

Equities

22 June 2011 | 16 pages

Bharti Airtel (BRTI.BO)

Market Share Loss – More Than Just a Leader’s Curse

- Bharti’s top line has been slower than peers** — Bharti’s topline has grown slower v/s peers (Voda/Idea) over the last few qtrs; generally attributed to scale, and a lesser extent to its less aggressive pricing approach. A deeper analysis over last 10qtrs, in their top 5 circles (45-55% of revs) suggests Bharti has a) grown top-line slower in its biggest circles b) lost rev/share across more circles (4/5 v/s 1/5 & 1/5 for Idea/Voda); and 3) GSM peers have done relatively better in key overlapping circles.
- Revenue share loss in 4/5 top circles** – While Bharti’s overall revenue growth at 1.4% has lagged peers (Voda – 2.6%, Idea- 3.9%), it has lost share in 4/5 of its largest circles; ranging from 180-590bps (Karnataka, its biggest market -11% of rev, lost 300bps). In contrast, Idea/Voda have lost mkt share in only 1/5 of their biggest circles (20/180bps respectively) – with revenue share gains of 110-470bps (Vodafone) and 120-660bps (Idea) respectively, in the remaining 4/5 circles. Bharti is losing ground in its biggest sectors – its competitors are gaining share in their own biggest circles.
- Idea & Vodafone have done better where they lead or overlap** — Idea, even its largest circle (Maharashtra), saw higher topline (4.4% v/s 1% for Bharti in last 10 qtrs). Vodafone too has done better in overlapping circles (TN/Delhi) - gaining 360/470bps rev share v/s Bharti’s 180/590 loss. Interestingly even in Mumbai, Vodafone’s rev share loss (180bps) is low compared to Bharti (310bps). Bottom-line, Bharti’s revenues have lost ground to its major and marginal competitors.
- Combination of premium pricing and a reluctance to match competition** – In our view, Bharti’s sub-par performance is because of its reluctance to match tariffs, even as competition does so. It’s imputed ARPU (even in circles where it lags Idea/Voda), has been at a premium to peers; potentially leaving it susceptible even in a stable pricing market. Most recent data (4Q11) suggests some rebalancing by Bharti (7% ARPU fall in top 5 circles; 2-4% for Voda/Idea), but further risks remain.
- Some further trade-off ahead?** – We believe some of the premium pricing pain has already been borne by Bharti – but some risks remain given its still premium pricing / ARPU (30% higher), and recent revenue trends vis-à-vis its primary competitors.

Company Update

Buy/Low Risk	1L
Price (21 Jun 11)	Rs396.20
Target price	Rs415.00
Expected share price return	4.7%
Expected dividend yield	0.5%
Expected total return	5.2%
Market Cap	Rs1,504,581M US\$33,435M

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



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2009A	84,700	22.31	26.4	17.8	4.9	32.2	0.3
2010A	91,025	23.97	7.4	16.5	3.6	25.4	0.3
2011E	66,509	17.51	-26.9	22.6	3.2	15.0	0.4
2012E	84,394	22.22	26.9	17.8	2.8	16.6	0.9
2013E	112,284	29.57	33.0	13.4	2.4	19.3	1.8

