

April 28, 2010

Rating	Reduce
Price	Rs295
Target Price	Rs301
Implied Upside	2.2%
Sensex	17,380

(Prices as on April 28, 2010)

Trading Data

Market Cap. (Rs bn)	1,134.4
Shares o/s (m)	3,851.8
Free Float	32.17%
3M Avg. Daily Vol ('000)	8,578.8
3M Avg. Daily Value (Rs m)	2,552.6

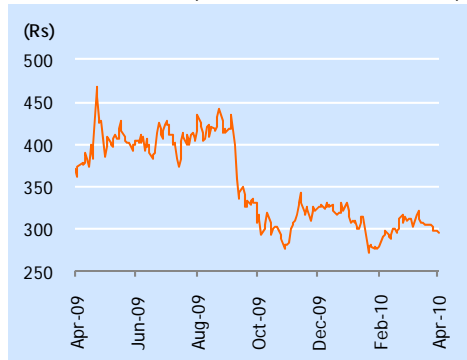
Major Shareholders

Promoters	67.83%
Foreign	18.03%
Domestic Inst.	7.92%
Public & Others	6.22%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.0)	(7.1)	(18.8)
Relative	(3.5)	(13.9)	(76.8)

Price Performance (RIC:BRTI.BO, BB:BHARTI IN)



Source: Bloomberg

- **Results above expectations:** Bharti Airtel's (Bharti's) Q4FY10 revenues came at Rs100.5bn - up 2.9% QoQ, EBITDA of Rs39.2bn - flat QoQ (after adjusting for a one-off acquisition cost incurred on account of Zain & Warid Telecom of Rs987m) and profitability of Rs20.5bn - down 7% QoQ. Forex gain of Rs1.57bn cushioned the profitability for the quarter. Capex increased to Rs43.2bn (from Rs16.7bn QoQ), with wireless segment accounting for Rs34bn.
- **What surprised us was the spurt in wireless traffic QoQ to 172bn minutes:** Bharti's traffic growth for the quarter was strong at 13%, primarily attributed to price elasticity. Realizations per minute continued to witness pressure and dropped by 8% QoQ to Rs0.47.
- **Management hopeful about tariff stabilization:** Management highlighted that the severity of tariff war has subsided over the last two months. Company is hopeful to sustain the volume growth and maintain realizations.
- **Capex guidance of US\$2.3bn, excl. Zain for FY11:** Bharti has guided a capex of US\$2bn for FY11, including Srilanka and Bangladesh, though excl. Zain & Infratel. Company has earmarked US\$300-350m for Infratel in FY11.
- **Outlook & Valuation:** Competitive landscape and crowded telecom market would weigh for sometime on telcos before consolidation kicks in. Tariffs which have stabilized over the last two months would see next round of cuts, with MNP implementation scheduled over the next 2-3 months. Telcos are in a dizzy spot, with falling realizations and rising cost for running networks, thus, straining margins. 3G bids are already nearing Rs90bn for a pan-India slot, which will have interest servicing without much revenues in FY11. At the CMP, stock trades at 14xPER FY12E & 6.3x EV/EBITDA. We maintain our 'Reduce' rating, considering the overcapacity built-up in the system, with new entrants and eagerness of these players to garner traffic by launching predatory schemes.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	369,615	396,150	409,417	439,440
Growth (%)	36.8	7.2	3.3	7.3
EBITDA (Rs m)	151,041	160,268	167,686	182,576
PAT (Rs m)	84,699	91,026	75,697	81,244
EPS (Rs)	22.0	23.6	19.7	21.1
Growth (%)	32.4	7.5	(16.8)	7.3
Net DPS (Rs)	2.0	2.0	2.0	3.0

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	40.9	40.5	41.0	41.5
RoE (%)	33.3	27.4	18.6	17.1
RoCE (%)	25.7	18.7	15.2	14.5
EV / sales (x)	3.3	2.9	2.9	2.6
EV / EBITDA (x)	8.1	7.2	7.2	6.3
PE (x)	13.4	12.5	15.0	14.0
P / BV (x)	2.0	3.0	2.6	2.2
Net dividend yield (%)	0.7	0.7	0.7	1.0

