



ENAM Securities
India Research

Rs 321

Target Price: Rs 370

Potential Upside: 15%

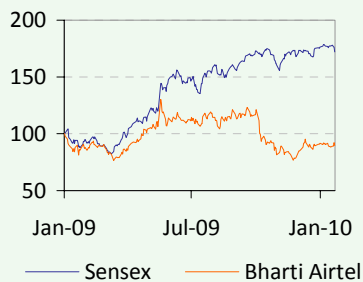
Sector avg. upside: 0% to 15%
(mkt cap wtd)

Bharti Airtel Ltd

Relative to sector: **Neutral**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 3,797 mn
Market cap	: Rs.1,220 bn
52 week high/low	: Rs 495/ Rs 230
Avg. daily vol. (6mth)	: 12.1 mn shares
Bloomberg code	: BHARTI IB
Reuters code	: BRTI.BO

Shareholding (%) Dec-09 QoQ chg

Promoters	: 67.8	0.2
FIIs	: 17.5	(0.9)
MFs / UTI	: 3.1	(0.4)
Banks / FIs	: 4.9	0.2
Others	: 6.7	0.9

Financial Summary

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2009	369,615	151,677	84,698	-	22.3	27	-	31.4	31.4	-
2010E	393,713	162,740	91,767	23.6	24.2	8	13.3	25.5	24.7	7.5
2011E	413,670	168,916	92,448	22.7	24.4	1	13.2	20.6	22.1	6.9
2012E	465,562	189,713	102,486	25.3	27.0	11	11.9	20.5	24.6	6.2

Source: *Consensus broker estimates, Company, ENAM Research

COMPETITION HAMPERS NEAR TERM GROWTH

Continued competitive intensity in Q3FY10 led to a 7.8% QoQ decline in wireless ARPM to Rs 0.52. However, with price elasticity partially kicking in, MoU decline was stemmed at 0.9% QoQ. Consequently, ARPU declined 8.6% QoQ to Rs 230 (Rs 252 in Q2FY10). Bharti reported consolidated revenue of Rs 97.7 bn (down 0.7% QoQ; up 1.4% YoY), EBITDA of Rs 39.1 bn (down 6% QoQ; down 0.9% YoY), and PAT of Rs 22.1 bn (down 5% QoQ; up 2% YoY).

Key highlights:

- **Revenue:** Wireless revs fell 1.7% QoQ to Rs 79.6 bn as subs growth of 7.6% QoQ was offset by 8.6% QoQ decline in ARPU.
- **EBITDA margin down ~200 bps QoQ** to 40% led largely by margin declines in the mobile services (30.4% in Q3FY10 vs. 31.9% in Q2FY10). Only the Telemedia operations among its businesses have shown an increase in EBITDA to 46.1% (42.9% in Q2FY10).
- **PAT declined** 5% QoQ mitigated by forex gain of Rs 1.49 bn vs. forex loss of Rs 678 mn in Q2FY10.
- The competitive pressures are evident in the higher pre-paid churn at 6.5% vs. 4.6% in Q2FY10.

Outlook & valuations: Improved tenancy (1.66x vs. 1.61x in Q2FY10 for Indus Towers and 1.57x vs. 1.49x in Q2FY10 for Bharti Infratel) in the tower business will help mitigate the impact of weak wireless earnings. Although Bharti witnessed initial signs of negative MoU elasticity returning as ARPM continue to drop, launches by new entrants will continue to exert a drag on wireless profitability. While Bharti's diversified revenue streams and balance sheet strength give it a significant advantage, competitive challenges remain a concern as new entrants are sufficiently funded for a price war in the medium-term. Consequently, we maintain sector **Neutral** rating while increasing our target price marginally to Rs 370 (Rs 367 earlier).

