Bharti Airtel

Performance highlights

(₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Net sales	17,276	16,983	1.7	15,215	13.5
EBITDA	5,815	5,706	1.9	5,121	13.5
EBITDA margin (%)	33.7	33.6	6bp	33.7	0bp
PAT	1,027	1,215	(15.5)	1,662	(38.2)

Source: Company, Angel Research

Bharti Airtel (Bharti) reported a mixed performance for 2QFY2012. The company's revenue came in-line with our expectations, while PAT came below expectations due to higher interest and forex loss. Also, KPIs of India business declined during the quarter, leading to lower revenue growth in India mobile business. Bharti emerged as the first-mover in undertaking price increases in prepaid call charges, the full impact of which will flow from 3QFY2012 and will aid the company's average revenue per minute (ARPM). **We maintain our Accumulate rating on the stock.**

Result highlights: For 2QFY2012, Bharti's consolidated revenue stood at ₹17,276cr (1.7% qoq growth). Revenue from mobile services for India came in at ₹9,783cr, down 0.6% qoq (lower growth than estimated), due to a 4.9% qoq decline in minutes of usage (MOU) to 423min, as call drop rates are higher in 2Q. However, ARPM grew by 0.9% qoq to ₹0.43/min. Zain Africa's contribution to revenue stood at ₹4,591cr, up 4.9% qoq, because of 5.5% qoq growth in MOU to 128min, whereas ARPM declined by 5.4% qoq to 5.7US¢/min. EBITDA margin of mobile India as well as Africa business decreased by 50bp and 45bp qoq to 33.7% and 26.7%, respectively. Consolidated EBITDA margin for Bharti stood at 33.7%, almost flat qoq. Net profit stood at ₹1,027cr, down 15.5% qoq, negatively affected by higher interest cost of ₹1,318cr, which includes forex loss of ₹239cr.

Outlook and valuation: Bharti is on its way to turnaround its Africa business by bringing down its network operating expenditure by outsourcing various network-related developments. Thus, we expect the combination of improving KPIs and cost efficiencies to drive the EBITDA margin for the Africa business to 26.6% and 27.0% by FY2012 and FY2013, respectively. We expect Bharti's Indian and African mobile subscriber base to grow at a CAGR of 8.2% and 16.9% over FY2011-13E to 190.0mn and 60.4mn subscribers, respectively. **We maintain our Accumulate rating on the stock with a target price of ₹425, valuing Bharti at EV/EBITDA of 7.0x FY2013E EBITDA.**

Key financials (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	36,962	41,847	59,467	72,089	83,165
% chg	36.8	13.2	42.1	21.2	15.4
Net profit	8,615	9,108	6,035	5,726	9,412
% chg	27.3	5.7	(33.7)	(5.1)	64.4
EBITDA margin (%)	41.4	40.3	33.7	34.0	35.9
EPS (₹)	22.7	24.0	15.9	15.1	24.8
P/E (x)	17.5	16.6	25.0	26.4	16.1
P/BV (x)	5.0	3.6	3.1	2.8	2.4
RoE (%)	28.3	21.6	12.4	10.6	14.9
RoCE (%)	23.3	17.6	8.2	9.3	12.7
EV/Sales (x)	4.3	3.7	3.6	2.9	2.4
EV/EBITDA (x)	10.3	9.1	10.5	8.7	6.7

Source: Company, Angel Research

ACCUMULATE

CMP	₹398
Target Price	₹425
Investment Period	12 Months

Stock Info	
Sector	Telecom
Market Cap (₹ cr)	151,125
Beta	0.6
52 Week High / Low	445/304
Avg. Daily Volume	480,795
Face Value (₹)	5
BSE Sensex	17,563
Nifty	5,284
Reuters Code	BRTI.BO
Bloomberg Code	BHARTI.IN

Shareholding Pattern (%)	
Promoters	68.3
MF / Banks / Indian FIs	8.7
FII / NRIs / OCBs	17.1
Indian Public / Others	5.8

Abs. (%)	3m	1yr	3yr
Sensex	(0.7)	(15.9)	65.2
Bharti Airtel	(6.0)	21.9	11.0

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Exhibit 1: 2QFY2012 – Financial performance (Consolidated, IFRS)

