

Bharti Tele-Ventures

STOCK INFO. BLOOMBERG
BSE Sensex: 8,484 BHARTI IN
REUTERS CODE
S&P CNX: 2,567 BRTI.BO

10 October 2005

Buy

Rs350

Previous Recommendation: Buy

| | |
|-----------------------|---------|
| Equity Shares (m) | 1,873.5 |
| 52-Week Range (Rs) | 367/140 |
| 1,6,12 Rel. Perf. (%) | 1/33/79 |
| M.Cap. (Rs b) | 655.4 |
| M.Cap. (US\$ b) | 14.7 |

| YEAR | NET SALES | PAT | EPS | EPS | P/E | P/BV | ROE | ROCE | EV/ | EV/ |
|-------|-----------|--------|------|------------|------|------|------|------|-------|--------|
| END | (RS M) | (RS M) | (RS) | GROWTH (%) | (X) | (X) | (%) | (%) | SALES | EBITDA |
| 3/05A | 80,348 | 14,393 | 7.7 | N.A. | 45.5 | 9.6 | 24.3 | 17.1 | 8.7 | 23.1 |
| 3/06E | 113,798 | 25,461 | 13.6 | 76.9 | 25.7 | 7.0 | 31.8 | 23.6 | 6.0 | 15.6 |
| 3/07E | 151,583 | 37,846 | 20.2 | 48.6 | 17.3 | 5.0 | 34.2 | 30.0 | 4.4 | 10.9 |

Industry additions slows even as Bharti maintains momentum

The wireless industry added 2.48m subscribers in September 2005, lower than July and August 2005, as lower additions by Reliance impacted overall subscriber additions. GSM operators' subscriber base touched the 50m subscriber mark as the large GSM operators like Bharti, BSNL and Hutch delivered strong subscriber additions. CDMA operators added 0.52m subscribers in September 2005, their lowest additions in the last three months primarily on account of lower additions by Reliance.

Bharti added 0.65m subscribers in September 2005, being the only major GSM operator to have bettered the previous month's additions. Bharti's highest ever subscriber additions in September enabled it to cross the 14m subscriber mark and increase its market share to 21.8%. Bharti has added 3.1m subscribers in 1HFY06 against 2m in 1HFY05, a growth of 51% in subscriber additions. The company is currently trading at 25.7x FY06E EPS and 17.3x FY07E EPS. We reiterate **Buy** with a price target of Rs404.

Bharti improves market share even as Reliance slips

Bharti added 654,204 subscribers for the month, being the only major operator to have bettered its previous month's subscriber additions. BSNL and Hutch added 582,129 and 412,833 subscribers, respectively, thereby enabling the GSM operators to cross the 50m subscriber threshold. Bharti, BSNL and Tata Teleservices grabbed a large chunk of

SUBSCRIBER ADDS: BHARTI WAS THE ONLY ONE TO BETTER ADDS MOM

| | JUN 2005 | JUL 2005 | AUG 2005 | SEP 2005 |
|------------------|------------------|------------------|------------------|------------------|
| Bharti | 451,374 | 533,218 | 624,209 | 654,205 |
| BSNL | 352,040 | 494,469 | 595,130 | 582,129 |
| Reliance | 325,313 | 360,110 | 487,911 | 279,521 |
| Hutch | 252,714 | 404,121 | 451,236 | 412,833 |
| Idea | 188,359 | 176,997 | 151,017 | 65,601 |
| Tata | 106,681 | 173,197 | 204,398 | 245,646 |
| MTNL | 74,938 | 52,033 | 56,929 | 60,866 |
| Spice | 8,010 | 18,185 | -8,038 | 6,678 |
| BPL | 34,877 | 67,628 | 50,320 | 58,259 |
| Aircel | 75,953 | 72,999 | 70,992 | 84,109 |
| HFCL | 1,322 | 1,932 | 1,673 | -2,173 |
| Shyam Tele | 165 | 91 | -106 | 16 |
| Reliance Telecom | 135,033 | 135,135 | 47,445 | 35,193 |
| Total | 2,006,779 | 2,490,115 | 2,733,116 | 2,482,883 |

