

Stronger and stronger



Merrill Lynch

Reena Verma Bhasin, CFA >> +91 22 6632 8667
Research Analyst
DSP Merrill Lynch (India)
reena_verma@ml.com

Strong 2Q FY07 results, well above expectations

Bharti reported 2Q FY07 net profit at Rs9.3bn, up 79% YoY and 24% QoQ. Results were ahead of consensus & our expectations even after adjusting for some accounting changes. The positive surprise in 2Q was primarily driven by stronger top-line led by: 1) higher-than-expected wireless ARPU, and 2) stronger-than-expected long distance revenues. The fixed-line business disappointed.

Robust user profile - key positive takeaway

Our key positive takeaway from the results is that mobile usage continues to be robust & is boosting overall top-line despite modest tariff pressures. In 2Q FY07, Bharti's wireless traffic grew 20% QoQ vs 17% growth in the wireless sub base; wireless ARPU fell only 1% QoQ helped by 2% QoQ growth in MoUs (minutes of use). Similarly, overall long-distance traffic grew 24% QoQ. This robustness in user profile is a key positive for Bharti's revenue outlook as it penetrates deeper into the market & suggests that market growth is far from scraping the bottom.

We have upgraded earnings and long-term assumptions

We have raised earnings by 9% for FY07E and 13% for FY08E. We have also raised our LT EBITDA margin assumptions for the wireless biz by ~100bps to 40%. Our upgrade reflects 3 key factors: 1) ARPU upgrade by 3% for FY07-08E & improvement in LT ARPUs by 8-9%; 2) higher long-distance revenues (+15% on an average); and 3) increase in our subscriber forecasts by ~6% over FY07-09E.

PO raised to Rs645, Bharti remains our top pick

We have raised our price target for Bharti to Rs645 (up 26% versus earlier), placing it broadly on par with our DCF valuation, and at the higher-end of its historical trading range. Our PO pegs Bharti at a PE of 22x Mar '08E and EV/EBITDA of 12x Mar '08E versus its historical trading range of 18-24x on PE basis and 10-13x on EV/EBITDA basis. Reiterate Buy.

Estimates (Mar)

(Rs)	2005A	2006A	2007E	2008E	2009E
Net Income (Adjusted - mn)	14,978	22,585	37,084	55,588	73,035
EPS	8.08	11.92	19.57	29.33	38.54
EPS Change (YoY)	195.1%	47.6%	64.1%	49.8%	31.4%
Dividend / Share	0	0	0	7.33	9.63
Free Cash Flow / Share	3.07	(5.30)	(3.53)	3.76	22.43

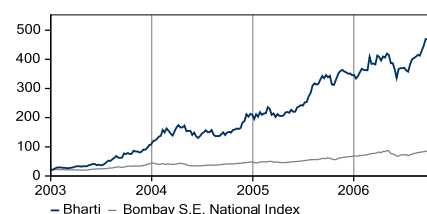
Valuation (Mar)

	2005A	2006A	2007E	2008E	2009E
P/E	65.25x	44.22x	26.94x	17.98x	13.68x
Dividend Yield	0%	0%	0%	1.39%	1.83%
EV / EBITDA*	36.23x	24.61x	15.00x	10.29x	8.05x
Free Cash Flow Yield*	0.569%	-1.00%	-0.670%	0.713%	4.25%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	Rs527.30
Price Objective	Rs645.00
Date Established	27-Oct-2006
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs310.20-Rs530.00
Mrkt Val / Shares Out (mn)	US\$22,115 / 1,895.2
Average Daily Volume	227,293
ML Symbol / Exchange	BHTIF / BSE
Bloomberg / Reuters	BHARTI IN / BRTI.BO
ROE (2007E)	34.2%
Net Dbt to Eqty (Mar-2006A)	45.5%
Est. 5-Yr EPS / DPS Growth	24.0% / NA
Free Float	33.0%



>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the NYSE/NASD rules.

