

# Bharti Airtel

| BSE SENSEX<br>17,707           | S&P CNX<br>5,368     | <b>CMP: INR354</b> |                      | <b>TP: INR410</b> |              |                |            | <b>Buy</b>  |            |             |              |               |
|--------------------------------|----------------------|--------------------|----------------------|-------------------|--------------|----------------|------------|-------------|------------|-------------|--------------|---------------|
| Bloomberg<br>Equity Shares (m) | BHARTI IN<br>3,793.9 | Year<br>End        | Net Sales<br>(INR m) | PAT<br>(INR m)    | EPS<br>(INR) | EPS<br>Gr. (%) | P/E<br>(X) | P/BV<br>(X) | ROE<br>(%) | ROCE<br>(%) | EV/<br>Sales | EV/<br>EBITDA |
| 52-Week Range (INR)            | 445/309              | 3/11A              | 594,672              | 60,468            | 15.9         | -32.6          | 22.2       | 2.6         | 12.6       | 8.7         | 3.3          | 9.7           |
| 1,6,12 Rel. Perf. (%)          | -2/-18/7             | 3/12E              | 717,460              | 46,029            | 12.1         | -23.9          | 29.2       | 2.5         | 8.8        | 6.2         | 2.8          | 8.4           |
| M.Cap. (INR b)                 | 1,343.0              | 3/13E              | 813,141              | 76,655            | 20.2         | 66.5           | 17.5       | 2.2         | 13.5       | 8.4         | 2.3          | 6.7           |
| M.Cap. (USD b)                 | 27.3                 | 3/14E              | 898,794              | 104,163           | 27.5         | 35.9           | 12.9       | 1.9         | 15.9       | 9.8         | 2.0          | 5.5           |

- Bharti's 3QFY12 PAT declined 22.4% YoY and 1.5% QoQ to INR10.1b, below our estimate of INR14.7b. While consolidated revenue of INR184.8b was broadly in-line, earnings were dragged by higher opex (sponsorship and other expenses of ~INR1.2b) and depreciation (one-time adjustment of ~INR0.75b in Africa segment).
- Revenue for India and South Asia (SA) grew 12.3% YoY and 3.8% QoQ to INR131.6b (1% below our estimate). EBITDA declined 1% QoQ, largely due to 15-16% QoQ EBITDA decline for Telemedia and Enterprise businesses. India and SA mobile revenue and EBITDA grew 4-5% QoQ.
- India mobile traffic grew ~1% QoQ, 3% below our estimate. India mobile RPM grew 3.3% QoQ to 44.6paise (1% above our estimate), largely due to tariff hikes. Churn levels remain elevated at ~8% per month.
- We believe Bharti continued to lose mobile revenue market share due to its strategy of holding on to tariff levels and not competing in the "discount market segment".
- Africa business EBITDA grew 4.4% QoQ to USD282m, driven by ~3% QoQ revenue growth (~3% traffic growth, flat RPM) and ~50bp EBITDA margin expansion. Our FY12/13 EBITDA estimates for Africa are USD1.1b/USD1.4b.
- Telemedia revenue declined 4% QoQ to INR9.1b due to (1) seasonality in 3Q due to holidays, (2) Do-Not-Call guidelines, which impacted business coming from telemarketers, and (3) migration to a new composite billing system. Enterprise business is also likely to have been impacted by some of these issues.
- Bharti incurred consolidated capex of USD2.4b in 9MFY12, broadly in line with the full-year guidance of USD3.2b. The management expects FY13 capex to be similar to FY12 levels.
- We are downgrading our FY12/13 revenue estimates by 0.5/1%, EBITDA estimates by 4/7% and PAT estimates by 20%, largely driven by 2-3% downgrade in traffic and lower margins in non-mobile business.
- The stock trades at an EV of 8.4x FY12E and 6.7x FY13E EBITDA. Maintain **Buy**, with a revised target price of INR410 (EV of 7x FY14E EBITDA for India and SA business, and EV of 5x FY14E EBITDA for Africa business).

| Y/E MARCH                           | FY11    |         |         |         | FY12    |         |         |         | (INR Million) |         |
|-------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------------|---------|
|                                     | 1Q      | 2Q      | 3Q      | 4Q      | 1Q      | 2Q      | 3Q      | 4QE     | FY11          | FY12E   |
| <b>Revenue</b>                      | 122,308 | 152,150 | 157,560 | 162,654 | 169,749 | 172,698 | 184,767 | 190,247 | 594,672       | 717,460 |
| YoY Growth (%)                      | 17.4    | 46.6    | 52.9    | 51.3    | 38.8    | 13.5    | 17.3    | 17.0    | 42.1          | 20.6    |
| QoQ Growth (%)                      | 13.8    | 24.4    | 3.6     | 3.2     | 4.4     | 1.7     | 7.0     | 3.0     |               |         |
| <b>Total Operating Expenses</b>     | 78,168  | 100,938 | 107,743 | 108,158 | 112,691 | 114,547 | 125,183 | 127,738 | 395,007       | 480,158 |
| <b>EBITDA</b>                       | 44,140  | 51,212  | 49,816  | 54,496  | 57,058  | 58,151  | 59,584  | 62,509  | 199,664       | 237,302 |
| YoY Growth (%)                      | 2.7     | 19.1    | 22.0    | 33.5    | 29.3    | 13.5    | 19.6    | 14.7    | 19.1          | 18.9    |
| QoQ Growth (%)                      | 8.1     | 16.0    | -2.7    | 9.4     | 4.7     | 1.9     | 2.5     | 4.9     |               |         |
| Margin (%)                          | 36.1    | 33.7    | 31.6    | 33.5    | 33.6    | 33.7    | 32.2    | 32.9    | 33.6          | 33.1    |
| Net Finance Costs                   | 4,198   | 3,319   | 7,470   | 6,826   | 8,551   | 11,186  | 7,877   | 8,125   | 21,813        | 35,738  |
| Non-Operating Income                | 244     | 164     | 256     | 334     | 0       | 0       | -56     | -53     | 998           | -107    |
| Depreciation & Amortization         | 19,467  | 25,790  | 27,107  | 29,702  | 31,314  | 31,839  | 35,845  | 35,462  | 102,066       | 134,459 |
| <b>Profit before Tax</b>            | 20,719  | 22,267  | 15,495  | 18,302  | 17,195  | 15,126  | 15,807  | 18,870  | 76,783        | 66,998  |
| Income Tax Expense / (Income)       | 3,750   | 5,678   | 3,366   | 4,996   | 5,141   | 4,900   | 5,585   | 5,342   | 17,790        | 20,968  |
| <b>Profit after Tax</b>             | 16,969  | 16,589  | 12,129  | 13,306  | 12,054  | 10,226  | 10,222  | 13,528  | 58,993        | 46,030  |
| Minority interest                   | -153    | 23      | 904     | 701     | 98      | 44      | -108    | -35     | 1,475         | 0       |
| <b>Reported Net Profit / (Loss)</b> | 16,816  | 16,612  | 13,033  | 14,007  | 12,152  | 10,270  | 10,113  | 13,493  | 60,468        | 46,029  |
| YoY Growth (%)                      | -32.0   | -26.6   | -40.6   | -31.5   | -27.7   | -38.2   | -22.4   | -3.7    | -32.6         | -23.9   |