Source: Powered by dataCentral

Gaurav Malhotra, CFA

 +91-22-6631-9885
gaurav.a.malhotra@citi.com

Ravi Sarathy

 +852-2501-2773
ravi.sarathy@citi.com

Jitender Tokas

jitender.tokas@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	17.8	16.5	22.6	17.8	13.4
EV/EBITDA adjusted (x)	10.4	9.9	8.7	8.0	6.7
P/BV (x)	4.9	3.6	3.2	2.8	2.4
Dividend yield (%)	0.3	0.3	0.4	0.9	1.8
Per Share Data (Rs)					
EPS adjusted	22.31	23.97	17.51	22.22	29.57
EPS reported	22.31	23.97	17.51	22.22	29.57
BVPS	80.06	108.94	124.54	142.60	164.18
DPS	1.00	1.20	1.70	3.70	7.10
Profit & Loss (RsM)					
Net sales	369,616	396,150	549,947	670,760	748,746
Operating expenses	-265,518	-296,340	-442,379	-535,602	-585,122
EBIT	104,098	99,810	107,568	135,157	163,624
Net interest expense	-11,613	5,782	-20,122	-26,081	-18,701
Non-operating/exceptionals	589	1,386	0	0	0
Pre-tax profit	93,074	106,978	87,446	109,076	144,923
Tax	-6,615	-13,959	-17,928	-22,537	-31,880
Extraord./Min.Int./Pref.div.	-1,759	-1,994	-3,009	-2,145	-759
Reported net income	84,700	91,025	66,509	84,394	112,284
Adjusted earnings	84,700	91,025	66,509	84,394	112,284
Adjusted EBITDA	150,086	156,531	210,157	258,094	294,434
Growth Rates (%)					
Sales	36.8	7.2	38.8	22.0	11.6
EBIT adjusted	36.2	-4.1	7.8	25.6	21.1
EBITDA adjusted	32.6	4.3	34.3	22.8	14.1
EPS adjusted	26.4	7.4	-26.9	26.9	33.0
Cash Flow (RsM)					
Operating cash flow	140,432	132,149	248,214	264,895	254,758
Depreciation/amortization	45,988	56,721	102,589	122,937	130,810
Net working capital	1,404	-10,706	55,985	29,338	-7,795
Investing cash flow	-143,340	-102,048	-827,855	-107,077	-106,704
Capital expenditure	-146,406	-102,296	-287,405	-107,077	-106,704
Acquisitions/disposals	2,066	413	-540,450	0	0
Financing cash flow	7,230	-27,344	531,366	-42,903	-61,361
Borrowings	3,795	-21,335	564,710	-8,395	-20,784
Dividends paid	0	-4,442	-7,263	-15,808	-30,333
Change in cash	4,321	2,757	-48,275	114,915	86,694
Balance Sheet (RsM)					
Total assets	596,391	646,409	1,354,661	1,450,391	1,505,548
Cash & cash equivalent	49,070	77,034	34,718	142,251	220,487
Accounts receivable	28,528	24,335	54,329	57,529	53,558
Net fixed assets	449,499	496,483	1,207,528	1,191,669	1,167,563
Total liabilities	281,742	204,220	850,217	875,216	847,665
Accounts payable	0	0	0	0	0
Total Debt	118,800	64,619	629,329	620,934	600,149
Shareholders' funds	314,649	442,189	504,444	575,177	657,887
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	40.6	39.5	38.2	38.5	39.3
ROE adjusted	32.2	25.4	15.0	16.6	19.3
ROIC adjusted	28.9	20.6	11.6	10.4	12.5
Net debt to equity	22.2	-2.8	117.9	83.2	57.7
Total debt to capital	27.4	12.8	55.5	51.9	47.7

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Bharti's slower topline: How much is due to scale?

Bharti's topline growth has been slower compared to GSM incumbents (Vodafone/Idea) in the past few quarters. In addition, it has also lost 230bps revenue market share (pan-India) since 2QFY09 v/s gains of 290/190bps by Idea/Vodafone respectively. The slower topline growth has generally been attributed to its larger scale while the consolidated revenue share gains for Vodafone/Idea have been linked to their new circle launches.

We analyse TRAI data (from 2QFY09 to 4QFY11) which provides excellent granularity of circle-wise operator revenues. We drill deeper to the circle level to analyze how much to attribute the growth/rev share movement to these arguments. In order to normalize for scale distortions, we have taken the top 5 circles, which together account for 45-55% of each operator's revenues. These circles include

1. **Bharti** – Karnataka, Delhi, Andhra Pradesh, Tamil Nadu, Bihar
2. **Vodafone** – Delhi, Gujarat, Mumbai, Tamil Nadu, UP(E)
3. **Idea** – Maharashtra, Andhra Pradesh, Kerala, Madhya Pradesh, UP(W)

Please note that we have clearly highlighted in the report if the data points/analysis is on a consol basis for the telcos

#1 Bharti lost rev market share in 4/5 top circles

Bharti has lost 180-590bps revenue share in 4 of the top 5 circles. The largest revenue contributor (Karnataka; 11% of revenues) has witnessed a 300bps loss. The only circle that saw some improvement has been Andhra Pradesh (180bps). Vodafone and Idea on the other hand have witnessed revenue share losses (20/180bps) in only 1 of their 5 circles – Vodafone in Mumbai (10% of revenues) and Idea in AP (10% of revenues). Revenue share gains in the other circles meanwhile have been 110-470bps and 120-660bps for Vodafone and Idea respectively.

Expanding this beyond the top 5 circles, Bharti has lost revenue share in 15/22 circles (160-1040 bps); Idea/Vodafone on the other hand have lost in only 1/22 (20bps) and 4/22 circles (180-540bps) respectively.

Bharti saw revenue share losses across 4 of its 5 largest circles. Across India, the company lost revenue share in 15/22 circles.

