

Bharti Airtel

BSE SENSEX
18,091S&P CNX
5,432

Rs323

Buy

Bloomberg	BHARTIIN	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EV/	EV/
Equity Shares (m)	3,793.9	END	(RS M)	(RS M)	(RS)	GR. (₹)	(X)	(X)	(%)	(%)	SALES	EBITDA
52-Week Range (Rs)	377/254	3/10A	418,472	89,767	23.7	5.9	13.7	2.7	23.6	18.9	3.0	7.5
1,6,12 Rel. Perf. (%)	2/-2/-7	3/11E	594,050	63,024	16.6	-29.8	19.5	2.4	13.1	9.1	3.0	9.0
M.Cap. (Rs b)	1,226.4	3/12E	716,700	82,682	21.8	31.2	14.8	2.1	15.0	9.0	2.4	6.7
M.Cap. (US\$ b)	26.9	3/13E	799,734	107,066	28.2	29.5	11.5	1.8	16.8	10.3	2.0	5.4

- Bharti's 3QFY11 PAT declined 41% YoY and 22% QoQ to Rs13b (estimate of Rs17b) led by brand re-launch expenses of Rs3.4b and forex loss of Rs1.5b. Consolidated revenue of Rs157.6 b (up 53% YoY and 3.6% QoQ) and EBITDA (before brand re-launch exp) of Rs53.2b were broadly in line (1% below estimate). While traffic growth in India operations was slightly below expectations, positives include strong revenue traction in Africa and continued stability in India RPM/Africa margins.
- **3QFY11 Result highlights:** Traffic growth for India mobile business at 4.5% QoQ, lower than our estimate of 6.3% growth. RPM decline of only 0.8% QoQ (lowest in the past eight quarters) to Rs0.44, better than our estimate of 2% decline. Continued positive elasticity and revenue momentum in Africa business with traffic up 16.6% QoQ, MOU per subscriber up 7.1% QoQ and revenue up 8.7% QoQ. Flat QoQ margin for Africa (including Africa corporate expenses but excluding brand launch expenses) at 23.3%, in line with our estimate. All outsourcing contracts (Network, IT, BPO) have been closed in Africa; employee transition has started. Brand re-launch expenses of Rs3.4b and forex loss of Rs1.5b at the consolidated level, both not included in our estimates. India capex guidance (ex-towers) remains at US\$1.8-2b in FY11 (9M capex at ~US\$1.3b); capex for Africa to remain at US\$800m/year. Net debt flat QoQ at Rs599b.
- **FY12/13 estimates largely unchanged; 22% EBITDA CAGR over FY11E-13E; Buy:** While we have downgraded FY11 EBITDA and PAT estimates by 3-5% to factor-in forex loss and brand launch expenses, our FY12/13 estimates remain largely unchanged. We remain positive given 1) strong traffic growth outlook despite stabilizing RPM, 2) traction in non-voice business post 3G launch, 3) improving regulatory environment, and 4) initial signs of elasticity in Africa. We expect 22% EBITDA CAGR and 30% PAT CAGR over FY11E-13E driven by normalized growth in India business and margin inflection in Africa business. At CMP of Rs323, the stock trades at proportionate EV/EBITDA of 7x FY12E and 5.6x FY13E. Maintain **Buy** with a target price of Rs410, 27% upside.

QUARTERLY PERFORMANCE (Consolidated)

(Rs Million)

Y/E MARCH	FY10				FY11				FY10	FY11E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Revenue	104,143	103,785	103,053	107,491	122,308	152,150	157,560	162,031	418,472	594,050
YoY Growth (%)	22.8	15.1	7.0	9.4	17.4	46.6	52.9	50.7	13.2	42.0
QoQ Growth (%)	6.0	-0.3	-0.7	4.3	13.8	24.4	3.6	2.8		
Total Operating Expenses	61,169	60,778	62,231	66,662	78,168	100,938	107,743	107,283	250,839	394,133
EBITDA	42,974	43,007	40,823	40,829	44,140	51,212	49,816	54,748	167,633	199,917
YoY Growth (%)	22.0	16.3	3.5	2.0	2.7	19.1	22.0	34.1	10.5	19.3
QoQ Growth (%)	7.4	0.1	-5.1	0.0	8.1	16.0	-2.7	9.9		
Margin (%)	41.3	41.4	39.6	38.0	36.1	33.7	31.6	33.8	40.1	33.7
Net Finance Costs	-1,284	2,084	-266	-356	4,198	3,320	7,470	7,175	178	22,162
Non-Operating Income	-21	181	128	179	244	166	256	252	467	918
Depreciation & Amortization	14,753	15,246	15,883	16,953	19,467	25,790	27,107	28,708	62,832	101,072
Profit before Tax	29,484	25,858	25,334	24,412	20,719	22,268	15,495	19,118	105,091	77,600
Income Tax Expense / (Income)	4,305	2,753	2,980	3,415	3,750	5,678	3,366	3,513	13,453	16,307
Profit after Tax	25,179	23,105	22,354	20,997	16,969	16,590	12,129	15,606	91,638	61,293
Profit / (Loss) to Minority Shareholders	-433	-477	-407	-553	-153	23	904	956	-1,870	1,731
Reported Net Profit / (Loss)	24,746	22,628	21,947	20,444	16,816	16,613	13,033	16,562	89,768	63,024
YoY Growth (%)	22.2	10.6	1.6	-8.7	-32.0	-26.6	-40.6	-19.0	6.0	-29.8