E: MOSL Estimates

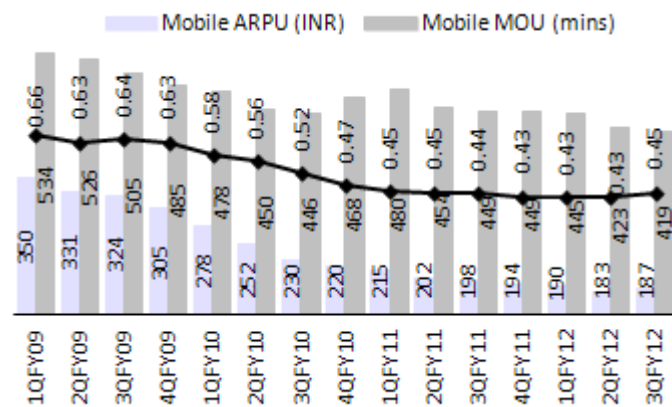
### 3QFY12 result highlights

- Traffic for India mobile business grew 0.9% QoQ to 219b mins (3% below our estimate). MOU per sub declined 1% QoQ to 419min (v/s est of 432 min)
- Bharti India mobile RPM grew 3.3% QoQ to 44.6p, 1.3% above our estimate.
- Traffic in Africa grew 3% QoQ to 18.5b minutes.
- Margin improvement of ~50bp in Africa to 26.7%, below our estimate of 27.1%.
- Bharti Africa added 2.5m subscribers in 3QFY12, (v/s 2.1m in 2QFY12).
- Management has mentioned that FY12 capex guidance for Africa operations stands at USD1.3-1.4b. Consolidated capex guidance for FY12 is USD3.2b.
- Bharti's net debt increased 5% QoQ to INR678b, largely on account of forex impact.

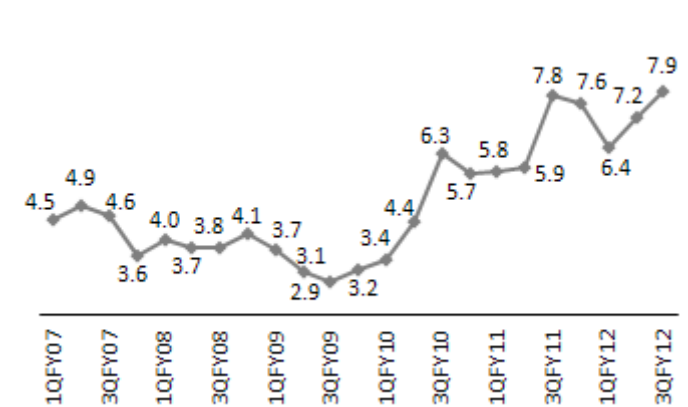
### India and South Asia revenue and EBITDA below estimates

- India and South Asia revenue grew 12.3% YoY and 3.8% QoQ to INR131.6b (v/s estimate of INR133.1b).
- EBITDA grew 7.4% YoY but declined 1% QoQ to INR45.2b largely due to poor performance in the Telemedia and Enterprise business segments. EBITDA margin declined ~160bp YoY and ~170bp QoQ to 34.4% (v/s our estimate of 37.2%).
- PAT of INR12.7b was significantly below our estimate of INR17.6b.
- Mobile traffic (India) grew 10% YoY and 1% QoQ to 219b minutes (3% below est).
- MOU per subscriber declined 1% QoQ to 419 mins (3% below est).
- RPM grew 3.3% QoQ to 44.6p (1% above est). Mobile ARPU grew 2.3% QoQ to INR187 (2% below est).
- Blended monthly churn increased to 7.9% (v/s 7.2% during 2QFY12).

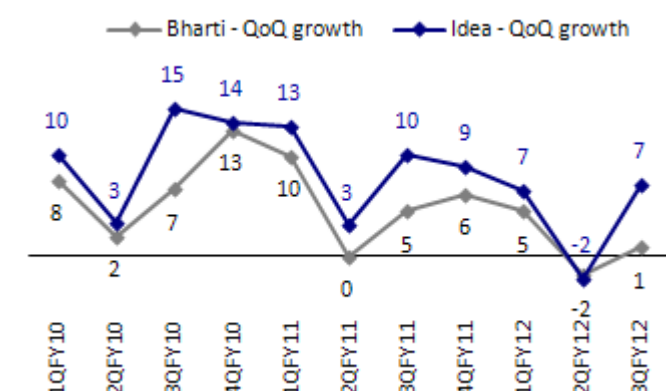
KPI performance: MOU and ARPU below estimates



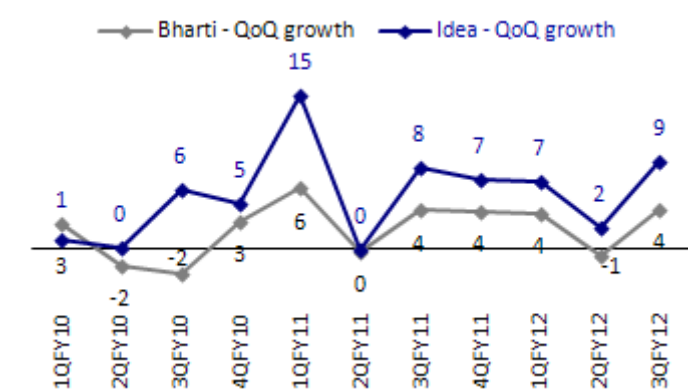
Monthly churn continues to inch up (%)



Bharti v/s Idea: QoQ traffic growth (%)



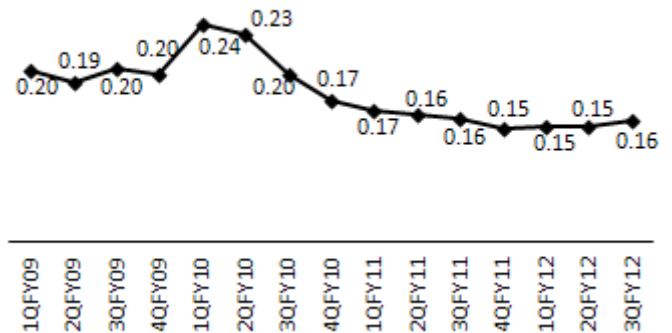
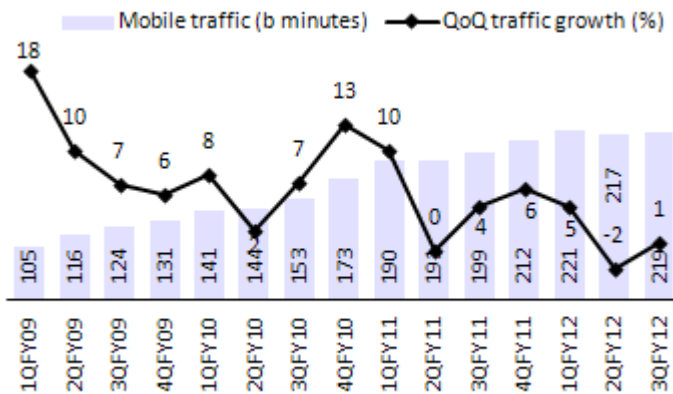
Bharti v/s Idea: QoQ mobile revenue growth (%)