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 12. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

27 October 2006

iQprofileSM Bharti Airtel

Key Income Statement Data (Mar)	2005A	2006A	2007E	2008E	2009E
(Rs Millions)					
Sales	80,028	116,633	182,323	260,458	325,756
Gross Profit	30,128	43,601	71,453	104,142	133,185
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	18,190	27,742	46,616	70,093	92,477
Net Interest & Other Income	(1,586)	(2,168)	(3,460)	(3,794)	(3,241)
Associates	0	0	0	0	0
Pretax Income	16,604	25,574	43,156	66,300	89,236
Tax (expense) / Benefit	(1,528)	(2,736)	(5,610)	(9,945)	(15,170)
Net Income (Adjusted)	14,978	22,585	37,084	55,588	73,035
Average Fully Diluted Shares Outstanding	1,853	1,894	1,895	1,895	1,895

Key Cash Flow Statement Data

Net Income (Reported)	14,978	22,585	37,084	55,588	73,035
Depreciation & Amortization	11,405	15,829	24,837	34,049	40,709
Change in Working Capital	13,720	14,132	21,615	6,383	2,084
Deferred Taxation Charge	583	768	0	0	1,785
Other Adjustments, Net	4,082	902	7,987	4,153	4,637
Cash Flow from Operations	44,768	54,215	91,523	100,172	122,249
Capital Expenditure	(39,080)	(64,257)	(98,215)	(93,047)	(79,741)
(Acquisition) / Disposal of Investments	(512)	481	0	0	0
Other Cash Inflow / (Outflow)	(4,259)	0	0	0	0
Cash Flow from Investing	(43,852)	(63,776)	(98,215)	(93,047)	(79,741)
Shares Issue / (Repurchase)	171	8,243	0	0	0
Cost of Dividends Paid	0	0	0	(13,897)	(18,259)
Cash Flow from Financing	2,501	6,670	6,692	(7,126)	(42,508)
Free Cash Flow	5,688	(10,041)	(6,692)	7,126	42,508
Net Debt	40,961	42,207	52,405	59,176	34,927
Change in Net Debt	(100)	4,752	6,692	6,771	(24,250)

Key Balance Sheet Data

Property, Plant & Equipment	92,597	142,397	217,371	277,966	318,595
Other Non-Current Assets	42,221	42,150	39,968	38,372	36,775
Trade Receivables	10,098	10,620	16,601	23,716	29,662
Cash & Equivalents	8,079	5,188	5,188	5,188	5,188
Other Current Assets	5,946	16,924	26,346	37,636	47,071
Total Assets	158,942	217,279	305,474	382,878	437,291
Long-Term Debt	37,803	34,502	44,700	51,471	27,222
Other Non-Current Liabilities	8,080	11,402	18,927	22,313	27,703
Short-Term Debt	11,237	12,893	12,893	12,893	12,893
Other Current Liabilities	40,008	65,639	102,657	127,445	144,911
Total Liabilities	97,128	124,436	179,177	214,122	212,728
Total Equity	61,814	92,843	126,298	168,755	224,563
Total Equity & Liabilities	158,942	217,279	305,474	382,878	437,291

iQmethodSM - Bus Performance*

Return On Capital Employed	15.3%	18.3%	22.9%	26.0%	28.0%
Return On Equity	28.0%	29.5%	34.2%	38.1%	37.7%
Operating Margin	22.7%	23.8%	25.6%	26.9%	28.4%
EBITDA Margin	37.0%	37.4%	39.2%	40.0%	40.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	3.0x	2.4x	2.5x	1.8x	1.7x
Asset Replacement Ratio	3.4x	4.1x	4.0x	2.7x	2.0x
Tax Rate (Reported)	9.2%	10.7%	13.0%	15.0%	17.0%
Net Debt-to-Equity Ratio	66.3%	45.5%	41.5%	35.1%	15.6%
Interest Cover	9.1x	10.5x	10.7x	14.9x	22.3x

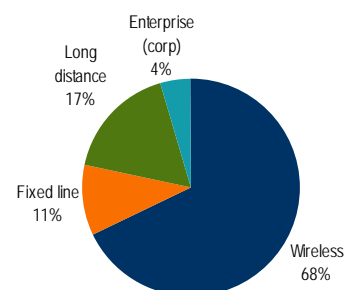
Key Metrics

* For full definitions of iQmethodSM measures, see page 10.

Company Description

Bharti Airtel (Formerly Bharti Televentures) is India's largest private sector provider of integrated telecom services, especially wireless. The wireless business accounts for nearly two-thirds of the company's total revenue. The company is a market leader in wireless services and its wireless operations extend across all 23 domestic circles.

Chart 1: 2Q FY07 revenue profile



Source: Company

Stock Data

Price to Book Value 8.0x

2Q FY07 highlights

Strong results, above consensus: Bharti reported 2Q FY07 net profit at Rs9.34bn, up 79% YoY and 24% QoQ. Profit was 7% higher than consensus and 13% above our expectations.