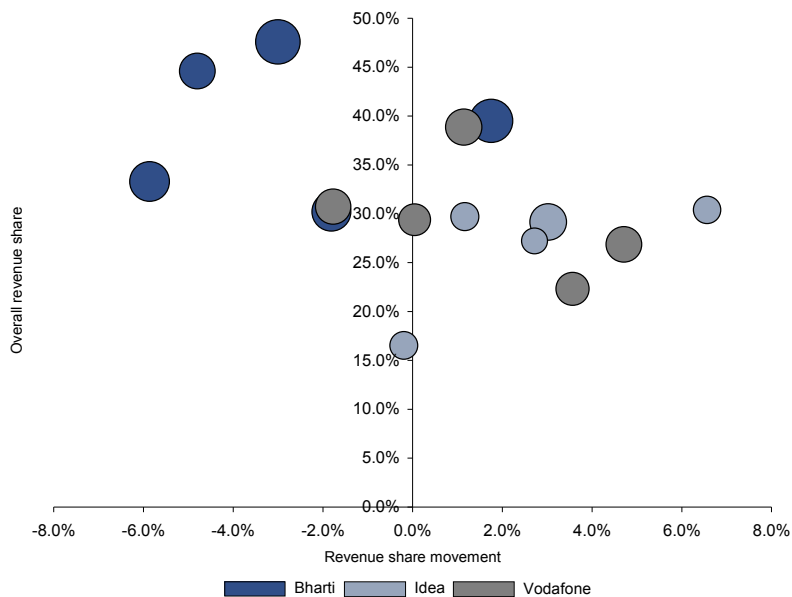
Vodafone and Idea saw revenue share losses in only 1/5 key circles. Overall Idea witnessed revenue share loss in 1/22 circles; Vodafone saw losses in 4/22 circles

Figure 1. Revenue share trends (gains/losses) over 2Q09-4Q11

	Bharti	Idea	Vodafone
AP	1.8%	-0.2%	-2.4%
Assam	2.7%	1.9%	9.4%
Bihar	-4.8%	9.1%	9.9%
Kolkata	-7.1%	2.8%	0.5%
Gujarat	-1.6%	1.3%	1.1%
Haryana	-2.8%	1.3%	4.6%
HP	-10.4%	1.9%	6.7%
J&K	-27.2%	1.8%	7.3%
Karnataka	-3.0%	1.9%	-2.1%
Kerala	-2.7%	6.6%	4.4%
MP	-5.5%	1.2%	4.4%
Maharashtra	-4.5%	3.0%	6.1%
NE	3.1%	2.1%	9.0%
Orissa	-7.8%	3.2%	9.3%
Punjab	0.9%	1.5%	3.4%
Rajasthan	5.8%	4.0%	1.7%
TN	-1.8%	1.7%	3.6%
UP (E)	1.7%	4.9%	0.0%
UP (W)	0.9%	2.7%	0.7%
WB	-4.8%	2.5%	-5.4%
Delhi	-5.9%	0.7%	4.7%
Mumbai	-3.1%	6.6%	-1.8%

Source: Citi Investment Research and Analysis

Figure 2. Revenue share movement v/s absolute revenue share across circles (bubble size denotes actual revenue from each circle)