Source: Company/MOSL

**Mobile traffic 3% below estimates (b min)**

**Mobile EBITDA per minute improves QoQ (INR)**

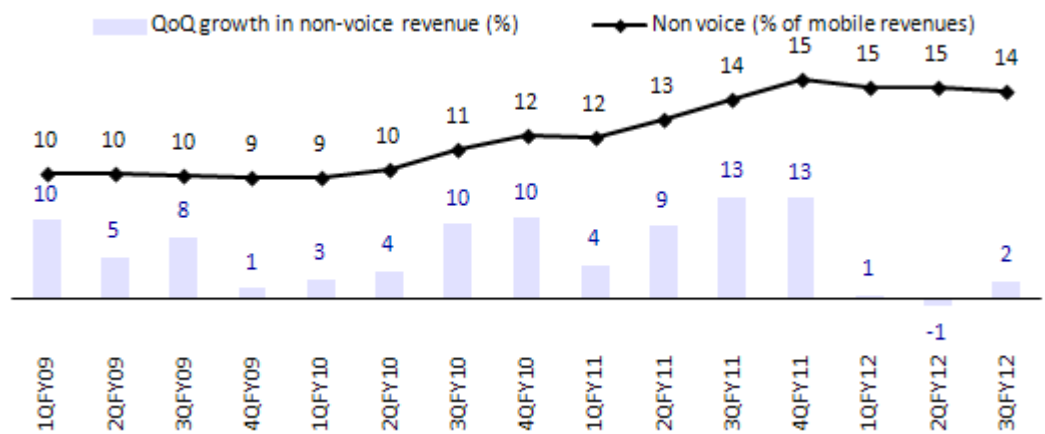


Source: Company/MOSL

**Mobile services (India and South Asia): Revenue and EBITDA grew 4-5% QoQ**

- Mobile revenue increased 11% YoY and 4% QoQ to INR101.8b (2% below est).
- EBITDA increased 8.7% YoY and 4.6% QoQ to INR34.4b (6% below est).
- EBITDA margin grew 20bp QoQ to 33.8% (v/s est of 35.3%).
- Non-voice business contributed 14.3% to mobile revenue in 3QFY12 (v/s 14.5% in 2QFY12).
- The decline in VAS contribution has largely been due to TRAI’s stringent guidelines on maximum SMS limit.
- However with the revised order increasing the maximum limit from 100 to 200, we expect VAS contribution to pick up going forward.
- Bharti has launched 3G services covering 945 cities with a 3G subscriber base of ~8m.

**Non-voice revenue (% of mobile revenue) declined for third straight quarter (%)**



Source: Company/MOSL

**15-16% QoQ decline in EBITDA for Telemedia and Enterprise business**

- Telemedia revenue remained largely flat YoY but declined 4% QoQ to INR9.1b largely due to 1) seasonality in 3Q due to holidays, 2) DND guidelines which led to decline in tele-marketers, and 3) migration to a new composite billing system.
- Telemedia EBITDA declined 12% YoY and 16% QoQ to INR3.5b. ARPU declined 4% QoQ to INR916.

- Enterprise revenue grew 13% YoY and 7.6% QoQ to INR11.9b; EBITDA stood at INR2b, down 11% YoY and 15% QoQ.

**Passive infrastructure: 2-3% QoQ revenue and EBITDA growth**

- Passive infrastructure segment revenue and EBITDA includes standalone operations of Bharti Infratel and proportionate consolidation of 42% stake in Indus Towers.
- Revenue increased 11% YoY and 2.6% QoQ to INR24.4b; EBITDA increased 7.4% YoY and 2.3% QoQ at INR9.1b.
- Bharti Infratel has a portfolio of ~33,200 towers with a tenancy ratio of 1.82x.
- Indus Towers has a portfolio of ~109,100 towers with a tenancy ratio of 1.93x.
- Indus Towers has sharing revenue per operator per month (SRPO) of ~INR32,300 (~14% discount compared to Bharti Infratel).

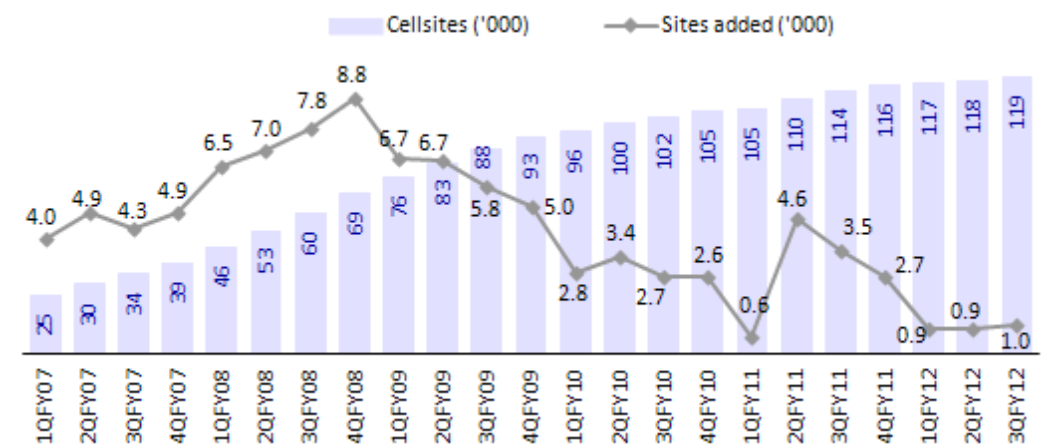
**Africa: Margin improvement continues; RPM stable**

- Africa revenue grew ~3% QoQ to USD1,057m (v/s est of USD1053m).
- EBITDA increased ~4.4% QoQ to USD282m implying EBITDA margin of 26.7% (v/s 26.2% in 2QFY12), ~45bp below estimate.
- Net loss declined from USD93m in 2QFY12 to USD52m in 3QFY12 (v/s our estimate of USD59m net loss).
- Total minutes grew ~3% QoQ to 18.5b.
- RPM remained flat QoQ at 5.7 US cents.
- ARPU declined 2.6% QoQ to USD7.1.
- Total subscriber base increased to 50.9m in 3QFY12 (v/s 48.4m in 2QFY12).

**Net debt at INR678b; capex guidance at USD3.2b**

- Bharti's net debt increased 5% QoQ to INR678b, implying net debt/ annualised EBITDA of 2.84x.
- During the quarter, Bharti reported a forex gain of ~INR80m v/s INR2.5b loss in 2QFY12.
- Bharti incurred consolidated capex of USD2.4b in 9MFY12, broadly in line with the full-year guidance of USD3.2b.
- Bharti added 1,033 cell-sites during the quarter v/s 867 in the previous quarter.

