

FIRST GLOBAL

www.firstglobal.in

India Research



Sector: Telecom Services

What Happened Last Quarter

Bharti Airtel Ltd. (BHARTI.IN) (BRTI.BO)

Market Perform

(CMP: Rs 818.95, Mkt. Cap. Rs 1552 bn, \$37.6 bn May 10, '07)

Relevant Index: S&P CNX Nifty: 4066.8 (May 10, '07)

No matter what, let's admit this on this show: BHARTIARTL is a frightfully expensive stock, on any worldly parameter. It would be instructive to visit our tech stock valuations in 2000...and see how none of the Tech majors have reached anywhere close to their 2000 highs (save for Infosys)...despite multiplying Revenues and Earnings many times since then...

...Trading at 10x FY2015 earnings, BHARTIARTL is a tad expensive, isn't it...

Last report's recommendation: Market Perform (MP: Rs.800.75, (Feb 22 '07)

Relevant Index: CNX Nifty: 4040 (Feb 22 '07)

Relative performance since last rating change (Feb 23, '06): CNX Nifty: Up 0.7%, BHARTI AIRTEL: Up 2.3%

May 11, 2007

Research Contact: Associate Director, Research: Hitesh Kuvelkar Mob. +91 9833 732633

Email: hiteshk@fglobal.com

Sales Offices: India Sales: Tel. No: +91-22-4001 2440

Email: indiasales@fglobal.com,

fgindiasales@bloomberg.net

US Sales: Tel. No: 1-212-227 6611 Email: us@fglobal.com

Asia & Europe Sales: Tel.: 44-207-959 5300 Email: uk@fglobal.com

Research Note issued by First Global Securities Ltd., India

FG Markets, Inc. is a member of NASD/SIPC and is regulated by the Securities & Exchange Commission (SEC), US

First Global (UK) Ltd. is a member of London Stock Exchange and is regulated by Financial Services Authority (FSA), UK

First Global Stockbroking is a member of Bombay Stock Exchange & National Stock Exchange, India

IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT.



Price and Rating History Chart

Ratings Key

| | | | |
|------------------|--------------------------|-------------------------------|----------------------------|
| Positive Ratings | B = Buy | BD = Buy at Declines | OP = Outperform |
| | S-OP = Sector Outperform | M-OP = Market Outperform | MO-OP= Moderate Outperform |
| Neutral Ratings | H = Hold | MP = Market Perform | SP = Sector Perform |
| Negative Ratings | S = Sell | SS = Sell into Strength | UP = Underperform |
| | A = Avoid | MO-UP = Moderate Underperform | S-UP =Sector Underperform |

