

February 2, 2011

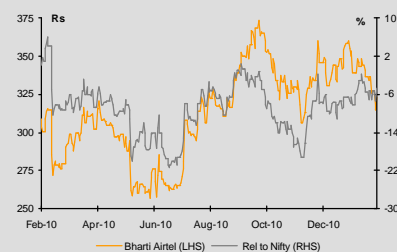
<b>Reco</b>	Previous Reco
Hold	Hold
<b>CMP</b>	Target Price
Rs323	Rs345
EPS change FY11E/12E (%)	-10 / -6
Target Price change (%)	NA
Sensex	18,091
Nifty	5,432

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(10)	(2)	0	5
Rel. to Nifty	2	11	1	(6)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Telecom
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18988
Face Value(Rs)	5
No of shares o/s (mn)	3798
52 Week H/L	377/254
Market Cap (Rs bn/USD mn)	1,228/26,900
Daily Avg Volume (No of sh)	5214054
Daily Avg Turnover (US\$m)	38.3

### Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	68.2	67.9	67.9
FII/NRI	17.6	17.9	17.1
Institutions	8.7	9.0	8.8
Private Corp	3.6	3.3	3.7
Public	1.9	2.0	2.5

Source: Capitaline

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- **Q3FY11 PAT of Rs13.0bn below estimate of Rs15.6bn due to forex losses coupled with higher interest cost and one time re-branding exp**
- **KPI's in line with expectation remained stable qoq, led by festive season. APRU at Rs198 down 1.6% qoq, Mou at 449 down 1.1% qoq. ARPM flat at Rs0.44**
- **EBITDA margin (ex re-branding) at 33.8% in line with expt. while one time global re-branding cost of Rs3400mn led to compress margin to 31.6%**
- **Cut EPS by 10.4% /5.9% for FY11E /12E. Valuations at 14.9x EPS and 6.9x EBIDTA. Retain HOLD rating with target price Rs345**

### Revenues and EBITDA (ex re-branding) in line, while one offs dents PAT

Bharti reported revenues of Rs 157.6bn up 3.6% v/s our estimates of Rs 158bn, driven by 4.2% rise in mobility revenues. Cons. profit of Rs13.0bn was below our estimate of Rs15.6bn, due to re-branding cost coupled with higher interest cost and forex loss. EBITDA was down 2.7% qoq, however excluding re-branding cost EBITDA grew 3.9% qoq. Cons. EBITDA margin at 31.6% was down 420bps qoq, ex re-branding cost it was at 33.8%, in line with estimates.

### No surprise in KPI's unlike its peer (Idea)

Mobility revenue in Q3FY11 was up 4.0%, in line with estimates. ARPU and MoU were marginally down by 1.6% and 1.1% qoq to Rs198 and 449, respectively. ARPM was flat at Rs0.44. Nevertheless, traffic on network grew by 4.4% to 199bn minutes, in line with estimate. Subscriber addition was up 6.4% with total domestic sub base at >152mn.

### Gaining traction in African safari

African revenues grew 4.2% qoq led by higher traffic on the network and lower contraction in the ARPU. ARPU decline marginally 1.4% qoq to \$7.3 while MoU was up 7.1% qoq to 120. Bharti took tariff cut in 8 African countries during Q3FY11 impact of that has not been seen in ARPU during the quarter, we believe the impact would be visible in coming quarters. Ex re-branding expenses EBITDA margin improved to 25.1% v/s 23.7% in the last quarter, improved from 23.7% in Q2FY11.

### Other businesses remain fat QoQ

Apart from the passive infra business all the other segments (Telemedia & Enterprise) reported flat revenues qoq. Cons. Passive infrastructure revenue at 21972mn grew 3.8% qoq with tenancy improving to 1.75x and 1.8x for Bharti infra and Indus towers, respectively. EBITDA margins also remained under pressure for Telemedia & Enterprise while it improved for passive to 38.6% v/s 37.1% in Q2FY11.

### Valuation at 15.2x EPS & 6.9x EBIDTA comfortable – Retain HOLD

Considering the current regulatory uncertainty in domestic market and unexpected cost pressures during 3G services launch makes us cautious on the sector for medium term. We retain HOLD rating with target price Rs345. At CMP of Rs323, stock trades at 8.9x and 6.9x EV/EBIDTA for FY11E and FY12E respectively.

