

August 20, 2008

| | |
|----------------|--------------|
| Rating | Outperformer |
| Price | Rs792 |
| Target Price | Rs973 |
| Implied Upside | 22.7% |
| Sensex | 14,544 |

(Prices as on August 19, 2008)

Trading Data

| | |
|-------------------------|---------|
| Market Cap. (Rs bn) | 1,524.5 |
| Shares o/s (m) | 1,925.9 |
| Free Float | 33.5% |
| Avg. Daily Vol ('000) | 689.2 |
| Avg. Daily Value (Rs m) | 543.8 |

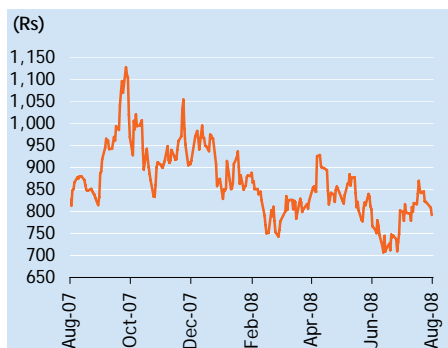
Major Shareholders

| | |
|-----------------|-------|
| Promoters | 66.5% |
| Foreign | 23.6% |
| Domestic Inst. | 5.7% |
| Public & Others | 4.2% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|-------|-------|-------|
| Absolute | (1.3) | (8.5) | (4.3) |
| Relative | (8.0) | 8.9 | (5.1) |

Price Performance (RIC: BRTI.BO, BB: BHARTI IN)



Source: Bloomberg

- **Foresees robust subscriber net additions till 2010:** Bharti Airtel expects the industry's wireless subscriber base to reach 500mn by 2010 & 750 mn by 2015, implying a compounded annual growth rate (CAGR) of 15% over the period. It re-iterated its stance of sustaining a 25% market share.
- **3G bidding to be non-aggressive:** There are 5-10 slots available in all the circles, except Mumbai & Delhi, that shall suffice the needs of most of the operators. Mumbai & Delhi have 2-3 slots for auction with around five operators offering 2G services. These two circles being the key markets for 3G services may see serious bidding. Bharti expects the auction process to take place between Sept'08-Oct'08 & launch of services in 6-9 months. However, no datapoints were given on the 3G capex.
- **Any delay in 3G auction negative for the incumbents:** 3G will help the GSM incumbents to garner additional spectrum in the key markets for offering voice & high-end services. The spectrum-starved operators would like to ride the 3G services before the launch of Rcom GSM pan-india and new entrants like Datacom, Unitech etc. rolling out their network.
- **DTH launch by Oct'08:** Bharti expects to launch its DTH platform by Oct'08, initially targeting 100-120 cities. Test trials on 10,000 employees and associates have shown good results.
- **Valuation:** We expect Bharti to report strong subscriber additions over the next 5-6 months and maintain its wireless leadership. Faster access to 3G spectrum shall be the key trigger in the foreseeable future. At the CMP of Rs. 792, the stock trades at a PER of 15.5x and at an EV/EBITDA of 9x FY10E earnings. Maintain OP.

| Key financials (Y/e March) | FY07 | FY08 | FY09E | FY10E |
|----------------------------|---------|---------|---------|---------|
| Revenue (Rs. m) | 184,202 | 270,122 | 356,296 | 428,216 |
| Growth (%) | 57.9 | 46.6 | 31.9 | 20.2 |
| EBITDA (Rs. m) | 74,407 | 114,018 | 145,502 | 172,857 |
| PAT (Rs. m) | 40,622 | 63,954 | 83,858 | 98,628 |
| EPS (Rs.) | 21.3 | 33.2 | 43.5 | 51.2 |
| Growth (%) | 99.5 | 55.8 | 31.1 | 17.6 |
| Net DPS (Rs.) | — | — | — | — |