(₹ cr)	2QFY12	1QFY12	% chg (qoq)	4QFY11	% chg (yoy)	1HFY12	1HFY11	% chg (yoy)
Net revenue	17,276	16,983	1.7	15,215	13.5	34,259	27,446	24.8
Operating expenditure	11,461	11,277	1.6	10,094	13.5	22,738	17,911	27.0
EBITDA	5,815	5,706	1.9	5,121	13.5	11,521	9,535	20.8
Depreciation & amortization	3,184	3,131	1.7	2,579	23.5	6,315	4,526	39.5
EBIT	2,631	2,574	2.2	2,542	3.5	5,206	5,010	3.9
Interest charges	1,119	855	30.8	332	237.1	1,974	752	162.6
Non operating expenditure	-	-	-	0	-	-	(23)	-
Other income	-	-		17		-	72	
PBT	1,513	1,719	(12.0)	2,227	(32.1)	3,232	4,353	(25.7)
Income tax	490	514	(4.7)	568	(13.7)	1,004	943	6.5
PAT	1,023	1,205	(15.2)	1,659	(38.4)	2,228	3,410	(34.7)
Share in earnings of associate	-	-		0		-	(7)	
Minority Interest	(4)	(10)	(55.1)	(2)	91.3	(14)	13	(209.2)
Adj. PAT	1,027	1,215	(15.5)	1,662	(38.2)	2,242	3,404	(34.1)
EPS (₹)	2.7	3.2	(15.4)	6.0	(54.6)	5.9	9.0	(34.1)
EBITDA margin (%)	33.7	33.6	6bp	33.7	0bp	33.6	34.7	(111)bp
EBIT margin (%)	15.2	15.2	7bp	16.7	(148)bp	15.2	18.3	(306)bp
PAT margin (%)	5.9	7.2	(121)bp	10.9	(496)bp	6.5	12.4	(582)bp

Source: Company, Angel Research

Exhibit 2: Actual vs. Angel estimates

(₹ cr)	Actual	Estimate	% Var.
Net sales	17,276	17,091	1.1
EBITDA margin (%)	33.7	32.7	107bp
PAT	1,027	1,208	(15.0)

Source: Company, Angel Research

Mixed performance

For 2QFY2012, Bharti reported moderate revenue growth of 1.7% qoq, with consolidated revenue coming in at ₹17,296cr, as 2Q is seasonally a weak quarter because of the rainy season.

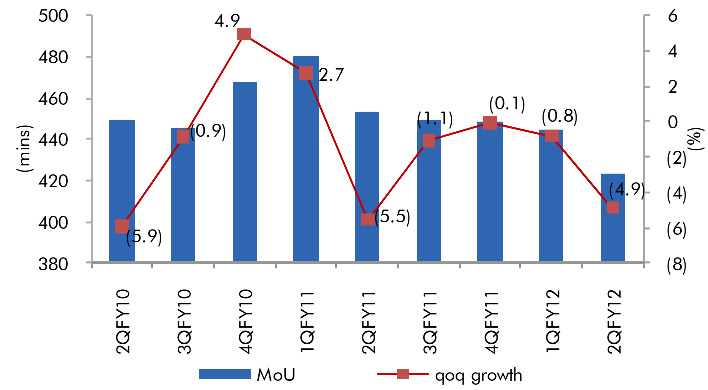
Exhibit 3: Revenue break-up (Business segment wise)

Business segment (₹ cr)	2QFY12	1QFY12	% chg (qoq)	2QFY11	% chg (yoy)
Mobile services–India & South Asia	9,783	9,840	(0.6)	8,805	11.1
Mobile services–Africa	4,591	4,378	4.9	3,891	18.0
Telemedia services	953	946	0.8	912	4.5
Enterprise services	1,104	1,041	6.1	1,042	5.9
Passive infrastructure services	2,377	2,277	4.4	2,116	12.3
Others	406	378	7.4	226	79.6
Eliminations	1,937	1,877	3.2	1,776	9.0
Net revenue	17,276	16,983	1.7	15,215	13.5