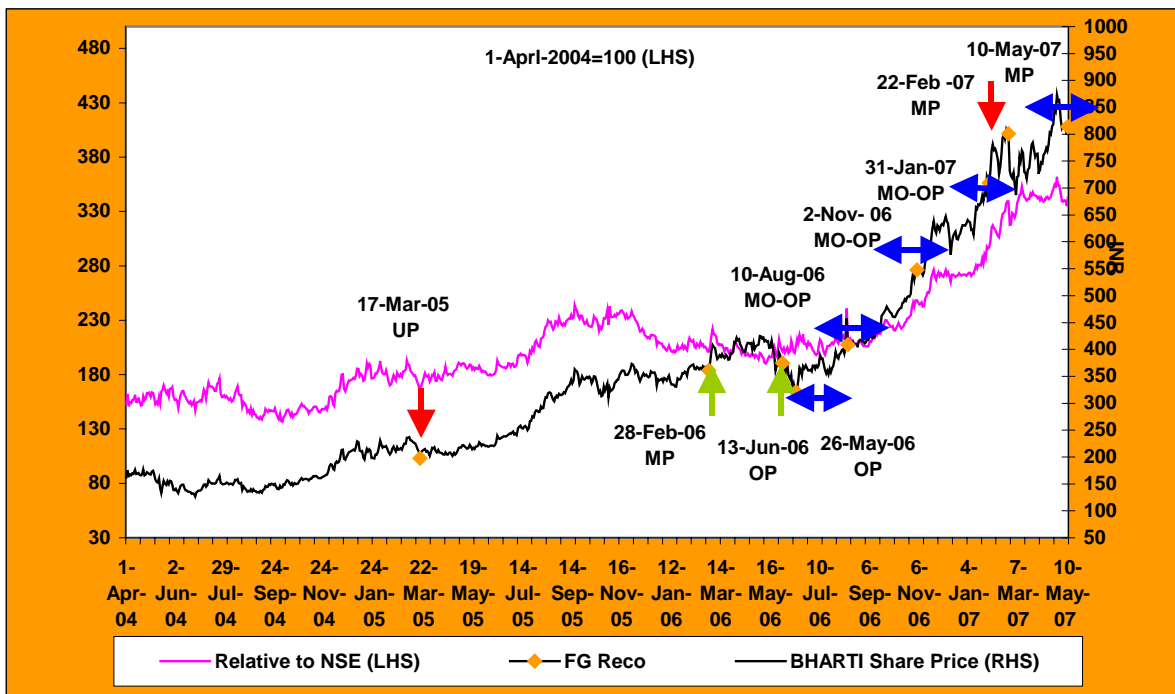
ST: Short Term

MT: Medium Term

LT: Long Term

Bharti Airtel Ltd. (BHARTIARTL)

The stock was not under active coverage from April 2005 to Feb 2006 due to change in analyst



