

## Bharti Tele-Ventures

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,640	BHARTI IN
	REUTERS CODE
S&P CNX: 2,914	BRTL.BO

6 January 2006

Buy

Previous Recommendation: Buy

Rs346

Equity Shares (m)	1,884.1
52-Week Range (Rs)	377/192
1,6,12 Rel. Perf. (%)	-8/10/13
M.Cap. (Rs b)	652.7
M.Cap. (US\$ b)	14.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/05A	80,028	14,978	8.1	-	42.9	10.5	28.0	16.9	8.7	23.1
3/06E	114,388	24,776	13.2	62.7	26.3	7.5	33.7	22.2	6.1	15.8
3/07E	152,464	37,745	20.0	52.3	17.3	5.2	36.0	25.4	4.6	11.4

### Cellular additions at record highs

The wireless industry added 4.447m subscribers in December 2005 — the first time that industry additions crossed the 4m limit. We have seen buoyant additions by the industry over the last few months as operators expanded their network coverage and offered attractive packages to subscribers. GSM operators added 3.2m subscribers for December 2005, the highest subscriber additions to date, led by strong performance by BSNL, Bharti and Hutch. CDMA operators added 1.26m subscribers in December 2005, the highest additions since May 2003 when Reliance Infocomm launched its services. CDMA operations were bolstered by strong performance by Reliance Infocomm which recorded its highest subscriber additions since July 2003. The overall subscriber base has grown 46% since March 2005. The industry added a whopping 24.3m subscribers in April-December 2005 against 14.1m in April-December 2004, a growth of 72% YoY.

Bharti added 0.911m subscribers in December 2005, the highest subscriber additions for the company, with a 35% growth in subscriber additions month on month (MoM). Bharti's market share declined marginally to 21.7% in December from 21.8% in November 2005. The stock is currently trading at 26.3x FY06E EPS and 17.3x FY07E EPS.

### SUBSCRIBER ADDITIONS

	SEP 2005	OCT 2005	NOV 2005	DEC 2005
<b>Bharti</b>	<b>654,205</b>	<b>672,450</b>	<b>675,636</b>	<b>911,148</b>
BSNL	582,129	609,069	778,259	1,009,805
Reliance	279,521	366,888	448,054	785,547
Hutch	412,833	453,180	520,357	730,763
Idea	65,601	116,760	147,450	263,790
Tata	245,646	423,265	728,552	472,927
MTNL	60,866	83,180	77,358	83,076
Spice	6,678	28,593	34,803	73,510
BPL	58,259	43,630	19,055	21,555
Aircel	84,109	79,365	59,067	53,468
HFCL	-2,173	542	948	2,027
Shyam Tele	16	43	-260	-475
Reliance Telecom	35,193	27,206	15,940	40,849
<b>Total</b>	<b>2,482,883</b>	<b>2,904,171</b>	<b>3,505,219</b>	<b>4,447,990</b>

### MARKET SHARE

	SEP 2005	OCT 2005	NOV 2005	DEC 2005
<b>Bharti</b>	<b>21.8</b>	<b>21.9</b>	<b>21.8</b>	<b>21.7</b>
BSNL	18.5	18.6	18.8	19.0
Reliance	17.7	17.5	17.3	17.3
Hutch	15.1	15.1	15.1	15.2
Idea	9.2	9.0	8.8	8.6
Tata	3.2	3.7	4.5	4.9
MTNL	2.0	2.0	2.0	2.0
Spice	2.3	2.3	2.2	2.2
BPL	4.4	4.2	4.0	3.8
Aircel	3.2	3.2	3.1	3.0
HFCL	0.1	0.1	0.1	0.1
Shyam Tele	0.0	0.0	0.0	0.0
Reliance Telecom	2.5	2.4	2.3	2.2

Source: COAI, AUSPI

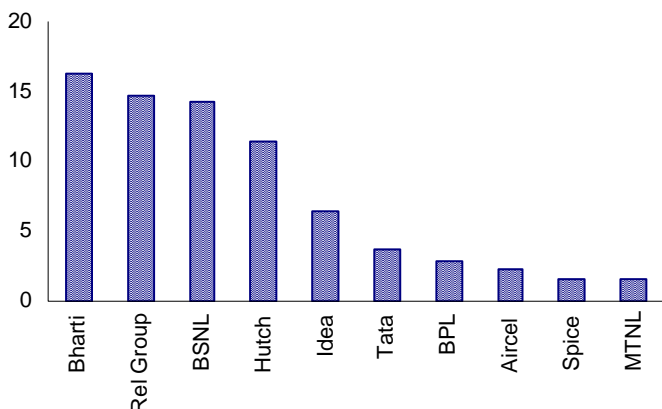
**BSNL maintains strong momentum even as Bharti's adds pick up**

Bharti added 911,148 subscribers for the month, a 34.8% growth over November 2005. BSNL touched a record high of 1m subscribers, its highest ever in a single month making it the first GSM operator to have crossed 1m subscriber additions. Hutch continued its strong performance, adding 730,763 subscribers, also the highest in a single month for Hutch, a growth of 40.4% MoM. BSNL has been aggressively increasing capacity over the last few months driving growth in subscriber additions. BSNL's market share has increased to 19% in December 2005 from 18.4% in March 2005. Bharti's market share declined marginally to 21.7% in December 2005 from 21.8% in November 2005, primarily due to stronger additions from BSNL.

