

RESULTS REVIEW
Bharti Airtel Limited
Buy
Share Data

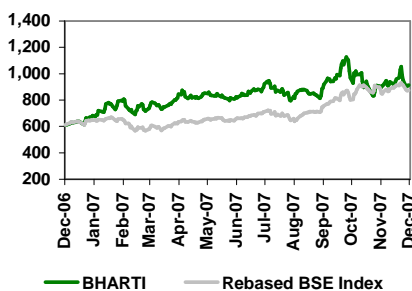
Market Cap	Rs. 1,735.65 bn
Price	Rs. 914.60
BSE Sensex	19,162.57
Reuters	BRTI.BO
Bloomberg	BHARTI IN
Avg. Volume (52 Week)	0.33 mn
52-Week High/Low	Rs. 1,149/543.6
Shares Outstanding	1,897.71 mn

Valuation Ratios (Consolidated)

FY end 31 March	2008E	2009E
EPS (Rs.)	34.8	45.5
+/- (%)	54.9%	30.7%
PER (x)	26.3x	20.1x
EV/Subscriber (Rs.)	28,038.8	17,846.3
EV/ Sales (x)	6.4x	5.0x
EV/ EBITDA (x)	15.2x	11.7x

Shareholding Pattern (%)

Promoters	66
FII's	25
Institutions	5
Public & Others	5

Relative Performance

Cost efficiency boosts margins

Bharti Airtel Limited's (Bharti) Q2'08 results exceeded our expectation as net sales grew by 45.4% yoy to Rs. 63,374 mn. The increase in net sales was a result of enlarged subscriber base, robust performance by the non-mobile businesses, and high popularity of the lifetime schemes. During the quarter, EBITDA margin improved by 369 bps yoy to 42.8% as a result of decline in access charges and SG&A expenses as a percentage of sales.

We continue to estimate the sales to grow at a CAGR of 38.7% for FY07-FY09E on the back of Bharti's massive growth potential in the domestic market, plans of penetrating into the international markets and addition of new services to its portfolio (IPTV and DTH services). Moreover, demerger its tower business will augment its stock value further. However, the recent recommendation of TRAI on revised norms of subscriber based spectrum allotment has become a key downside risk for the Company.

At the current price of Rs. 914.6, the stock is trading at a forward P/E of 26.3x FY08E and 20.1x FY09E. We thus maintain our Buy rating with a target price of Rs. 1,163 (excluding tower business) based on DCF valuation.

Result Highlights

On a yoy basis, net sales increased by 45.4% to Rs. 63,374 mn on account of consistent growth across all the strategic segments.

Mobile segment's sales increased by 53.2% yoy to Rs. 50,579 mn, however, sequentially the growth was a mere 7.7%. The key factor contributing to the

Key Figures (Consolidated)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	43,571	59,046	63,374	45.4%	7.3%	82,135	122,420	49.0%
EBITDA	17,024	24,466	27,097	59.2%	10.8%	32,045	51,564	60.9%
EBITDA Margin	39.1%	41.4%	42.8%			39.0%	42.1%	
Mobile subscribers	27.1	42.7	48.9	80.6%	14.5%	27.1	48.9	80.6%
Broadband & Telephone subscribers	1.6	2.0	2.1	27.2%	5.2%	1.6	2.1	27.2%
ARPU (Mobile)	438	390	366	(16.4%)	(6.3%)			
ARPU (Broadband & Telephone)	1,115	1,121	1,150	3.1%	2.6%			
AMU (Mobile)	451	478	469	3.9%	(1.9%)			
Per Share Data (Rs.)								
EPS	4.9	8.0	8.5	72.6%	6.7%	8.9	16.5	84.8%

Sequential decline in ARPU and MoU reduced sales growth

ILD and NLD traffic rose by 86.7% and 52.4% yoy to 6,774 and 1,345 minutes, respectively

rise in revenue was the increase in subscriber base to 48.9 mn (up 80.6% yoy and 14.5% qoq).

However, the qoq increase in subscribers was offset by a decline in MoU (down by 9.2 to 468.6 in Q2'08), which fell for the first time in the last 3 years. The decline in MoU was a result of reduction in price elasticity of the existing subscribers, tariff rationalisation, and lower free minutes in bundled handset offers. Moreover, the existing as well as the new customers specially rural ones did not show a strong growth in usage. Further, on a qoq basis ARPU also declined from Rs. 390 in Q1'08 to Rs. 366 in Q2'08 on the back of the higher accretion of low usage marginal customers.

Broadband & telephone segment's sales increased by 33.9% yoy to Rs. 7,023 mn driven by increased subscriber base of 2.1 mn (up 27.2% yoy) and higher ARPU of Rs.1,150 from Rs. 1,115 in Q2'07. In order to maintain its ARPU, the Company focussed on deeper penetration into the existing towns rather than entering into new areas.

Enterprise segment's sales rose by 28.2% yoy to Rs. 13,471 mn on the back of robust growth in the Corporate Services. Additionally, Carrier Services showed a strong rise as a result of huge network expansion (19,423 kms of fibre optic was laid during the year taking the total number to 55,574 kms) and increased NLD and ILD traffic.

