

Sector: Telecom

Sensex:	15,075
CMP (Rs):	382
Target price (Rs):	453
Upside (%):	18.4
52 Week h/l (Rs):	518/242
Market cap (Rscr) :	145,210
6m Avg vol ('000Nos):	10,660
No of o/s shares (mn):	3,797
FV (Rs):	5
Bloomberg code:	BHARTI IN
Reuters code:	BRTI.BO
BSE code:	532454
NSE code:	BHARTI

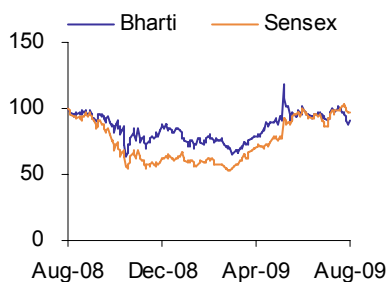
Prices as on 11 Aug, 2009

Shareholding pattern

June '09	(%)
Promoters	67.4
Institutions	27.9
Non promoter corp hold	3.4
Public & others	1.3

Performance rel. to sensx

(%)	1m	3m	1yr
Bharti	(13.2)	(27.5)	(7.7)
Rcom	(7.1)	(14.1)	(42.4)
Idea	(1.3)	(0.1)	(14.6)

Share price trend


Bharti Airtel's FY09 annual report highlights the importance of rural India (<13% penetration) which accounted for ~50% of new subscriber additions. During the year, a ~52% jump in wireless base led to 23% rise in net profit even as ARPU maintained their secular decline. The company signaled its intention to target revenues from non-voice sources such as broadband, mobile VAS, enterprise & tower sharing but we expect non-wireless share to remain @15-18%, about half of FY04 levels.

A 7% yoy decline in wireless capex (Indus notwithstanding) and maiden dividend announcement indicates limits to wireless growth; hence the launch of DTH and IPTV services are attempts to grow beyond voice. Meanwhile, a potential merger deal with MTN would provide scale comparable to global telcos. Bharti should generate Rs63bn in free cash flows in FY10 along with impressive return ratios and stable margin. Upgrade to BUY with revised TP of Rs453.

Focus on rural consumer, non-wireless segment

Bharti Airtel's focus on rural consumers is evident as wireless business gets saturated in metros and usage becomes increasingly inelastic to tariffs. At the same time, the company intends to focus on non-voice sources of growth such as broadband, enterprise, DTH and infrastructure sharing.

Wireless base jumps 52%; ARPUs maintains secular fall

Wireless base rose 52% yoy and was drove a 39% rise in mobile revenues. ARPUs declined the most since at least FY06 on lower RPM. Minutes of Usage (MOU) declined despite lower tariffs indicating higher proportion of rural users (with low upfront usage) and growing demand inelasticity.

Upgrade to BUY on revised EPS; MTN looms

We raise FY11E revenues and EPS estimates by 4% and 14% respectively and upgrade the stock to BUY with revised TP of Rs453 (earlier Rs388) even as contours of a potential merger with MTN remains a key overhang.

Valuation summary

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	270,122	373,521	417,594	476,375
yoy growth (%)	46.6	38.3	11.8	14.1
Operating profit	113,700	152,638	168,708	192,932
OPM (%)	42.1	40.9	40.4	40.5
Pre-exceptional PAT	66,173	96,622	100,016	115,692
Reported PAT	63,954	78,589	100,016	115,692
yoy growth (%)	61.8	46.0	3.5	15.7
EPS (Rs)	16.4	19.3	24.5	28.4
P/E (x)	23.4	19.9	15.6	13.5
Price/Book (x)	6.9	5.4	4.1	3.2
EV/EBITDA (x)	13.9	10.9	9.6	7.9
Debt/Equity (x)	0.4	0.5	0.3	0.2
ROE (%)	39.8	38.0	29.6	26.5
RoCE (%)	31.7	28.0	24.5	24.5

Source: Company, India Infoline Research

FY09 results (IGAAP)