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q3FY10	QoQ gr. (%)	Q4FY09	FY10	FY09	YoY gr. (%)
Key wireless Metrics							
Avg. revenue per user (ARPU) in (Rs)	220	230	(4.3)	305	244	325	(24.7)
Minutes of use/Subscriber (MOU)	468	446	4.9	485	459	508	(9.6)
No. of wireless subscribers EOP* (m)	128	119	7.4	94	128	94	35.9
Segmental revenue							
Wireless	81,975	79,618	3.0	82,216	324,872	303,601	7.0
Long distance & Enterprise services	20,738	20,546	0.9	21,628	83,948	84,882	(1.1)
Telemedia (Broadband)	8,510	8,550	(0.5)	8,585	34,154	33,517	1.9
Passive Infrastructure	9,552	9,267	3.1	7,241	35,425	42,489	(16.6)
Others	2,094	1,414	48.1	945	5,825	3,611	61.3
Less: inter-segmental	(22,312)	(21,673)		(22,370)	(88,074)	(98,485)	
Net revenue	100,557	97,722	2.9	98,245	396,150	369,615	7.2
Expenditure							
Access charges & License fee	22,164	21,101	5.0	24,757	85,683	91,169	(6.0)
<i>% of Net sales</i>	<i>22.0</i>	<i>21.6</i>		<i>25.2</i>	<i>21.6</i>	<i>24.7</i>	
Network operating cost	19,780	19,813	(0.2)	16,905	76,396	59,355	28.7
<i>% of Net sales</i>	<i>19.7</i>	<i>20.3</i>		<i>17.2</i>	<i>19.3</i>	<i>16.1</i>	
Employee cost	4,024	4,007	0.4	4,505	16,925	16,992	(0.4)
<i>% of Net sales</i>	<i>4.0</i>	<i>4.1</i>		<i>4.6</i>	<i>4.3</i>	<i>4.6</i>	
SG&A expenses	16,026	13,545	18.3	11,890	56,164	49,609	13.2
<i>% of Net sales</i>	<i>15.9</i>	<i>13.9</i>		<i>12.1</i>	<i>14.2</i>	<i>13.4</i>	
Total Operating Expenditure	62,336	58,610	6.4	58,231	235,883	218,574	7.9
EBIDTA	39,208	39,112	0.2	40,014	160,267	151,041	6.1
<i>EBIDTA margin (%)</i>	<i>39.0</i>	<i>40.0</i>		<i>40.7</i>	<i>40.5</i>	<i>40.9</i>	
Other income	457	223	104.9	425	1,275	1,522	(16.2)
Depreciation/Amortisation	15,458	15,403	0.4	13,285	59,987	46,944	27.8
<i>% of Net sales</i>	<i>15.4</i>	<i>15.8</i>		<i>13.5</i>	<i>15.1</i>	<i>12.7</i>	
EBIT	24,207	23,932	1.1	27,154	101,555	105,619	(3.8)
Interest and Finance Charge	(1,837)	(1,768)	3.9	2,136	(5,782)	11,613	(149.8)
<i>% of Net sales</i>	<i>(1.8)</i>	<i>(1.8)</i>		<i>2.2</i>	<i>(1.5)</i>	<i>3.1</i>	
Exceptional Items	-	-		-	-	-	
Profit/(Loss) before Tax	24,586	25,716	(4.4)	24,906	106,743	93,073	14.7
Total Tax provision	3,452	3,192	8.1	2,022	13,959	6,615	111.0
<i>Effective Tax Rate (%)</i>	<i>14.0</i>	<i>12.4</i>		<i>8.1</i>	<i>13.1</i>	<i>7.1</i>	
Share of profit/ (loss) of Associates	583	426		491	1,755	1,759	
Net Profit/ (Loss) after Tax	20,551	22,098	(7.0)	22,393	91,035	84,699	7.5

Highlights

Wireless business shows good performance

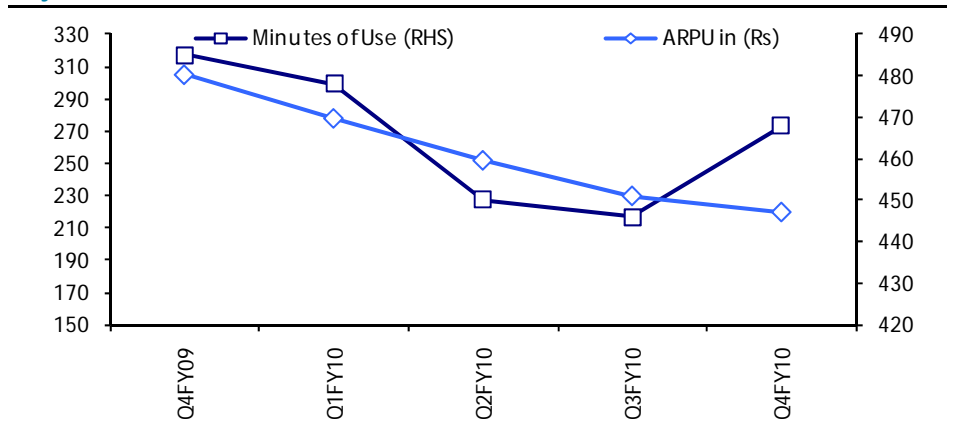
Bharti reported 3% QoQ growth in wireless revenues to Rs81.9bn, buoyed by 13% growth in wireless traffic to 172bn minutes. Realizations continue to be under pressure and SG&A costs on a rise. We believe that the peak of operating margins is behind us atleast for some time in the telecom sector.