Source: Company, Angel Research

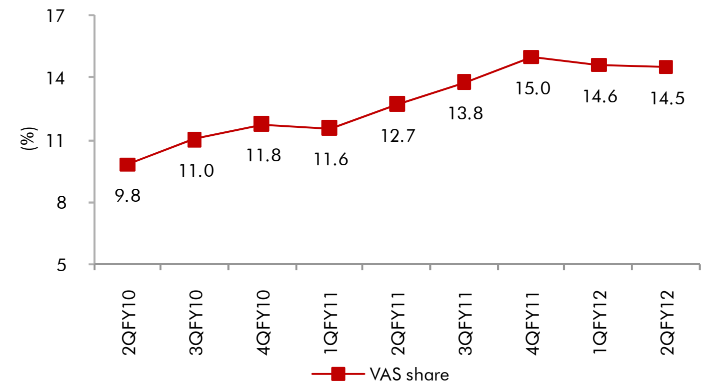
Mobile business – India and South Asia: Revenue of the mobile business – India and South Asia – declined marginally by 0.6% qoq to ₹9,783cr, below our expectation due to the higher-than-expected decline in MOU by 4.9% qoq to 423min, as call drop rates are higher in 2Q due to the rainy season. However, ARPM grew by 0.9% qoq to ₹0.43/min. This negatively affected the company's average revenue per user (ARPU), pulling it down by 3.8% qoq to ₹183/month. Revenue of mobile – India and South Asia – business was also impacted because of the slight decline in value-added services (VAS) share (even when 3G services are launched in all the circles), which decreased to 14.5% in 2QFY2012 from 14.6% in 1QFY2012. In 2QFY2012, the company added 3.6mn subscribers in this segment, taking its total subscriber base to 172.8mn.

Exhibit 4: Trend in MOU (qoq)



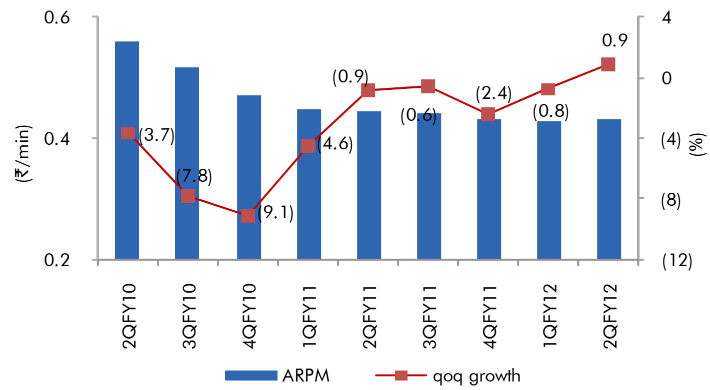
Source: Company, Angel Research

Exhibit 5: Trend in VAS share (qoq)



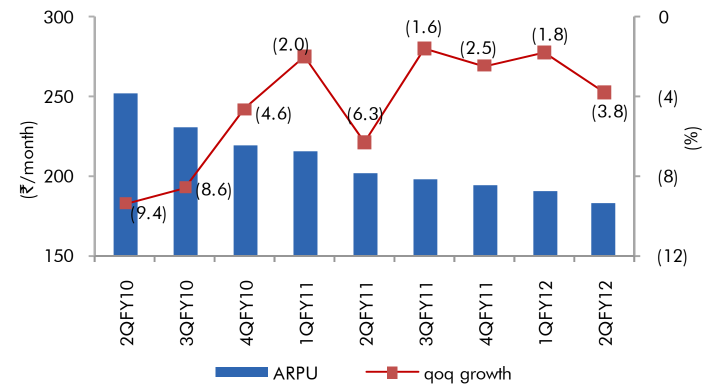
Source: Company, Angel Research

Exhibit 6: Trend in ARPM (qoq)



Source: Company, Angel Research

Exhibit 7: Trend in ARPU (qoq)



Source: Company, Angel Research

Mobile – Africa business: For 2QFY2012, Zain Africa's revenue stood at ₹4,591cr, up 4.9% qoq, aided by a 5.5% qoq increase in MOU to 128min; however, ARPM slipped by 5.4% qoq to 5.7US¢/min as against 6.0US¢/min in 1QFY2012. In 2QFY2012, net subscriber addition was strong for Zain Africa at 2.1mn, taking its subscriber base to 48.4mn subscribers.