Robust top-line drives earnings surprise: At the operating level, the positive surprise was mostly driven by stronger top-line, on the back of 1) higher-than-expected wireless ARPU, and 2) stronger-than-expected long distance revenues. Performance of the fixed-line biz was disappointing. Overall revenues in 2Q totaled ~Rs43.6bn, up 61% YoY and 13% QoQ.

Some accounting changes, no major profit impact: In 2Q FY07, Bharti changed its accounting policy for items like customer premise equipment; the changes were with retrospective effect from 1Q FY07 and boosted profit by ~Rs986mn. The company also took one-time hits on account of revenue reversal & bad debt provisioning in the fixed-line biz; the total profit hit was ~Rs532mn. Results were ahead of expectations even after adjusting for accounting changes.

Opex/revenue steady, integrated model helps: On an overall basis, EBITDA margin was flattish (+10bps QoQ) as improvement in access and network costs as % of revenue was mostly offset by rise in SG&A, & personnel expenses.

Wireless biz - ARPU & margins better than expected: In 2Q FY07, Bharti's wireless revenue grew 73% YoY and 16% QoQ. The wireless sub base totaled ~27mn, up 92% YoY & 17% QoQ. Wireless ARPU stood at Rs438/month, down 1% QoQ, supported by 2% QoQ growth in minutes of use (MoU). Revenue per minute (rpm) fell ~3% QoQ to Rs0.97. Notwithstanding the modest rpm decline, wireless EBITDA margin improved 50bps QoQ to 36.9%, reflecting scale benefits.

Table 1: 2Q FY07 results summary

Yr to March (Rs mn)	2Q FY06	1Q FY07	2Q FY07	YoY Chng	QoQ Chng
Gross revenue	27091	38564	43571	61%	13%
Access& interconnect charges	4928	6612	7190	46%	9%
<i>% of gross revenue</i>	18.2%	17.1%	16.5%		
Adjusted gross revenue	22163	31952	36381	64%	14%
License fees	2716	3395	3886	43%	14%
<i>% of adjusted gross revenue</i>	12.3%	10.6%	10.7%		
Revenue net of regulatory charges	19447	28557	32495	67%	14%
Network Operating expenses	2786	4754	5228	88%	10%
<i>% of net revenue</i>	14.3%	16.6%	16.1%		
Personnel expenses	2013	2365	2908	44%	23%
<i>% of net revenue</i>	10.4%	8.3%	8.9%		
Other operating expenses (SG&A)	4436	6416	7336	65%	14%
<i>% of net revenue</i>	22.8%	22.5%	22.6%		
Total Operating expenses	9235	13535	15472	68%	14%
Opex/Net Revenue Ratio	47.5%	47.4%	47.6%		
EBITDA	10212	15022	17023	67%	13%
EBITDA Margin	37.7%	39.0%	39.1%		
Depreciation	3703	4972	5926	60%	19%
Other Income	137	250	324	136%	30%
Other costs	6	10	51	750%	410%
EBIT	6640	10290	11370	71%	10%
Interest	845	1692	588	-30%	-65%
PBT	5795	8598	10782	86%	25%
Tax (Expense)/Income	514	952	1378	168%	45%
Minority Interest	72	96	66	-8%	-31%
Net Profit	5209	7550	9338	79%	24%

Source: Company, ML

Other mobility parameters mostly steady: Wireless churn increased marginally QoQ to 4.9% in 2Q FY07 versus 4.5% in 1Q FY07; on a YoY basis, churn was lower versus 5.4% in 2Q FY06. Revenue contribution of non-voice services was down 50bps QoQ to ~10% of mobile revenues. In 2Q FY07, prepaid accounted for ~92% of net additions versus 90% in 2Q FY06 and 94% in 1Q FY07; prepaid accounted for 85.5% of total mobile subs as of Sep '06.

Long-distance revenues up strongly: In 2Q FY07, Bharti's long-distance revenue grew 50% YoY and 18% QoQ led by 130% YoY and 24% QoQ growth in long-distance traffic minutes, and relatively stable pricing. Traffic growth continues to be driven primarily by growth in Bharti's captive sub base. Owing to scale economies, EBITDA margin in the segment was up 134bps QoQ to 40.3% in 2Q FY07.

