPU growth...



*Source: Company, Ambit Capital research; Note: Jio's ARPU is on overall subscriber base and revenues and includes contribution from FTTH/FWA; *FY22-24 ARPU growth*

Exhibit 50: ...and moderating capex to be key FCF drivers



Source: Company, Ambit Capital research; Note: we consider non-spectrum FCF for Airtel, Hexacom & VI due to availability of data

Defensive with growth characteristics

Since tariff hikes commenced in 2019, we compare current valuations vs. 5-year averages and both Airtel and Indus are trading at 26% and 25% premium on 1-year forward EV/EBITDA basis. We expect valuation premium to increase further led by tariff hikes, move to usage-linked pricing and increased investor interest with Jio's IPO in 2025. Telecom offers a unique combination of growth and defensiveness as FCF profile steadily improves. New target EVs of Airtel, Jio, Indus and VI are 45%, 54%, 73% & 47% higher respectively. We turn BUYers on Indus and VI and recommend owning a portfolio of Airtel:Hexacom:Indus:VI in the proportion 60:20:10:10. Delayed tariff hikes pose time-correction risks to telco valuations. National champion status enabling greater value capture from OTT players and high return reinvestment avenues like cloud services/data centres riding on megatrends like generative AI remain key optionality avenues.

Exhibit 51: Our view on the telecom sector & key recommendations

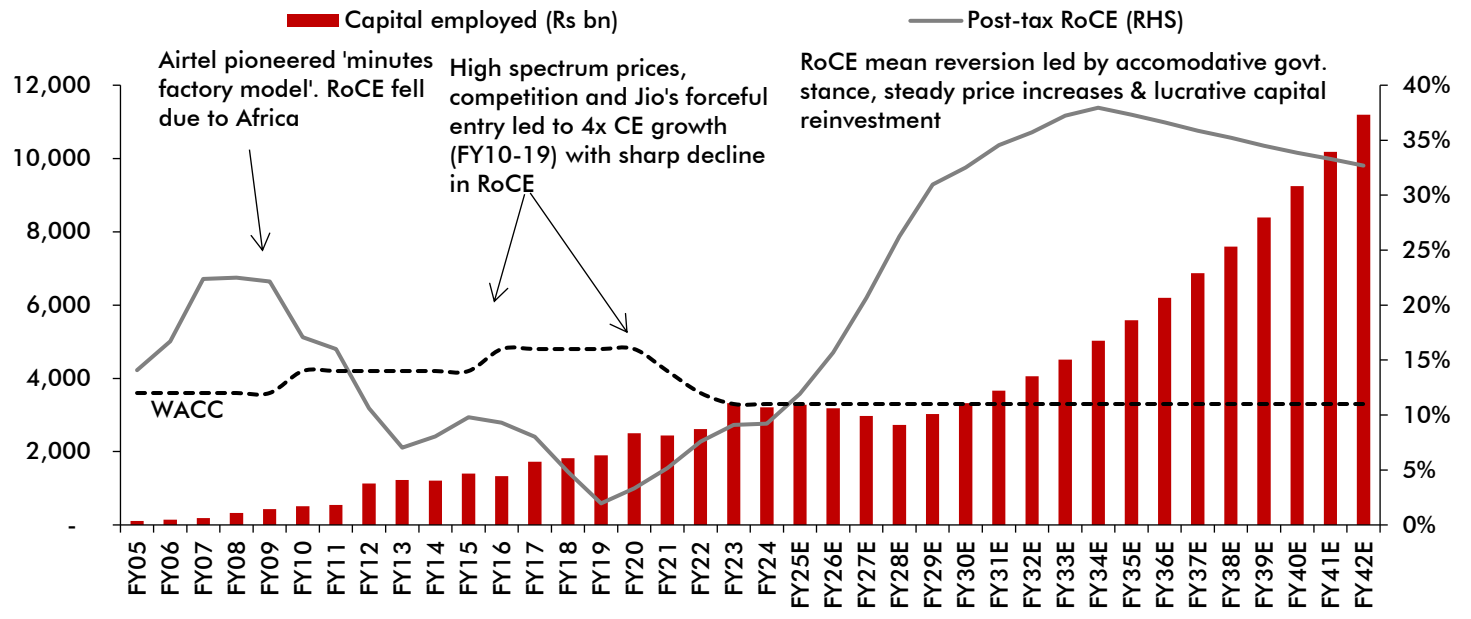
Company	Rating	TSR (12 months)	FY19-24 Revenue CAGR	FY24E-30E Revenue CAGR	Long term drivers (ex-tariff hikes)	RoCE (FY24)	RoCE (FY27E)	WACC	Terminal Growth Rate (FY42E)
Bharti Airtel	BUY	18%	20%	16%	Scalability of non-mobile revenues	8%	18%	11%	5%
Bharti Hexacom	BUY	35%	35%	17%	Increase in teledensity/4G adoption	13%	27%	12%	5%
VIL	BUY	24%	4%	14%	Reversal of subscriber loss trends & favourable govt. stance	-3%	3%	14%	4%
RIL*	SELL	-11%	23%	18%	Jio IPO in 2025	5%	9%	11%	5%
Indus Towers	BUY	25%	4%	9%	Improvement in tenancy and incremental tower addition	12%	16%	11%	4%

*Source: Company, Ambit Capital research; *we present revenue CAGR for Jio, upside is for our RIL TP*

Bellwether Airtel to continue leading the sector

Consolidated industry structure and continued government support imply limited risk to our 23% FY24-29E telecom sector revenue CAGR (akin to FY20-24). Airtel would continue to lead with 25% India mobile growth.

Exhibit 52: Bellwether Airtel's capital employed and returns reflect the sector's evolution across phases



Source: Company, Ambit Capital research

Airtel's RoCE reflects the evolution of Indian telecom in the following phases:

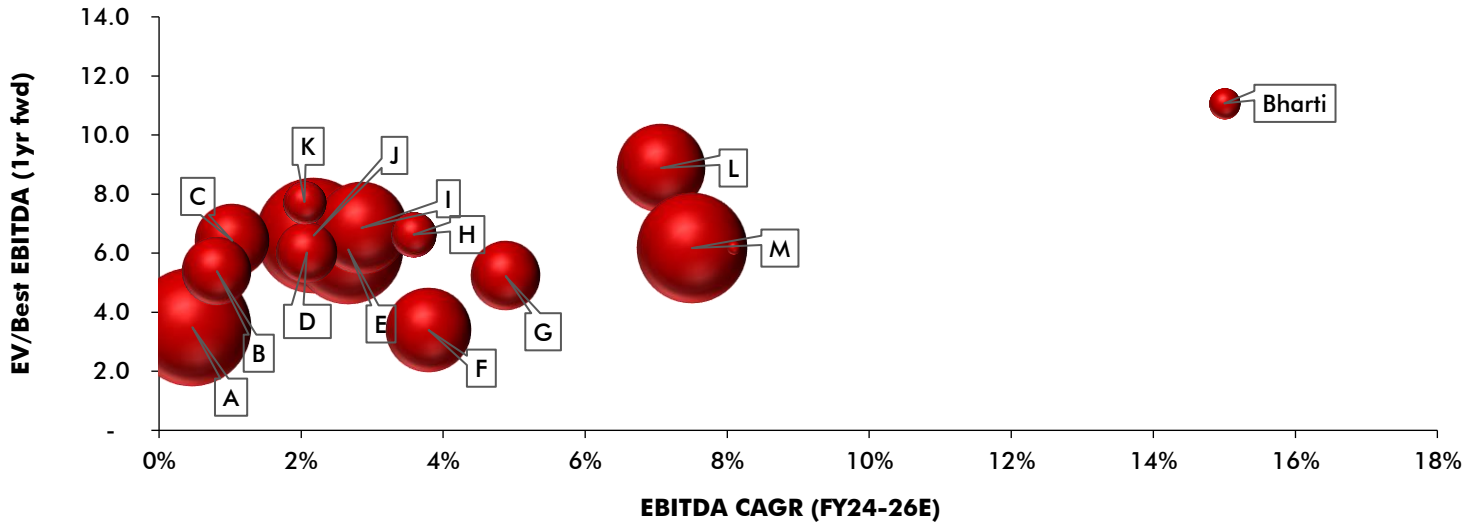
- The Minutes Factory phase (telecom 2.0) was ushered in by the Government, which chose to reduce the entry prices of telecom licences and introduced royalty in lieu of the same. This enabled Indian telcos to expand 2G networks in far flung areas, lower prices and capitalise on demand elasticity. But the asset-light success of telecom also attracted competition from global players. This phase began in the noughties and ended in 2010.
- Again, the government's stance on the sector influenced returns (telecom 3.0). After the 2009 farm loan waiver, fiscal constraints emerged, prompting the government to revisit taxation from telecom. Judicial activism (2G licence cancellation) strengthened the government's resolve to maximize its revenue by repricing the industry's spectrum via do-or-die auctions. Jio's forceful entry was the final nail in the coffin for the industry. Airtel's RoCE saw dilution after FY11 as it entered Africa.
- Since 2020, the telecom industry has turned a corner (telecom 4.0). The Government is turning accommodative by easing the sector's liquidity concerns, addressing litigation issues, lowering spectrum prices and overlooking telcos' price hikes. ARPU is steadily rising and will continue to increase led by price hikes, premiumisation and no threat from new entrants. Lucrative reinvestment opportunities geared to futuristic tools like generative AI are also emerging. Unwavering government support that led to VI being able to raise ₹200bn now ensures that telecom remains a three-private-player market with a focus on profitable growth over internecine competition.

We expect the sector's RoCE to improve and stay elevated led by steady tariff hikes, benign government stance w.r.t spectrum pricing, lack of new entrants and lucrative reinvestment opportunities with no capital allocation mistakes (like Airtel in Africa).

Indian telecom merits premium valuation vs. global peers

Consolidated industry structure and continued government support imply limited risk to our 23% FY24-29E telecom sector revenue CAGR (akin to FY20-24). Sector bellwether, Airtel would continue to lead with 25% India mobile growth. We present valuations vs. global peers with respect to EBITDA CAGR and current revenue size.

Exhibit 53: Airtel merits premium valuations vs. global telcos with its 15% EBITDA CAGR vs. negligible growth for global telcos



Source: Company, Ambit Capital research, Note: size of the bubble represents FY24E US$ revenue for companies, here A - China Mobile, B - Orange, C - Charter Comm, D - KDDI, E - AT&T, F - China Telecom, G - America Movil, H - Saudi Telecom, I - Nippon Telegraph, J - Verizon, K - BCE, L - T-Mobile, M - Deutsche Telekom

- Airtel's valuations appear optically discounted vs. peers as Africa operations (56% owned) account for a quarter of its EBITDA (FY24). Geography risk factors result in Airtel Africa getting a lower multiple vs. India operations despite under-penetration vs. India. Airtel's adjusted valuations are presented in the company-specific valuation discussion.
- VIL and Hexacom's valuations are double of that of global peers as they're geared to Indian telecom's faster growth for longer time periods.

Exhibit 54: Indian companies trade at premium to global peers due to higher growth visibility

Company	BBG Ticker	Country	FCF yield (FY25E)	M Cap. ($ bn)	P/B (x)			P/E (x)			EV/EBITDA (x)			FY24-26E CAGR (%)		
					FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	Rev	EBITDA	EPS
India																
Bharti	BHARTI IN Equity	India	5%	101.3	7.8	6.4	5.6	39.9	28.2	22.4	11.7	10.1	9.0	13%	15%	56%
Vodafone Idea	IDEA IN Equity	India	3%	13.9	-0.9	-0.8	-1.2	N/A	N/A	N/A	17.7	14.6	11.9	12%	20%	NA
Bharti Hexacom	BHARTIHE IN Equity	India	4%	6.7	10.4	8.9	6.9	42.5	29.8	23.5	15.1	12.7	11.1	16%	22%	53%
Mean			**4%**	**40.6**	**5.8**	**4.8**	**3.8**	**41.2**	**29.0**	**23.0**	**14.8**	**12.5**	**10.7**	**14%**	**19%**	**54%**
Median			**4%**	**13.9**	**7.8**	**6.4**	**5.6**	**41.2**	**29.0**	**23.0**	**15.1**	**12.7**	**11.1**	**13%**	**20%**	**54%**
Developing Countries																
China Mobile*	941 HK EQUITY	China	11%	208.1	1.1	1.0	1.0	10.5	10.0	9.4	3.5	3.4	3.3	5%	1%	4%
China Tel*	728 HK EQUITY	China	5%	70.1	0.8	0.8	0.8	11.4	10.5	9.6	3.4	3.3	3.1	5%	4%	8%
Telefonica*	TEF SM EQUITY	Brazil	18%	24.8	1.1	1.1	1.0	12.7	11.8	11.2	5.0	4.9	4.9	0%	1%	1%
China Unicom*	762 HK EQUITY	China	18%	26.1	0.5	0.5	0.5	9.1	8.4	7.3	1.5	1.5	1.4	4%	1%	10%
Telkom Indonesia*	TLKM IJ Equity	Indonesia	11%	17.8	2.0	1.9	1.8	11.2	10.5	10.0	4.3	4.1	3.9	1%	1%	0%
Advanced Info Service*	ADVANC TB Equity	Thailand	8%	16.8	6.5	6.3	6.0	19.7	17.6	16.1	7.8	7.5	7.3	5%	7%	8%
Vodacom Group	VOD SJ Equity	Africa	10%	11.0	1.9	1.8	1.7	10.3	9.2	8.7	4.3	4.0	3.8	5%	5%	8%
Maxis Bhd*	MAXIS MK Equity	Malaysia	7%	5.9	4.8	4.7	4.6	20.2	18.7	17.8	8.9	8.8	8.6	4%	4%	5%
Safaricom PLC	SAFCOM KN Equity	Kenya	5%	5.7	2.9	2.7	2.5	10.1	8.8	7.4	5.1	4.6	4.0	17%	15%	15%
Axiata Group*	AXIATA MK Equity	Thailand	16%	5.1	1.1	1.1	1.1	34.6	25.2	20.5	6.0	5.7	5.5	5%	4%	48%
PLDT*	TEL PM Equity	Malaysia	8%	5.0	2.4	2.1	NA	8.4	7.6	7.0	5.5	5.2	4.9	2%	3%	6%
Telekom Malaysia*	T MK Equity	Malaysia	7%	5.5	2.6	2.4	2.2	15.8	15.6	15.0	6.1	6.0	5.8	2%	2%	-1%
Globe*	GLO PM Equity	Malaysia	6%	4.7	1.7	1.7	1.6	12.6	12.0	10.2	7.2	6.9	6.5	1%	2%	9%
XL Axiata*	EXCL IJ Equity	Indonesia	16%	1.7	1.0	1.0	0.9	14.7	12.0	12.0	4.2	3.9	3.8	5%	7%	35%
Mean			**10%**	**29.2**	**2.2**	**2.1**	**2.0**	**14.4**	**12.7**	**11.6**	**5.2**	**5.0**	**4.8**	**4%**	**4%**	**11%**
Median			**9%**	**8.4**	**1.8**	**1.7**	**1.6**	**12.0**	**11.1**	**10.1**	**5.1**	**4.8**	**4.4**	**4%**	**3%**	**8%**
Developed Countries																
T-Mobile*	TMUS US Equity	US	8%	207.1	3.4	3.5	3.6	19.4	15.9	13.5	9.0	8.5	8.0	3%	7%	24%
Verizon*	VZ US Equity	US	11%	169.4	1.7	1.5	1.4	8.8	8.6	8.4	6.5	6.4	6.3	1%	2%	0%
AT&T*	T US Equity	US	13%	131.9	1.1	1.1	1.0	8.3	8.1	7.9	6.2	6.1	6.0	1%	3%	-3%
Deutsche Telekom*	DTE GY Equity	Germany	16%	122.0	2.0	1.9	1.7	12.5	11.4	10.0	6.3	6.0	5.8	2%	7%	10%
Singapore Tele	ST SP Equity	Singapore	NA	32.2	NA	NA	1.7	NA	NA	13.0	NA	NA	11.8	NA	NA	NA
Orange*	ORA FP Equity	France	13%	27.2	0.8	0.7	0.7	8.9	8.0	7.2	5.3	5.2	5.1	-3%	0%	5%
Vodafone PLC	VOD LN Equity	UK	9%	24.2	0.4	0.4	0.3	11.0	9.3	8.2	5.9	5.8	5.7	-6%	-4%	7%
Telenor*	TEL NO Equity	Norway	7%	16.3	2.5	2.6	2.6	12.6	14.8	13.3	7.3	7.2	6.9	2%	3%	29%
Telecom Italia*	TIT IM Equity	Italy	34%	5.2	0.3	0.4	0.3	NM	NM	NM	5.8	5.6	5.4	0%	6%	-60%
PCCW*	8 HK Equity	HK	32%	3.8	18.2	-16.4	NA	NM	NM	NA	6.4	6.2	NA	2%	4%	NM
StarHub*	STH SP Equity	Singapore	NA	1.6	3.5	3.3	3.1	13.5	11.7	11.0	6.7	6.4	6.2	1%	3%	15%
Smartone**	315 HK Equity	HK	NA	0.5	0.8	0.7	NA	8.8	8.3	NA	1.5	1.4	NA	1%	1%	5%
Mean			**16%**	**61.8**	**3.2**	**0.0**	**1.6**	**11.5**	**10.7**	**10.3**	**6.1**	**5.9**	**6.7**	**0%**	**3%**	**3%**
Median			**13%**	**25.7**	**1.7**	**1.1**	**1.5**	**11.0**	**9.3**	**10.0**	**6.3**	**6.1**	**6.1**	**1%**	**3%**	**6%**

*Source: Company, Ambit Capital research, *indicates December year-end companies, **indicates June year-end companies*

Indus Towers still trades at a discount to global peers

Globally, telecom infrastructure providers, especially those that aren't owned by telcos and are independent, provide all forms of ancillary infrastructure to telcos, including towers, fibre and data centres. Firms that are independent enjoy:

- Capital allocation freedom enabling organic/inorganic foray. E.g. ATC's acquisition of Datacenter firm Core Sites in 2021 and international tower portfolio expansion.
- Optimised capital structure with >4x net debt/EBITDA for most firms given predictable cash flows from their customers.

Indus doesn't have the above flexibilities and hence trades at 50-70% discount to global peers. We see business from VI, which can result in increased asset utilisation/tenancy as its key value driver. Since we are confident of VI's survival and ability to expand its network infrastructure to compete effectively with Airtel/Jio in its 17 focus markets, we believe that Indus can re-rate. A detailed discussion on Indus' valuation drivers can be found in page 77 of the note.

Exhibit 55: Indus trades at discounted valuation vs global peers

BBG TICKR	Rating	FCF yield (FY25E)	M Cap. ($ bn)	P/B (x)			P/E (x)			EV/EBITDA (x)			ROE (%)			Net Debt/ EBITDA (x)
				FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY24/ CY23
Tower Companies EM																
INDUSTOW IN Equity	BUY	12%	10.9	3.0	2.7	2.5	14.1	12.6	11.5	7.0	6.4	6.0	22.4	22.8	22.7	1.4
788 HK EQUITY*	NR	31%	22.6	0.8	0.8	0.8	16.0	14.2	11.6	4.0	3.8	3.7	5.0	6.6	6.6	1.1
SITES1 MM Equity*	NR	52%	3.0	1.5	1.4	1.5	31.1	28.3	21.4	11.2	8.4	8.2	5.5	6.6	6.6	3.7
TBIG IJ Equity*	NR	69%	2.4	3.4	3.2	3.0	26.7	26.7	21.3	12.1	11.5	11.0	13.9	13.2	13.2	5.3
Tower Companies Developed																
AMT US Equity*	NR	40%	91.0	21.9	22.6	23.6	48.2	29.5	29.9	19.0	18.7	17.9	35.0	71.1	71.1	6.5
EQIX US Equity*	NR	19%	72.6	6.0	5.9	5.9	74.9	70.2	61.0	23.2	19.2	17.5	8.1	10.2	10.2	4.6
CCI US Equity*	NR	54%	41.9	6.5	8.0	10.5	28.8	35.0	37.5	14.8	15.8	15.3	21.2	26.3	26.3	5.8
CLNX SM EQUITY*	NR	91%	23.4	1.5	1.6	1.6	N/A	N/A	NM	14.1	12.7	11.6	-2.0	-0.3	-0.3	7.9
SBAC US Equity*	NR	59%	20.9	NM	NM	NM	38.5	25.1	22.8	17.5	16.8	16.3	-10.7	-22.5	-22.5	7.9
INW IM EQUITY*	NR	46%	9.9	2.1	2.2	2.2	26.2	23.9	20.8	15.3	13.1	12.3	8.1	11.1	11.1	5.4
CCOI US Equity*	NR	56%	2.5	N/A	NM	NM	2.4	N/A	N/A	10.3	12.4	10.4	N/A	NA	NA	5.0
HTWS LN Equity*	NR	110%	1.6	NM	-82.7	22.9	N/A	17.5	15.2	9.2	7.1	6.4	NM	NA	NA	6.5
LUMN US Equity*	NR	1695%	1.1	0.4	2.9	NM	10.7	N/A	N/A	4.0	4.6	4.6	NM	NM	NM	5.5

*Source: Company, Ambit Capital research, *indicates December year-end companies*

Our valuation framework for the telecom sector

Airtel & the sector's returns to consistently exceed WACC from FY25

- Post fund raise and network investments by VIL in FY25-27E, the company should cease to lose customers and instead grow subscribers at 3% CAGR between FY25-29E. This should force Jio (lowest price operator) to pivot towards improving RoCE via tariff hikes rather than from subscriber gains. We estimate telecom sector ARPU CAGR of 13% over FY25-29E.
- Airtel and Jio have deployed 5G in all of their circles and have seen ~30% of their subscribers shift from 4G to 5G. With a 20% tariff hike and end of 5G free data trial, return on capital deployed should start to see improvement.
- Entry barriers in telecom are very high.
  - Apart from large capital requirements a new entrant will also need to patiently deploy networks physically as Jio did in 2010-16.
  - Spectrum too is a big disadvantage as the prime coverage band spectrum is with incumbent telcos for the next 15+ years.
- Telecom is one of the few sectors which is dominated by national champions. Hence, the government is looking at it considerately.

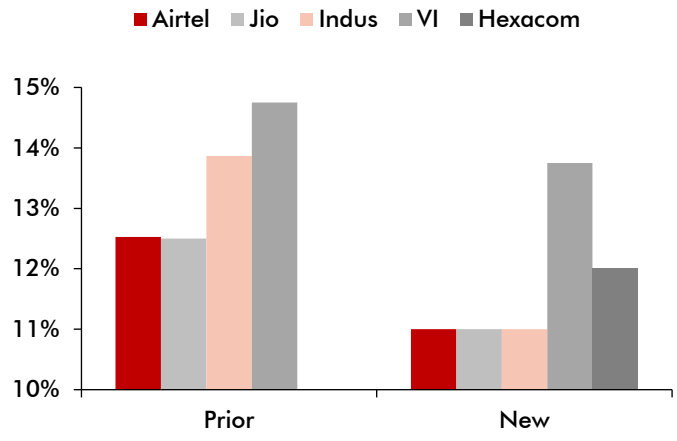
These factors lead us to believe that telcos returns won't be capped at 15% utility levels.

We lower our WACC assumptions reflecting risk reduction

Improving capital available, increased confidence in telcos' ability to steadily raise prices amid continued government and reinvestment in high return projects leads us to reduce our weighted average cost of capital (WACC) assumptions and increase terminal growth rate beyond FY42E in our discounted cash flow (DCF) models.

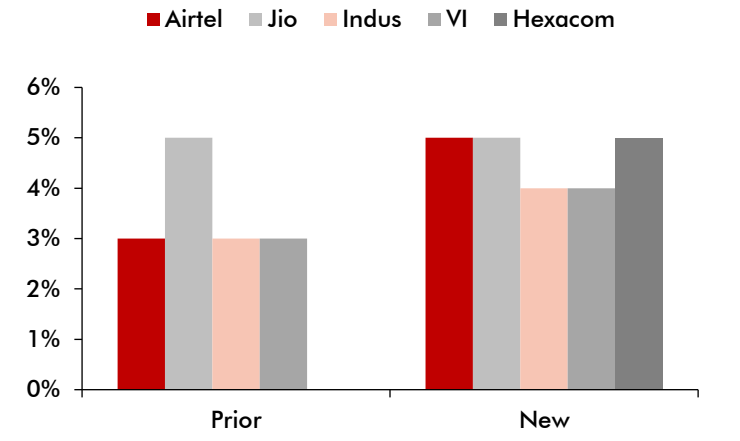
- 11% WACC assumptions for Airtel, Jio and Indus are for reduced risks and accommodative government stance.
- We assume 12% WACC for Hexacom. The company depends on Airtel for brand, centralized software, roaming facilities and infrastructure like fibre. In return, Hexacom pays an 'interconnect charge' to Airtel. Both Airtel and Hexacom haven't disclosed circumstances under which the interconnection change would be modified – this poses a risk to Hexacom and hence we assume a higher WACC rate.
- For VI, we now assume a WACC of 13.75% in light of its levered balance sheet and dependence on government for continued sustenance.

Exhibit 56: Reducing our WACC assumptions by 150-300bps...



Source: Company, Ambit Capital research

Exhibit 57: ...while increasing terminal growth rate by 100-200bps

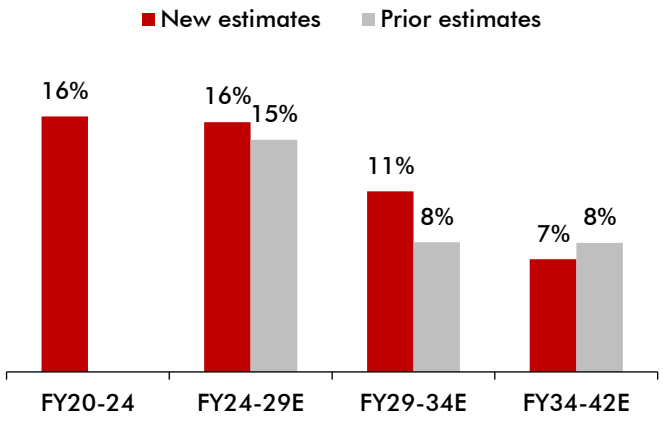


Source: Company, Ambit Capital research

Increase our medium- and long-term revenue CAGR assumptions for telcos

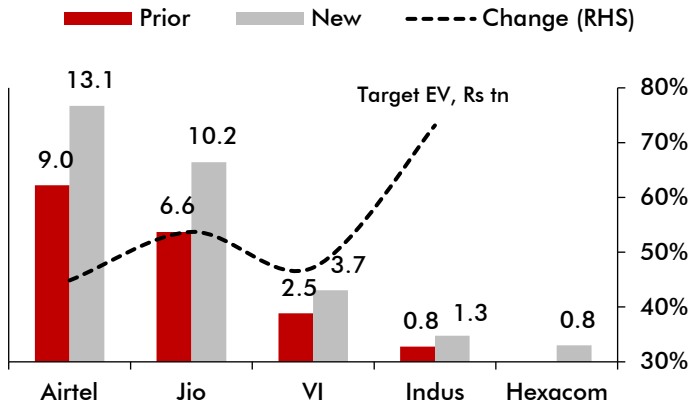
With our new ARPU assumptions that enable VI to survive beyond FY26 albeit due to government support by way of conversion of FY26/27 deferred instalments into equity, we are assuming mean reversion of telecom spends at a faster pace than before.

Exhibit 58: We assume telco spends to steadily increase till FY34...



Source: Company, Ambit Capital research

Exhibit 59: ...driving +45% increase in target EV for telcos



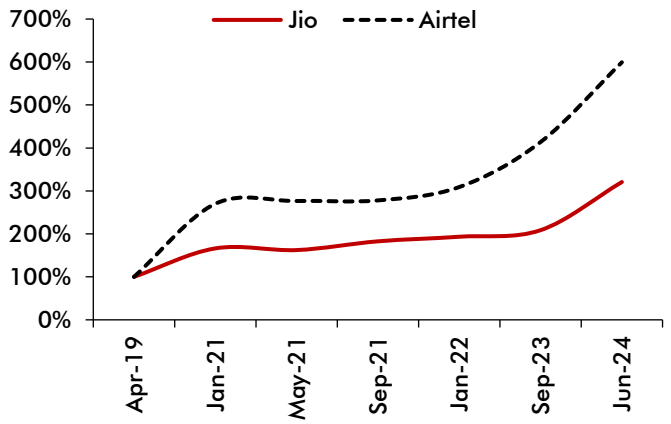
Source: Company, Ambit Capital research

Airtel's remains our best India telecom story pick

When we initiated coverage on Jio in 2019, we gave it benefit of doubt for its scalability even in non-telecom ventures as it had demonstrated 'J curve' ramp-up success in telecom with its then unconventional technology choice (standalone 4G). We were then valuing Airtel at ~30% discount to Jio. But we changed our mind in this regard since Airtel recapitalised its business and ramped up in a more capital-efficient manner vs. Jio. Further, the latter couldn't scale its platform businesses and achieve any non-linearity. Our target EV for Airtel (US$154bn) is 40% premium to that of Jio (US111bn).

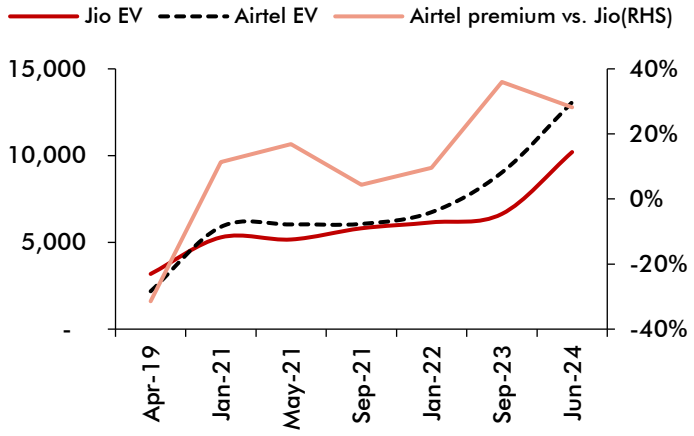
- When we initiated coverage on Jio, we valued it at 46% premium to Airtel (Apr-19). We assumed Jio to keep gaining ground at Airtel's expense and believed that its 'J curve' success in 4G could extend to home broadband and platform services.
- The above didn't fructify. Airtel's rear-guard action led by capital raises, non-core asset monetisation and superior execution reflecting in revenue growth outperformance vs. Jio since FY22 leads us to value it at a premium to Jio, which we've maintained in our current valuation.

Exhibit 60: Gap between our target valuation of Airtel and Jio has been increasing...



Source: Company, Ambit Capital research

Exhibit 61: ...as Airtel has been capturing higher share in the industry profit pool and improving incremental RoCE



Source: Company, Ambit Capital research

Target EV/sub. highly co-related to ARPU

We present an analysis of target and current EV of telcos on EV/subscriber basis.

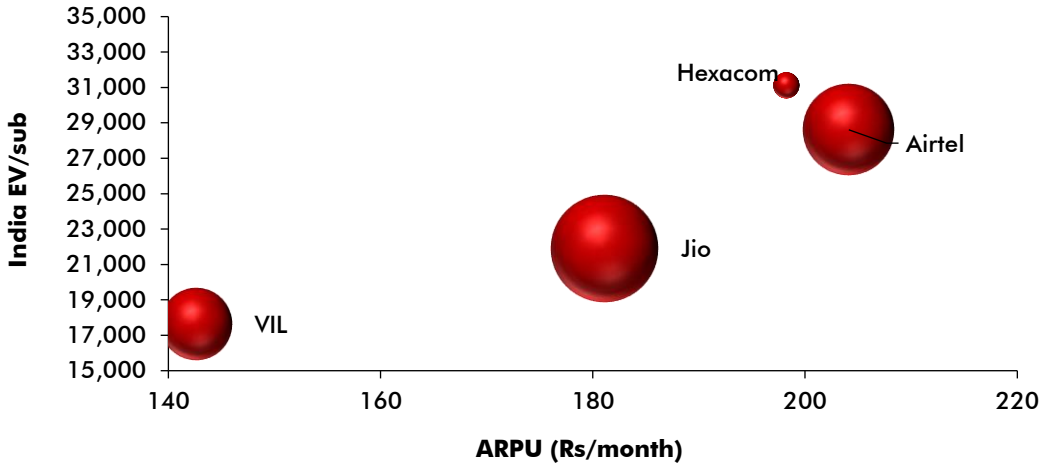
Exhibit 62: On EV/subscriber basis, Airtel trades at a premium to other players

Mar 2024 (₹ bn)	VIL		Bharti Hexacom		Airtel		JPL
	CMP	TP	CMP	TP	CMP	TP	Ambit TP
Subscribers (mn)	213	213	27	27	352	352	482
M-cap	1,217	1,598	559	772	8,458	10,561	8,242
Net debt	2,157	2,157	78	78	2,046	2,046	2,310
Net debt (ex-leases)	2,071	2,071	46	46	1,410	1,410	2,310
Lease liabilities	86	86	33	33	637	637	
EV	3,375	3,755	637	851	10,505	12,608	10,552
EV/subscriber (₹)	15,843	17,628	23,308	31,115	29,822	35,792	21,901
Adjusted EV	3,375	3,755	637	851	8,479	10,076	10,552
Adjusted EV/subscriber (₹)	15,843	17,628	23,308	31,115	24,072	28,606	21,901
Mobile ARPU (₹, reported)	143	143	198	198	204	204	181
Airtel: non-mobility domestic and Africa assets' likely EV					2,026	2,531	
47.95% of Indus Towers (i)					438	531	
56% of Airtel Africa/AAF (ii)					272	338	
Net debt (AAF)					291	291	
80% of Airtel Payments Bank (iii)					28	42	
100% of Airtel Business (iv)					997	1,329	
100% of Airtel DTH & homes (v)					3,710	4,770	

Source: Company, Ambit Capital research

Jio appears relatively weak vs. peers as it reports subscribers confirming to TRAI's rules, which allow disconnection only after 90 days. On the other hand, Airtel, VI and Hexacom have a more stringent definition of reported users.

Exhibit 63: We value Hexacom and Airtel higher on EV/sub due to their higher ARPU vs. VI/Jio



Source: Company, Ambit Capital research, size of the bubble represents subscribers of the company

Jio appears relatively weak vs. peers as it reports subscribers confirming to TRAI's rules, which allow disconnection only after 90 days. On the other hand, Airtel, VI and Hexacom have a more stringent definition of reported users. Airtel and Hexacom report only paying users.