↑ Represents an Upgrade

↓ Represents a Downgrade

↔ Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report



Financial Snapshot*

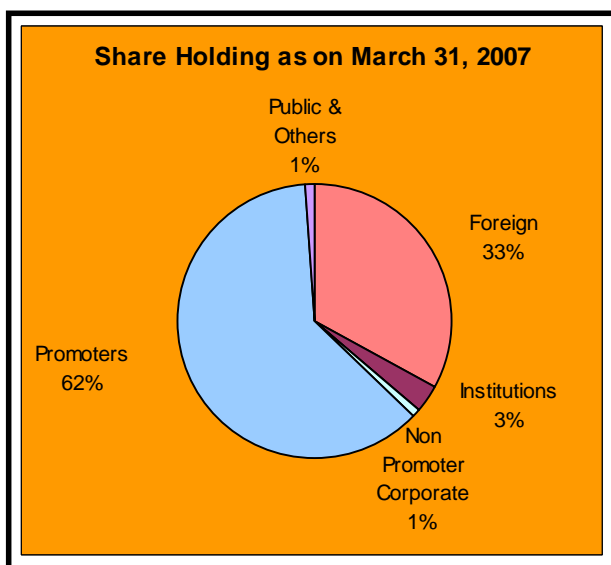
| Key Financials | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| (YE March 31) (in mn Rupees) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E |
| Operating Revenues | 24,170 | 48,320 | 80,028 | 116,215 | 185,195 | 271,664 | 360,584 |
| <i>Operating Revenues Growth</i> | | 100% | 66% | 45% | 59% | 47% | 33% |
| EBITDA | 4,523 | 15,881 | 29,531 | 43,079 | 74,508 | 114,778 | 149,773 |
| <i>EBITDA Growth</i> | | 251% | 86% | 46% | 73% | 54% | 30% |
| EBIT | -544 | 8,148 | 18,190 | 27,486 | 49,289 | 78,005 | 102,659 |
| <i>EBIT Growth</i> | | NA | 123% | 51% | 79% | 58% | 32% |
| Net Profit/(loss) | -2,018 | 5,076 | 14,978 | 22,567 | 42,569 | 64,952 | 84,823 |
| <i>Net Profit/(loss) Growth</i> | | NA | 195% | 51% | 89% | 53% | 31% |
| Shareholder Equity | | 45,916 | 61,065 | 92,178 | 135,553 | 200,505 | 276,845 |
| Dilutes Shares (mn) | 1,838 | 1,839 | 1,881 | 1,892 | 1,896 | 1,896 | 1,896 |
| Key Operating Ratios | | | | | | | |
| (YE March 31) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E |
| Diluted EPS (In Rs.) | -1.1 | 2.8 | 8.0 | 11.9 | 22.5 | 34.3 | 44.7 |
| <i>Diluted EPS Growth</i> | | NA | 189% | 50% | 88% | 53% | 31% |
| Book Value per share (in Rs.) | | 25.0 | 33.1 | 49.2 | 71.6 | 105.9 | 146.2 |
| CEPS (in Rs.) | 1.7 | 7.0 | 14.0 | 20.2 | 35.8 | 53.7 | 70.1 |
| EBITDA Margin | 18.7% | 32.9% | 36.9% | 37.1% | 40.2% | 42.2% | 41.5% |
| EBIT Margin | -2.3% | 16.9% | 22.7% | 23.7% | 26.6% | 28.7% | 28.5% |
| NPM | -8.3% | 10.5% | 18.7% | 19.4% | 23.0% | 23.9% | 23.5% |
| RoE | | | 28.0% | 29.5% | 37.4% | 38.7% | 36.2% |
| RoCE | | | 16.5% | 19.9% | 26.3% | 29.0% | 28.3% |
| Net Debt/Equity | | | | | 0.3 | 0.3 | 0.2 |
| Dividend Payout | | | 0% | 0% | 0% | 0% | 10% |
| Valuation Metrics | | | | | | | |
| (YE March 31) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E |
| P/E (x) | | | | | 36.5 | 23.9 | 18.3 |
| P/BV (x) | | | | | 11.4 | 7.7 | 5.6 |
| P/CEPS (x) | | | | | 22.9 | 15.3 | 11.7 |
| EV/EBIDTA (x) | | | | | 21.4 | 13.9 | 10.6 |
| Market Cap. / Sales (x) | | | | | 8.4 | 5.7 | 4.3 |
| EV/ Sales (x) | | | | | 8.6 | 5.9 | 4.4 |
| Dividend Yield | | | | | 0.0% | 0.0% | 0.6% |
| DuPont Ratio | | | | | | | |
| (YE March 31) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E |
| EBIDTA/Sales (%) | | 33% | 37% | 38% | 40% | 42% | 42% |
| Sales/Operating Assets (x) | | 1.13 | 0.85 | 0.98 | 1.16 | 1.20 | 1.22 |
| EBIDTA/Operating Assets (%) | | 37% | 31% | 37% | 47% | 51% | 51% |
| Operating Assets/ Net Assets (x) | | 0.96 | 0.94 | 0.96 | 0.97 | 0.97 | 0.96 |
| Net Earnings/ EBIDTA (%) | | 32% | 51% | 52% | 57% | 57% | 57% |
| Net Assets/ Net Worth (x) | | 1.95 | 1.87 | 1.62 | 1.45 | 1.39 | 1.32 |
| Return on Equity (%) | | 22% | 28% | 30% | 37% | 39% | 36% |



| Commonsized P&L Statement | | | | | | | |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|
| (YE March 31) | 2003 | 2004 | 2005 | 2006 | 2007 | 2008E | 2009E |
| Income from operations | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Licence fees and Access charges | 40.9% | 35.2% | 30.6% | 28.2% | 26.1% | 25.7% | 24.8% |
| Network operations | 2.0% | 7.1% | 8.3% | 10.1% | 11.4% | 10.4% | 12.2% |
| Employee costs | 11.4% | 7.7% | 6.4% | 6.8% | 6.7% | 6.5% | 6.5% |
| SG&A | 25.2% | 16.3% | 16.3% | 16.8% | 15.4% | 15.2% | 15.2% |
| EBITDA | 20.2% | 32.9% | 37.6% | 37.4% | 40.2% | 42.2% | 41.5% |
| EBIT | -0.7% | 16.9% | 23.4% | 23.8% | 26.6% | 28.7% | 28.5% |
| PAT | -8.3% | 10.5% | 18.7% | 19.5% | 23.0% | 23.9% | 23.5% |

