

### BUY

Price	Target Price
<b>Rs902</b>	<b>1,292</b>
<b>Sensex</b>	<b>17,378</b>

### Price Performance

(%)	1M	3M	6M	12M
Absolute	9	4	(10)	11
Rel. to Sensex	3	8	3	(11)

Source: Bloomberg

### Stock Details

Sector	Telecom
Reuters	BRT11.BO
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18979
Face Value (Rs)	10
52 Week H/L (Rs)	1149/700
Market Cap (Rs bn)	1,712
Daily Avg Vol (No of sh)	3379670
Daily Avg Turnover (US\$ mn)	69.5

### Shareholding Pattern (%)

(31<sup>st</sup> Mar.'08)

Promoters	65.9
FII/NRI	26.2
Institutions	4.6
Private Corp.	2.0
Public	1.4

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# Bharti Airtel

## Remarkable performance, maintain BUY

Result  
Update

Bharti Airtel's Q4FY08 results were above our expectations. The net sales for the quarter grew by 12.3% QoQ to Rs78.2bn (against our estimate of Rs75.2bn). The revenue growth was driven by a **remarkable operating performance in the mobile business where the MOU growth of 7% qoq** helped ARPU remain flat at Rs357. The overall EBITDA margins declined by 100bps qoq to 41.6%. The decline in EBITDA margins was due to increased sales and marketing cost (15.3% vs 14% in Q3), transfer of tower assets to Bharti Infratel (led to decline in mobile EBITDA to 35.5% v/s 40.8% in Q308) and lower realization due to rate cut. The PAT for the quarter grew by 7.6% QoQ to 18.5bn. The PAT growth was lower because of higher finance charges of Rs2157mn consisting of Rs1264mn on account of forex loss.

We revise our subscriber growth estimates to a CAGR of 34% over FY08-10E (against our earlier estimate of 29% CAGR) and subsequently trim our ARPU estimates on the back of dip in realizations. We reduce our EBITDA margin estimates due to the impact of tower rentals to 40.9% and 41% for FY09 and FY10 respectively. While margins in the mobile business would remain subdued (due to tower rentals), management commentary indicates that the overall margins in excess of 40% are sustainable. Based on our revised estimates **we expect the revenues, EBITDA and PAT to grow by a CAGR of 34%, 27% and 28% respectively over FY08-10E** (our estimates do not factor segmental financials of passive infrastructure business). Our revised EPS estimates for FY09E and FY10E stand at Rs45.5 and Rs57.7 respectively.

The **regulatory issues especially on the spectrum front no more remain a concern** for the sector as a whole and for Bharti in particular. Based on the revised spectrum policy of the DoT, **Bharti has received additional spectrum in 6 circles out of the 13 circles eligible for**. Management commentary indicates that additional spectrum in 7 circles is due and would be received over the next few quarters. Also the recent M&A norms which restrict the new licensees to merge before the completion of 3 years and effects the subscriber linked spectrum criteria on merger as well, discourages the players with an intention of an easy exit or spectrum hoarding. This move by DoT coupled with the aggressive rate cuts by the operators (which has generated demand elasticity) puts pressure on the new and weaker entrants in the sector. The two key issues with the telecom sector (spectrum & rising competition) are more or less dealt with, easing the regulatory overhang on the sector.

Post revision in our estimates, we continue to **maintain BUY rating on Bharti Airtel with a revised price target of Rs1,292**. Our price target is based on DCF value of core telecom services business (ex tower business) at Rs1,154 /share (WACC of 11.7%) and value of tower business at Rs138 per share. At CMP of Rs902, the stock trades at 19.8x and 15.6x its EPS and 11.9x and 9.6x EV/EBITDA for FY09E and FY10E respectively.

