

Bharti Airtel

Rs826

OUTPERFORMER**RESULT NOTE**

Mkt Cap: Rs1,566bn; US\$38.1bn

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Result: Q4FY07

Comment: Mobility business momentum continues; margins continue to expand

Last report: 9 April 2007 (Price Rs746; Recommendation: Out performer)

Key financials

Year to 31 March (Rs m)	Revenues	yoy change (%)	Net profit	EPS (Rs)	yoy chg (%)	PER (x)	EV/E (x)
2006	116,634	45.2	22,585	11.9	50.0	69.2	36.6
2007	185,199	58.8	42,571	22.5	88.0	36.8	21.4
2008E	272,516	47.1	62,739	33.1	47.4	25.0	14.4
2009E	342,174	25.6	81,587	43.0	30.0	19.2	11.4

Bharti Airtel's (Bharti) USGAAP revenues at Rs53.9b were lower than consensus forecast of Rs55.7b as broadband business remained flat. EBITDA margins expanded by 70bp as mobility business margins expanded by 150bp. Net profit at Rs13.5b was higher than consensus forecast of Rs12.3b due to better margins, higher other income and lower tax. Mobility business revenues grew 12.9% qoq in line with our forecast with subscriber base growing by 17% qoq and ARPU decline of 5% to Rs406. The reduction in roaming tariff led to revenues being lower at Rs600m and thereby impacted the ARPU by Rs6, in which case the ARPU decline would have been 3.5% qoq. It plans to spend \$3.3-3.5b as capex in FY08 and set up 30,000 additional towers and add about 20-25,000 km of optic fibre capacity. We forecast 35% CAGR in revenues and 40% CAGR in earnings over FY07-09E. We believe, the key differentiator for Bharti is its management bandwidth and its execution capabilities. At 14.4x FY08 EBITDA and 11.4x FY09 EBITDA, we maintain Outperformer.

KEY HIGHLIGHTS**□ Mobility business fires on all cylinders**

Bharti's subscriber base grew from 31.9m to 37.1m during the quarter. The company reported ARPU of Rs406 compared to Rs427 in the previous quarter, a decline of 5% qoq. The ARPU was impacted due to the cuts in roaming tariff effective February 15, 2007. The company stated that the tariff cut led to lower revenues to the extent of Rs600m. As a result of this, ARPU was lower by Rs6. The subscriber base grew by 90% while ARPU declined by 8% during FY07. During the quarter, Bharti now covers 59% of the population compared to 54% in the previous quarter. Its EBITDA margins increased by 150bp to 39.1% and the management remained confident of increasing this further.

□ Some Key metrics

- Subscriber base at 37.1m, prepaid subscriber base – 88.5% (87.1% in the previous quarter)
- Postpaid churn - 3.2% (3.5% previous quarter) and prepaid churn – 3.6% (4.8% previous quarter)
- Blended APRU – Rs406 (Rs427 per quarter)
- Blended MOU – 475 minutes (467 previous quarter)

- Revenue per minute – Rs0.86 (Rs0.91)
- Value-added services – 10.1% of revenues (SMS as % of mobile at 6%)
- Employees – 20,314 (18,213)

□ Broadband business stays flat

Bharti's broadband and telephone services business revenues remained flat at Rs6b. Its subscriber base increased from 1.7m to 1.87m during the quarter but ARPU declined from Rs1,198 to Rs1,112. It offers its services in 94 cities and carried 4.2b minutes of traffic, a growth of 5% qoq. The EBITDA margins in this business expanded by 160bp to 28.6%. This business contributes 9.8% to overall revenues and 7.6% to overall EBITDA.

□ Long distance business topline slows and margins decline

Bharti's long distance business revenues at Rs10b grew by 9.1% qoq, slower than the 11.3% qoq growth in the previous quarter. EBITDA margins also declined by 720bp to 35.8%. It carried about 6.2b minutes of traffic, a growth of 13% qoq. This business contributes to 16.5% of overall revenues and 16.1% to overall EBITDA.