* All figures based on US GAAP

Key – Statistics

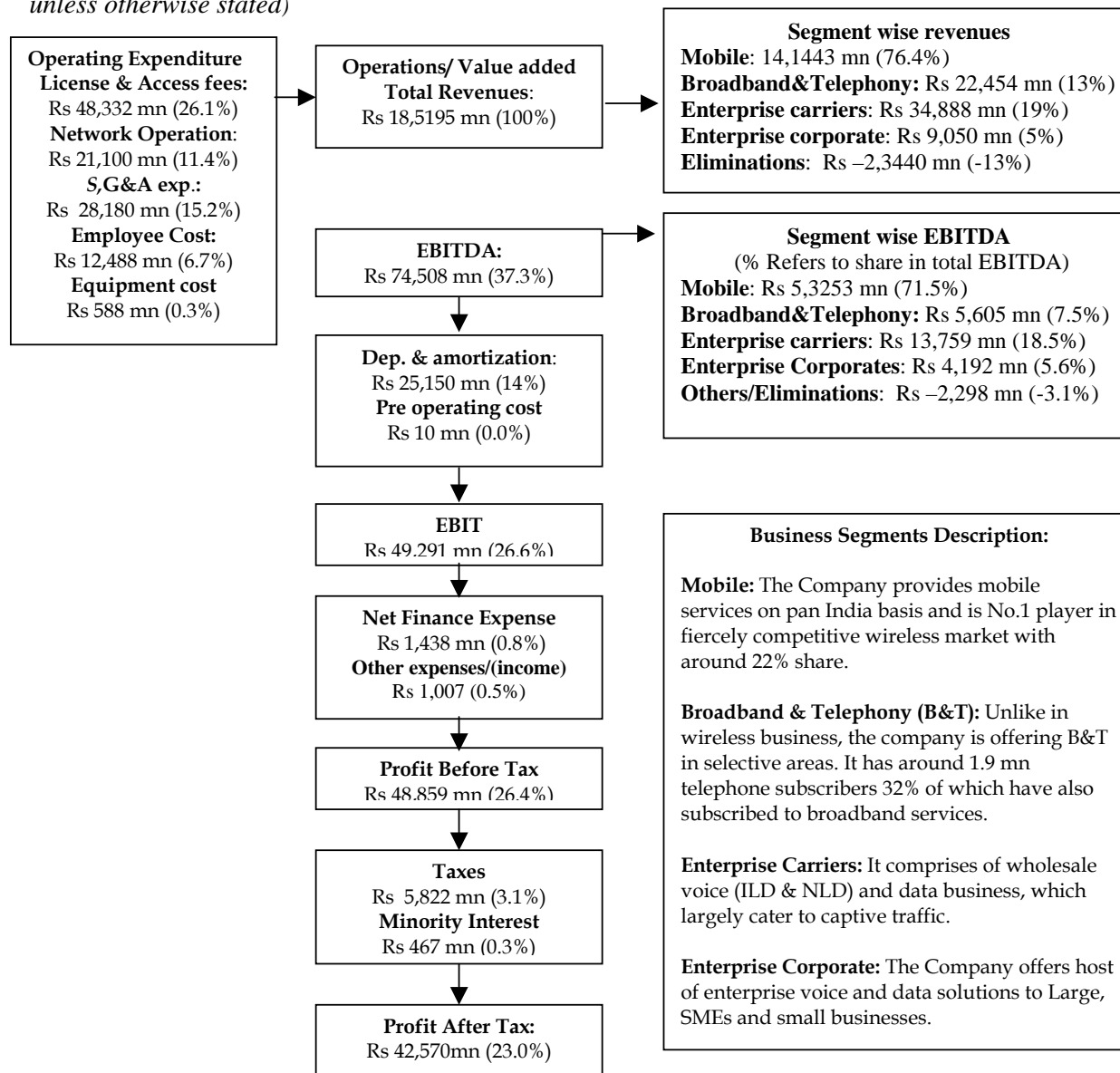


| Telecom Service Provider | |
|-----------------------------------|--------------------------|
| Industry: | Telecom Service Provider |
| 52 Week Hi:Lo: | Rs. 882.05/307.30 |
| CMP: | Rs. 818.95 |
| Avg Daily Vol (20 days): | 1.35 mn |
| Avg Daily Val (20 days): | Rs 1123.34 mn |
| Performance over 52 weeks: | |
| Bharti Airtel: | Up 96.29% |
| Nifty: | Up 9.88% |



Bharti Airtel's Business in Pictures... (FY07)

(All figures are in Rs. mn except where stated otherwise. All percentages are percent of revenues, unless otherwise stated)



Assets

Balance Sheet
Rs 297889 mn (100%)

Liabilities

Fixed Assets: Rs 210,604 mn (70.7%)

Intangibles: Rs 37,800 mn (12.7%)

Investment: Rs 736 mn (0.2%)

Debtors: Rs 17,983 mn (6%)

Inventory: Rs 912 mn (0.3%)

Cash & Bank Balance: Rs 7,464 mn (2.5%)

Short Term Investment: Rs 2,004 mn (0.7%)

Others: Rs 16,481 mn (5.5%)

Other non current Assest: Rs 3,907 mn(1.3%)

Short Term Debt: Rs 10,925 mn (3.7%)

Long Term Debt: Rs 41,536 mn (13.9%)

Other Non Current Liabilities: Rs 12,349 mn (4.1%)

Sundry Creditors: Rs 59,511 mn (20%)

Unearned income: Rs 17,371 mn (5.8%)

Other Current Liabilities: Rs 18,843 mn (6.3%)

Shareholders Equity: Rs 135,553 mn (45.5%)

Minority Interests: Rs 1,801 mn (0.6%)



What Happened Last Quarter...

The thing about Bharti Airtel (BHARTIARTL) (BHARTI.IN) (BRTI.BO) is not about this quarter or even the next. It's been a terrific stock...but then, every single emerging market (and some even in the developed world, like Nextel and Sprint PCS) mobile play has been so, in the past 3-4 years. Just look at the LatAm plays, the Russian plays, the Asian plays, and BHARTIARTL begins to look more human.

