

RESULTS REVIEW
Bharti Airtel Limited
Hold
Share Data

Market Cap	Rs. 1,177.40 bn
Price	Rs. 310.10
BSE Sensex	16,601.20
Reuters	BRTI.BO
Bloomberg	BHARTI IN
Avg. Volume (52 Week)	1.68 mn
52-Week High/Low	Rs. 518.00 /229.50
Shares Outstanding	3,796.84 mn

Valuation Ratios (Consolidated)

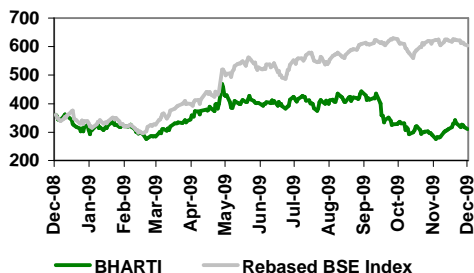
FY end 31 March	2010E	2011E
EPS (Rs.)	19.2	14.1
+/- (%)	-13.5%	-26.5%
PER (x)	16.1x	21.9x
EV/Subscriber (Rs.)	9,875	7,782
EV/ Sales (x)	3.5x	3.4x
EV/ EBITDA (x)	8.8x	9.0x

Shareholding Pattern (%)

Promoters	67.7
FII's	18.4
Institutions	8.1
Public & Others	5.8

Holding >1% (Non-Promoter)

ICICI Prudential Life Insurance Co. Ltd.	1.4
Life Insurance Corporation of India	4.6

Relative Performance

Assured leadership; however, top-line growth to shrink

In Q2'10, Bharti Airtel Limited (Bharti) registered a decline of 1.0% qoq in top line to Rs. 98.5 bn, primarily on account of subdued performance by all segments. Its principal business, mobile services, witnessed a fall in ARPUs of 8.4% qoq. However, the Company gained on the part of volumes by delivering above-average performance in the form of whopping subscriber net-additions at a monthly average of 2.74 mn. Although the industry is witnessing tariff wars and intense competition, further propelled by the new entrants, Bharti is expected to withstand the intense period of irrational price competition and sustain its market position on the back of strong network coverage, first mover advantage, and high quality customer service. Furthermore, strong balance sheet position, positive free cash flows, and well-diversified portfolio of services make the stock outstand its peer. Although, we expect the telecom stocks to under-perform in near term, we find Bharti pickable for long-term on dips sub-Rs. 300 during the current volatility. However, at the current market price of Rs. 310.1, we recommend a hold, with a target price of Rs. 335.

Above-average ARPUs foreseen: The entry of foreign players with their predatory pricing techniques has made the decline in ARPU steeper for all operators. In the present scenario, where each circle has more than 10-12 operators, the tariff rates have still to reach their bottom. The introduction of per second billing and at-par long distance calling would suppress the top line growth in the coming quarters as the consequent elasticity in usage is not so evident. In such a case, Bharti, in our view, has the ability to maintain its ARPU above the industry average owing to a high-quality customer mix.

Sustained leadership: Bharti has again safeguarded its leadership position in this quarter. Despite new entrants in the industry, the Company witnessed only a marginal decline of 50 bps qoq in its market share to 23.5% in this quarter. Even the Company's revenue market share appreciated 90 bps to 32.7% despite aggressive competition. Although tariff wars, forthcoming number portability and new entrants will reduce the Company's market share marginally in the near-term, Bharti will maintain its leadership position on account of high-quality customer service, quality and coverage of network and distribution strength.

Key Figures (Consolidated)

Quarterly Data	Q2'09	Q1'10	Q2'10	YoY%	QoQ%	H1'09	H1'10	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	90,203	99,416	98,455	9.1%	(1.0%)	175,036	197,871	13.0%
EBITDA	36,717	41,123	41,416	12.8%	0.7%	71,823	82,539	14.9%
EBITDA Margin	40.7%	41.4%	42.1%			41.0%	41.7%	
Mobile subscribers	77.5	102.4	110.5	42.6%	8.0%	77.5	110.5	42.6%
Telemedia subscribers	2.5	2.8	2.9	16.7%	3.5%	2.5	2.9	16.7%
ARPU (Mobile)	331	275	252	(23.9%)	(8.4%)			
ARPU (Telemedia)	1,147	1,027	989	(13.8%)	(3.7%)			
MoU (Mobile)	526	478	450	(14.4%)	(5.9%)			
Per Share Data (Rs.)								
EPS	5.3	6.6	6.1	15.0%	(7.7%)	10.7	12.7	19.6%