TREND IN MARKET SHARE (%)

| | JUN 2005 | JUL 2005 | AUG 2005 | SEP 2005 |
|------------------|-------------|-------------|-------------|-------------|
| Bharti | 21.6 | 21.6 | 21.7 | 21.8 |
| BSNL | 18.0 | 18.1 | 18.3 | 18.5 |
| Reliance | 18.1 | 18.0 | 18.0 | 17.7 |
| Hutch | 14.9 | 14.9 | 15.0 | 15.1 |
| Idea | 9.8 | 9.7 | 9.5 | 9.2 |
| Tata | 2.5 | 2.7 | 2.9 | 3.2 |
| MTNL | 2.0 | 2.0 | 2.0 | 2.0 |
| Spice | 2.6 | 2.5 | 2.4 | 2.3 |
| BPL | 4.6 | 4.6 | 4.4 | 4.4 |
| Aircel | 3.3 | 3.3 | 3.2 | 3.2 |
| HFCL | 0.1 | 0.1 | 0.1 | 0.1 |
| Shyam Tele | 0.0 | 0.0 | 0.0 | 0.0 |
| Reliance Telecom | 2.4 | 2.5 | 2.5 | 2.5 |

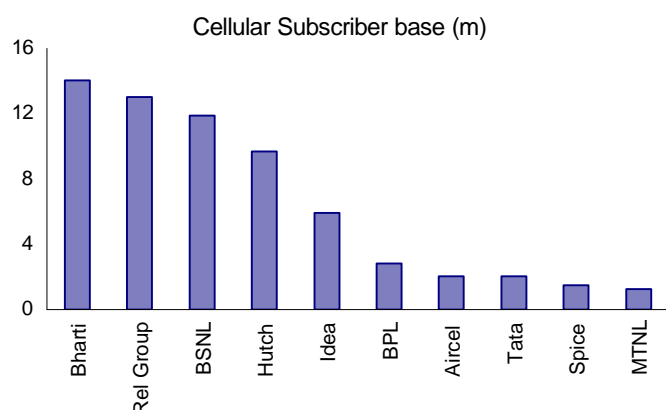
Source: COAI, AUSPI

incremental market share largely at the expense of Reliance and Idea. Bharti's market share improved to 21.8% in September 2005 against 21.7% in August 2005. After

consolidating the subscriber base of BPL, Hutch has a subscriber base of 12.5m with a market share of 19.4% making it the second largest operator ahead of BSNL and Reliance.

Reliance Infocom added 279,521 subscribers, its lowest additions since July 2004 (barring March 2005 when Reliance churned out 823,324 subscribers). Tata Teleservices added 245,646 subscribers in September 2005, its highest monthly additions ever. The company has been aggressively investing in expanding its network, which has enabled it to grow its market share to 3.2% in September 2005 from 2.3% in April 2005.

CELLULAR PLAYER RANKINGS



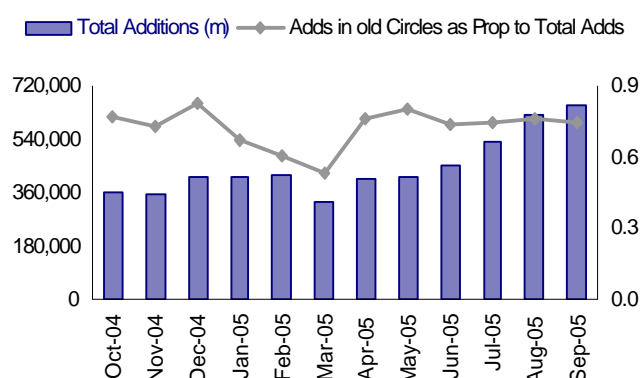
Source: COAI, AUSPI

Bharti's incremental market share in old circles remain study

Bharti has been consistently maintaining the share of subscriber adds in its old circles in excess of 70% since March 2005 when roll outs in all 23 circles were completed. Since the roll outs were completed in all 23 circles, Bharti

has focused on improving its penetration by bringing more towns under its coverage. In its expansion plan, we expect Bharti to initially focus on increasing coverage in some of the larger states in A-Circle (part of the old circles) like Andhra Pradesh and Maharashtra where EBITDA margins per subscriber is likely to be higher than those in C-Circles (part of new circles).

