

February 2, 2008

Key Data	(INR)
Recommended Price (INR)	970
CMP (INR)	908
Target Price (INR)-	1175

Key Data	
Bloomberg code	BHARTI IN
Reuters Code	BRTI.BO
BSE Code	532454
NSE Code	BHARTIARTL
Face Value (INR)	10
Market Cap. (INR mn.)	1640622
52 Week High (INR)	1149
52 Week Low (INR)	661.3
Avg. Daily Volume (6m)	481722

Shareholding	%
Promoters	65.9
MFs/ FIs/ Insurance	4.3
Foreign Inst Investors	25.3
Public	4.5
Total	100.00

Rs Mn	FY08	FY07	% Chg.
Net sales	69501	49141	41
Operating profit	29052	19804	47
PAT	14285	10333	38
EPS (RS)	7.53	5.45	-
OPM (%)	41.8	40.3	-
NPM (%)	20.6	21.0	-

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Bharti Airtel Limited

Bharti Airtel Limited has maintained its growth momentum in its operational and financial results. The consolidated total revenues for the quarter ended December 31, 2007 is at Rs. 69501 mn grew by 41% on a year-on-year basis. The net profit during the quarter was Rs. 14285 mn, a growth of 38% from the corresponding quarter of last year. For the 9-month ended December 2007, the revenues grew by 46.6% whereas the net profit was up by 63.9%. Bharti has over 57.3mn customers, as on December 31, 2007, an increase in the total customer base of 70.1%, over the corresponding period last year and maintained its leadership position through an improved market share of all India mobile subscribers at 23.6% as on December 31, 2007.

Key highlights

- Mobile services have been the major contributory with 81% share in the total revenues during the quarter. This growth is attributed to the addition in the subscriber base of more than 6 mn taking the total mobile subscriber base to 55.1 mn as on December 2007.
- The enterprise business remains under pressure with margins narrowing, due to a combination of lower tariffs and increased competition.
- Telemedia (broadband/fixed-line) segment has registered significant growth with the revenue increasing by 22% and the operating profit grew by 97%. The margin for this segment during the quarter has increased from 27% as on Q3FY07 to 43.4% as on Q3FY08.
- Bharti's mobile-network expansion remains on track with population coverage increasing from 54% in Q3FY07 to 68% in Q3FY08. The total network sites have increased to 60,299 network sites, up from 34,307 in 3QFY07 (Y-o-Y increase of 75.8%).
- Mobile ARPU declined just 2% Q-o-Q to Rs358, while Minutes of Use rose 1% Q-o-Q to 474 minutes.
- In lines with our expectation there has been a reduction in the operating cost mainly in the access and interconnection charges, which have reduced from 16.8% in Q3FY07 to 15% in Q3FY08. As a result the operating margins have increased from 40.3% in Q3FY07 to 41.8% in Q3FY08.
- The depreciation and interest cost were more than our expectation during the quarter as well as for the nine months ended 2007. Consequently there has been a minor reduction in the net profit margins for FY09E to 24.8% (against our expectation of 24.9%) and for FY10E to 26.1% (against our expectation of 26.3%).
- For the nine months ended December 2007, the revenues increased by 46.6% to Rs.191485.9 mn. The operating profit was up by 57% at Rs.79617.6 mn. The OPM has improved from 38.8% in 9mFY07 to 41.6% in 9mFY08. The NPM has improved from 21.0% in 9mFY07 to 23.5% in 9mFY08.
- On the basis of the subscriber growth in the third quarter we have revised our subscriber projections upwards not only for the Industry but also for the Bharti Airtel. This has in turn resulted in revision in the revenues from the mobile segment. However we have moderated the growth in revenues for the enterprise-carrier segment on the back of lower tariffs and increased competition in this segment.
- We have revised the subscriber growth projections upwards for Bharti on the back of strong growth witnessed by the company in the last three quarters. Despite increasing competition and the regulatory policies we believe that with strong

fundamentals and financial performance Bharti will continue to be the market leader with 22.8% market share by the end of FY 2008. Accordingly, we maintain a “BUY” recommendation on “Bharti Airtel Ltd” with a price target of Rs.1175.

