

Telecom Services

Stock Update

Rating: **BUY**

Current Price (Rs): 389

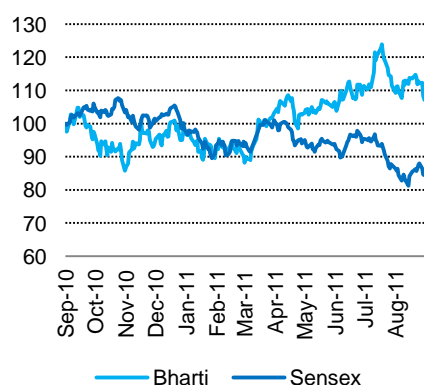
Target Price (Rs): 495

Stock Data

52-week high/low	447/303
O/S shares (m)	3,798
Mkt Cap Rs (bn)	1,470
Avg Daily Vol	5,993,436
Bloomberg Code	BHARTI IN
Reuters Code	BRTI.BO

Shareholding (%) Mar-11

Promoters	68
FIs	18
DIs	8
Public	6



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Rupee worries; business fundamental view maintained

▪ Bharti Airtel (Bharti's) stock has been under pressure due to high level of un-hedged Foreign Currency (FC) debt on the books and INR depreciation against US\$ lately. ~73% of the total outstanding debt (Rs 627 bn) is estimated to be in US\$ as on 30 June 2011. While the depreciation of INR has negative impact on the cash flow during 'maturity' of liabilities (both debt and payables related to equipments), we estimate a valuation impact of Rs 24 (see working below) if INRUS\$ stabilise at 50.

▪ Moreover, we see a negative impact of Rs 15.6 bn (~17% impact on our PBT estimate) at the Profit Before Tax Level (PBT) for FY12 if INRUS\$ stabilise at 50 and INRJYP stabilise at 0.62. Our PBT estimate for FY12 is Rs 90.6 bn (not adjusted for currency fluctuation). Bharti has indicated a negative impact of Rs 6.3 bn on the PBT in the event of 5% depreciation of INR each against US\$ and JPY.

▪ However, we maintain our outlook of improving business fundamentals (increase in volume and realisation) for the telecom sector in India. Bharti's Africa operation, with 36% revenue CAGR to Rs 244 bn over FY11-13E, is seen as a major growth driver. We maintain our BUY rating with a target price of Rs 495.

Debt outstanding and broad repayment schedule

	(Rs mn)
Less than 1 year	167,720
Between 1 to 2 years	113,489
Between 2 to 5 years	249,040
More than 5 years	97,589
Total outstanding (as on 30 June 2011)	627,838

Source: Company

Annual debt repayment schedule in Rs - Assumption

(Rs bn)	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17
Borrowed in US\$	125	85	62	62	62	73
Borrowed in JPY	4	3	2	2	2	3
Borrowed in NGN	Assumed to be serviced through African operations					
Borrowed in XAF	Assumed to be serviced through African operations					

Annual debt repayment in borrowed currency – Assumption

Debt liability (bn)	Mar 12	Mar 13	Mar 14	Mar 15	Mar 16	Mar 17
Borrowed in US\$*	2.8	1.9	1.4	1.4	1.4	1.6
Borrowed in JPY**	8.1	5.5	4.0	4.0	4.0	4.7
Borrowed in NGN	Assumed to be serviced through African operations					
Borrowed in XAF	Assumed to be serviced through African operations					

Source: IFIN estimates. Based on Debt maturity schedule.

Exchange rates: *INRUS\$ = 44.7, **INRJYP = 0.555

INR depreciation impact on debt liability in Rs– Assumption

(Rs bn)	March 12	March 13	March 14	March 15	March 16	March 17
Borrowed in US\$	140	95	69	69	69	81
Borrowed in JPY	5	3	2	2	2	3
Borrowed in NGN	Assumed to be serviced through African operations					
Borrowed in XAF	Assumed to be serviced through African operations					

Source: IFIN estimates. Based on Debt maturity schedule.