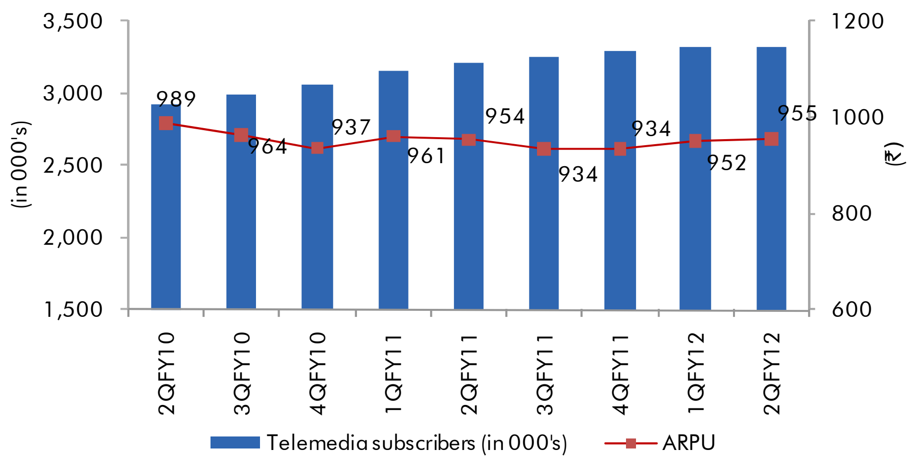
Exhibit 8: Operating metrics for Zain Africa

	2QFY12	1QFY12	*% chg qoq*	2QFY11	*% chg yoy*
ARPM (US¢/min)	5.7	6.0	*(5.4)*	6.6	*(13.6)*
MOU (min)	128	121	*5.5*	112	*14.0*
ARPU (US$/month)	7.3	7.3	*(0.1)*	7.4	*(1.5)*
Subscriber base (mn)	48.4	46.3	*4.6*	40.1	*20.8*

Source: Company, Angel Research

Telemedia services: Revenue of the telemedia business grew by merely 0.8% qoq to ₹953cr on the back of 0.3% qoq growth in ARPU to ₹955 in 2QFY2012 from ₹952 in 1QFY2012, as now 52.1% of the revenue of telemedia services is from data services (non voice-based services). However, net subscriber addition again stood very sluggish at 6,585 in 2QFY2012 vs. 25,818 in 1QFY2012.

Exhibit 9: Telemedia – Subscriber base and ARPU trend

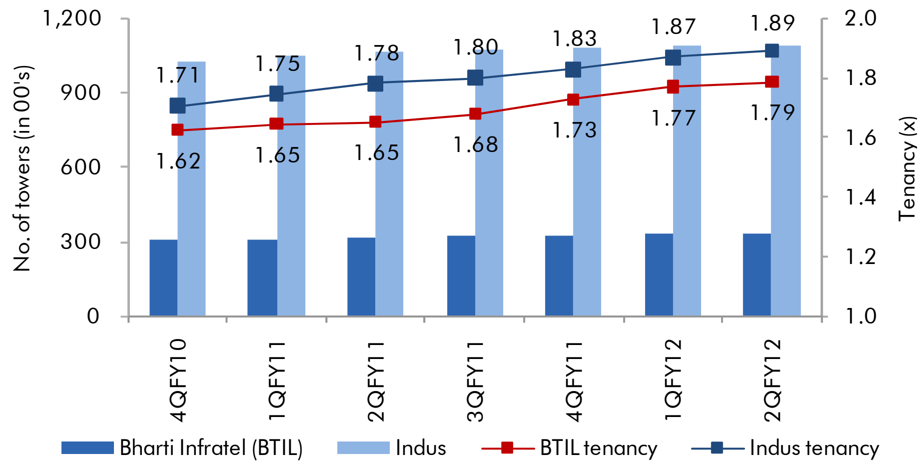


Source: Company, Angel Research

Enterprise services: Revenue of the enterprise services segment grew by 6.1% qoq to ₹1,104cr in 2QFY2012.

Passive infrastructure services: Revenue growth in the passive infrastructure services segment stood at 6.1% qoq to ₹2,377cr. Tenancy ratio improved to 1.89 in 2QFY2012 from 1.87 in 1QFY2012.

Exhibit 10: Trend in passive infrastructure business (qoq)