Major Developments

- In a major boost to its expansion plans, the company has also been allotted additional 2G spectrum in five telecom circles, Gujarat, Uttar Pradesh (West), Assam, West Bengal and Haryana. Importantly, the company is also slated to receive additional radio frequencies in five other circles, Rajasthan, Andhra Pradesh, Bihar, Tamil Nadu and Chennai, within the next couple of days.
- Although the company has been allotted spectrum as a means of the interim measure, Bharti is also looking for alternative technology solutions for overcoming spectrum scarcity. At the same time the company is confident about the growth being witnessed in the subscriber base which would make them eligible for additional spectrum on the basis of the revised TRAI norms.
- Eight leading international investors comprising of Temasek, The Investment Corporation of Dubai (ICD), Goldman Sachs, Macquarie, AIF Capital, and Citigroup & India Equity Partners (IEP) have agreed to invest \$1Bn in Bharti Infratel Limited. The enterprise valuation has been agreed to be in the range of USD 10 to 12.5 Billion, and the final valuation will be determined on the basis of Bharti Infratel Limited’s actual operating performance in FY 2008-09.
- During the quarter ended December 31, 2007 the company has allotted 1,28,367 new equity shares comprising of 42,967 shares upon conversion of convertible bonds (FCCBs) and 85,400 shares to the employees of the company upon exercise of stock options as per ESOP Scheme 2005. As a result the paid up equity share capital of the company stands increased to Rs. 18978.4 mn on December 31, 2007.

Interim Results for Q3FY08 and 9mFY08						Rs. Mn
	Q3FY08	Q3FY07	YoY ch%	9mFY08	9mFY07	YoY ch%
Net Sales	69501.4	49140.9	41.4	191485.9	130588.5	46.6
Total Expenditure	40448.91	29337.2	37.9	111868.3	79891.5	40.0
Operating Profits	29052.49	19803.7	46.7	79617.6	50697.0	57.0
Other Income	678.1	140.9	381.3	2133.1	744.7	186.4
EBDIT	29730.59	19944.6	49.1	81750.7	51441.7	58.9
Depreciation	9862.0	7154.8	37.8	26563.9	17494.1	51.8
EBIT	19868.6	12789.8	55.3	55186.8	33947.6	62.6
Interest	4960.7	589.9	740.9	2233.8	2065.9	8.1
PBT	14907.9	12199.9	22.2	52953.0	31881.7	66.1
Taxes	414.5	1748.9	-76.3	7400.4	4160.3	77.9
Profit before Minority Interest	14493.4	10451.0	38.7	45552.6	27721.4	64.3
Minority Interest	208.5	118.3	76.2	588.0	286.2	105.5
Net Profit	14284.9	10332.7	38.2	44964.6	27435.2	63.9
Equity Share Capital	18978.4	18957.4		18978.4	18957.4	
EPS	7.53	5.45		23.69	14.47	
CEPS	12.72	9.22		37.69	23.70	
Profitability Ratios						
Operating Profit Margin (%)	41.8	40.3		41.6	38.8	
EBIDT Margin (%)	42.8	40.6		42.7	39.4	
EBIT Margin (%)	28.6	26.0		28.8	26.0	
PAT Margin (%)	20.6	21.0		23.5	21.0	

Source: Company

Earnings Summary				(Rs. Mn)
Particulars	2007	2008E	2009E	2010E
Net Sales	185320.9	260445.9	327980.5	374550.2
Total Expenditure	109858.2	149594.9	183406.7	204935.1
Operating Profits	75462.8	110851.0	144573.8	169615.1
EBDIT	75462.8	110851.0	144573.8	169615.1
Depreciation	24486.6	35741.8	42572.0	48259.0
Amortization	1703.8	2344.0	3279.8	3745.5
EBIT	49272.4	72765.1	98722.0	117610.6
Interest	2488.5	2749.8	1543.0	542.9
PBT	46783.9	70015.3	97179.1	117067.6
Taxes	5680.5	10082.2	14771.2	18005.0
Profit before Minority Interest	41103.4	59933.1	82407.8	99062.6
Less: Minority Interest	482.2	779.1	1071.3	1287.8
Net Profits	40621.2	59154.0	81336.5	97774.8
Growth in sales (%)	58.0%	40.5%	25.9%	14.2%
Operating Profits Growth (%)	79.2%	46.9%	30.4%	17.3%
PAT Growth (%)	100.3%	45.6%	37.5%	20.2%
Operating Profit Margin (%)	40.7%	42.6%	44.1%	45.3%
Net Profit Margin (%)	21.9%	22.7%	24.8%	26.1%