STEADY SHARE OF ADDITIONS IN OLD CIRCLES



Source: COAI

Valuation and view

The cellular industry witnessed a de-growth in subscriber additions on a MoM basis for the first time since March 2005 primarily as Reliance reported disappointing subscriber additions. However, barring Reliance and Idea all other major operators showed strong additions which reinforce our confidence that the buoyancy in the sector remains intact. Bharti continued to impress us by reporting its highest ever monthly additions and increasing its market share. The stock is currently trading at 25.7x FY06E and 17.3x FY07E EPS. We maintain **Buy**.

Bharti Tele-Ventures: an investment profile

Company description

Bharti Tele-Ventures, promoted by Sunil Bharti Mittal, is the largest cellular services provider in India with a subscriber base of over 14m and a market share of over 21% of the overall cellular market. It is the first cellular services provider to have introduced the lowest denomination recharge coupon for prepaid subscribers and electronic recharge. It is also the most profitable cellular services provider and is managed by a very strong team of professionals. It is the only player to have a presence in all 23 circles in India.

Key investment arguments

- Leader in the fast growing Indian cellular market and enjoys scale advantage.
- Strong innovative management the biggest differentiator.
- Most profitable cellular services provider.

Key investment risks

- Tariffs still higher than competitors.
- Being a listed company, can't be a price leader due to focus on profitability and hence is reactive to competitor's pricing.

Recent developments

- Signed Rs10b deal to out source all call centre operation over next 4-5 years to four leading BPO companies.
- Signed a managed capacity expansion contract with Ericsson to provide managed services and expand its GSM/GPRS network into rural India in 15 circles.
- Signed managed services and GSM/EDGE expansion contract with Nokia worth US\$125m.

Valuation and view

- Revenue CAGR of 37% and earnings CAGR of 62% in FY05-07E.
- Valuations at 17.3x FY07E earnings are attractive and at a discount to some similar-sized peers in other fast growing industries, like TCS and Infosys.
- Buy** with a target price of Rs404, an upside of 15.5% from current levels.

Sector view

- Rapid growth in mobile subscriber base enabling the cellular market to surpass that of fixed telephony.
- Industry and government forecasting subscriber base would touch 200m by FY09 implying a 41% CAGR over the next four years.
- Tariff cuts to be compensated by higher usage resulting in decent margins and return ratios.

COMPARATIVE VALUATIONS

| | | BHARTI | INFOSYS | TCS |
|---------------|-------|--------|---------|------|
| P/E (x) | FY06E | 25.7 | 27.7 | 25.3 |
| | FY07E | 17.3 | 22.0 | 20.9 |
| P/BV (x) | FY06E | 7.0 | 10.0 | 12.1 |
| | FY07E | 5.0 | 7.5 | 8.3 |
| EV/Sales (x) | FY06E | 6.0 | 6.9 | 5.7 |
| | FY07E | 4.4 | 5.0 | 4.5 |
| EV/EBITDA (x) | FY06E | 15.6 | 20.4 | 19.5 |
| | FY07E | 10.9 | 15.0 | 15.7 |

SHAREHOLDING PATTERN (%)

| | SEP.05 | JUN.05 | SEP.04 |
|-----------------------|--------|--------|--------|
| Promoters | 45.7 | 46.0 | 46.6 |
| Domestic Institutions | 4.6 | 5.0 | 4.8 |
| FIIs/FDIs | 48.5 | 47.7 | 46.7 |
| Others | 1.2 | 1.3 | 1.9 |

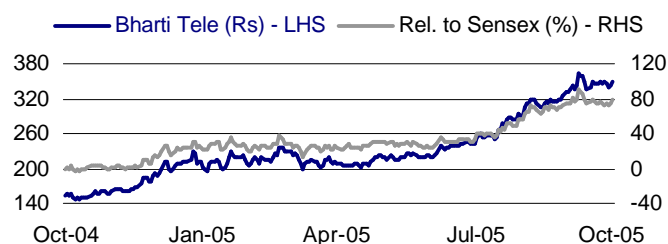
EPS: INQUIRE FORECAST VS CONSENSUS (RS)

| | INQUIRE FORECAST | CONSENSUS FORECAST | VIATION (%) |
|------|---------------------|-----------------------|----------------|
| FY06 | 13.6 | 12.7 | 7.3 |
| FY07 | 20.2 | 18.1 | 11.4 |