Mobility services

Y/e March	Q4FY10	Q3FY10	QoQ gr (%)	Q4FY09	YoY gr (%)
Revenue	81,975	79,618	3.0	82,216	(0.3)
EBITDA	23,969	24,178	(0.9)	25,860	(7.3)
<i>EBITDA/revenue (%)</i>	<i>29.2</i>	<i>30.4</i>		<i>31.5</i>	
Traffic (bn mins)	173	153	12.8	131	32.2
ARPU	220	230	(4.3)	305	(27.9)
MOU	468	446	4.9	485	(3.5)
<i>Non-voice revenue as % of mobile revenue</i>	<i>11.8</i>	<i>11.0</i>		<i>9.3</i>	

Source: Company Data, PL Research

Key wireless indicators



ARPU drop of 4.3% sequentially, as against 9% QoQ drop for the last three quarters, shows that tariffs are stabilizing.

MOU/subscriber/month increase of 5% QoQ to 468, shows a pick-up in usage due to price elasticity.

Source: Company Data, PL Research

Telemedia business remained flat, margin pressure continues

Bharti has increased its broadband and fixed-line telephone services by 78K to 3.07m customers in 89 cities for Q4FY10. Revenues were flat QoQ at Rs8.5bn, primarily on account of pricing pressures on fixed-line services.

Telemedia services - Traffic carriage shows a decline

(Rs m)

Y/e March	Q4FY10	Q3FY10	Q2FY10	Q1FY10	Q4FY09
Revenue	8,510	8,550	8,544	8,550	8,585
EBITDA	3,702	3,944	3,667	3,463	3,614
<i>EBITDA / revenue (%)</i>	<i>43.5</i>	<i>46.1</i>	<i>42.9</i>	<i>40.5</i>	<i>42.1</i>
Subscriber base (m)	3.07	2.99	2.93	2.83	2.73
ARPU (Rs)	937	964	989	1,027	1,071
Broadband & Telephone traffic (m mins)	4,515	4,576	4,796	4,746	4,737

Source: Company Data

Enterprise services report flat revenues, but dip in margins

Enterprise & Long distance business reported 1% growth in revenues. However, margins came under pressure due to tariff cuts in the long distance (STD) space. Tariffs have dropped from Re1 to almost Rs0.6-0.7, while the cost remains the same. However, price elasticity has played out, resulting in uptick in volumes. NLD volumes showed a growth of 13% QoQ.

Long distance services - ILD minutes shows a first ever dip sequentially

(Rs m)

Y/e March	Q4FY10	Q3FY10	Q2FY10	Q1FY10	Q4FY09
Revenue	20,738	20,546	21,331	21,333	21,628
EBITDA	9,846	10,035	11,023	10,468	9,920
<i>EBITDA/revenue (%)</i>	<i>47.5</i>	<i>48.8</i>	<i>51.7</i>	<i>49.1</i>	<i>45.9</i>
Traffic detail NLD (m min)	15,875	13,944	12,417	11,781	11,690
Traffic detail ILD (m min)	3,173	3,100	3,181	2,869	2,772
<i>QoQ growth in traffic (%)</i>	<i>11.8</i>	<i>9.3</i>	<i>6.5</i>	<i>1.3</i>	<i>1.8</i>

Source: Company Data



Passive Infrastructure business reported, excluding Indus

Passive infrastructure revenues are for Bharti Infratel tower base of ~30k towers, which are not part of Indus JV. As per US GAAP accounting for JV, Indus revenues are not consolidated line-by-line.

Passive Infrastructure segment reported revenue of Rs9.5bn and EBITDA margin of 47.2%. Tenancy ratio on the existing Infratel towers is 1.62 and sharing revenue (per sharing operator per month) was at Rs36.8k.

Passive infrastructure services

Y/e March	Q4FY10	Q3FY10	QoQ gr. (%)	Q4FY09	YoY gr. (%)
Revenue (Rs m)	9,552	9,267	3.1	7,241	31.9
EBITDA (Rs m)	4,507	4,269	5.6	2,903	55.3
<i>EBITDA/revenue (%)</i>	<i>47.2</i>	<i>46.1</i>		<i>40.1</i>	
Total towers	30,568	29,806	2.6	27,548	11.0
Tenancy ratio	1.62	1.57	3.2	1.34	20.9
Revenue per tower/month (Rs)	36,878	38,107	-3.2	33,586	9.8

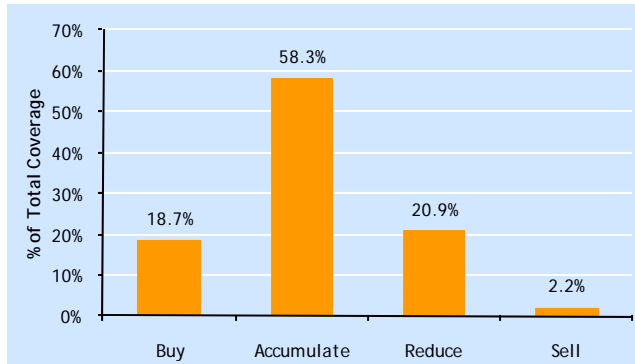
Source: PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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