Fixed-line net adds disappoint: Bharti's net addition run rate in the fixed-line business fell 20% QoQ to 126K subs. Reported EBITDA margin for the segment was at 20.4% versus 23% in 1Q FY07. According to the company, the volume slowdown reflects internal controls & the margin drop was mostly owing to one-time accounting hits.

Capex mostly as per plans, coverage continues to expand: In 2Q FY07, Bharti's capex totaled ~US\$715mn and 1H FY07 capex was ~US\$1.2bn versus full-year capex guidance of US\$2bn. As of Sep '06, network coverage in the mobile business spanned 4357 census towns versus 4026 census towns as of Jun '06. In the fixed-line business, coverage spanned 94 cities vs 92 cities in the previous quarter. Long distance optic fiber network spanned 36,151 rkms as of Sep '06 versus 35,016rkms as of Jun '06.

Table 2: Key divisional trends

(Rs mn)	2Q FY06	1Q FY07	2Q FY07	YoY chng	QoQ chng
Wireless subs (mn)	14.1	23.1	27.1	92%	17%
Fixed line subs (mn)	1.1	1.5	1.6	54%	8%
Wireless Revenues	19,052	28,411	33,022	73%	16%
Wireless EBITDA	6,949	10,341	12,179	75%	18%
Wireless EBITDA Margin	36.5%	36.4%	36.9%		
Wireless Capex	8,615	18,054	27,444	219%	52%
Non-wireless Revenues	10,927	14,215	15,754	44%	11%
Non-wireless EBITDA	3,526	4,879	5,343	52%	10%
Non-wireless EBITDA Margin	32.3%	34.3%	33.9%		
Non-wireless Capex	4,958	5,323	6,545	32%	23%
Fixed Line Revenues	3,656	5,182	5,244	43%	1%
Fixed Line EBITDA	811	1,193	1,069	32%	-10%
Fixed Line EBITDA Margin	22.2%	23.0%	20.4%		
Fixed Line Capex	2683	3962	1631	-39%	-59%
Long Distance Revenues	5,563	7,064	8,362	50%	18%
Long Distance EBITDA	2,021	2,750	3,367	67%	22%
Long Distance EBITDA Margin	36.3%	38.9%	40.3%		
Long Distance Capex	1,100	1,306	3,232	194%	147%
Enterprise (Corporates) Business Revenues	1,708	1,969	2,148	26%	9%
Enterprise (Corporates) Business EBITDA	694	936	907	31%	-3%
Enterprise (Corporates) Business EBITDA Margin	40.6%	47.5%	42.2%		
Enterprise (Corporates) Business Capex	1175	55	1682	43%	2958%

Source: Company

Interest expense down sharply, net debt up a tad: In 2Q FY07, Bharti's interest expense fell 30% YoY and 65% QoQ, primarily reflecting notional forex gains. The company said that it benefited from yen-appreciation as nearly 30-35% of its debt is yen-denominated. Net debt as of Sep '06 totaled ~Rs44.6bn, up 6% QoQ.

Tax rate up a tad: Bharti's effective tax rate was ~13% in 2Q FY07, versus 11% in 1Q FY07. Management expects the tax rate to remain around 2Q levels for the next 2 quarters.

Highlights of post-results mgt. call

Bharti to seek nation-wide 3G footprint: Bharti confirmed that it will seek an all-India play in 3G as and when the 3G licensing process gets underway. We think the licensing process is at least 2-3 quarters away.

Keen focus on overseas foray: Bharti emphasized its desire to expand overseas and said it will look for mobile-GSM opportunities in emerging markets like Africa & mid-east Asia. The company said its partners, Vodafone & SingTel, support the overseas expansion strategy.

Market size & growth in India appears robust: The company highlighted that India's telecom sub base (wireline & wireless) at ~170mn was now the 5th largest, globally. Bharti expects that market net adds in India will at least sustain around current levels and believes that India could reach the wireless milestones of China within a shorter time span.

Few external risks, challenges are internal/organizational: Bharti does not foresee any major regulatory or competitive risks. The company believes that its challenges are mostly internal in terms of avoiding complacency & retaining agility across the organization.

FY07 capex guidance maintained: Bharti maintained full-year FY07 capex guidance at ~US\$2bn, despite 1H FY07 capex (US\$1.2bn) being a tad higher than the run-rate for the year. We estimate FY07 capex at US\$2.2bn.