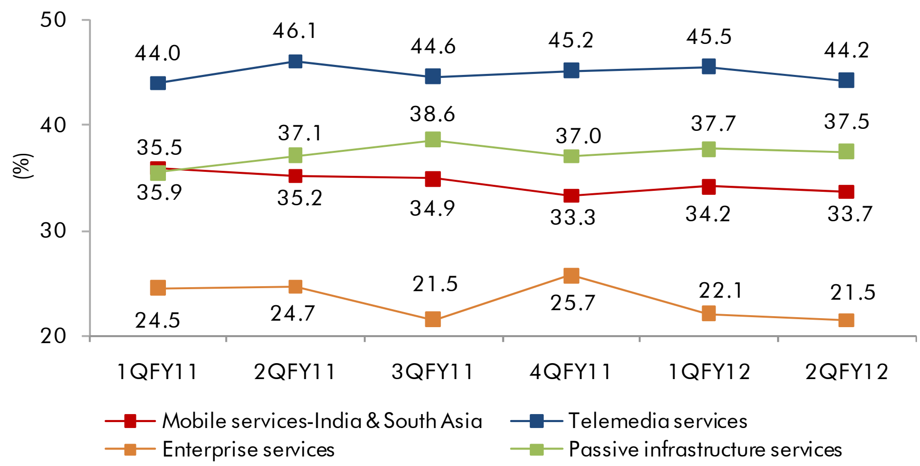


Source: Company, Angel Research

Margins remain flat

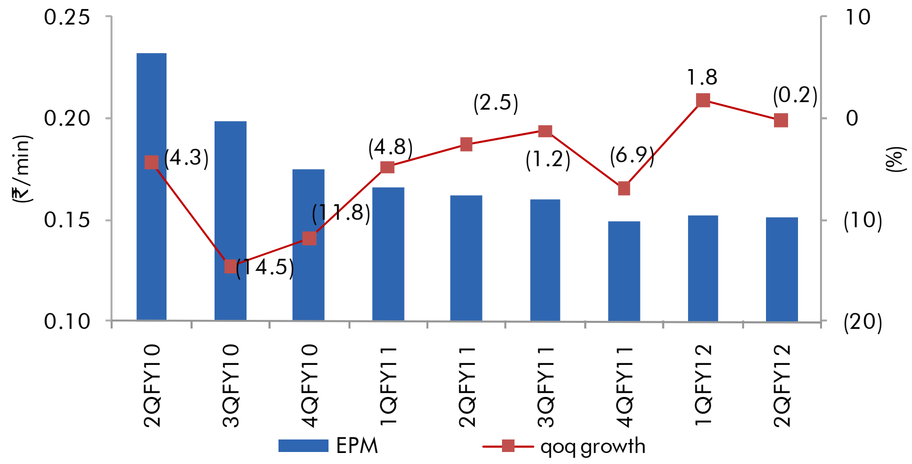
During the quarter, at the operational front, EBITDA margin of mobile – India and South Asia – business, passive infrastructure business and mobile – Africa business declined by 50bp, 25bp and 45bp on a qoq basis to 33.7%, 37.5% and 26.2%, respectively. However, due to the strong increase in the EBITDA margin of Digital TV services, Bharti's consolidated EBITDA margin almost remained flat qoq at 33.7% in 2QFY2012.

Exhibit 11: Segment-wise EBITDA margin trend (qoq)



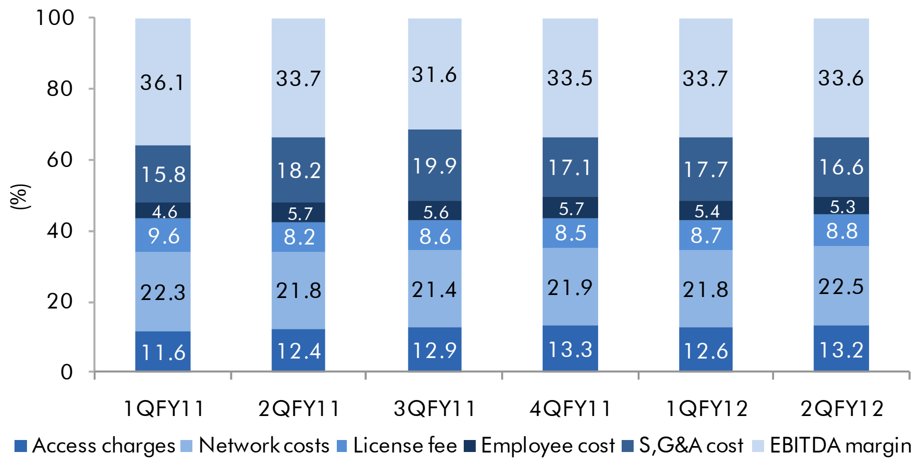
Source: Company, Angel Research

Exhibit 12: Trend in EPM – Mobile India and South Asia (qoq)



Source: Company, Angel Research

Exhibit 13: Opex break-up (qoq)



Source: Company, Angel Research

During the quarter, Bharti's consolidated net profit stood at ₹1,027cr, down 15.5% qoq, negatively impacted by higher interest cost of ₹1,318cr, which includes forex loss of ₹239cr.