Rs mn	FY09	FY08	% yoy	Comments
Revenues	373,521	270,122	38	
Mobile	295,945	213,396	39	User base jumped ~52% ARPUs fell 15% on 13% drop in RPM
Telemedia	31,230	27,411	14	Annual adds rose 8% while ARPUs dropped for first time since FY05
NLD+ILD	22,306	21,280	5	More than two-thirds of NLD+ILD business caters to internal needs vs. 50% in FY08
Enterprise	12,411	10,523	18	Growth rate halves to ~18% on weak corporate spending in H2 FY09
Passive	12,707	203		About 35,000 towers assigned to Indus wef Jan 1' 09; Infracel now owns ~28,000 towers with rentals of ~Rs36,000
Operating exp	(220,883)	(156,422)	41	
Operating profit	152,638	113,700	34	
OPM (%)	40.9	42.1		OPM declines marginally on higher network opex
EBIT	107,115	78,977	36	
Interest	(3,173)	(3,642)	(13)	Includes interest income of Rs1.9bn
PBT	103,943	75,334	38	
Tax	(5,468)	(8,161)	(33)	
Tax rate (%)	5.3	10.8		
Minority Interest	(1,852)	(1,000)	85	
Adjusted PAT	96,622	66,173	46	Impressive 46% rise in pre-exceptional PAT
Forex gain/(loss)	(18,033)	(2,219)	713	
Reported PAT	78,589	63,954	23	

Source: Company, India Infoline Research

Other highlights

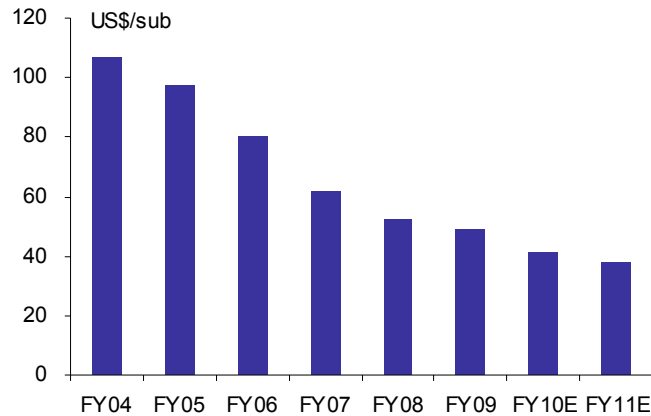
- ✦ In Mar' 09, TRAI cut Termination Charges (TC) from 30paise/min to 20paise/min for all type of domestic calls and TC on international incoming calls were increased from 30paise to 40paise; consequently Q1 FY10 wireless ARPUs have been impacted by ~4%
- ✦ Airtel expects rural customers to account for as much as 75% of the new wireless users from current 50%
- ✦ FY10 would see stronger emphasis on non-wireless business with increased capex in broadband
- ✦ Launched DTH and IPTV services as part of strategy to tap in to non-voice revenue base
- ✦ Would invest US\$200mn in its Sri Lanka operations
- ✦ Formed a JV with IFFCO to offer affordable mobile handsets bundled with Airtel connection and customized VAS to farmers

Lower access charges, staff and SG&A spending help counter higher network opex in FY09

Bharti's opex/sub has halved in four years

FY09 saw a 468bps yoy rise in network opex which was largely neutralized by lower access charges (as network coverage expanded), staff and SG&A spending. Bharti's opex/sub has halved to US\$49/subscriber in FY09 from about US\$97/sub in FY05. This has helped improve margin by 423bps over the same period.