Exchange rates: *INRUS\$ = 50, **INRJPY = 0.621

Excess payment and PV of the impact (Rs mn)

	March 12	March 13	March 14	March 15	March 16	March 17
Borrowed in US\$	14.8	10.0	7.3	7.3	7.3	8.6
Borrowed in JPY	0.5	0.4	0.3	0.3	0.3	0.3
Borrowed in NGN	Assumed to be serviced through African operations					
Borrowed in XAF	Assumed to be serviced through African operations					
Equipment supply payable	51	NA	NA	NA	NA	NA
Total	66	10	8	8	8	9
Present value of impact @ WACC of 11%	62,741	8,811	5,806	5,231	4,711	4,990
Total	92,290					
Shares outstanding (mn)	3,798					
Per share impact (Rs)	24					

Source: IFIN research

Sensitivity table

	Exchange Rate			
INRUS\$	48	49	50	51
Negative per share impact (Rs)	20	22	24	26

Source: IFIN research

Financials

Income Statement

(Rs Million)

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	418,472	594,672	719,597	839,575
Sales Growth (%)	13.2	42.1	21.0	16.7
Direct Expenses	175,712	254,481	307,866	342,547
SG&A	19,028	32,784	37,816	45,337
Total Expenses	56,099	107,053	118,721	134,744
EBITDA	167,633	200,354	255,194	316,947
EBITDA (%)	40.1	33.7	35.5	37.8
Depreciation	62,832	102,066	130,333	142,136
Interest (net)	290	(21,506)	(34,285)	(26,876)
Tax	13,453	17,790	22,614	35,504
Tax Rate (%)	12.8	23.2	22.0	24.0
Adjusted PAT	86,941	61,449	70,164	114,632
Extraordinary Items	4,697	(982)	0	0
Reported PAT	91,638	60,467	70,164	114,632
PAT Growth (%)	3.9	(29.3)	14.2	63.4

Source: Company IFIN Research

Ratios

Y/E March	FY10	FY11	FY12E	FY13E
EPS (Rs)	24.0	15.9	18.5	30.2
CEPS (Rs)	39.9	42.8	52.8	67.6
BV (Rs.)	108.9	128.4	146.9	177.1
DPS	0.0	0.0	0.0	0.0
Payout %	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	16.1	25.2	22.7	13.5
EV/EBITDA	9.4	10.0	7.7	5.8
EV/Sales	3.8	3.4	2.7	2.2
Price/Book Value	3.6	3.0	2.6	2.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
Profitability Ratio (%)				
RoE	25.5	13.0	12.5	17.8
RoCE	22.6	12.3	11.2	15.0
Turnover Ratios				
Debtors (Days)	12.7	33.7	31.0	31.0
Fixed Asset Turnover (x)	0.9	1.1	1.1	1.4

Source: Company IFIN Research

Balance Sheet

(Rs Million)

Y/E March	FY10	FY11	FY12E	FY13E
Share Capital	18,988	18,988	18,988	18,988
Reserves	394,711	468,680	538,844	653,476
Net Worth	413,699	487,668	557,832	672,464
Debt	56,110	578,988	543,603	493,603
Total Current Liabilities	148,111	369,845	333,947	324,852
Total Equity & Liabilities	646,409	1,465,064	1,463,945	1,519,481
Net Block	443,808	651,426	631,093	597,958
CWP	52,675	637,317	637,317	637,317
Investments	10,579	64,244	64,244	64,244
Curr. Assets				
Debtors	13,757	54,929	61,116	71,306
Cash & Bank Balance	13,903	9,575	20,959	92,721
Loans & Advance	21,329	30,504	35,487	41,404
Other Current Assets	90,358	17,069	13,728	14,532
Total Assets	646,409	1,465,064	1,463,945	1,519,481

Source: Company IFIN Research

Cash Flow Statement

(Rs million)

Y/E March	FY10	FY11	FY12E	FY13E
Consolidated PAT	91,026	60,467	70,164	114,632
Depreciation	59,066	102,066	130,333	142,136
Deferred Tax	3,847	(138,127)	0	0
Cash Flow from Operation	153,939	24,406	200,496	256,767
Inc/(Dec) in WC	(21,790)	8,203	14,104	(26,006)
Operating Cash Flow	132,149	187,139	214,601	230,762
Capex	(102,047)	(602,951)	(110,000)	(109,000)
Free Cash Flow	30,102	(415,812)	104,601	121,762
Equity Raised	191	0	0	0
Debt Raised	16,654	429,586	(93,217)	(50,000)
Investment	0.00	0	0.00	0.00
Dividend Paid	(4,442)	14,501	0	0
Misc Expense	(39,747)	(32,603)	0	0
Net Cash Flow	2,758	(4,328)	11,384	71,762
Opening Cash Bal.	11,145	13,903	9,575	20,959
Add: Net Cash	2,758	(4,328)	11,384	71,762
Closing Cash Bal.	13,903	9,575	20,959	92,721

Source: Company IFIN Research

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Key ratings:

Rating	LARGE CAP	MID CAP
	Market Cap \geq Rs 100 bn	Market Cap $<$ Rs 100 bn
BUY (B)	$>$ 15%	$>$ 25%
Hold (H)	5-15%	10-25%
SELL (S)	$<$ 5%	$<$ 8%
Not Rated (NR)	Not initiated coverage on the stock	

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