### Financial Snapshot

	Rs Mn									
Y/E	Net	EBITDA	PAT	EPS	EPS	ROE	P/E	EV/	P/	
Mar	Sales	(Core)	(Rs)	(Rs)	% chg	(x)		EBITDA	BV	
FY09	369615	151677	41.0	84699	22.3	26.4	31.4	14.5	8.9	3.9
FY10	396150	160266	40.5	91025	24.0	7.5	24.1	13.5	8.1	2.8
FY11E	595138	201319	33.8	62289	16.4	-31.6	13.2	19.7	8.9	2.5
FY12E	717624	253587	35.3	82278	21.7	32.1	15.1	14.9	6.9	2.1

### Domestic revenue improves but EBIDTA remains flat ex re-branding cost

Driven by 4.4% growth in traffic on network and strong subscriber addition, the domestic revenue grew 4.0% qoq. EBITDA margin post re-branding cost stood at 35.9% v/s 37.3% in Q2FY11.

#### Comparable financial performance (excl Zain Africa & related costs)

	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	QoQ
Revenues	103,785	103,053	107,491	112,725	113,312	117,213	3.4%
opex	60,778	62,230	66,662	70,301	71,090	75,124	5.7%
EBIDTA	43,007	40,823	40,829	42,424	42,222	42,089	-0.3%
Depr	15,246	15,883	16,953	17,483	18,239	19,063	4.5%
EBIT	27,761	24,940	23,876	24,941	23,983	23,026	-4.0%
Int	2,084	(266)	(356)	2,191	(257)	1,514	-689.1%
PBT	25,677	25,206	24,232	22,750	24,240	21,512	-11.3%
Tax	2,753	2,980	3,415	3,687	3,802	3,145	-17.3%
PAT	22,630	21,949	20,443	19,063	20,438	18,367	-10.1%

#### Domestic v/s African revenue and EBIDTA break-up

	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	QoQ	
<b>Revenues</b>								
India& SA mobile		82,902	80,898	83,174	88,237	88,045	91,459	3.9%
India & Asia		103,785	103,053	107,491	112,725	113,312	117,213	3.4%
Africa				9,583	38,906	40,530		4.2%
Cons. Rev		103,785	103,053	107,491	122,308	152,150	157,560	3.6%
<b>EBIDTA</b>								
India		43,007	40,823	40,829	42,424	42,222	42,089	-0.3%
Africa				2,635	9,311	8,435		-9.4%
Cons. EBIDTA		43,007	40,823	40,829	45,059	51,533	49,816	-3.3%
Cons. EBIDTA ex re-Branding cost		-	-	-	-	-	53,211	-
<b>EBIDTA %</b>								
India		41.4%	39.6%	38.0%	37.6%	37.3%	35.9%	
Africa					27.5%	23.9%	20.8%	
Cons. EBIDTA %		41.4%	39.6%	38.0%	36.8%	33.9%	31.6%	
Cons. EBIDTA % ex re-Branding cost		-	-	-	-	-	33.8%	

#### EPS Estimates cut by 10.4% /5.9% for FY11E /12E

With the flow of lower than expected EBITDA and PAT for Q3FY11, we have lowered down the EBITDA and EPS estimates for FY 11E by 3.4% and 10.4%, respectively. Considering the higher interest outgo we have revised EPS for FY12E downward by 5.9%.

	FY11E			FY12E		
	Old	New	Chg %	Old	New	Chg %
Revenue	596,984	595,138	-0.3%	702,807	717,624	2.1%
EBIDTA	208,418	201,319	-3.4%	254,559	253,587	-0.4%
EBIDTA %	34.9	33.8	-114bps	36.20	35.34	-111bps
PAT	69,513	62,289	-10.4%	87,462	82,278	-5.9%
EPS	18.3	16.4	-10.4%	23.0	21.7	-5.9%