Earnings & LT assumptions upgraded

We have raised earnings estimates by 9% for FY07 and 13% for FY08. We have also raised our LT margin assumptions for the wireless biz by ~100bps to 40%, yielding ~20-25% rise in long-term profit forecasts.

Our upgrade reflects 3 key factors:

- 1) **ARPU upgrade:** ARPU upgrade by 3% for FY07-08E & improvement in long-term ARPUs by 8-9%. We still expect ARPUs to trend down YoY over the years. However, recognizing the continued traffic/MoU growth over the last several quarters, we now factor a moderate rather than a rapid fall towards our terminal incremental-ARPU assumption of ~Rs150/month. Bharti's FY08E earnings change by ~1% for every 1% change in ARPU.

A key positive takeaway from Bharti's 2Q FY07 results is that mobile usage continues to be robust & is lifting overall top-line despite modest tariff pressures. In 2Q FY07, Bharti's wireless traffic grew 20% QoQ vs 17% growth in the wireless sub base; wireless ARPU fell only 1% QoQ helped by 2% QoQ growth in MoUs (minutes of use). Similarly, overall long-distance

Table 3: Summary of ARPU upgrade

Rs/month	FY07E	FY08E	Terminal year
Blended ARPU - New	419	384	273
Blended ARPU - Old	407	373	249
% increase vs earlier	3%	3%	9%

Source: ML research

traffic grew 24% QoQ. This robustness in user profile is a key positive for Bharti's revenue outlook as it penetrates deeper into the market & suggests that market growth is far from scraping the bottom

- 2) **Higher long-distance revenues:** We have raised our overall long-distance revenue forecast by ~15% on average to reflect likely continued strong volume growth and better-than-expected pricing & elasticity in YTD FY07. Our assumptions for the data segment stay unchanged.
- 3) **Higher wireless subscribers:** We have raised our wireless subscriber forecasts for Bharti by ~6% on average over FY07-09E versus a 3% upward tweak to our market forecasts. We now expect Bharti's wireless sub base to total ~69mn by Mar '09 versus 27.1mn as of Sep '06. Our forecasts assume that Bharti's market share will improve ~100bps YoY and stay ~22-23% over the next few years in line with its recent net add share. The anticipated sustenance of net add share & improvement in market share will be mostly driven by Bharti's relatively deeper network coverage and continued strong branding.

Table 4: Subscriber forecasts for market & Bharti

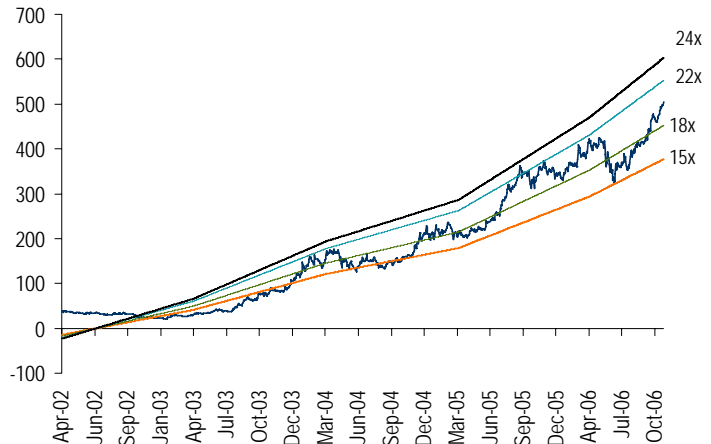
Yr to 31 March (mn)	FY05A	FY06A	FY07E	FY08E	FY09E
Industry - wireless sub base	57.0	98.6	162.2	233.0	298.1
% growth	63%	73%	65%	44%	28%
Industry - wireless net adds	22.1	41.6	63.6	70.8	65.1
Bharti - wireless sub base	11.0	19.6	35.8	54.3	69.0
Bharti - wireless market share	19%	20%	22%	23%	23%