Outlook and valuation

Bharti is on its way to turnaround its Africa business by bringing down its network operating expenditure by outsourcing various network-related developments. The company has been consistently adding 2.0mn–2.1mn subscribers per quarter in its Africa business. In terms of KPIs, the company has managed to increase its MOU for Africa to 128min in 2QFY2012 from 115min in 4QFY2011 and is expecting prices to remain stable in the African market. Thus, we expect the combination of improving KPIs and cost efficiencies to drive the EBITDA margin of the Africa business to 26.6% and 27.0% by FY2012 and FY2013, respectively.

On the domestic business front, the company undertook price hikes of 20% for on-net prepaid calls for all its 22 circles. We expect this to gradually push the ARPM upwards from ₹0.43/min in 2QFY2012 to ₹0.452/min and ₹0.50/min by the end of FY2012 and FY2013, respectively. Hence, we expect Bharti's Indian and

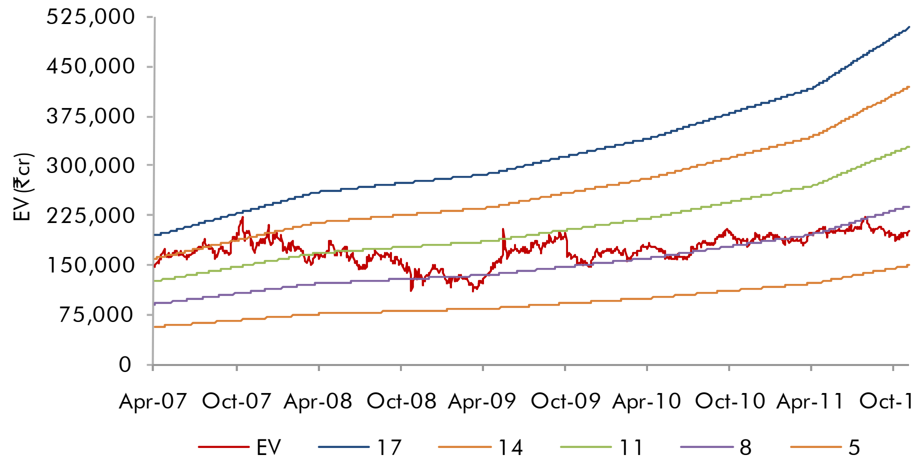
African mobile subscriber base to grow at a CAGR of 8.2% and 16.9% over FY2011–13E to 190.0mn and 60.4mn subscribers, respectively.

In addition, we expect increasing VAS share due to surging demand for non-SMS data services to further comfort the company's ARPM. Bharti's MOU is expected to remain soft because of the various free-minute packages offered by competition as well as some moderation in volumes due to increased rates. However, key downside risks such as 1) uncertainty in regulatory outcome; 2) pricing scenario in Africa operations; and 3) delay in return on investments made in 3G launches, still loom.

The strong cashflow generation on account of 1) the expected improvement in operating profitability due to price increases in the domestic market and cost-efficiency measures in Africa business and 2) lower capex needs of ~US$3bn annually in future are expected to help the company's debt repayment abilities. The company has brought down its net debt-to-equity from 1.38x to 1.33x in one year's time, and we expect it to further trend downwards to 1.2x and 0.9x by the end of FY2012 and FY2013, respectively.

Thus, we prefer Bharti in the Indian telecom space and maintain our Accumulate recommendation on the stock with a target price of ₹425, valuing Bharti at EV/EBITDA of 7.0x FY2013E.

Exhibit 14: One-year forward EV/EBITDA (x)



Source: Company, Angel Research

Exhibit 15: Valuation

(₹ cr)	FY2013E
EBITDA	29,891
Target EV/EBITDA (x)	7.0
Target EV	209,240
Debt	54,291
Cash, cash equivalent and short-term liquid investments	6,312
Target mcap	161,262
Target price (₹)	425

Source: Company, Angel Research

Exhibit 16: Key assumptions

Particulars	FY2010	FY2011	FY2012E	FY2013E
MOU (min)	468	449	428	420
VAS share in voice revenue (%)	0.5	13.3	15.0	15.2
APRM (₹/min)	0.53	0.43	0.45	0.50
Subscriber base (mn)	127.6	162.2	179.1	190.0