E: MOSL Estimates

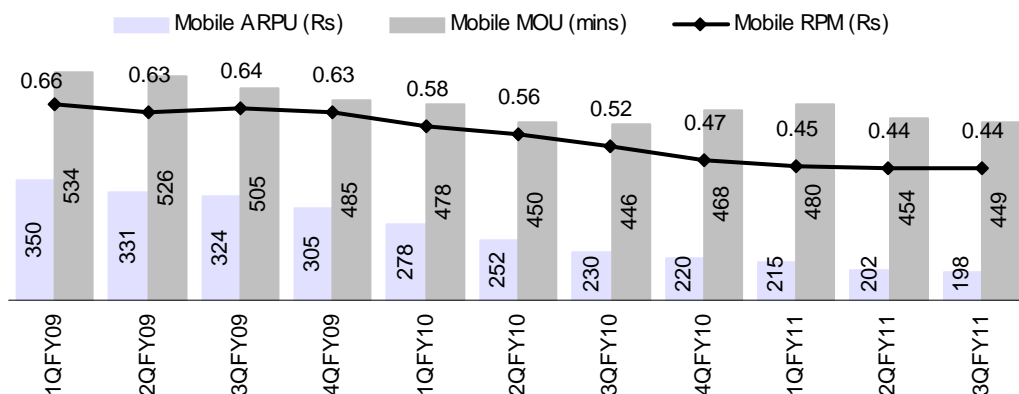
Shobhit Khare (Shobhit.Khare@MotilalOswal.com); Tel: +91 22 3982 5428

Nirav Poddar (Nirav.Poddar@MotilalOswal.com); Tel: +91 22 3982 5444

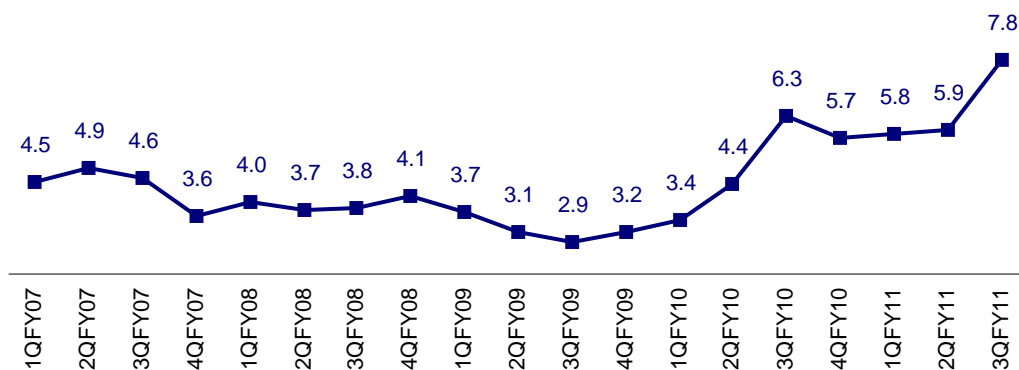
India and South Asia revenue and adj. EBITDA up 3.5% QoQ

- India and South Asia revenue grew 3.4% QoQ and 13.7% YoY to Rs117.2b (vs estimate of 4% growth).
- EBITDA (before re-branding) grew 3.6% QoQ and 7.2% YoY to Rs43.7b (vs estimate of 5% growth).
- EBITDA margin declined 229bp YoY but remained flat QoQ to 37.3%.
- Net income of Rs18.3b was 7.8% below our estimate of Rs19.8b due to brand re-launch expenses of Rs1.66b
- Mobile traffic (India) grew 29.9% YoY and 4.5% QoQ (vs 10% growth reported by Idea) to 199b minutes (vs est of 203b) led by lower MOU.
- MOU declined to 449 min, down 1% QoQ (vs an increase of 1.8% QoQ for Idea)
- RPM declined 14.7% YoY and 0.8% QoQ (lowest in the past eight quarters; in line with Idea) to Rs0.44 (1.2% above estimates).
- Bharti's RPM has remained stable for two quarters despite overcapacity and multi SIM phenomenon.
- Mobile ARPU declined 14% YoY and 1.8% QoQ to Rs198 (vs estimate of Rs200); Idea's ARPU increased 0.6% QoQ in 3QFY11.
- Bharti's blended monthly churn at 7.8% is highest in past five years, reflecting competitive pressure.