Source: Company Data; PL Research

| Profitability & valuation | FY07 | FY08 | FY09E | FY10E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%) | 40.4 | 42.2 | 40.8 | 40.4 |
| RoE (%) | 43.1 | 38.5 | 32.4 | 28.1 |
| RoCE (%) | 29.2 | 28.1 | 23.2 | 21.9 |
| EV / sales (x) | 8.6 | 5.8 | 4.5 | 3.7 |
| EV / EBITDA (x) | 21.4 | 13.7 | 11.0 | 9.1 |
| PE (x) | 37.1 | 23.8 | 18.2 | 15.5 |
| P / BV (x) | 13.5 | 7.0 | 5.1 | 3.8 |
| Net dividend yield (%) | — | — | — | — |

Source: Company Data; PL Research

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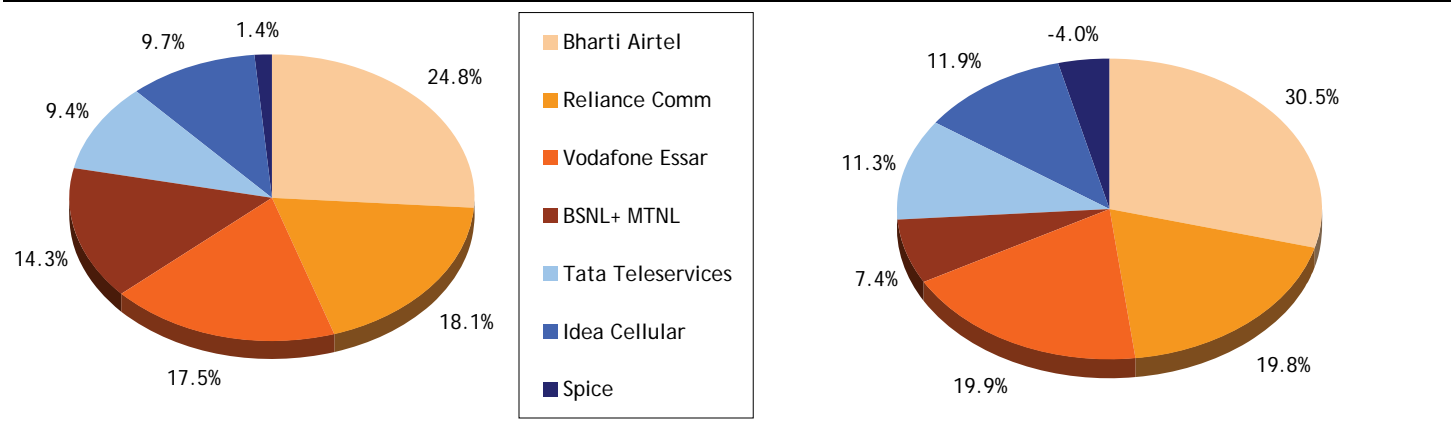
Highlights

Robust subscriber additions to continue

Bharti Airtel maintained its strong outlook on wireless subscriber net additions till 2010 and expects the overall wireless base to reach 500mn. It is striving to maintain a market share of ~25%.

Wireless market share end of period-July 08

Operator-wise share of net additions for the month of July 08



Source: COAI, AUSPI

3G bidding to be non-aggressive

There are 5-10 slots available in all the circles, except Mumbai & Delhi, that shall suffice the needs of most of the operators. Mumbai & Delhi have 2-3 slots for auction with around five operators offering 2G services. These two circles being the key markets for 3G services may see serious bidding. Bharti expects the auction process to take place between Sept'08-Oct'08 & launch of services in 6-9 months. However, no datapoints were given on the 3G capex.