The thing about BHARTIARTL is that now the battle over the next wireless (GSM) subscriber just got harder, with BSNL, Vodafone and IDEA, all now with their hats in the ring. This simply wasn't the case earlier. And therein lies the potential problem for BHARTIARTL.

The thing about BHARTIARTL is that now the battle over the next wireless (GSM) subscriber just got harder, with BSNL, Vodafone and IDEA, all now with their hats in the ring. This simply wasn't the case earlier. And therein lies the potential problem for BHARTIARTL

The best parallel example we can give you is the Dell:Hewlett Packard analogy. The best years for Dell came when HP merged with Compaq. The integration struggles that HP-Compaq went through for a couple of years, left the door open for Dell to sneak through...and those were precisely the years when Dell became the super-powerhouse, grabbing marketshare points by the

handful from the lumbering HP-Compaq combine.

And once HP got over its integration woes...just look what it's done to Dell. It has eaten Dell's lunch, several quarters in a row. Even a company as agile as Dell, and with its visionary leadership, is struggling. Even its basic model is being questioned...by Dell itself.

Thing is: we sometimes overlook what are the competitive realities, on the ground. It is about time we saw that, for the landscape suddenly became more challenging...

The best parallel example we can give you is the Dell:Hewlett Packard analogy. The best years for Dell came when HP merged with Compaq. The integration struggles that HP-Compaq went through for a couple of years, left the door open for Dell to sneak through...and those were precisely the years when Dell became the super-powerhouse, grabbing marketshare points by the handful from the lumbering HP-Compaq combine.