Source: Company Annual report and ACMIIL estimates

Sources and Application of funds				(Rs. mn)
Particulars	2007	2008E	2009E	2010E
Sources of Funds				
Share Capital	18959.3	18978.4	18978.4	18978.4
Reserves and Surplus	95924.5	155078.5	236415.0	334189.8
Total Shareholders Funds	114883.8	174056.9	255393.4	353168.2
Total Loan Funds	52858.9	50858.9	30859.0	10858.9
Minority Interest	1948.2	2727.4	3798.7	5086.5
Net Deferred Tax Liability	2387.2	2947.3	3724.7	4661.3
Total Capital Employed	172078.1	230590.5	293775.9	373774.9
Application of Funds				
Gross Block	281199.2	381199.2	470699.2	553199.2
Less: Accumulated Depreciation	76155.4	114241.3	160093.1	212097.6
Net Block	205043.8	266957.9	310606.1	341101.6
Capital Work in Progress	24708.8	28077.9	33127.8	42741.0
Investments	1471.4	1471.4	1471.4	1471.4
Net Current Assets	-59172.5	-65943.4	-51456.1	-11565.7
Miscellaneous Expenditure	26.6	26.6	26.6	26.6
Total Assets	172078.1	230590.5	293775.9	373775.0
Source: Company Annual report and ACMIIL estimates				

Cash Flow Statement				(Rs Mn)
Particulars	2007	2008E	2009E	2010E
Pre tax profits	46783.9	70015.3	97179.1	117067.6
Depreciation	26190.4	38085.8	45851.8	52004.5
Changes In WC	10386.7	18922.3	16223.5	10225.4
Tax	-4844.6	-9522.1	-13993.8	-17068.5
Others	6147.4	1707.3	-2735.0	-9122.8
Cash from operations	84663.7	119208.7	142525.6	153106.3
Capital Expenditure	-85035.2	-100000.0	-89500.0	-82500.0
Changes in Investments	1341.9	0.0	0.0	0.0
Others.	268.7	0.0	0.0	0.0
Cash from Investment activities	-83424.7	-100000.0	-89500.0	-82500.0
Changes in share capital & Sec. premium	0.0	19.1	0.0	0.0
Change in debts	6293.3	-2000.0	-19999.9	-20000.1
Interest payments	-2561.3	-2749.8	-1543.0	-542.9
Div & Div Tax	0.0	0.0	0.0	0.0
Others	39.3	0.0	0.0	0.0
Cash from Finance	3771.3	-4730.7	-21542.9	-20543.0
Total cash generated	5010.4	14478.0	31482.7	50063.2
Cash at the beginning	3510.5	8520.9	22998.8	54481.6
Cash Balance	8520.9	22998.8	54481.6	104544.8
Source: Company Annual report and ACMIIL estimates				

Key ratios				
Particulars	2007	2008E	2009E	2010E
Profitability Ratios				
Operating Profit Margin (%)	40.7%	42.6%	44.1%	45.3%
EBIT Margin (%)	26.6%	27.9%	30.1%	31.4%
PAT Margin (%)	22.2%	23.0%	25.1%	26.4%
RONW (%)	43.1%	40.9%	37.9%	32.1%
ROCE (%)	20.9%	22.5%	23.6%	22.8%
Per Share Ratios				
Earnings (Rs.)	21.4	31.2	42.9	51.5
Cash Earnings (Rs.)	42.8	63.7	84.0	98.9
Book Value (Rs.)	60.4	91.5	134.4	185.9
Valuation Ratios				
P/E (x)	40.3	27.7	20.2	16.8
Cash P/E (x)	20.2	13.6	10.3	8.7
P/BV (x)	14.3	9.4	6.4	4.6
Capital Structure Ratios				
Debt/Equity	0.46	0.29	0.12	0.03
Current Ratio	0.4	0.5	0.7	0.9
Quick Ratio	0.2	0.3	0.4	0.7
Cash Ratio	0.08	0.16	0.32	0.55
Turnover Ratios				
Debtors Turnover (x)	14.8	16.1	16.0	15.5
Fixed Asset Turnover (x)	0.9	1.0	1.1	1.1
Source: Company Annual report and ACMIIL estimates				

Annexure: Bharti Airtel Limited (Revised Subscriber Projections)

Year	Adjusted Population Figures (in mn) *	Total wireless subscribers#	Adjusted Teledensity for wireless subscribers	BhartiSubscribers	Market Share for Bharti
2004	526.1	35.0	6.7	6.5	18.6
2005	534.2	55.0	10.3	11.0	20.0
2006	567.2	99.0	17.5	19.6	19.8
2007	575.5	166.0	28.8	37.1	22.4
2008P	583.8	255.0	43.7	58.1	22.8
2009P	592.0	332.0	56.1	74.7	22.5
2010P	600.1	390.0	65.0	86.2	22.1
2011P	634.7	428.0	67.4	93.9	21.9
2012P	643.3	455.0	70.7	98.7	21.7

Source: Census India Report, Cris Infac & ACMIIL Research

*Adjusted for population that can afford mobile services# Wireless Subscribers include GSM, CDMA and WLL-F subscribers.

Notes:

HNI Sales:

Raju Mewawalla, Tel: +91 22 2858 3220

Institutional Sales:

Bharat Patel, Tel: +91 22 2269 5078, 2270 0119 / 121.



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