Reverse-DCF analysis: Expectations elevated now for VI and modest for others

Exhibit 64: Reverse DCF implies 6%-10% ARPU CAGR

Company	Avg EBITDA Margins		FCFF CAGR		Adj. ARPU CAGR		Terminal growth
	FY24-FY31E	FY31-42E	FY24-FY31E	FY31-42E	FY19-24	FY24-42E	
Bharti Airtel#	59%	68%	18%	8%	15%	6.1%	5%
Reliance Jio^~	58%	65%	8%	14%	10%	9.4%	5%
Voda-Idea	60%	70%	NM	NM	10%	10.2%	4%
Bharti Hexacom*^	56%	62%	26%	11%	12%	8.7%	5%

*Source: Company, Ambit Capital research; ^FY25-31E for Jio/Hexacom due to negative FCF in FY24, * FY22-FY24 CAGR, ~reverse DCF implied ARPU CAGR for our TP, # ARPU for implied CMP of India wireless*

Exhibit 65: For Indus Towers expectations are modest vs. prior trends

Avg EBITDA Margins		FCFF CAGR		Tower CAGR		Terminal growth
FY24-FY31E	FY31-42E	FY25-FY31E*	FY31-42E	FY19-24	FY24-42E	
64%	69%	40%	5%	6.0%	0.8%	5%

*Source: Company, Ambit Capital research; *Indus didn't generate FCF in FY24*

CATALYSTS & RISKS

Catalysts to our positive stance on telcos & towercos

20% tariff hike in Sep-24

Since Airtel/Jio have completed pan-India 5G rollout and the dust of national elections has settled, we think that Jio will lead a 20% tariff hike in Sep-24 that Airtel and VI will follow. This will enable Jio scale up its revenues and prepare for an IPO in 2025. 34% of Jio Platforms is owned by Google, Meta and private equity investors who had funded it in 2020 at US$63-70bn enterprise valuation. In Aug-19, RIL had said that it would look to take both its consumer businesses public 'within the next five years'.

Usage-based pricing along with the Sep-24 tariff hike

One of the major challenges that telcos encounter in monetising data usage is the current structure of 1GB+ daily data allowance. As outlined earlier, we expect telcos to course correct and rollout metered plans. The success of such a move would enable telcos grow ARPU even without tariff hikes.

End of unlimited data for 5G users

Airtel and Jio have rolled out free unlimited 5G plans for their subscribers. Since 5G networks have spread pan-India and users have had time to try out 5G services, we think that both telcos will now look to stop their 'unlimited data' freebie. Jio is likely to take the lead with Airtel following. VI is unlikely to offer any unlimited data freebie when it rolls out 5G services by Dec-24.

For towercos. recapitalisation of VIL resulting in increased asset utilisation

After the Supreme Court permitted telcos to pay AGR dues in installments, VIL utilized its cashflows towards repayment of bank debt. VI had to curtail its network presence let alone grow its footprint. This led to tenancy for Indus to drop from 2.25x in FY18 to 1.73x in FY24. But with VIL receiving ₹200bn equity and potentially being able to raise an additional ₹250bn debt, it will be able to expand its network. In such a scenario, VI would seek additional network support from Indus leading to the additional tenancy for the latter on its existing towers. This should help Indus improve its post-tax RoCE from 12% in FY24 to 18% in FY28E.

Risks to our view on the telecom space

Government favoring a new telco

The government has always wanted to have healthy competition within the telecom sector. Therefore, in spite of near bankruptcy condition of VI post AGR case, government took numerous steps to bring respite to it and Airtel. But VI still needs government support in FY26/27 as it won't be able to make deferred spectrum/AGR payments even with a 20% tariff hike in 2024 followed by a 12% hike in 2026. Key risk for the sector is the government favouring a new entrant to takeover VI instead of it electing to convert deferred amounts into equity.

Exhibit 66: Key sector events in the next 3 years

Period	Event	Impact
Jun-Jul'24	Telecom Auction 2024	Telcos to acquire ~₹150bn spectrum. Airtel to continue buying mid-band spectrum. Auctions aren't an uncertain sector event anymore due to predictability of supply and limited competition.
Sep'24	20% tariff hike	Govt's backing of a three-private player industry construct will push telcos to hike rates & improve industry's viability.
Sep'25	Moratorium ends	In Sep'21, the govt. had given a four-year moratorium to the telco industry on spectrum/AGR payments. Telcos were given the option to convert interest arising from deferment into equity. This was availed by VI.
2025-26	Taxes on LTGs	As discussed earlier, we expect the government to permit deals between telcos and LTGs, enabling the former to get a fair return on their network investments.
2025	Jio IPO	Improving cash flow profile, moderating capex is driving rising investor interest in sector. After falling capex, 20% tariff hike in Sep'24 and taxes on LTGs, RIL could push Jio's IPO. The price discovery and investor focus on sector narratives should support overall sector valuations.
2HFY26 & FY27	Conversion of debt into equity	Despite a 20% tariff hike in Sep'24, VI won't be able to make the ₹118/174bn 2HFY26/FY27 deferred payments. We expect the government to convert VI's deferred principal amounts (Sep'21-25) into equity.

Source: Company, Ambit Capital research

Reliance Industries (RELIANCE IN, SELL)

Valuation Methodology

Given the intricacies of reported profits, we believe that the best approach to valuing RIL is DCF. In our SoTP, we value 100% of JPL (Jio) at US$128bn (2020 investors paid US$71bn) and RRVL (retail) at US$61bn (2020 investors paid US$63bn & current benchmark is US$100bn). Standalone (O2C, E&P, and New Energy) at US$102bn.

Risks

- Continuation of unprecedented high refining margins even beyond FY26E.
- Normalization in capex to FY20-22 levels.
- Breakthrough in New Energy business.

Bharti Airtel (BHARTI IN, BUY)

Valuation Methodology

We value Bharti using the SOTP methodology, India wireless and Africa using DCF and subsidiary operation using relative valuation. We take into consideration free cash flows till FY42E using a WACC of 11% and a terminal growth rate of 5% to arrive at our target price of ₹1,663.

Risks

- Government changes its accommodative stance w.r.t telcos and impedes price hikes.
- Slowdown in the enterprise and home broadband segments can hurt Airtel, making its capex unproductive.

Vodafone Idea (IDEA IN, BUY)

Valuation Methodology

We value Vodafone Idea on a DCF-based approach. We assume 13.8% WACC and our explicit forecasts are till FY42E, following which we assume 4% terminal growth rate. Our DCF model yields a target price of ₹21.3 and 11x FY27E EV/EBITDA.

Risks

- Delay in tariff hikes by incumbent players within industry.
- Non-conversion of spectrum and AGR dues into equity by government in FY26 and FY27.
- Government support for entry of new telco.

Indus Towers (INDUSTOW IN, BUY)

Valuation Methodology

We value Indus using DCF after taking into consideration the free cash flows till FY42E using a WACC of 11% and a terminal growth rate of 4% to arrive at our target price of ₹411.

Risks

- Slower rollout of towers by Airtel.
- Execution challenges in VI hurting network rollout.

Bharti Hexacom (BHARTIHE IN, BUY)

Valuation Methodology

We value Hexacom using DCF after taking into consideration the free cash flows till FY42E using a WACC of 11% and a terminal growth rate of 5% to arrive at our target price of ₹1,550.

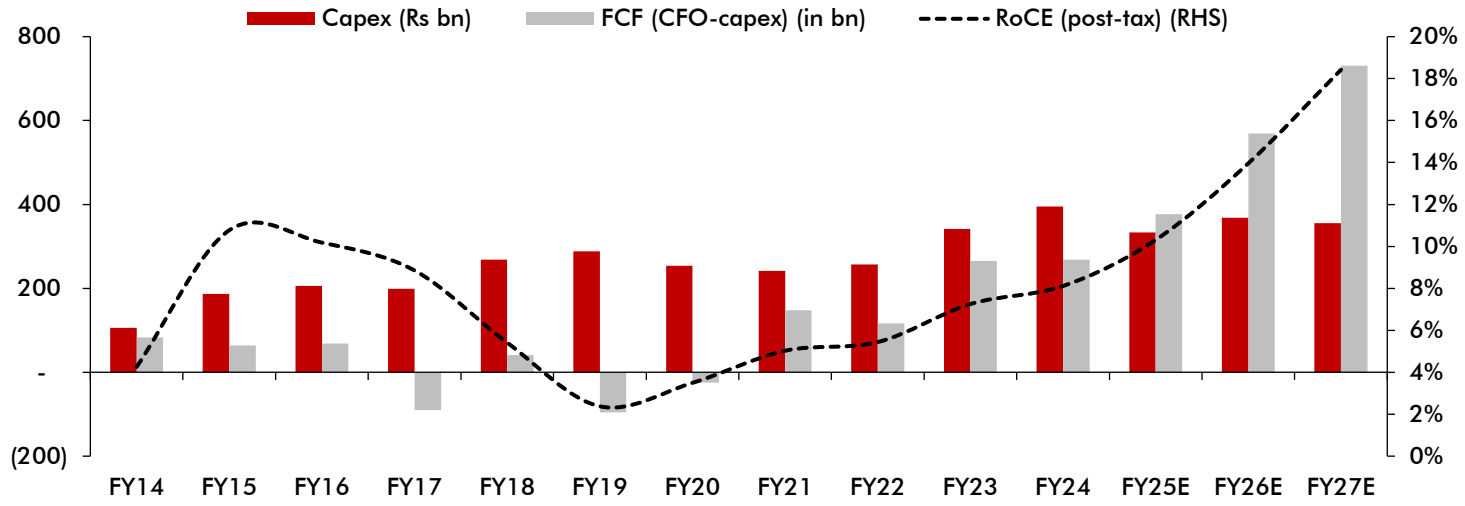
Risks

- Delay in tariff hikes by incumbent players within industry.
- Substantial increase in access charges by Bharti Airtel.

Bharti Airtel (BUY): Combo of growth and yield

Given our belief of government support enabling VI's survival, we expect industry competition to moderate and participants to focus on tariff led growth vs. prior 'land grab'. We reinstate BUY on Airtel expecting it to sustain growth leadership with 18% FY24-27E India revenue CAGR (14% in FY21-24) given its focused approach enabling market leadership in enterprise, postpaid and overall ARPU. FCF yield would increase to 8% in FY27 from current 3% with no major spectrum renewals till 2030. Airtel offers a rare combination of cash flow yield that will be distributed as dividends and ahead of nominal GDP revenue CAGR for over a decade. Premium valuations are for high predictability and gearing to a Jio IPO and tariff correction for VI's survival. Target valuation of 12x FY26E EV/EBITDA assumes ~6.7% ARPU CAGR in FY24-42E vs. market expectations of 6.1% and 12% in FY19-24.

Exhibit 67: Return ratios should improve with lower capex and higher tariffs



Source: Company, Ambit Capital research, capex amount does not include spectrum investments

Short-term and long-term estimates

With VI being able to raise funds and allocate the same towards improving its 4G/5G coverage, we expect Airtel's subscriber addition to moderate. But this will hasten the pace of tariff repair. We expect ARPUs for Bharti Airtel to increase at 15% CAGR between FY24-FY28E vs. 12% in FY19-24. With lower capex going ahead, FCF shall grow at 32% CAGR during the period and capex/EBITDA should moderate to 27% in FY28E from 67% in FY24. With lower capex outlay as well as improved tariffs, Airtel should finally improve its post-tax RoCE from 8.1% in FY24 to 23.4% in FY28E, reaching almost 15% in FY26E where its global peers have always operated.

Exhibit 68: Optically our estimates look lower due to currency devaluation seen in Africa segment...

Particulars	New Estimates			Old Estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
TP (₹)	1,663			1,020			63%		
Revenues (₹ bn)	1,697	1,961	2,251	1,746	2,019	2,280	-3%	-3%	-1%
EBITDA (₹ bn)	909	1,078	1,276	948	1,118	1,283	-4%	-4%	-1%
EBITDA margin (%)	53.6%	55.0%	56.7%	54.3%	55.4%	56.3%	-70 bps	-40 bps	42 bps
PBT (₹ bn)	331	520	720	392	558	695	-16%	-7%	4%
PAT (₹ bn)	202	344	490	238	363	514	-15%	-5%	-5%
EPS (₹)	31.9	54.1	77.1	37.5	57.2	76.5	-15%	-5%	1%

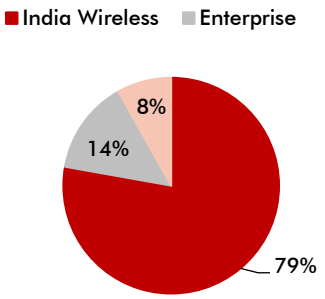
Source: Company, Ambit Capital research

Exhibit 69: ...but for the India business we now assume sustained ARPU growth

Particulars	FY24-30E	FY31-36E	FY37-42E
India wireless revenue			
New estimates	16%	10%	7%
Old estimates	14%	9%	9%
India overall revenue			
New estimates	15%	10%	8%
Old estimates	14%	8%	8%
Avg India wireless EBITDAM			
New estimates	59%	67%	70%
Old estimates	58%	64%	65%
Avg India EBITDAM			
New estimates	57%	65%	67%
Old estimates	55%	61%	61%

Source: Company, Ambit Capital research

The India mobile business is the key driver our TP upgrade for Airtel



Source: Ambit Capital research

Upgrade driven by higher valuation of India wireless business

- ½ our target valuation upgrade is from reducing WACC to 11% vs. 12.5% earlier and increasing terminal FCF growth assumptions (beyond FY42E) to 5% from 3% previously.
- The remainder is from our assumption of prolonged tariff hikes.

Exhibit 70: Bharti to see 15%+ YoY ARPU growth in FY25/26 and capex to CFO ratio moderating

Short Term estimates	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Operating metrics - India						
Subscribers (mn)	335.4	352.3	363.9	371.2	378.6	386.1
Growth %	3%	5%	3%	2%	2%	2%
ARPU (₹)	188.9	204.1	236.2	275.4	321.2	356.0
Growth %	18%	8%	16%	17%	17%	11%
Non-spectrum capex (₹ bn)	342	395	333	369	355	395
Spectrum capex (₹ bn)	430	-	100	-	-	-
Capex to CFO (%)	59%	66%	53%	39%	33%	33%
Financial metrics - Consol						
Revenue (₹ bn)	1,391.4	1,499.8	1,696.9	1,960.5	2,250.8	2,507.5
Growth %	19%	8%	13%	16%	15%	11%
EBITDA (₹ bn)	712.7	782.9	909.4	1,077.7	1,276.0	1,453.2
Growth %	24%	10%	16%	19%	18%	14%
EBITDA Margin (%)	51%	52%	54%	55%	57%	58%
PAT (₹ bn)	112.7	119.9	216.0	354.0	499.6	642.2
EPS (₹)	15	13	32	54	77	100
Net debt (₹ bn)	2,126	1,993	1,832	1,499	1,090	778
FCF (₹ bn)	265	268	377	569	731	821

Source: Company, Ambit Capital research

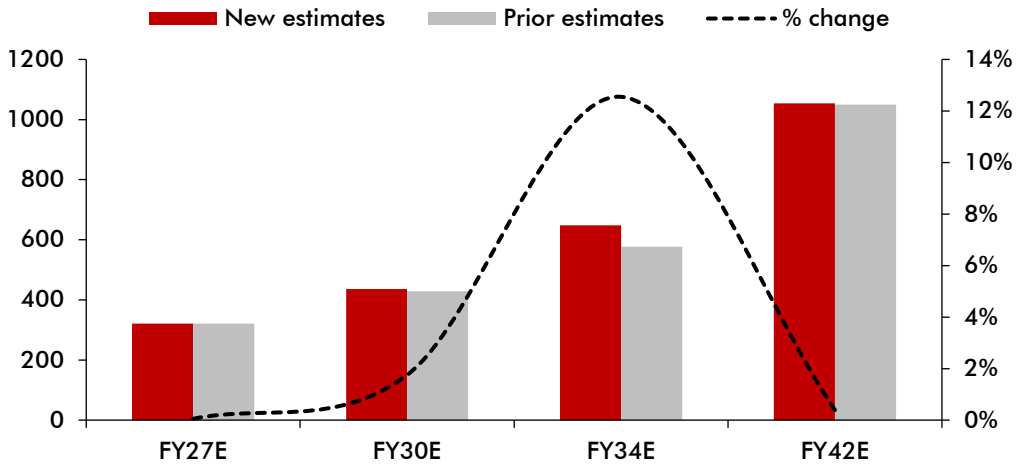
As outlined earlier, we expect steady tariff hikes by telcos till FY34 followed by inflationary price hikes.

Exhibit 71: ARPU would see 13%/9% CAGR in FY25-30E and FY31-36E driving 36%/13 EPS CAGR

Long term assumptions	FY25-FY30E	FY31-36E	FY37-42E
Operating metrics - India			
ARPU (₹)	13%	9%	6%
Subscribers (mn)	2%	1%	1%
Revenue CAGR	13%	9%	8%
EBITDA CAGR	16%	11%	8%
EPS CAGR	36%	13%	9%
Net debt (₹ bn) (end of period)	183	(2,203)	(6,340)
FCF (₹ mn) (end of period)	1,064	1,962	3,284

Source: Company, Ambit Capital research

Exhibit 72: Our new ARPU estimates (₹/mo) enable VI's survival



Source: Company, Ambit Capital research

DCF-based valuation

We calculate DCF value of individual businesses and aggregate values to arrive at our TP for Airtel. We have assumed a 5% terminal growth rate of FCF beyond FY42E vs. 3% earlier and 11% WACC vs. 12.5% earlier. As outlined in our thematic discuss, we lower our WACC factoring in the government's increased accommodativeness, lower competition and increase terminal growth rate to account for inflation-linked tariff hikes in perpetuity.

Exhibit 73: DCF-based valuation for Airtel

Particulars (₹ mn)	Amount
PV of FCF	11,320,320
PV of TV	1,753,470
EV	**13,073,790**
Net Debt(FY25E)	1,832,050
PV of Minority Interest	683,912
Equity Value	**10,557,828**
O/s Shares (mn)	6,349
Value/share (₹)	**1,663**

Source: Company, Ambit Capital research

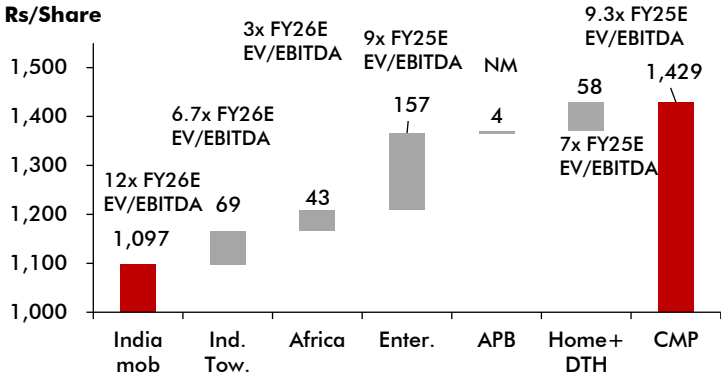
Price hikes and improved FCF generation shall drive Airtel's India mobile business valuations ahead. We believe that investors aren't appreciative enough of Airtel's dominance in its India non-mobile businesses where the TAM has consistently been increasing led by increasing optionality. This is likely to change, starting with the enterprises business where the company's capital intensity is unlikely to increase as it monetizes via new products and differentiated sales strategy following the footsteps of its global peers.

Exhibit 74: India wireless shall continue to drive valuation upside driven by improving FCF and RoCE profile

Particulars	CMP Implied Price	Our Target Price	Contribution to Upside	Comments	Re-rating catalysts	Value share in TP
India Wireless	1,097	1,235	59%	TP implies 13x FY26E EV/EBITDA vs. market's 12x	Price hikes and capex moderation	74%
Indus Towers	69	84	6%	We value Indus at 7.7x FY26E EV/EBITDA vs. market's 6.7x	VI's rollout and moderation in receivables	5%
Africa	43	53	4%	TP implies at 5x FY26E EV/EBITDA vs. CMP 3x	Balance sheet deleveraging and consistent dividend payout	3%
Enterprise	157	209	22%	12x FY26E EV/EBITDA vs. our belief of market ascribing 9x	New products like Airtel Cloud & IQ driving ~12/15% FY24-26E revenue/EBITDA CAGR	13%
Airtel Payments Bank	4	7	1%	~50% premium to the value ascribed by the Kotak-Bharti deal		0%
DTH & homes	58.43	75.12	7%	9x FY26E EV/EBITDA vs. our belief that market ascribes 7x	Airtel Black and converged home products resulting in 15% revenue FY24-26E CAGR	5%
CMP	**1,429**	**1,663**	100%			

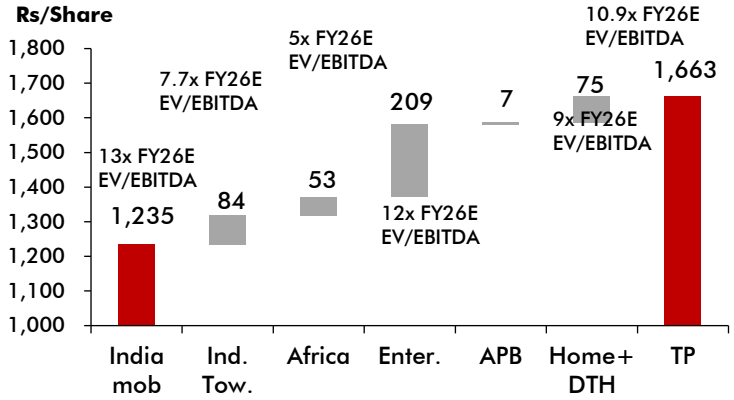
Source: Company, Ambit Capital research

Exhibit 75: Implied valuation for each division in CMP



Source: Company, Ambit Capital research

Exhibit 76: TP SoTP valuation implied for each division



Source: Company, Ambit Capital research

Exhibit 77: Sensitivity analysis over wireless subscriber assumptions and ARPU

Particulars		Subs market share - base case - 33% (1,216mn industry SIMs in FY25E)				
		31%	32%	33%	34%	35%
FY25E ARPU (₹209 in 4QFY24)	**215**	973	1,004	1,035	1,067	1,098
	230	1,040	1,074	1,108	1,141	1,175
	245	1,108	1,144	1,180	1,216	1,251
	260	1,176	1,214	1,252	1,290	1,328
	275	1,244	1,284	1,324	1,364	1,404

Source: Company, Ambit Capital research

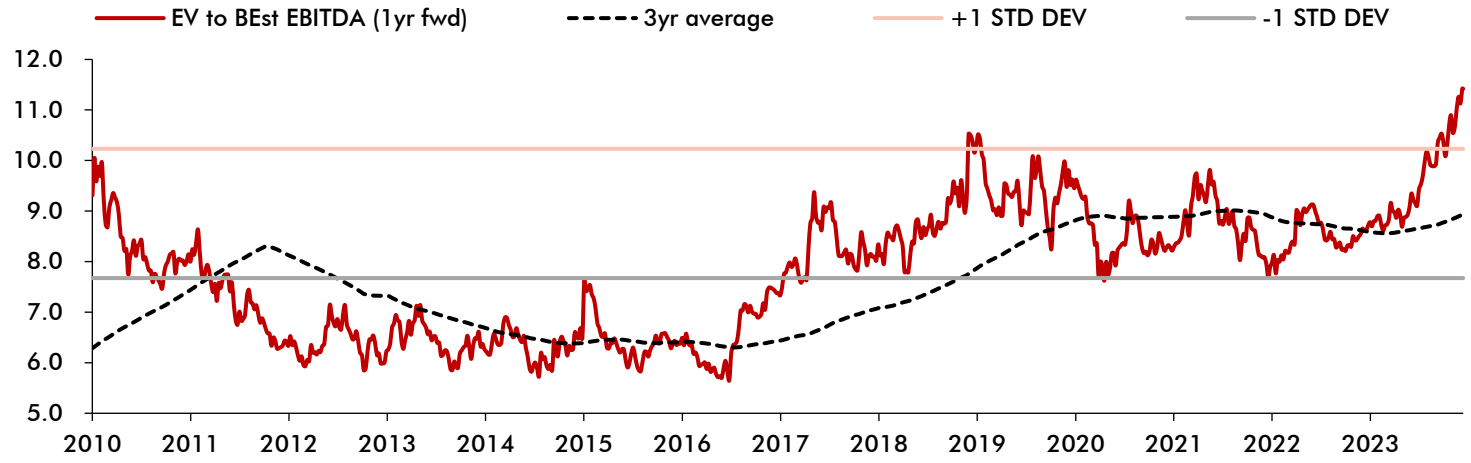
Ambit vs Consensus

Exhibit 78: We are considering tariff hikes to last longer, which makes us lead consensus in FY27 estimates

Particulars	Ambit	Consensus		Divergence	
		BBG	VA	BBG	VA
Revenue					
FY25E	1,697	1,700	1,680	0%	1%
FY26E	1,961	1,926	1,876	2%	5%
FY27E	2,251	2,110	2,055	7%	10%
EBITDA					
FY25E	909	912	901	0%	1%
FY26E	1,078	1,057	1,020	2%	6%
FY27E	1,276	1,183	1,137	8%	12%
PAT					
FY25E	202	198	198	2%	2%
FY26E	344	296	275	16%	25%
FY27E	490	379	355	29%	38%

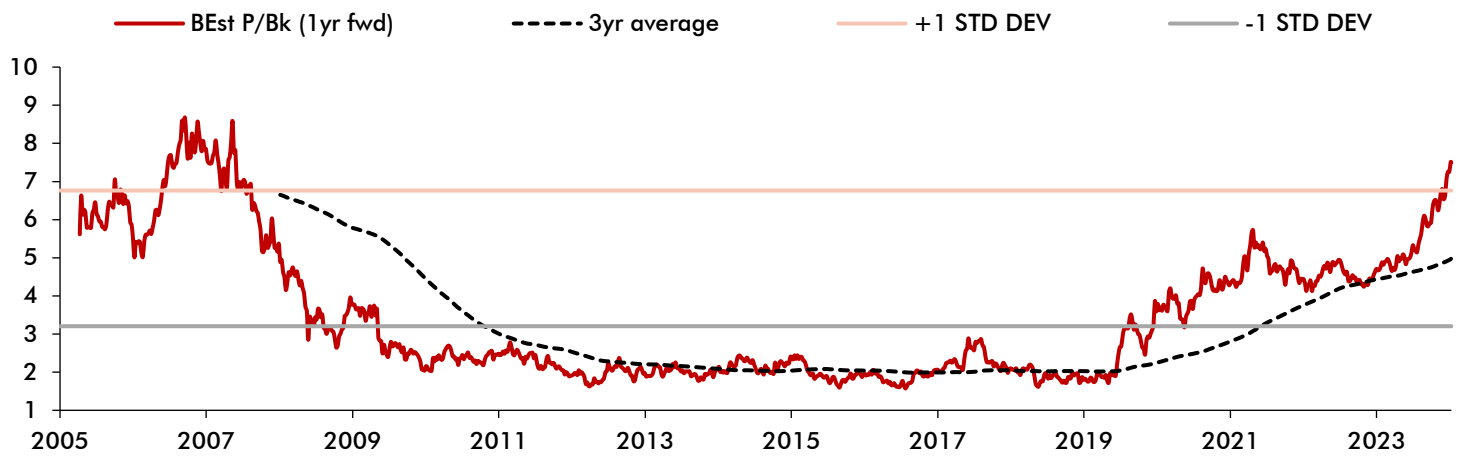
Source: Company, Ambit Capital research

Exhibit 79: Expectations of continued price hikes and deleveraging resulted in re-rating for Bharti...



Source: Company, Ambit Capital research

Exhibit 80: ...with similar trends being seen for P/B



Source: Company, Ambit Capital research

Catalysts and Risks

Catalysts

- **20% tariff hike in Sep-24**: we expect Airtel's ARPU to rise to ₹236/- in FY25E vs. ₹209/- in 4QFY24. The Sep-24 will be the third industry-wide tariff hike after 30-50% price hikes in Dec-19 and 20% tariff increase in Dec-21.
- **Introduction of metered pricing & withdrawal of 5G UL data freebie**: with the Sep-24 tariff hike we expect telcos to introduce affordable metered plans of 10/15GB per month. These would enable telcos to link ARPU with usage and segment customers vs. current 1GB+ one-size fits all daily allowances. Secondly, we expect telcos to withdraw 5G trial offers of unlimited data allowances
- **Jio IPO that will shine spotlight on sector valuations and longevity of tariff hikes**: RIL stated in 2019 that it would
  - Get global investors for its consumer businesses: this was followed by Jio getting US$20bn from Google, Meta and PE investors in Apr-Jul'20. RRVL also raised capital from PE investors in 2020 and 2024
  - Move towards listing of its consumer companies by 2024: we think that Covid and resurgent competition have impeded RIL's dreams of listing Jio in 2024. But as Jio adapts to a three-player telco market and opts for pricing-led growth, we believe that RIL will gun for an IPO in 2025 after gaining from the Sep-24 tariff hike.

Risks

- **Government impeding tariff hikes**: Airtel's growth momentum would be at risk if the Government changes its accommodative stance w.r.t telcos and impedes price hikes. In this unlikely scenario, govt. would have to convert more of VI's outstanding dues into equity enabling it to survive without tariff hikes.
- **Growth slowdown in non-mobile businesses**: Currently non-mobile businesses are mostly a duopoly with Airtel and Jio being key players in home entertainment while Tata and Airtel dominate enterprise services. Any slowdown in the enterprise and home broadband segments can hurt Airtel, making its capex unproductive. We view the FY24 enterprise revenue growth slowdown to 9-10% in 2Q-4QFY24 from 15-16% in the prior 18 months as temporary.

Ambit's HAWK framework: Airtel has seen improvements

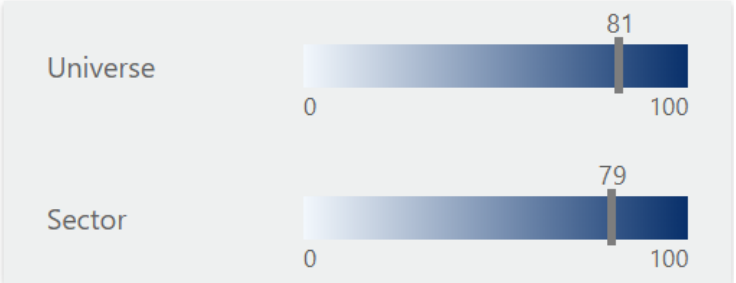
Within our proprietary forensic accounting platform Hawk, Bharti Airtel has moved from Decile 4 (FY22) to Decile 2 (FY23). Within the overall universe, Bharti has a 60 percentile position whereas it is at 68 percentile within the media and telecom sectors. The improvement has largely been due to improvement in cashflow conversion and FCF generation metrics, reduction in contingent liabilities as well as better accounting for unpaid dues for receivables.

Greatness score which measures operational performance of a given company, has also improved for Bharti from 50% which lies in 'not so great' zone to 75% 'zone of greatness' within the past year. The improvement in ratings is primarily due to higher sales growth vs universe and raising of funds via rights issue in FY22.

Exhibit 81: Forensic Score Percentile

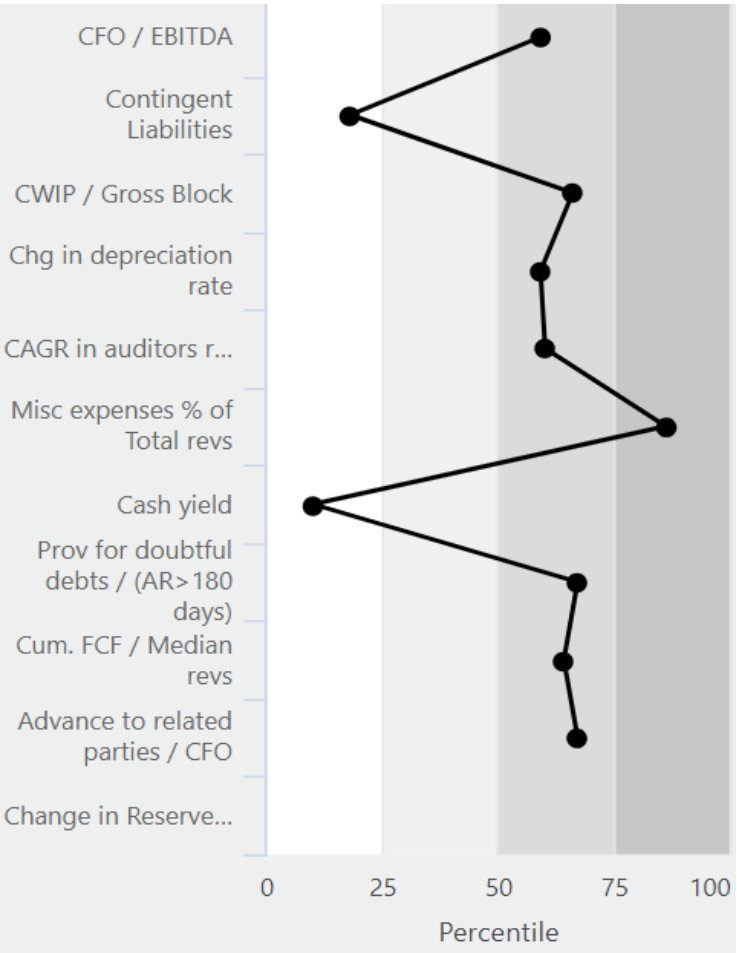
Source: Company, Ambit Capital research

Exhibit 82: Greatness Score Percentile



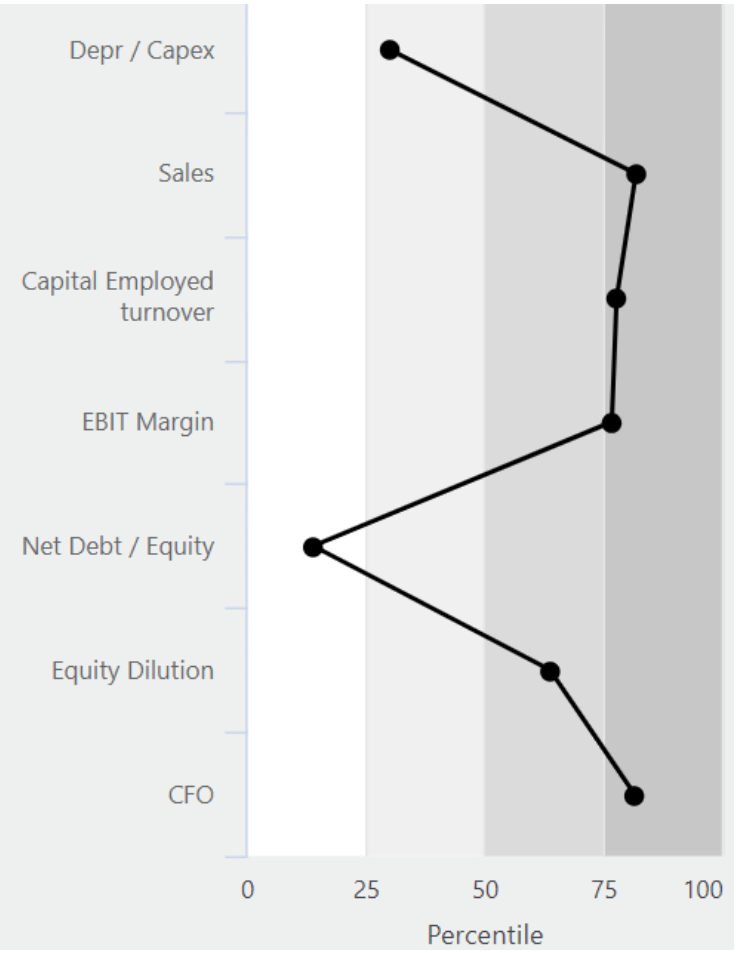
Source: Company, Ambit Capital research

Exhibit 83: Forensic Accounting Contributors



Source: Company, Ambit Capital research

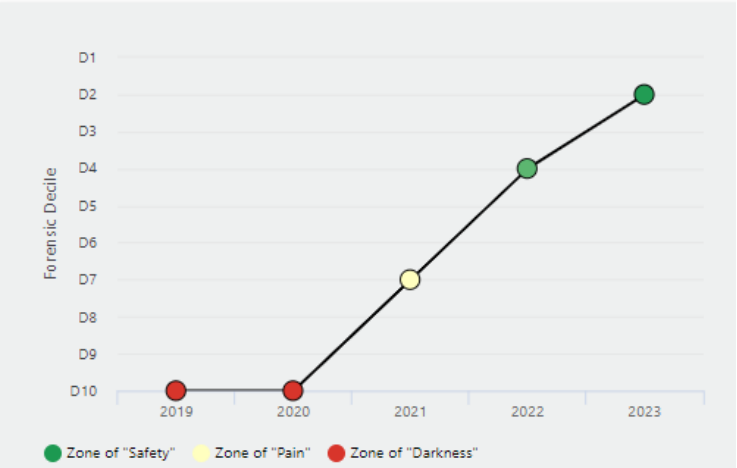
Exhibit 84: Greatness Score Contributors



Source: Company, Ambit Capital research

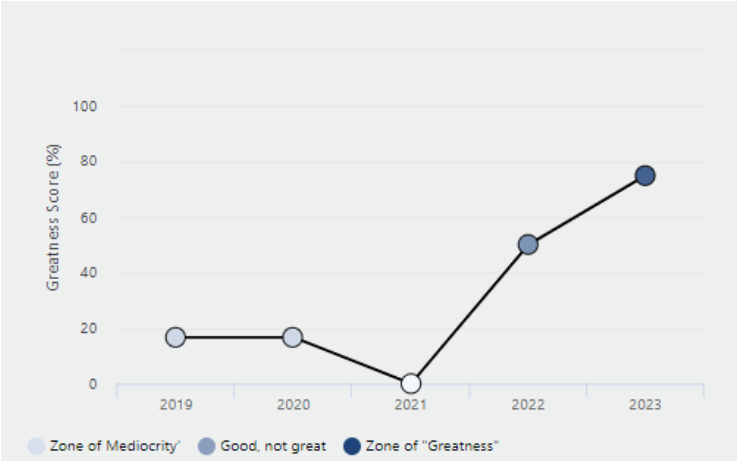
Since 2020, forensic score as well as greatness score for Airtel has consistently been improving led by lower capex outgo and higher incremental RoCE due to sweating of assets.

