

Bharti Airtel Ltd (Q2 FY09)

November 03, 2008

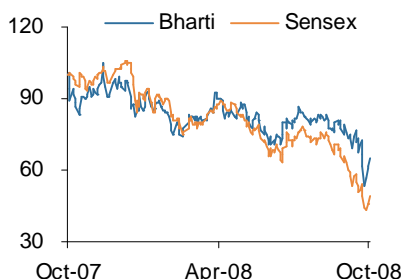
Stock data

Sensex:	9,788
CMP (Rs):	649
Target price (Rs):	730
Upside (%):	12.5
52 Week h/l (Rs):	1,149/484
Market cap (Rs cr)	123,187
6m Avg vol BSE&NSE ('000 nos):	5,174
No of o/s shares (mn):	1,898
FV (Rs):	10
Bloomberg code:	BHARTI IN
Reuters code:	BRTI.BO
BSE code:	532454
NSE code	BHARTIARTL

Shareholding pattern

September 2008	(%)
Promoters	67.0
Foreign & institutions	29.3
Non promoter corp hold	2.3
Others	1.4

Share price trend



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- Q2 sales up 41% yoy on largest ever net subscriber adds; Long Distance (LD) revenues jump 69% yoy
- ARPU declines 5.4% qoq, the largest fall in four quarters; MOU down 1.5% qoq probably due to seasonal variations
- Steep 430bps yoy rise in network opex leads to 170bps yoy drop in margins
- Profit remains flat yoy on account of charges due to derivatives & FX fluctuation
- Leadership position in wireless business with 34.8% subscriber CAGR, impressive return ratios available at reasonable valuations; Maintain BUY

Bharti Q2 revenues up 41% yoy on robust wireless and LD sales

Bharti added record 8mn subscribers in Q2, a jump of 9.4% qoq which led to robust 43.6% yoy rise in wireless revenues while Long Distance sales also surged 69.2% yoy.

ARPU's fall most in four quarters; MOU witnesses a rare drop qoq

Q2 ARPU's declined by 5.4% qoq indicative of a secular downtrend as companies expand in to rural areas and acquire subscribers who initially could have low usage propensities. MOU/subscriber also witnessed a rare drop of 1.5% qoq, probably on account of seasonal variations, though the decline comes on the heels of robust sequential jumps in previous two quarters.

Steep rise in network opex dents margin 170bps yoy

With expansion in to far-flung rural areas, diesel usage has gone up since grids take time to provide electricity connections. This results in higher energy costs pushing up network opex and consequent pressure on margins which declined 170bps yoy.

PAT growth flat on derivatives/FX fluctuation charge

Hitherto the company followed Schedule VI of Companies Act and capitalized FX fluctuation on loans/liability for fixed assets but, wef from April 1, 2008, it has now switched to AS-11 and charges such fluctuations to P/L resulting in reduced PAT for the quarter. If earlier policy had been followed, PAT for the quarter would have been higher by Rs4.2bn.

Results table

Period	Q2 FY09	Q2 FY08	% yoy	Q1 FY09	% qoq
(Rs mn)	(3)	(3)		(3)	
Revenues	89,236	63,249	41.1	85,060	4.9
Expenditure	(53,284)	(36,676)	45.3	(50,375)	5.8
Operating profit	35,951	26,573	35.3	34,685	3.7
Other income	292	618	(52.8)	616	(52.6)
Interest	(10,996)	78	-	945	-
Depreciation	(11,022)	(8,813)	25.1	(9,972)	10.5
PBT	14,226	18,456	(22.9)	26,275	(45.9)
Tax	2,921	(1,825)	-	(4,175)	-
PAT	17,147	16,631	3.1	22,100	(22.4)
Minority Int.	(465)	(193)	141.1	(433)	7.4
Adj. PAT	16,681	16,438	1.5	21,667	(23.0)
EPS* (Rs)	35.2	34.6	-	45.7	-

Source: Company
 * Annualized

Consolidated segment revenues

Segmental revenues	Q2 FY09	Q2 FY08	% yoy	Q1 FY09	% qoq
Period to	(3)	(3)		(3)	
Mobile	72,994	50,840	43.6	69,205	5.5
Telemedia services	8,436	7,123	18.4	7,974	5.8
Long Distance	17,078	10,091	69.2	15,751	8.4
Enterprise services	3,912	3,481	12.4	4,258	(8.1)
Passive Infrastructure services	12,279	-		10,558	-

Source: Company

Management commentary remains bullish

In its post earnings call, Bharti management maintained that telecom sector fundamentals remain robust despite a marginal slowdown in GDP growth, evident from the near record 10mn subscribers added in September 2008. With a reach of 1mn retail outlets, the company believes growth remains sustainable especially as incremental additions are from semi-urban and rural areas wherein a mobile is often the only mode of communication. The company turned Free Cash Flow positive for the first time since inception in the quarter and going forward as capex tapers off, it indicated the money could be used for acquisitions or returned to shareholders.

Wireless leadership position, balance sheet strength key positives: Maintain BUY

Bharti has guided for a capex of US\$3.5bn for FY09, including US\$1bn on subsidiary Infratel expansion plans to ramp up population coverage to 80-85%. We revise upwards our Bharti wireless base assumption to about 112mn subscribers by FY10E from earlier 103mn but have factored in margin decline in the next two years. Non-wireless segments viz enterprise business and telemedia are also expected to witness firm growth with the latter estimated to have a 3.3mn subscriber base by FY10E. Indus Towers, a three way JV with Vodafone Essar and Idea, would aid in faster network roll out in 16 circles and lower capex for the company to that extent. We estimate enterprise value of Indus Towers at about US\$10.2bn.

As network coverage reaches a majority of population, we estimate mobile capex to gradually taper off which implies company would have strong cash positions going forward (C&CE at US\$1.1bn by FY10E) which could be used for inorganic growth (as indicated in earnings call) or to bid aggressively in likely 3G auctions. Maintain BUY but with a reduced price target of Rs730. The company remains our top pick in the sector.

Financial snapshot

y/e March, Rs mn	FY07	FY08	FY09E	FY10E
	(12)	(12)	(12)	(12)
Revenues	184,202	270,122	364,954	448,356
yoy growth (%)	57.9	46.6	35.1	22.9
Operating profit	74,344	113,700	147,442	180,688
OPM (%)	40.4	42.1	40.4	40.3
PAT	40,621	63,954	90,041	114,735
yoy growth (%)	100.3	57.4	40.8	27.4
EPS (Rs)	21.1	32.7	46.0	58.7
P/E (x)	30.8	19.8	14.1	11.1
P/BV (x)	10.9	5.8	4.1	3.0
EV/EBITDA (x)	17.4	11.9	9.1	7.2
ROE (%)	35.4	29.4	29.3	27.2
ROCE (%)	30.4	26.1	28.2	27.6

Source: Company, India Infoline Research

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