Result Update

(Rs mn)	Quarter ended					12 months ended		
	Dec-09	Dec-08	% Chg	Sep-09	% Chg	Mar-10E	Mar-09	% Chg
Net Sales	97,722	96,334	1.4	98,455	(0.7)	393,713	369,615	6.5
EBIDTA	39,112	39,450	(0.9)	41,416	(5.6)	162,740	151,677	7.3
Other income	223	239	(6.7)	409	(45.5)	923	1,302	(29.1)
PBIDT	39,335	39,689	(0.9)	41,825	(6.0)	163,663	152,979	7.0
Depreciation	15,403	12,702	21.3	14,796	4.1	60,312	47,581	26.8
Interest	(1,769)	2,358	(175.0)	440	(501.9)	(3,438)	11,613	(129.6)
Other expenditure	(15)	454	(103.3)	12	(226.7)	-	-	-
PBT	25,716	24,629	4.4	26,589	(3.3)	106,789	93,785	13.9
Tax	3,192	2,558	24.8	2873	11.1	13,516	6,615	104.3
Minority Interest	426	478	(11.0)	506	(15.9)	2,208	1,046	111.1
PAT	22,098	21,593	2.3	23,210	(4.8)	91,767	84,698	8.3
No. of shares (mn)	3,794	3,794	-	3,794	-	3,794	3,793	-
EBIDTA margins (%)	40.0	41.0	(93) bps	42.1	(204) bps	41.3	41.0	30 bps
PBIDT margins (%)	40.3	41.2	(95) bps	42.5	(223) bps	41.6	41.4	18 bps
EPS - quarter (Rs.)	5.8	5.7	2.3	6.1	(4.8)	24.2	22.3	8.3

Source: Company, ENAM Research

Segmental information

(Rs mn)	Q3FY10	% chg QoQ	% chg YoY	Comments/ Highlights
Mobile Services				
Revenues	79,618	-1.7%	0.3%	Increase in subscriber growth (7.6% QoQ) was offset by decline in ARPM (7.8% QoQ) and MoU (0.9% QoQ). Consequently, ARPU declined by 8.6%
EBITDA	24,178	-6.5%	-3.1%	
EBIT	16,303	-10.2%	-11.4%	
EBITDA Margins (%)	30.4%	-	-	
Capex	7,743	-	-	
MoUs (mn mins)	153,241	6.7%	24.0%	
Broadband & Telephone Services				
Revenues	8,550	0.1%	1.1%	
EBITDA	3,944	7.6%	11.7%	
EBIT	2,077	10.1%	5.5%	
EBITDA Margins (%)	46.1%	-	-	Cost rationalization due to outsourcing of infra management
Capex	1,761	-	-	
MoUs (mn mins)	4,576	-4.6%	-3.7%	
Enterprise Services				
Revenues	20,546	-3.7%	-5.8%	
EBITDA	10,035	-9.0%	2.4%	
EBIT	8,222	-12.1%	-0.4%	
EBITDA Margins (%)	48.8%	-	-	Margin will remain lumpy as business is project driven
Capex	1,835	-	-	
MoUs (mn mins) - NLD	13,944	-	-	
MoUs (mn mins) - ILD	3,100	-	-	

Continued overleaf...

(Rs mn)	Q3FY10	% chg QoQ	% chg YoY	Comments/ Highlights
Passive Infrastructure Services				
Revenues*	9,267	7.9%	-27.0%	No: of cell sites for Bharti Infratel have increased from 29,112 to 29,806 and for Indus, it increased from 100,728 to 102,696
EBITDA*	4,269	6.2%	0.3%	Tenancy increase for Bharti infratel from 1.49x to 1.57x and Indus from 1.61x to 1.66x led to robust EBITDA growth
EBIT*	803	49.5%	77.0%	
EBITDA Margins (%)	46.1%	-	-	
Capex	1,926	-	-	
Consolidated				
Capex	15,389	-	-	
MoUs	174,861	6.6%	22.6%	

Source: Company, ENAM Research * Note: YoY change is not comparable due to transfer of towers to Indus

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