Source: ML research

PO raised to Rs645

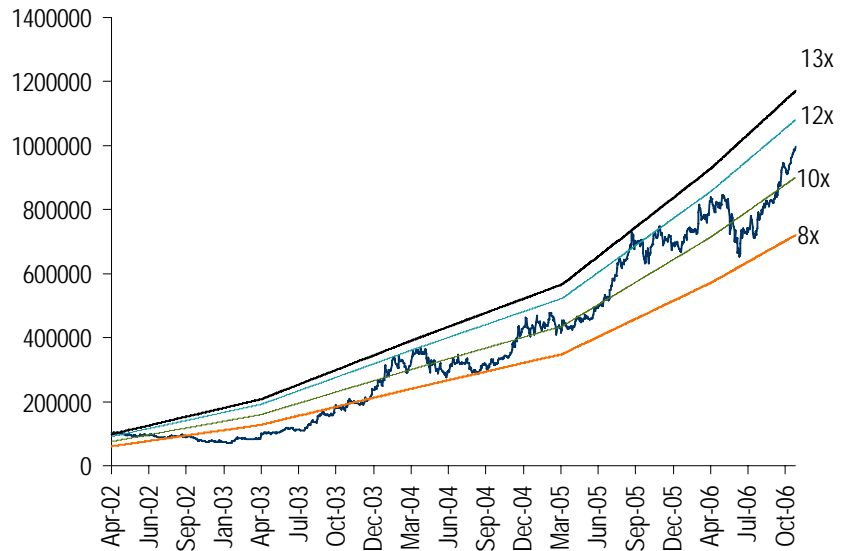
We have raised our price target for Bharti to Rs645 (up 26% versus earlier), placing it broadly on par with our DCF valuation, and at the higher end of its historical trading range based on multiples. Our PO pegs Bharti at a PE of 22x Mar '08E and EV/EBITDA of 12x Mar '08E, versus its historical trading range of 18-24x on a PE basis and 10-13x on an EV/EBITDA basis. We reiterate our Buy rating on Bharti & continue to rank it as our top pick in the Indian telecom sector.

Chart 2: 1-year forward PE bands of Bharti



Source: ML research

Chart 3: 1-year forward EV/EBITDA bands of Bharti



Source: ML research

Table 5: Valuation comparison of wireless majors across emerging markets

ML Ticker	Company name	Market Cap US\$ bn	Sh Price - Oct '06 (Local Curr)	ML Rating	P/E		EPS CAGR (%) 2-Yr	EV/EBITDA		EBITDA CAGR 2-Yr
					CY06E	CY07E		CY06E	CY07E	
EGYMF	ECMS Mobinil	2.8	161.9	C-2-7	12.6	11.6	3.1	6.3	5.7	11%
PTNRF	Partner	1.6	46.0	C-1-7	12.2	11.0	39.1	5.3	5.3	4%
MTNOF	MTN Group	14.7	66.3	C-2-7	13.0	13.0	18.9	7.1	6.0	27%
MBT	MTS	16.4	41.4	C-1-7	14.3	11.3	11.9	6.3	5.3	17%
TKCZF	Turkcell	11.9	7.9	C-1-7	15.1	11.3	16.8	6.0	5.7	4%
XVDIF	Advanced Info	7.4	93.5	C-3-7	15.2	16.5	-3.2	6.2	6.5	0%
BHTIF	Bharti	22.2	527	C-1-9	26.9	18.0	57	14.7	10.2	55%
RLCMF	RCVL	17.5	385	C-1-7	31.0	20.2	176	16.0	11.1	79%
VIP	VimpelCom	12.9	63.0	C-1-9	16.8	12.2	30.8	6.8	5.6	30%
SKMTF	SK Telecom	17.4	205000.0	C-1-7	10.2	9.3	-1.7	4.7	4.6	2%
FEOTF	FarEasTone	4.4	37.9	C-2-8	11.2	10.8	-4.0	4.9	4.8	-3%
CHLKF	China Mobile	151.1	59.1	C-1-7	17.9	14.7	22.1	6.5	5.8	18%
KTFTF	KTF	6.1	29000.0	C-2-7	15.3	12.5	-12.3	4.0	3.7	0%
PIIAF	Indosat	3.1	5350.0	C-1-7	18.7	13.9	11.0	5.4	4.6	12%
LTCLF	LG TeleCom	3.3	11400.0	C-1-9	NM	7.8	24.6	4.9	4.4	10%
TACPF	Total Access	1.9	4.0	C-1-9	13.6	12.4	15.4	6.1	5.9	8%
CUNCF	China Unicom	13.2	8.2	C-1-7	17.8	15.0	18.7	4.2	3.8	9%
AMX	America Movil	77.8	42.9	C-1-7	18.9	13.8	39.2	10.6	8.4	38%
STTFF	SmarTone	0.6	7.4	B-2-7	NM	NM	-36.2	4.7	4.6	-1%
	AVERAGE				18.0	14.1	31.3	8.0	6.6	0