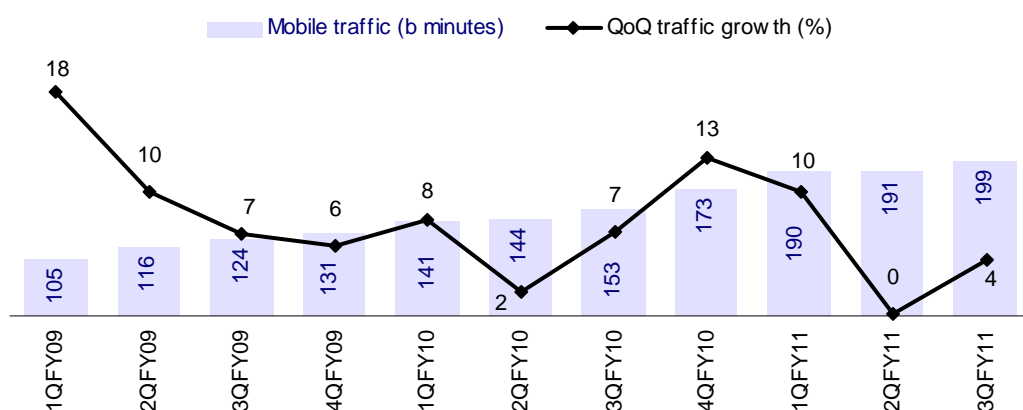
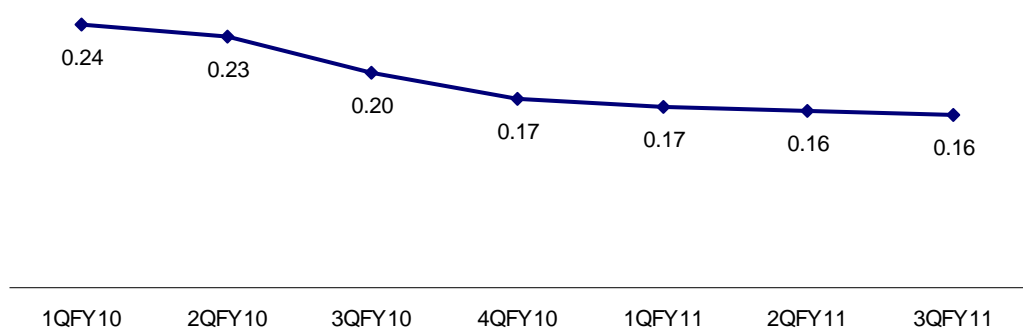
Stable KPI performance



Monthly churn highest in past five years (%)



Source: Company/MOSL

Traffic rebound lower than our estimates**Mobile EBITDA per minute stabilizing on lower RPM pressure (Rs)**

Source: Company/MOSL

Mobile services (India and South Asia): Broadly inline

- Mobile revenue increased 13.1% YoY and 3.9% QoQ to Rs91.5b (in line with est).
- EBITDA increased 5.1% YoY and 3.2% QoQ to Rs32b (1.3% below est).
- EBITDA margin declined ~23bp QoQ to 34.9% (vs est of 35.3%).
- Management is confident that Bharti remains well positioned for MNP (implemented effective January 20th 2011) and has so far been a net positive on subscribers.
- Bharti has launched 3G services in Karnataka and Tamil Nadu and expects to roll-out in 13 circles (where it won 3G spectrum) by Mar-11.
- Bharti is seeking alliances for 3G with other quality operators for a pan India 3G footprint.
- Non-voice business contributed 13.8% to mobile revenue in 3QFY11 and has increase by ~4 percentage points over the past five quarters.
- We expect data to be a significant contributor for Bharti going forward post 3G launch.

Enterprise and Telemedia: Weak quarter

- Enterprise revenue increased 0.8% QoQ but declined 4.9% YoY to Rs10.5b; EBITDA stood at Rs2.3b, down 12.1% QoQ and 31% YoY.
- Telemedia revenue stood Rs9.1b, down 0.5% QoQ but up 6.1% YoY; EBITDA was down 3.7% QoQ but up 2.8% YoY to Rs4b.
- Telemedia subscribers grew 1.3% QoQ to 3.3m; ARPU declined from Rs954 in 2QFY11 to Rs934 in 3QFY11 (0.6% below our estimate).

Passive infrastructure: Strong growth led by margin expansion

- Passive infrastructure segment revenues and EBITDA include standalone operations of Bharti Infratel and proportionate consolidation of 42% stake in Indus Towers.
- Revenue increased 19.4% YoY and 3.8% QoQ to Rs22b. EBITDA increased 35.4% YoY and 8% QoQ at Rs8.5b.
- Bharti Infratel has a portfolio of ~32,424 towers with a tenancy ratio of 1.7x.
- Indus towers has a portfolio of ~107,789 towers with a tenancy ratio of 1.81x.
- Indus towers has sharing revenue per operator per month (SRPO) of ~Rs30,847 (~23% discount v/s Bharti Infratel).