### Subscriber growth strong – momentum to continue

During FY08, Bharti Airtel added 24.8mn mobile subscribers implying a monthly net addition of over 2mn subscribers totaling 61.98mn subscribers (ahead of our estimated 61mn). The management commentary shows extreme confidence on continuation of the pace of 2mn+ monthly net additions primarily driven by affordability factor. We revise our subscriber growth estimates for FY09E and FY10E by 5.6% and 8.2% respectively implying a 34% CAGR growth in mobile subscribers over FY08-10E to 111mn subscribers as compared to our earlier estimate of 29% CAGR over the same period.

	Net	EBITDA			ROCE	EV/	P/BV	EPS	
YE-Mar	Sales	(Core)	(%)	PAT	(%)	EBITDA	(Rs)	(Rs)	P/E
FY07	185,196	74,264	40.1	43,039	27.9	23.6	12.6	22.7	39.7
FY08E	270,250	113,398	42.0	68,157	28.2	15.4	7.7	35.9	25.1
FY09E	360,271	147,459	40.9	86,335	27.4	11.9	5.5	45.5	19.8
FY10E	443,871	182,120	41.0	109,443	28.7	9.6	4.1	57.7	15.6

### Positive surprise in usage due to price elasticity

During Q4FY08, Bharti Airtel reported a remarkable 7% increase in the MOU (minutes of usage) per subscriber, thanks to the demand elasticity on tariff rationalization. During the quarter Bharti reduced the peak local call tariff across the schemes to Re1 per minute, which resulted in an increased usage and hence a remarkable growth in MOU to 507 minutes per subscriber (the highest so far in any quarter or by any other operator in India). *The management commentary indicates that the current levels of usage per subscriber are sustainable on the back of rising per capita income in the country and rising spends on telecom.* In our estimates, we have factored MOU of 497 and 507 minutes per subscriber for FY09E and FY10E respectively.

### ARPU revised on back of sharp fall in realization (RPM)

The RPM for Q4FY08 fell sharply by 6.8% qoq to Re0.70 per minute. This fall was due to aggressive tariff reduction in order to provoke higher usage. While the mobile tariffs in India are already the lowest in the world, the current tariff level (RPM of Re0.70) provides limited scope for further reduction. However rising competition and a run for market share can result in further reductions in the tariffs. We revise our RPM estimates down by to Re0.66 and Re0.62 for FY09E and FY10E respectively.

### Estimates revised

Post the FY08 results we revise our estimates to factor higher subscriber additions, and trim our ARPU estimates on the back of dip in realizations factoring conservative MOU estimates. We reduce our EBIDTA margin estimates due to the impact of tower rentals to 40.9% and 41% for FY09 and FY10 respectively. We believe that the sales and marketing expenses would ease out going forward. While margins in the mobile business would remain subdued (due to tower rentals), management commentary indicates that the overall margins in excess of 40% are sustainable.

We expect the revenues, EBIDTA and PAT to grow by a CAGR of 28%, 27% and 28% respectively over FY08-10E. Our revised EPS estimates for FY09E and FY10E stand at Rs45.5 and Rs57.7 respectively. Our estimates do not include the revenues and profitability from passive infrastructure business as we have valued the passive infrastructure business separately.

	Actual	Old estimates		New estimates		Change %	
	FY08	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
Subscribers	61,985	83,233	102,625	87,920	111,048	5.6%	8.2%
ARPU	366	352	334	337	317	-4.2%	-5.2%
MOU	478	518	528	502	507	-3.0%	-4.0%
RPM	0.77	0.68	0.63	0.67	0.62	-1.1%	-1.2%
Revenues	270,250	375,042	453,913	360,271	443,871	-3.9%	-2.2%
EBIDTA	113,398	158,380	193,957	147,459	182,120	-6.9%	-6.1%
EBIDTA %	42.0	42.2	42.7	40.9	41.0	(130)	(170)
PAT	67,007	93,360	116,384	86,335	109,443	-7.5%	-6.0%
EPS	35.31	49.25	61.40	45.49	57.67	-7.6%	-6.1%

Source: Emkay research

### Valuation & recommendation

Post revision in our estimates factoring revenue, EBIDTA and PAT growth by a CAGR 28%, 27% and 28% respectively over FY08-10E, we continue to maintain our bullish view on Bharti Airtel with a revised price target of Rs1,292. Our price target is based on DCF value of core telecom services business (ex tower business) at Rs1,154 per share, assuming a WACC of 11.7% and value of tower business at Rs138 per share.