As far as Q4 FY07 results are concerned, they came in marginally below our estimates, primarily due to a decline of 6% sequentially in mobile ARPU and a growth of merely 1% sequentially in Broadband & Telephony revenues. Total revenues, EBITDA and net profit came in at Rs.53,932 mn (up 58% Y-o-Y and 10% sequentially), Rs.22,408 mn (up 75% Y-o-Y and 12% sequentially) and Rs.13,531 mn (up 98% Y-o-Y and 11% sequentially), as against our estimates of Rs.56,000 mn (a -3.8% deviation), Rs.22,872 (a -2% deviation) and Rs.12,691 (a +6.6% deviation). The effective tax rate for the quarter came in lower at 9% (as against 14.8% in Q3 FY07), which was primarily responsible for the higher-than-expected net profit.

The key Mobile segment's revenues grew at an impressive rate of 13% sequentially (up 76% Y-o-Y), despite a decline of 6% sequentially (up 8% Y-o-Y) in the ARPU to Rs.406, aided by a robust subscriber growth of 16% sequentially (up 89% Y-o-Y). The company's mobile revenues and ARPU were impacted to the extent of Rs.600 mn and Rs.6 respectively due to the TRAI induced reduction in roaming charges. Broadband and Telephony revenues grew by merely 1% sequentially, driven by



decline of 7% sequentially in the ARPU. The revenue growth in the other segments, namely Enterprise Carrier and Enterprise Corporate, was broadly in line with our estimates.

The overall EBITDA margin improved by 70 bps sequentially to 41.5%. The EBITDA margin in Mobile, Broadband & Telephony, and Enterprise Corporate expanded by 150 bps, 160 bps and 500 bps to 39.1%, 29% and 50% respectively, while Enterprise Carrier (i.e. long distance operations) recorded a decline of 720 bps sequentially in the EBITDA margin to 29.2%. The company's segment-wise EBITDA margins tend to be volatile sequentially, especially in the Enterprise Corporate and Enterprise Carrier segments.

BHARTIARTL has raised its capex guidance for FY08 to \$3.3-3.5 bn from \$2.5 bn, which we believe, could be to gain advantage over other players, such as BSNL, Hutchison Essar and Reliance Communications (RCOM), who also have strong expansion plans, following the relatively lower capex in FY07 towards network expansion. The company incurred a capex of Rs.15,787 mn in the quarter, which is quite low in comparison to the average capex of Rs.20,365 mn incurred for the first three quarters.