Positive signs of elasticity and usage growth in Africa; margin stable

- Africa revenue of US\$ 911m was 1.4% above our est of US\$ 898m.
- EBITDA (before re-branding) was US\$212m implying an EBITDA margin of 23.3% (vs margin of 23.1% in 2QFY11).
- Net loss of Rs5.25b vs Rs3.79b in 2QFY11 and our estimate of Rs2.86b mainly due to forex loss of Rs1.6b and brand-launch expense of Rs1.7b.
- MOU per subscriber increased to 120 mins per month vs 112 mins in 2QFY11 (1.7% above our estimate of 118mins)
- RPM declined 7.9% QoQ from 6.6 US cents in 2QFY11 to 6.1 US cents (vs 1.5% below our estimate of 6.2 US cents).
- ARPU declined 1.4% QoQ at US\$7.3, as increased MOU was offset by decline in RPM.
- Bharti has taken tariff cuts in all 16 countries to eliminate the pricing differential vs competition.
- Active (last one month basis) subscriber base increased to 42.1m in 3QFY11 (vs 40.1m in 2QFY11)
- Churn levels remain high at 5.9% per month.
- Key challenges in Africa include logistics, high labor costs and low availability of skilled manpower.
- All outsourcing contracts (Network, IT, BPO) have been closed in Africa; employee transition has started.
- Current capex in Africa has been focused mainly on capacity. 70% of the capex would be on coverage from FY12.
- The management expects Africa margins to grow at healthy clip and appeared confident of achieving target of US\$5b revenue, US\$2b EBITDA and 100m subscribers in Africa by FY13.

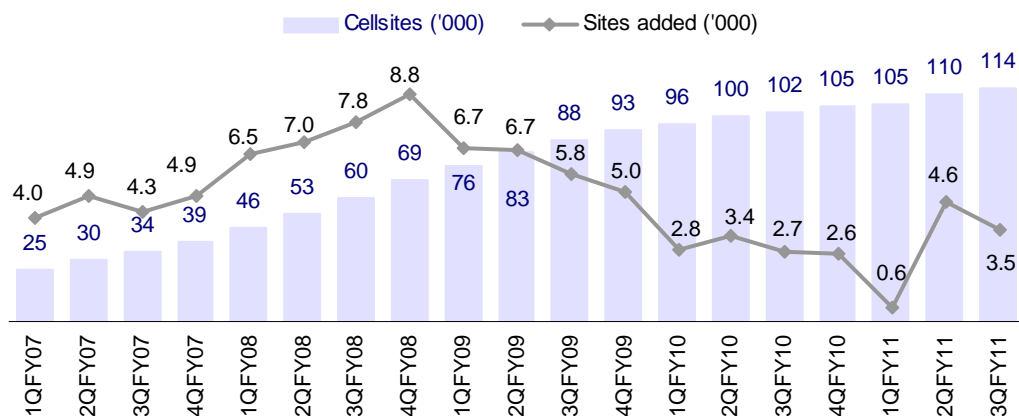
Net debt QoQ at Rs600b; forex loss of ~Rs1.51b

- Bharti's net debt remained flat QoQ to ~Rs600b, implying a net debt/equity of 1.28x and net debt/annualized EBITDA of 2.8x.
- During the quarter, Bharti reported a forex loss of ~Rs1.51b vs forex gain of ~Rs2.5b in 2QFY11.

India capex flat QoQ; Africa capex to remain at US\$800m

- India capex guidance (ex-towers) remains at US\$1.8-2b in FY11 (9M capex at ~US\$1.3b).
- Africa capex guidance has been maintained at US\$800m.
- Bharti added ~3,500 cell-sites during the quarter vs 4,600 cell-sites in 2QFY11.

Cell-site additions lower QoQ



Source: Company/MOSL

FY12/13 estimates largely unchanged; 22% EBITDA CAGR over FY11E-13E; Buy

- While we have downgraded FY11 EBITDA and PAT estimates by 3-5% to factor-in forex loss and brand launch expenses, our FY12/13 estimates remain largely unchanged.
- We remain positive given 1) strong traffic growth outlook despite stabilizing RPM, 2) traction in non-voice business post 3G launch, 3) improving regulatory environment, and 4) initial signs of elasticity in Africa.
- We expect 22% EBITDA CAGR and 30% PAT CAGR over FY11E-13E driven by normalized growth in India business and margin inflection in Africa business.
- At CMP of Rs323, the stock trades at proportionate EV/EBITDA of 7x FY12E and 5.6x FY13E. Maintain **Buy** with a target price of Rs410, 27% upside.