**Site roll-outs have picked up after four quarters of decline**



Source: Company/MOSL

### Downgrading EBITDA by 4-7%; PAT by ~20%

- We are downgrading our FY12/13 revenue estimates by 0.5/1%, EBITDA by 4/7% and PAT by 20% largely driven by 2-3% downgrade in traffic and lower margins in non-mobile business.
- We model 17% EBITDA CAGR and 50% PAT CAGR over FY12-14E driven by RPM inflection, moderate traffic growth and turnaround in Africa business.
- At CMP of INR354, the stock trades at EV/EBITDA of 8.4x FY12E and 6.7x FY13E.
- Maintain **Buy** with a revised target price of INR410/sh (INR465/sh earlier) based on 8.5x FY13 EV/EBITDA (7x FY14 EV/EBITDA) for India & SA business and 6x FY13 EV/EBITDA (5x FY14 EV/EBITDA) for Africa business. Our target incorporates INR67b (INR18/sh) outlay for regulatory risks (~50% of potential liability based on TRAI expert committee valuation).

#### SOTP Valuation for Bharti Airtel

| FY13 Basis                               | FY13 EBITDA<br>(INR B) | Ownership<br>(%) | Proportionate<br>EBITDA (INR b) | EV/EBITDA | Fair value<br>(INR b) | Value/Sh<br>(INR) |
|--|------------------------|------------------|---------------------------------|-----------|-----------------------|-------------------|
| India business (incl. towers)            | 213                    | 100              | 213                             | 8.5       | 1,814                 | 477               |
| Africa business                          | 69                     | 90               | 62                              | 6.0       | 375                   | 98                |
| Less FY13 net debt                       |                        |                  |                                 |           | 558                   | 147               |
| Less 50% of potential spectrum liability |                        |                  |                                 |           | 67                    | 18                |
| <b>Total Value</b>                       |                        |                  |                                 |           | <b>1,563</b>          | <b>410</b>        |
| <b>Shares o/s (b)</b>                    | <b>3.79</b>            |                  |                                 |           |                       |                   |
| CMP                                      |                        |                  |                                 |           |                       | 354               |
| Upside (%)                               |                        |                  |                                 |           |                       | 16                |
| FY14 Basis                               | FY14 EBITDA<br>(INR B) | Ownership<br>(%) | Proportionate<br>EBITDA (INR b) | EV/EBITDA | Fair value<br>(INR b) | Value/Sh<br>(INR) |
| India business (incl. towers)            | 238                    | 100%             | 238                             | 7.0       | 1,667                 | 439               |
| Africa business                          | 89                     | 90%              | 80                              | 5.0       | 400                   | 105               |
| Less FY14 net debt                       |                        |                  |                                 |           | 444                   | 117               |
| Less 50% of potential spectrum liability |                        |                  |                                 |           | 67                    | 18                |
| <b>Total Value</b>                       |                        |                  |                                 |           | <b>1,556</b>          | <b>410</b>        |
| <b>Shares o/s (b)</b>                    | <b>3.79</b>            |                  |                                 |           |                       |                   |
| CMP                                      |                        |                  |                                 |           |                       | 354               |
| Upside (%)                               |                        |                  |                                 |           |                       | 16                |

Source: Company/MOSL

### Summary of estimate change

#### Consolidated

|                           | FY12E | FY13E | FY14E |
|---------------------------|-------|-------|-------|
| <b>Revenue (INR b)</b>    |       |       |       |
| Old                       | 721   | 822   | 907   |
| New/Actual                | 717   | 813   | 899   |
| Change (%)                | -0.5  | -1.0  | -0.9  |
| <b>EBITDA (INR b)</b>     |       |       |       |
| Old                       | 248   | 304   | 349   |
| New/Actual                | 237   | 283   | 327   |
| Change (%)                | -4.2  | -7.1  | -6.2  |
| <b>Net Profit (INR b)</b> |       |       |       |
| Old                       | 58    | 96    | 123   |
| New/Actual                | 46    | 77    | 104   |
| Change (%)                | -20.4 | -20.3 | -15.4 |
| <b>EPS (INR)</b>          |       |       |       |
| Old                       | 15.2  | 25.4  | 32.5  |
| New/Actual                | 12.1  | 20.2  | 27.5  |
| Change (%)                | -20.4 | -20.3 | -15.4 |

#### India & South Asia

|                               | FY12E | FY13E | FY14E |
|-------------------------------|-------|-------|-------|
| <b>Revenue (INR b)</b>        |       |       |       |
| Old                           | 526   | 592   | 646   |
| New/Actual                    | 521   | 583   | 637   |
| Change (%)                    | -1.0  | -1.5  | -1.4  |
| <b>EBITDA (INR b)</b>         |       |       |       |
| Old                           | 195   | 234   | 259   |
| New/Actual                    | 185   | 213   | 238   |
| Change (%)                    | -5.1  | -8.9  | -8.1  |
| <b>Mobile traffic (b min)</b> |       |       |       |
| Old                           | 899   | 984   | 1,041 |
| New/Actual                    | 881   | 954   | 1,010 |
| Change (%)                    | -2.0  | -3.0  | -3.0  |
| <b>RPM (p)</b>                |       |       |       |
| Old                           | 43.8  | 46.1  | 47.7  |
| New/Actual                    | 43.9  | 46.3  | 48.0  |
| Change (%)                    | 0.4   | 0.4   | 0.5   |

#### Africa

|                        | FY12E | FY13E | FY14E |
|------------------------|-------|-------|-------|
| <b>Revenue (USD b)</b> |       |       |       |
| Old                    | 4.1   | 4.8   | 5.5   |
| New/Actual             | 4.2   | 4.8   | 5.5   |
| Change (%)             | 0.3   | 0.2   | 0.2   |
| <b>EBITDA (USD b)</b>  |       |       |       |
| Old                    | 1.1   | 1.5   | 1.9   |
| New/Actual             | 1.1   | 1.4   | 1.9   |
| Change (%)             | -1.0  | -1.1  | -0.9  |
| <b>Subscribers (m)</b> |       |       |       |
| Old                    | 54    | 68    | 86    |
| New/Actual             | 53    | 68    | 86    |
| Change (%)             | -0.1  | -0.1  | 0.0   |
| <b>ARPU (USD)</b>      |       |       |       |
| Old                    | 7.1   | 6.6   | 5.9   |
| New/Actual             | 7.1   | 6.6   | 6.0   |
| Change (%)             | 0.3   | 0.3   | 0.3   |

