

**Sector: Telecom**

Sensex:	8,814
CMP (Rs):	620
Target price (Rs):	730
Upside (%):	17.8
52 Week h/l (Rs):	950 / 484
Market cap (Rscr) :	117,633
6m Avg vol ('000Nos):	1,036
No of o/s shares (mn):	1,898
FV (Rs):	10
Bloomberg code:	BHARTI IB
Reuters code:	BRTI.BO
BSE code:	532454
NSE code:	BHARTIARTL

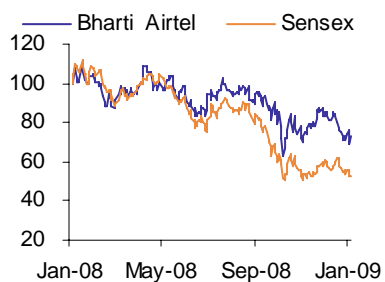
Prices as on 22 Jan, 2009.

**Shareholding pattern**

September '08	(%)
Promoters	67.2
Institutions	28.5
Non promoter corp hold	2.6
Public & others	1.7

**Performance rel. to sensx**

(%)	1m	3m	1yr
Bharti Airtel	(3.0)	6.1	19.6
Rcom	(10.3)	(15.6)	(24.2)
Idea Cellular	(7.3)	1.6	(16.9)

**Share price trend**


- ✦ Sales rise 8.3% qoq, lower than expected 10.5%, driven by 9% growth in mobile revenues
- ✦ ARPU decline of 2.1% qoq along expected lines; Minutes of Usage (MOU) fall for second quarter in a row
- ✦ Margins remain flat qoq as higher access charges nullify lower network operating expenses, SG&A costs
- ✦ Sequential PAT jumps 18.5%, better than expected, on reduced net interest expenses
- ✦ Mobile additions likely to remain resilient to current slowdown; non-wireless business, Indus Towers add value. Maintain BUY

**Result table**

(Rs m)	Q3 FY09	Q3 FY08	% yoy	Q2 FY09	% qoq
<b>Net sales</b>	<b>96,674</b>	<b>69,501</b>	<b>39.1</b>	<b>89,236</b>	<b>8.3</b>
Access and IC charges	(13,426)	(10,424)	28.8	(12,906)	4.0
Network operating exp	(15,917)	(8,757)	81.8	(14,323)	11.1
License fees	(10,032)	(6,991)	43.5	(9,092)	10.3
Personnel costs	(4,630)	(3,742)	23.7	(4,416)	4.8
S G & A expenses	(13,910)	(10,534)	32.0	(12,547)	10.9
<b>Operating profit</b>	<b>38,759</b>	<b>29,053</b>	<b>33.4</b>	<b>35,951</b>	<b>7.8</b>
<b>OPM (%)</b>	<b>40.1</b>	<b>41.8</b>	<b>(171) bps</b>	<b>40.3</b>	<b>(20) bps</b>
Depreciation	(12,488)	(9,862)	26.6	(11,022)	13.3
Interest	(4,576)	(4,961)	(7.8)	(10,996)	(58.4)
Other income	211	678	(68.8)	292	(27.5)
<b>PBT</b>	<b>21,906</b>	<b>14,909</b>	<b>46.9</b>	<b>14,226</b>	<b>54.0</b>
Tax	(1,671)	(415)	303.2	2,921	
<b>Effective tax rate (%)</b>	<b>7.6</b>	<b>2.8</b>			
Minority Interest	(471)	(209)	125.8	(465)	1.2
<b>Adjusted PAT</b>	<b>19,764</b>	<b>14,286</b>	<b>38.3</b>	<b>16,681</b>	<b>18.5</b>
<b>Adj. PAT margin (%)</b>	<b>20.4</b>	<b>20.6</b>	<b>(11) bps</b>	<b>18.7</b>	<b>175 bps</b>
Ann. EPS (Rs)	41.6	30.1	38.3	35.2	18.5

Source: Company, India Infoline Research

**Wireless, enterprise business lead 8% qoq rise in sales**

Bharti Airtel reported an 8.3% qoq increase in revenues, slightly below our estimate of 10.5%, on the back of 9% increase in mobile revenues (vs. estimate of 13.3% qoq). Growth in Enterprise services (corporates) rebounded (up 4.1% qoq) after an 8% sequential fall in Q2 FY09.

Telemedia (Broadband) revenues remained flat as ARPU/sub witnessed its largest sequential fall of 4.3% since Mar' 07. It also reported a rare 5% qoq decline in usage minutes.

**ARPU decline along expected lines; MOU falls 4% qoq**

Wireless ARPU declined 2.1% qoq to Rs324/sub, roughly in line with our estimates of Rs322/sub. MOU declined 4% qoq as the company withdrew some free and irrationally priced minutes during the quarter. Sans such rationalization, MOU would have stayed at Q2 FY09 levels. Consequently the estimated Revenue per Minute (RPM) inched marginally up to Rs0.64/min.