Exhibit 85: Forensic score evolution



Source: Company, Ambit Capital research

Exhibit 86: Greatness score



Source: Company, Ambit Capital research

RIL (SELL): Jio IPO beckons

The Sep-24 20% tariff hike will improve Jio's RoCE to 8% in FY26E vs. FY24's 5%, enabling RIL to list Jio. 150bps WACC reduction to 11% is premised on VI's survival requiring regular tariff hikes until FY33 vs. FY27 earlier. We value JPL at US$128bn, 70% higher implying 13.7x FY26E EV/EBITDA. WACC reduction drives 2/3rd TP upgrade with tariffs accounting for the remainder. This implies 15%/13% Dollar IRR for JPL's 2020 strategic/PE investors. But besides tariffs, we don't see any credible catalysts for Jio as (i) its platform revenues from external customers aren't scaling (ii) despite willingness to offer generous subsidies, beyond 4G, 'J curve' adoption with new products like Airfiber and FTTH is missing. Investors should own Bharti for Jio's IPO upside as RIL grapples with mean-reverting refining profits and continued uncertain investments across Retail and New Energy. Our RIL TP is now higher by 16% and implies 11% downside at CMP.

Telcos benefit more from price hikes, Jio lacks platform scale

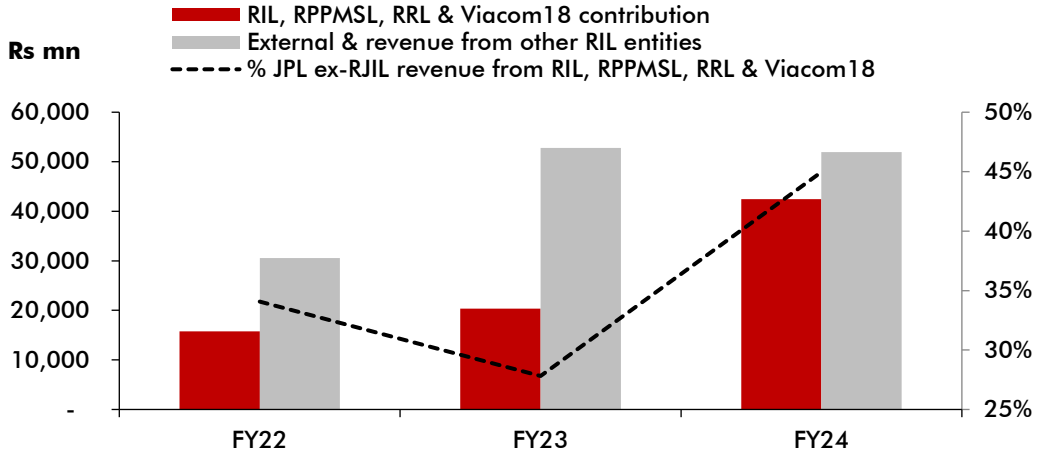
Jio Platforms, our digital services arm, is already providing end-to-end professional and managed services for all the businesses of the RIL Group, covering diverse verticals such as Telecom, Retail, eCommerce, Manufacturing, Media, and Financial Services. These technology-enabled services allow our group businesses to streamline their operations, scale seamlessly, and harness the power of real-time data and AI, giving them a significant competitive edge in their respective markets. – Mr. Mukesh Ambani, in RIL's FY23 AGM (Aug-23)

Related-party deals are the secret to Jio's platform revenue…

RIL's telecom operations are housed in Reliance Jio Infocomm Ltd. (RJIL), a 100% owned subsidiary of Jio Platforms Ltd. (JPL, 66.4% RIL owned). In addition, JPL has invested in technology platforms that provide AI/ML, AR/VR, drone and language recognition services. We deduce JPL's 'platform' revenues by subtracting RJIL standalone revenues from the former's overall revenues.

- While 'platform' revenues increased to 8.6% of JPL's ex-RJIL revenues in FY24 from 7.5% in FY23, it has been wholly driven by revenue from four key related parties.
- 45% of JPL's 'platform' revenues are earned from RIL, Reliance Projects & Property Management Solutions (RPPMSL), Reliance Retail Ltd. and Viacom18.
- Note that for simplicity we've considered related-party revenues only from these four key entities of the 100+ subsidiaries that RIL has (see details here).

Exhibit 87: JPL's platform revenues from external customers declined in FY24



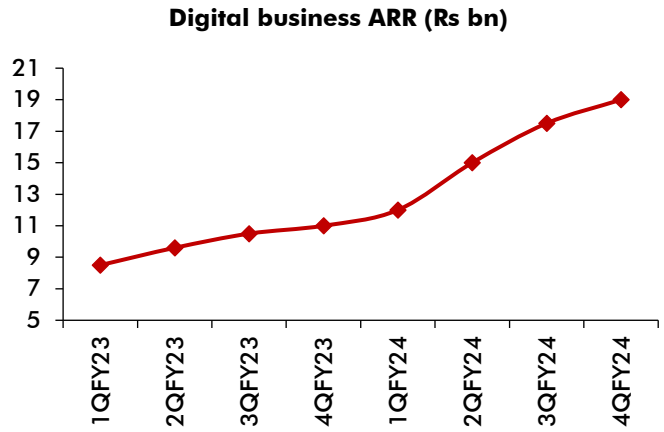
Source: Company, Ambit Capital research

...with Airtel being a stark contrast with its home grown product/services push

Unlike Jio which was very acquisitive with its platform entity purchases, Airtel has:

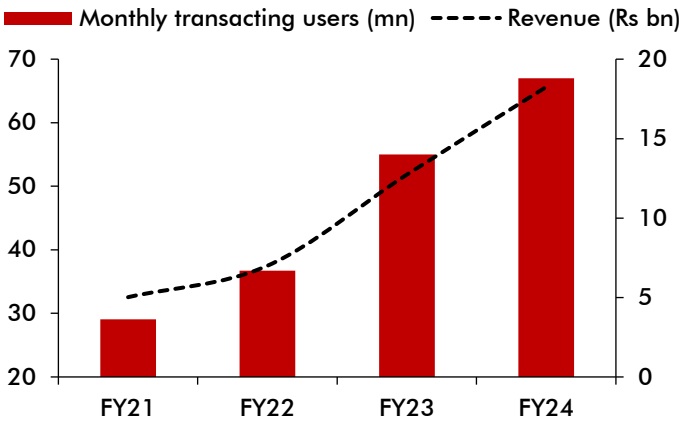
- Developed home grown products that build on its strengths like distribution. Prominent examples are Airtel Payments Bank (APB) and Airtel Finance, which are offered to Airtel's customers. One of APB's income streams is cash digitization fees earned from e-commerce players while Airtel Finance earns distribution commission and has disbursed ₹20bn of loans to 0.4mn customers.
- Selectively struck partnerships that help it earn revenues from managed services riding on its differentiated infrastructure like data centres. It provides services like Airtel Secure (Cyber Security) and Airtel Cloud (Cloud migration) and Airtel IoT.
- While this approach is incremental vs Jio's 'moonshot' strategy, Airtel has been much more successful and is scaling up its digital revenue which, unlike Jio, isn't mired in related-party dealings.

Exhibit 88: Digital business' annualised revenue run-rate is scaling up fast for Airtel (though not yet material)...



Source: Company, Ambit Capital research

Exhibit 89: ...and so is APB, which is also profitable, unlike several fintech players, riding on Airtel's existing strengths



Source: Company, Ambit Capital research

RIL: Most of the earnings are commodity-led

Standalone is expected to report EPS CAGR of 17% in FY24-27E. Cons. EPS CAGR of 16% will trail standalone EPS CAGR. The standalone business will remain the key growth driver as would account for 63% of incremental FY24-27E earnings.

In our RIL scorecard we outline that the standalone business' contribution to cash flow is much higher than its earnings contribution.

Exhibit 90: Standalone figures - FCF generation to improve in FY26/27 as capex moderates

Particular (₹ bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	4,237	5,393	5,345	5,571	5,432	5,543
EBITDA	523	668	743	810	887	1,065
EBITDA margin %	12%	12%	14%	15%	16%	19%
EBIT	420	556	566	629	687	848
EBIT margin %	10%	10%	11%	11%	13%	15%
Capex	(181)	(293)	(343)	(556)	(556)	(150)
FCF	375	175	337	96	182	716
O2C production meant for sale (MMT)	68.2	66.4	67.8	68.0	68.0	71.3
GRM (US$/bbl)	12.0	20.8	16.7	13.0	13.0	12.0
Refining Gross Margins	446	814	688	538	538	520
Unitary Petchem Margin (US$/MT)	449	366	423	614	703	730
Petchem Gross Margins	501	406	530	770	881	1,112
Oil & Gas Production (Bcfe)	160	175	269	267	252	237
Oil & Gas Price realizations (US$/MMBTU)	6.1	11.3	10.6	10.6	10.6	10.6

Source: Company, Ambit Capital research

Akin to our stance for the overall sector, we factor in 20% price hikes in FY25E followed by 12% increase in FY26-27E. We expect its ARPU to increase to ₹265 in FY27E from ₹181 currently.

Exhibit 91: RJIL (S) estimates - benefiting from pricing-led growth and moderating capex

Particular (₹ bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	770	908	1,001	1,177	1,378	1,609
Growth	10%	18%	10%	18%	17%	17%
EBITDA	376	467	524	631	744	887
EBITDA Margin %	49%	51%	52%	54%	54%	55%
Growth	22%	24%	12%	20%	18%	19%
EBIT	240	281	310	394	487	611
EBIT margin %	31%	31%	31%	33%	35%	38%
Growth	24%	17%	10%	27%	24%	26%
Capex	(481)	(336)	(490)	(400)	(345)	(402)
Growth	84%	-30%	46%	-18%	-14%	17%
FCF	(217)	80	(53)	293	280	335
Growth	NM	NM	NM	NM	-5%	19%

Source: Company, Ambit Capital research

We expect 18% retail revenue CAGR to ₹4.4tn in FY27E vs ₹2.8tn in FY24. This is sharply lower than pre-Covid trends.

Exhibit 92: Retail (RRL – S) estimates - sharp growth deceleration vs 37% FY15-20* revenue CAGR

Particular (₹ bn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	1,694	2,237	2,781	3,253	3,791	4,401
Growth	29%	32%	24%	17%	17%	16%
EBITDA	103	162	227	260	310	365
EBITDA margin %	6%	7%	8%	8%	8%	8%
Growth	28%	57%	40%	14%	19%	18%
EBIT	85	132	184	208	244	285
EBIT margin %	5%	6%	7%	6%	6%	6%
Capex	(203)	(365)	(300)	(318)	(346)	(345)
Growth	147%	79%	-18%	6%	9%	0%
FCF	(197)	(279)	(173)	(140)	(125)	(91)

*Source: Company, Ambit Capital research; *retail revenues ex-Jio*

Our SoTP valuation for RIL

Given the intricacies pertaining to reported profits, we believe the best approach to valuing RIL is DCF. In our SoTP, we value 100% of JPL (Jio) at US$128bn (RIL owns 66.4%) and RRVL (retail) at US$61bn (RIL owns 83.6%). Standalone (O2C, E&P and New Energy) at US$102bn. For context on consumer valuations note that:

- JPL raised US$20bn from strategic and financial investors in Apr-Jul'20 at US$63bn and US$71bn valuation.
- RRVL raised US$5bn in Sep-Oct'20 from financial investors at US$61bn valuation. It raised another US$2.1bn in 2HFY24 from financial investors at US$100bn valuation – we don't find this valuation credible.

Exhibit 93: Among various businesses, our SoTP valuation for Jio is the most generous

Business (₹ bn)	Price/sh (₹)	Implied Eq. Value	Net Debt (FY25E)	EV	FY26E EBITDA	EV/ EBITDA	US$ bn value for 100% of the asset
Standalone	**1,099**	**7,435**	**1,026**	**8,460**	**887**	**9.5**	**102**
JPL -C	**1,278**	**8,648**	**1,962**	**10,610**	**777**	**13.7**	**128**
RJIL - S	1,218	8,242	1,962	10,204	744	13.7	
JPL - S	60	405		405	32	12.5	
RRVL - C	**635**	**4,296**	**735**	**5,031**	**310**	**16.3**	**61**
RRL - S	416	2,812	735	3,547	310	11.5	
RRVL - S	219	1,484		1,484	540		
Total	**3,012**	**20,379**	**3,723**	**24,101**	**1,973**	**12.2**	

Source: Company, Ambit Capital research; Note: JPL = Jio Platforms Ltd., 66.3% owned by RIL, RJIL = Reliance Jio Infocomm Ltd., 100% owned connectivity subsidiary of JPL, RRVL = Reliance Retail Ventures Ltd., 83.6% owned by RIL, RRL = Reliance Retail Ltd., the operating retail entity, 100% owned by RRVL after it bought back shares from minority investors in 2023.

Exhibit 94: SoTP break-down - standalone accounts for 42% of RIL's SoTP

Business	₹/share	Value for minority	WACC	Terminal Growth
Standalone	**1,099**	**1,099**	**11.0%**	**2.0%**
O2C	1,010	1,010		
Oil & Gas	89	89		
JPL - C	**1,278**	**847**	**11.0%**	**5.0%**
RJIL - S	1,218	808		
JPL - S	60	40		
RRVL - C	**635**	**531**	**12.5%**	**5.0%**
RRL - S	416	347		
RRVL - S	219	183		
Total Equity Value	**3,012**	**2,477**		
Add: Other Investments		124		
Fair Value of share(₹)		**2,600**		

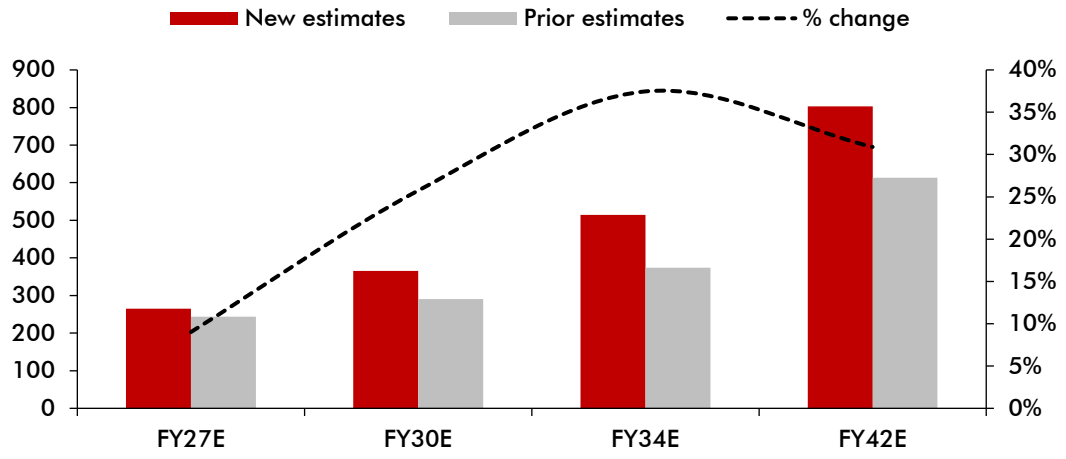
Source: Company, Ambit Capital research

Exhibit 95: RIL's TP increase primarily driven by Jio...

Business, ₹/share	New valuation		Prior valuation (Apr-24)			
	100%	For RIL	100%	For RIL	Change	Comments
Standalone	1,099	1,099	1,132	1,132	-3%	Downgrade led by moderating GRM assumptions.
JPL - C	1,278	847	751	498	70%	Significant increase in Jio valuation.
RRVL - C	635	531	570	485	9%	Reduced capex assumption leads to TP upgrade.
Total Equity Value	**3,012**	**2,477**	**2,452**	**2,114**	**17%**	
Add: Other Investments		124		124	0%	We value InVITs assets and other long-term investments at 70% of book value.
Ambit's target valuation		**2,600**		**2,238**	**16%**	

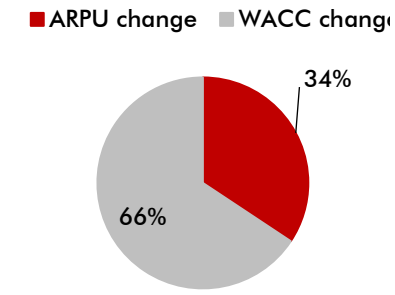
Source: Company, Ambit Capital research

Exhibit 96: ...where we now assume higher tariffs (ARPU in ₹/mo) that will allow VI to survive



Source: Company, Ambit Capital research; Note: ARPU in LHS & % change in RHS

Attribution analysis of our Jio TP change



Source: Ambit Capital research

Exhibit 97: Summary changes to our consolidated estimates and target price

₹ bn, consol	New estimates			Prior estimates			Change			Comment
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	
Target price	2,600			2,238			16%			
Rating	SELL			SELL						
Revenue	10,002	10,601	11,552	10,032	10,646	11,779	0%	0%	-2%	
EBITDA	1,701	1,941	2,317	1,733	1,973	2,420	-2%	-2%	-4%	Marginal change in our estimates due to O2C.
EBITDA margin	17%	18%	20%	17%	19%	21%	-26 bps	-23 bps	-48 bps	
PBT	1,226	1,381	1,656	1,211	1,310	1,737	1%	5%	-5%	
PAT*	822	917	1,104	823	890	1,176	0%	3%	-6%	
EPS	122	136	163	122	132	174	0%	3%	-6%	

*Source: Company, Ambit Capital research, * attributable to owners and adjust for minority interest*

Ambit vs. consensus

We have compared consolidated business' consensus estimates with ours. We are below consensus for FY25-27E due to lower revenue growth assumptions in the retail segment.

Exhibit 98: Sluggish refining cracks are an overhang on consensus' near-term estimates

Particulars(₹ bn)	Ambit	Consensus		Divergence	
Revenues		BBG	VA	BBG	VA
FY25E	10,002	10,100	10,136	-1%	-1%
FY26E	10,601	10,840	11,110	-2%	-5%
FY27E	11,552	10,879	12,283	6%	-6%
EBITDA					
FY25E	1,701	1,818	1,833	-5%	-7%
FY26E	1,941	2,037	2,051	-5%	-5%
FY27E	2,317	2,188	2,278	6%	2%
PAT*					
FY25E	822	825	825	0%	0%
FY26E	917	950	936	-3%	-2%
FY27E	1,104	1,117	1,076	-1%	3%

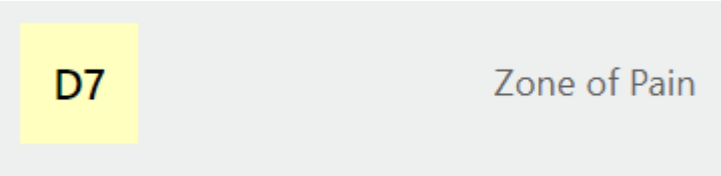
Source: Bloomberg, Visible Alpha, Company, Ambit Capital research; Note: attributable to owners and adjusted for minority interest

Ambit HAWK

In 2023, RIL featured in D7 decile (Zone of Pain) on our accounting framework. The improvement from D10 decile in 2021 was due to high cash yield, lower advances to related parties/CFO, lower miscellaneous expense as % of revenue, and decrease in provision for doubtful debts. Most of metrics improved due to supernormal commodity earnings which are transient in nature. RIL's greatness score was still 25% in 2023, and it was featured in 'Zone of Mediocrity'. Key factors to mediocre score include low CFO, low EBIT margin, and high net debt/equity ratio. We believe that RIL's accounting and greatness score are likely to marginally improve in 2024 due to better performance from Jio.

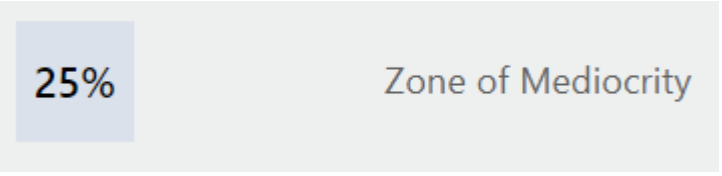
Our FY23 scorecard discusses key accounting and capital allocation nuances of RIL in detail.

Exhibit 99: Forensic Accounting Decile



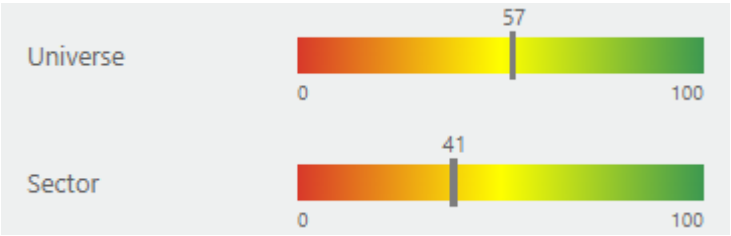
Source: Ambit HAWK, Company

Exhibit 100: Greatness Score



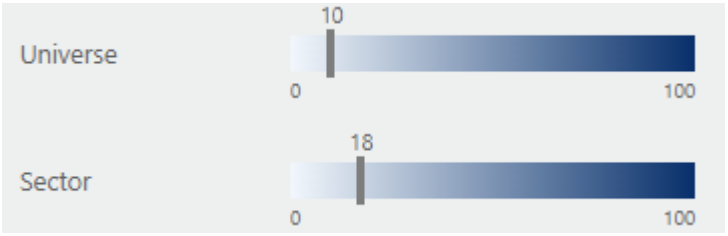
Source: Ambit HAWK, Company

Exhibit 101: Forensic Score Percentile



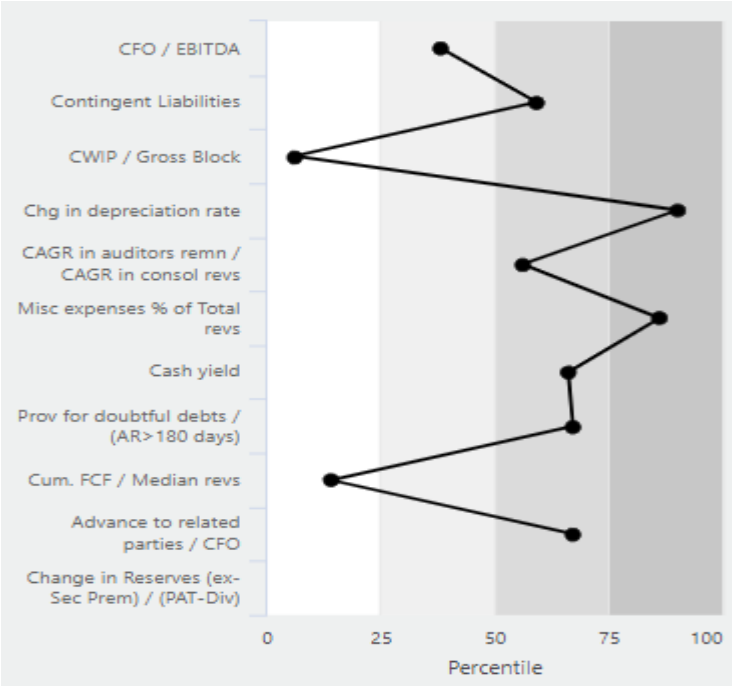
Source: Ambit HAWK, Company

Exhibit 102: Greatness Score Percentile



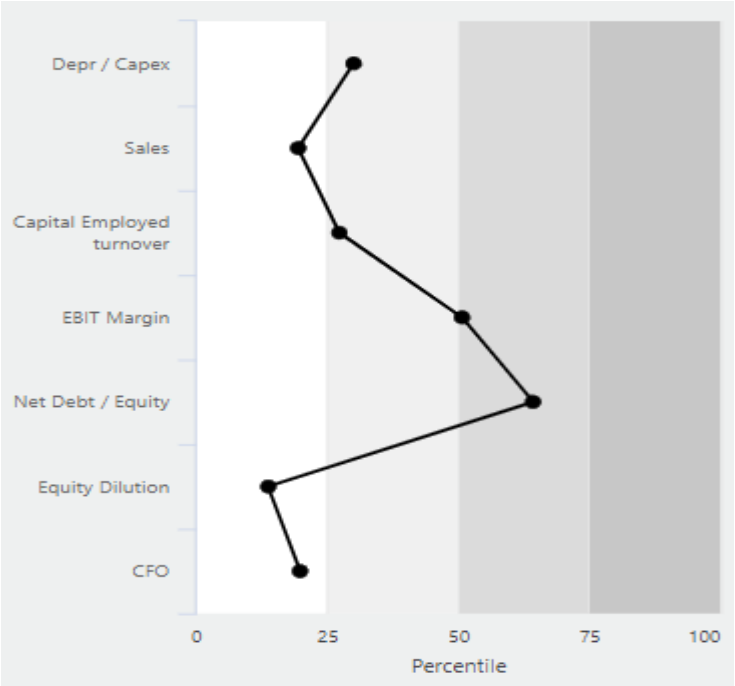
Source: Ambit HAWK, Company

Exhibit 103: Forensic Accounting Contributors



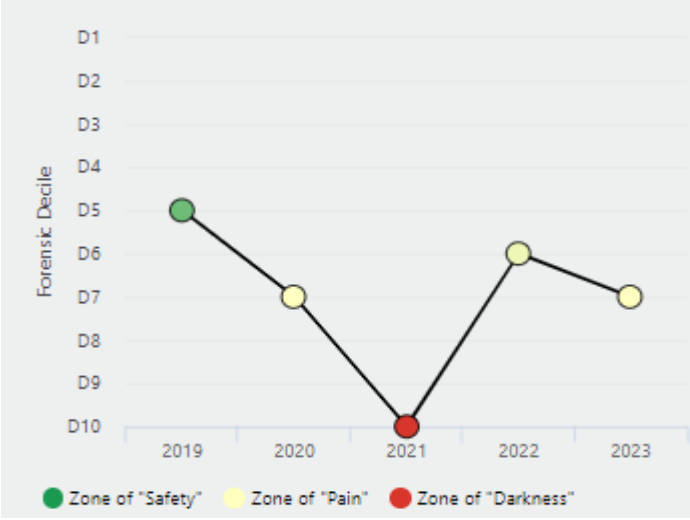
Source: Ambit HAWK, Company

Exhibit 104: Greatness Score Contributors



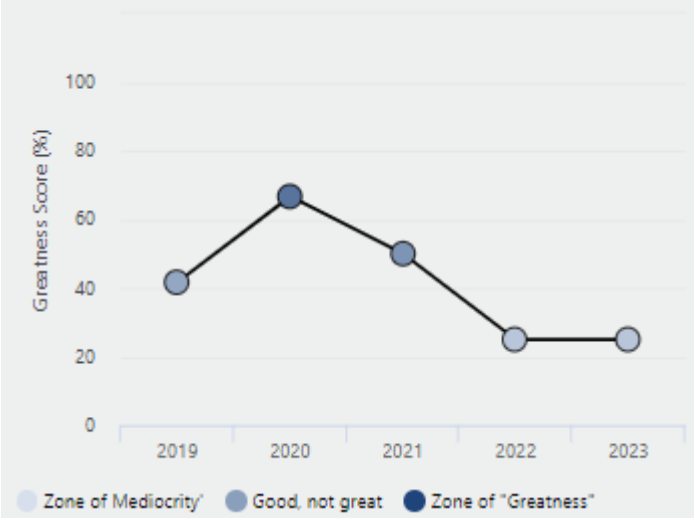
Source: Ambit HAWK, Company

Exhibit 105: Forensic Score – Evolution



Source: Ambit HAWK, Company

Exhibit 106: Greatness Score – Evolution



Source: Ambit HAWK, Company

RJIL: Board continuity

The board of RJIL is extensive with 14 directors, including a chairman, 4 non-executive non-independent directors, 2 executive directors and 7 independent directors.

- Out of 14 directors, only 1 is a female (Mrs. Isha M Ambani).
- In FY24, the Board of RJIL was unchanged akin to the past 3 years.
- Out of 7 independent directors, 5 have been on the board for over 5 years. Also, 4 of them (Adil Zainulbhai, Raminder Gujral, K.V. Chowdary, and Shumeet Banerji) held the designation of independent director at RIL.
- On 9th June 2024, when their 2nd term ended, Mr. Adil Zainulbhai and Prof. Dipak Jain ceased to be directors of RJIL. Sanjay Mashruwala also resigned as MD and from the company's board on the same day. Pankaj Pawar is RJIL's MD.

Exhibit 107: 5 out of 7 Independent Directors are on the Board since 2014

Name of the Director	Category	Initial Date of Appointment	Date of Reappointment
Akash M. Ambani	Chairperson - Non-Executive - Non-Independent	11/10/2014	29/09/2015
Isha M. Ambani	Non-Executive - Non-Independent	11/10/2014	29/09/2015
Mahendra Nahata	Non-Executive - Non-Independent	22/06/2010	07/09/2011
Kiran M.Thomas	Non-Executive - Non-Independent	08/02/2017	08/09/2017
Mathew Oommen	Non-Executive - Non-Independent	23/07/2015	29/09/2015
Sanjay Mashruwala	Executive	01/03/2013	01/08/2022
Pankaj Mohan Pawar	Executive	01/09/2015	27/06/2022
Adil Zainulbhai	Non-Executive - Independent	10/07/2014	10/06/2019
Jain Dipak Chand	Non-Executive - Independent	10/07/2014	10/06/2019
Mohanbir Sawhney	Non-Executive - Independent	31/03/2015	31/03/2020
Ranjit Vasant Pandit	Non-Executive - Independent	23/07/2015	23/07/2020
Shumeet Banerji	Non-Executive - Independent	18/09/2015	18/09/2020
Raminder Singh Gujral	Non-Executive - Independent	27/06/2022	27/06/2022
KV Chowdary	Non-Executive - Independent	27/06/2022	27/06/2022

Source: Company, Ambit Capital research

Reliance Industries (RELIANCE IN, SELL)

Valuation Methodology

Given the intricacies of reported profits, we believe that the best approach to valuing RIL is DCF. In our SoTP, we value 100% of JPL (Jio) at US$128bn (2020 investors paid US$71bn) and RRVL (retail) at US$61bn (2020 investors paid US$63bn & current benchmark is US$100bn). Standalone (O2C, E&P, and New Energy) at US$102bn.

Risks

- Continuation of unprecedented high refining margins even beyond FY26E.
- Normalization in Capex to FY20-22 levels.
- Breakthrough in New Energy business.

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CHANGE IN STANCE | **IDEA IN EQUITY** | **June 25, 2024**

Back in business

Government support via equity conversion of deferred statutory dues into equity in FY26/27E and tariff hikes would enable network upgrade in FY25-28E. So we expect VI to grow and retain users upgrading to 4G/5G. We assume ~₹300 ARPU in FY29E vs ₹154 in FY24 and 2% subscriber CAGR. This should enable VI treble cash EBITDA and emerge financially self-sustaining. Strategic exit to a global OTT giant who may end up buying a telco directly instead of compensating industry via internet traffic taxes could be best case scenario for government, VI's promoters and patient financial investors. Meanwhile, continued equity funding and network upgrade success with moderation in subscriber decline are key markers. 55% share price rally from FPO price limits near-term upside, so we prefer Hexacom.

Competitive position: WEAK Changes to this position: POSITIVE

Government support to continue...

After SC's AGR verdict, the government gave telcos a two-year moratorium on statutory payments. It later gave telcos the option to defer four years of spectrum/AGR instalments and issue it equity in lieu of deferred interest. VI elected for it and made the government a significant minority equity investor (24% stake). Since 95% of VI's debt is owed to government, we expect it to remain supportive of VI. We expect the government to convert FY26/27E deferred spectrum/AGR instalments into equity.

...and funding won't be a constraint for network upgrades

₹225bn equity funding (already done) and 20% tariff hike in Sep-24 would enable VI raise debt funds and succeed with its ₹450bn overall fund-raise. This coupled with improving cash flows would enable VI fund ₹750bn FY24-28e 4G/5G capex. Trade payables to Indus aren't a challenge given plausible equity funding support from Vodafone PLC and improving cash profits with tariff hikes.

Subscriber stickiness to precede financial improvements

We expect VI's subscribers to grow from FY26E, prompting peers to be more regular with tariff hikes rather than hope for subscriber gains from VI. This drives our assumption of biennial 12% tariff hike from 2026. Regular and moderate tariff hikes that are only marginally higher than inflation won't hurt digital consumption but improve VI and the telecom industry's viability.

Betting on the government's efficacy as an i-banker?

We assume 2% subscriber FY24-42E CAGR vs 2% decline previously and assume 9% ARPU CAGR vs 8% earlier. These changes result in 1/3rd upgrade to our target EV. The remainder is driven by 100bps lower WACC to 13.75% and 4% terminal FCF growth vs. prior 3%. Our new target EV is 47% higher, resulting in 3x TP.