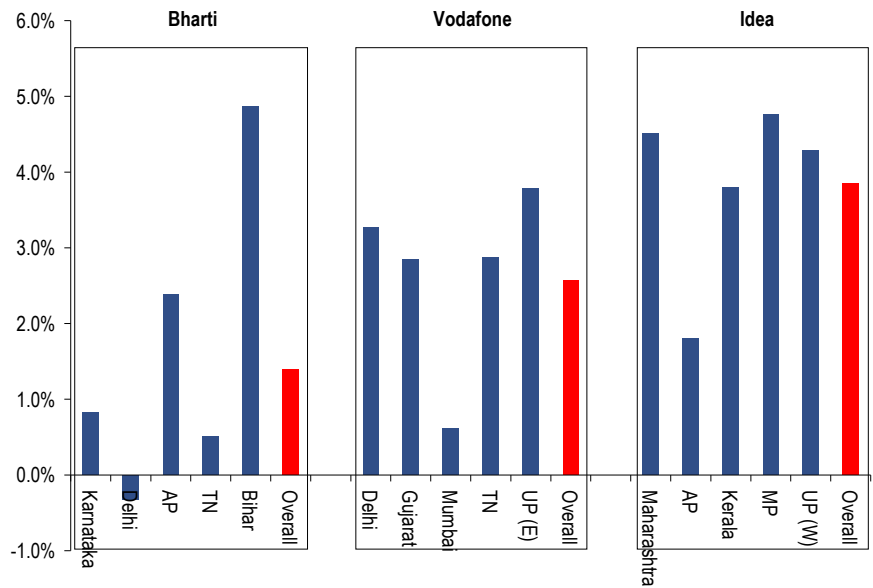


Source: Citi Investment Research and Analysis

#2 Slower top line growth v/s peers

1. Bharti's revenues grew 1.4% CQGR in its top 5 circles over 2Q09 to 4Q11 with the top 2 circles (Karnataka/Delhi; 21% of revenues) witnessing 0.8%/small decline in the same time period.
2. Vodafone's revenue on the other hand grew 2.6%. Gujarat, which is its largest circle (10% of revenue), grew 2.8% with even a saturated market like Mumbai growing 0.6%. Bharti, in contrast, saw revenue growth of only 1.7% in Gujarat and -0.4% in Mumbai.
3. Idea's revenues grew 3.9%; CQGR growth in Maharashtra (17% of revenues) came in even higher at 4.5% vis-à-vis 1.2% for Bharti.

Figure 3. Circle-level revenue growth (2Q09-4Q11)



Source: Citi Investment Research and Analysis

Figure 4. Revenue trends across the top 5 circles

	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	CQGR: 2Q09-4Q11
Bharti												
Karnataka	9,814	10,269	10,403	10,251	10,038	9,846	10,077	10,626	10,134	10,401	10,655	0.8%
Delhi	8,771	8,848	8,887	8,677	8,732	8,639	8,542	9,160	9,127	9,472	8,485	-0.3%
AP	7,981	8,568	8,870	8,939	8,826	8,532	8,888	9,575	9,437	9,716	10,105	2.4%
TN	7,709	8,136	8,232	8,279	8,471	8,093	8,125	8,526	8,609	8,884	8,111	0.5%
Bihar	4,307	4,766	5,338	5,561	5,425	5,382	5,936	6,451	6,343	6,422	6,924	4.9%
Total	38,582	40,587	41,729	41,707	41,493	40,493	41,568	44,337	43,649	44,895	44,279	1.4%
% of rev	48.2%	46.7%	46.9%	46.8%	47.3%	47.2%	47.5%	47.6%	47.6%	47.2%	46.4%	
Vodafone												
Delhi	4,963	5,332	5,411	5,160	5,365	5,445	5,769	5,858	6,125	6,386	6,847	3.3%
Gujarat	5,420	5,974	6,097	6,100	5,831	6,081	6,299	6,705	6,444	6,914	7,175	2.8%
Mumbai	6,396	6,569	6,249	6,204	6,225	6,356	6,859	6,625	6,820	6,786	6,803	0.6%
TN	4,516	4,798	5,086	5,124	5,086	4,945	5,028	5,309	5,621	5,777	5,993	2.9%
UP (E)	3,803	4,297	4,733	4,857	4,562	4,666	4,913	5,526	5,251	5,314	5,513	3.8%
Total	25,098	26,971	27,576	27,445	27,069	27,491	28,869	30,023	30,262	31,176	32,331	2.6%
% of rev	52.2%	51.6%	50.1%	50.2%	50.3%	49.8%	49.5%	49.0%	49.1%	48.2%	47.8%	
Idea												
Maha	4,695	5,466	5,859	5,781	5,483	5,877	6,157	6,465	6,212	6,922	7,298	4.5%
AP	3,536	3,839	4,030	3,938	3,730	3,648	3,612	3,870	3,857	4,039	4,229	1.8%
Kerala	2,835	3,272	3,449	3,496	3,487	3,438	3,511	3,657	3,832	4,028	4,115	3.8%
MP	2,712	2,910	3,189	3,334	3,210	3,248	3,537	3,904	3,695	3,948	4,317	4.8%
UP (W)	2,386	2,723	2,920	2,957	2,983	3,146	3,198	3,467	3,271	3,459	3,630	4.3%
Total	16,164	18,211	19,448	19,505	18,893	19,357	20,015	21,364	20,866	22,396	23,588	3.9%
% of rev	61.3%	60.9%	61.1%	60.9%	59.3%	57.4%	57.2%	57.1%	56.1%	55.2%	54.8%	