Opex/subscriber has halved in four years



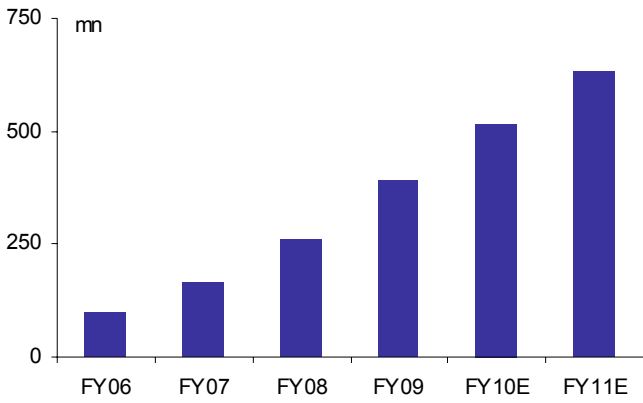
Source: India Infoline Research

Key operating metrics

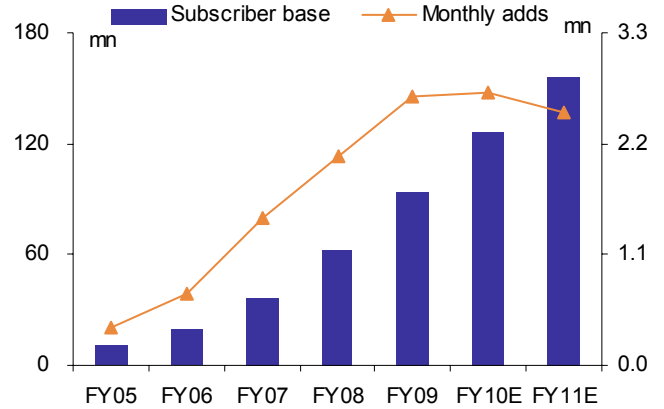
	Q1 FY08	Q2 FY08	Q3 FY08	Q4 FY08	Q1 FY09	Q2 FY09	Q3 FY09	Q4 FY09	Q1 FY10
Wireless base (' 000)									
All India	185,131	209,084	233,625	261,079	286,868	315,312	346,894	391,761	426,948
Bharti	42,704	48,876	55,163	61,985	69,384	77,479	85,651	93,923	102,368
Subscriber adds (' 000)									
All India	22,726	23,953	24,541	27,454	25,789	28,444	31,582	44,867	35,187
Bharti	5,563	6,172	6,287	6,822	7,399	8,095	8,172	8,272	8,445
ARPU	390	366	358	357	350	331	324	305	278
MOU (mins)	478	469	474	507	534	526	505	485	478
Estimated RPM (Re/min)	0.82	0.78	0.76	0.70	0.66	0.63	0.64	0.63	0.58
Total MOU (mn mins)	57,125	64,375	73,840	89,058	105,217	115,834	123,626	130,669	140,713
Telemedia									
Customers (' 000)	1,972	2,075	2,178	2,283	2,394	2,509	2,619	2,726	2,828
Net additions (' 000)	101	103	103	105	111	115	110	107	102
ARPU	1,121	1,150	1,140	1,137	1,138	1,147	1,098	1,071	1,027
Carriers									
NLD (mn mins)	5,856	6,774	7,898	9,398	10,322	11,349	11,609	11,690	11,781
ILD (mn mins)	1,243	1,345	1,591	1,850	2,048	2,284	2,603	2,772	2,869
Total mins	68,678	77,090	87,933	105,042	122,429	134,469	142,588	149,868	160,109