Key Financials

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	421	426	446	505	608
EBITDA	168	170	186	233	305
EPS (diluted)	(8.4)	(4.2)	(3.5)	(2.3)	(1.6)
Subscribers (in mn)	226	213	208	211	219
Fund raise (₹ bn)	166	14.4	225	118	174
Issuance price/share	10.0	10.0	11.6	21	24
EV/EBITDA	17.5	17.3	15.9	12.6	9.7

Source: Company, Ambit Capital research

Telecom

Recommendation

Mcap (bn):	₹865/US$10.4
6M ADV (mn):	₹786/US$9.4
CMP:	₹17.3
TP (12 Mths):	₹21
Upside (%):	23

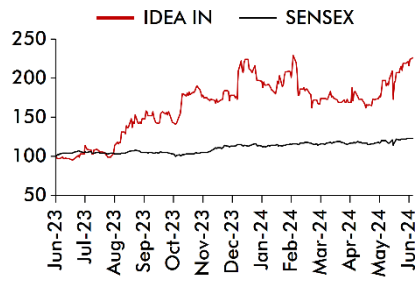
Flags

Accounting:	GREEN
Predictability:	RED
Earnings Momentum:	AMBER

Catalysts

- 20% tariff hike in Sept-24.
- Arrest in subscriber loss in 4QFY25E.
- Continued government support.
- Debt fund-raise.

Performance



Source: ICE, Ambit Capital Research

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VI's struggles of over a decade are easing

Since 2010s, VI has grappled with multiple issues that led them to near bankruptcy and negative networth. These included spectrum auctions in 2014-16, where Vodafone & Idea bid against each other in a 'Hobson's choice', resulting in a highly levered balance sheet. Both telcos over-committed to 3G and after Jio's entry, they were left with no choice but to merge. Regulatory interventions like IUC reductions aggravated VI's pain and the SC's Nov-19 AGR verdict proved to be the last straw. But the government stepped in giving VI the option to defer four years of spectrum/AGR instalments and issue it equity in lieu of deferred interest. VI elected for the same and made government a significant minority equity investor (24% stake). Since 95% of VI's debt is owed to the government, we expect the latter to remain supportive of VI. We expect the government to convert FY26/27E deferred spectrum/AGR instalments into equity.

VI's woes in the 2010s...

- In 2010, Vodafone & Idea bid against each other in the same circles which led to higher spectrum costs for the players, on already repriced spectrum.
- The company had made a tactical error in deploying 3G as well as staying focused on the technology, when industry was shifting towards 4G. This was in spite inadequate monetization in 3G.
- Entry of Jio within telecom forced industry to pivot towards high upfront investment and low marginal cost paradigm vs industry prevalent 'minutes factory model'.
- IUC, another source of revenue for incumbent players, was reduced to 6p/min in 2017 from 14p/min in 2015, and was eventually eliminated in 2021.
- The Nov-19 SC AGR verdict then posed existential challenges to the telecom industry.

...was followed by government actions...

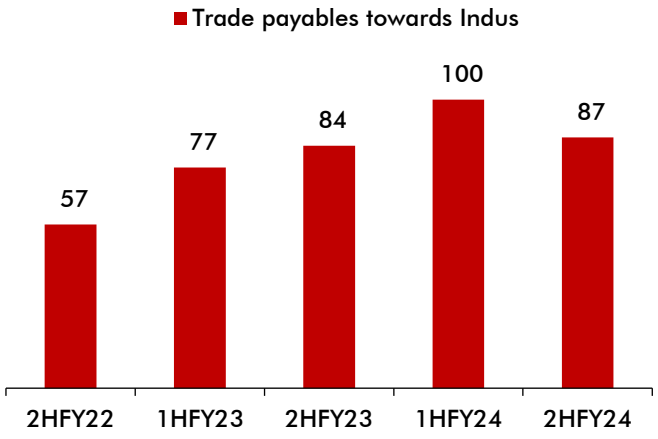
Government support for a 3+1 player market structure became more visible as it brought below initiatives to support the industry players:

- Deferral of spectrum auction instalments preserving NPV for two years in Oct-19, showcasing it was keen on letting VI survive.
- An elaborate reforms package in Sep-21 that allowed telcos to defer spectrum and AGR instalment payments for four years.
- In the above reforms, the government also gave telcos the option to convert instalments arising from deferment of spectrum dues into equity. VI opted for the same. Further, after the moratorium, if a telco isn't able to pay the said deferred AGR/spectrum instalments, the government has the option to convert the deferment into equity.
- Along with the 2022 auctions, the government reduced spectrum usage charges (SUC) to nearly zero, providing an incentive for telcos to bid for 5G spectrum and improve their financial health. Telcos' pay royalty on adjusted gross revenues (excludes non-telecom revenue) to the government as licence fee (8%) and SUC. The latter used to range over 4.3-4.7%. But due to the 5G auctions, telcos were able to reduce their SUC to 0.3-0.5%, implying a near one-third reduction in royalty.

...and vendor support that ensured its survival

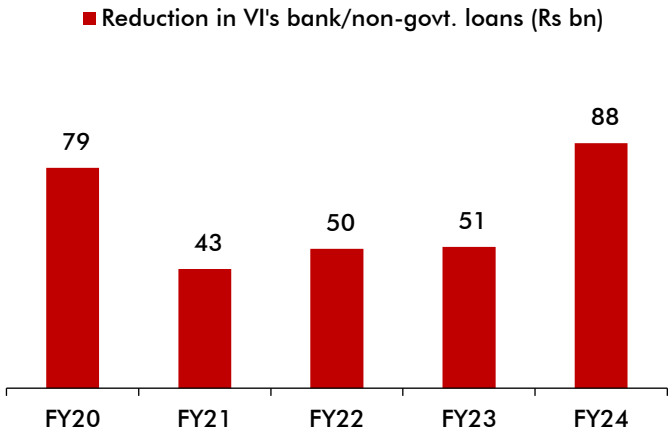
Along with government support, the company also received support from Indus, its tower infrastructure service provider. They provided VI with grace period for repayment of dues and provided company with much needed financial leeway to repay their borrowings and avoid bankruptcy.

Exhibit 1: Indus provided VI financial support by allowing them to delay payments…



Source: Company, Ambit Capital research

Exhibit 2: …helping VI reduce external borrowings and avoid bankruptcy

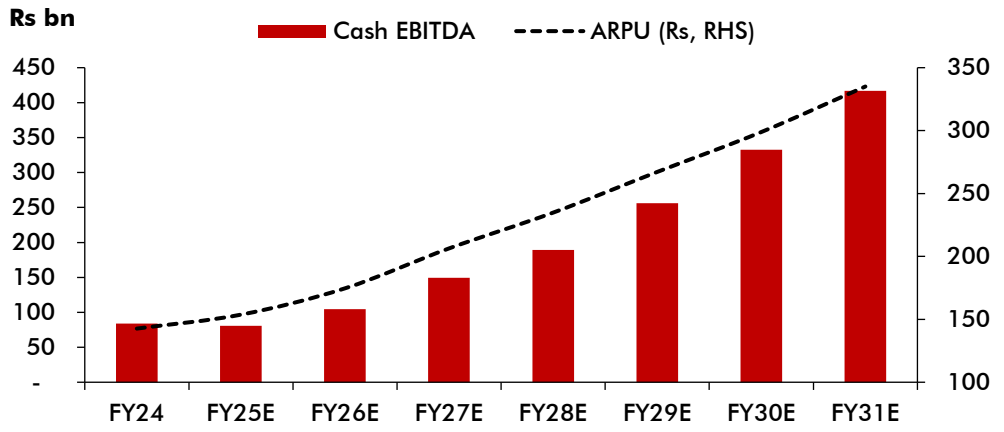


Source: Company, Ambit Capital research

But VI isn't out of the woods yet and still needs government…

With an assumption of subscriber count stabilization due to network investments, upgrades to 4G/5G and tariff hikes, VI should start to see 14%/21% Revenue/EBITDA growth between FY24-31E compared to -1%/3% during FY20-24.

Exhibit 3: Our tariff assumptions imply trebling of VI's cash EBITDA by FY28 and 6x by FY31…

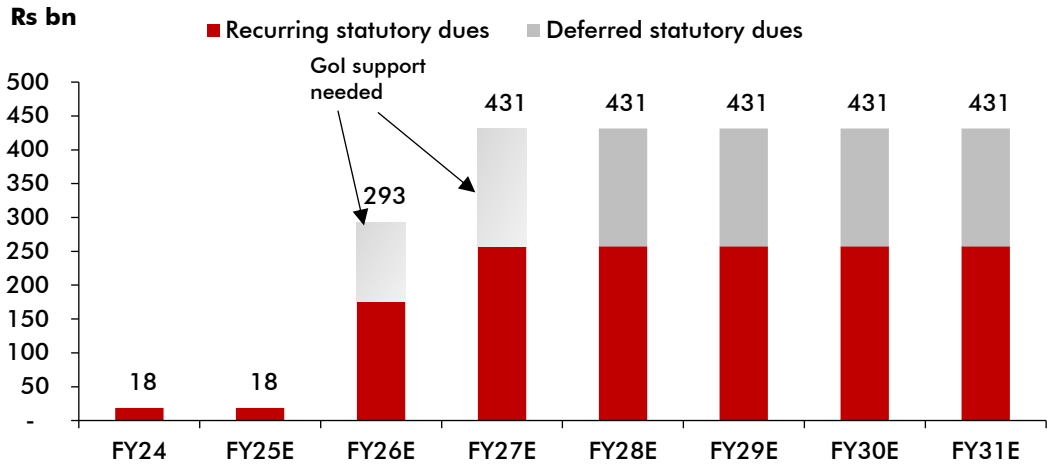


Source: Company, Ambit Capital research

The government has categorically stated that it doesn't intend to take over VI. If we assume that government opts to convert FY26/27E deferred statutory (spectrum & AGR) dues into equity at ₹21 and ₹24/share (our fair value for VI), its shareholding in VI will increase to 35.7% from current 23.8%. In this scenario, government stake doesn't increase beyond 50%. We assume that VI's improving cash profits due to tariff hikes and no subscriber losses (unlike in FY19-24) will enable it to raise external debt/equity capital to fund capex and statutory payments for FY28-30.

In recent media interactions, Akshaya Moondra, VI's CEO stated that the company might 'initially need some support from the government' after the current moratorium on spectrum and AGR dues end in Sep-25.

Exhibit 4: ...but even then VI requires support from lenders and the government to survive



Source: Company, Ambit Capital research

...and Vodafone PLC's support

In a media interaction following VI's FPO (Apr-24), Mr. Kumar Mangalam Birla, VI's board member mentioned that *"Cumulative investment by promoters (Idea & Voda) is ₹1.7tn in the sector. Out of ₹300bn that was raised by VI in the last 5 years, >75% has come from the two promoter groups. Even in this fund raise, the Birlas have invested ₹20.8bn."*

After the ₹225bn fund raise that included a ₹180bn FPO, ₹20.8bn capital infusion by the Birlas and conversion of vendor outstanding into equity, VPLC and the Birla Group own 15% and 23% of the company. In this funding round, VPLC hasn't yet funded VI. We note that:

- Recent VPLC's 18% stake sale of Indus was pledged to banks. VPLC has used the proceeds to retire its bank debt.
- VPLC is left with 3.1% ownership of Indus which is now pledged to the latter as part of a 'security package'. VI has ₹87bn trade payables outstanding to Indus.
- We expect Airtel-led Indus to push VPLC to sell these shares and infuse ~₹30bn equity into VI. VI will then use these proceeds to clear part of its past dues to Indus. With limited bank loan repayments, we expect VI to be able to clear Indus' past dues fully by FY25E even if a tariff hike isn't forthcoming/delayed. After all, VI was able to retire ₹88bn of bank loans in FY24.

Exhibit 5: VPLC now has 3.1% of Indus; we expect it to sell and invest the proceeds into VI

Period	Transaction	Stake	No. of shares (in mn)	Share price	Total value (₹ bn)
4QFY22	Market sale	2.4%	64	228	14.5
4QFY22	Sale to Airtel	4.7%	127	188	23.88
1QFY24	Market sale	18.0%	485	316	153

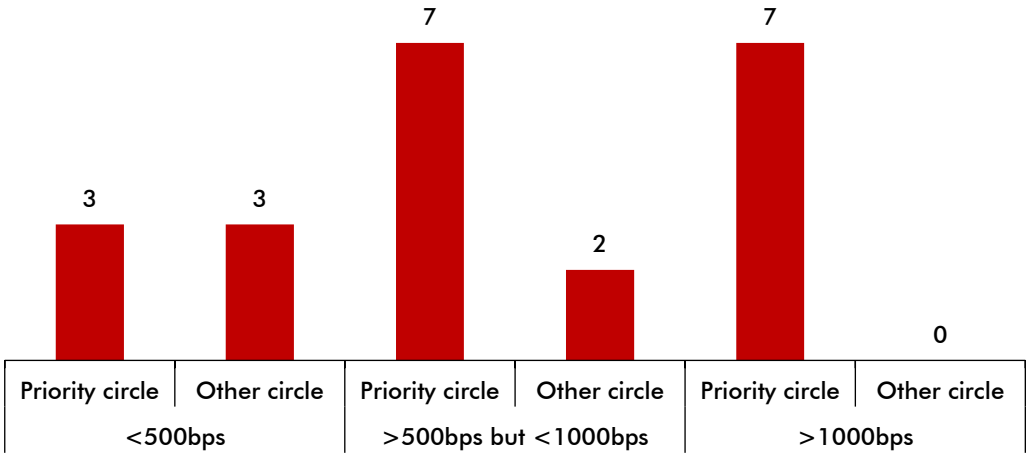
Source: Company, Ambit Capital research

Network upgrades won't be constrained by funding

VI's successful ₹225bn equity fund raise from a variety of institutional investors, Birla Group and lenders, demonstrates tacit government support. Hence, we don't see funding being a constraint for network rollout. In FY19-24, with capital constraints, VI couldn't execute its priority investment strategy and even lost share in focus markets as its capex fell to ~10% of that of Airtel. But to its credit, VI managed to hold on to high-value enterprise postpaid, 4G and IoT customers and has higher share than overall market leader, Jio in these segments. We expect VI to follow-in on Airtel's footsteps, shut down 3G and expand 4G/5G networks. Funding will follow as government support remains intact and VI's network investments start bearing fruit with stemming of subscriber losses.

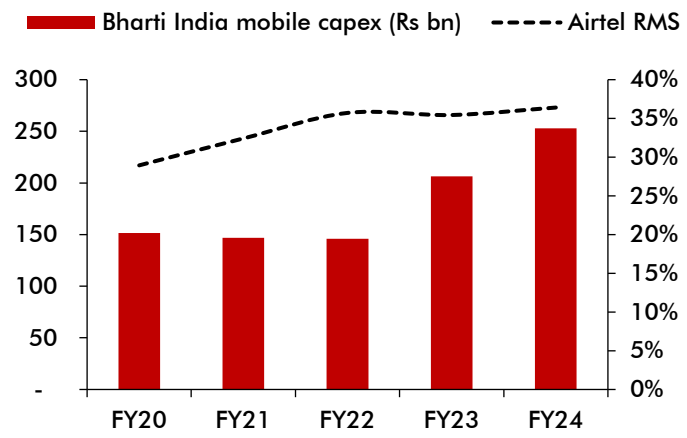
In FY19-24, VI couldn't execute its focused investment strategy.

Exhibit 6: Lack of capital led to VI losing >18% market share in its priority circles (FY19-24)



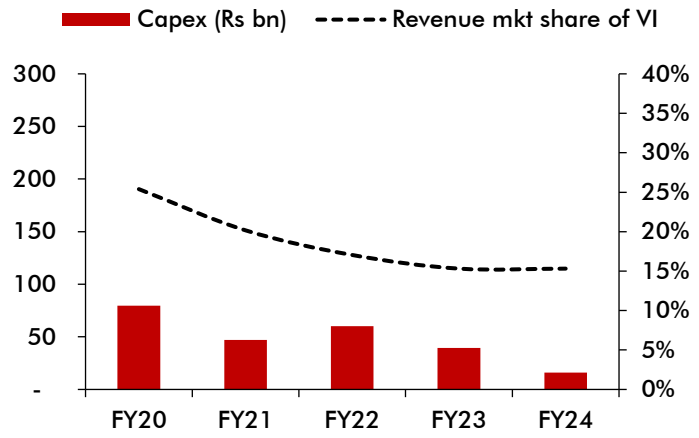
Source: Company, Ambit Capital research, TRAI

Exhibit 7: VI's capex has fallen to less than 10% of Bharti's mobile division capex...



Source: Company, Ambit Capital research

Exhibit 8: ...and its revenue market share has almost halved in the last 4 years

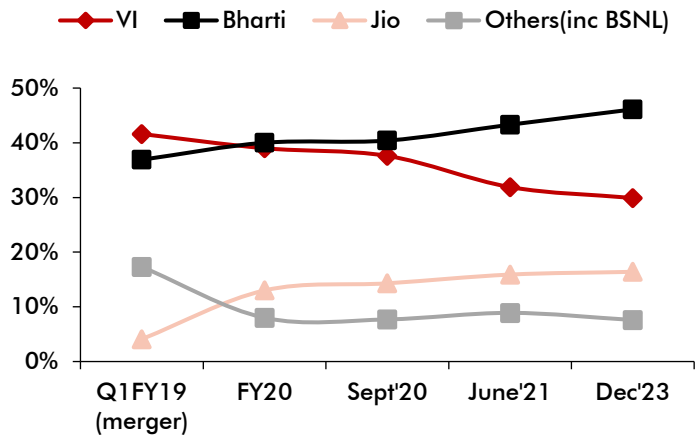


Source: Company, Ambit Capital research

But to its credit, VI was able to hold on to high-value subscribers

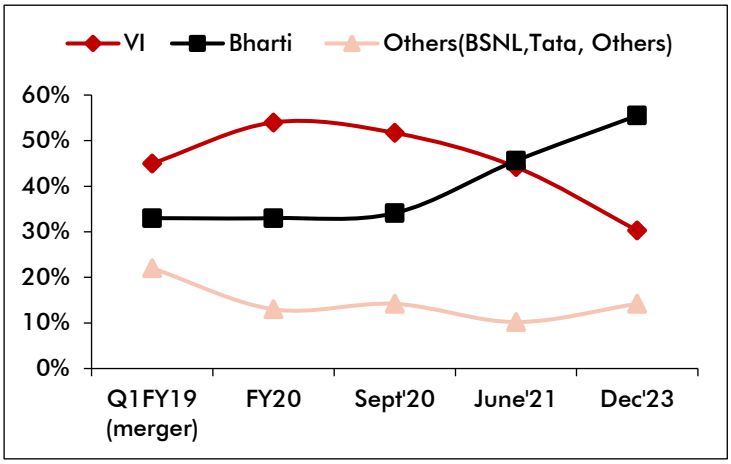
VI has lost overall subscribers at 10% CAGR between FY19-24. But despite funding constraints, VI was able to grow 4G and postpaid users. Even now, VI's market share exceeds that of Jio in high-value segments like enterprise mobility and IoT.

Exhibit 9: VI has lost 12% enterprise mobility market share...



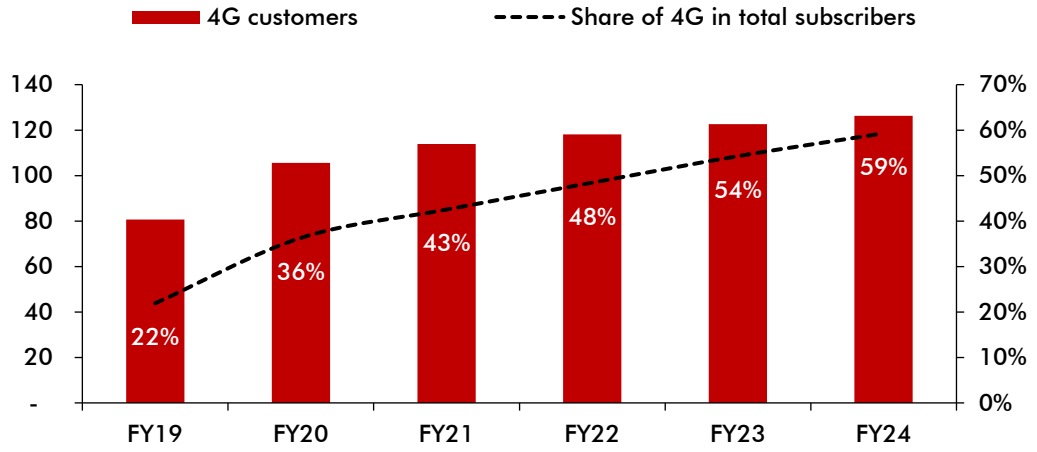
Source: Company, Ambit Capital research, VIL Investor Presentation, FPO RHP

Exhibit 10: ...and 15% IoT revenue market share



Source: Company, Ambit Capital research, VIL Investor Presentation, FPO RHP

Exhibit 11: Share of 4G subscribers has been rising but is lower than Airtel & Jio

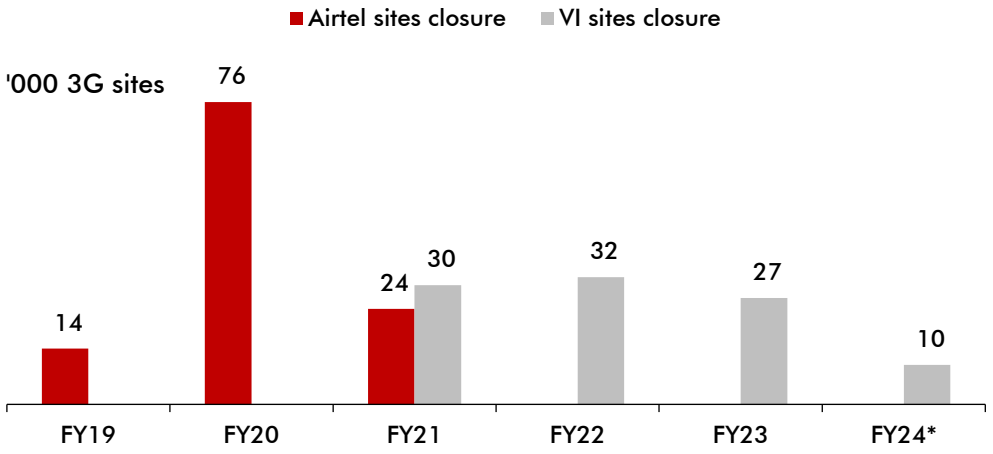


Source: Company, Ambit Capital research

3G site upgrades to 4G would be the first capex priority

Due to ample funding, Airtel refarmed and shut down all its 3G sites in FY21. VI 3G shut down only in FY21. While it shut down 99,000 3G sites till FY24 and ceased 3G operations in six circles – Kerala, MH, Gujarat, AP, Mumbai and Kolkata, we estimate another 57k 3G sites that are still operational. We estimate these to be shut down in FY25 as VI expands its 4G network.

Exhibit 12: VI has been late in rolling back 3G infrastructure compared to Airtel

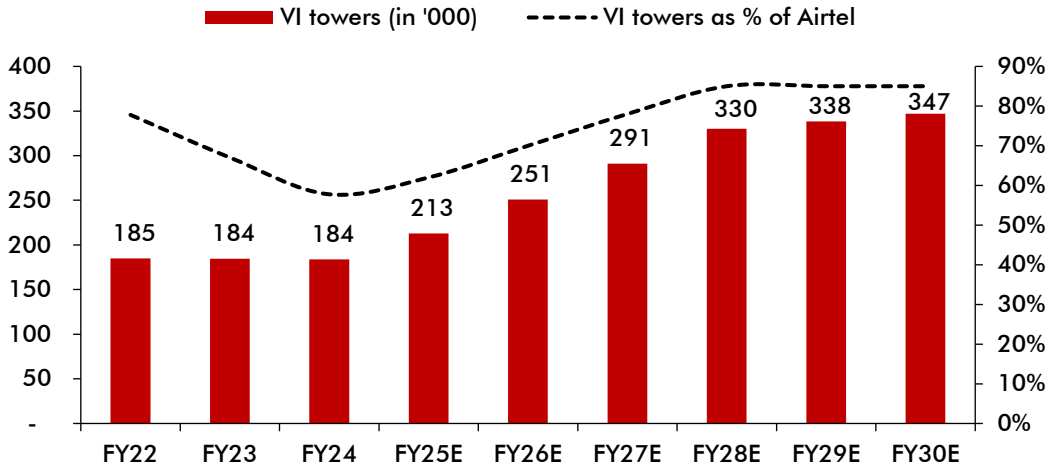


*Source: Company, Ambit Capital research, * Assumed 2,000 towers closure figure in 4QFY24*

Aggressive network expansion on the cards

In its RHP for the fund raise, VI had stated its intent to utilize 85% of the proceeds towards setting up of 4G/5G sites, while the remaining would be used for payment of deferred spectrum dues. We estimate VI to grow its tower sites by 16% CAGR between FY24-28E and site addition to then taper. Post its aggressive rollout, VI should be able to reach 85% of Airtel's tower count by FY28 from current 58%. In FY19, VI had network presence on 6% higher number of towers vs. Airtel.

Exhibit 13: VI has stated its intent to utilise funds raised to roll out additional towers

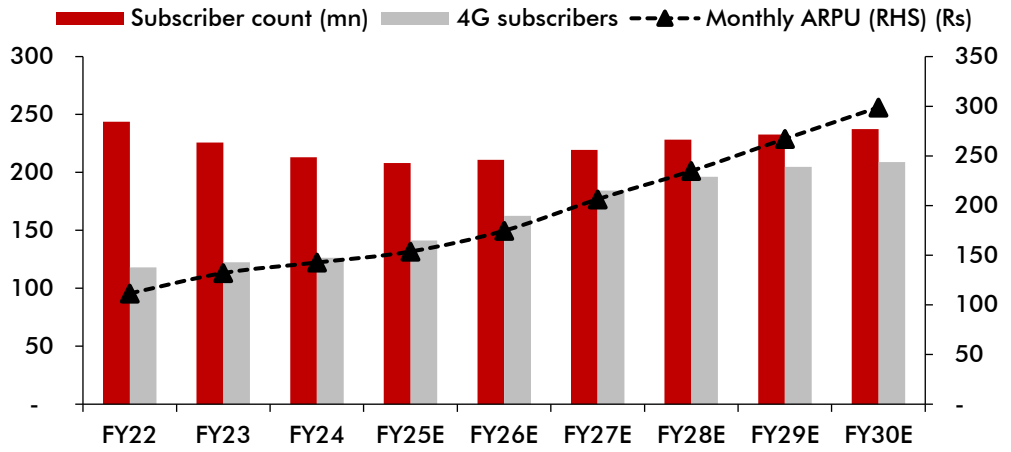


Source: Company, Ambit Capital research

Subscriber declines to be arrested in FY25E followed by all-round growth

Once VI starts to roll out towers and improves its network connectivity, it will finally be able to halt subscriber loss that it has been witnessing for the past decade. We estimate VI to curb subscriber loss in FY25E and then slowly start to grow subscriber at 2.7% CAGR between FY25-30E.

Exhibit 14: Share of 4G subscribers should improve from 59% currently to 88% in FY30E, while ARPU CAGR should be 13% during the period



Source: Company, Ambit Capital research

Government and investors to continue with equity support

We expect investors to see government's conversion of VI's FY26/27 spectrum/AGR dues into equity positively as the same will be at market price and will improve the company's viability. If we assume equity conversion of government dues in FY26/27E at CMP, government stake won't exceed 41%, allowing it to remain a minority shareholder. Akin to Airtel, which did multiple funding deals in 2020, VI could raise additional capital from private investors as its operational/financial state improves with network investments done from recent funding.

Exhibit 15: VIL has arrived to the party late and will continue raising funds

Particulars	Period	Amount ($bn)
QIB Funding	2018	0.5
Preferential issue: Promoter group	2018	0.5
Sold own Towers	2018	1.2
Rights Issue at ₹12.5/sh	2019	3.6
Indus Tower-Sale consideration	2021	0.5
Vodafone group's max indemnity cover	2021	1.1
Promoter infusion (₹10/sh)	2022	0.6
OCDs issued to ATC (₹10/sh)	2024	0.2
Promoter infusion at ₹14.75/sh	2024	0.2
Equity raise via FPO at ₹11/sh	2024	2.2
Issue of shares to Nokia and Ericsson at ₹ 14.8/sh	2024	0.3
Total Fund Raise		**10.9**
Govt AGR & Spectrum dues conversion*	2026	1.4
Govt AGR & Spectrum dues conversion*	2027	2.1
Total fund raise likely by 2027		**14.4**

*Source: Company, Ambit Capital research, * conversion of government dues in FY26 & FY27 assumed at share price of ₹22/- and ₹ 24/- respectively in the two years and USD 1 = INR 83.3*

VI would need to take multiple tariff rates in the near term to survive its business. We estimate that it should grow subscribers at ~2% CAGR between FY24-30E, while increasing share of 4G customers from ~60% currently to 85% in FY30E. This growth should come from elevated capex of ₹745bn during FY25-28E which is 65% higher than FY21-FY24. The capex in network rollout, although delayed than peers, is necessary to curb its market-share loss and increase ARPU.

In case we build a scenario wherein the subscriber and ARPU growth are similar to our estimates until FY29, and thereafter carry out implied ARPU growth in the stock for the remaining period. Then ARPU growth rate moves from 10.23% at CMP to 8.6% for FY30-42E.

Post AGR verdict by the SC, VI has been losing its subscriber base ferociously with count falling from 368mn in FY19 to 213mn in FY24. But post the fund raise and chatter of tariff hike in the coming quarter, we believe VI to buck the tide once the network infrastructure is operationalized. We estimate the subscriber count to bottom out at 206mn in FY25-FY26E and then slowly reverse and towards 223mn by FY28E growing at 11% CAGR between FY24-FY28E. During the same period, we also estimate ARPU/Revenue to grow by ~17% each and capex intensity to boost from ₹16bn in FY24 to ₹214bn in FY28E.

Exhibit 16: We estimate subscriber losses to arrest in FY25E and tariff hikes to start reflecting in FY26E

Short-term estimates	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Operating metrics - India						
Subscribers (mn)	225.9	213.0	208.0	211.0	219.4	228.2
Growth %		-6%	-2%	1%	4%	4%
ARPU (₹)	132.0	142.6	153.7	174.6	206.4	234.8
Growth %		8%	8%	14%	18%	14%
Capex (₹ bn)	39.422	16.139	170	178.5	246.35	150
Capex to CFO (%)	21%	8%	92%	77%	81%	40%
Financial metrics - Consol						
Revenue (₹ bn)	421.3	425.5	445.7	505.1	608.3	705.9
Growth %		1%	5%	13%	20%	16%
EBITDA (₹ bn)	167.7	170.3	185.6	232.8	304.6	374.6
Growth %		2%	9%	25%	31%	23%
EBITDA Margin (%)	40%	40%	42%	46%	50%	53%
Cash EBITDA (₹ mn)	83.0	84.0	80.5	104.4	149.4	189.4
PAT (₹ bn)	(292.9)	(312.3)	(265.5)	(171.0)	(121.8)	(61.6)
EPS (₹)	(8)	(4)	(4)	(2)	(2)	(1)
Net debt (₹ bn)	2,007	2,071	2,062	2,109	2,144	2,084
FCF (₹ bn)	128	154	16	54	58	225

Source: Company, Ambit Capital research

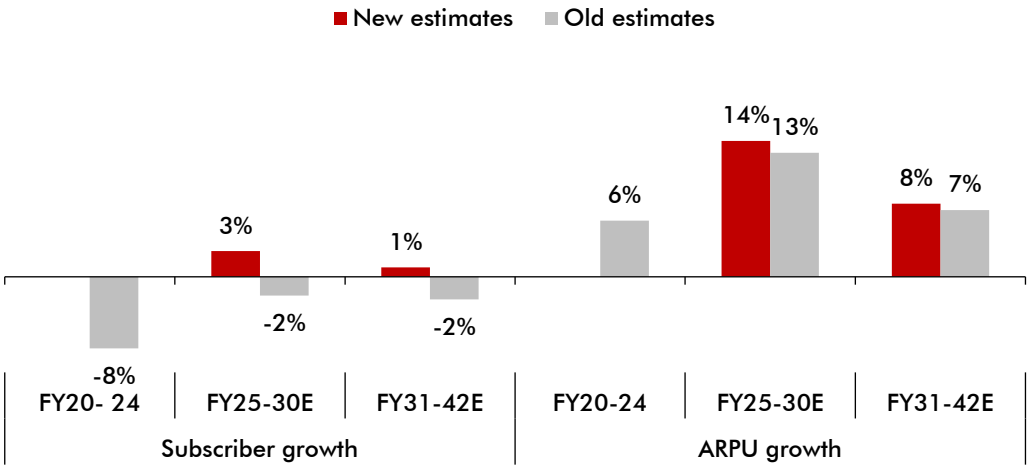
Catalysts & risks

As discussed in our thematic note, the government in its continued accommodative stance for telcos, will roll out a tax on OTTs and other large traffic generators who benefit from infrastructure investments made by telcos. This would provide telcos with an additional source of income and help them continue to invest in building network infrastructure. These LTGs would pay telcos periodically on the basis of data consumed by them.

Since the government cannot easily exit the company, it would be willing to sell its stake in VI to LTG which would buy the telco directly instead of compensating the industry via internet traffic taxes. This is the best-case scenario for the government, promoters and patient financial investors to exit from the company.

Change in estimates is driven by increase in subscriber growth as well as higher ARPU growth for VI.

Exhibit 17: Fund-raise should act as a survival kit for VI as it would help them grow their subscribers as well as ARPU



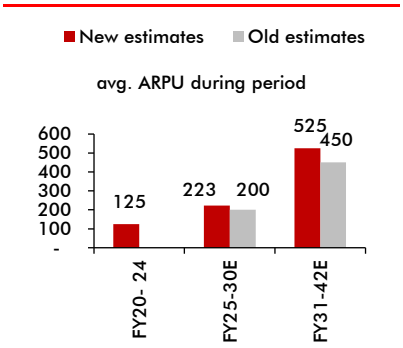
Source: Company, Ambit Capital research

In the long term, we expect the entire telecom industry to see ARPU growth in excess of inflation rate with minimal subscriber growth of 1% FY37E onwards. Company should see benefits of operating leverage going ahead once operations stabilize and RoCE should also breach 15% by FY30 from -4% currently.

Exhibit 18: VI would register revenue/EPS growth of 9%/30% during FY31-36E and 7%/16% during FY37-42E

Long-term assumptions	FY25-FY30E	FY31-36E	FY37-42E
Operating metrics - India			
Subscribers (mn)	3%	1%	1%
ARPU (₹)	14%	9%	6%
Revenue CAGR	16%	9%	7%
EBITDA CAGR	24%	11%	8%
EPS CAGR	NA	30%	16%
Net debt (₹ bn) (end of period)	1,757	(27)	(4,592)
FCF (₹ bn) (end of period)	406	878	1,409

Source: Company, Ambit Capital research



Catalysts to our positive stance on VI

- **20% tariff hike in Sep-24**

  Since Airtel/Jio have completed pan-India 5G rollout and the dust of national elections has settled, we think that Jio will lead a 20% tariff hike in Sep-24 that Airtel and VI will follow. This will enable Jio to scale up its revenues and prepare for an IPO in 2025.