Source: Citi Investment Research and Analysis

#3 Vodafone/Idea have done better

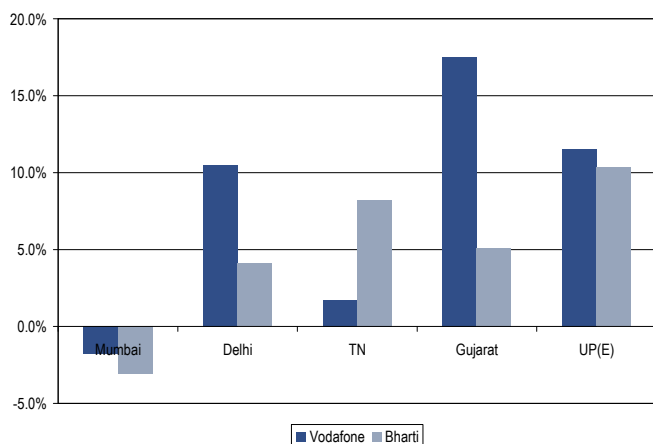
We analyse Bharti's revenue trends in circles where Idea/Vodafone have the highest revenue market share. Both Idea and Vodafone are leaders in 3 out of their top 5 circles. This is done to see if the largest revenue share necessarily translates into higher revenue share loss from competition. The circles for Idea and Vodafone include

1. **Vodafone** – Gujarat, Mumbai, UP(E)
2. **Idea** – Maharashtra, MP and Kerala

Vodafone in Gujarat saw revenue share expand 110bps v/s a 160bps loss for Bharti. Mumbai too saw only 180bps rev share loss for Vodafone compared to a 310bps loss for Bharti.

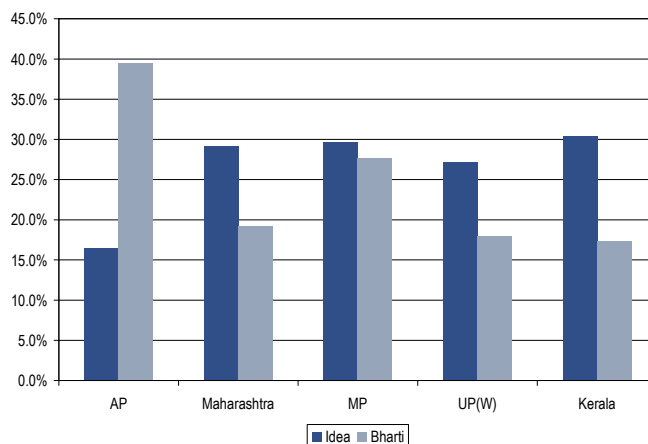
The same trend has been witnessed in case of Idea as well – Idea improved its revenue share in Maharashtra (its highest revenue contributor) by 300bps v/s 450bps loss for Bharti. MP too saw 120bps improvement for Idea v/s 550bps loss for Bharti.

Figure 5. Voda/Bharti rev share trend in Voda's top circles (2Q09–4Q11)



Source: Citi Investment Research and Analysis

Figure 6. Idea/Bharti rev share trend in Idea's top circles (2Q09–4Q11)



Source: Citi Investment Research and Analysis

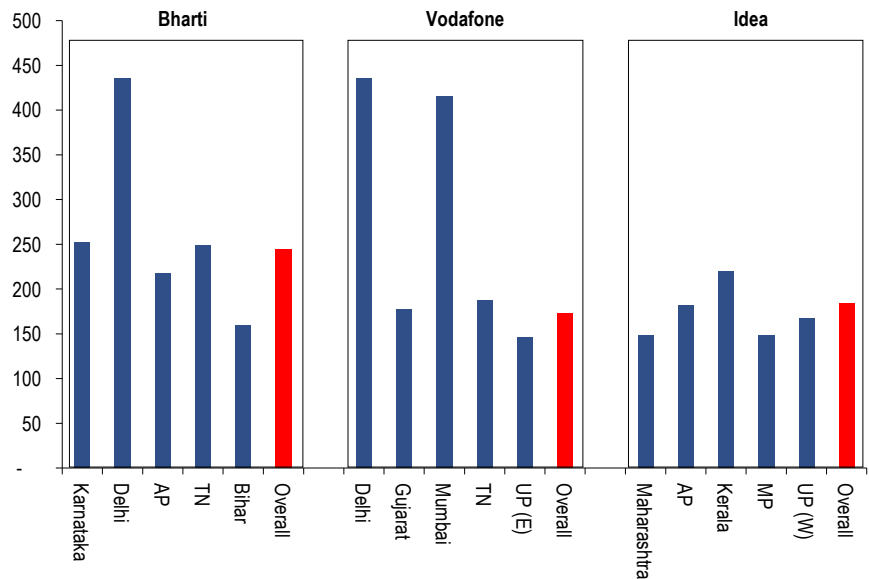
Bharti's slower revenue growth seems to be from its reluctance to completely match competition tariffs/offers. This gets reflected in its circle level imputed ARPUs, which are at a premium to other GSM incumbents