At CMP of Rs902, the stock trades at 19.8x and 15.6x its EPS and 11.9x and 9.6x EV/EBIDTA for FY09E and FY10E respectively. We maintain our BUY rating on the stock with a revised price target of Rs1,292 per share

### DCF valuation of Bharti Airtel

	FY09E	FY10E	FY11E	FY12E	FY13E
EBITDA	147,459	182,120	212,049	238,139	259,715
Tax	15,236	19,322	22,745	25,541	27,660
Inc/(dec) in working capital	24,424	22,031	18,064	14,077	12,250
<b>Cash flow from operations</b>	<b>156,647</b>	<b>184,830</b>	<b>207,368</b>	<b>226,675</b>	<b>244,305</b>
Capex	102,500	90,200	82,000	82,000	82,000
<b>FCF</b>	<b>54,147</b>	<b>94,630</b>	<b>125,368</b>	<b>144,675</b>	<b>162,305</b>
FCF growth		75%	32%	15%	12%
WACC	11.7%				
<b>PV of cash flows till 2012 (a)</b>	<b>401,034</b>				
Interim growth rate FY13-FY20	10.0%				
<b>PV of FCF from FY13-FY20 (b)</b>	<b>616,716</b>				
Terminal gr rate FY20 and onwards	3.0%				
FCF in FY20	316,287				
Terminal Value	3,764,457				
PV of terminal value (c)	1,001,884				
<b>EV (a+b+c)</b>	<b>2,019,634</b>				
Net debt	39,065				
<b>Value to equity shareholders</b>	<b>1,980,569</b>				
	Now	12 month			
<b>Value per share</b>	<b>1,044</b>	<b>1,154</b>			

### Mobile business – revenue surprises, margins disappoint

The revenue growth of 14.4% in the mobile business took the street for a surprise, driven by stable ARPU on the back of usage elasticity. The RPM declined by 6.8% qoq to Re0.70 and MOU grew by a remarkable 7% qoq to 507 minutes resulting in a flat ARPU of Rs357. During the quarter Airtel reduced its peak local call tariff across the schemes to Re1 per minute, which resulted in significant price elasticity and hence an increase in the MOU. The mobile EBIDTA margins declined by 530bps qoq to 35.5% (against 40.8% in Q4FY08) mainly due to accounting of tower rentals (320bps), an aggressive sales and marketing spend (120bps) and the rest due to tariff cuts. However, with shift of capex into opex, the EBIT margins declined by 100bps qoq to 26.4%.

### Mobile business performance indicators

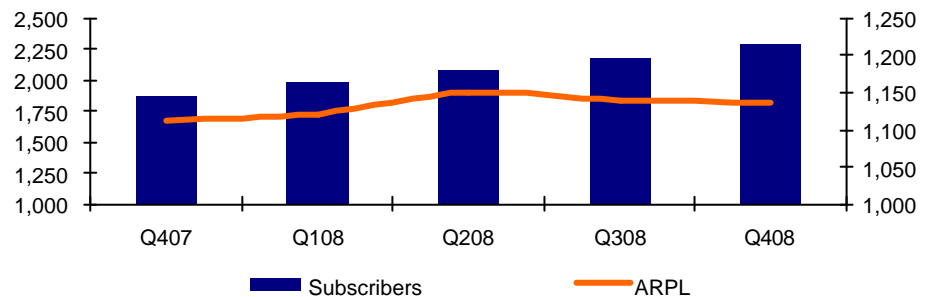
	Q407	Q108	Q208	Q308	Q408	% qoq
ARPU (Rs)	406	390	366	358	357	-0.3%
MOU (mins)	475	478	469	474	507	7.0%
RPM (Rs)	0.86	0.82	0.78	0.76	0.70	-6.8%
EPM (Rs)	0.34	0.33	0.32	0.31	0.26	-17.5%
EBIDTA %	39.1%	40.6%	41.0%	40.8%	35.5%	