India and South Asia - Segmentwise Summary as per IFRS (Rs m)

	3QFY10	2QFY11	3QFY11	YoY %	QoQ %	3QFY11E	V/S Est (%)
Revenue							
Mobile	80,898	88,045	91,459	13.1	3.9	91,773	-0.3
Telemedia	8,549	9,118	9,068	6.1	-0.5	9,173	-1.1
Enterprise	11,048	10,424	10,503	-4.9	0.8	11,048	-4.9
Passive Infrastructure	18,407	21,161	21,972	19.4	3.8	21,999	-0.1
Others	1,414	2,260	2,793	97.5	23.6	2,305	21.2
Eliminations	-17,262	-17,696	-18,582	7.6	5.0	-18,411	0.9
Consolidated Revenue	103,053	113,312	117,213	13.7	3.4	117,887	-0.6
EBITDA							
Mobile	30,400	30,964	31,954	5.1	3.2	32,382	-1.3
Telemedia	3,933	4,200	4,045	2.8	-3.7	4,157	-2.7
Enterprise	3,274	2,571	2,260	-31.0	-12.1	2,725	-17.1
Passive Infrastructure	6,267	7,858	8,486	35.4	8.0	8,380	1.3
Others	-2,574	-2,714	-2,341	-9.1	-13.7	-2,664	-12.1
Eliminations	-477	-657	-658	37.9	0.2	-657	0.2
Consolidated EBITDA (before-branding)	40,823	42,222	43,746	7.2	3.6	44,323	-1.3
EBITDA margin (%)							
Mobile	37.6	35.2	34.9	-264bp	-23bp	35.3	-35bp
Telemedia	46.0	46.1	44.6	-140bp	-146bp	45.3	-71bp
Enterprise	29.6	24.7	21.5	-812bp	-315bp	24.7	-315bp
Passive Infrastructure	34.0	37.1	38.6	458bp	149bp	38.1	53bp
Consolidated EBITDA	39.6	37.3	37.3	-229bp	6bp	37.6	-28bp
Depreciation and amortization	15,883	18,239	19,063	20.0	4.5	19,505	-2.3
Operating income	24,940	23,983	24,683	-1.0	2.9	24,817	-0.5
Pre-operating and others	128	231	-1,398	-1,192.2	-705.2	236	-693.3
Net finance cost	-266	-255	1,514	-669.2	-693.7	1,425	6.2
Profit Before Taxes	25,334	24,469	21,771	-14.1	-11.0	23,628	-7.9
Total Tax	2,980	3,802	3,145	5.5	-17.3	3,544	-11.3
Effective Tax Rate (%)	11.8	15.5	14.4	268bp	-109bp	15.0	-1bp
Profit After Tax	22,354	20,667	18,626	-16.7	-9.9	20,084	-7.3
Minority Interest	407	269	344	-15.5	27.9	261	31.6
Net Profit	21,947	20,398	18,282	-16.7	-10.4	19,822	-7.8

Source: MOSL

India and South Asia - Revenue Drivers

	3QFY10	2QFY11	3QFY11	YoY %	QoQ %	3QFY11E	V/S Est (%)
Mobile							
Mobile Subs (m)	119	143	152	28.3	6.4	152	0.0
Mobile ARPU (Rs/month)	230	202	198	-14.0	-1.8	200	-0.8
Total Minutes of Use (b)	153	191	199	29.9	4.5	203	-1.7
Minutes of Use/Sub/Month	446	454	449	0.8	-1.0	458	-2.0
Effective Mobile RPM (Rs)	0.52	0.44	0.44	-14.7	-0.8	0.44	1.2
Telemedia Services							
Subscribers (000s)	2,989	3,216	3,257	9.0	1.3	3,291	-1.0
ARPU (Rs/month)	964	954	934	-3.1	-2.1	940	-0.6

Source: MOSL

India and South Asia - Capex (Rs m)

	3QFY10	2QFY11	3QFY11	YoY %	QoQ %
Mobile	7,743	15,590	16,877	118.0	8.3
Telemedia services	1,761	2,155	1,963	11.5	-8.9
Enterprise services	4,210	1,542	827	-80.4	-46.4
Passive Infrastructure	1,926	5,912	5,666	194.2	-4.2
Others	2,124	4,083	3,919	84.5	-4.0
Consolidated Capex	17,764	29,282	29,251	64.7	-0.1
Capex/Sales (%)					
Mobile	9.6	17.7	18.5	888bp	75bp
Broadband & Telephony	20.6	23.6	21.6	105bp	-199bp
Enterprise	38.1	14.8	7.9	-3023bp	-692bp
Passive Infrastructure	10.5	27.9	25.8	1532bp	-215bp
Consolidated Capex/ Sales	17.2	25.8	25.0	772bp	-89bp

Source: MOSL

African operations: Quarterly Performance (US\$m)