Source: Company, Angel Research

Exhibit 17: Change in estimates

	FY2012			FY2013		
Parameter (₹ cr)	Earlier estimates	Revised estimates	*Variation (%)*	Earlier estimates	Revised estimates	*Variation (%)*
Net revenue	70,838	72,089	*1.8*	82,218	83,165	*1.2*
EBITDA	23,870	24,491	*2.6*	29,522	29,891	*1.3*
PBT	7,820	7,793	*(0.3)*	12,503	12,501	*(0.0)*
Tax	1,978	2,099	*6.1*	3,126	3,125	*(0.0)*
PAT	5,879	5,726	*(2.6)*	9,397	9,412	*0.2*

Source: Company, Angel Research

Exhibit 18: Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	*Upside (%)*	FY2013E P/BV (x)	FY2013E P/E (x)	FY2011-13E EPS CAGR (%)	FY2013E RoCE (%)	FY2013E RoE (%)
Bharti Airtel	Accumulate	398	425	6.8	2.4	16.1	24.8	12.7	14.9
Idea Cellular	Neutral	98	-	-	2.3	27.7	13.9	10.7	8.2
RCom	Neutral	83	-	-	0.5	13.0	(0.4)	4.2	3.1

Source: Company, Angel Research

Profit and Loss account (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales	**36,962**	**41,847**	**59,467**	**72,089**	**83,165**
Roaming and access charges	5,290	4,481	7,499	9,786	11,103
% of net sales	*14.3*	*10.7*	*12.6*	*13.6*	*13.3*
Network operating exp.	5,936	8,912	12,993	15,802	17,088
% of net sales	*16.1*	*21.3*	*21.8*	*21.9*	*20.5*
License fee	3,827	4,088	5,166	6,200	7,074
% of net sales	*10.4*	*9.8*	*8.7*	*8.6*	*8.5*
Other expenses	6,596	7,513	13,774	15,811	18,010
Total expenditure	21,649	24,993	39,432	47,599	53,274
% of net sales	*58.6*	*59.7*	*66.3*	*66.0*	*64.1*
EBITDA	**15,313**	**16,854**	**20,035**	**24,491**	**29,891**
% of net sales	*41.4*	*40.3*	*33.7*	*34.0*	*35.9*
Dep. and amortization	4,758	6,284	10,206	12,878	14,149
Non operating expenses	22	(18)	111	-	-
EBIT	**10,533**	**10,589**	**9,719**	**11,613**	**15,743**
Interest charges	2,762	18	2,182	3,820	3,242
Other income, net	1,753	70	129	-	-
Profit before tax	9,523	10,640	7,666	7,793	12,501
Provision for tax	662	1,345	1,778	2,099	3,125
% of PBT	*6.9*	*12.6*	*23.2*	*26.9*	*25.0*
PAT	**8,862**	**9,295**	**5,887**	**5,694**	**9,376**
Share in earnings of associate	(71)	-	-	-	-
Minority interest	176	187	(148)	(32)	(36)
Adj. PAT	**8,615**	**9,108**	**6,035**	**5,726**	**9,412**
EPS (₹)	22.7	24.0	15.9	15.1	24.8

Balance sheet (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Liabilities					
Share capital	1,898	1,899	1,899	1,899	1,899
Reserves and surplus	28,496	40,295	46,868	52,150	61,118
Tot. shareholders' funds	30,394	42,194	48,767	54,049	63,016
Minority interest	1,070	2,529	2,856	2,791	2,791
Secured loans	5,399	8,147	53,234	47,418	39,795
Unsecured loans	6,481	2,042	8,437	17,272	14,496
Total debt	11,880	10,190	61,671	64,691	54,291
Other liabilities	1,816	5,300	4,665	3,000	3,500
Total liabilities	**45,161**	**60,212**	**117,959**	**124,530**	**123,598**
Assets					
Gross block	54,981	69,725	96,810	112,790	122,790
Acc. depreciation	14,067	21,462	31,668	44,545	58,694
Net block	40,914	48,263	65,142	68,245	64,096
Goodwill	4,036	5,989	63,732	63,358	63,000
Oth. non-current assets	-	1,825	1,918	3,192	3,200
Investments	3,805	5,236	622	1,315	1,315
Inventories	96	48	214	350	400
Sundry debtors	2,853	3,571	5,493	6,913	7,975
Cash and equivalents	1,115	2,532	958	1,970	4,998
Other current asst	6,552	2,381	3,921	5,421	6,921
Total current assets	10,615	8,532	10,585	14,653	20,293
Less: - current liab.	15,155	10,841	28,430	32,602	36,197
Less:- provisions	79	41	118	138	153
Net current assets	(4,619)	(2,350)	(17,962)	(18,086)	(16,057)
Net deferred tax	-	1,249	4,506	6,507	8,044
Miscellaneous exp.	1,024	-	-	-	-
Total assets	**45,161**	**60,212**	**117,959**	**124,530**	**123,598**