- **Subscriber loss arrest**

  VI has been losing subscribers for the past decade and post Vodafone and Idea's merger in 2019, VI has lost subscribers at 10% CAGR between FY19-24. But with network rollout plans of the company, it should be able to arrest subscriber loss in 3QFY25E and grow its subscriber base incrementally at 3% between FY25-29E.

- **Continued government support**

  After the SC's AGR verdict, the government gave telcos a two-year moratorium on statutory payments. It later gave telcos the option to defer four years of spectrum/AGR instalments and issue it equity in lieu of deferred interest. VI elected for the same and made government a significant minority equity investor (24% stake). Since 95% of VI's debt is owed to the government, we expect the latter to remain supportive of VI. We expect the government to convert FY26/27E deferred spectrum/AGR instalments into equity.

- **Debt fund-raise**

  VI has already raised equity in excess of ₹200bn during the fund-raise and has also allotted shares to tower/infrastructure providers in lieu of payment. The company has reduced its high interest-bearing borrowings to ₹42bn in FY24 from ₹273bn in FY20. But with stable operating business, VI should again raise debt to finance its network expansion in the coming months.

Risks

- **Delay in tariff hikes by incumbent players within industry**

  To sustain its operations, VI will have to take multiple price hikes in the near term so that it can generate higher CFO. We are building 20% tariff hike in Sep-24 led by Jio which Airtel and VI will follow. After the 2024 20% tariff hike, we assume 12% biennial tariff hike till 2034. If peers do not follow the hikes, then VI would be trapped in a dilemma as tariff hikes taken alone would start virtuous subscriber loss cycle again for them.

- **Non conversion of spectrum and AGR dues into equity by government in FY26 and FY27**

  Investors in VI are baking in conversion of government dues in FY26/27E into equity which shall minimize cash outflow as well as help company focus on getting operations at par with peers. Non conversion of dues by government shall lead company towards closure of operations.

- **Government support for entry of new telco**

  The government has always wanted to have healthy competition within the telecom sector. Therefore, in spite of near bankruptcy condition of VI post AGR case, government took numerous steps to bring respite to it and Airtel. But VI still needs government support in FY26/27 as it won't be able to make deferred spectrum/AGR payments even with a 20% tariff hike in 2024 followed by a 12% hike in 2026. Key risk for the sector is the government favouring a new entrant to takeover VI instead of it electing to convert deferred amounts into equity.

Valuations

We calculate DCF value of Voda-Idea's operation till FY42 to arrive at our TP for the company after assuming a 4% long-term terminal growth rate and 13.8% WACC.

Exhibit 19: DCF-based valuation for VI

Particulars	₹ mn
PV of CF	3,407,488
Terminal Value	251,813
Total EV	**3,659,301**
Less: Net Debt	2,061,778
Total Equity Value	**1,597,523**
Total No of shares	**75,142**
Value per share	21.3

Source: Company, Ambit Capital research

Exhibit 20: Change in estimates is led by fund-raise

Particulars	New estimates			Old estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY26E
Recommendation	BUY			SELL					
TP (₹)	21			7			215%		
Revenue (₹ bn)	446	505	608	431	491	574	3%	3%	6%
EBITDA (₹ bn)	186	233	305	166	200	250	12%	17%	22%
EBITDA margin (%)	42%	46%	50%	39%	41%	44%	309 bps	549 bps	653 bps
PBT (₹ bn)	(266)	(171)	(122)	(278)	(234)	(177)	NM	NM	NM
PAT (₹ bn)	(266)	(171)	(122)	(278)	(234)	(177)	NM	NM	NM
EPS (₹)	(9)	(6)	(4)	(10)	(8)	(6)	NM	NM	NM

Source: Company, Ambit Capital research

Exhibit 21: Changes in factors contributing to DCF valuation

Particulars	New estimate	Earlier estimate	Change
WACC	13.75%	14.75%	-1.0%
Terminal growth rate	4%	3%	1.0%
Target EV (₹ bn)	3,659	2,486	1,173
Target Equity value (₹ bn)	1,598	335	1,263

Source: Company, Ambit Capital research

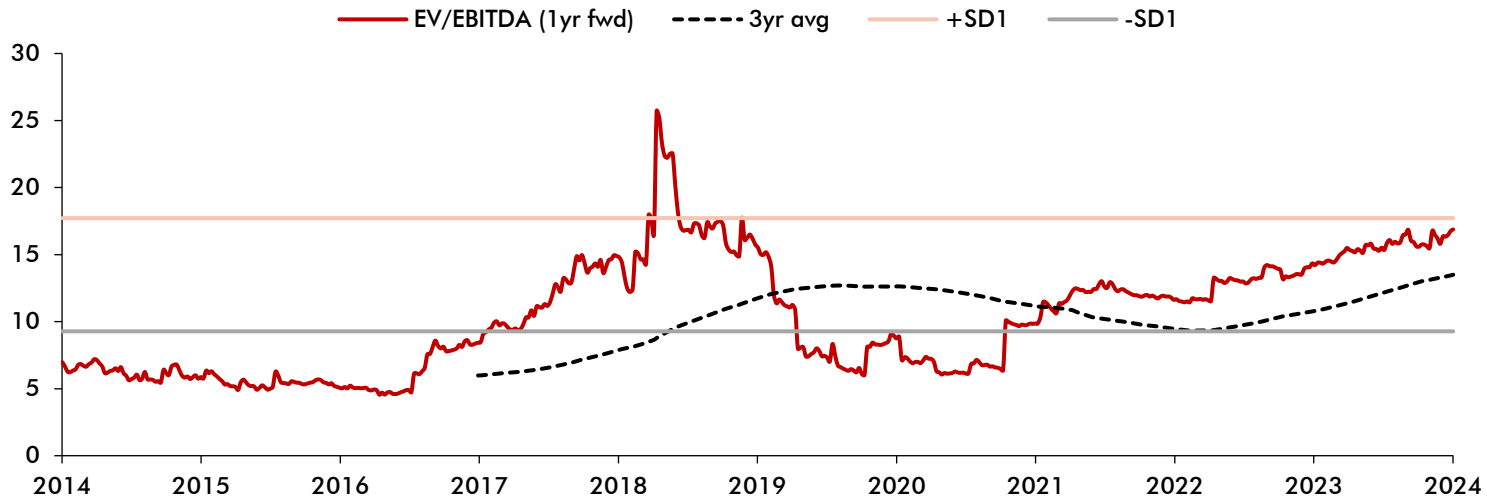
Reduction in WACC and terminal growth rate have driven 30% increase in EV valuation whereas subscriber and ARPU growth changes have driven the remaining 70% changes in estimate of enterprise value for VI.

Exhibit 22: We are in line with consensus estimates on revenue and EBITDA

Particulars	Ambit	Consensus		Divergence	
		BBG	VA	BBG	VA
Revenue (₹ bn)					
FY25	446	473	477	-6%	-7%
FY26	505	540	545	-6%	-7%
FY27	608	628	617	-3%	-1%
EBITDA (₹ bn)					
FY25	186	203	210	-9%	-12%
FY26	233	246	259	-5%	-10%
FY27	305	303	309	0%	-1%
PAT (₹ bn)					
FY25	(266)	(282)	(274)	-6%	-3%
FY26	(171)	(232)	(219)	-26%	-22%
FY27	(122)	(168)	(193)	-27%	-37%

Source: Company, Ambit Capital research

Exhibit 23: Fund-raise and hopes of ARPU tariff have rerated VI 25% above its 3-year average



Source: Company, Ambit Capital research

HAWK

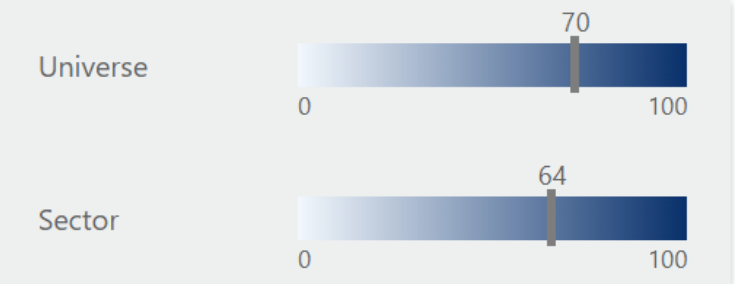
VI has seen massive improvements within both the scoreboards of forensic accounting as well as greatness. Within forensic accounting, company was rated at Decile 6 in FY22, but it saw a massive improvement in ratings to Decile 2 in FY23. This was led by improvements across all parameters, especially lowering of contingent liability, auditor remuneration as % of revenues, doubtful debt provisioning and FCF generation relative to revenues.

The greatness score for VI has also improved significantly during the year. It moved from 'Zone of Mediocrity' to 'Zone of Greatness'. The improvements were mainly due to higher EBIT margins, better debt ratios and equity dilution.

Exhibit 24: Forensic Accounting Decile

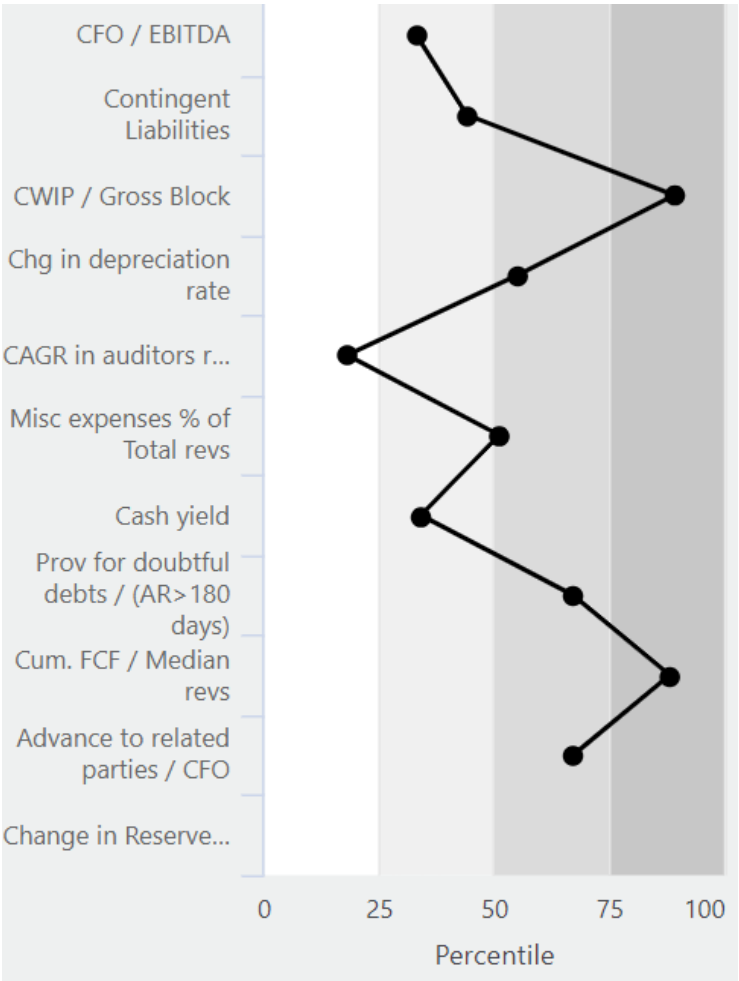
Source: Company, Ambit Capital research

Exhibit 25: Greatness score



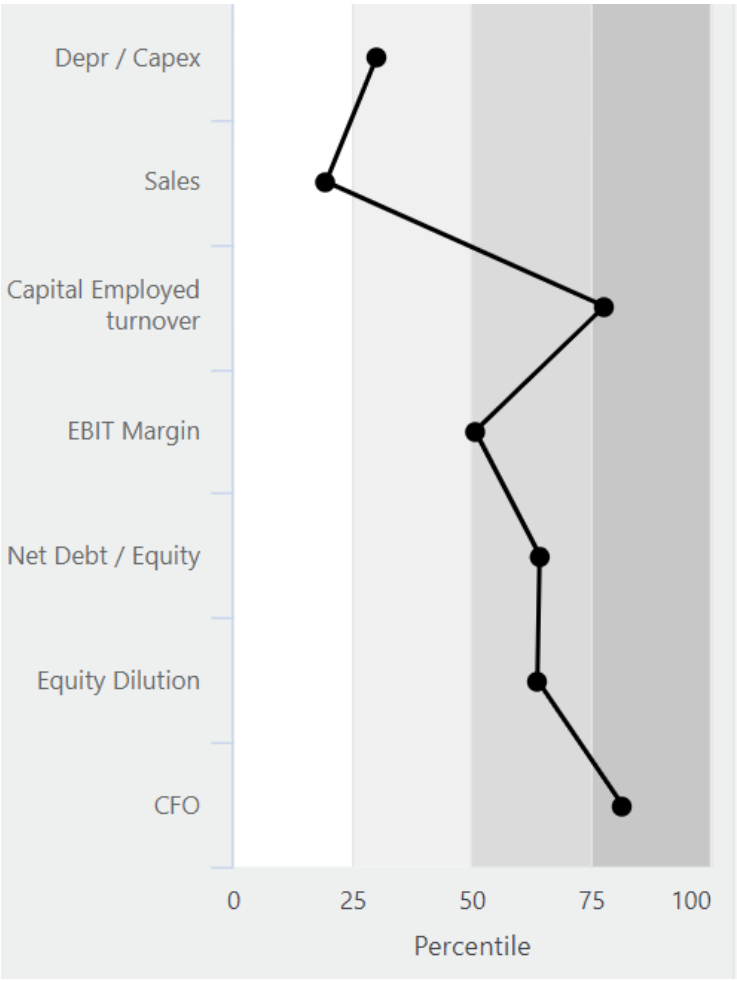
Source: Company, Ambit Capital research

Exhibit 26: Forensic Accounting Contributors



Source: Company, Ambit Capital research

Exhibit 27: Greatness Score Contributors

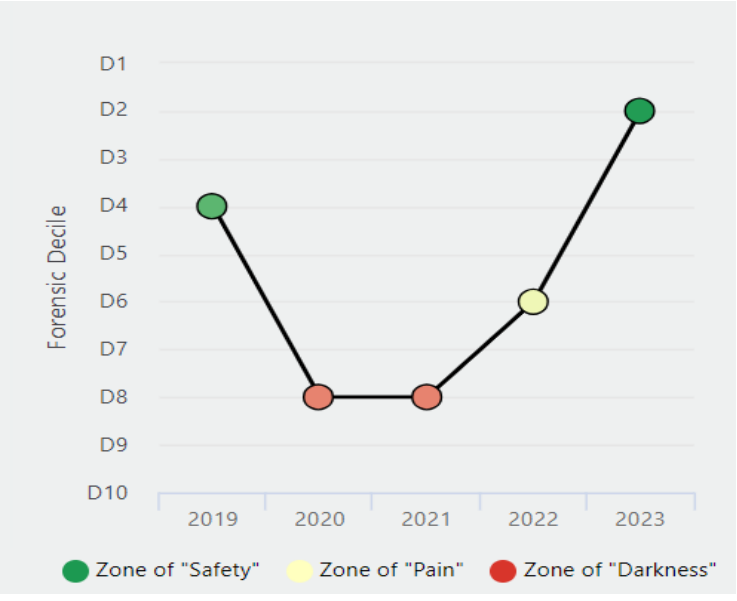


Source: Company, Ambit Capital research

Greatness score that reviews the operational performance of company took a massive beat and was at the bottom in 2019. Repayment of the AGR and spectrum dues that was passed by SC verdict diverted cashflows for the company towards dues repayment rather than network rollout. Until 2023, operational performance of the company has been improving slowly with passage of time and government intervention, albeit at cost of non-investment for its future.

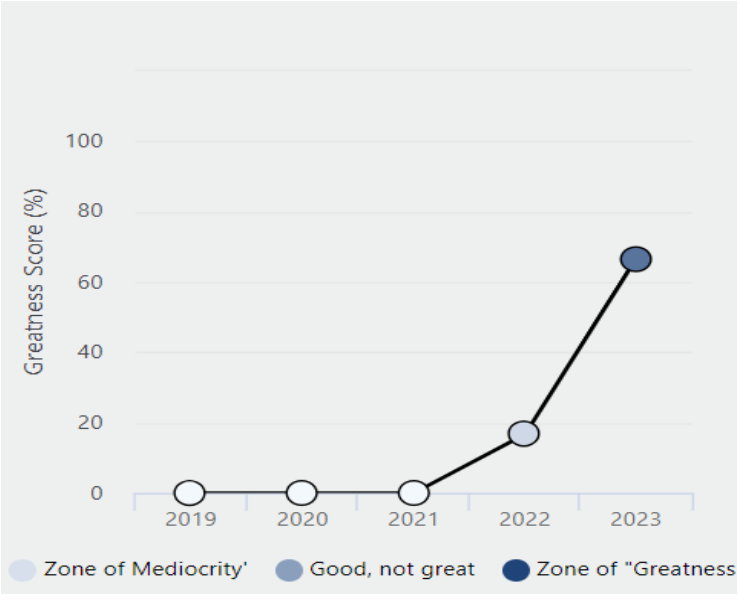
But with fundraise in Apr-24, we expect the past issues of non-investment to flip and subscriber loss that was key tracker should freeze.

Exhibit 28: Forensic Score - Evolution



Source: Company, Ambit Capital research

Exhibit 29: Greatness Score - Evolution



Source: Company, Ambit Capital research

Exhibit 30: Explanation for our flags on cover page of company section

Segment	Score	Comments
Accounting	**GREEN**	Accounting score for VI has improved from D6 in 2022 to D2 in 2023.
Predictability	**RED**	Multiple variables, such as arrest of subscriber loss, tariff hikes and continued government support can impact earnings predictability for VI.
Earnings momentum	**AMBER**	Hope of revival in business performance has helped improved consensus earnings estimate.

Source: Company, Ambit Capital research

Vodafone Idea (IDEA IN, BUY)

Valuation Methodology

We value Vodafone Idea on a DCF-based approach. We assume 13.8% WACC and our explicit forecasts are till FY42E, following which we assume 4% terminal growth rate. Our DCF model yields a target price of ₹21.3 and 11x FY27E EV/EBITDA.

Risks

- Delay in tariff hikes by incumbent players within industry.
- Non-conversion of spectrum and AGR dues into equity by government in FY26 and FY27.
- Government support for entry of new telco.

Financials - Consolidated

Income statement

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**421**	**426**	**446**	**505**	**608**
-growth (Rev)	9.5%	1.0%	4.7%	13.3%	20.4%
Employee expenses	18.7	21	23	25	27
Advertising/marketing expenses	46	48	48	36	33
Other expenses	8.9	9.4	10.6	11.2	11.7
EBITDA	**168**	**170**	**186**	**233**	**305**
-growth (EBITDA)	4.8%	1.5%	9.0%	25.5%	30.8%
Depreciation	230	226	236	246	257
EBIT	**(63)**	**(56)**	**(51)**	**(12.8)**	**47**
-growth (EBIT)	(17.1%)	(10.7%)	(9.6%)	(74.8%)	(470%)
EBIT (including other income)	**(63)**	**(56)**	**(51)**	**(12.8)**	**47**
Finance costs	234	258	215	158	169
Share of profit/loss of associates and JVs	-	(0.1)	(0.1)	(0.1)	(0.1)
Exceptional items	(0.2)	7.6	-	-	-
Profit before tax	**(293)**	**(312)**	**(266)**	**(171)**	**(122)**
Profit before tax (adjusted)	**(293)**	**(312)**	**(266)**	**(171)**	**(122)**
-growth (PBT)	3.1%	6.4%	(14.8%)	(35.6%)	(28.8%)
Tax	-	(8.1)	-	-	-
PAT	**(293)**	**(312)**	**(266)**	**(171)**	**(122)**
Profit after tax (adjusted)	**(293)**	**(312)**	**(266)**	**(171)**	**(122)**
Consolidated profit after tax	**(293)**	**(312)**	**(266)**	**(171)**	**(122)**
EPS (basic) (₹)	(8.4)	(4.2)	(3.5)	(2.3)	(1.6)
EPS (diluted)	(8.4)	(4.2)	(3.5)	(2.3)	(1.6)

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Total fixed assets	**1,741**	**1,583**	**1,517**	**1,450**	**1,439**
Other non-current assets	192	138	138	138	138
Total non-current assets	**1,933**	**1,721**	**1,655**	**1,588**	**1,577**
Cash and cash equivalents	8.6	5.4	375	236	149
Other current assets	130	124	124	124	124
Total current assets	**139**	**129**	**499**	**360**	**273**
Total assets	**2,072**	**1,850**	**2,154**	**1,947**	**1,849**
Share capital	487	501	695	751	824
Other equity	(1,230)	(1,543)	(1,789)	(1,954)	(2,069)
Total equity	**(744)**	**(1,042)**	**(1,094)**	**(1,203)**	**(1,245)**
Long-term borrowings	1,893	2,029	2,390	2,297	2,244
Other non-current liabilities	323	321	331	341	351
Total non-current liabilities	**2,216**	**2,350**	**2,721**	**2,638**	**2,596**
Short-term borrowings	123	47	47	47	47
Other current liabilities	477	494	479	465	451
Total current liabilities	**600**	**541**	**527**	**512**	**498**
Total liabilities	**2,816**	**2,892**	**3,247**	**3,150**	**3,094**
Total equity and liabilities	**2,072**	**1,850**	**2,154**	**1,947**	**1,849**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Cash flow from operations	**0.2**	**0.2**	**0.2**	**0.2**	**0.3**
(Net) capital expenditure	-	-	(0.2)	(0.2)	(0.2)
Cash flow from investments	**(0.1)**	**-**	**(0.2)**	**(0.2)**	**(0.2)**
Net long-term borrowings	(0.1)	(0.2)	0.4	(0.1)	(0.1)
Issuance of equity	-	-	0.2	0.1	0.2
Interest paid	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Other items	0.1	0.1	-	(0.2)	(0.2)
Cash flow from financing	**(0.1)**	**(0.2)**	**0.4**	**(0.3)**	**(0.3)**
Net change in cash	**-**	**-**	**0.5**	**(0.2)**	**(0.2)**
Free cash flow to firm	**113**	**211**	**(11.9)**	**37**	**56**
Free cash flow to equity	**(63)**	**17.9**	**(173)**	**(82)**	**(71)**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	39.8%	40.0%	41.6%	46.1%	50.1%
EBIT margin	(14.9%)	(13.2%)	(11.4%)	(2.5%)	7.8%
Net profit margin	(69.5%)	(73.4%)	(59.6%)	(33.9%)	(20.0%)
Interest cover	(0.3)	(0.2)	(0.2)	(0.1)	0.3
Net debt/equity	(2.8)	(2.0)	(1.8)	(1.8)	(1.9)

Source: Ambit Capital research, Company

Segment Result - By Product Category

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Sales					
Basic 4G users revenue (₹ mn)	135,847	135,847	144,504	152,079	44,661
Heavy 4G users revenue (₹ mn)	58,320	58,320	54,967	80,896	27,120
Postpaid users revenue (₹ mn)	75,986	75,986	83,448	83,903	21,700
Other revenue (₹ mn)	49,200	49,200	49,923	57,412	13,187
Non-4G low ARPU users revenue (₹ mn)	44,366	44,366	44,486	44,947	10,948
Non-4G high ARPU users revenue (₹ mn)	57,206	57,206	41,945	26,436	4,047
PBIT					

Source: Ambit Capital research, Company

Sector Specific Indicator Labels

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Subscribers	226	213	208	211	219
4G subs	123	126	141	162	184
Prepaid	100	102	119	140	161
Postpaid	22	24	22	23	24
2G/3G subs	103	87	67	49	35
Prepaid	161	162	163	179	204
Postpaid	283	292	314	324	356
2G/3G subs	82	83	89	88	93
Blended APRU	132	143	154	175	206
Fund raise (₹ bn)	166	14.4	225	118	174
Assumed price/share	10.0	10.0	11.6	21	24

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	39.8%	40.0%	41.6%	46.1%	50.1%
EBIT margin	(14.9%)	(13.2%)	(11.4%)	(2.5%)	7.8%
Net profit margin	(69.5%)	(73.4%)	(59.6%)	(33.9%)	(20.0%)
Interest cover	(0.3)	(0.2)	(0.2)	(0.1)	0.3
Net debt/equity	(2.8)	(2.0)	(1.8)	(1.8)	(1.9)
Net debt/EBITDA	12.5	12.2	10.7	9.1	7.6
Working capital turnover	(0.9)	(1.0)	(16.2)	(3.3)	(2.7)
pre-tax RoCE	(4.5%)	(4.0%)	(3.5%)	(0.8%)	3.4%
post-tax RoCE	(3.4%)	(3.0%)	(2.6%)	(0.6%)	2.5%
pre-tax RoIC	(4.6%)	(4.1%)	(4.0%)	(1.0%)	3.9%
post-tax RoIC	(3.4%)	(3.0%)	(3.0%)	(0.8%)	3.0%
ROE (%)	43.0%	35.0%	24.9%	14.9%	10.0%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
PE	(2.0)	(4.2)	(4.9)	(7.6)	(10.6)
EV/EBITDA	17.5	17.3	15.9	12.6	9.7
EV/EBIT	(47)	(53)	(58)	(230)	62
EV/sales	7.0	6.9	6.6	5.8	4.8
P/B	(1.7)	(1.2)	(1.2)	(1.1)	(1.0)

Source: Ambit Capital research, Company

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Indus Towers

BUY

CHANGE IN STANCE | **INDUSTOW IN EQUITY** | **June 25, 2024**

Utility with growth

Indus benefits from VI's network expansion to compete effectively with peers. Its existing and new tower portfolio would see increased utilisation. So we upgrade near/long-term revenue and profitability assumptions (25-55% higher FY24-26E EPS), reduce WACC to 11% in line with low-risk utilities, and increase terminal growth to 4%. WACC/terminal growth and tenancy assumption changes are equal contributors to our 135% higher TP as we now expect Indus to reap the benefits of a stable telecom market with rising tariffs enabling improving RoCE and dividends. Target FY26E EV/EBITDA of 7.8x is in line with EM but is at a ~70% discount to DM peers, where towercos aren't constrained by telco ownership.

Competitive position: MEDIUM Changes to this position: POSITIVE

VI expansion to reverse Indus' tenancy declines

With a focus on 17 circles accounting for 92% of India's telecom revenue, VI needs to expand its network to 85% of Airtel's tower presence to emerge fully competitive by FY28E. It would opt for Indus' existing sites given economical, transparent and non-discriminatory pricing unlike TIT. This leads us to assume 2x FY34E tenancy for Indus vs prior 1.8x and 200bps higher rental revenue CAGR to 8% for FY24-34E. We raise exit tenancy assumption to 2.05x in FY42E from 1.86x.

Transition to Airtel ownership will smoothen business volatility...

Airtel has become Indus' sole promoter. So we expect Indus to push VI to pay on time and return past dues (₹87bn) in FY25 unlike in FY23-24 when it couldn't insist on payments as Vodafone PLC was co-promoter of both Indus and VI. Airtel sold tower assets till 2017. But it changed its stance and has been a buyer since 2020 as it now views Indus as a strategic asset, viz. its network's backbone that needs to be financial sustainable. Airtel would remain in control of Indus.

...but reinvestment opportunities won't change

Given industry structure changes and Jio's not being keen on infra sharing, Airtel kept lucrative value-added utility infra investment opportunities like fibre and data centres with itself. This won't change. Beyond smart cities and new forms of tower infra like lean cells and small cells, which are miniscule revenue opportunities vs tower sharing, we don't see Indus having credible reinvestment avenues. So we expect dividend step-up to 80% of PAT in FY28E from no dividends in FY23/24 due to VI payment delays and elevated capex to support Airtel's rollout.

Still no case for global valuation parity of Indus

Indus' FCF generation and capex productivity hinges on VI's entering a virtuous cycle of first being able to raise funds to expand its network, hold on to its users, benefit from price hikes and reinvest in network augmentation. We believe that this cycle has kick-started with ₹225bn equity funding out of its total ₹450bn funding plan. Current valuations price in VI survival but not its network expansion.

Key Financials

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Rental revenue	174	177	196	216	239
EBITDA	97	146	154	174	195
EPS (diluted)	7.6	22	23	28	32
post-tax RoCE	6.9%	12.4%	12.1%	14.0%	16.2%
PE	45	15.0	14.7	11.9	10.4
EV/EBITDA	11.7	7.8	7.3	6.5	5.8

Source: Company, Ambit Capital research

Telecom

Recommendation

Mcap (bn):	₹907/US$10.8
6M ADV (mn):	₹25/US$303
CMP:	₹336
TP (12 Mths):	₹411
Upside (%):	22

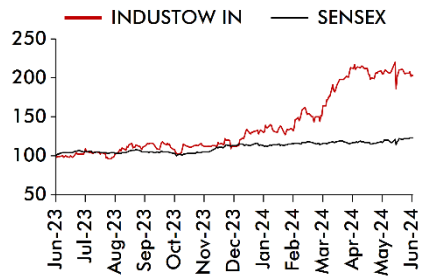
Flags

Accounting:	GREEN
Predictability:	AMBER
Earnings Momentum:	GREEN

Catalysts

- VI clearing past dues of ₹87bn to Indus in FY25E
- 1.76x tenancy in FY25E from current 1.73x as VI's rollout commences

Performance



Source: ICE, Ambit Capital Research

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VI's network expansion to fuel tenancy growth

In FY19, VI's network was on 6% higher number of towers vs Airtel. But the Supreme Court's Nov-19 AGR verdict posed existential challenges to VI, impeding fund raises and hence network investments. VI's broadband towers of presence is now 54% that of Airtel. Even with a focused investment strategy on 17 of India's 22 circles (92% of Indian telecom revenue), VI needs to expand its network tower presence to 85% of Airtel by FY28. Indus' pricing is transparent and non-discriminatory and it supported VI with lenient terms of trade in FY23-24. We expect Indus to garner 80% of VI's incremental tenancies enabling it to grow tenancy to 2x in FY34E vs 1.8x earlier and current 1.73x. This leads us to assume 8% FY24-34E higher rental revenue CAGR, 200bps higher than before. We also raise our FY42E exit tenancy assumption to 2.05x vs 1.86x.

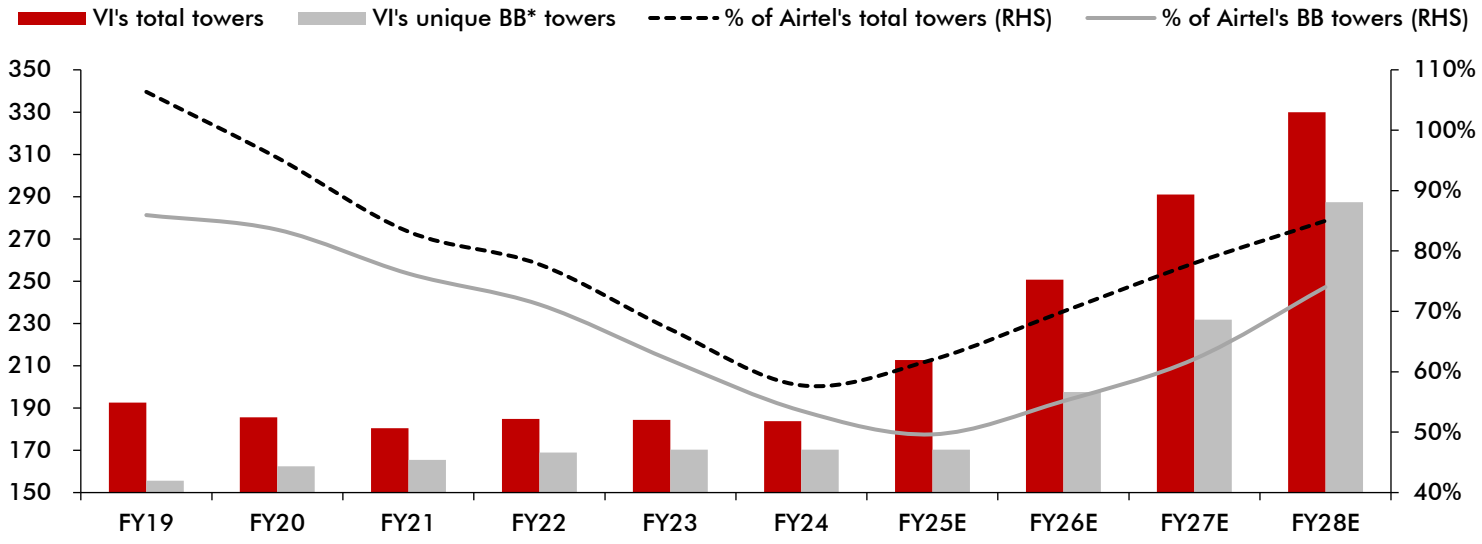
VI: Network expansion the first key priority

When Vodafone India and Idea Cellular merged in Sep-18, network strength wasn't an issue as its network exceeded that of Airtel in terms of tower presence.

- After the SC's AGR verdict, Airtel continued to raise funding and was able to expand its network to keep pace with Jio. VI couldn't match this.
- With the ₹220bn equity fund raise, VI has demonstrated that it can raise adequate funding to expand its network. We see it succeeding in its stated objective of raising ₹450bn total funding that'll be utilized for network expansion.

Towers of network presence is the key driver of telcos' network coverage. Airtel and Jio have 4G reaching 1.35+bn users while VI is stuck at 1bn due to lack of funding.

Exhibit 1: VI couldn't match Airtel's FY20-24 network expansion but is likely to catch up to 85% of Airtel's network presence* by FY28E

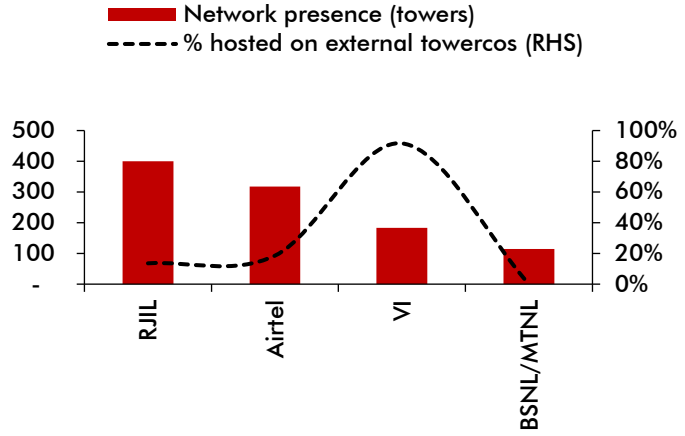


*Source: Company, Ambit Capital research; * Broadband towers*

While Indus is no longer the market leader of towers...