## Quarterly financials

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ %	YoY %	YTD '10	YTD '11	YoY %
Mobile	79,618	81,975	97,820	126,951	132,279	66.1	4.2	357,050	242,897	47.0	79,618
Broadband	8,550	8,510	8,960	9,118	9,068	6.1	(0.5)	27,146	25,644	5.9	8,550
Enterprise Total	20,546	20,738	10,186	10,424	10,503	(48.9)	0.8	31,113	63,210	(50.8)	20,546
Others	1,414	2,094	1,949	2,260	2,793	97.5	23.6	7,002	3,731	87.7	1,414
Passive Infrastructure	9,267	9,552	20,412	21,161	21,972	137.1	3.8	63545.0	25873.0	145.6	9,267
Total gross Sales	119,395	122,869	139,327	169,914	176,615	47.9	3.9	485,856	361,355	34.5	119,395
Inter segmental elimination	21673.0	22312.0	17019.0	17764.0	19054.7	(12.1)	7.3	53837.7	65762.0	(18.1)	21673.0
<b>Net Sales</b>	<b>97,722</b>	<b>100,557</b>	<b>122,308</b>	<b>152,150</b>	<b>157,560</b>	<b>61.2</b>	<b>3.6</b>	<b>432,018</b>	<b>295,593</b>	<b>46.2</b>	<b>97,722</b>
Access charge	11166.0	11571.0	14227.0	18885.0	20273.0	81.6	7.3	53,385	33,236	60.6	11166.0
as % of sales	11.4	11.5	11.6	12.4	12.9			12.4	11.2		11.4
Network Operating	19813.0	19780.0	27268.0	33096.0	32896.0	66.0	(0.6)	93,260	56,616	64.7	19813.0
as % of sales	20.3	19.7	22.3	21.8	20.9			21.6	19.2		20.3
Employee Expenses	4007.0	4024.0	5601.0	8835.0	8833.0	120.4	(0.0)	23,269	12,901	80.4	4007.0
as % of sales	4.1	4.0	4.6	5.8	5.6			5.4	4.4		4.1
Marketing Expenses	13689.5	16369.4	19330.0	27582.0	32181.0	135.1	16.7	79,093	40,512	95.2	13689.5
as % of sales	14.0	16.3	15.8	18.1	20.4			18.3	13.7		14.0
License Fee	9934.6	10592.8	11742.0	12540.0	13561.0	36.5	8.1	37,843	30,283	25.0	9934.6
as % of sales	10.2	10.5	9.6	8.2	8.6			8.8	10.2		10.2
Total operating expenditure	58610	62337	78168	100938	107744	83.8	6.7	286850	173547	65.3	58610
<b>EBITDA</b>	<b>39111.9</b>	<b>38219.8</b>	<b>44140.0</b>	<b>51212.0</b>	<b>49816.0</b>	<b>27.4</b>	<b>(2.7)</b>	<b>145,168</b>	<b>122,046</b>	<b>18.9</b>	<b>39111.9</b>
Depreciation	15403.0	15928.0	19467.0	25790.0	27107.0	76.0	5.1	72364.0	44529.0	62.5	15403.0
<b>EBIT</b>	<b>23708.9</b>	<b>22291.8</b>	<b>24673.0</b>	<b>25422.0</b>	<b>22709.0</b>	<b>(4.2)</b>	<b>(10.7)</b>	<b>72804</b>	<b>77517</b>	<b>(6.1)</b>	<b>23708.9</b>
Other Income	4961.0	5487.0	548.0	169.0	258.0	(94.8)	52.7	975.0	14004.0	(93.0)	4961.0
Interest	2970.0	3193.0	4198.0	3318.5	7470.0	151.5	125.1	14986.5	9241.0	62.2	2970.0
Non operating expenses	43.0	0.3	233.0	3.0	2.0			238.0	178.0	33.7	43.0
PBT	25656.9	24585.5	20790.0	22269.5	15495.0	(39.6)	(30.4)	58792.5	82279.9	(28.5)	25656.9
Tax	3192.0	3451.9	3750.0	5678.0	3366.0	5.5	(40.7)	12794.0	10507.0	21.8	3192.0
PAT before MI	22464.9	21133.6	17040.0	16591.5	12129.0	(46.0)	(26.9)	45998.5	71772.9	(35.9)	22464.9
Minority interest	426.0	583.0	153.0	-23.0	-904.0	(312.2)	3,830.4	-774.0	1411.0	(154.9)	426.0
PAT MI	22038.9	20550.6	16887.0	16614.5	13033.0	(40.9)	(21.6)	46772.5	70361.9	(33.5)	22038.9
share of associates	58.0	0.2	-71.5	-2.0	0.0			-73.5	290.0	(125.3)	58.0
<b>PAT</b>	<b>22096.9</b>	<b>20550.8</b>	<b>16815.5</b>	<b>16612.5</b>	<b>13033.0</b>	<b>(41.0)</b>	<b>(21.5)</b>	<b>46699.0</b>	<b>70651.9</b>	<b>(33.9)</b>	<b>22096.9</b>