Source: Company, Emkay research

### Telemedia services

The revenues from the Telemedia services, increased by 4.6% qoq to Rs7.6bn due to continued cherry picking of customers with a focus on protecting ARPL. The subscriber base in this business increased by 4.8% qoq to 2.3mn and the ARPL remained flat at Rs1137 against Rs1140 during previous quarter. The EBIDTA margins in the business continued to surge with improvement of 40bps qoq to 43.8%.

Telemedia subscribers v/s ARPL



### Long distance services

The revenues from the long distance business registered a growth of 10.8% qoq to Rs12.6bn. The volume growth of 18.5% qoq continues to drive the revenue growth in the business despite falling realizations. The EBIDTA margins remained stable at 32% levels.

Long distance business	Q407	Q108	Q208	Q308	Q408	QoQ
NLD traffic	5004	5,856	6,774	7,898	9398	19.0%
ILD traffic	1,194	1,243	1,345	1,591	1850	16.3%
Total LD traffic	6,198	7,099	8,119	9,489	11,248	18.5%
Avg realisation per min	1.64	1.30	1.24	1.20	1.12	-6.3%
Avg EBIDTA per min	0.59	0.45	0.43	0.38	0.36	-6.5%
EBIDTA %	35.8%	34.4%	34.5%	32.2%	32.0%	

Source: Company, Emkay research

**Passive Infrastructure business**

The company reported key financials for its wholly owned passive infrastructure subsidiary Bharti Infratel, which commenced its operations on an independent basis w.e.f. 31st January 2008. Infratel had 52,865 towers as on March 2008 of which ~30000 would be transferred for a 42% stake in Indus towers. Infratel had a tenancy of 1.22 at the end of the quarter and has reported revenues of Rs6bn for the 2 months effective 31st Jan.

**Passive Infrastructure financials**

Parameters	Q4FY08
Revenues	6023
EBIDTA	2236
EBIT	986
EBIDTA %	37.1
Total Towers	52865
GBT	33590
RTT	19275
Tenancy	1.22
Revenue/ tenant/ month	30329
Revenue/ tower/ month	37001
EBIDTA/ tower/ month	13737