Source: Company, India Infoline Research

Wireless base seen at 630mn by Mar' 11

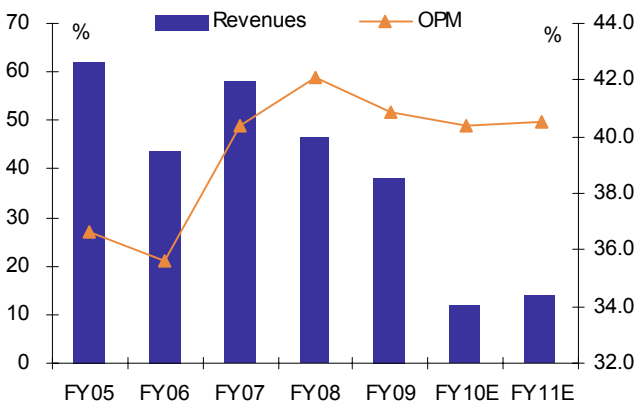


Bharti market share pegged at 25%

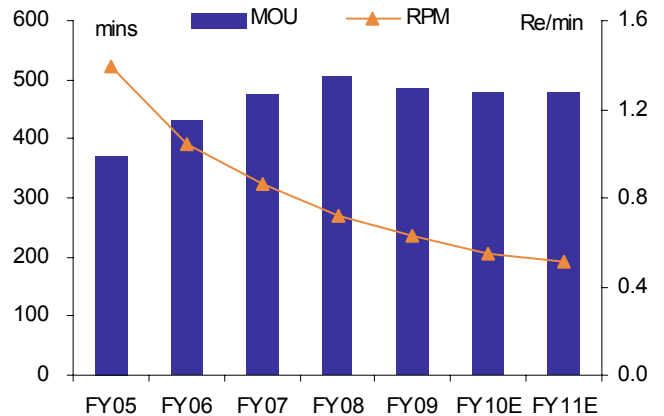


Source: Company, India Infoline Research

Revenue growth may slow down in FY10

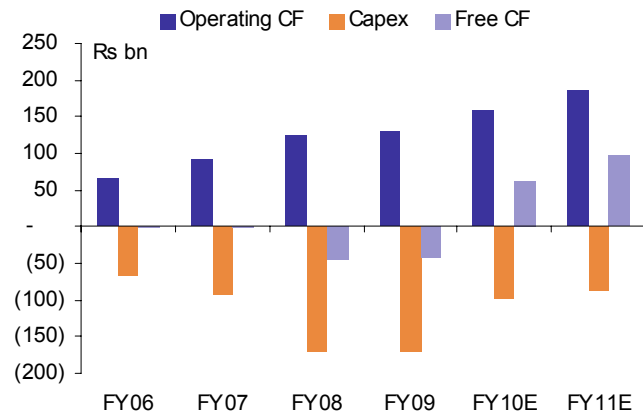


Lower RPM to keep ARPUs under pressure

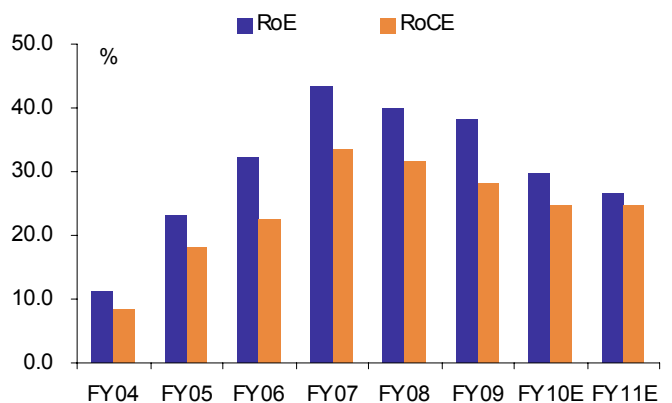


Source: Company, India Infoline Research

Bharti may post free CF in FY10



Return ratios to trend lower but still healthy



Source: Company, India Infoline Research

Upgrade to BUY on EPS revision, higher PER; MTN looms

Based on FY10 run rate so far, we revise upwards our subscriber estimates and accordingly increase our FY11E revenues and earnings forecast by 4% and 14% respectively. We have factored in gradual decline in net retention/min and consequently ARPUs are likely to drop 7% in FY11 on the back of a 14% decline in current fiscal. We upgrade the stock to BUY with revised TP of Rs453 (earlier Rs388) on earnings revision and higher PER multiple.

Revise FY11E EPS by 14% and upgrade to BUY; MTN deal likely to remain a key overhang on the stock

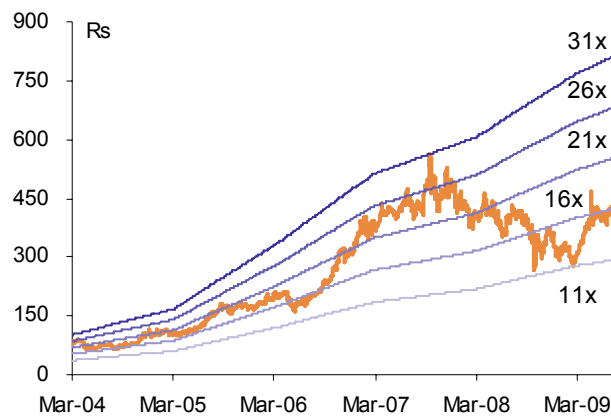
The contours of any potential merger deal with MTN (~80% of Bharti's Mcap) remains a key overhang on the stock.

Revision summary

Rs mn	Revised		Earlier	
	FY10E	FY11E	FY10E	FY11E
Revenues	417,594	476,375	415,380	458,097
Operating profit	168,708	192,932	165,321	182,781
OPM (%)	40.4	40.5	39.8	39.9
PAT	100,016	115,692	89,647	101,214
EPS	24.5	28.4	22.0	24.8

Source: India Infoline Research

1-yr fwd PE band



Source: India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenue	270,122	373,521	417,594	476,375
Operating profit	113,700	152,638	168,708	192,932
Depreciation	(38,102)	(49,639)	(55,704)	(62,742)
Interest expense	(3,642)	(3,173)	(3,942)	(492)
Other income	3,379	4,116	4,322	4,538
Profit before tax	75,334	103,943	113,384	134,236
Taxes	(8,161)	(5,468)	(11,338)	(16,108)
Minority Interest	(1,000)	(1,852)	(2,029)	(2,435)
Adj. profit	66,173	96,622	100,016	115,692
Exceptional items	(2,219)	(18,033)	0	0
Net profit	63,954	78,589	100,016	115,692