TARGET PRICE AND RECOMMENDATION

| CURRENT PRICE (RS) | TARGET PRICE (RS) | UPSIDE (%) | RECO. |
|-----------------------|----------------------|---------------|-------|
| 350 | 404 | 15.5 | Buy |

STOCK PERFORMANCE (1 YEAR)



| INCOME STATEMENT (Rs Million) | | | | | |
|-------------------------------|---------------|---------------|---------------|----------------|----------------|
| Y/E MARCH | 2003 | 2004 | 2005 | 2006E | 2007E |
| Revenues | 30,499 | 50,025 | 80,348 | 113,798 | 151,583 |
| Change (%) | 105.2 | 64.0 | 60.6 | 41.6 | 33.2 |
| Total Expenses | 22,917 | 33,318 | 50,279 | 69,993 | 90,890 |
| EBITDA | 7,582 | 16,707 | 30,069 | 43,805 | 60,693 |
| % of Gross sales | 24.9 | 33.4 | 37.4 | 38.5 | 40.0 |
| Depn. & Amortisation | 6,394 | 8,761 | 11,186 | 14,540 | 18,406 |
| EBIT | 1,188 | 7,946 | 18,883 | 29,265 | 42,287 |
| Net Interest | 2,663 | 2,411 | 2,249 | 1,231 | 1,051 |
| Other Income | -317 | 307 | -211 | 547 | -100 |
| PBT | -1,792 | 5,842 | 16,423 | 28,582 | 41,137 |
| Tax | 2 | -64 | 1,889 | 2,776 | 3,291 |
| Rate (%) | -0.1 | -1.1 | 11.5 | 9.7 | 8.0 |
| Minority Interest | -5 | 13 | 141 | 345 | 0 |
| Adjusted PAT | -1,789 | 5,893 | 14,393 | 25,461 | 37,846 |
| Change (%) | 47.2 | -429.5 | 144.2 | 76.9 | 48.6 |
| PAT after EO | -1,337 | 6,193 | 14,393 | 25,461 | 37,846 |

| BALANCE SHEET (Rs Million) | | | | | |
|--------------------------------|---------------|---------------|----------------|----------------|----------------|
| Y/E MARCH | 2003 | 2004 | 2005 | 2006E | 2007E |
| Share Capital | 18,534 | 18,534 | 18,534 | 18,534 | 18,534 |
| Share Premium | 33,755 | 33,872 | 35,334 | 35,334 | 35,334 |
| Reserves | -7,547 | -1,310 | 13,544 | 39,005 | 74,764 |
| Net Worth | 44,741 | 51,095 | 67,412 | 92,873 | 128,632 |
| Loans | 33,205 | 44,699 | 46,722 | 36,438 | 16,088 |
| Minority Interest | 93 | 106 | 924 | 1,024 | 1,124 |
| Non-Interest Bearing Securit | 2,248 | 3,480 | 3,832 | 3,066 | 2,452 |
| Capital Employed | 80,288 | 99,380 | 118,890 | 133,400 | 148,296 |
| Gross Block | 56,099 | 77,825 | 117,825 | 149,825 | 184,825 |
| Less : Depreciation | 11,817 | 18,389 | 29,575 | 44,115 | 62,521 |
| Net Block | 44,282 | 59,435 | 88,250 | 105,709 | 122,304 |
| CWIP | 5,396 | 4,674 | 13,500 | 9,500 | 5,500 |
| Investments | 0 | 0 | 5,650 | 5,650 | 5,650 |
| Goodwill | 24,744 | 25,466 | 26,266 | 23,639 | 21,276 |
| License Entry Fee | 9,274 | 9,404 | 10,345 | 11,379 | 12,517 |
| Deferred Tax Asset | 2,529 | 3,649 | 1,046 | 523 | 0 |
| Curr. Assets | 12,050 | 14,035 | 20,390 | 25,864 | 32,492 |
| Inventories | 194 | 302 | 602 | 902 | 1,202 |
| Debtors | 3,682 | 5,293 | 8,093 | 10,912 | 14,535 |
| Cash & Bank Balance | 4,192 | 4,948 | 2,923 | 3,523 | 4,123 |
| Other current assets | 3,982 | 3,491 | 8,772 | 10,526 | 12,632 |
| Curr. Liab. & Prov. | 18,624 | 19,418 | 47,637 | 50,185 | 53,027 |
| Sundry Liabilities | 18,579 | 19,267 | 47,462 | 49,835 | 52,327 |
| Provisions | 45 | 151 | 175 | 350 | 700 |
| Net Curr. Assets | -6,573 | -5,383 | -27,247 | -24,321 | -20,535 |
| Appl. of Funds | 80,288 | 99,380 | 118,890 | 133,400 | 148,296 |