## Quarterly result update

	Q407	Q108	Q208	Q308	Q408	QoQ %
Mobility	42,431	46,976	50,579	56,105	64,201	14.4
Broadband & Telecom	6,044	6,513	7,023	7,307	7,641	4.6
Long distance	10,156	9,210	10,048	11,346	12,566	10.8
Enterprise services	2,805	3,156	3,969	3,945	4,578	16.0
Passive Infrastructure	-	-	-	-	6,023	
Inter segment	(7,503)	(6,808)	(8,245)	(9,064)	(16,818)	
<b>Net revenues</b>	<b>53,933</b>	<b>59,047</b>	<b>63,374</b>	<b>69,639</b>	<b>78,191</b>	12.3
<i>Growth QoQ%</i>	9.8%	9.5%	7.3%	9.9%	12.3%	
Access charges	9,335	9,071	9,317	10,424	12,298	18.0
License fees, & charges	5,098	5,827	6,281	6,991	7,801	11.6
Network operations costs	5,790	6,824	7,520	8,851	9,807	10.8
Employee costs	3,446	3,512	3,745	3,789	3,722	(1.8)
Costs of equipment sales	350	184	206	183	89	(51.4)
Sales & marketing exp	7,506	9,162	9,208	9,767	11,956	22.4
<b>Total operating expenses</b>	<b>31,525</b>	<b>34,580</b>	<b>36,277</b>	<b>40,005</b>	<b>45,673</b>	14.2
<b>EBIDTA</b>	<b>22,408</b>	<b>24,467</b>	<b>27,097</b>	<b>29,634</b>	<b>32,518</b>	9.7
Depreciation	7,239	8,120	9,062	10,377	9,702	(6.5)
<b>EBIT</b>	<b>15,169</b>	<b>16,347</b>	<b>18,035</b>	<b>19,257</b>	<b>22,816</b>	18.5
Interest charges	477	(1,752)	1,126	810	2,157	
Other income	376	809	605	643	683	6.2
Pre operative costs	0	6	46	57	208	
Loss in JV & associates	0	1	(3)		-2	
<b>PBT</b>	<b>15,068</b>	<b>18,901</b>	<b>17,471</b>	<b>19,033</b>	<b>21,132</b>	11.0
Taxes	1,353	3,594	1,135	1,564	2,085	33.3
Minority interest	184	191	197	244	518	112.3
<b>PAT</b>	<b>13,531</b>	<b>15,116</b>	<b>16,139</b>	<b>17,225</b>	<b>18,529</b>	7.6
<b>% of Net sales</b>						<b>Chg bps</b>
Access charges	17.3	15.4	14.7	15.0	15.7	76
Licence fees, & charges	9.5	9.9	9.9	10.0	10.0	(6)
Network operations costs	10.7	11.6	11.9	12.7	12.5	(17)
Employee costs	6.4	5.9	5.9	5.4	4.8	(68)
Sales & marketing exp	13.9	15.5	14.5	14.0	15.3	127
<b>EBIDTA</b>	<b>41.5</b>	<b>41.4</b>	<b>42.8</b>	<b>42.6</b>	<b>41.6</b>	<b>(97)</b>
EBIT	28.1	27.7	28.5	27.7	29.2	153
PAT	25.1	25.6	25.5	24.7	23.7	(104)

Source: Emkay research

## Financials

## Profit &amp; Loss

	FY07	FY08	FY09E	FY10E
<b>Net Sales</b>	<b>185,196</b>	<b>270,250</b>	<b>360,271</b>	<b>443,871</b>
<i>Growth (%)</i>	59.4	45.9	33.3	23.2
Access & interconnect. chg	31,378	41,110	56,743	69,910
<i>% to sales</i>	16.9	15.2	15.8	15.8
Network optg exp	21,100	33,002	45,394	55,928
<i>% to sales</i>	11.4	12.2	12.6	12.6
Personnel exp	12,488	14,768	19,455	23,525
<i>% to sales</i>	6.7	5.5	5.4	5.3
License fees	16,953	26,900	36,027	44,831
<i>% to sales</i>	9.2	10.0	10.0	10.1
Sales & mktg exp	28,416	40,093	54,401	66,581
<i>% to sales</i>	15.3	14.8	15.1	15.0
Other optg exp	597	979	793	977
<i>% to sales</i>	0.3	0.4	0.2	0.2
<b>EBITDA</b>	<b>74,264</b>	<b>113,398</b>	<b>147,459</b>	<b>182,120</b>
<i>EBITDA %</i>	40.1	42.0	40.9	41.0
Depreciation	24,973	37,261	46,788	56,423
<b>EBIT</b>	<b>49,291</b>	<b>76,137</b>	<b>100,671</b>	<b>125,697</b>
<i>EBIT %</i>	26.6	28.2	27.9	28.3
Interest	1,438	2,341	1,840	(375)
Other Income	1,008	2,739	2,740	2,740
<b>PBT</b>	<b>48,860</b>	<b>76,535</b>	<b>101,571</b>	<b>128,812</b>
Taxes	5,822	8,378	15,236	19,322
<i>ETR</i>	11.9	10.9	15.0	15.0
<b>PAT</b>	<b>43,039</b>	<b>68,157</b>	<b>86,335</b>	<b>109,490</b>
<i>Growth (%)</i>	88.5	58.4	26.7	26.8