Balance sheet

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Equity capital	19,555	20,391	20,391	20,391
Reserves	197,688	270,888	363,869	467,837
Net worth	217,244	291,279	384,260	488,228
Minority int	10,142	12,298	12,912	13,558
Debt	96,017	135,171	120,171	78,678
Def. tax lia	2,729	(293)	0	0
Total lia	326,133	438,455	517,344	580,464
Fixed assets	322,418	446,179	487,513	511,711
Intangibles	38,776	34,744	34,744	34,744
Investments	48,097	23,490	23,490	23,490
Net wkg cap	(83,160)	(65,958)	(28,401)	10,520
Inventories	1,142	963	2,288	2,610
S. debtors	28,398	28,998	33,179	39,154
Cash	7,034	27,660	69,018	114,866
Other CA	28,403	62,087	70,991	80,984
Sundry creditors	(103,223)	(118,869)	(146,444)	(161,837)
Other CL	(44,915)	(66,796)	(57,433)	(65,257)
Total assets	326,133	438,455	517,344	580,464

Cash flow statement

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Profit before tax	75,334	103,943	113,384	134,236
Dep & Amort	38,102	49,639	55,704	62,742
Tax paid	(8,161)	(5,468)	(11,338)	(16,108)
Working capital Δ	22,501	3,423	3,802	6,926
Other op. items	(3,219)	(19,885)	(2,029)	(2,435)
Operating CF	124,924	128,631	159,815	185,360
Capital exp	(169,544)	(169,368)	(97,037)	(86,940)
Free cash flow	(44,620)	(40,737)	62,778	98,420
Equity raised	38,406	(112)	(0)	-
Debt financing/disp	43,159	39,154	(15,000)	(41,493)
Dividends paid	-	(4,442)	(7,035)	(11,725)
Net Δ in cash	(1,487)	20,626	41,358	45,848

Key ratios

Y/e 31 Mar	FY08	FY09	FY10E	FY11E
Growth matrix (%)				
Revenue growth	46.6	38.3	11.8	14.1
Op profit growth	52.9	34.2	10.5	14.4
EBIT growth	59.2	35.6	9.5	14.8
Net profit growth	61.8	46.0	3.5	15.7
Profitability ratios (%)				
OPM	42.1	40.9	40.4	40.5
EBIT margin	29.2	28.7	28.1	28.3
Net profit margin	24.5	25.9	24.0	24.3
RoCE	31.7	28.0	24.6	24.5
RoNW	39.8	38.0	29.6	26.5
RoA	17.6	17.6	14.9	15.1

Per share ratios

EPS	16.9	23.7	24.5	28.4
Dividend per share	0.0	0.9	1.5	2.5
Cash EPS	25.8	35.2	38.2	43.8
Book value per share	55.5	71.4	94.2	119.7

Payout (%)

Dividend payout	0.0	4.6	7.0	10.1
Tax payout	10.8	5.3	10.0	12.0

Liquidity ratios

Debtor days	38	28	29	30
Inventory days	2	1	2	2
Creditor days	139	116	128	124

Leverage ratios

Interest coverage	21.7	33.8	29.8	273.7
Net debt / equity	0.4	0.4	0.1	(0.1)
Net debt / op. profit	0.8	0.7	0.3	(0.2)

Component ratios (%)

Access charges	15.2	14.2	14.0	14.0
Network operating	12.0	16.7	17.0	17.0
Lic. & spectrum charges	10.0	10.2	10.0	10.0
Staff cost	5.3	4.6	4.8	4.8
Sales & Marketing	7.2	6.6	6.6	6.5
Other expenditure	8.2	6.9	7.2	7.2

Du-Pont Analysis

Y/e 31 Mar	FY08	FY09	FY10E	FY11E
Tax burden (x)	0.88	0.93	0.88	0.86
Interest burden (x)	0.95	0.97	0.97	1.00
EBIT margin (x)	0.29	0.29	0.28	0.28
Asset turnover (x)	0.72	0.68	0.62	0.62
Financial leverage (x)	2.26	2.16	1.99	1.75
RoE (%)	39.8	38.0	29.6	26.5

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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