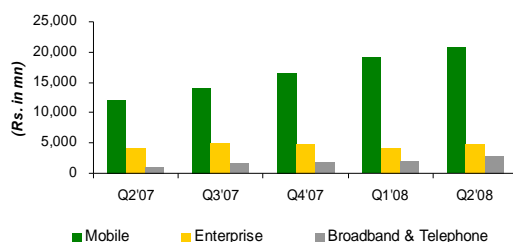
Segment Net Sales

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%
Mobile Services	33,022	46,976	50,579	53.2%	7.7%
Enterprise Services	10,510	11,940	13,471	28.2%	12.8%
Broadband & Telephone Services	5,244	6,513	7,023	33.9%	7.8%
Others (Bharti Corporate offices)	249	426	546	119.3%	28.2%
Sub Total	49,025	65,855	71,619	46.1%	8.8%
Eliminations*	(5,454)	(6,809)	(8,245)	51.2%	21.1%
Total	43,571	59,046	63,374	45.4%	7.3%

* On account of inter-segment transactions

EBITDA increased by 59.2% yoy to Rs. 27,097 mn and the margin improved by 369 bps to 42.8%. Margins increased as a result of higher net sales coupled with decline in access charges and SG&A expenses as a percentage of sales.

Segment EBITDA



Bharti's net profit rose by 72.8% yoy to Rs. 16,139 mn, however, the sequential increase was mere 6.8%. The reason for slower growth in net profit sequentially was the absence of forex gains; however, lower effective tax rate helped in controlling the fall.

Key Events

- The Company acquired 100% equity stake in Network i2i at a net consideration of USD 110 mn.
- The scheme of demerger of the tower business was approved by the shareholders and the creditors. However, Bharti awaits the final approval of the Delhi High Court.

Prospects

- Bharti plans to roll-out its IPTV applications in the NCR region by Q3'08. The transponder space on the ISRO satellite INSAT-4CR has already been obtained for the purpose. The national roll-out of DTH is expected to take place by the end of FY'08.
- The Company's subsidiary, Bharti Airtel Lanka (BAL), is likely to start its operations in Sri Lanka by the end of FY'08.
- Bharti's capital expenditure estimates of USD 3.3-3.5 bn for FY'08 remains unchanged. It has already spent around USD 1.9 mn on the increased cell sites, laying optical fibre across the country, and expansion of its geographical coverage in H1'08.
- Bharti Infratel Ltd, Idea Cellular Ltd and Vodafone Essar Ltd have agreed to form an independent tower Company, Indus Towers Ltd, to provide passive infrastructure services in India. Bharti and Vodafone Essar will own approximately 42% each and Idea will own the remaining 16% stake.

Key Risks

- Entry of Reliance Communication in the GSM market will give Bharti a head on competition.
- The ongoing spectrum imbroglio is likely to introduce delay in TDSAT's decision on additional spectrum allotment. Any negative outcome may affect our valuations.

Network i2i becomes the Company's wholly owned subsidiary

- DoT has announced that Mobile Number Portability (MNP) would soon be introduced in the four metro cities, likely by the fourth quarter of FY'08. With MNP in the offing, the Company's margins can get affected.

Outlook

On the basis of strong second quarter results reported by the Company, we have raised our estimates for FY08E and FY09E. Bharti has been able to retain its customers on the back of its quality of network and customer services, as evident from its churn rate both post-paid and pre-paid which was at its lowest, at 1.1% and 3.8%, respectively in Q2'08.

In line with our earlier forecasts, we continue to estimate Bharti's sales to grow at a CAGR of 38.7% for FY07-FY09E on the back of its continued expansion of subscriber base, entry into international markets (Sri Lanka operations by the end of FY08), addition of new services to its portfolio (IPTV and DTH), and deeper penetration into the existing markets. Also, Bharti's plan to demerge its tower business, will add significant value to the Company's stock. However, the recent recommendation of TRAI on revised norms of subscriber based spectrum allotment has become a key downside risk.

At the current price of Rs. 914.6, the stock is trading at a forward P/E of 26.3x FY08E and 20.1x FY09E. We thus maintain our Buy rating with a target price of Rs. 1,163 (excluding tower business) based on DCF valuation.

Bharti still has huge growth potential; the Indian Telecom Market is expected to touch 500 mn subscribers by 2010

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	80,028	116,215	185,195	277,891	356,259	38.7%
EBITDA	30,128	43,374	74,506	117,513	153,361	43.5%
EBITDA Margin	37.6%	37.3%	40.2%	42.3%	43.0%	
Mobile subscribers	11.0	19.6	37.1	61.5	97.4	62.0%
Broadband & Telephone subscribers	0.9	1.3	1.9	2.3	2.8	22.2%
ARPU (Mobile)	505	442	406	367	358	(6.1)%
ARPU (Broadband & Telephone)	1,229	1,063	1,112	1,160	1,195	3.7%
AMU (Mobile)	370	431	475	478	511	3.8%
Per Share Data (Rs.)						
EPS	8.0	11.9	22.5	34.8	45.5	42.3%
PER (x)	26.0x	34.8x	40.7x	26.3x	20.1x	

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