**India and South Asia - Segmentwise Summary as per IFRS (INRm)**

|                            | 3QFY11        | 2QFY12        | 3QFY12          | YoY%          | QoQ%          | 3QFY12E       | v/s Est (%)   |
|----------------------------|---------------|---------------|-----------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>             |               |               |                 |               |               |               |               |
| Mobile                     | 91,459        | 97,827        | 101,764         | 11.3          | 4.0           | 103,800       | -2.0          |
| Telemedia                  | 9,068         | 9,528         | 9,128           | 0.7           | -4.2          | 9,459         | -3.5          |
| Enterprise                 | 10,503        | 11,042        | 11,881          | 13.1          | 7.6           | 11,373        | 4.5           |
| Passive Infrastructure     | 21,972        | 23,766        | 24,393          | 11.0          | 2.6           | 24,620        | -0.9          |
| Others                     | 2,793         | 3,994         | 3,993           | 43.0          | 0.0           | 4,190         | -4.7          |
| Eliminations               | -18,582       | -19,367       | -19,531         | 5.1           | 0.8           | -20,332       | -3.9          |
| Consolidated Revenue       | 117,213       | 126,790       | 131,628         | 12.3          | 3.8           | 133,110       | -1.1          |
| <b>EBITDA</b>              |               |               |                 |               |               |               |               |
| Mobile                     | 31,689        | 32,926        | 34,431          | 8.7           | 4.6           | 36,592        | -5.9          |
| Telemedia                  | 4,045         | 4,213         | 3,542           | -12.4         | -15.9         | 4,038         | -12.3         |
| Enterprise                 | 2,260         | 2,371         | 2,008           | -11.2         | -15.3         | 2,502         | -19.7         |
| Passive Infrastructure     | 8,486         | 8,902         | 9,110           | 7.4           | 2.3           | 9,089         | 0.2           |
| Others                     | -3,733        | -1,853        | -3,049          | -18.3         | 64.5          | -1,800        | 69.4          |
| Eliminations               | -657          | -832          | -817            | 24.4          | -1.8          | -901          | -9.3          |
| Consolidated EBITDA        | 42,089        | 45,728        | 45,225          | 7.4           | -1.1          | 49,521        | -8.7          |
| <b>EBITDA margin (%)</b>   |               |               |                 |               |               |               |               |
| Mobile                     | 34.6          | 33.7          | 33.8            | -81bp         | 18bp          | 35.3          | -142bp        |
| Telemedia                  | 44.6          | 44.2          | 38.8            | -580bp        | -541bp        | 42.7          | -389bp        |
| Enterprise                 | 21.5          | 21.5          | 16.9            | -462bp        | -457bp        | 22.0          | -510bp        |
| Passive Infrastructure     | 38.6          | 37.5          | 37.3            | -127bp        | -11bp         | 36.9          | 43bp          |
| <b>Consolidated EBITDA</b> | <b>35.9</b>   | <b>36.1</b>   | <b>34.4</b>     | <b>-155bp</b> | <b>-171bp</b> | <b>37.2</b>   | <b>-284bp</b> |
| Depn. & amortization       | 19,063        | 23,205        | 24,492          | 28.5          | 5.5           | 23,737        | 3.2           |
| Operating income           | 23,027        | 22,523        | 20,733          | -10.0         | -7.9          | 25,784        | -19.6         |
| Pre-operating and others   | 258           | 5             | -57             | -122.1        | -1240.0       | 8             | -812.5        |
| Net finance cost           | 1,514         | 3,523         | 3,721           | 145.8         | 5.6           | 2,627         | 41.7          |
| <b>Profit Before Taxes</b> | <b>21,771</b> | <b>19,005</b> | <b>16,955.0</b> | <b>-22.1</b>  | <b>-10.8</b>  | <b>23,165</b> | <b>-26.8</b>  |
| Total Tax                  | 3,145         | 4,079         | 4,140           | 31.6          | 1.5           | 5,096         | -18.8         |
| Effective Tax Rate (%)     | 14.4          | 21.5          | 24.4            | 997bps        | 295bps        | 22.0          | 2bps          |
| <b>Profit After Tax</b>    | <b>18,626</b> | <b>14,926</b> | <b>12,815</b>   | <b>-31.2</b>  | <b>-14.1</b>  | <b>18,069</b> | <b>-29.1</b>  |
| Minority Interest          | 344           | 407           | 112             | -67.4         | -72.5         | 493           | -77.3         |
| <b>Net Profit</b>          | <b>18,282</b> | <b>14,519</b> | <b>12,703</b>   | <b>-30.5</b>  | <b>-12.5</b>  | <b>17,576</b> | <b>-27.7</b>  |

Source: Company/MOSL

**India - Revenue Drivers**

|                          | 3QFY11 | 2QFY12 | 3QFY12 | YoY% | QoQ% | 3QFY12E | v/s Est (%) |
|--------------------------|--------|--------|--------|------|------|---------|-------------|
| <b>Mobile</b>            |        |        |        |      |      |         |             |
| Mobile Subs (m)          | 152    | 173    | 176    | 15.2 | 1.7  | 176     | -0.1        |
| Mobile ARPU (INR/month)  | 198    | 183    | 187    | -5.7 | 2.3  | 190     | -1.7        |
| Total Minutes of Use (b) | 199    | 217    | 219    | 10.0 | 0.9  | 226     | -2.9        |
| Minutes of Use/Sub/Month | 449    | 423    | 419    | -6.7 | -1.0 | 432     | -3.0        |
| Effective Mobile RPM (p) | 44.2   | 43.2   | 44.6   | 1.0  | 3.3  | 44.1    | 1.3         |