Reluctance, not scale, behind these trends

The above trends highlight that Bharti's slower revenue growth is not due to its larger scale. In our view the key reason behind Bharti's sub-par revenue growth has been its reluctance to completely match competition tariffs/offers. This gets reflected in its imputed circle ARPUs, which are at a premium to peers and therefore leave it more susceptible to competition. Analyzing circle-level ARPU data –

1. Bharti's cumulative ARPU in top 5 circles is at a premium to both Vodafone/Idea in their top 5 circles (Rs228/170/177 respectively)
2. It has the highest ARPU (amongst all operators) in its top 5 circles. This however is not surprising given highest market share is typically associated with better subscriber quality (more post-paid subs/better network coverage) ...
3. ... however the company has higher ARPU even in circles where Vodafone/Idea have a larger market share. For example, Bharti has higher ARPU compared to Vodafone in Gujarat (Rs175 v/s171) and UP (E) (Rs153 v/s 142). Meanwhile Idea's ARPU in Maharashtra is also slightly compared to Bharti (Rs195 v/s Rs197). ARPU in MP is Rs141 v/s 151 for Bharti. Below charts highlights the ARPU trends of Bharti v/s Idea and Vodafone in their top circles.

Figure 7. Bharti has higher ARPU v/s GSM incumbents across key circles

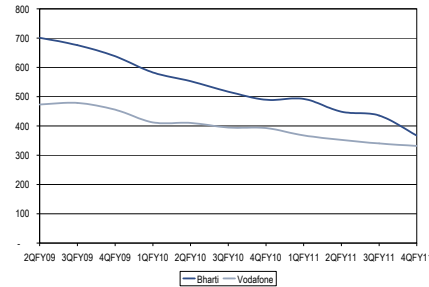


Source: Citi Investment Research and Analysis

Bharti's ARPU is at a 3-30% premium to Vodafone

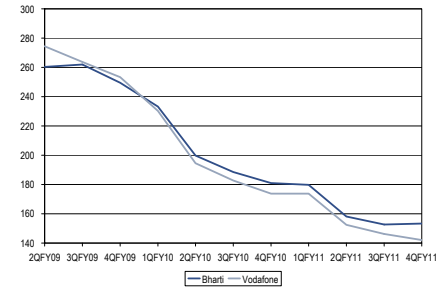
ARPU comparison in Vodafone's key circles

Figure 8. Delhi (Rs)



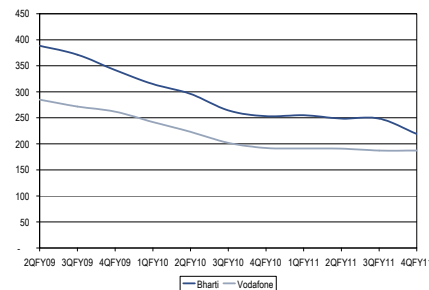
Source: Citi Investment Research and Analysis

Figure 9. UP(E) (Rs)



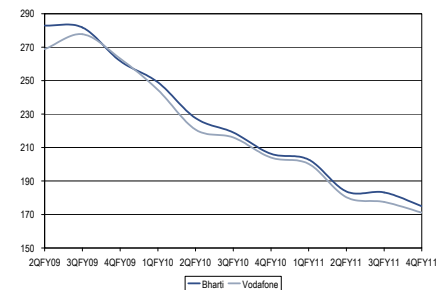
Source: Citi Investment Research and Analysis

Figure 10. Tamil Nadu (Rs)



Source: Citi Investment Research and Analysis

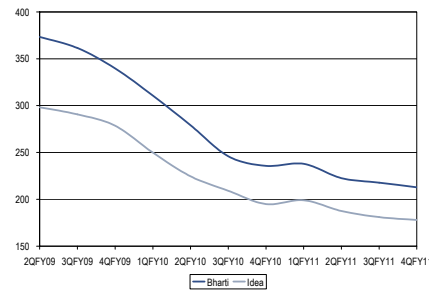
Figure 11. Gujarat (Rs)



Source: Citi Investment Research and Analysis

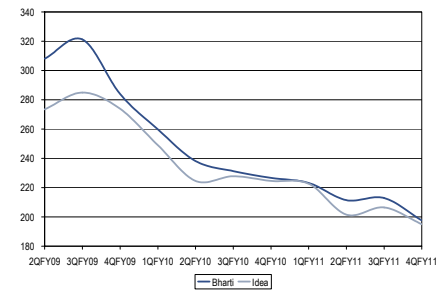
ARPU comparison in Idea's key circles

Figure 12. Andhra Pradesh (Rs)