Number of slots available & base pricing

| Technology | No. of slots to be auctioned | Spectrum band | Spectrum block | Base price in mn |
|------------|------------------------------|------------------|----------------|------------------|
| GSM | 5-10 | 2.1 Ghz | 2 x 5Mhz | 20,200 |
| CDMA* | 2-3 | 450 Mhz, 800 Mhz | 2 x 1.25 Mhz | 5,050 |

Source: TRAI, DOT

* Available after defense releases spectrum

Base-price calculation

| Service area | No. of circles | Reserve price/circle in mn | Total |
|------------------------------------|----------------|----------------------------|---------------|
| Mumbai, Delhi & Category A Circles | 7 | 1,600 | 11,200 |
| Kolkatta & Category B circles | 9 | 800 | 7,200 |
| Category C circles | 6 | 300 | 1,800 |
| Total base price | | | 20,200 |

Source: TRAI, DOT

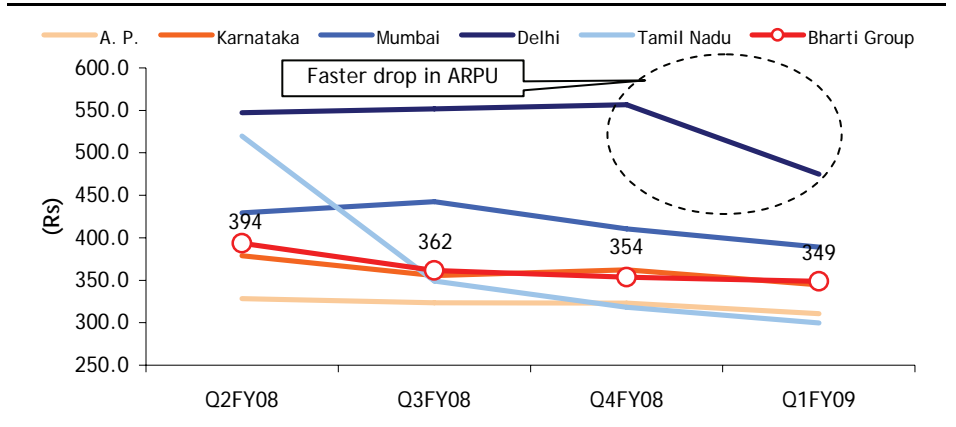
Competition to intensify; leadership sustainable till Mobile Number Portability (MNP) is in place

Bharti Airtel foresees competition to intensify further with the entry of new operators and renewed interest of global telecom operators to set-up operating footprint in one of the fastest growing telecom markets in the world. However, given the under-penetration in the market and the size and scale that Bharti has built over the years in terms of network coverage, wide distribution and innovative product offerings, we expect the company to take full advantage of the market opportunity over the next 6-9 months. But, we feel that MNP can be a serious threat to Bharti Airtel, due to the inherent high churn in the GSM segment (about 5% of overall subscriber every month).

Top 5 circles have revenues of ~40%; ARPU in Delhi declines the most in recent quarters

Revenues from the top 5 circles continue to be around ~40%. But ARPU's falling faster in these circles, with Delhi amounting to most significant drop. We feel that the competition in the wireless space will be circle-specific. As a new entrant rolls out operations, the pricing plans and the price wars shall intensify, thus leading to faster drop in ARPU's.

ARPU of the key 5 circles



Source: TRAI

Revenues in Q1FY09 circle wise

(Rs m)