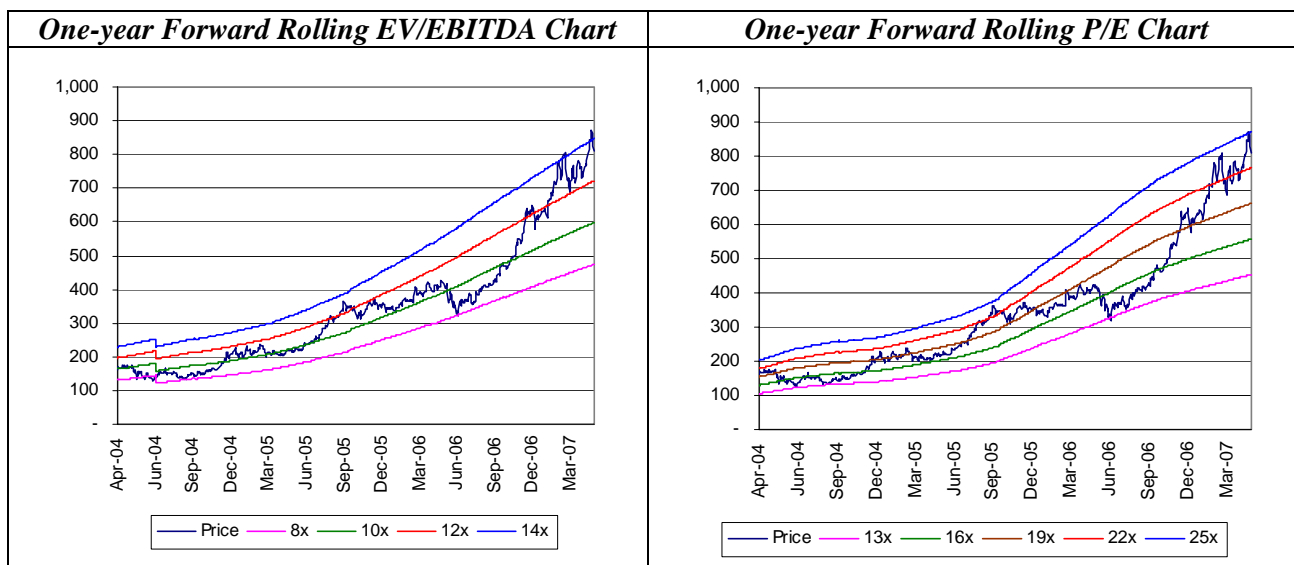
BHARTIARTL will be investing in DTH and its Sri Lankan operations in FY08, although a full-blown launch is expected only in FY09. It would hold a 40% stake in the DTH company, while having a call option for the remaining 60% stake held by a group company. The arrangement was necessary in order to meet regulations that do not allow FDI of over 20% in the DTH business. Currently, around 40%-50% stake in BHARTIARTL is held in the form of FDI.

We have raised our FY08-09 subscriber, revenue, profit and capex estimates by 6-8%, in order to reflect BHARTIARTL's more aggressive expansion plans, even as our long-term estimates, which are capped by the overall wireless potential in India, remain by and large, unchanged. We find

We have raised our FY08-09 subscriber, revenue, profit and capex estimates by 6-8%, in order to reflect BHARTIARTL's more aggressive expansion plans, even as our long-term estimates, which are capped by the overall wireless potential in India, remain by and large, unchanged...

... we find BHARTIARTL's valuations, and for that matter, those of the entire wireless pack, very expensive. However, the healthy subscriber additions expected over the next two to three quarters (until the time new capacities of other operators come on stream) could sustain the high valuations in the near-term. We, therefore, reiterate our rating of Market Perform on the stock

BHARTIARTL's valuations, and for that matter, those of the entire wireless pack, very expensive. However, the healthy subscriber additions expected over the next two to three quarters (until the time new capacities of other operators come on stream) could sustain these high valuations in the near-term. We, therefore, reiterate our rating of Market Perform on the stock.