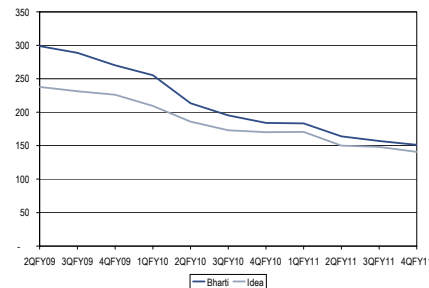
Source: Citi Investment Research and Analysis

Figure 13. Maharashtra (Rs)



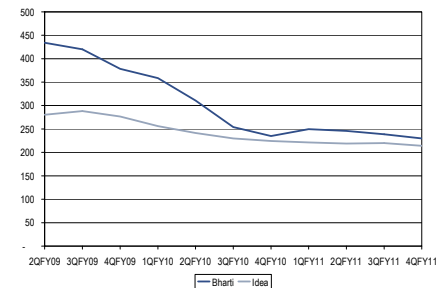
Source: Citi Investment Research and Analysis

Figure 14. Madhya Pradesh (Rs)



Source: Citi Investment Research and Analysis

Figure 15. Kerala (Rs)

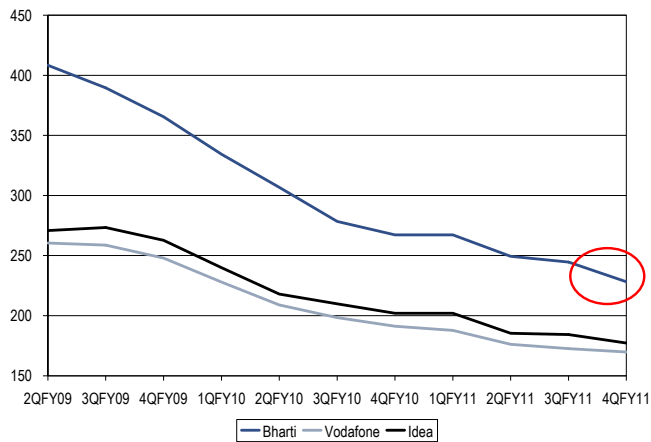


Source: Citi Investment Research and Analysis

Some tariff rebalancing in 4Q

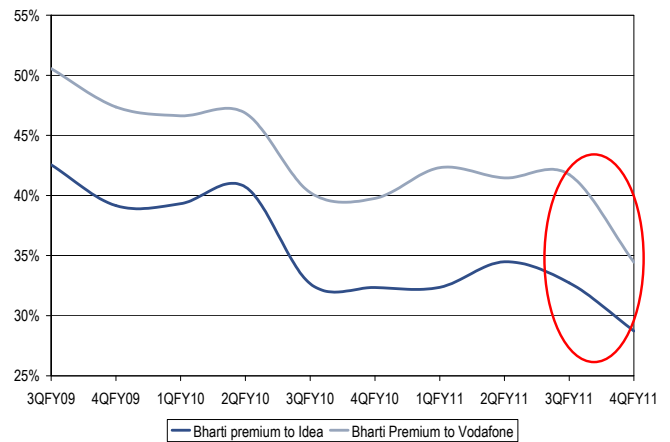
Bharti seems to have undertaken some tariff rebalancing in 4Q'11 to counter the market share losses. It's ARPU in the top 5 circles fell 7% qoq v/s a 2-4% fall for Idea and Vodafone. However the ARPU still remains at a premium (~30%) compared to peers and therefore some risks (to realization) remains especially if the market share losses continue.

Figure 16. Top 5 circle ARPU (Rs) – Bharti seems to have done some tariff rebalancing in 4Q



Source: Citi Investment Research and Analysis

Figure 17. Bharti's premium to Idea/Vodafone in top 5 circles (ARPU)



Source: Citi Investment Research and Analysis

Bharti Airtel

Company description

Bharti Airtel, through its group companies, provides cellular-phone services in all of India's 23 telecom circles. The group also provides fixed-line phone services, broadband, long-distance and enterprise services. It is listed on The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE). Major shareholders are Bharti Telecom, SingTel and Vodafone.

Investment strategy

We rate Bharti Buy/Low Risk (1L) with a target price of Rs415. The domestic business has started showing signs of recovery with stabilizing rev/min. Focus will now shift to volume growth which will become the key for growth as bulk of cost efficiencies are already built in. Our analysis of the usage behavior of subscribers highlights that volume growth should sustain as users mature in the system and we are comfortable with our 20%/14% volume growth for FY12E/13E respectively. Further steady revenue stream of towerco (15% of EPS in the next 2 years) should also provide some stability to the earnings.

