

Bharti Airtel Ltd

New disclosures on Zain financials, Maintain BUY

Today Bharti announced that it has achieved deal closure for its Zain Africa acquisition. As per the announcement Zain's current EBITDA in 2010 is c.USD1-1.2bn which we believe is better than expectations. The combined entity EBITDA as per last audited results is c.USD4.7bn. Further Bharti is raising debt at 2-2.25% (incl. LIBOR). Overall Zain EBITDA should be able to shoulder Africa capex (~USD800mn as guided earlier by Bharti) and interest cost burden (~USD 200mn). Thus we believe that there will not be any significant cash flow impact on the standalone entity. Further the Bharti management commented that they are looking to clock an EBITDA run rate of c.USD2bn in Zain by FY2012-2013. Although the complete financials are still awaited we believe that disclosure is positive at the margin. We expect Bharti to benefit from peaking competition in the domestic market, and do believe that better than expected execution in Zain is an upside risk. We maintain our positive view on Bharti and it remains our top pick in the sector.

Bharti targets 40% EBITDA margins by FY2012-13 for Zain: Bharti announced that as per latest audited numbers, the EBITDA of the combined entity is c.USD4.7bn and given Bharti's own EBITDA of USD3.5bn, we estimate that Zain is currently at a run rate of USD1-1.2bn. Further Bharti is looking to achieve revenues of USD5bn and an EBITDA of USD2bn for Zain by FY12-13, implying an EBITDA margin of 40% which is a significant improvement over the current c.33%. We continue to believe that there is significant scope for margin improvement in several countries under Zain's operations as margins in most countries are lower than MTN.

Debt: Bharti will be paying USD9bn for Zain of which they are paying USD8.3bn now and the remaining USD700mn next year. Based on this and an interest rate of 2-2.25% the new interest cost comes to c.USD200mn annually. Besides Zain already has USD1.7bn on its books.

Attractive valuations: Bharti is currently trading at 6x/5.8x FY10/FY12 EV/EBITDA on India business while it is trading at 7x/6x FY10/FY12 including Zain consolidation based on our estimates. In our view, India business looks attractive both on FCF yield (7%+) as well as EV/Gross block(1.4x). Additionally if Bharti is indeed able to turnaround Zain then the consolidated Rev/EBITDA CAGR would be 11%/12% over FY10-FY12, and substantially higher for Zain at 15%/27%. We remain positive on the stock.

Fig 1 - Bharti Zain consolidated financials

USD mn	2010	2012E
Revenues		
Bharti	8,803	10,549
Zain*	3,808	4,982
Bharti Consolidated	12,612	15,530
EBITDA		
Bharti	3,561	4,062
Zain*	1,235	1,739
Bharti Consolidated	4,797	5,800

Source: Company, RCML Research. Note Exchange rate is taken as Rs45/USD. * RCML Estimates for Zain Africa

Fig 2 - Bharti Zain consolidated Margins

EBITDA Margins (%)	2010	2012
Bharti	40.5	38.5
Zain*	32.4	34.9
Bharti Consolidated	38.0	37.3

Source: Company, RCML Research. Note Exchange rate is taken as Rs45/USD. * RCML Estimates for Zain Africa

Fig 3 - Zain market share

	Market Share (%)
Nigeria	21.3
Tanzania	31.5
DRC	37.8
Kenya	11.4
Zambia	71.5
Congo B	47.8
Gabon	51.4
Ghana	8.1
Chad	54.7
Malawi	68.2
Niger	58.1
Burkina Faso	39.8
Sierra Leone	23.3
Uganda	19.3
Madagascar	29.6

Source: Company, RCML Research. Subscriber market share as of last reported quarter.

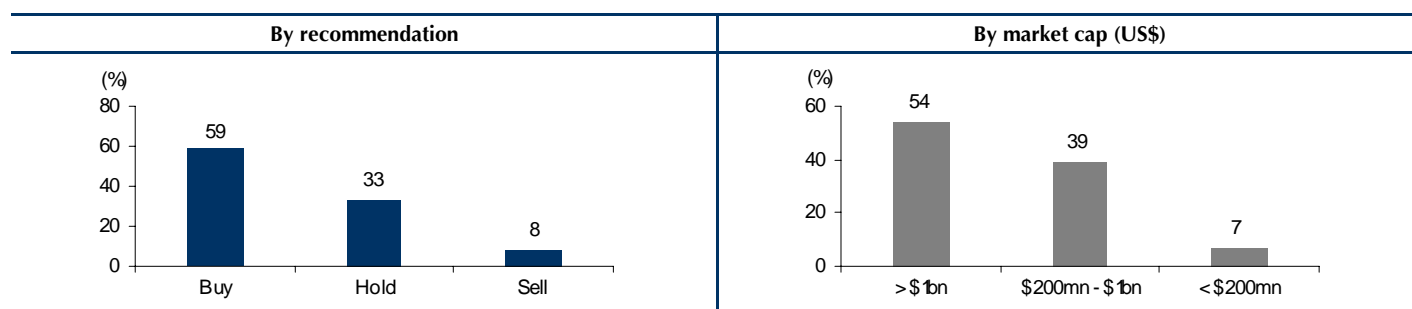
Financial highlights (Bharti India)

(Rs mn)	FY09	FY10	FY11E	FY12E
Revenue	369,615	396,150	431,280	474,691
Growth (%)	36.8	7.2	8.9	10.1
EBITDA	151,678	160,267	163,356	182,773
Growth (%)	33.4	5.7	1.9	11.9
FDEPS (Rs)	22.3	24.0	20.5	21.7
Growth (%)	26.5	7.5	(14.4)	5.5





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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