	1QFY11	2QFY11	3QFY11	QoQ%	3QFY11E vs Est (%)	
Revenue	205	838	911	8.7	911	0.0
EBITDA (before re-branding)	56	194	212	9.4	174	21.7
EBITDA margin (%)	27.3	23.1	23.3	14bp	23.2	10bp
Depreciation and amortization	42	164	181	9.9	181	-0.1
EBIT	14	29	31	6.3	-7	-563.6
Net finance cost	41	79	134	69.9	134	0.0
Pre operating and others	-20		-38			
Profit Before Taxes	-47	-49	-140	185.4	-140	-0.1
Total Tax	1	40	6	-85.0	6	8.5
Profit After Tax (before minorities)	-48	-89	-146	64.1	-146	0.3
Minority Interest	-120	-5	-29	480.0	-310	-90.6
Net Profit	72	-84	-117	39.4	-2,856	-95.9
African operations: KPI's						
Mobile Subs (m)	36.4	40.1	42.1	5.1	43.8	-3.8
Mobile ARPU (US\$/month)	7.4	7.4	7.3	-1.4	7.3	0.1
Total Minutes of Use (b mins)	3.7	12.8	14.9	16.6	14.8	0.4
Minutes of Use/Sub/Month	103	112	120	7.1	118	1.7
Effective Mobile RPM (US Cent)	7.2	6.6	6.1	-7.9	6.2	-1.5

Source: MOSL

Bharti Airtel: Summary of estimate change

	FY11E	FY12E	FY13E
India mobile Subs (m)			
Old	159	177	191
New/Actual	161	179	193
Change (%)	1.1	1.0	0.9
India mobile ARPU (Rs/month)			
Old	212	209	212
New/Actual	209	208	211
Change (%)	-1.4	-0.5	-0.5
India mobile MOU per sub			
Old	465	469	479
New/Actual	455	464	473
Change (%)	-2.1	-1.1	-1.1
Revenue (Rs b)			
Old	599	720	802
New/Actual	594	717	800
Change (%)	-0.9	-0.5	-0.2
EBITDA (Rs b)			
Old	206	264	300
New/Actual	200	261	300
Change (%)	-2.9	-0.9	-0.2
Net Profit (Rs b)			
Old	67	84	108
New/Actual	63	83	107
Change (%)	-5.4	-2.2	-1.0
EPS (Rs)			
Old	17.6	22.3	28.5
New/Actual	16.6	21.8	28.2
Change (%)	-5.4	-2.2	-1.0
Net finance cost (Rs b)			
Old	21	28	24
New/Actual	22	28	23
Change (%)	7	-1	-2
Tax rate (%)			
Old	21	21	22
New/Actual	21	21	22
Change (bp)	9	-23	-50

Source: MOSL

SOTP valuation

	FY13 EBITDA (Rs b)	Ownership (%)	Proportionate EBITDA (Rs b)	EV/EBITDA (x)	Fair Value (Rs b)	Value/sh (Rs)
India business (incl. towers)	230	100	230	7.0	1,607	426
Africa business	70	80	56	5.6	314	83
FY13 net debt					383	99
Total Value					1,555	410
Shares o/s (b)	3.79					
CMP						323
Upside (%)						26.7

Source: MOSL

Bharti Airtel: Key assumptions

	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Mobile - India							
Subs (m)	37	62	94	128	161	179	193
YoY (%)	90	67	52	36	26	11	8
Average subs (m)	28	50	78	111	144	170	186
YoY (%)	91	79	57	42	30	18	10
Netadds per month (m)	1.5	2.1	2.7	2.8	2.7	1.5	1.2
YoY (%)	104	41	29	6	-2	-45	-20
Total mobile traffic (b min)	153	285	475	610	787	944	1,055
YoY (%)	118	86	67	28	29	20	12
ARPU (Rs/month)	427	366	325	249	209	208	211
YoY (%)	-10	-14	-11	-23	-16	0	1
MOU	461	479	508	459	455	464	473
YoY (%)	14	4	6	-10	-1	2	2
Mobile RPM (Rs)	0.93	0.77	0.64	0.54	0.46	0.45	0.45
YoY (%)	-21	-17	-17	-15	-15	-2	-1
Mobile EBITDA margin (%)	37.7	39.2	31.0	38.7	35.1	36.1	35.3
Mobile Capex (Rs b)	72	108	65	34	59	41	35
Mobile Capex/sales (%)	51	50	21	10	16	10	7

Mobile - Africa

Subs (m)					45	71	91
YoY (%)					7	57	29
Netadds per month (m)					0.3	2.1	1.7
ARPU (US\$/month)					7.3	5.8	4.7
YoY (%)						-21	-18
Capex (US\$ b)					0.82	0.80	0.78
Capex/Sales (%)					23	20	17

Passive Infrastructure**Indus Towers**

Towers (000s)			95	103	109	118	124
Cellsites (000s)			141	176	202	242	280
Tenancy ratio (x)			1.48	1.71	1.85	2.05	2.25
Sharing revenue per operator per month (Rs 000s)					29.4	27.6	26.5
EBITDA margin (%)					27.3	27.7	29.4

Bharti Infratel

Towers (000s)			28	31	33	36	38
Cellsites (000s)			37	50	58	72	84
Tenancy ratio (x)			1.34	1.62	1.75	2.00	2.20
Sharing revenue per operator per month (Rs 000s)					37.2	37.2	34.6
EBITDA margin (%)			35.4	46.2	48.6	50.1	50.2