| | Circle | License | Gross Revenue (GR) | Adjusted Gross Revenue (AGR)* | AGR as % of GR | License Fees | Spectrum Charges | Avg Subs in Mn | ARPU (Rs) |
|-------------------------------|-------------------|---------|--------------------|-------------------------------|----------------|--------------|------------------|----------------|------------|
| Bharti Airtel Ltd | A. P. | UASL | 7,441 | 5,979 | 80% | 598 | 290 | 6.4 | 311 |
| | Assam | UASL | 964 | 764 | 79% | 46 | 30 | 0.9 | 272 |
| | Bihar | UASL | 3,924 | 3,363 | 86% | 202 | 160 | 4.7 | 237 |
| | Delhi | UASL | 8,340 | 5,684 | 68% | 568 | 240 | 4.0 | 475 |
| | Gujarat | UASL | 2,742 | 1,901 | 69% | 190 | 80 | 2.9 | 216 |
| | Haryana | UASL | 1,027 | 705 | 69% | 56 | 30 | 1.1 | 221 |
| | H. P. | UASL | 791 | 600 | 76% | 36 | 20 | 0.8 | 247 |
| | J & K | UASL | 1,455 | 1,128 | 78% | 68 | 40 | 1.1 | 347 |
| | Karnataka | UASL | 9,494 | 7,493 | 79% | 749 | 350 | 7.2 | 345 |
| | Kerala | UASL | 2,340 | 1,410 | 60% | 110 | 50 | 1.7 | 278 |
| | Kolkata | UASL | 2,076 | 1,477 | 71% | 148 | 70 | 1.8 | 268 |
| | M. P. | UASL | 3,140 | 2,447 | 78% | 196 | 80 | 3.0 | 270 |
| | Maharashtra | UASL | 4,310 | 3,108 | 72% | 311 | 130 | 4.3 | 241 |
| | Mumbai | UASL | 4,357 | 2,877 | 66% | 288 | 180 | 2.5 | 389 |
| | Orissa | UASL | 1,743 | 1,467 | 84% | 88 | 70 | 1.9 | 263 |
| | Punjab | UASL | 3,685 | 2,833 | 77% | 227 | 130 | 3.2 | 293 |
| | Tamil Nadu | UASL | 7,126 | 5,371 | 75% | 537 | 270 | 6.0 | 300 |
| | U. P. (E) | UASL | 3,285 | 2,604 | 79% | 208 | 100 | 3.7 | 235 |
| | U. P. (W) | UASL | 1,582 | 1,164 | 74% | 93 | 50 | 1.6 | 240 |
| | West Bengal | UASL | 1,636 | 1,253 | 77% | 100 | 50 | 2.1 | 199 |
| | All India | NLD | 11,896 | 8,801 | 74% | 528 | 0 | | |
| | All India | ILD | 6,241 | 2,337 | 37% | 140 | 0 | | |
| All India | V-SAT | 94 | 94 | 100% | 6 | 0 | | | |
| Bharti Hexacom | North East | Mobile | 658 | 510 | 78% | 31 | 10 | 0.5 | 313 |
| | Rajasthan | UASL | 4,377 | 3,342 | 76% | 267 | 130 | 4.2 | 268 |
| Bharti Broadband Ltd | All India | V-SAT | 27 | 27 | 100% | 2 | 0 | | |
| Total Bharti Group | | | 94,750 | 68,736 | 73% | 5791 | 2560 | 65.7 | 349 |
| Top 5 Circles Revenues | | | 36,758 | 27,403 | 75% | 2,740 | 1,330 | 26.1 | 350 |
| | <i>% of total</i> | | <i>38.8%</i> | <i>39.9%</i> | | | | <i>39.7%</i> | |

Source: TRAI

*AGR= Gross revenues less access charges actually paid to other telecom service providers, roaming revenues passed on to other telecom service providers and service tax and sales tax actually paid to the Government"

DTH rollout by Oct'08; price points still awaited

Bharti expects to launch its DTH operations soon, with a start-up bouquet of over 200 channels on a high digital platform. Trials are being carried out in around 10,000 households, whose initial response has been positive.



Valuation

We expect Bharti to report strong subscriber additions over the next 5-6 months and maintain its wireless leadership. Faster access to 3G spectrum shall be the key trigger in the foreseeable future. At the CMP of Rs. 792, the stock trades at a PER of 15.5x and at an EV/EBITDA of 9x FY10E earnings. **Maintain OP.**



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PL's Recommendation Nomenclature

| | | | |
|------------------------------|--------------------------------------|----------------------------|--|
| BUY | : > 15% Outperformance to BSE Sensex | Outperformer (OP) | : 5 to 15% Outperformance to Sensex |
| Market Performer (MP) | : -5 to 5% of Sensex Movement | Underperformer (UP) | : -5 to -15% of Underperformance to Sensex |
| Sell | : <-15% Relative to Sensex | | |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

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