## Margins (%)

						(bps)	(bps)			(bps)	
EBIDTA	40.0	38.0	36.1	33.7	31.6	(841)	(204)	33.6	41.3	(769)	40.0
EBIT	24.3	22.2	20.2	16.7	14.4	(985)	(230)	16.9	26.2	(937)	24.3
EBT	26.3	24.4	17.0	14.6	9.8	(1,642)	(480)	13.6	27.8	(1,423)	26.3
PAT	22.6	20.4	13.7	10.9	8.3	(1,434)	(265)	10.8	23.9	(1,309)	22.6
Effective Tax rate	12.4	14.0	18.0	25.5	21.7	928	(377)	21.8	12.8	899	12.4

## Domestic mobile business performance

	2Q10	3Q10	4Q10	1Q11	2Q11	2Q11	QoQ
ARPU (Rs)	252	230	220	215	202	198	-2.0%
MOU (mins)	450	446	468	480	454	449	-1.1%
RPM (Rs)	0.56	0.52	0.47	0.45	0.44	0.44	0.0%
Traffic (mn mins)	143,680	153,241	172,797	190,396	190,767	199,146	4.4%
Subscribers ('000)	110,511	118,864	127,619	136,620	143,292	152,495	6.4%

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>369,615</b>	<b>396,150</b>	<b>595,138</b>	<b>717,624</b>
<i>Growth (%)</i>	36.8	7.2	50.2	20.6
Employee cost	16,992	16,925	32,542	40,528
Marketing expenses	50,421	56,881	108,075	130,748
Access charge	52,903	44,807	73,934	87,190
Network operating charge	59,355	76,396	127,854	146,654
License fee	38,266	40,875	51,824	60,675
<b>Total operating exp.</b>	<b>217,938</b>	<b>235,884</b>	<b>394,228</b>	<b>465,794</b>
<b>EBITDA</b>	<b>151,677</b>	<b>160,266</b>	<b>200,910</b>	<b>251,830</b>
<i>Growth (%)</i>	33.4	5.7	25.4	25.3
Depreciation	47,581	60,457	100,768	112,699
Other non-operating exp.	220	178	238	0
<b>EBIT</b>	<b>103,877</b>	<b>99,630</b>	<b>99,904</b>	<b>139,131</b>
<b>EBIT margin (%)</b>	<b>28.1</b>	<b>25.1</b>	<b>16.8</b>	<b>19.4</b>
Other Income	17,527	19,491	1,175	1,040
Interest expenses	27,618	12,434	22,457	35,486
<b>PBT</b>	<b>93,786</b>	<b>106,687</b>	<b>78,623</b>	<b>104,686</b>
Tax	6,615	13,959	17,209	23,031
<i>Effective tax rate (%)</i>	7.1	13.1	21.9	22.0
<b>PAT before MI</b>	<b>87,171</b>	<b>92,729</b>	<b>61,414</b>	<b>81,655</b>
Minority interest	1,759	1,994	-633	735
<b>Adjusted PAT after MI</b>	<b>85,412</b>	<b>90,735</b>	<b>62,047</b>	<b>80,920</b>
Profit from associates	713.0	-290.2	73.5	0.0
<b>PAT</b>	<b>84698.6</b>	<b>91024.7</b>	<b>61973.2</b>	<b>80919.9</b>

## Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT</b>	75,546	87,487	77,374	103,646
Depreciation	47,581	60,457	100,768	112,699
Interest	27,618	12,434	22,457	35,486
Other Non-Cash items	-4,989	24,234	-10,262	4,045
Chg in working cap	-12,460	11,922	152,587	-89,000
Tax paid	-6,615	-13,959	-17,209	-23,031
<b>Operating Cashflow</b>	<b>126,680</b>	<b>182,574</b>	<b>325,715</b>	<b>143,844</b>
Capital expenditure	-143,415	-97,724	-831,633	-100,000
<b>Free Cash Flow</b>	<b>-16,734</b>	<b>84,850</b>	<b>-505,917</b>	<b>43,844</b>
Other income	17,527	19,491	1,175	1,040
Investments	9,417	-34,676	44,927	0
<b>Investing Cashflow</b>	<b>-116,471</b>	<b>-112,910</b>	<b>-785,531</b>	<b>-98,960</b>
Equity Capital Raised	-9	5	0	0
Loans Taken / (Repaid)	21,738	-54,183	507,000	-38,000
Interest Paid	-27,618	-12,434	-22,457	-35,486
Dividend paid (incl tax)	0	0	0	0
<b>Financing Cashflow</b>	<b>-5,889</b>	<b>-66,611</b>	<b>484,543</b>	<b>-73,486</b>
<b>Net chg in cash</b>	<b>4,321</b>	<b>3,053</b>	<b>24,728</b>	<b>-28,602</b>
Opening cash position	6,920	11,241	14,294	39,021
Closing cash position	11,241	14,294	39,021	10,420