Source: MOSL

Bharti Airtel: Business-mix

	FY07	FY08	FY09	FY10	FY11E	FY12E	FY13E
Revenue mix (%)							
Mobile (India & SA)	68	71	65	68	54	53	53
Telemedia	11	9	7	7	5	5	4
Enterprise	21	18	18	9	6	6	6
Passive infrastructure	0	2	9	15	13	13	13
Others	0	0	0	1	1	1	2
Africa	0	0	0	0	20	23	23
EBITDA mix (%)							
Mobile (India & SA)	69	71	58	75	63	58	55
Telemedia	7	10	9	9	8	6	6
Enterprise	23	17	23	7	5	4	4
Passive infrastructure	0	2	9	14	16	15	15
Others/Eliminations	0	0	0	-6	-5	-4	-3
Africa	0	0	0	0	14	20	23
Capex mix (%)							
Mobile (India & SA)	80	78	46	41	42	35	35
Telemedia	10	7	10	12	5	2	3
Enterprise	15	15	15	14	3	3	4
Passive infrastructure	0	0	26	14	16	21	15
Others/Eliminations	-6	0	4	19	10	8	7
Africa	0	0	0	0	25	31	36

Source: 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. Bharti is the largest Indian wireless operator with a subscriber market share of ~21% and population coverage of 85%. Post its acquisition of Zain's Africa business, Bharti has become the fifth largest wireless company globally by subscribers, with a subscriber base of 208m.

Key investment arguments

- Bharti continues to consolidate its wireless leadership in India with a wireless subscriber share of 20%+ and adjusted gross revenue share of 30%+.
- Bharti is well positioned to capture rural growth by leveraging its deep coverage and favorable frequency allocation - a significant competitive advantage in low-density regions.
- Bharti has won 3G spectrum in 13 circles which will support voice decongestion as well as development of new revenue streams from data services in the maturing urban market. Bharti is launching 3G services in 13 circles during 4QFY11. We expect incremental 3G revenue to contribute 3-4% of wireless revenues in FY12E.
- We expect 16% revenue CAGR, 22% EBITDA CAGR and 30% PAT CAGR over FY11-13E.

Comparative valuations

		Bharti	Idea	RCOM
P/E (x)	FY12E	14.8	25.6	13.9
	FY13E	11.5	13.5	11.4
EV/EBITDA (x)	FY12E	6.7	7.0	6.5
	FY13E	5.4	5.1	5.5
EV/Sales (x)	FY12E	2.4	1.8	2.2
	FY13E	2.0	1.5	1.8
P/BV (x)	FY12E	2.1	1.8	0.6
	FY13E	1.8	1.6	0.6

Shareholding Pattern (%)

	Dec-10	Sep-10	Dec-09
Promoter	45.5	45.4	45.5
Domestic Inst	8.7	9.0	8.0
Foreign	40.3	40.3	40.3
Others	5.5	5.3	6.3

Key investment risks

- MNP implementation likely to put pressure on post-paid RPM; subscriber retention costs to remain an overhang.
- Implementation of TRAI recommendations on 'Licensing framework and Spectrum management' could prove to be adverse for incumbents like Bharti.

Recent developments

- Bharti launched 'Airtel' brand in Africa and re-launched in India and South Asia markets.
- Bharti has launched 3G services in Karnataka and Tamil Nadu circles.

Valuation and view

- While we have downgraded FY11 EBITDA and PAT estimates by 3-5% to factor-in forex loss and brand launch expenses, our FY12/13 estimates remain largely unchanged.
- We remain positive given 1) strong traffic growth outlook despite stabilizing RPM, 2) traction in non-voice business post 3G launch, 3) improving regulatory environment, and 4) initial signs of elasticity in Africa.
- We expect 22% EBITDA CAGR and 30% PAT CAGR over FY11E-13E driven by normalized growth in India business and margin inflection in Africa business.
- At CMP of Rs323, the stock trades at proportionate EV/EBITDA of 7x FY12E and 5.6x FY13E. Maintain **Buy** with a target price of Rs410, 27% upside.

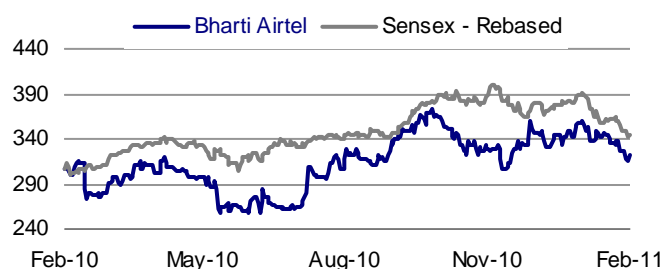
EPS: MOSL forecast v/s Consensus (Rs)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY11	16.6	18.3	-9.1
FY12	21.8	23.0	-5.2