Reliance Infocomm added 785,547 subscribers for the month, a growth of 75.3% MoM. The average subscriber additions for Reliance Infocomm over the last six months have been 454,672, against average industry additions of 3.1m. This has resulted in the incremental share for the said period to fall to 14.7% against approximately 16% over FY05.

Tata Teleservices' additions slowed down to 472,927 in December 2005 as the industry responded to the company's two-year incoming validity plan with aggressive packages of their own. CDMA operators continued to increase their market share to 22.3% in December 2005 on the back of a strong showing by Reliance Infocomm and Tata Teleservices.

CELLULAR PLAYER RANKINGS (SUBSCRIBER MILLIONS)

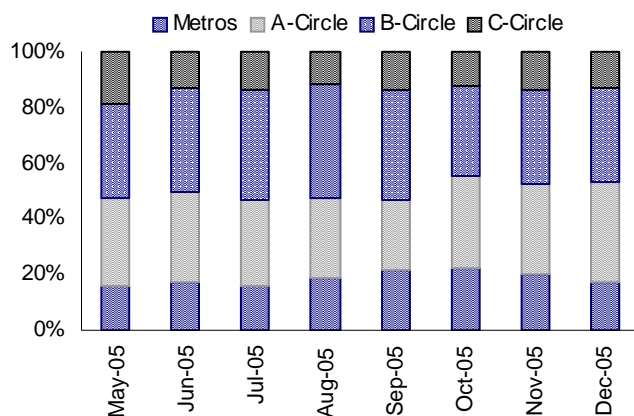


Source: COAI, AUSPI

**B-Circle and C-Circle driving overall subscriber growth**

Industry growth has been driven by strong capacity expansion undertaken by the operators over the last few months. We have seen all major operators expand their networks to cover more towns and launch attractive tariff packages to attract subscribers. Average incremental market share for B-Circle and C-Circle for April 2005 to December 2005 increased to 49.3% from 44.4% in FY05. Average incremental market share for C-Circle for April-December 2005 increased to 13.1% from 8.7% in FY05.

INCREMENTAL ADDITIONS IN B-CIRCLE AND C-CIRCLE ON THE RISE



Source: COAI, AUSPI

**Free lifetime validity card to drive subscriber growth**

Launch of micro prepaid recharge coupon of Rs200/month has brought down the affordability barrier for subscribers, resulting in strong growth in subscriber additions. The subscriber base has increased by 37.6% over May 2005 when the micro prepaid recharge coupon was launched. Tata Teleservices added over 1.2m subscribers since the launch of its two-year free incoming card. The industry, with the launch of a lifetime valid incoming card is expected to witness strong subscriber additions over the next few months. We believe that such aggressive plans and rollouts into new towns would enable operators to achieve the target of 200m mobile subscribers by December 2007 laid down by the Department of Telecom (DoT) in its draft policy.

**Valuation and view**

The momentum in subscriber additions has only grown stronger with the launch of attractive tariff packages by the operators, thereby bringing a larger strata of population under mobile coverage. We believe that aggressive rollouts and attractive tariff plans are likely to keep subscriber additions strong. However, such attractive packages are likely to put further pressure on ARPUs. The impact on

the margins would depend on usage patterns of the subscribers. We believe that over the long term as usage increases, such plans are likely to be EBITDA margin neutral. We continue to remain positive on Bharti as the operator enjoys high ARPUs and strong profitability. The management has been extremely successful in delivering strong profits in the face of aggressive competition. The stock is currently trading at 26.3x FY06E EPS and 17.3x FY07E EPS. We maintain **Buy**.

## Bharti Tele-Ventures: an investment profile

### Company description

Bharti Tele-Ventures, promoted by Sunil Bharti Mittal, is the largest cellular services provider in India with a subscriber base of over 14m and a market share of over 21% of the overall cellular market. It is the first cellular services provider to have introduced the lowest denomination recharge coupon for prepaid subscribers and electronic recharge. It is also the most profitable cellular services provider and is managed by a very strong team of professionals. It is the only player to have a presence in all 23 circles in India.