E: MOST Estimates

| RATIOS | | | | | |
|---------------------------------|-------------|------------|------------|-------------|-------------|
| Y/E MARCH | 2003 | 2004 | 2005 | 2006E | 2007E |
| Basic (Rs) | | | | | |
| EPS | -0.7 | 3.2 | 7.8 | 13.6 | 20.2 |
| Cash EPS | 2.7 | 8.1 | 13.8 | 21.6 | 30.4 |
| Book Value | 24.1 | 27.6 | 36.4 | 50.1 | 69.4 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payout % (Incl.Div.Taxes) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation (x) | | | | | |
| P/E | | 110.0 | 45.0 | 25.7 | 17.3 |
| Cash P/E | | 43.4 | 25.3 | 16.2 | 11.5 |
| EV/EBITDA | | 41.4 | 23.1 | 15.6 | 10.9 |
| EV/Sales | | 13.8 | 8.7 | 6.0 | 4.4 |
| Price/Book Value | | 12.7 | 9.6 | 7.0 | 5.0 |
| Dividend Yield (%) | | 0.0 | 0.0 | 0.0 | 1.0 |
| Profitability Ratios (%) | | | | | |
| RoE | -2.9 | 12.9 | 24.3 | 31.8 | 34.2 |
| RoCE | 12 | 9.2 | 17.1 | 23.6 | 30.0 |
| Turnover Ratios | | | | | |
| Debtors (Days) | 56 | 50 | 46 | 43 | 43 |
| Asset Turnover (x) | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 |
| Leverage Ratio | | | | | |
| Debt/Equity Ratio(x) | 0.8 | 0.9 | 0.7 | 0.4 | 0.1 |

| CASH FLOW STATEMENT (Rs Million) | | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E MARCH | 2003 | 2004 | 2005 | 2006E | 2007E |
| Op.Profit/(Loss) bef Tax | 7,582 | 16,707 | 30,069 | 43,805 | 60,693 |
| Other Income | -317 | 307 | -211 | 547 | -100 |
| Interest Paid | -2,663 | -2,411 | -2,249 | -1,231 | -1,051 |
| Direct Taxes Paid | -2 | 64 | -1,889 | -2,776 | -3,291 |
| (Inc)/Dec in Wkg. Cap. | -6,587 | -434 | 19,839 | -2,528 | -3,187 |
| CF from Op.Activity | -1,987 | 14,233 | 45,558 | 37,817 | 53,065 |
| (inc)/Dec in FA + CWIP | -19,895 | -22,633 | -48,733 | -29,254 | -32,402 |
| (Pur)/Sale of Investments | 0 | 0 | -5,662 | 0 | 0 |
| CF from Inv.Activity | -19,895 | -22,633 | -54,395 | -29,254 | -32,402 |
| Issue of Shares | -154 | 117 | 1,462 | 0 | 0 |
| Inc/(Dec) in Debt | 19,697 | 12,726 | 2,375 | -10,890 | -20,572 |
| Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| CF from Fin.Activity | 19,542 | 12,843 | 3,837 | -10,890 | -20,572 |
| Inc/(Dec) in Cash | -1,871 | 756 | -2,025 | 600 | 3,138 |
| Add: Opening Balance | 6,062 | 4,192 | 4,948 | 2,923 | 3,523 |
| Closing Balance | 4,192 | 4,948 | 2,923 | 3,523 | 6,661 |

E: MOST Estimates

N O T E S

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Disclosure of Interest Statement**Bharti Tele-Ventures**

- | | |
|--|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |

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