**Cost analysis**

As a % of net sales	Q3 FY09	Q3 FY08	bps yoy	Q2 FY09	bps qoq
Access and IC charges	13.9	15.0	(111)	14.5	(57)
Network operating expenses	16.5	12.6	386	16.1	41
License fees	10.4	10.1	32	10.2	19
Personnel costs	4.8	5.4	(60)	4.9	(16)
S G & A expenses	14.4	15.2	(77)	14.1	33
<b>Total costs</b>	<b>59.9</b>	<b>58.2</b>	<b>171</b>	<b>59.7</b>	<b>20</b>

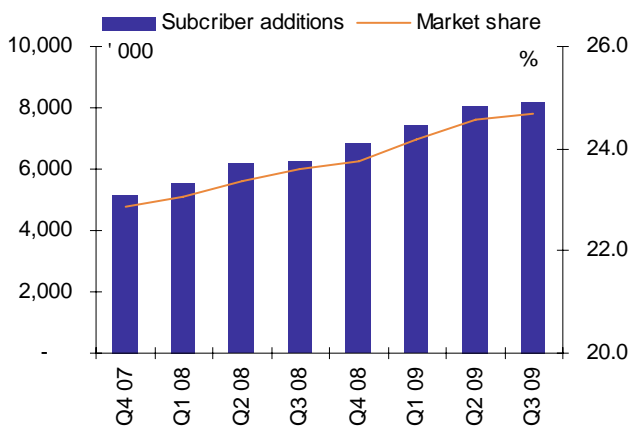
Source: Company, India Infoline Research

**Sequential OPM remains flat; network expenses rise as coverage expands**

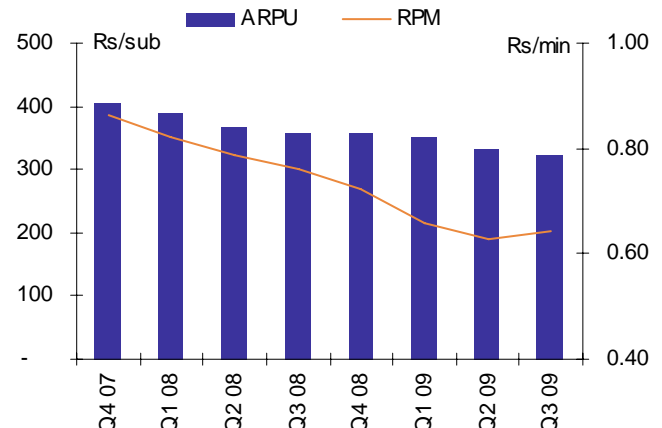
Operating profit margin for Q3 FY09 came in as per our expectations and nearly similar to 40.3% reported in the previous quarter. Network operating expenses rose 41bps qoq as the number of network sites increased 7% and population coverage touched 79%. A fall in access charges and staff costs was nullified by increase in network and SG&A expenses.

Net profit growth came in higher than expected at 18.5% qoq largely on account of lower net interest expenses

**Steady rise in wireless market share**



**Secular decline in ARPU**



Source: India Infoline Research

Note: RPM has been projected from wireless revenues

**Leadership position in wireless with earnings CAGR of 20%; Maintain BUY**

Bharti Airtel has consistently improved its pan-India market share over past two years and we expect the company to maintain its leadership position. We peg wireless subscriber CAGR growth at 33% over FY08-11 with decline in ARPU of 24% over the same period. Non-wireless businesses-Telemedia and Enterprise services-are also expected to remain robust with annual revenue growth of 15-20% over the next three years. Indus Towers, its JV with Vodafone Essar and Idea Cellular, would aid in faster network roll out and likely capex savings for its core tenants. We estimate the EV of Indus at US\$10.2bn (WACC 10.1%, terminal growth 3%).

With an under-levered balance sheet (FY09E D/E at 0.3x), we believe Bharti is well poised for aggressive bidding in upcoming 3G auctions. As capex intensity declines in FY10 and beyond, C&CE would amount to US\$620mn in FY10. We retain our BUY rating on Bharti based on its wireless leadership position, superior return ratios and earnings CAGR of 20% over FY08-11.

**Financial summary**

Y/e 31 Mar (Rs m)	FY08	FY09E	FY10E	FY11E
Revenues	270,122	365,284	434,853	489,283
yoy growth (%)	46.6	35.2	19.0	12.5
Operating profit	113,700	142,461	170,028	191,310
OPM (%)	42.1	39.0	39.1	39.1
Reported PAT	63,954	74,224	92,854	109,643
yoy growth (%)	57.4	16.1	25.1	18.1
EPS (Rs)	32.7	38.0	47.5	56.1
P/E (x)	18.9	16.3	13.1	11.1
Price/Book (x)	5.6	4.2	3.2	2.5
EV/EBITDA (x)	11.4	9.1	7.5	6.1
Debt/Equity (x)	0.4	0.3	0.2	0.2
ROE (%)	38.5	29.2	27.5	25.0
RoCE (%)	31.5	26.8	26.6	25.4

Source: Company, India Infoline Research

**Recommendation parameters for fundamental reports:**

**Buy** – Absolute return of over +10%

**Market Performer** – Absolute return between -10% to +10%

**Sell** – Absolute return below -10%

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