Source: ML research

Table 6: Bharti - Profit & Loss

Yr to March (Rs mn)	FY05	FY06	FY07E	FY08E	FY09E
Revenues:					
Wireless - Total	54,015	82,391	139,125	206,931	262,820
% chg y-o-y	75%	53%	69%	49%	27%
Infotel - Total	35,263	46,756	62,760	81,473	98,732
% chg y-o-y	58%	33%	34%	30%	21%
Wireline & Broadband	11,209	15,015	21,467	28,359	34,709
% chg y-o-y	46%	34%	43%	32%	22%
Long Distance Services	18,614	24,556	32,672	42,768	52,125
% chg y-o-y	54%	32%	33%	31%	22%
Enterprise Services	5,441	7,185	8,622	10,346	11,898
% chg y-o-y	108%	32%	20%	20%	15%
Inter segment elimination	(9,251)	(12,514)	(19,562)	(27,946)	(35,796)
Consolidated Revenue	80,028	116,633	182,323	260,458	325,756
% chg y-o-y	66%	46%	56%	43%	25%
EBITDA :					
Wireless - Total	18,520	29,710	51,277	77,583	100,994
% chg y-o-y	88%	60%	73%	51%	30%
% margin	34.3%	36.1%	36.9%	37.5%	38.4%
Infotel - Total	11,870	15,166	21,630	28,231	34,114
% chg y-o-y	90%	28%	43%	31%	21%
% margin	33.7%	32.4%	34.5%	34.7%	34.6%
Wireline & Broadband	2,853	3,675	4,981	7,060	8,956
% chg y-o-y	117%	29%	36%	42%	27%
% margin	25.4%	24.5%	23.2%	24.9%	25.8%
Long Distance Services	6,323	8,791	12,984	16,981	20,577
% chg y-o-y	71%	39%	48%	31%	21%
% margin	34.0%	35.8%	39.7%	39.7%	39.5%
Enterprise Services	2,694	2,700	3,664	4,190	4,581
% chg y-o-y	121%	0%	36%	14%	9%
% margin	49.5%	37.6%	42.5%	40.5%	38.5%
Corporate expenses	(617)	(1,264)	(1,454)	(1,672)	(1,922)
Inter segment elimination	355	(12)	-	-	-
Consolidated EBITDA	30,128	43,601	71,453	104,142	133,185
% chg y-o-y	89%	45%	64%	46%	28%
Con. EBITDA margin	37.6%	37.4%	39.2%	40.0%	40.9%
Depreciation and Amortization	11,405	15,829	24,837	34,049	40,709
Pre-operating costs	533	30	-	-	-
Operating Profit	18,190	27,742	46,616	70,093	92,477
Operating margin	23%	24%	26%	27%	28%
Interest (Expenses)	(1,996)	(2,650)	(4,360)	(4,694)	(4,141)
Non-operating income/(exp)	410	482	900	900	900
Profit before tax	16,604	25,574	43,156	66,300	89,236
Taxes	1,528	2,736	5,610	9,945	15,170
(Profit)/losses to Minorities	(98)	(254)	(462)	(767)	(1,032)
Net Profit	14,978	22,585	37,084	55,588	73,035
% chg y-o-y	195%	51%	64%	50%	31%

Source: ML research

Table 7: Key assumptions

Yr to March	FY05	FY06	FY07E	FY08E	FY09E
Wireless Division:					
Total wireless subs ('000)	10,984	19,579	35,780	54,298	69,017
Prepaid as % of Total Subs	76%	83%	87%	89%	89%
Blended ARPU (Rs/month)	515	449	419	384	356
% change in ARPU	-4%	-13%	-7%	-8%	-7%
Fixed-line Division:					
Total fixed-line subs ('000)	857	1,347	1,929	2,571	3,153
ARPL (Rs/month)	1,257	1,135	1,092	1,050	1,011
% change in ARPL	-4%	-10%	-4%	-4%	-4%

Source: ML research

Price Objective Basis & Risk

Our price target of Rs645/sh places Bharti broadly on par with our DCF valuation, and at the higher end of its historical trading range. Our PO pegs Bharti at a PE of 22x Mar '08E and EV/EBITDA of 12x Mar '08E, versus its historical trading range of 18-24x on a PE basis and 10-13x on an EV/EBITDA basis.