Result Highlights

- Bharti reported flat sales at Rs. 98,455 mn despite a reasonable subscribers' addition.
- EBITDA remained flat for the quarter, whereas EBITDA margin improved on a sequential basis by 70 bps to 42.1% on the back of cost rationalization and operational excellence.
- The Company's net profits depreciated by 7.8% qoq, whereas the net profit margin declined 174 bps to 23.6%, primarily on account of a sharp fall in non-operating income.

Segment analysis

- **Mobile Services:** The mobile services segment reported a marginal fall of 2% qoq in revenue to Rs. 80,994 mn, primarily on account of a 3% decline in ARR as a result of tariff war and a 6% decline in MOU (minutes of usage) owing to increasing proportion of rural customers, dual and multiple SIM consumption. Although Bharti witnessed an upsurge of 8% in mobile customers on a sequential basis, its market share depreciated by 50 bps qoq to 23.5%.
- **Enterprise Services:** Enterprise segment registered a 2.5% yoy decline in revenue to Rs. 21,331 mn. However, the segment improved its profitability with EBITDA appreciating 18% yoy and EBITDA margin surging by 884 bps yoy to 51.7%.
- **Telemedia Services:** The segment experienced flat sales of Rs. 8,544 mn and flat profits in Q2'10. Besides, the Company witnessed a below-average customer additions of 100,000 (average 105,000 over the last 4 quarters), increasing the customer base to 2.93 mn in September 2009. Further, the segment witnessed a 3.7% qoq reduction in ARPUs.
- **Passive Infrastructure Services:** The segment's top-line appreciated 7% qoq to Rs. 8,586 mn and profitability increased by 13% qoq. Further, the segment's EBITDA margin surged by 247 bps on a sequential basis to 46.8%, primarily on the back of increase in revenue sharing to 1.49 in Q2'10 from 1.43 in previous quarter.

Key Events

- Bharti Airtel is in discussion with Abu Dhabi Group for buying 70 per cent stake in Bangladesh's Warid Telecom. The Dhabi Group, owner of Warid telecom, has received approval from the Bangladesh Telecommunications Regulatory Commission (BTRC) for the sale.
- Reliance Globalcom and Bharti Airtel have recently signed an agreement in Manila to build and operate a submarine cable system.

Valuation

Currently, the stock is trading at a forward P/E of 16.1x for FY10E and 21.9x for FY11E. Bharti has the competitive advantage of a strong balance sheet, healthy cash position and the largest network in India. Our DCF-based valuation gives a fair value of Rs. 335 based on the assumptions of a 13.3% WACC and a 5% terminal growth. With turbulence in the telecommunication sector, further reduction in revenues on the back of tariff wars and forthcoming number portability, we maintain our Hold rating on the stock.

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09	FY10E	FY11E	CAGR (%)
(Figures in Rs mn, except per share data)							(FY09–11E)
Net Sales	116,215	185,195	270,250	369,615	371,895	377,369	1.0%
EBITDA	43,374	74,506	113,086	150,085	146,013	143,513	(2.2)%
EBITDA Margin	37.3%	40.2%	41.8%	40.6%	39.3%	38.0%	
Mobile subscribers	19.6	37.1	62.0	93.9	127.5	162.2	31.4%
Telemedia subscribers	1.3	1.9	2.3	2.7	3.1	3.6	14.2%
ARPU (Mobile)	442	406	357	325	226	162	(29.4)%
ARPU (Telemedia)	1,063	1,112	1,137	1,071	978	1,019	(2.5)%
MOU (Mobile)	431	475	507	493	435	394	(10.6)%
Per Share Data (Rs.)							
EPS	6.0	11.2	17.7	22.3	19.2	14.1	(20.3)%
PER (x)	69.7x	67.9x	46.8x	13.9x	16.1x	21.9x	

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