P&L account (Rs m)	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Gross revenues	34,114	38,563	43,571	49,129	53,932
Access & interconnect	6,447	6,612	7,190	8,242	9,335
as % of gross revenues	18.9	17.1	16.5	16.8	17.3
License fees and spectrum	2,969	3,395	3,886	4,574	5,098
as % of gross revenues	8.7	8.8	8.9	9.3	9.5
Network operations costs	3,447	4,754	5,228	5,328	5,790
as % of gross revenues	10.1	12.3	12.0	10.8	10.7
Personnel expenses	2,351	2,365	2,908	3,769	3,446
as % of gross revenues	6.9	6.1	6.7	7.7	6.4
Depreciation & amortization (in CORS)	4,576	4,847	5,805	7,064	7,109
as % of gross revenues	13.4	12.6	13.3	14.4	13.2
SG&A (including D&A)	5,958	6,206	7,505	7,218	7,635
as % of gross revenues	13.4	12.6	13.3	14.4	13.2
EBIT	8,085	10,048	11,098	12,982	15,170
as % of gross revenues	23.7	26.1	25.5	26.4	28.1

□ Net profit grows 11.3% qoq and 98% YoY

Bharti's overall net income at Rs13.5b was higher than street estimate of Rs12.3b mainly due to higher EBITDA margins, higher other income and lower tax rate. While other income at Rs587 was higher than our forecast of Rs118m, the tax rate fell to 9% from 14.8% in the previous quarter.

□ Capex guidance of \$3.3-3.5b for FY08

Bharti incurred \$2.1b of capex in FY07. It plans to incur \$3.-3.5b incremental in FY08 with about 70% of it going to create capacity for its mobility business. It plans to set up additional 30,000 towers in FY08 in its subsidiary Bharti Infratel, which would be shared with other operators. The company appeared confident of being able to create the planned tower infrastructure as it already set up 2,500 towers in the month of March 2007. It currently shares about 25-27% of its current 40,000 tower base. It plans to lay a further 20-25,000km of optic fibre for its broadband business in FY08.

□ Valuations and view

Bharti's overall results were in line with expectation, although margin expansion of 150bp in its mobility business was a positive surprise. The company has laid out aggressive plans to roll out further infrastructure and plans to cover 70% of the population in FY08 from 59% currently. It plans to create 30,000 base station capacity even as tower sharing would continue. Thus, the benefits of tower sharing would continue to kick in. We had estimated (read our Sector report dated 09 April, 2007) that Bharti's EBITDA margins have been boosted by 97-129bp so far due to the tower sharing initiatives adopted by the company till December 2006. We forecast 35% CAGR in revenues and 40% CAGR in earnings over FY07-09E. We don't expect Vodafone to pose any formidable challenge to Bharti's leadership status. We like the management and its superior execution capabilities. At 14.4x FY08 EBITDA and 11.4x FY09 EBITDA, we maintain Outperformer.

Quarterly results

Year to 31 March (Rs m)	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07	FY08E
Total Revenues	34,114	38,563	43,571	49,129	53,932	185,199	272,516
<i>yoy change (%)</i>	46.7	53.2	60.8	62.4	58.1	58.8	47.1
<i>qoq change (%)</i>	12.7	13.0	13.0	12.8	9.8		
Total Expenditure	21,331	23,543	26,547	29,076	31,524	110,693	159,202
EBITDA	12,783	15,020	17,024	20,053	22,408	74,506	113,314
Other Income	166	250	320	118	376	1,064	1,064
Interest	733	1,692	588	(1,318)	477	1,439	3,548
Depreciation & amortisation	4,698	4,972	5,926	7,071	7,239	25,207	36,790
Pre-operating costs	10	9	2	-	(2)	9	8
PBT	7,414	8,598	10,781	14,413	15,069	48,862	73,988
Income tax	549	952	1,378	2,139	1,353	5,822	10,358
Minority interest	41	96	66	121	184	469	891
Net Profit	6,824	7,550	9,337	12,153	13,532	42,571	62,739
<i>qoq change (%)</i>	25.1	10.6	23.7	30.2	11.3		
OPM (%)	37.5	38.9	39.1	40.8	41.5	40.2	41.6
NPM (%)	20.0	19.6	21.4	24.7	25.1	23.0	23.0

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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