Key risks stem from 1) unexpected growth slowdown in the Indian market, 2) unforeseen financial burden from likely 3G auctions, and 3) sustained pressure on RoE due to overseas expansion plans.

Analyst Certification

I, Reena Verma Bhasin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depository Receipts (GDR) and the Global Depository Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

27 October 2006

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

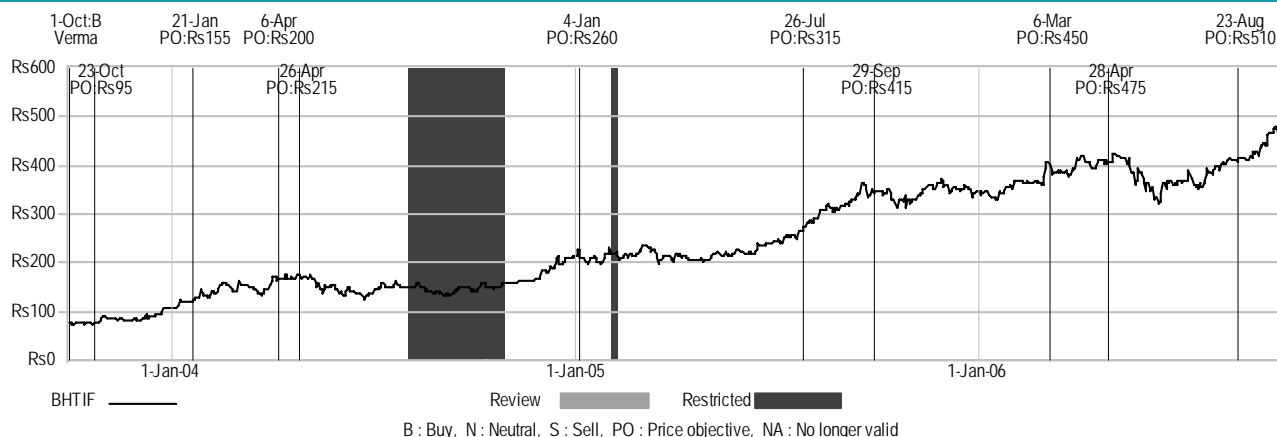
iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

iQprofileSM, *iQmethodSM* are service marks of Merrill Lynch & Co., Inc. *iQdatabase[®]* is a registered service mark of Merrill Lynch & Co., Inc.

27 October 2006

Important Disclosures

BHTIF Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of September 30, 2006 or such later date as indicated.

Investment Rating Distribution: Telecommunications Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	75	49.02%	Buy	27	36.00%
Neutral	63	41.18%	Neutral	16	25.40%
Sell	15	9.80%	Sell	4	26.67%

Investment Rating Distribution: Global Group (as of 30 Sep 2006)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1325	44.76%	Buy	434	32.75%
Neutral	1420	47.97%	Neutral	412	29.01%
Sell	215	7.26%	Sell	48	22.33%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered to be secure); and 9 - pays no cash dividend.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Bharti.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Bharti.

The country in which this company is organized has certain laws or regulations that limit or restrict ownership of the company's shares by nationals of other countries: Bharti.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):

MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd, Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK): Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (KL) Sdn. Bhd.; Merrill Lynch (Malaysia); Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): Merrill Lynch CIS Limited, Moscow.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-U.S. affiliates. MLPF&S is the distributor of this research report in the U.S. and accepts full responsibility for research reports of its non-U.S. affiliates distributed in the U.S. Any U.S. person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

This research report has been approved for publication in the United Kingdom by Merrill Lynch, Pierce, Fenner & Smith Limited, which is authorized and regulated by the Financial Services Authority; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co, Ltd, a registered securities dealer under the Securities and Exchange Law in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC; is issued and distributed in Taiwan by Merrill Lynch Global (Taiwan) Ltd or Merrill Lynch, Pierce, Fenner & Smith Limited (Taiwan Branch); is issued and distributed in Malaysia by Merrill Lynch (KL) Sdn. Bhd., a licensed investment adviser regulated by the Malaysian Securities Commission; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd (Company Registration No.'s F 06872E and 198602883D respectively). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.

Merrill Lynch (Frankfurt) is regulated by BaFin.

Copyright, User Agreement and other general information related to this report:

Copyright 2006 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) prior to Merrill Lynch's public disclosure of such information. The information herein (other than disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at <http://www.ml.com/media/43347.pdf>.

iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.