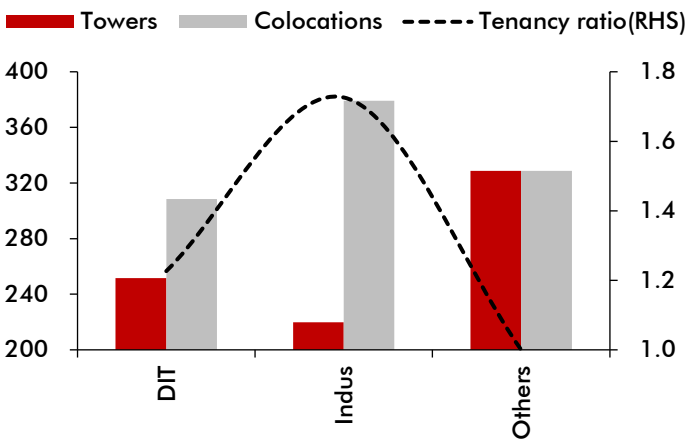
As per the Department of Telecom (DoT), India has 0.8mn towers with telcos. 60% of these towers owned by Indus Towers and Brookfield-RIL's Data Infrastructure Trust (DIT), both of which want to attract multiple telcos as tenants. The remaining towers are held by telcos themselves (including BSNL/MTNL) or small players that are unable to offer tower sharing solutions. We refer to co-locations/tenancies interchangeable to denote the sum total of the number of sharing operators on the tower portfolios of towercos. While DIT has emerged as the market leader in terms of number of towers after it acquired ATC India in Jan-24, Indus remains the market leader in terms of tenancies.

Exhibit 2: VI mostly has its network external towercos



Source: Company, Ambit Capital research

Exhibit 3: Among towercos Indus has highest tenancy ratio



Source: Company, Ambit Capital research

...we expect it to emerge as VI's towerco of choice of incremental rollouts

Indus was founded in 2007 as a three-way JV between Bharti Infratel (Airtel's towerco), Vodafone PLC (VPLC) and Idea Cellular with ownership split as 42:42:16. The shareholding was arrived at on the basis of towers that each of the three telcos pooled to create Indus. In 2008, Idea Cellular sold 4.85% Indus Towers' stake to Providence PE.

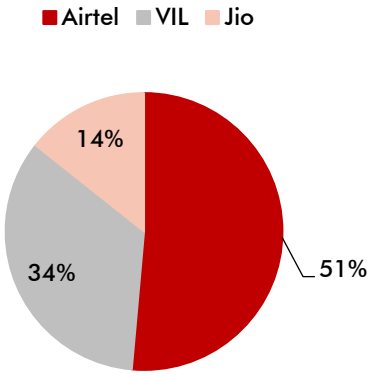
- Since Airtel inducted external private equity investors in Bharti Infratel, it opted for a public listing of the latter in 2012.
- Later as the telecom industry consolidated, Vodafone India and Idea Cellular merged in Sep-18. The latter also included its 11.15% stake in Indus. Vodafone PLC, promoter of Vodafone India, retained its 42% stake in Indus Towers
- Being capital constrained, VI exited as Indus Towers' shareholder in 2021 when the latter merged with Bharti Infratel. Analysing related-party disclosures we deduce that Indus houses 77% of VI's externally hosted towers.

Since Vodafone PLC and VI are founding members of Indus, the latter gave:

- Non-discriminatory pricing and discounts on renewal to all towercos, unlike DIT, which offers Jio lower rates when the former gets external customers.
- Lenient payment terms in FY23-24 enabling VI to survive despite funding constraints.

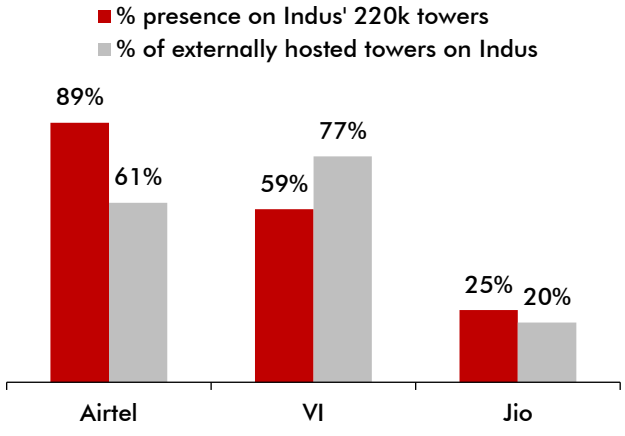
These factors lead us to believe that Indus will attract 80% of VI's incremental tenancies.

Exhibit 4: Airtel is Indus' biggest client (FY24 revenue split)...



Source: Company, Ambit Capital research

Exhibit 5: ...and VI is present on 59% of Indus' towers (FY24)



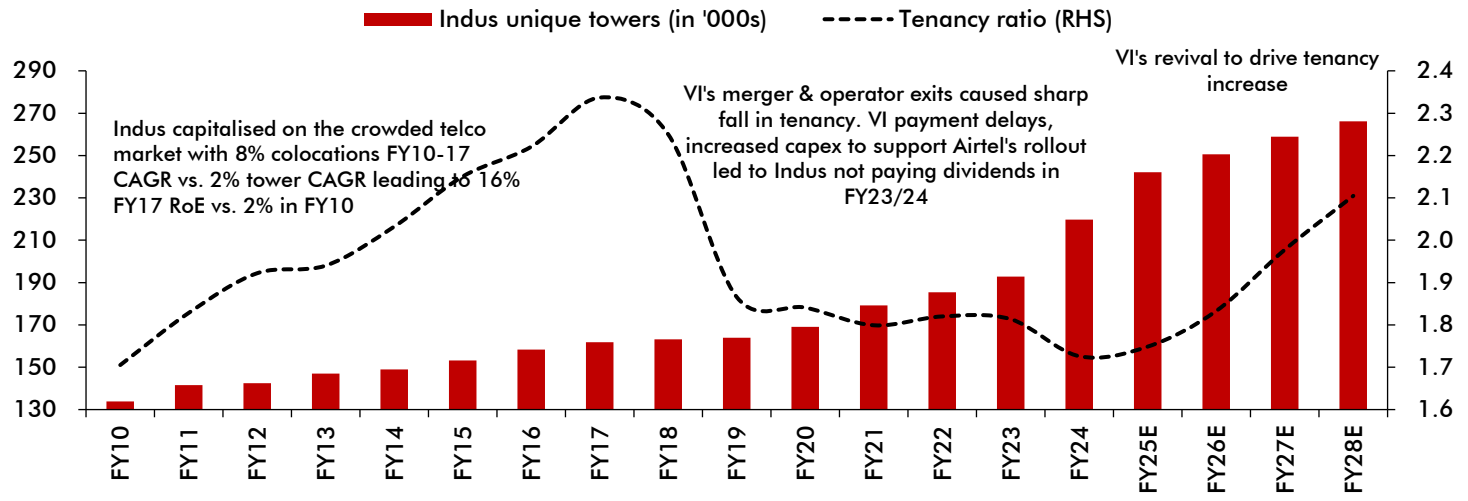
Source: Company, Ambit Capital research

Indus to see increased tenancies for the first time since FY18

As the telecom industry consolidated to three players, Indus saw several operator exits and VI's merger driving its tenancy down to 2.35x in FY17 to 1.87x in FY19. During this period, Indus didn't add towers as the surviving telcos were mostly focused on augmenting their existing network towers with 3G/4G radios.

- In FY20-24, Indus expanded its tower footprint by 34% as Airtel increased its network towers to 0.32mn in FY24 from 0.19mn in FY20, expanding its 4G population coverage to compete effectively with Jio.
- But VI couldn't expand its network and Jio's incremental network expansion was done on DIT. Hence, Indus' tenancy fell to 1.73x.
- We estimate VI to increase its network presence to 0.33mn towers in FY28 from its current 0.18mn and assume 80% roll out on Indus' existing towers.

Exhibit 6: VI's network rollout to be a key factor driving incremental tenancies for Indus



Source: Company, Ambit Capital research

Airtel ownership to bring in discipline

VPLC sold 18% stake in Indus and is now left with 3.1% stake that's pledged to the latter. Airtel purchased 1% stake from VPLC, increasing its Indus ownership to 49%, emerging as the latter's sole promoter. Till 2017 (pre-Jio), Airtel saw towers as a utility asset from which it could recycle capital and was selling stake continuously. But with Jio emerging as a dominant market leader viewing towers and other network assets as a point of differentiation and thus not letting go of ownership, Airtel changed its mind. It has been raising stake in Indus post-merger with Infratel to 49% from 36.7% in Dec-20. It could patiently raise its stake in Indus to 51% over time. With Airtel being Indus' sole promoter vs erstwhile joint ownership with VPLC (VI's co-promoter), we see reduced leniency in dealing with VI. We expect Indus to collect ₹87bn past dues of VI in FY25.

Exhibit 7: Airtel changed its stance w.r.t tower asset ownership and now wants to be in control

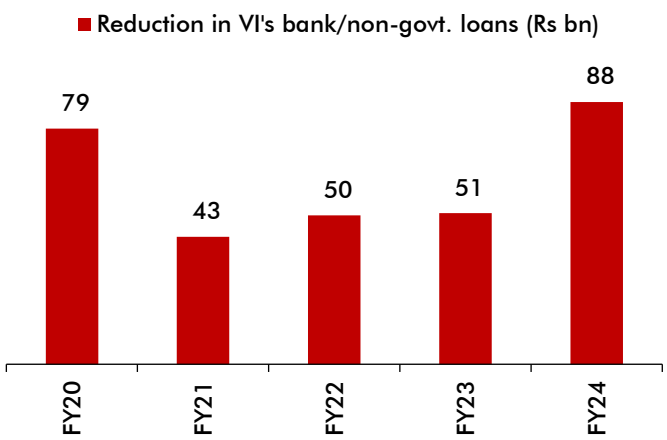
Period	Transaction detail	BUY/ SALE	Stake involved	No. of shares (in mn)	Share price	Total value (₹ bn)
2QFY15	Offer for Sale	SALE	4.5%	85	247	21
4QFY15	Secondary sale whose proceeds of were to be utilised to pare debt	SALE	2.9%	55	350	1.9
4QFY17		SALE	10.3%	190	325	6.2
2QFY18		SALE	3.7%	68	381	2.6
3QFY18		SALE	4.5%	83	401	3.3
3QFY21	Acquisition of additional stake by Bharti	BUY	4.9%	133	217	2.9
4QFY22		BUY	4.7%	127	188	2.4
1QFY25		BUY	1.0%	27	320	0.9

Source: Company, Ambit Capital research

Under conflicted ownership, Indus had no choice but to give VI a long rope

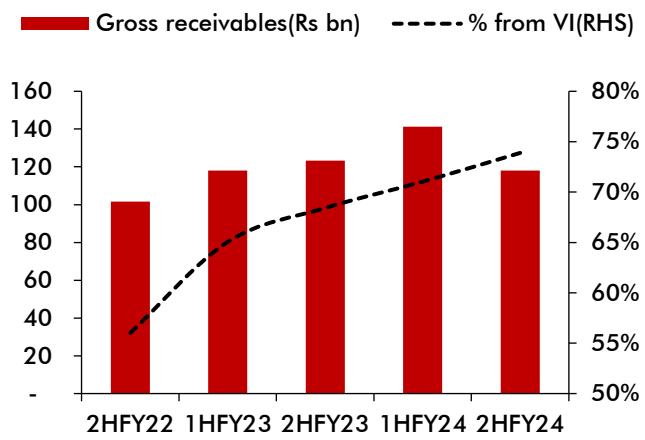
- In FY21 (Sep-20), when Bharti Infratel and Indus Towers merged, the mergeco bought back VI's 11.15% stake in Indus Towers (pre-merger) for ₹40.4bn. Indus used part of the proceeds (₹24bn) to adjust against receivables from VI.
- In FY22, VPLC sold ₹38.4bn worth of Indus shares. VI's promoters including VPLC then infused ₹45bn into the former enabling VI to pay ₹33.75bn past dues to Indus.
- Later VI prioritised lenders: Despite accounting for 33-35% of revenue, VI accounts for 3/4th of Indus' receivables. VI's outstanding to Indus is ₹87bn (FY24).

Exhibit 8: In FY23-24, VI had no choice but to prioritise lenders...



Source: Company, Ambit Capital research

Exhibit 9: ...at the cost of Indus, where VI's trade receivables rose



Source: Company, Ambit Capital research

We expect Airtel-led Indus to collect ₹87bn past dues from VI in FY25E

They (Vodafone Idea) will not get new services until they pay money. They have a lot of old dues which they need to pay up. They have raised money, now they should be able to pay up…if VI pays a substantial amount and gives a schedule for the rest. In that case, the Indus board would look into it. The idea is to get them into more tenancies and business for Indus – Sunil Mittal, Chairman, Airtel (Jun-24).

- Recent VPLC's 18% stake sale of Indus was pledged to banks. VPLC has used the proceeds to retire its bank debt.
- VPLC's 3.1% ownership of Indus is now pledged to the latter as part of a 'security package'.
- We expect Airtel-led Indus to push VPLC to sell these shares, infuse ~₹30bn equity into VI. VI will then use these proceeds to clear part of its past dues to Indus. With limited bank loan repayments, we expect VI to be able to clear Indus' past dues fully by FY25E even if a tariff hike isn't forthcoming/delayed. After all VI was able to retire ₹88bn of bank loans in FY24.

Exhibit 10: VPLC has 3.1% of Indus; we expect it to sell and invest the proceeds in VI

Period	Transaction	Stake	No. of shares (in mn)	Share price	Total value (₹ bn)
4QFY22	Market sale	2.4%	64	228	14.5
4QFY22	Sale to Airtel	4.7%	127	188	23.88
1QFY24	Market sale	18.0%	485	316	153

Source: Company, Ambit Capital research

But no scalability beyond tower infrastructure

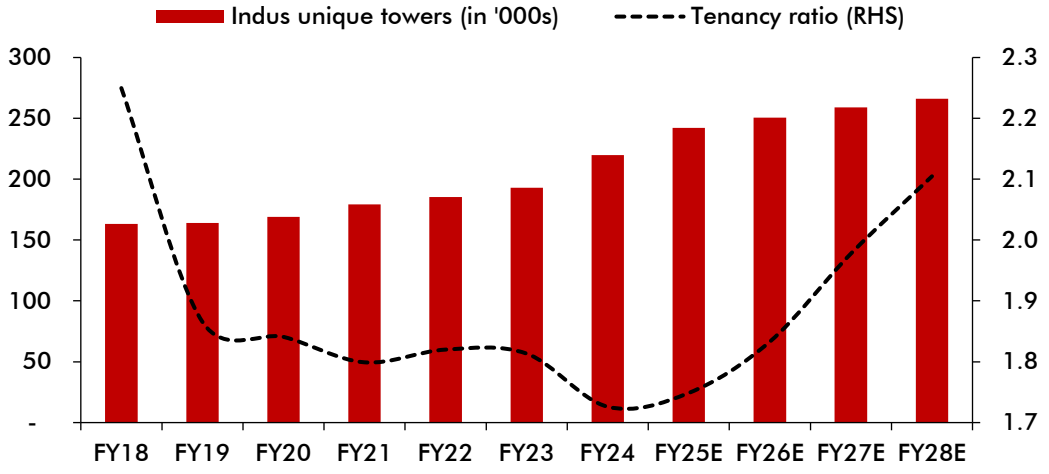
Jio forced the telecom industry to rethink its business model. Pre-Jio, telcos led by Airtel operated in a capital-scarce environment and shared network infrastructure where possible. With 4G, Jio created network differentiation and saw infrastructure as a point of differentiation. Hence, it chose to create InvITs with a finite life with the tower/fibre assets returning to RJIL subsequently. Airtel had no choice but to follow and thus chose to retain lucrative infrastructure investment opportunities like data centres and fibre with itself rather than pass on these opportunities to Indus. Beyond smart cities and new forms of tower infrastructure like lean cells and small cells, which are miniscule revenue opportunities vs tower sharing, we don't see Indus having credible reinvestment avenues. Hence, we expect dividend step up progressively to 80% of PAT in FY28E from no dividends in FY23/24 due to VI payment delays and elevated capex to support Airtel's rollout.

Exhibit 11: India's tower industry has unfavourable terms of trade vs US & DM towercos

Parameter	India	US
Terms of trade	*Favourable to telcos as escalation is only 2.5% *Towercos fully responsible for energy at no extra cost *Lack of zoning restrictions prevent towers from emerging as strategic assets	*3% annual escalation *Towercos don't manage energy needs for telcos *Strict zoning norms imply that towers are strategic assets
Reinvestment opportunities	*Only in tower assets *New opportunities like smart cities are marginal	*Fiber assets, data centres and international diversification
Capital structure	*Conservative capital structure with limited debt given shocks of telco exits	*Highly levered with limited equity as cash flows are stable & predictable

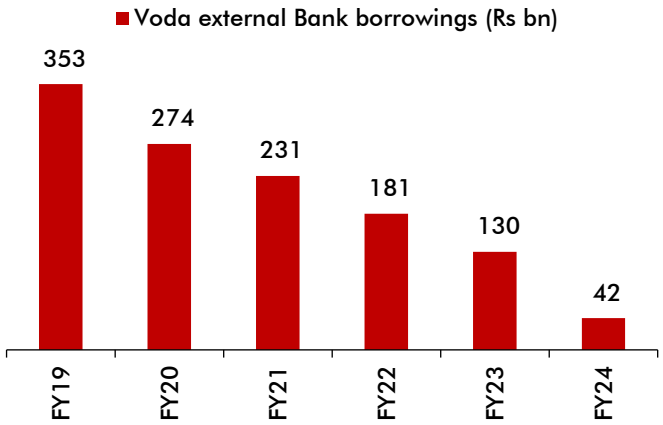
Source: Company, Ambit Capital research; Note: DM = Developed markets

Exhibit 12: Indus' tenancy ratio improve to 2.1 in FY28 from 1.73x led by VI's rollout



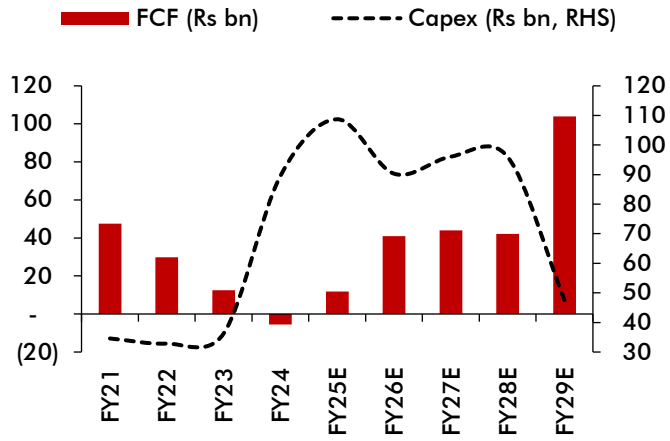
Source: Company, Ambit Capital research

Exhibit 13: With minimal bank debt, VI should...



Source: Company, Ambit Capital research

Exhibit 14: ...clear past dues to Indus, driving FCF improvement

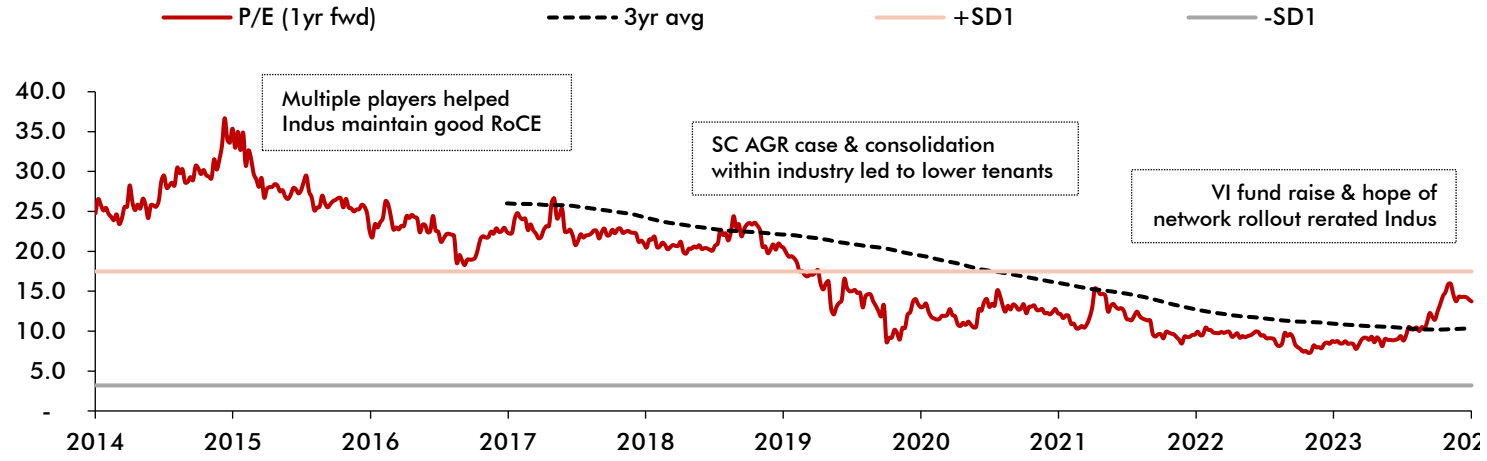


Source: Company, Ambit Capital research

Utility with growth, geared to VI

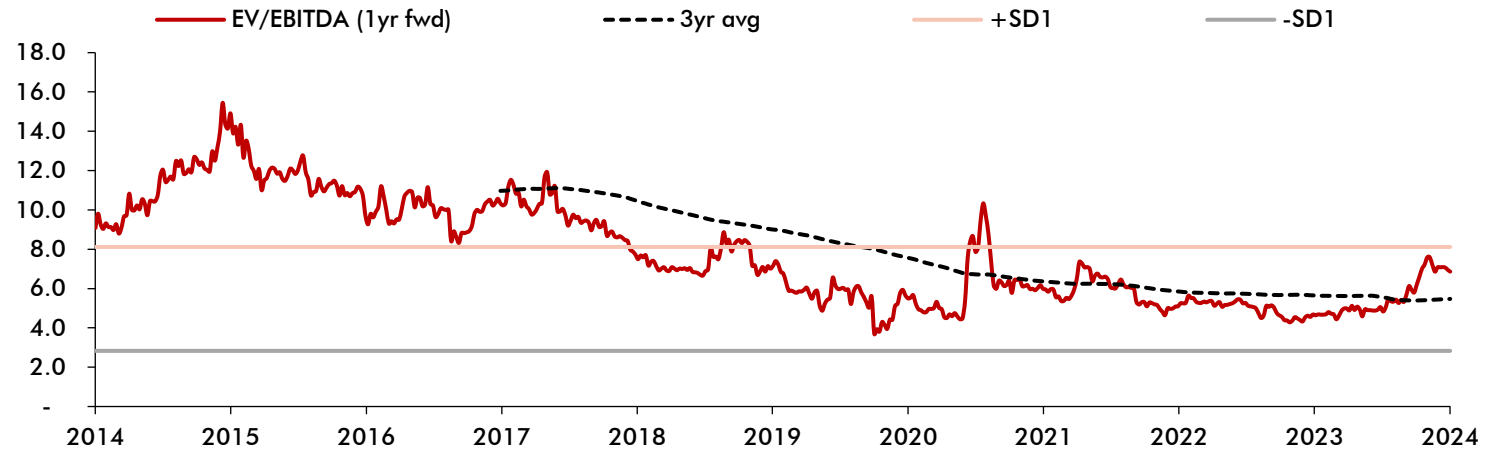
Indus' FCF generation and capex productivity hinge on VI's entering a virtuous cycle of first being able to raise funds to expand its network, hold on to its users, benefit from price hikes and reinvest in network augmentation. We believe that this cycle has kick-started with ₹225bn equity funding out of VI's total ₹450bn funding plan. Current valuations price in VI survival but not its network expansion. Reverse DCF implies 0.8% FY24-42E towers CAGR while our 7.8x target FY26E EV/EBITDA assumes 2.4% CAGR vs 4% of what Indus achieved in FY14-24. Current valuations are in line with EM but at ~70% discount to DM peers, where towercos aren't constrained by telco ownership. Repayment of ₹87bn past dues by VI and 11% rental revenue growth in FY25E are key catalysts. Execution challenges that prevent VI's network expansion and 2G shutdown by Airtel/VI (10% of Indus' revenue) are key risks.

Exhibit 15: Indus has consistently been derating due to sector issues; but with VI fund-raise, it moved above its 3yr average



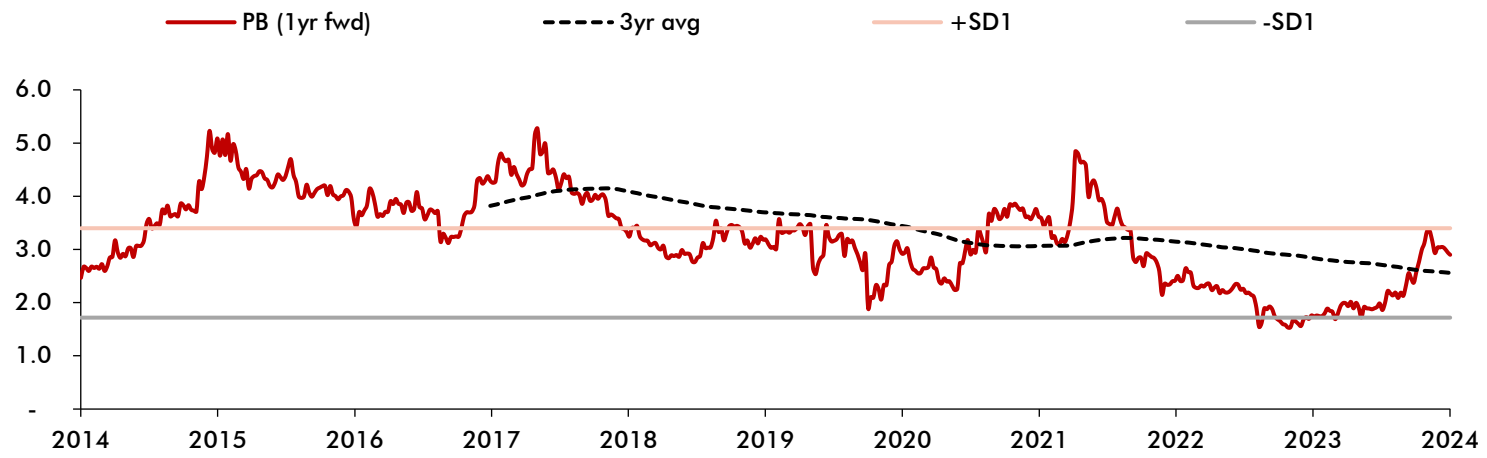
Source: Company, Ambit Capital research

Exhibit 16: 1yr fwd EV/EBITDA of Indus is 25% above its 3yr ratio average but materially below long-term averages...



Source: Company, Ambit Capital research

Exhibit 17: ...while 1yr fwd P/B is at 13% premium to 3yr average; valuations are modest for improving returns amid VI's resurgence



Source: Company, Ambit Capital research

Exhibit 18: Indus trades at a discounted valuation vs global peers

BBG TICKR	Rating	FCF yield (FY25E)	M Cap. ($ bn)	P/B (x)			P/E (x)			EV/EBITDA (x)			ROE (%)			Net Debt/ EBITDA (x)
				FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY25/ CY24	FY26/ CY25	FY27/ CY26	FY24/ CY23
Tower Companies EM																
INDUSTOW IN Equity	BUY	12%	10.9	3.0	2.7	2.5	14.1	12.6	11.5	7.0	6.4	6.0	22.4	22.8	22.7	1.4
788 HK EQUITY*	NR	31%	22.6	0.8	0.8	0.8	16.0	14.2	11.6	4.0	3.8	3.7	5.0	6.6	6.6	1.1
SITES1 MM Equity*	NR	52%	3.0	1.5	1.4	1.5	31.1	28.3	21.4	11.2	8.4	8.2	5.5	6.6	6.6	3.7
TBIG IJ Equity*	NR	69%	2.4	3.4	3.2	3.0	26.7	26.7	21.3	12.1	11.5	11.0	13.9	13.2	13.2	5.3
Tower Companies Developed																
AMT US Equity*	NR	40%	91.0	21.9	22.6	23.6	48.2	29.5	29.9	19.0	18.7	17.9	35.0	71.1	71.1	6.5
EQIX US Equity*	NR	19%	72.6	6.0	5.9	5.9	74.9	70.2	61.0	23.2	19.2	17.5	8.1	10.2	10.2	4.6
CCI US Equity*	NR	54%	41.9	6.5	8.0	10.5	28.8	35.0	37.5	14.8	15.8	15.3	21.2	26.3	26.3	5.8
CLNX SM EQUITY*	NR	91%	23.4	1.5	1.6	1.6	N/A	N/A	NM	14.1	12.7	11.6	-2.0	-0.3	-0.3	7.9
SBAC US Equity*	NR	59%	20.9	NM	NM	NM	38.5	25.1	22.8	17.5	16.8	16.3	-10.7	-22.5	-22.5	7.9
INW IM EQUITY*	NR	46%	9.9	2.1	2.2	2.2	26.2	23.9	20.8	15.3	13.1	12.3	8.1	11.1	11.1	5.4
CCOI US Equity*	NR	56%	2.5	N/A	NM	NM	2.4	N/A	N/A	10.3	12.4	10.4	N/A	NA	NA	5.0
HTWS LN Equity*	NR	110%	1.6	NM	-82.7	22.9	N/A	17.5	15.2	9.2	7.1	6.4	NM	NA	NA	6.5
LUMN US Equity*	NR	1695%	1.1	0.4	2.9	NM	10.7	N/A	N/A	4.0	4.6	4.6	NM	NM	NM	5.5

*Source: Company, Ambit Capital research, *indicates December year-end companies*

Key near-term assumptions

Indus is expected to add towers at ~5.4% between FY24-FY28E compared to 4.1% in FY19-24, driven by additions made by Airtel. VI's network expansion would come as additional tenancies on existing towers of Indus. This should help Indus to improve its tenancy from 1.7x in FY24 to 2x in FY28E.

Exhibit 19: Tower addition led by continued network rollout by Airtel, whereas VI network expansion would help Improve tenancy ratio

Short Term assumptions	FY24	FY25E	FY26E	FY27E	FY28E
Towers	**219,736**	**239,736**	**251,736**	**263,736**	**275,736**
Growth		9%	5%	5%	5%
Tenancies	**379,274**	**421,469**	**461,121**	**507,886**	**553,540**
Growth		11%	9%	10%	9%
Closing tenancy ratio	1.7	1.8	1.8	1.9	2.0
Revenue (₹ mn)	**286,006**	**321,265**	**354,993**	**393,660**	**436,114**
EBITDA (₹ mn)	**145,566**	**154,173**	**173,532**	**194,602**	**218,147**
EBITDA Margin	51%	48%	49%	49%	50%
Cash EBITDA (₹ mn)	**113,702**	**121,353**	**139,727**	**159,783**	**182,284**
Cash EBITDA Margin	40%	38%	39%	41%	42%
PAT Margins	21%	19%	21%	22%	24%

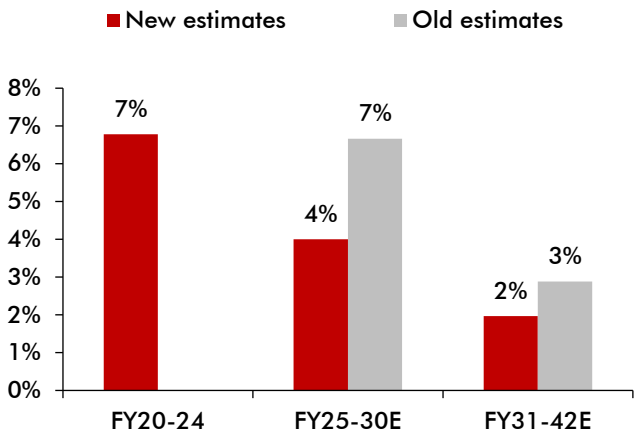
Source: Company, Ambit Capital research

Materially upgrade our estimates & TP due to VI's rollout

- Given high revenue exposure (33%) to VI, we had earlier assigned 13.8% WACC to Indus. Further, with no long-term revenue drivers beyond Airtel, we were assigning 3% terminal FCF growth rate (beyond FY42).
- With VI's funding, we now don't see any growth and business sustenance risks to Indus. Thus we reduce WACC to 11%, harmonising the same with low-risk utilities and increase FCF terminal growth rate (beyond FY42) to 4%>

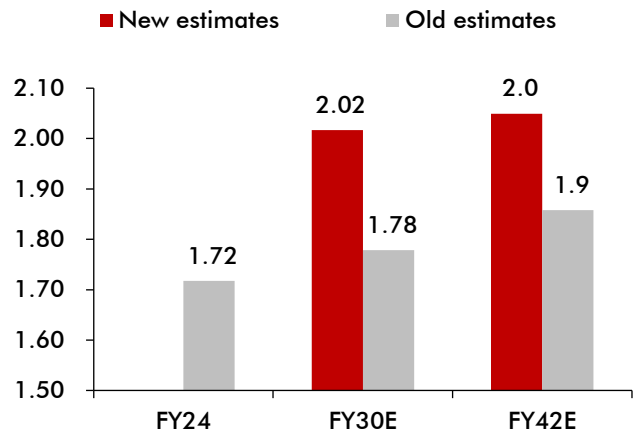
Our long-term tower growth and tenancy addition trajectory is outlined below. Changes in WACC/terminal growth and near to long-term tenancy assumptions are equal contributors to our 135% higher TP.

Exhibit 20: While tower addition should moderate



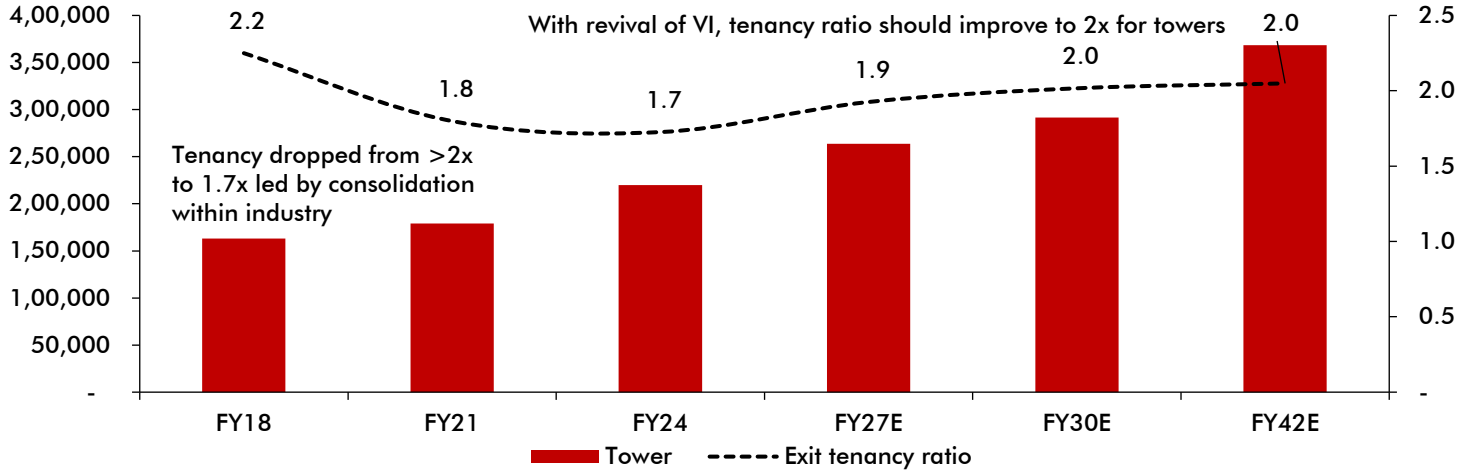
Source: Company, Ambit Capital research

Exhibit 21: Tenancy ratio should improve as VI occupies greater tower count



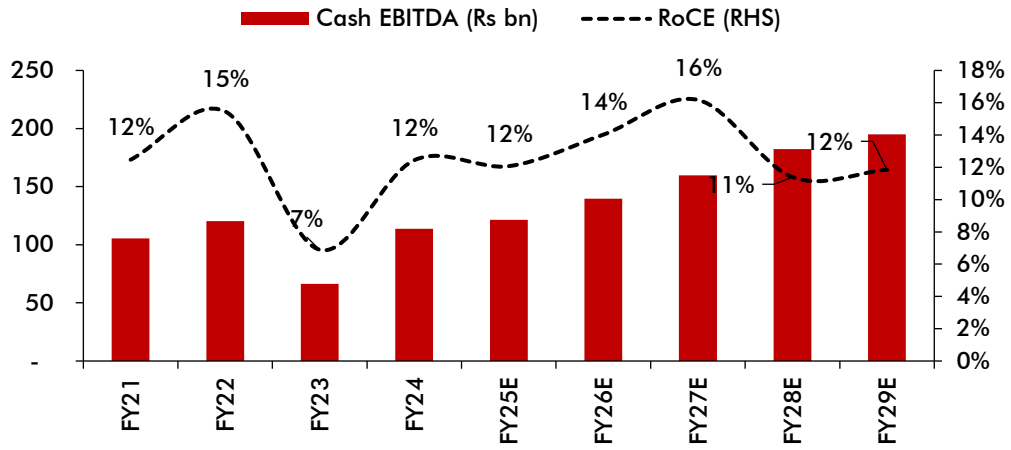
Source: Company, Ambit Capital research

Exhibit 22: Tenancy ratio for Indus dropped from 2.2x to 1.7x in FY24 due to operators' exit from the market; but we expect tenancy to improve as VI restarts its network rollout...