Cash flow statement (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E
Pretax profit from operations	7,771	10,571	7,536	7,793	12,501
Depreciation	4,758	6,284	10,206	12,878	14,149
Expenses (deferred)/written off	-	-	-	-	-
Pre tax cash from operations	12,529	16,854	17,742	20,671	26,650
Other income/prior period ad	1,753	70	129	-	-
Net cash from operations	14,282	16,924	17,872	20,671	26,650
Tax	(662)	(1,345)	(1,778)	(2,099)	(3,125)
Cash profits	**13,620**	**15,584**	**16,098**	**18,572**	**23,524**
(Inc)/Dec in					
Current assets	(3,609)	3,501	(3,628)	(3,056)	(2,612)
Current liabilities	1,755	(4,352)	17,666	4,192	3,610
Net trade working capital	(1,854)	(851)	14,038	1,136	998
Cash flow from oper. actv.	**11,766**	**14,733**	**30,136**	**19,708**	**24,523**
(Inc)/Dec in fixed assets	(14,331)	(13,633)	(27,085)	(15,980)	(10,000)
(Inc)/Dec in intangibles	(12)	(1,953)	(57,743)	373	358
(Inc)/Dec in investments	1,014	(1,431)	4,614	(692)	-
(Inc)/Dec in net dfr. tax asset	-	(1,249)	(3,257)	(2,001)	(1,537)
(Inc)/Dec in minority interest	215	1,458	328	(66)	-
(Inc)/Dec in oth. non-curr. ast.	(514)	(801)	(94)	(1,274)	(8)
Cash flow from investing actv.	**(13,628)**	**(17,608)**	**(83,237)**	**(19,639)**	**(11,186)**
Inc/(Dec) in debt	2,174	(1,690)	51,481	3,020	(10,400)
Inc/(Dec) in equity/premium	272	2,944	1,130	32	36
Others	297	3,484	(635)	(1,665)	500
Dividends	444	444	444	444	444
Cash flow from financing actv.	**2,299**	**4,293**	**51,532**	**943**	**(10,308)**
Cash generated/(utilized)	**437**	**1,418**	**(1,570)**	**1,012**	**3,028**
Cash at start of the year	678	1,115	2,532	958	1,970
Cash at end of the year	**1,115**	**2,532**	**958**	**1,970**	**4,998**

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation ratio (x)					
P/E (on FDEPS)	18.8	17.8	26.8	27.2	18.5
P/CEPS	12.1	10.5	10.0	8.5	7.1
P/BVPS	5.3	3.8	3.3	3.0	2.6
Dividend yield	0.2	0.2	0.2	0.2	0.2
EV/Sales	4.7	4.1	3.7	3.0	2.5
EV/EBITDA	11.3	10.1	11.1	9.0	7.2
EV/Total assets	3.8	2.8	1.9	1.8	1.8
Per share data (₹)					
EPS	22.7	24.0	15.9	15.7	23.1
Cash EPS	35.3	40.6	42.8	50.0	60.3
Dividend	1.0	1.0	1.0	1.0	1.0
Book value	80.1	111.2	128.6	143.1	165.1
DuPont analysis					
Tax retention ratio (PAT/PBT)	0.9	0.9	0.8	0.8	0.8
Cost of debt (PBT/EBIT)	0.9	1.0	0.8	0.7	0.8
EBIT margin (EBIT/Sales)	0.3	0.3	0.2	0.2	0.2
Asset turnover ratio (Sales/Assets)	0.8	0.7	0.5	0.6	0.7
Leverage ratio (Assets/Equity)	1.5	1.4	2.4	2.2	1.9
Operating ROE	28.3	21.6	12.4	11.0	14.0
Return ratios (%)					
RoCE (pre-tax)	26.7	20.1	10.9	9.4	12.2
Angel RoIC	30.5	23.1	18.5	20.9	27.9
RoE	33.1	25.1	13.3	11.6	15.0
Turnover ratios (x)					
Asset turnover (fixed assets)	0.9	0.8	0.7	0.6	0.7
Receivables days	28	28	34	34	34
Payable days	256	158	263	250	250

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Disclosure of Interest Statement	Bharti Airtel
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	*Sell (< -15%)*	