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	18,982	18,988	18,988	18,988
Reserves & surplus	284,662	394,908	456,881	537,801
<b>Net worth</b>	<b>303,644</b>	<b>413,896</b>	<b>475,869</b>	<b>556,789</b>
Minority Interest	10,704	28,489	27,856	28,591
Loan funds	118,801	64,618	571,618	533,618
Net deferred tax liability	-1,254	-9,442	-9,442	-9,442
Other non current liab.	10,865	8,448	8,448	8,448
<b>Total Liabilities</b>	<b>442,760</b>	<b>506,009</b>	<b>1,074,349</b>	<b>1,118,003</b>
Gross Block	533,653	621,717	1,431,349	1,532,349
Less: Depreciation	152,644	213,101	313,869	426,567
<b>Net block</b>	<b>381,009</b>	<b>408,616</b>	<b>1,117,481</b>	<b>1,105,782</b>
CWIP	41,437	51,097	73,097	72,097
<b>Investment</b>	<b>65,107</b>	<b>100,074</b>	<b>55,074</b>	<b>55,074</b>
<b>Current Assets</b>	<b>97,355</b>	<b>66,387</b>	<b>105,031</b>	<b>86,820</b>
Inventories	963	484	1,689	931
Sundry debtors	18,262	13,757	18,853	20,469
Cash & bank balance	11,241	14,294	39,021	10,420
Loans & advances	10,266	10,578	13,228	15,477
Other current assets	56,623	27,275	32,239	39,523
<b>Current lia &amp; Prov</b>	<b>152,377</b>	<b>130,279</b>	<b>296,782</b>	<b>218,173</b>
Current liabilities	151,587	129,325	294,609	216,575
Provisions	790	954	2,173	1,597
<b>Net current assets</b>	<b>-55,023</b>	<b>-63,891</b>	<b>-191,751</b>	<b>-131,353</b>
Other non curnt assets	10,230	10,114	20,449	16,404
<b>Total Assets</b>	<b>442,760</b>	<b>506,009</b>	<b>1,074,349</b>	<b>1,118,003</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
Core EBITDA Margin	41.0	40.4	33.7	35.1
Net Margin	26.1	21.9	13.1	15.1
ROCE	32.1	25.6	12.9	12.9
ROE	31.4	24.1	13.1	14.9
RoIC	36.2	28.1	15.3	14.3
<b>Per Share Data (Rs)</b>				
EPS (adjusted)	22.3	24.0	16.3	21.3
CEPS	34.8	39.9	42.9	51.0
BVPS	82.8	116.5	132.7	154.2
DPS	0.0	0.0	0.0	0.0
<b>Valuations (x)</b>				
PER	14.6	13.6	19.9	15.2
P/CEPS	9.3	8.1	7.6	6.4
P/BV	3.9	2.8	2.5	2.1
EV / Sales	3.7	3.3	3.0	2.5
EV / EBITDA	8.9	8.1	9.0	7.0
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.4	0.1	1.1	0.9
Net Debt/EBIDTA	0.8	0.4	2.8	2.1

**Recommendation History: Bharti Airtel – BHARTI IN**

Date	Reports	Reco	CMP	Target
11/11/2010	<a href="#">Bharti Airtel Q2FY11 Result Update</a>	Hold	328	345
27/08/2010	<a href="#">Bharti Airtel Company Update</a>	Hold	316	345
30/04/2010	<a href="#">Bharti Airtel 4QFY10 result update</a>	Hold	298	322
15/02/2010	<a href="#">Bharti Airtel Event Update</a>	Reduce	315	250

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
01/02/2011	<a href="#">Lakshmi Machine Works Q3FY11 Result Update</a>	Accumulate	2,138	2,660
31/01/2011	<a href="#">Sterlite Technologies Q3FY11 Result Update</a>	Buy	55	68
31/01/2011	<a href="#">Jagran Prakashan Q3FY11 Result Update</a>	Buy	120	155
25/01/2011	<a href="#">Idea Cellular Q3FY11 Result Update</a>	Sell	71	60

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