Source: Company, Ambit Capital research

Exhibit 23: ...which would help Indus grow cash EBITDA at 12% CAGR over FY24-28E



Source: Company, Ambit Capital research

Exhibit 24: Revenue growth of Indus should be steady after FY30

CAGR	FY25-30E	FY31-36E	FY37-42E
Tower addition	4%	2%	2%
Tenancy growth	7%	2%	2%
Revenue	9%	4%	4%
EBITDA	10%	5%	5%
Cash EBITDA	11%	5%	5%

Source: Company, Ambit Capital research

DCF valuation

We calculate DCF value of Indus' operation till FY42 to arrive at our TP for the company after assuming a 4% long-term terminal growth rate and 11% WACC.

Exhibit 25: DCF-based valuation implies 24% return to shareholders (incl. dividends)

Particulars	Amount (₹ mn)
PV of DCFF	1,210,961
Terminal value	124,234
Net debt	227,570
Equity value	1,107,624
Thus total no of shares	2,695
Our TP	**411**
TSR	24%

Source: Company, Ambit Capital research

Exhibit 26: Near-term and long-term estimate changes drive our TP increase

Particulars (₹ bn)	New Estimates			Old Estimates			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Rating	BUY			SELL					
Target Price	411			175			135%		
Revenue	321	355	394	305	305	328	5%	17%	8%
EBITDA	154	174	195	135	135	147	14%	29%	18%
PBT	48.0%	48.9%	49.4%	44.3%	44.3%	44.9%	367bps	456bps	402bps
PAT	82	101	117	65	65	77	26%	56%	31%

Source: Company, Ambit Capital research

Ambit vs consensus estimates

Exhibit 27: We are more optimistic vs consensus on VI's network rollout benefits to Indus

Particulars(₹ bn)	Ambit	BBG consensus	VA consensus	BBG Divergence	VA Divergence
Revenues					
FY25	321	309	310	4%	4%
FY26	355	334	341	6%	4%
FY27	394	355	362	11%	9%
EBITDA					
FY25	154	159	161	-3%	-4%
FY26	174	173	178	0%	-2%
FY27	195	185	184	5%	6%
PAT					
FY25	62	64	64	-4%	-3%
FY26	76	72	71	5%	6%
FY27	88	78	77	12%	14%

Source: Company, Ambit Capital research

Catalysts & Risks

Catalysts

- **VI clearing past dues of ₹87bn to Indus in FY25E**: We expect this to happen through a combination of VPLC's ₹30bn capital infusion by sale of 3.1% Indus stake and organic cash flow accruals.
- **Tenancy improving to 1.76x in FY25E from current 1.73x as VI's rollout commences**. This should drive 11% FY25 rental revenue growth vs 3% in FY18-24 (adjusted).

Risks

- **Execution challenges at VI preventing competitive network rollout**: While capital isn't a constraint, if VI isn't able to retain subscribers after its network expansion, it may be unable to keep expanding its network to benefit Indus.
- **2G shutdown by Airtel/VI**: 2G accounts for ~10% of Indus' revenues. The government has given freedom to telcos to decide on their technology of choice and won't interfere if Airtel/VI shutdown 2G for commercial reasons. If the government distributes smartphones/4G featurephones for political reasons, this risk could materialise.

Exhibit 28: Explanation of flags on Page 1

Segment	Score	Comments
Accounting	GREEN	Indus has been in top decile since initiation of Hawk in 2019.
Predictability	AMBER	Earnings predictability for Indus is dependent on improving tenancy ratio.
Earnings momentum	GREEN	Hopes of revival in financial condition for VI has helped increase consensus earnings for Indus.

Source: Company, Ambit Capital research

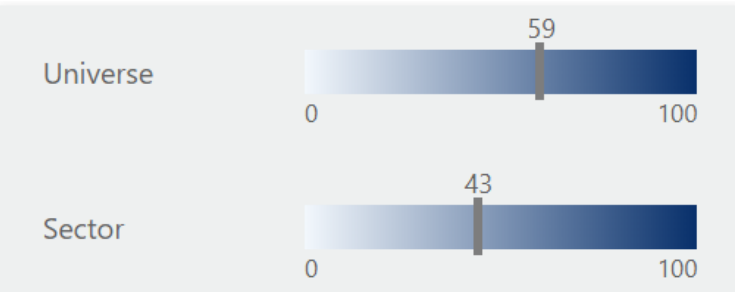
HAWK ANALYSIS

Indus has consistently been within the top decile for our forensic accounting framework. Except for its contingent liabilities relating to pending tax matters that form 54% of net worth as of FY23, Indus scores >50 percentile in all the parameters for the score. Within the greatness scoreboard, Indus relatively underperforms and is part of 'good, not great' zone with a score of 58%. The score is similar to last year.

Exhibit 29: Forensic Accounting Percentile

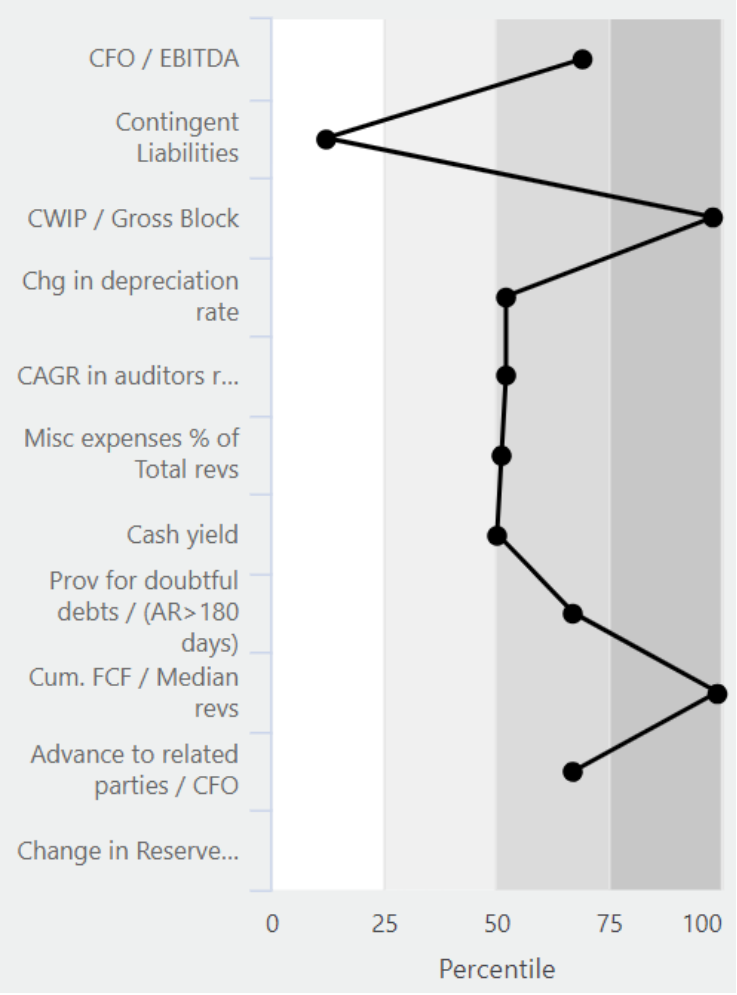
Source: Company, Ambit Capital research

Exhibit 30: Greatness Score Percentile



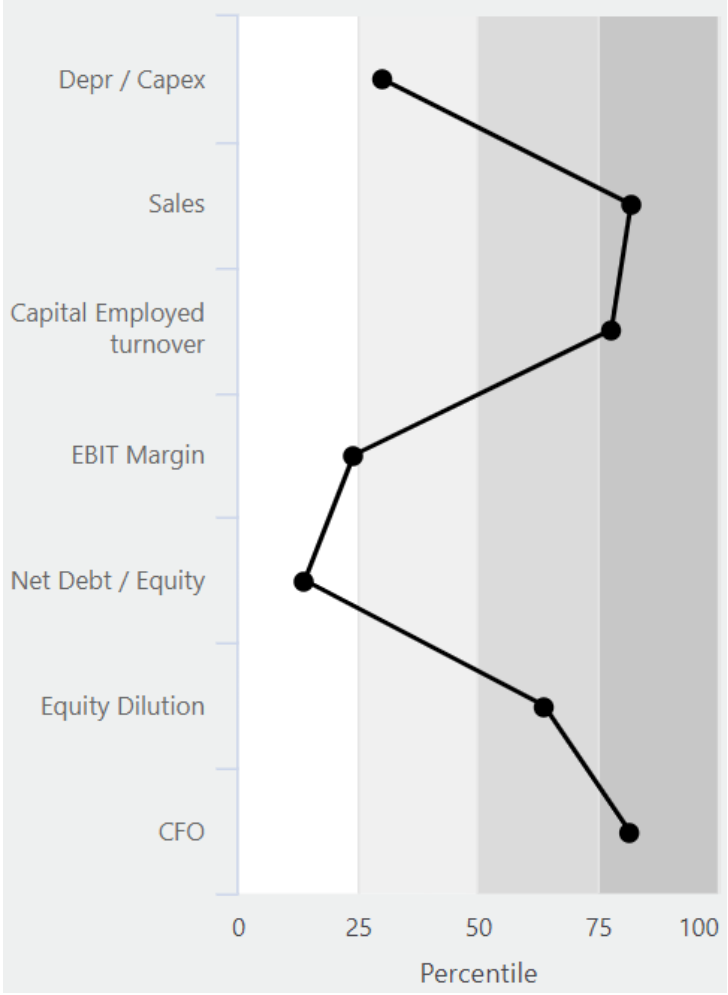
Source: Company, Ambit Capital research

Exhibit 31: Forensic Accounting Contributors



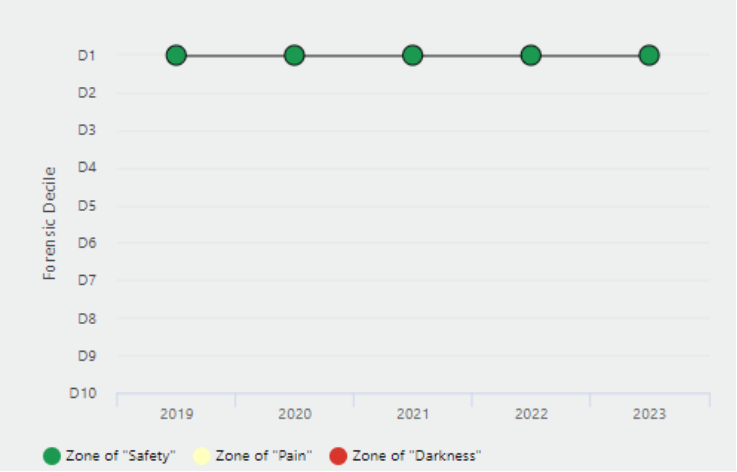
Source: Company, Ambit Capital research

Exhibit 32: Greatness Score Contributors



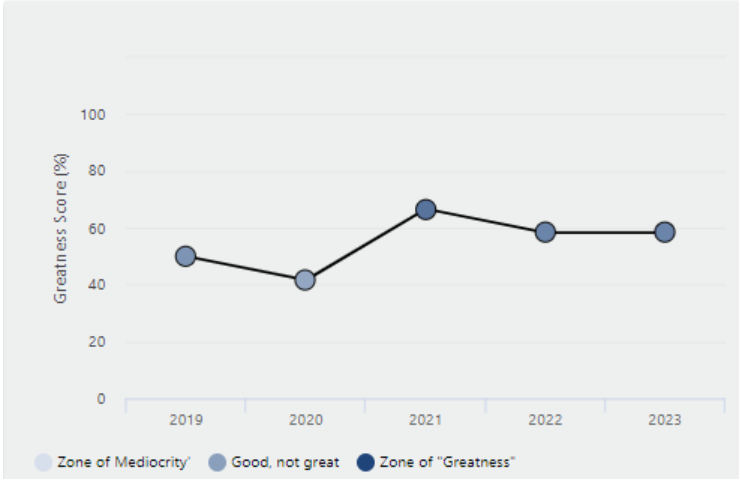
Source: Company, Ambit Capital research

Exhibit 33: Forensic Score - Evolution



Source: Company, Ambit Capital research

Exhibit 34: Greatness Score - Evolution



Source: Company, Ambit Capital research

Indus Towers (INDUSTOW IN, BUY)

Valuation Methodology

We value Indus using DCF after taking into consideration the free cash flows till FY42E using a WACC of 11% and a terminal growth rate of 4% to arrive at our target price of ₹411.

Risks

- Slower rollout of towers by Airtel.
- Execution challenges in VI hurting network rollout.
- 2G shutdown by Airtel/VI.

Financials - Consolidated

Income statement

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**284**	**286**	**321**	**355**	**394**
-growth (Rev)	2.4%	0.8%	12.3%	10.5%	10.9%
Employee expenses	7.7	7.8	8.4	9.0	9.5
Power/fuel expenses	106	111	126	138	153
Other expenses	73	21	33	35	37
EBITDA	**97**	**146**	**154**	**174**	**195**
-growth (EBITDA)	(35.1%)	50.6%	5.9%	12.6%	12.1%
Depreciation	53	61	62	64	66
EBIT	**43**	**85**	**92**	**109**	**128**
-growth (EBIT)	(54.6%)	95.6%	8.0%	19.1%	17.5%
Other income	3.6	3.6	3.1	3.1	0.1
EBIT (including other income)	**47**	**89**	**95**	**112**	**128**
Finance costs	14.5	7.4	12.6	10.8	11.7
Exceptional items	4.9	-	-	-	-
Profit before tax	**33**	**81**	**82**	**101**	**117**
Profit before tax (adjusted)	**28**	**81**	**82**	**101**	**117**
Tax	7.2	21	21	25	29
PAT	**25**	**60**	**62**	**76**	**88**
Profit after tax (adjusted)	**20**	**60**	**62**	**76**	**88**
-growth (PAT)	(68.0%)	196%	2.2%	23.4%	15.0%
Consolidated profit after tax	**20**	**60**	**62**	**76**	**88**
EPS (basic) (₹)	7.6	22	23	28	32
EPS (diluted)	7.6	22	23	28	32

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Total fixed assets	**327**	**397**	**444**	**470**	**499**
Non-current investments	51	57	57	57	57
Total non-current assets	**379**	**454**	**500**	**526**	**556**
Current investments	2.8	-	-	-	-
Trade receviables	84	104	81	60	47
Cash and cash equivalents	0.2	0.6	0.6	0.6	0.6
Total current assets	**87**	**105**	**81**	**61**	**48**
Total assets	**466**	**559**	**581**	**587**	**603**
Total equity	**211**	**270**	**319**	**354**	**372**
Long-term borrowings	152	157	128	95	90
Other non-current liabilities	21	30	33	37	41
Total non-current liabilities	**173**	**187**	**161**	**131**	**130**
Short-term borrowings	43	52	52	52	52
Other current liabilities	38	50	50	50	50
Total current liabilities	**82**	**102**	**102**	**102**	**102**
Total liabilities	**255**	**288**	**263**	**233**	**232**
Total equity and liabilities	**466**	**559**	**581**	**587**	**603**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**28**	**81**	**82**	**101**	**117**
Depreciation	53	61	62	64	66
Interest income	15.9	12.2	8.9	7.3	7.7
Other items	49	(9.0)	(3.1)	(3.1)	(0.1)
Working capital changes	(44)	(10.4)	23	20	13.5
Taxes	(22)	(18.7)	(21)	(25)	(29)
Cash flow from operations	**79**	**116**	**153**	**165**	**175**
(Net) capital expenditure	(36)	(90)	(109)	(90)	(96)
Other items	18.9	9.8	3.1	3.1	0.1
Cash flow from investments	**(17.3)**	**(80)**	**(106)**	**(87)**	**(96)**
Net long-term borrowings	(7.7)	(4.0)	(29)	(34)	(5.2)
Interest paid	(3.7)	(4.1)	(8.9)	(7.3)	(7.7)
Dividends paid	(30)	-	-	(13.6)	(40)
Payment of lease liabilities	(30)	(32)	(33)	(34)	(35)
Cash flow from financing	**(71)**	**(40)**	**(71)**	**(88)**	**(88)**
Net change in cash	**(9.6)**	**(3.9)**	**(23)**	**(10.4)**	**(9.2)**
Free cash flow to firm	**9.2**	**25**	**48**	**78**	**83**
Free cash flow to equity	**11.3**	**37**	**-**	**81**	**80**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	34.1%	50.9%	48.0%	48.9%	49.4%
EBIT margin	15.3%	29.7%	28.6%	30.8%	32.6%
Net profit margin	7.2%	21.1%	19.2%	21.4%	22.2%
Interest cover	3.0	11.6	7.3	10.1	10.9
Net debt/equity	0.9	0.8	0.7	0.7	0.7

Source: Ambit Capital research, Company

Segment Result - By Product Category

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Sales					
Rental income	174	177	196	216	239
Energy and other reimbursements	110	109	125	139	154
PBIT					

Source: Ambit Capital research, Company

Sector Specific Indicator Labels

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
Towers	192,874	219,736	239,736	251,736	263,736
Tenants	349,749	379,274	421,469	461,121	507,886
Closing Tenancy ratio	1.8	1.7	1.8	1.8	1.9
Revenue/tower (₹/mon)	74,011	71,602	71,211	73,214	77,410
Revenue/tenant (₹/mon)	40,742	40,525	40,861	40,770	41,179

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	34.1%	50.9%	48.0%	48.9%	49.4%
EBIT margin	15.3%	29.7%	28.6%	30.8%	32.6%
Net profit margin	7.2%	21.1%	19.2%	21.4%	22.2%
Interest cover	3.0	11.6	7.3	10.1	10.9
Net debt/equity	0.9	0.8	0.7	0.7	0.7
Net debt/EBITDA	2.0	1.4	1.5	1.4	1.3
Gross block turnover	0.3	0.3	0.3	0.3	0.4
pre-tax CFO/EBITDA	105%	92.4%	113%	110%	105%
pre-tax RoCE	24.6%	25.2%	21.2%	19.1%	18.2%
post-tax RoCE	6.9%	12.4%	12.1%	14.0%	16.2%
ROE (%)	9.4%	25.1%	21.0%	22.6%	24.1%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ bn)	FY23	FY24	FY25E	FY26E	FY27E
PE	45	15.0	14.7	11.9	10.4
EV/EBITDA	11.7	7.8	7.3	6.5	5.8
EV/EBIT	26	13.3	12.3	10.4	8.8
EV/sales	4.0	4.0	3.5	3.2	2.9
P/B	4.3	3.4	2.8	2.6	2.4

Source: Ambit Capital research, Company

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Bharti Hexacom

BUY

INITIATING COVERAGE | **BHARTIHE IN EQUITY** | **June 25, 2024**

Low-risk tariff hike beneficiary

With 97%/98% FY24 revenue/EBITDA from mobility, Hexacom is levered to the mobile business akin to VI. It offers pure-play telco exposure with lower risks. Akin to Airtel, Hexacom would sustain growth leadership with 19% FY24-27E revenue CAGR. Operating leverage driven by tariff-led revenue growth drives our assumption of 525bps FY24-27E EBITDA margin expansion. Coupled with falling capex, we expect 10% FCF yield in FY26E vs 5% in FY24. Hexacom offers a rare combination of cashflow yield and growth that will be distributed as dividend, making it our top telco pick. Premium valuations are for high predictability and gearing to a Jio IPO and tariff correction for VI's survival.

Competitive position: STRONG Changes to this position: POSITIVE

A Rajasthan-centric play in a cozy duopoly

Rajasthan accounted for 78% Hexacom's FY24 mobile revenues with North-East accounting for the remainder. VI lost 1200bps market share in FY19-24 despite Rajasthan being a priority investment circle for VI. 2/3rd of these losses came in FY19-21 with only Jio gaining. But in FY21-24, all of VI's losses accrued to Hexacom and the latter gained market share from Jio too. Ascendance to market leadership is imminent as quality focus akin to Airtel enables faster growth in high-value segments vs overall users. VI's network investments won't change this.

Capex to moderate

Hexacom's capex cycle is in tune with that of Airtel. In FY18-20, it doubled capex to ₹10bn/annum vs FY15-17 to withstand Jio's onslaught, which it doubled again in FY24. But the latter was done from a position of strength to gain market share. We expect capex to taper to ₹18bn/annum in FY25-27E.

Airtel ownership to ensure capital discipline

Hexacom became an Airtel company after the latter acquired 70% from erstwhile shareholders. TCIL (Govt.) was the other shareholder; it sold half its stake in the recent IPO, bringing shareholding to 15%. Given Airtel's history of dealing with public market minority shareholders, we don't see its stake in Hexacom changing. Hexacom will step up dividends as capex subsides and major spectrum renewals are only after 2030. We estimate payout to rise to 55% in FY26E from 40% now.

Biggest VI survival beneficiary

VI's survival requiring 20% tariff hike in Sep-24 followed by biennial 12% price hikes till FY34 imply Hexacom can grow ARPU at 16% FY24-27E CAGR. 17x FY26E EV/EBITDA at TP implies 10.4% FY24-42E ARPU CAGR. This implies 120% premium on FY26E EV/EBITDA vs global telcos. Premium valuations are for 16%/18% FY24-34E revenue/EBITDA CAGR vs global telcos' <5% CAGR. Key risk is Airtel increasing access charges and government curbs on tariff hikes.

Key Financials

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	65,790	70,888	83,886	97,329	118,682
EBITDA	27,857	33,612	40,410	48,426	60,795
EPS (diluted)	11.0	10.1	23	36	54
post-tax RoCE	10.0%	12.7%	16.8%	21.2%	26.9%
ROE (%)	13.0%	10.9%	22.4%	29.8%	37.9%
PE	102	111	48	31	21
EV/EBITDA	23	18.7	15.6	13.0	10.3

Source: Company, Ambit Capital research

Telecom

Recommendation

Mcap (bn):	₹560/US$6.7
6M ADV (mn):	₹3.7/US$44
CMP:	₹1,120
TP (12 Mths):	₹1,550
Upside (%):	38

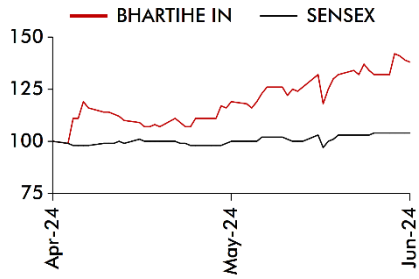
Flags

Accounting:	GREEN
Predictability:	GREEN
Earnings Momentum:	GREEN

Catalysts

- 20% tariff hike in Sep-24.
- Usage-based pricing along with the Sep-24 tariff hike.

Performance



Source: ICE, Ambit Capital Research

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Cozy duopoly 'Rajasthan' market play

While mobile revenues are dominant with 97%/98% revenue/EBITDA contribution (FY24), the Rajasthan circle accounted for 78% of its mobile revenue. The North-East (NE) circle accounts for the remainder. For VI, while North-East isn't a focus market, even in Rajasthan, a priority investment area, VI lost 1,200bps market share in FY19-24. 2/3rd of these losses came in FY19-21 with only Jio gaining. But in FY21-24, all of VI's losses accrued to Hexacom and the latter gained MS from Jio too. Ascendance to market leadership is imminent as quality focus akin to Airtel enables faster growth in high value segments vs overall users. VI's network investments won't change this.

A brief history of Hexacom

Founding and acquisition by Airtel

Hexacom was incorporated in 1995 as a partnership between Rajiv Mehrotra of Shyam Cellular and the Government of India, which held 30% stake through Telecommunications Consultants of India Ltd. (TCIL). But given the distress caused by high licence fees and lack of telecom adoption by consumers (telecom 1.0), Hexacom's promoters had put the company on the block. In 2004, Bharti bought out 70% stake and renamed the company as Bharti Hexacom. This gave Bharti access to the Rajasthan and North-East markets. TCIL remained 30% shareholder. Notably, Bharti wasn't new to acquisitions and it expanded presence in Karnataka, AP, Kolkata and Chennai in 1999-2001.

Current status and Airtel's support

- Bharti Hexacom offers mobile services and home and office solutions to customers using the 'Airtel' brand. Apart from the brand, Hexacom uses Airtel's fibre and digital assets. Airtel has centralized deployment/development of these assets to benefit from economies of scale. We estimate 700-800bps royalty payment by Hexacom for the above services that Airtel provides.
- The Apr-24 IPO of Bharti Hexacom was an OFS by TCIL, which sold half its stake.
- We expect TCIL to sell its remaining Hexacom stake after the end of the six-month lock-in (Oct-24).

Exhibit 1: Hexacom's RoCE exceeds Airtel as the latter incurs uncertain, long gestation capex currently beneficial to the former

FY24	Airtel (A)	Hexacom (B)	B/A	Comment
Mobile segment				
Subscribers (mn)	352	27	8%	
% 4G users	71.8%	71.2%		
% postpaid	6.6%	3.1%		Including IoT connections for Hexacom
Revenue (₹ bn)	850	69	8%	
ARPU (₹/mo)*	209	204	98%	Data for 4QFY24
Monthly churn*	2.4%	2.0%		
EBITDA margin	55.0%	47.2%		Margin differential is on account of 'access' charges that Hexacom pays out to Airtel for roaming and usage of the latter's fibre & digital assets
India segment				
India revenue (₹ bn)	1,139	71	6%	
Non-mobile revenue contribution	25%	3%		
Non-mobile EBITDA contribution	21%	2%		
India EBITDA	54.3%	47.4%		
RoCE	5.9%	9.5%		Hexacom has higher RoCE as Airtel incurs fibre capex on its behalf
Capex (₹ bn)	334	20	6%	
Avg. FY22-24 capex (₹ bn)	273	14		
Avg. FY22-24 capex/FY24 EBITDA	44.1%	42.7%		Despite availing fibre and digital assets from Airtel, Hexacom stepped up capex to grab VI's market share

*Source: Company, Ambit Capital research; *4QFY24 data*

Exhibit 2: SWOT analysis: Airtel parentage the key positive

Strengths	Weaknesses
▪ Strong 'Airtel' brand and Airtel's centralised fibre/digital assets. ▪ Leader in mid-band spectrum in Rajasthan and the North-East. ▪ Quality-focused strategy that helps grow disproportionately with high value users.	▪ Only houses 6-7 of Airtel's top-150 cities of focus. ▪ Limited presence of large enterprises limiting postpaid and non-mobile monetisation.
Opportunities	**Threats**
▪ Low TV penetration enabling DTH/homes growth vs national average. ▪ With 10% revenue market share in Rajasthan, VI could de-prioritise investments and focus on Kerala, Mumbai and Gujarat, higher relevance markets.	▪ Terms of royalty with Airtel not transparently disclosed and could result in rude shocks if the latter plays truant. ▪ Rural-centric nature of operations pose greater risk to Jio's affordable device launches.

Source: Company, Ambit Capital research

Operating in a duopoly

Like the rest of the country, Airtel and Jio are also the dominant brands within Rajasthan and North-East circles. Hexacom is the market leader in the North-East circle while it is a close second in Rajasthan. Given low revenue contribution of the North-East market, we focus our discussion on Rajasthan. In any case, the trends we highlight here won't be materially divergent in the North-East market.

Spectrum assets: Superior mid-band and 4G capacity portfolio

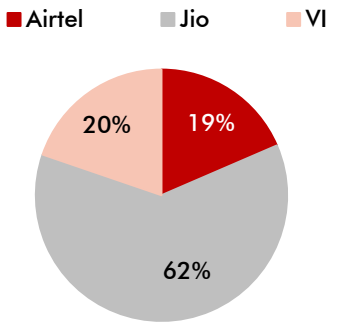
Since spectrum is the key ingredient of telco networks, we present Hexacom's market share of liberalised spectrum in Rajasthan. We don't consider administrative spectrum as the same can only be used for 2G and its quantum is miniscule vs the former:

- Sub-GHz bands: This includes 700, 800 and 900MHz spectrum and is primarily used for 2G/4G coverage. Airtel has chosen to have only modest investment here as this band has low data carrying capacity vs other frequencies.
- Mid-band spectrum, 1800/2100MHz: This is the 'effective' coverage layer for Airtel and VI. Both these operators have higher mid-band spectrum vs Jio.
- In the 4G capacity band (2300/2500MHz), both Airtel and Jio are equally competitive.

Apart from this, in the 5G bands, viz. C-band (3300MHz) and mmWave (26GHz bands), there isn't a meaningful distinction between Jio and Airtel.

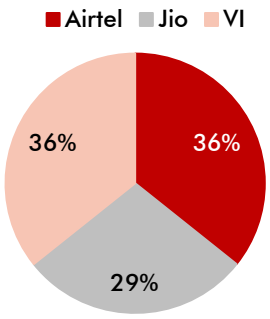
We estimate Jio's network presence on 24k towers vs Airtel's 21k in FY24. The additional towers are likely to give Jio only 0.5-1% incremental population coverage with negligible revenue implications.

Exhibit 3: Due to 700MHz spectrum, Jio leads in the sub-GHz band...



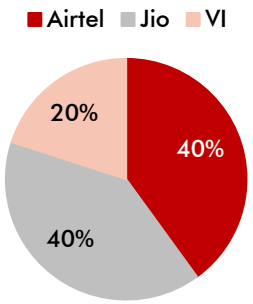
Source: Company, Ambit Capital research

Exhibit 4: ...but Hexacom is equally competitive in mid-band...



Source: Company, Ambit Capital research

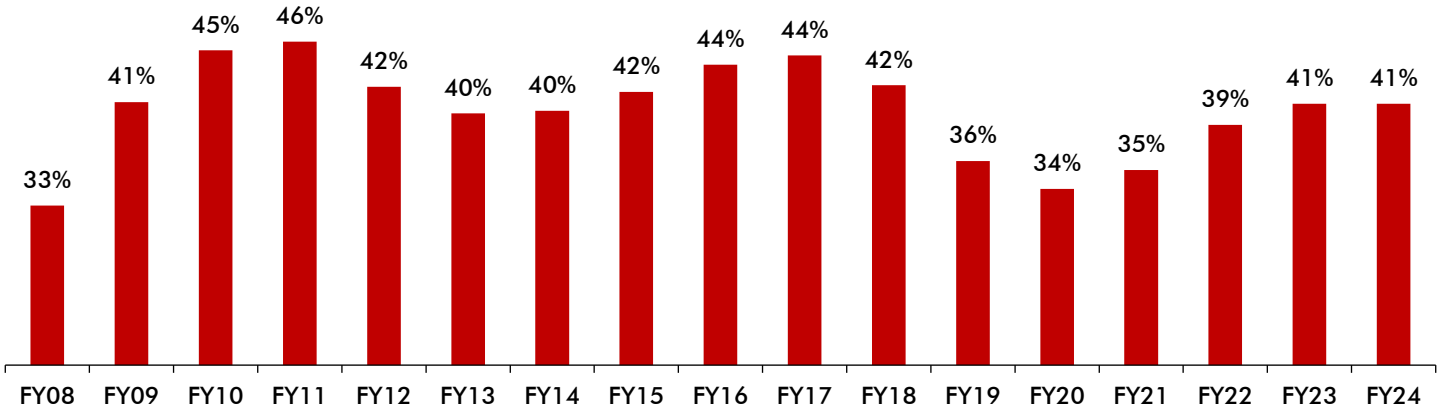
Exhibit 5: ...and 4G capacity band spectrum



Source: Company, Ambit Capital research

Quality focus akin to Airtel

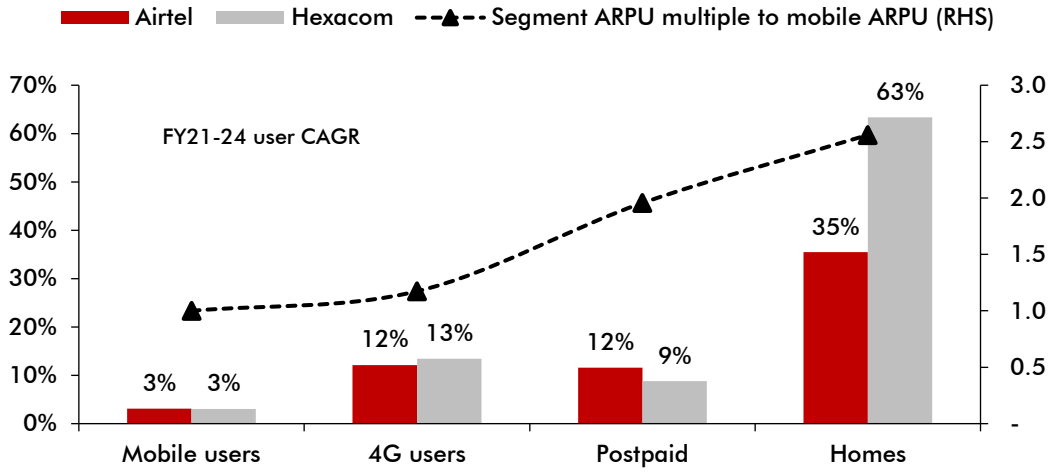
Exhibit 6: In FY17-20, Airtel lost revenue market share to Jio but has almost regained it with network investments and quality focus



Source: Company, TRAI, Ambit Capital research

Since Airtel was the market leader in Rajasthan, it lost >1,000bps market share led by Jio's forceful entry in FY17-20. In FY20-24, the company regained most of the lost market share with both VI and Jio losing ground. Notably, Airtel/Hexacom's subscriber gains have been the most among high-value users like 4G, postpaid and home broadband subscribers. We expect Airtel/Hexacom's quality focus to sustain.