## Balance Sheet

	FY07	FY08E	FY09E	FY10E
Equity Capital	18,959	18,979	18,979	18,979
Reserves & surplus	116,594	203,606	289,941	399,431
<b>Net worth</b>	<b>135,553</b>	<b>222,585</b>	<b>308,920</b>	<b>418,410</b>
Minority interest	1,801	3,013	3,013	3,013
Total Debt	52,461	97,063	67,063	40,063
Others	12,330	15,195	16,666	17,811
<b>Capital Employed</b>	<b>202,145</b>	<b>337,856</b>	<b>395,662</b>	<b>479,297</b>
<b>Gross Block</b>	276,569	416,634	519,134	609,334
Less Depreciation	65,966	103,227	150,015	206,438
<b>Net Fixed Assets</b>	<b>210,604</b>	<b>313,407</b>	<b>369,119</b>	<b>402,895</b>
Net intangible assets	37,799	40,247	40,247	40,247
Investments	682	108	108	108
Other non current assets	3,887	5,041	5,830	6,454
<b>Current assets</b>				
Inventory	912	1,142	1,481	1,824
Debtors	17,982	28,062	31,585	36,483
Cash and Bank	10,384	57,998	83,727	154,993
Other CA	15,618	26,638	29,611	36,483
<b>Total Curr. Assets</b>	<b>44,896</b>	<b>113,840</b>	<b>146,404</b>	<b>229,783</b>
Current Liabilities	95,724	134,787	166,046	200,190
<b>Net Current Assets</b>	<b>(50,827)</b>	<b>(20,947)</b>	<b>(19,642)</b>	<b>29,593</b>
<b>Capital Deployed</b>	<b>202,145</b>	<b>337,856</b>	<b>395,662</b>	<b>479,297</b>

## Cash Flow Statement

	FY07	FY08E	FY09E	FY10E
EBIT	49,291	76,137	100,671	125,697
Depreciation	24,973	37,261	46,788	56,423
Interest (Net)	(1,438)	(2,341)	(1,840)	375
Tax Paid	(5,822)	(8,378)	(15,236)	(19,322)
Change in WC	22,119	17,734	24,424	22,031
Others	541	2,740	2,740	2,740
<b>CFO</b>	<b>89,664</b>	<b>123,153</b>	<b>157,547</b>	<b>187,945</b>
Net Capex	(91,895)	(142,512)	(102,500)	(90,200)
Others	370	2,285	682	522
<b>CFI</b>	<b>(91,524)</b>	<b>(140,227)</b>	<b>(101,818)</b>	<b>(89,678)</b>
Equity Issue	803	20,025	0	0
Net Borrowings	5,066	44,602	(30,000)	(27,000)
others	422	61	0	0
<b>CFF</b>	<b>6,291</b>	<b>64,688</b>	<b>(30,000)</b>	<b>(27,000)</b>
Inc/(dec) in cash	4,431	47,614	25,729	71,266
Opening Cash	5,953	10,384	57,998	83,727
<b>Closing Cash</b>	<b>10,384</b>	<b>57,998</b>	<b>83,727</b>	<b>154,993</b>

## Ratios

	FY07	FY08E	FY09E	FY10E
EBITDA %	40.1	42.0	40.9	41.0
EBIT %	26.6	28.2	27.9	28.3
NPM %	23.2	25.2	24.0	24.7
ROCE %	27.9	28.2	27.4	28.7
ROE %	37.8	38.1	32.5	30.1
ROIC %	29.3	32.3	34.0	39.5
EPS	22.7	35.9	45.5	57.7
Cash EPS	35.9	55.5	70.1	87.4
Book Value	71.5	117.3	162.8	220.5
Net Debt: Equity	0.3	0.2	(0.1)	(0.3)
Asset Turnover	0.9	0.8	0.9	0.9
PE (x)	39.7	25.1	19.8	15.6
Cash PE (x)	25.1	16.2	12.9	10.3
P/BV (x)	12.6	7.7	5.5	4.1
EV/Sales (x)	9.5	6.5	4.9	3.9
EV/EBITDA	23.6	15.4	11.9	9.6

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