Source: Company/MOSL



**Bharti Africa: Quarterly Performance (USDm)**

|                                    | 1Q         | 2Q         | 3Q          | 4Q          | 1Q         | 2Q           | 3Q           | YoY          | QoQ          | 3Q           | v/s          |
|------------------------------------|------------|------------|-------------|-------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                    | FY11       | FY11       | FY11        | FY11        | FY12       | FY12         | FY12         | (%)          | (%)          | FY12E        | Est (%)      |
| <b>Revenue</b>                     | <b>205</b> | <b>838</b> | <b>911</b>  | <b>924</b>  | <b>979</b> | <b>1,030</b> | <b>1,057</b> | <b>16.0</b>  | <b>2.6</b>   | <b>1,053</b> | <b>0.4</b>   |
| <b>EBITDA (before re-branding)</b> | <b>56</b>  | <b>194</b> | <b>212</b>  | <b>224</b>  | <b>246</b> | <b>270</b>   | <b>282</b>   | <b>33.0</b>  | <b>4.4</b>   | <b>286</b>   | <b>-1.3</b>  |
| EBITDA margin (%)                  | 27.3       | 23.1       | 23.3        | 24.2        | 25.1       | 26.2         | 26.7         | 340bp        | 47bp         | 27.1         | -44bp        |
| Depreciation and amortization      | 42         | 164        | 181         | 189         | 196        | 189          | 224          | 23.9         | 18.5         | 192          | 16.5         |
| EBIT                               | 14         | 29         | 31          | 35          | 50         | 81           | 58           | 85.2         | -28.4        | 93           | -37.9        |
| Net finance cost                   | 41         | 79         | 134         | 114         | 134        | 168          | 83           | -37.9        | -50.7        | 152          | -45.4        |
| Pre operating and others           | -22        | 2          | -39         | 1           | 1          | 2            | 0            |              |              | 0            |              |
| <b>Profit Before Taxes</b>         | <b>-49</b> | <b>-47</b> | <b>-141</b> | <b>-78</b>  | <b>-83</b> | <b>-85</b>   | <b>-25</b>   | <b>-82.3</b> | <b>-70.7</b> | <b>-59</b>   | <b>-57.4</b> |
| Total Tax                          | 1          | 40         | 6           | 36          | -2         | 18           | 28           | 366.7        | 54.5         | 10           | 180.0        |
| <b>PAT (before minorities)</b>     | <b>-50</b> | <b>-87</b> | <b>-147</b> | <b>-114</b> | <b>-80</b> | <b>-103</b>  | <b>-52</b>   | <b>-64.7</b> | <b>-49.7</b> | <b>-69</b>   | <b>-24.3</b> |
| Minority Interest                  | -2         | -5         | -29         | -22         | -12        | -10          | -1           | -96.6        | -90.0        | -10          | -90.0        |
| Net Profit                         | -48        | -82        | -118        | -92         | -68        | -93          | -51          | -56.9        | -45.4        | -59          | -13.1        |
| <b>Bharti Africa: KPIs</b>         |            |            |             |             |            |              |              |              |              |              |              |
| Mobile Subs (m)                    | 36.4       | 40.1       | 42.1        | 44.2        | 46.3       | 48.4         | 50.9         | 21.0         | 5.2          | 50.8         | 0.2          |
| Mobile ARPU (USD/month)            | 7.4        | 7.4        | 7.3         | 7.2         | 7.3        | 7.3          | 7.1          | -2.7         | -2.6         | 7.1          | 0.4          |
| Total Minutes of Use (b mins)      | 3.7        | 12.8       | 14.9        | 14.9        | 16.3       | 17.9         | 18.5         | 24.1         | 3.0          | 20.0         | -7.4         |
| Minutes of Use/Sub/Month           | 103        | 112        | 120         | 115         | 121        | 128          | 125          | 4.2          | -2.1         | 134          | -6.8         |
| Effective Mobile RPM (US Cents)    | 7.2        | 6.6        | 6.1         | 6.2         | 6.0        | 5.7          | 5.7          | -6.3         | -0.2         | 5.3          | 8.1          |

Source: Company/MOSL

**Bharti: Key assumptions and value drivers...**

|                              | FY10 | FY11 | FY12E | FY13E | FY14E |
|------------------------------|------|------|-------|-------|-------|
| <b>Mobile - India</b>        |      |      |       |       |       |
| Subs (m)                     | 128  | 162  | 179   | 191   | 203   |
| YoY (%)                      | 36   | 27   | 10    | 7     | 6     |
| Average subs (m)             | 111  | 145  | 170   | 185   | 197   |
| YoY (%)                      | 42   | 31   | 18    | 8     | 6     |
| Netadds per month (m)        | 2.8  | 2.9  | 1.4   | 1.0   | 1.0   |
| YoY (%)                      | 6    | 3    | -52   | -27   | 0     |
| Total mobile traffic (b min) | 610  | 792  | 881   | 954   | 1,010 |
| YoY (%)                      | 28   | 30   | 11    | 8     | 6     |
| ARPU (INR/month)             | 243  | 201  | 189   | 199   | 205   |
| YoY (%)                      | -25  | -17  | -6    | 5     | 3     |
| MOU                          | 459  | 455  | 431   | 431   | 428   |
| YoY (%)                      | -10  | -1   | -5    | 0     | -1    |
| Mobile RPM (INR)             | 0.53 | 0.44 | 0.44  | 0.46  | 0.48  |
| YoY (%)                      | -17  | -17  | 0     | 5     | 4     |
| Mobile EBITDA margin (%)     | 38.7 | 34.7 | 33.8  | 35.0  | 34.9  |
| Mobile Capex (INR b)         | 34   | 59   | 37    | 41    | 41    |
| Mobile Capex/sales (%)       | 10   | 16   | 9     | 9     | 8     |
| <b>Mobile - Africa</b>       |      |      |       |       |       |
| Subs (m)                     |      | 44   | 53    | 68    | 86    |
| YoY (%)                      |      | 5    | 21    | 27    | 27    |
| Netadds per month (m)        |      | 0.2  | 0.8   | 1.2   | 1.5   |
| ARPU (USD/month)             |      | 7.3  | 7.1   | 6.6   | 6.0   |
| YoY (%)                      |      |      | -2    | -7    | -10   |
| Capex (USD b)                |      | 0.85 | 1.53  | 1.45  | 1.37  |
| Capex/Sales (%)              |      | 24   | 37    | 30    | 25    |
| EBITDA margin (%)            |      | 25   | 26    | 30    | 34    |

## ... Bharti: Key assumptions and value drivers (continued)

|                               | FY10 | FY11 | FY12E | FY13E | FY14E |
|-------------------------------|------|------|-------|-------|-------|
| <b>Passive Infrastructure</b> |      |      |       |       |       |
| Indus Towers                  |      |      |       |       |       |
| Towers (000s)                 | 103  | 109  | 109   | 109   | 109   |
| Cellsites (000s)              | 176  | 201  | 205   | 207   | 210   |
| Tenancy ratio (x)             | 1.71 | 1.85 | 1.88  | 1.90  | 1.93  |
| Sharing revenue per operator  |      |      |       |       |       |
| per month (INR 000s)          |      | 29.5 | 32.0  | 31.1  | 32.3  |
| EBITDA margin (%)             |      | 26.6 | 28.5  | 27.8  | 27.9  |
| <b>Bharti Infratel</b>        |      |      |       |       |       |
| Towers (000s)                 | 31   | 33   | 33    | 33    | 33    |
| Cellsites (000s)              | 50   | 58   | 59    | 59    | 61    |
| Tenancy ratio (x)             | 1.62 | 1.76 | 1.78  | 1.80  | 1.82  |
| Sharing revenue per operator  |      |      |       |       |       |
| per month (INR 000s)          | 37.2 | 37.0 | 36.2  | 37.1  | 37.6  |
| EBITDA margin (%)             | 46.2 | 48.1 | 47.7  | 47.6  | 47.4  |
| <b>Revenue (INR b)</b>        |      |      |       |       |       |
| Mobile                        | 331  | 363  | 403   | 459   | 504   |
| Telemedia                     | 34   | 36   | 37    | 37    | 38    |
| Enterprise                    | 45   | 41   | 46    | 49    | 53    |
| Passive Infrastructure        | 71   | 86   | 96    | 105   | 115   |
| Others                        | 6    | 10   | 16    | 19    | 22    |
| Africa                        | 0    | 131  | 199   | 231   | 264   |
| Total revenue                 | 487  | 667  | 797   | 901   | 995   |
| Eliminations and others       | -68  | -72  | -80   | -88   | -96   |
| Consolidated revenue          | 418  | 595  | 717   | 813   | 899   |
| YoY%                          | 13   | 42   | 21    | 13    | 11    |
| <b>EBITDA (INR b)</b>         |      |      |       |       |       |
| Mobile                        | 128  | 126  | 136   | 161   | 176   |
| Telemedia                     | 15   | 16   | 16    | 15    | 15    |
| Enterprise                    | 13   | 10   | 9     | 10    | 11    |
| Passive Infrastructure        | 25   | 32   | 36    | 39    | 45    |
| Others                        | -10  | -10  | -9    | -8    | -4    |
| Total India & SA              | 168  | 171  | 185   | 213   | 238   |
| Africa                        | 0    | 29   | 53    | 69    | 89    |
| Total revenue                 | 170  | 202  | 241   | 287   | 331   |
| Eliminations and others       | -2   | -3   | -3    | -4    | -4    |
| Consolidated EBITDA           | 168  | 200  | 237   | 283   | 327   |
| YoY%                          | 11   | 19   | 19    | 19    | 16    |