Exhibit 7: In a pricing-led growth market, Hexacom will sustain its lead of acquiring quality users

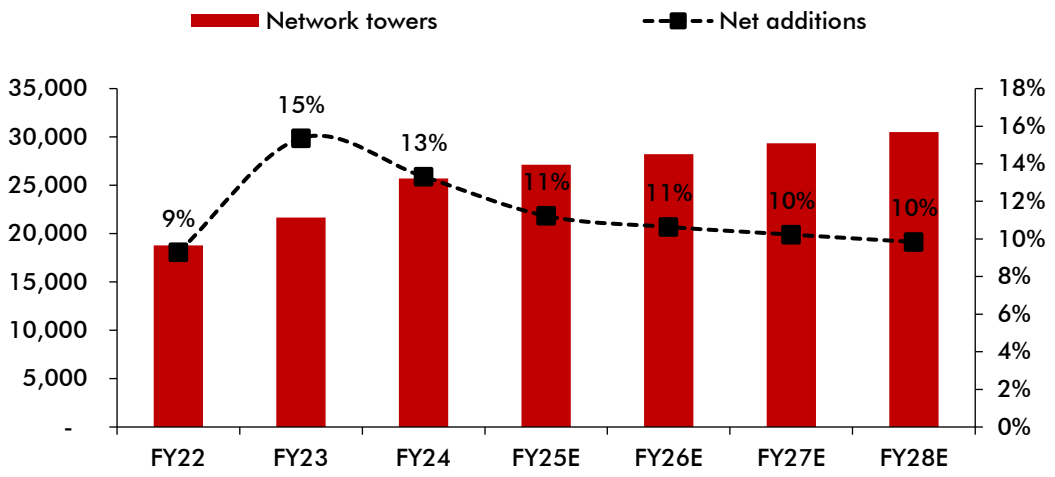


Source: Company, Ambit Capital research

Capex to moderate

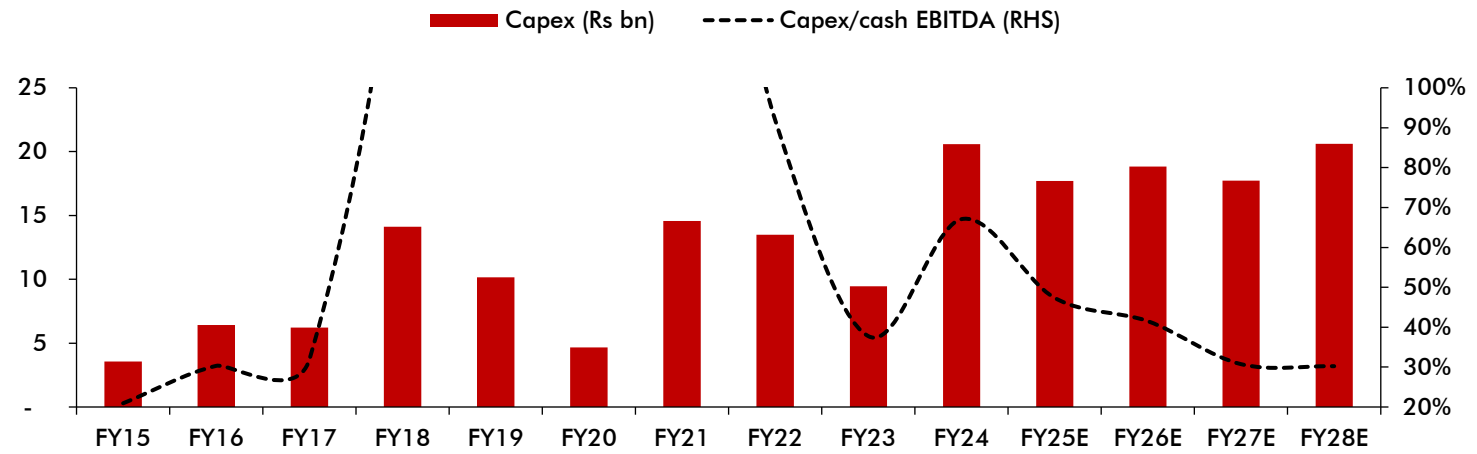
After being blindsided by Jio's 4G aggression, Hexacom faced a double-whammy of cash EBITDA steeply falling and need to invest in 4G to catch up with the former. Hence, it stepped up capex to ₹10bn/annum in FY18-20 vs ₹5bn in FY15-17. Yet it lost revenue market share. Improving funding availability enabled Hexacom to further increase capex to ₹13bn/annum in FY21-23 and then to ₹21bn in FY24. With its market share now nearly back to pre-Jio levels, 4G population coverage nearly reaching 99% and completion of pan-India 5G rollout, we expect capex to moderate. This will reflect in improving FCF profile amid periodic tariff hikes that are necessary to ensure VI's survival.

Exhibit 8: With Airtel/Hexacom concluding 4G and 5G pan-India expansion, we expect 4% CAGR in tower rollouts between FY24-28E vs 11% in FY21-24



Source: Company, Ambit Capital research

Exhibit 9: Along with moderating capex, cash EBITDA should improve with tariff hikes

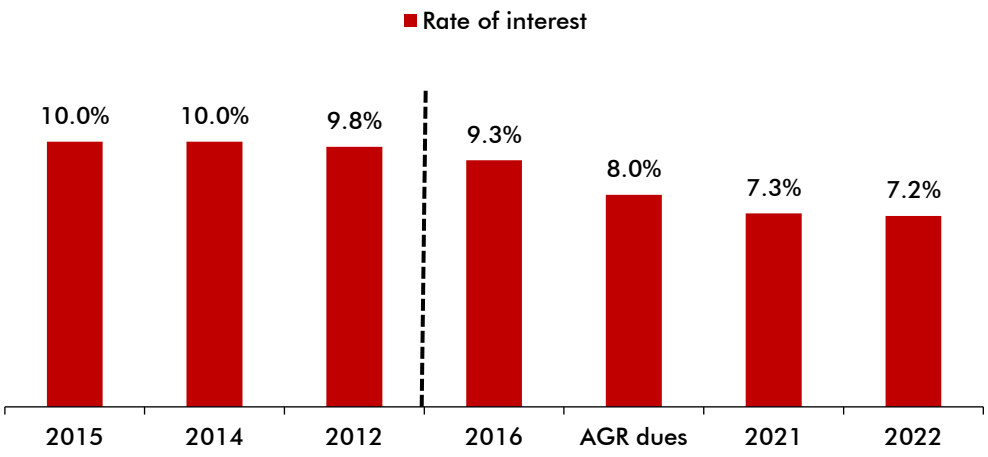


Source: Company, Ambit Capital research

Airtel ownership = efficient capital allocation

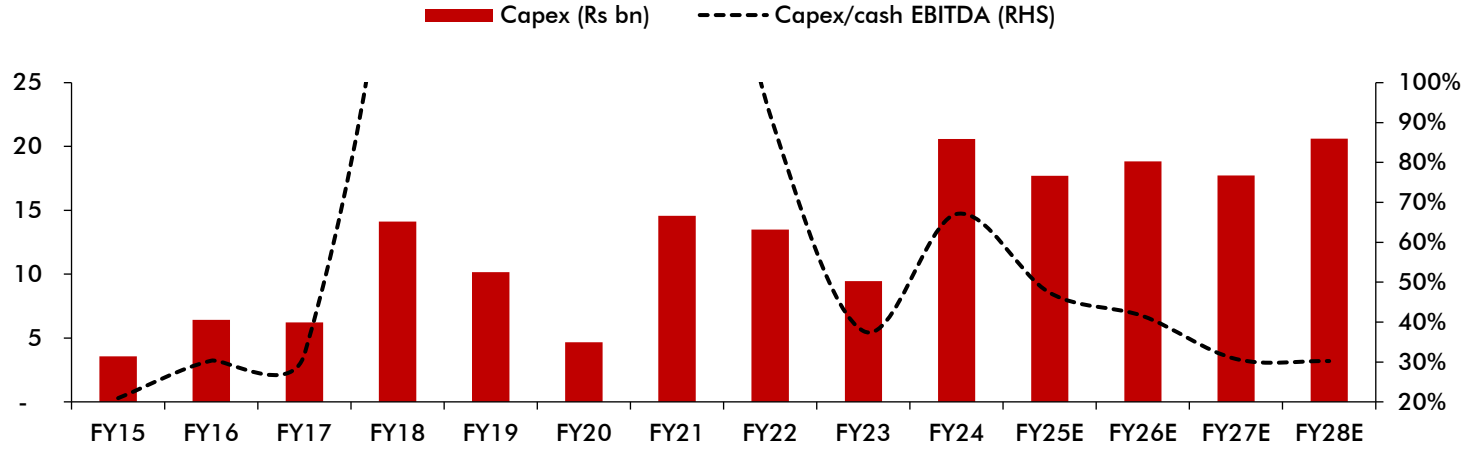
Airtel/Hexacom's capital priorities have been business investments followed by deleveraging and dividends. Since 2021, Airtel/Hexacom retired all 2012-15 high-cost spectrum auction debt bearing 9.8%-10% interest rate. With 1.5x net debt ex-leases/cash EBITDA (vs. Airtel's 2x), imminent capex moderation and major spectrum renewals only after 2030, we expect steep increase in dividend payout to 60% in FY27E from current 40%. Airtel is unlikely to get Hexacom to pursue high-risk exploratory investments. Further, we don't see Airtel changing its current 70% ownership as it is seasoned in dealing with public market minority investors.

Exhibit 10: As tariffs rose and FCF improved, Airtel/Hexacom retired high-cost 2012-15 spectrum loans



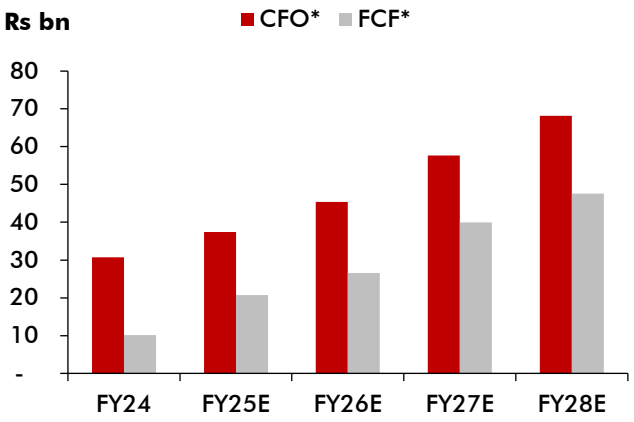
Source: Company, Ambit Capital research

Exhibit 11: With continuous tariff hikes and capex moderation, we expect sharp step up in FCF



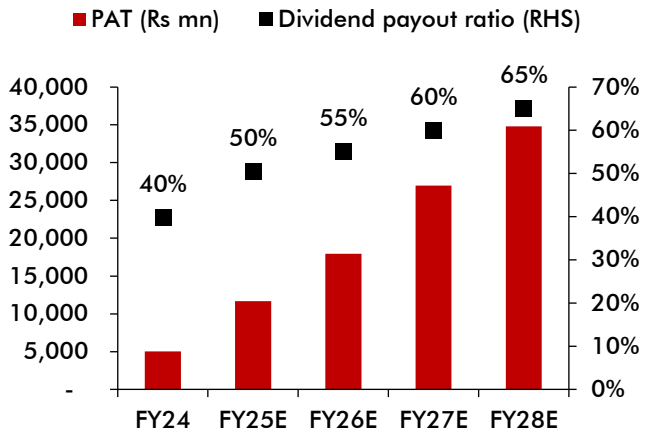
Source: Company, Ambit Capital research

Exhibit 12: Tariff hikes and capex moderation...



*Source: Company, Ambit Capital research; *Post lease payments & excluding spectrum payouts/bids*

Exhibit 13: ...should drive meaningful increase in dividends



Source: Company, Ambit Capital research

Best low-risk pure play telephony asset

Bharti Hexacom should be the biggest beneficiary of tariff hikes that are needed for VI's survival owing to its >95% revenue skew towards mobile services in FY24-30E. We expect mobile ARPU to register 15% CAGR over FY24-28E and revenues 18% CAGR. Since both Rajasthan and the North-East circles have lower tele-density of ~80% vs 85% national average (2023), subscriber growth should outpace that of Airtel. But Hexacom's revenue is concentrated in two circles and it has material related-party transactions with Airtel. Hence we discount Hexacom's cashflows at 12% WACC vs Airtel's 11%. Despite this, faster revenue CAGR and higher ROCE lead us to ascribe 17x FY26E target EV/EBITDA to Hexacom vs 13x of Airtel's India wireless operations FY26E EV/EBITDA.

Exhibit 14: Hexacom's mobile business would outpace Airtel due to faster subscriber growth

Mobile business	FY24	FY25E	FY26E	FY27E	FY28E
Revenue growth (%)					
Airtel	12%	20%	20%	19%	13%
Hexacom	8%	18%	16%	22%	15%
EBITDA Margins					
Airtel	55%	56%	57%	59%	60%
Hexacom	49%	50%	52%	53%	54%
ARPU growth (%)					
Airtel	8%	16%	17%	17%	11%
Hexacom	7%	11%	10%	28%	11%
Subscriber growth					
Airtel	5%	3%	2%	2%	2%
Hexacom	6%	7%	4%	3%	3%
Capex (₹ mn)					
Airtel	252,726	184,171	207,962	196,242	229,974
Hexacom	18,970	16,655	27,677	16,681	19,548

Source: Company, Ambit Capital research

Why do we value Hexacom at a premium to Bharti?

We value Hexacom at 17x FY26E EV/EBITDA vs 13x for Bharti India mobile business. Hexacom warrants a premium over Bharti due to the following reasons:

- <80% wireless penetration in Rajasthan and the North-East circle compared to national average of 83% shall provide Hexacom with buffer to grow subscribers at a quicker rate.
- Unlike Airtel which has <35% market share in 8 out of 22 circles, Hexacom has >40% market share in both these markets. This would help Hexacom to drive operational efficiencies and ensure higher sustainable RoCE.

Assumptions and valuations

We are unable to present past traded valuations of Hexacom as the company was only listed recently (Apr-24). We expect no change in terms of trade between Airtel and Hexacom and assume operating leverage-led EBITDA margin expansion for both companies.

Exhibit 15: Hexacom would grow at >15% over FY24-28E led by ARPU growth

Short Term estimates	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Operating metrics - India						
Subscribers (mn)	26.0	27.6	29.6	30.8	31.9	33.1
Growth %	5%	6%	7%	4%	4%	4%
ARPU (₹)	210.5	214.8	236.3	263.3	309.7	343.5
Growth %	16%	2%	10%	11%	18%	11%
Non spectrum capex (₹ bn)	9	21	17	19	18	21
Spectrum capex (₹ bn)	-	-	1	10	-	-
Capex to CFO (%)	18%	58%	43%	61%	30%	31%
Financial metrics - Consol						
Revenue (₹ bn)	65.8	70.9	83.9	97.3	118.7	136.4
Growth %	*22%*	*8%*	*18%*	*16%*	*22%*	*15%*
EBITDA (₹ bn)	27.9	33.6	40.4	48.4	60.8	71.4
Growth %	*54%*	*21%*	*20%*	*20%*	*26%*	*17%*
EBITDA Margin (%)	42%	47%	48%	50%	51%	52%
PAT (₹ bn)	5.5	5.0	11.7	17.9	27.0	34.8
EPS (₹)	11	10	23	36	54	70
Net debt (₹ bn)	80	74	66	66	57	44
FCF (₹ bn)	16	10	20	17	40	48

Source: Company, Ambit Capital research

We expect ARPU for Hexacom to grow in line with that of Airtel. Due to its lower capex intensity as well as high cash flow conversion led by high prepaid skew, FCF generation should be superior to that of peers.

Exhibit 16: Cumulative FCF for Hexacom should double in each of the 5-year periods

Long term assumptions	FY25-FY30E	FY31-36E	FY37-42E
Operating metrics - India			
Subscribers (mn)	4%	3%	1%
ARPU (₹)	12%	9%	6%
Revenue CAGR	13%	12%	8%
EBITDA CAGR	15%	13%	8%
EPS CAGR	24%	16%	9%
Net debt (₹ bn) (end of period)	32	66	140
FCF (₹ bn) (cumulative)	240	695	1,290

Source: Company, Ambit Capital research

Exhibit 17: Long-term assumptions

Particulars	FY25-FY30E	FY31-36E	FY37-42E
Operating metrics - India			
ARPU (₹)	13%	9%	6%
Subscribers (mn)	2%	1%	1%
Revenue CAGR	13%	9%	8%
EBITDA CAGR	15%	11%	8%
EPS CAGR	30%	13%	8%
Net debt (₹ bn) (end of period)	512	(1,643)	(5,256)
FCF (₹ mn) (end of period)	1,069	1,946	3,215

Source: Company, Ambit Capital research

DCF valuation

We calculate the DCF value of Hexacom's operation till FY42 to arrive at our TP for the company after assuming a 5% long-term terminal growth rate and 12% WACC. Our target valuation implies 10.4% FY24-42E ARPU CAGR vs market's implied 8.8% CAGR. We are confident of our ARPU CAGR assumption as the same is necessary for VI's survival.

Exhibit 18: DCF-based valuation of Bharti Hexacom

Particulars	₹ mn
Total EV	**838,383**
- Explicit period	452,852
- Terminal period	385,530
Net debt	65,940
Minority interest	-
Non-current investments	-
Equity value	**772,443**
No. of shares (mn)	500
Value per share	**1,550**

Source: Company, Ambit Capital research

Exhibit 19: We are higher than consensus on revenues but lower on EBITDA – anomalous trends are due to low coverage of the stock as it's a recent listing

Particulars	Ambit	Consensus	Divergence
		BBG	BBG
Revenue (₹ mn)			
FY25E	81,926	83,494	-2%
FY26E	98,651	96,175	3%
FY27E	118,176	105,973	12%
EBITDA (₹ mn)			
FY25E	35,601	42,115	-15%
FY26E	45,281	50,252	-10%
FY27E	56,712	57,424	-1%
PAT (₹ mn)			
FY25E	9,905	13,146	-25%
FY26E	15,632	18,738	-17%
FY27E	24,155	23,803	1%

Source: Company, Ambit Capital research

Catalysts & risks

- **Catalysts to our positive stance on telcos**
- **20% tariff hike in Sep-24**

Since Airtel/Jio have completed pan-India 5G rollout and the dust of national elections has settled, we think that Jio will lead a 20% tariff hike in Sep-24 that Airtel and VI will follow. This will enable Hexacom to take tariff hikes in tandem with Bharti.

- **Usage-based pricing along with the Sep-24 tariff hike**

One of the major challenges that telcos encounter in monetising data usage is the current structure of 1GB+ daily data allowance. As outlined earlier, we expect telcos to course correct and roll out metered plans. The success of such a move would enable telcos grow ARPU even without tariff hikes.

- **End of unlimited data for 5G users**

Airtel and Jio have rolled out free unlimited 5G plans for their subscribers. Since 5G networks have spread pan-India and users have had time to try out 5G services, we think that both telcos will now look to stop their 'unlimited data' freebie. Jio is likely to take the lead with Airtel following. VI is unlikely to offer any unlimited data freebie when it rolls out 5G services by Dec-24.

- **Risks to our view on the telecom space**
- **Government favouring a new telco**

The government has always wanted to have healthy competition within the telecom sector. Therefore, in spite of near bankruptcy condition of VI after the AGR case, the government took numerous steps to bring respite to it and Airtel. But VI still needs government support in FY26/27 as it won't be able to make deferred spectrum/AGR payments even with tariff hikes. The key risk for the sector is the government favouring a new entrant to takeover VI instead of it electing to convert deferred amounts into equity.

Airtel increasing its access charges

Hexacom pays annual access charges to Bharti for providing it access to corporate brand, fibre and digital assets. If Bharti decides to milk out profits from the company, it might decide to increase access charges rather than distributing dividend.

Government curbs on tariff hikes

Although the government has been supportive of telcos in navigating the challenging phase, they might curb telcos from carrying out multiple tariff hikes within a short duration. This could pose a risk for the telcos' tariff hike story.

HAWK analysis

As Hexacom was not part of listed universe until 2023-end, it was not a part of our accounting and forensic score decile rating. But we carried out a comparative study for listed telcos based on Hawk framework.

Exhibit 20: Forensic accounting contributors

Particulars	Bharti Airtel	Hexacom	VIL
CFO/EBITDA	93.61%	78.50%	85.28%
Contingent Liabilities	20.08%	9.96%	6.91%
CWIP/Gross block	0.03	0.01	0.01
Change in depreciation rate	41.88	42.54	45.41
CAGR in auditors rem/CAGR in consol rev	-0.68	-1.60	0.24
Misc exp as % of total rev	0.09%	0.59%	0.52%
Cash yield	0.91%	1.50%	2.93%
Prov for doubtful debts/(AR>180d)	97.35%	85.86%	79.90%
Cumm FCF/Median rev	40.00%	31.90%	83.00%

Source: Company, Ambit Capital research

Exhibit 21: Explanation for our flags on cover page of company section

Segment	Score	Comments
Accounting	GREEN	We did not observe any material deviations in accounting that might have meaningful impact on financials.
Predictability	GREEN	Earnings for the company are predictable as subscriber changes as well as ARPU hikes are publicly available.
Earnings momentum	GREEN	Not available as the company was listed only in Apr-24.

Source: Company, Ambit Capital research

Bharti Hexacom (BHARTIHE IN, BUY)

Valuation Methodology

We value Hexacom using DCF after taking into consideration the free cash flows till FY42E using a WACC of 11% and a terminal growth rate of 5% to arrive at our target price of ₹1,550.

Risks

- Delay in tariff hikes by incumbent players within the industry.
- Substantial increase in access charges by Bharti Airtel.

Financials - Consolidated

Income statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**65,790**	**70,888**	**83,886**	**97,329**	**118,682**
-growth (Rev)	21.7%	7.7%	18.3%	16.0%	21.9%
Employee expenses	903	1,054	1,153	1,257	1,370
Other expenses	37,030	36,222	42,324	47,647	56,517
EBITDA	**27,857**	**33,612**	**40,410**	**48,426**	**60,795**
-growth (EBITDA)	53.6%	20.7%	20.2%	19.8%	25.5%
Depreciation	15,533	17,392	20,745	20,749	21,389
EBIT	**12,324**	**16,220**	**19,665**	**27,677**	**39,406**
-growth (EBIT)	230%	31.6%	21.2%	40.7%	42.4%
Other income	1,402	2,487	2,517	2,920	3,560
EBIT (including other income)	**13,726**	**18,707**	**22,181**	**30,597**	**42,967**
Finance costs	6,388	6,444	6,630	6,679	7,028
Exceptional items	-	(3,030)	-	-	-
Profit before tax	**7,338**	**9,233**	**15,551**	**23,918**	**35,939**
Profit before tax (adjusted)	**7,338**	**12,263**	**15,551**	**23,918**	**35,939**
-growth (PBT)	(767%)	67.1%	26.8%	53.8%	50.3%
Tax	1,846	4,189	3,888	5,979	8,985
PAT	**5,492**	**5,044**	**11,663**	**17,938**	**26,954**
Profit after tax (adjusted)	**5,492**	**8,074**	**11,663**	**17,938**	**26,954**
-growth (PAT)	(299%)	47.0%	44.5%	53.8%	50.3%
Consolidated profit after tax	**5,492**	**5,044**	**11,663**	**17,938**	**26,954**
-growth (CPAT)	(67.2%)	(8.2%)	131%	53.8%	50.3%
EPS (basic) (₹)	11.0	10.1	23	36	54
EPS (diluted)	11.0	10.1	23	36	54

Source: Ambit Capital research, Company

Balance sheet

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Property, plant and equipment	40,708	53,444	52,703	63,043	61,787
Capital work in progress	4,563	1,969	1,969	1,969	1,969
Right of use assets	26,390	28,596	30,428	32,459	34,519
Other intangible assets	44,643	54,110	54,110	54,110	54,110
Intangible assets under development	14,797	2,476	2,476	2,476	2,476
Total fixed assets	**131,101**	**140,595**	**141,686**	**154,057**	**154,860**
Deferred tax assets (net)	10,878	10,843	10,843	10,843	10,843
Other non-current assets	11,574	9,764	9,764	9,764	9,764
Total non-current assets	**153,553**	**161,202**	**162,293**	**174,664**	**175,467**
Current investments	10,460	2,376	2,376	2,376	2,376
Trade receivables	1,489	4,446	4,597	5,333	6,503
Cash and cash equivalents	555	398	5,886	8,968	28,553
Other current assets	16,140	16,407	16,407	16,407	16,407
Total current assets	**28,644**	**23,627**	**29,265**	**33,085**	**53,839**
Total assets	**182,197**	**184,829**	**191,559**	**207,748**	**229,307**
Share capital	2,500	2,500	2,500	2,500	2,500
Other equity	39,595	43,887	49,672	57,744	68,526
Total equity	**42,095**	**46,387**	**52,172**	**60,244**	**71,026**
Long-term borrowings	47,299	27,924	25,000	25,000	25,000
Long-term provisions	234	228	228	228	228
Lease liabilities	25,451	28,306	31,160	34,882	38,996
Other non-current liabilities	6,029	6,817	6,817	6,817	6,817
Total non-current liabilities	**79,013**	**63,275**	**63,205**	**66,927**	**71,041**
Short-term borrowings	15,394	20,422	17,000	17,000	17,000
Trade payables	14,406	14,848	17,237	19,999	24,387
Lease liabilities	3,892	4,394	5,499	6,156	6,882
Other current liabilities	16,697	23,880	24,823	25,799	27,349
Short term provisions	11,032	11,968	11,968	11,968	11,968
Total current liabilities	**61,421**	**75,512**	**76,527**	**80,922**	**87,585**
Total liabilities	**140,434**	**138,787**	**139,732**	**147,849**	**158,626**
Total equity and liabilities	**182,529**	**185,174**	**191,904**	**208,093**	**229,652**

Source: Ambit Capital research, Company

Cash flow statement

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	**7,338**	**9,233**	**15,551**	**23,918**	**35,939**
Depreciation	15,533	17,392	20,745	20,749	21,389
Interest income	(85)	(773)	(1,258)	(1,460)	(1,780)
Interest expense	6,374	6,444	6,630	6,679	7,028
Other items	141	2,642	-	-	-
Working capital changes	21,980	697	3,182	3,001	4,767
Taxes	(197)	(174)	(3,888)	(5,979)	(8,985)
Cash flow from operations	**51,084**	**35,461**	**40,962**	**46,908**	**58,358**
(Net) capital expenditure	(10,712)	(20,829)	(17,714)	(28,832)	(17,733)
Acq./(disp.) of Investments	(9,680)	8,505	-	-	-
Interest/dividend Received	83	773	1,258	1,460	1,780
Cash flow from investments	**(20,309)**	**(11,551)**	**(16,456)**	**(27,372)**	**(15,953)**
Net short-term borrowings	(28)	-	(3,422)	-	-
Net long-term borrowings	(24,400)	(15,000)	(2,924)	-	-
Interest paid	(3,855)	(5,356)	(3,806)	(3,538)	(3,538)
Dividends paid	-	(750)	(5,878)	(9,866)	(16,173)
Payment of lease liabilities	(2,831)	(2,930)	(2,989)	(3,048)	(3,109)
Cash flow from financing	**(31,114)**	**(24,036)**	**(19,019)**	**(16,453)**	**(22,820)**
Opening cash balance	**863**	**524**	**398**	**5,886**	**8,968**
Net change in cash	**(339)**	**(126)**	**5,488**	**3,083**	**19,585**
Closing cash balance	**524**	**398**	**5,886**	**8,968**	**28,553**
Free cash flow to firm	**40,372**	**14,632**	**23,248**	**18,075**	**40,625**
Free cash flow to equity	**36,517**	**9,276**	**19,443**	**14,537**	**37,087**

Source: Ambit Capital research, Company

Preferred Ratios

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	42.3%	47.4%	48.2%	49.8%	51.2%
EBIT margin	18.7%	22.9%	23.4%	28.4%	33.2%
Net profit margin	8.3%	7.1%	13.9%	18.4%	22.7%
Interest cover	1.9	2.5	3.0	4.1	5.6
Net debt/equity	1.9	1.6	1.3	1.1	0.8

Source: Ambit Capital research, Company

Segment Result - By Product Category

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales					
Mobile Services	64,247	69,211	81,362	94,499	115,585
Homes and Office Services	1,543	2,059	2,524	2,831	3,097
PBIT					
Mobile Services	-	34,203	40,844	48,761	61,029
Homes and Office Services	-	700	909	1,047	1,177

Source: Ambit Capital research, Company

Sector Specific Indicator Labels

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Mobile Services	25,827	27,341	29,218	30,387	31,450
Homes and Office Services	219	305	366	421	484
Mobile Services	185	198	220	243	312
Homes and Office Services	597	542	530	546	570
Network operating expenses	15,863	16,849	18,880	20,322	21,875
Access charges	9,833	7,461	9,227	10,706	13,055
License fee/spectrum charges	6,329	6,520	8,389	9,733	11,868

Source: Ambit Capital research, Company

Ratio analysis

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
EBITDA margin	42.3%	47.4%	48.2%	49.8%	51.2%
EBIT margin	18.7%	22.9%	23.4%	28.4%	33.2%
Net profit margin	8.3%	7.1%	13.9%	18.4%	22.7%
Interest cover	1.9	2.5	3.0	4.1	5.6
Net debt/equity	1.9	1.6	1.3	1.1	0.8
Net debt/EBITDA	2.9	2.2	1.6	1.4	0.9
Working capital turnover	(2.0)	(1.4)	(1.8)	(2.0)	(3.5)
pre-tax CFO/EBITDA	337%	250%	165%	160%	99.2%
pre-tax RoCE	11.8%	17.1%	20.9%	27.1%	34.9%
post-tax RoCE	10.0%	12.7%	16.8%	21.2%	26.9%
pre-tax RoIC	6.8%	8.8%	10.6%	13.9%	19.6%
post-tax RoIC	5.1%	4.8%	7.9%	10.4%	21.2%
ROE (%)	13.0%	10.9%	22.4%	29.8%	37.9%

Source: Ambit Capital research, Company

Valuation parameters

Year to March (₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
PE	102	111	48	31	21
EV/EBITDA	23	18.7	15.6	13.0	10.3
EV/EBIT	51	39	32	23	15.9
EV/sales	9.6	8.9	7.5	6.5	5.3
P/B	13.3	12.1	10.7	9.3	7.9

Source: Ambit Capital research, Company

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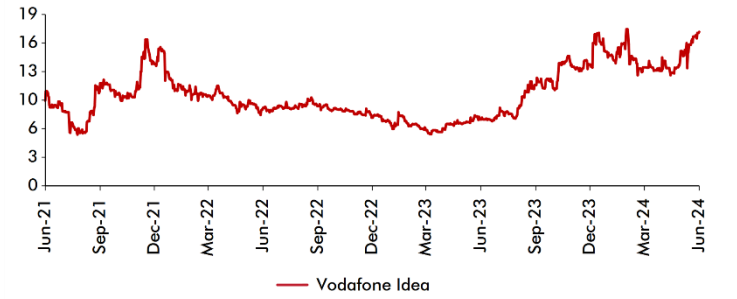
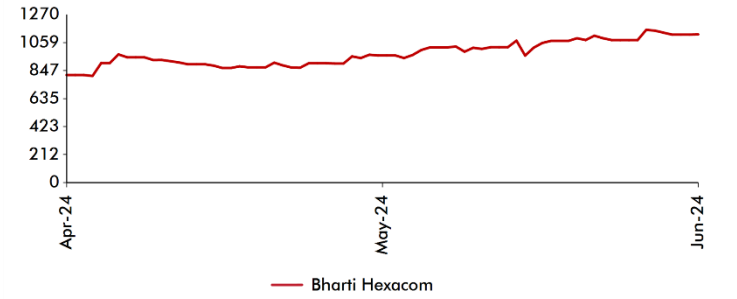
Vodafone Idea (IDEA IN, BUY, CMP: *Rs 17.3*)



Source: ICE, Ambit Capital research

Bharti Hexacom (BHARTIHE IN, BUY, CMP: Rs 1,120)



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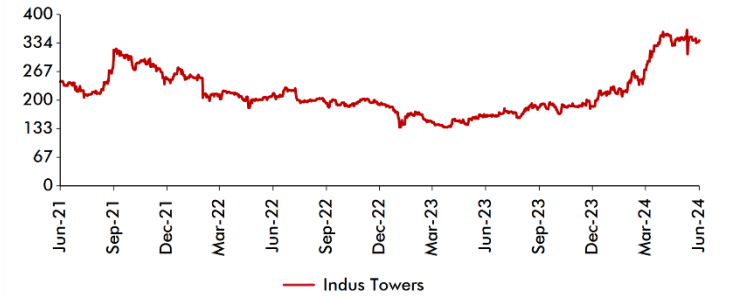
Indus Towers (INDUSTOW IN, BUY, CMP: Rs 340)



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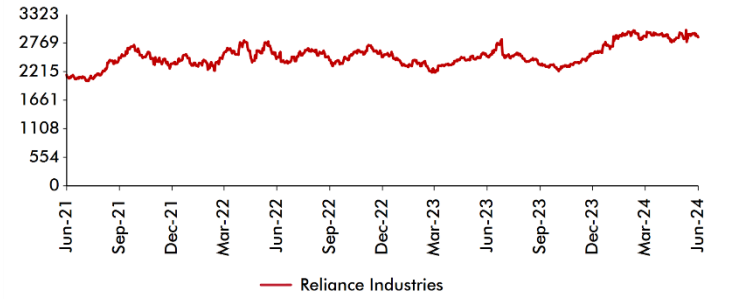
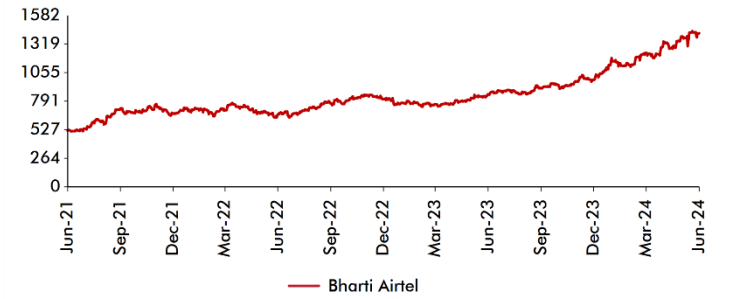
Reliance Industries (RELIANCE IN, SELL, CMP: Rs 2,883)



Source: ICE, Ambit Capital research

Bharti Airtel (BHARTI IN, BUY, CMP: Rs 1,420)



Source: ICE, Ambit Capital research

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Compliance Officer & Grievance Officer Details: Sanjay Shah, Email id: compliance@ambit.co, Contact Number: 91 22 68601965. In case you require any clarification or have any query/concern, kindly write to us at compliance@ambit.co

Other registration details of Ambit Capital: SEBI Stock Broking registration number INZ000259334 (Trading Member of BSE and NSE); SEBI Depository Participant registration number IN-DP-CDSL- 374-2006; AMFI registration number ARN 36358.

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