### Key investment arguments

- Leader in the fast growing Indian cellular market and enjoys scale advantage.
- Strong innovative management the biggest differentiator.
- Most profitable cellular services provider.

### Key investment risks

- Tariffs still higher than competitors.
- Being a listed company, can't be a price leader due to focus on profitability and hence is reactive to competitor's pricing.

### Recent developments

- Vodafone picked up a 10% effective stake in the company for a consideration of £0.82m.
- Reached the 1m subscriber milestone in its fixed line and broadband operations.
- Launched India's first 999 new lifetime validity prepaid card.

### Valuation and view

- Revenue CAGR of 38% and earnings CAGR of 59% over FY05-07E.
- Valuations at 17.3x FY07E earnings are attractive and at a significant discount to some similar-sized peers in other fast growing industries, like TCS and Infosys.
- **Buy** with a target price of Rs400, an upside of 15.6% from current levels.

### Sector view

- Rapid growth in mobile subscriber base enabling the cellular market to surpass that of fixed telephony.
- The draft policy has targeted cellular subscriber base to touch 200m by December 2007
- Tariff cuts to be compensated by higher usage resulting in decent margins and return ratios.

#### COMPARATIVE VALUATIONS

		BHARTI	INFOSYS	TCS
P/E (x)	FY06E	26.3	32.6	28.5
	FY07E	17.3	25.3	23.2
P/BV (x)	FY06E	7.5	11.6	14.0
	FY07E	5.2	8.7	9.4
EV/Sales (x)	FY06E	6.1	8.1	6.5
	FY07E	4.6	6.0	4.8
EV/EBITDA (x)	FY06E	15.8	25.0	22.1
	FY07E	11.5	18.3	17.4

#### SHAREHOLDING PATTERN (%)

	SEP.05	JUN.05	SEP.04
Promoters	45.7	46.0	46.6
Domestic Institutions	3.2	3.4	3.5
FII's/FDIs	48.5	47.7	46.7
Others	2.6	2.9	3.2

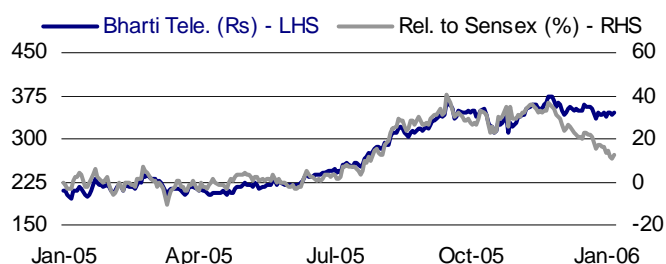
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	13.2	12.6	4.8
FY07	20.0	18.2	10.1

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
346	400	15.6	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>Revenues</b>	<b>30,499</b>	<b>48,320</b>	<b>80,028</b>	<b>114,388</b>	<b>152,464</b>	
Change (%)	105.2	64.0	65.6	42.9	33.3	
<b>Total Expenses</b>	<b>18,706</b>	<b>31,766</b>	<b>49,963</b>	<b>70,163</b>	<b>91,705</b>	
<b>EBITDA</b>	<b>11,793</b>	<b>16,554</b>	<b>30,065</b>	<b>44,225</b>	<b>60,760</b>	
% of Gross sales	38.7	34.3	37.6	38.7	39.9	
Depn. & Amortisation	5,067	7,733	11,341	14,706	18,077	
EBIT	6,726	8,821	18,724	29,519	42,682	
Net Interest	2,015	2,380	1,996	2,361	1,555	
Other Income	316	182	-124	543	-100	
<b>PBT</b>	<b>5,027</b>	<b>6,624</b>	<b>16,604</b>	<b>27,700</b>	<b>41,027</b>	
Tax	145	901	1,528	2,617	3,282	
Rate (%)	2.9	13.6	9.2	9.4	8.0	
<b>Adjusted PAT</b>	<b>4,882</b>	<b>5,723</b>	<b>14,978</b>	<b>24,776</b>	<b>37,745</b>	
Change (%)	-50.19	17.2	16.7	65.4	52.3	
<b>PAT after EO</b>	<b>-1,337</b>	<b>6,024</b>	<b>14,978</b>	<b>24,776</b>	<b>37,745</b>	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
Share Capital	18,534	18,534	18,534	18,534	18,534	
Additional Paid up Capital	47,253	47,416	47,587	47,587	47,587	
Reserves	-25,109	-20,034	-5,056	19,720	57,465	
<b>Net Worth</b>	<b>40,678</b>	<b>45,916</b>	<b>61,065</b>	<b>85,841</b>	<b>123,586</b>	
Loans	29,729	45,723	49,040	52,259	51,423	
Minority Interest	0	0	749	849	949	
Other Liabilities	1,749	3,694	7,027	7,027	5,622	
Deferred Tax Liability	2,290	2,970	3,624	3,624	3,624	
<b>Capital Employed</b>	<b>74,446</b>	<b>98,303</b>	<b>121,505</b>	<b>149,601</b>	<b>185,204</b>	
<b>Net Block</b>	<b>54,256</b>	<b>79,369</b>	<b>108,561</b>	<b>142,639</b>	<b>174,639</b>	
Investments	2,307	159	740	740	740	
Goodwill	13,763	20,602	23,247	20,922	18,830	
Deferred Tax Asset	1,051	1,842	2,441	1,220	1,000	
Other Non-Current Assets	1,097	1,911	2,400	2,239	3,081	
<b>Curr. Assets</b>	<b>16,184</b>	<b>15,138</b>	<b>24,124</b>	<b>26,505</b>	<b>37,124</b>	
Inventories	188	317	545	845	1,345	
Debtors	10,811	7,378	10,266	10,969	16,708	
Cash & Bank Balance	606	1,303	3,087	3,687	4,687	
Other current assets	4,579	6,139	10,226	11,004	14,384	
<b>Curr. Liab. &amp; Prov.</b>	<b>14,213</b>	<b>20,719</b>	<b>40,008</b>	<b>44,661</b>	<b>50,198</b>	
Sundry Liabilities	13,319	19,040	38,265	41,178	43,237	
Other Current Liabilities	894	1,679	1,743	3,483	6,961	
<b>Net Curr. Assets</b>	<b>1,971</b>	<b>-5,581</b>	<b>-15,884</b>	<b>-18,156</b>	<b>-13,074</b>	
<b>Appl. of Funds</b>	<b>74,446</b>	<b>98,303</b>	<b>121,505</b>	<b>149,605</b>	<b>185,217</b>	