Target Price and Recommendation

Current Price (Rs)	Target Price (Rs)	Upside (%)	Reco.
323	410	26.7	Buy

Stock performance (1 year)



Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Revenues	418,472	594,050	716,700	799,734	
<i>Change (%)</i>	13.2	42.0	20.6	11.6	
Total Expenses	250,839	394,133	455,220	500,034	
EBITDA	167,633	199,917	261,480	299,700	
<i>% of Gross Sales</i>	40.1	33.7	36.5	37.5	
Deprn. & Amortization	62,832	101,072	129,036	136,241	
EBIT	104,800	98,845	132,444	163,458	
Net finance cost	178	22,162	28,109	22,981	
Other Income	468	918	982	1,085	
PBT	105,090	77,600	105,318	141,562	
Tax	13,453	16,307	21,744	30,813	
<i>Rate (%)</i>	12.8	21.0	20.6	21.8	
Minority Interest	1,870	-1,731	891	3,683	
Adjusted PAT	89,767	63,024	82,682	107,066	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	18,988	18,988	18,988	18,988	
Additional Paid up Capital	56,499	56,499	56,499	56,499	
Reserves	346,453	408,830	482,735	579,542	
Net Worth	421,940	484,317	558,222	655,029	
Loans	101,898	599,577	603,824	598,535	
Minority Interest	25,285	28,369	29,260	32,943	
Other Liabilities	45,018	27,172	29,382	31,075	
Deferred Tax Liability	7,980	15,621	16,574	17,389	
Capital Employed	602,121	1,155,057	1,237,263	1,334,972	
Gross Block	761,040	1,596,369	1,712,057	1,810,370	
Less : Depreciation	218,521	336,175	463,449	597,901	
Net Block	542,519	1,260,194	1,248,608	1,212,469	
Other Non-Current Assets	30,736	62,522	62,994	63,479	
Curr. Assets	137,685	122,312	200,615	343,327	
Inventories	484	2,073	2,390	2,714	
Debtors	35,711	51,791	59,952	66,755	
Cash & Bank Balance	25,323	15,637	65,637	115,637	
Short-term investments	52,362	6,740	20,220	100,220	
Other Current Assets	23,805	46,071	52,415	58,001	
Curr. Liab. & Prov.	108,819	289,971	274,954	284,304	
Creditors	107,702	255,317	239,966	249,010	
Other Current Liabilities	1,117	34,655	34,988	35,293	
Net Curr. Assets	28,866	-167,660	-74,339	59,023	
Appl. of Funds	602,121	1,155,057	1,237,263	1,334,972	

E: MOSL Estimates

RATIOS					
Y/E MARCH	2010	2011E	2012E	2013E	
Basic (Rs)					
EPS	23.7	16.6	21.8	28.2	
Cash EPS	40.2	43.3	55.8	64.1	
Book Value	117.9	135.1	154.9	181.3	
DPS	1.0	1.7	2.2	2.8	
Payout % (Incl.Div.Taxes)	4.2	10.0	10.0	10.0	
Valuation (x)					
P/E	13.7	19.5	14.8	11.5	
Cash P/E	8.0	7.5	5.8	5.0	
EV/EBITDA	7.5	9.0	6.7	5.4	
EV/Sales	3.0	3.0	2.4	2.0	
Price/Book Value	2.7	2.4	2.1	1.8	
Dividend Yield (%)	0.3	0.5	0.7	0.9	
Profitability Ratios (%)					
RoE	23.6	13.1	15.0	16.8	
RoCE	18.9	9.1	9.0	10.3	
Turnover Ratios					
Debtors (Days)	31	32	31	30	
Asset Turnover (x)	1.01	0.80	0.68	0.77	
Leverage Ratio					
Net Debt/Equity (x)	0.1	1.1	0.9	0.6	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Op.Profit/(Loss) bef Tax	167,633	199,917	261,480	299,700	
Other Income	468	918	982	1,085	
Interest Paid	-178	-22,162	-28,109	-22,981	
Direct Taxes Paid	-29,761	-37,922	-21,744	-30,813	
(Inc)/Dec in Wkg. Cap.	26,518	123,154	-27,659	-892	
CF from Op.Activity	164,680	263,904	184,951	246,099	
(inc)/Dec in FA + CWIP	-155,852	-818,747	-117,450	-100,102	
(Pur)/Sale of Investments	-14,282	45,679	-13,480	-80,000	
CF from Inv.Activity	-170,134	-773,068	-130,930	-180,102	
Issue of Shares	27,617	3,288	0	0	
Incl/(Dec) in Debt	-16,903	497,679	4,248	-5,289	
Other Financing Activities	8,917	-1,486	-8,266	-10,705	
CF from Fin.Activity	19,632	499,481	-4,019	-15,994	
Incl/(Dec) in Cash	14,178	-9,685	50,000	50,000	
Add: Opening Balance	11,145	25,323	15,637	65,637	
Closing Balance	25,323	15,638	65,637	115,638	

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Bharti Airtel

- | | |
|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.