Source: Company/MOSL



## Bharti Airtel: an investment profile

### Company description

Bharti Airtel is an integrated telecom operator with presence in wireless, fixed-line and broadband, long distance, enterprise, and passive infrastructure services across India, Sri Lanka, Bangladesh and Africa. It is the largest Indian wireless operator with revenue market share of 31% and population coverage of 86%. Post its acquisition of Zain's Africa business, it has become the fifth largest wireless company globally by subscribers.

### Key investment arguments

- Bharti continues to maintain its wireless leadership in India with a wireless subscriber share of ~20% and adjusted gross revenue share of 30%+.
- Bharti has won 3G spectrum in 13 circles and BWA spectrum in 4 circles for a total outlay of INR156b, which will support voice decongestion as well as development of new revenue streams from data services in the maturing urban market.
- We expect incremental 3G revenue to contribute 3/5% of wireless revenues in FY13/14E.
- We expect 12% revenue CAGR and 17% EBITDA CAGR over FY12-14E.

### Key investment risks

- Relatively high leverage with net debt/annualized EBITDA of 2.84x in 3QFY12.
- Potential rollback of tariff hikes undertaken by the industry.

### Comparative valuations

|               |       | Bharti | Idea | RCOM |
|---------------|-------|--------|------|------|
| P/E (x)       | FY12E | 24.3   | 29.2 | 41.2 |
|               | FY13E | 13.4   | 17.5 | 18.9 |
| EV/EBITDA (x) | FY12E | 7.6    | 8.4  | 8.4  |
|               | FY13E | 5.9    | 6.7  | 6.2  |
| EV/Sales (x)  | FY12E | 2.4    | 2.8  | 2.2  |
|               | FY13E | 2.0    | 2.3  | 1.8  |
| P/BV (x)      | FY12E | 0.5    | 2.5  | 2.3  |
|               | FY13E | 0.5    | 2.2  | 2.1  |

### Shareholding pattern (%)

|               | Dec-11 | Sep-11 | Dec-10 |
|---------------|--------|--------|--------|
| Promoter      | 68.5   | 45.5   | 45.5   |
| Domestic Inst | 8.2    | 8.7    | 8.7    |
| Foreign       | 17.8   | 40.2   | 40.3   |
| Others        | 5.6    | 5.6    | 5.5    |

- Adverse forex movement like sharp INR depreciation.
- Disparate regulatory environment and other issues are risks to the Africa business.

### Recent developments

- The Supreme Court of India has ordered cancellation of ~120 licences issued to Unitech (22), Videocon (22), Idea (9), S Tel (6), Loop (21), Sistema Shyam (21), Spice (4), Etisalat DB (13) and Tata Tele (3).
- DoT has ordered Bharti and other incumbents to discontinue their 3G roaming agreements. These operators have appealed in the TDSAT and the matter is sub-judice.

### Valuation and view

- We are downgrading our FY12/13 revenue estimates by 0.5/1%, EBITDA by 4/7% and PAT by 20% largely driven by 2-3% downgrade in traffic and lower margins in non-mobile business.
- At CMP of INR354, the stock trades at EV/EBITDA of 8.4x FY12E and 6.7x FY13E.
- Maintain **Buy** with a revised target price of INR410/sh (INR465/sh earlier) based on 8.5x FY13 EV/EBITDA (7x FY14 EV/EBITDA) for India & SA business and 6x FY13 EV/EBITDA (5x FY14 EV/EBITDA) for Africa business. Our target incorporates INR67b (INR18/sh) outlay for regulatory risks (~50% of potential liability based on TRAI expert committee valuation).

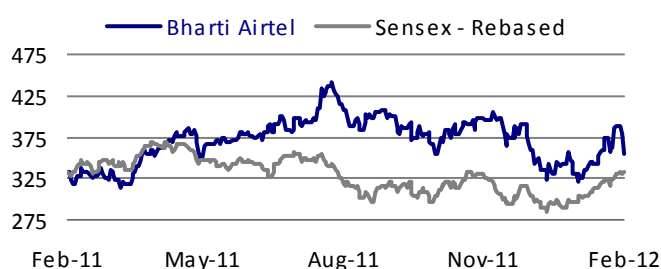
### EPS: MOSL forecast v/s Consensus (INR)

|      | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|---------------|--------------------|---------------|
| FY12 | 12.1          | 15.2               | -20.0         |
| FY13 | 20.2          | 24.8               | -18.5         |

### Target Price and Recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|---------------------|--------------------|------------|-------|
| 354                 | 410                | 15.8       | Buy   |

### Stock performance (1 year)



## Financials and Valuation

| Income Statement     |                | (INR Million)  |                |                |  |
|----------------------|----------------|----------------|----------------|----------------|--|
| Y/E March            | 2011           | 2012E          | 2013E          | 2014E          |  |
| <b>Revenues</b>      | <b>594,672</b> | <b>717,460</b> | <b>813,141</b> | <b>898,794</b> |  |
| Change (%)           | 42.1           | 20.6           | 13.3           | 10.5           |  |
| Total Expenses       | 395,007        | 480,158        | 530,359        | 571,796        |  |
| <b>EBITDA</b>        | <b>199,664</b> | <b>237,302</b> | <b>282,782</b> | <b>326,997</b> |  |
| % of Gross Sales     | 33.6           | 33.1           | 34.8           | 36.4           |  |
| Depn. & Amortization | 102,066        | 134,459        | 141,854        | 145,839        |  |
| EBIT                 | 97,598         | 102,843        | 140,928        | 181,159        |  |
| Net finance cost     | 21,813         | 35,738         | 35,150         | 31,972         |  |
| Other Income         | 998            | -107           | -200           | -218           |  |
| <b>PBT</b>           | <b>76,783</b>  | <b>66,998</b>  | <b>105,578</b> | <b>148,968</b> |  |
| Tax                  | 17,790         | 20,968         | 28,776         | 37,977         |  |
| Rate (%)             | 23.2           | 31.3           | 27.3           | 25.5           |  |
| Minority Interest    | -1,475         | 0              | 147            | 6,828          |  |
| <b>Adjusted PAT</b>  | <b>60,468</b>  | <b>46,029</b>  | <b>76,655</b>  | <b>104,163</b> |  |