E: M OSt Estimates

RATIOS						
Y/E MARCH	2003	2004	2005	2006E	2007E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>-1.1</b>	<b>2.7</b>	<b>8.1</b>	<b>13.2</b>	<b>20.0</b>	
Cash EPS	2.0	7.4	14.2	21.3	30.1	
Book Value	219	24.8	32.9	46.3	66.7	
DPS	0.0	0.0	0.0	0.0	0.0	
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	0.0	0.0	
<b>Valuation (x)</b>						
P/E	-	126.5	42.9	26.3	17.3	
Cash P/E	-	46.7	24.4	16.3	11.5	
EV/EBITDA	-	41.7	23.1	15.8	11.4	
EV/Sales	-	14.3	8.7	6.1	4.6	
Price/Book Value	-	14.0	10.5	7.5	5.2	
Dividend Yield (%)	-	0.0	0.0	0.0	10	
<b>Profitability Ratios (%)</b>						
RoE	-3.1	13.9	28.0	33.7	36.0	
RoCE	10.3	10.4	16.9	22.2	25.4	
<b>Turnover Ratios</b>						
Debtors (Days)	160	73	59	43	50	
Asset Turnover (x)	0.4	0.5	0.6	0.6	0.7	
<b>Leverage Ratio</b>						
Debt/Equity Ratio (x)	0.8	1.1	0.9	0.7	0.5	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2003	2004	2005	2006E	2007E	
Op.Profit/(Loss) bef Tax		16,554	30,065	44,225	60,760	
Other Income		182	-124	543	-100	
Interest Paid		-2,380	-1,996	-2,361	-1,555	
Direct Taxes Paid		-901	-1,528	-2,617	-3,282	
(Inc)/Dec in Wkg. Cap.		8,249	12,087	2,872	-4,082	
<b>CF from Op.Activity</b>		<b>21,706</b>	<b>38,505</b>	<b>42,661</b>	<b>51,740</b>	
(inc)/Dec in FA + CWIP		-22,540	-34,569	-31,839	-35,842	
(Pur)/Sale of Investments		-12,883	-11,947	-16,542	-16,103	
<b>CF from Inv.Activity</b>		<b>-35,423</b>	<b>-46,516</b>	<b>-48,381</b>	<b>-51,945</b>	
Issue of Shares		163	171	0	0	
Inc/(Dec) in Debt		17,939	6,650	3,393	-1,842	
Dividends Paid		0	0	0	0	
<b>Inc/(Dec) in Cash</b>		<b>698</b>	<b>1,784</b>	<b>600</b>	<b>1,000</b>	
Add: Opening Balance		606	1,303	3,087	3,687	
<b>Closing Balance</b>		<b>1,303</b>	<b>3,087</b>	<b>3,687</b>	<b>4,687</b>	

E: M OSt Estimates; All Financials as per US GAAP

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**Bharti Tele-Ventures**

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| 1. Analyst ownership of the stock            | No  |
| 2. Group/Directors ownership of the stock    | Yes |
| 3. Broking relationship with company covered | No  |

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