Initial signs emanating from Africa have been positive – 1) sub adds have been healthy, 2) revenue growth has revived and 3) tariff cuts have generated usage elasticity. Longer-term positives from cost efficiencies should manifest into healthier margins over the next 6-9 months.

Valuation

Our target price of Rs415 comprises: (i) Core business value of Rs332 based on Mar-11E DCF; (ii) We estimate value accretion from Zain at Rs25/share; (iii) We add the towerco value (100% Infratel + 42% of Indus) at Rs82; and (iv) We reduce the potential cash outgo (Rs24) related to one-time excess spectrum charges and license renewal fees. The DCF is based on a WACC of 11.2%, a terminal growth rate of 3% and beta of 0.8. We prefer DCF as peak capex burden is behind us and the company should start to generate significant free cash flows. The domestic business DCF implies FY12E EV/EBITDA of 8.4x, P/CEPS of 9.0x and P/E of 18.1x.

Risks

Our quantitative risk-rating system, which tracks 260-day share price volatility, rates Bharti shares as Low Risk. We are comfortable with this for the following reasons: 1) Bharti has a track record of profitability and execution; and 2) strong FCF generation notwithstanding the high debt following the Zain acquisition. Downside risks that could impede the stock from reaching our target price include: 1) business disruption through tariff pressures; 2) slower turnaround at Zain; and 3) adverse regulations (low probability in our view).

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Bharti Airtel (BRTI.BO)

Ratings and Target Price History Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010

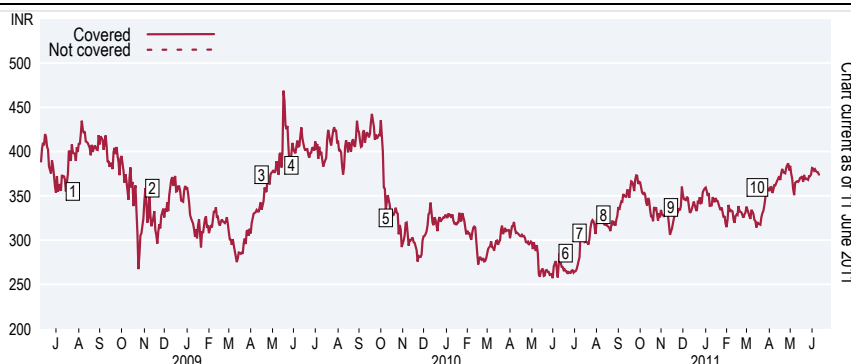


Chart current as of 11 June 2011

	Date	Rating	Target Price	Closing Price
1	24-Jul-08	1L	*535.00	398.98
2	13-Nov-08	1L	*450.00	315.63
3	16-Apr-09	1L	*420.00	334.38
4	28-May-09	1L	*465.00	397.60

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Oct-09	*2L	*370.00	334.65
6	18-Jun-10	2L	*303.00	264.85
7	8-Jul-10	2L	*300.00	280.85
8	11-Aug-10	2L	*350.00	319.70

	Date	Rating	Target Price	Closing Price
9	15-Nov-10	*1L	*400.00	309.50
10	16-Mar-11	1L	*415.00	320.45

Rating/target price changes above reflect Eastern Standard Time

Bharti Airtel (BRTI.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010

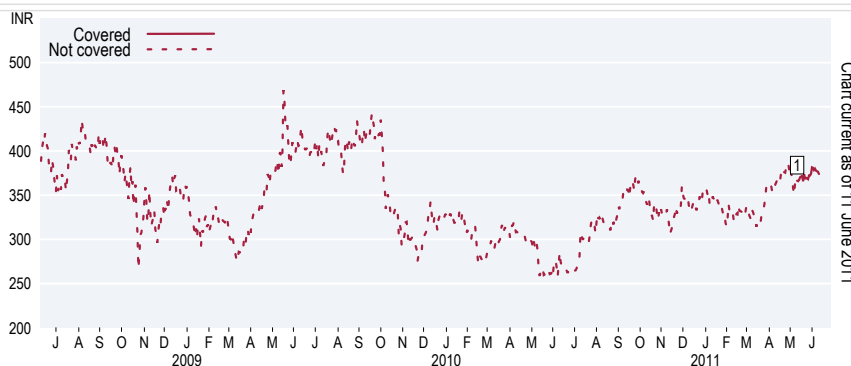


Chart current as of 11 June 2011

	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	366.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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