| Balance Sheet                  |                  | (INR Million)    |                  |                  |  |
|--------------------------------|------------------|------------------|------------------|------------------|--|
| Y/E March                      | 2011             | 2012E            | 2013E            | 2014E            |  |
| Share Capital                  | 18,988           | 18,988           | 18,988           | 18,988           |  |
| Additional Paid up Cap         | 56,499           | 56,499           | 56,499           | 56,499           |  |
| Reserves                       | 412,181          | 430,220          | 500,675          | 594,770          |  |
| <b>Net Worth</b>               | <b>487,668</b>   | <b>505,707</b>   | <b>576,162</b>   | <b>670,257</b>   |  |
| Loans                          | 616,708          | 724,400          | 780,110          | 855,359          |  |
| Minority Interest              | 28,563           | 27,795           | 27,936           | 34,764           |  |
| Other Liabilities              | 28,078           | 33,178           | 34,643           | 36,011           |  |
| Deferred Tax Liability         | 18,572           | 19,692           | 20,220           | 21,086           |  |
| <b>Capital Employed</b>        | <b>1,179,589</b> | <b>1,310,772</b> | <b>1,439,071</b> | <b>1,617,476</b> |  |
| Gross Block                    | 1,599,377        | 1,745,229        | 1,885,574        | 2,021,908        |  |
| Less : Depreciation            | 310,634          | 376,378          | 544,801          | 690,640          |  |
| <b>Net Block</b>               | <b>1,288,743</b> | <b>1,368,851</b> | <b>1,340,772</b> | <b>1,331,268</b> |  |
| Other Non-Current Asse         | 64,244           | 86,627           | 86,331           | 86,998           |  |
| <b>Curr. Assets</b>            | <b>112,077</b>   | <b>179,692</b>   | <b>347,692</b>   | <b>548,014</b>   |  |
| Inventories                    | 2,139            | 1,878            | 2,093            | 2,355            |  |
| Debtors                        | 54,929           | 67,971           | 76,135           | 82,956           |  |
| Cash & Bank Balance            | 9,575            | 31,264           | 107,088          | 197,088          |  |
| Short-term investments         | 6,968            | 35,018           | 114,627          | 214,627          |  |
| Other Current Assets           | 38,466           | 43,561           | 47,750           | 50,989           |  |
| <b>Curr. Liab. &amp; Prov.</b> | <b>285,475</b>   | <b>324,398</b>   | <b>335,724</b>   | <b>348,805</b>   |  |
| Creditors                      | 249,737          | 280,066          | 292,842          | 305,674          |  |
| Other Current Liabilitie       | 35,738           | 44,332           | 42,882           | 43,131           |  |
| <b>Net Curr. Assets</b>        | <b>-173,398</b>  | <b>-144,706</b>  | <b>11,968</b>    | <b>199,209</b>   |  |
| <b>Appl. of Funds</b>          | <b>1,179,589</b> | <b>1,310,772</b> | <b>1,439,071</b> | <b>1,617,476</b> |  |

E: MOSL Estimates

| Ratios                          |       | (INR Million) |       |       |  |
|---------------------------------|-------|---------------|-------|-------|--|
| Y/E March                       | 2011  | 2012E         | 2013E | 2014E |  |
| <b>Basic (INR)</b>              |       |               |       |       |  |
| EPS                             | 15.9  | 12.1          | 20.2  | 27.5  |  |
| Cash EPS                        | 42.8  | 47.6          | 57.6  | 65.9  |  |
| Book Value                      | 136.1 | 140.6         | 159.2 | 185.8 |  |
| DPS                             | 1.0   | 1.2           | 2.0   | 2.7   |  |
| Payout %(Incl.Div.Taxes)        | 6.3   | 10.0          | 10.0  | 10.0  |  |
| <b>Valuation (x)</b>            |       |               |       |       |  |
| P/E                             | 22.2  | 29.2          | 17.5  | 12.9  |  |
| Cash P/E                        | 8.3   | 7.4           | 6.1   | 5.4   |  |
| EV/EBITDA                       | 9.7   | 8.4           | 6.7   | 5.5   |  |
| EV/Sales                        | 3.3   | 2.8           | 2.3   | 2.0   |  |
| Price/Book Value                | 2.6   | 2.5           | 2.2   | 1.9   |  |
| Dividend Yield (%)              | 0.3   | 0.3           | 0.6   | 0.8   |  |
| <b>Profitability Ratios (%)</b> |       |               |       |       |  |
| RoE                             | 12.6  | 8.8           | 13.5  | 15.9  |  |
| RoCE                            | 8.7   | 6.2           | 8.4   | 9.8   |  |
| <b>Turnover Ratios</b>          |       |               |       |       |  |
| Debtors (Days)                  | 34    | 35            | 34    | 34    |  |
| Asset Turnover (x)              | 0.78  | 0.65          | 0.73  | 0.82  |  |
| <b>Leverage Ratio</b>           |       |               |       |       |  |
| Net Debt/Equity (x)             | 1.2   | 1.2           | 0.9   | 0.6   |  |

| Cash Flow Statement         |                 | (INR Million)   |                 |                 |  |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|--|
| Y/E March                   | 2011            | 2012E           | 2013E           | 2014E           |  |
| Op.Profit/(Loss) bef Tax    | 199,664         | 237,302         | 282,782         | 326,997         |  |
| Other Income                | 998             | -107            | -200            | -218            |  |
| Interest Paid               | -21,813         | -35,738         | -35,150         | -31,972         |  |
| Direct Taxes Paid           | -37,970         | -23,697         | -28,484         | -37,977         |  |
| (Inc)/Dec in Wkg. Cap.      | 120,819         | 8,182           | 1,817           | 4,673           |  |
| <b>CF from Op.Activity</b>  | <b>261,699</b>  | <b>185,942</b>  | <b>220,765</b>  | <b>261,502</b>  |  |
| (inc)/Dec in FA + CWIP      | -848,290        | -214,567        | -113,775        | -136,335        |  |
| (Pur)/Sale of Investmer     | 45,451          | -28,050         | -79,609         | -100,000        |  |
| <b>CF from Inv.Activity</b> | <b>-802,839</b> | <b>-242,617</b> | <b>-193,384</b> | <b>-236,335</b> |  |
| Issue of Shares             | 9,624           | -23,957         | 405             | 0               |  |
| Inc/(Dec) in Debt           | 514,810         | 107,692         | 55,710          | 75,249          |  |
| Other Financing Activiti    | 961             | -5,369          | -7,670          | -10,416         |  |
| <b>CF from Fin.Activity</b> | <b>525,395</b>  | <b>78,366</b>   | <b>48,445</b>   | <b>64,832</b>   |  |
| <b>Inc/(Dec) in Cash</b>    | <b>-15,748</b>  | <b>21,688</b>   | <b>75,824</b>   | <b>90,000</b>   |  |
| Add: Opening Balance        | 25,323          | 9,575           | 31,264          | 107,088         |  |
| <b>Closing Balance</b>      | <b>9,575</b>    | <b>31,263</b>   | <b>107,088</b>  | <b>197,088</b>  |  |

**N O T E S**

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|   |     |
|---|-----|
| 1. Analyst ownership of the stock                       | No  |
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