Comparative Valuation

| | YE | P/E (x) | | P/S (x) | | P/BV (x) | | EV/EBITDA (x) | | EV/Sales (x) | | EBITDA Margin % | ROE % | ROCE % | EPS Growth % | Sales Growth % | EV/Sub (\$) | ARPU (\$) |
|----------------------------------|-----|---------|------|---------|-----|----------|-----|---------------|------|--------------|-----|-----------------|-------|--------|--------------|----------------|-------------|-----------|
| | | 08E | 09E | 08E | 09E | 08E | 09E | 08E | 09E | 08E | 09E | 08E | 08E | 08E | 09/08 | 09/08 | | |
| Bharti Airtel | Mar | 23.9 | 18.3 | 5.7 | 4.3 | 7.7 | 5.6 | 13.9 | 10.6 | 5.9 | 4.4 | 42% | 39% | 29% | 31% | 33% | 994 | 9.8 |
| Reliance Comm[^] | Mar | 22.4 | 18.9 | 5.1 | 3.9 | 4.9 | 4.0 | 12.4 | 9.7 | 5.2 | 4.0 | 42% | 27% | 14% | 18% | 29% | 839 | 9.4 |
| Idea Cellular | Mar | 35.1 | 23.7 | 4.2 | 3.0 | 6.6 | 5.2 | 14.6 | 9.8 | 4.8 | 3.4 | 33% | 21% | 14% | 48% | 42% | 575 | 8.0 |
| China Mobile | Dec | 17.8 | 14.5 | 4.1 | 3.6 | 4.0 | 3.4 | 7.0 | 6.3 | 3.8 | 3.3 | 54% | 23% | - NA - | 23% | 12% | 538 | 10.8 |
| America Movil @ | Dec | 17.5 | 14.2 | 3.3 | 2.9 | 7.6 | 7.2 | 11.2 | 8.4 | 4.0 | 3.5 | 35% | 46% | - NA - | 23% | 14% | 827 | 13.5 |
| Mobile TeleSystem * | Dec | 12.2 | 11.4 | 3.0 | 2.8 | 4.2 | 3.6 | 7.0 | 6.2 | 3.4 | 3.1 | 48% | 34% | - NA - | 7% | 8% | 339 | 8.1 |
| VimpelCom * | Dec | 18.0 | 15.1 | 3.7 | 3.3 | 2.4 | 2.0 | 7.4 | 6.6 | 3.7 | 3.3 | 50% | 27% | - NA - | 19% | 13% | 391 | 8.1 |
| Vodafone | Mar | 13.2 | 12.5 | 2.6 | 2.5 | 0.9 | 0.9 | 8.5 | 8.2 | 3.1 | 3.0 | 38% | 8% | - NA - | 6% | 4% | 1,028 | 38.8 |

Source: FG estimates for Bharti Airtel, Reliance Communications and Idea Cellular and Bloomberg estimates for the rest

[^] RCOM's return ratios have been adjusted for revaluation of assets based on our estimates

America Movil operates in Latin America

* Mobile TeleSystem and Vimpelcom are Russian mobile service providers

Note: FY08 implies YE Mar 08 for Bharti Airtel, Reliance Communications, Idea Cellular & Vodafone and December 07 for the rest and so on.



Latest Quarterly Results Analysis

| (YE March 31) (Rs Mn) | 2007 Q4 | 2006 Q4 | Y-o-Y change | 2007 Q3 | Q-o-Q change | FY07 | FY06 | Y-oY change |
|--------------------------------------|---------------|---------------|-----------------|---------------|-----------------|----------------|----------------|----------------|
| Revenues | | | | | | | | |
| Mobile | 42,431 | 24,134 | 75.8% | 37,579 | 12.9% | 141,442 | 82,390 | 71.7% |
| Broadband & Telephony | 6,044 | 4,102 | 47.3% | 5,984 | 1.0% | 22,453 | 15,015 | 49.5% |
| Enterprise Carrier | 10,156 | 7,463 | 36.1% | 9,306 | 9.1% | 34,889 | 24,522 | 42.3% |
| Enterprise Corporate | 2,511 | 2,005 | 25.2% | 2,422 | 3.7% | 9,049 | 7,076 | 27.9% |
| Other | 294 | 0 | | 261 | 12.6% | 804 | 0 | |
| Eliminations | -7,503 | -3,590 | 109.0% | -6,422 | 16.8% | -23,440 | -12,790 | 83.3% |
| Operating Revenues | 53,932 | 34,114 | 58.1% | 49,129 | 9.8% | 185,196 | 116,215 | 59.4% |
| Access Charges | 9,335 | 6,447 | 44.8% | 8,242 | 13.3% | 31,379 | 21,776 | 44.1% |
| Licence fees & spectrum chrgs | 5,098 | 2,969 | 71.7% | 4,574 | 11.5% | 16,953 | 11,228 | 51.0% |
| Network operations costs | 5,790 | 3,447 | 68.0% | 5,328 | 8.7% | 21,100 | 11,729 | 79.9% |
| Employee costs | 3,446 | 2,351 | 46.6% | 3,769 | -8.6% | 12,488 | 8,186 | 52.6% |
| S,G&A | 7,505 | 5,836 | 28.6% | 7,210 | 4.1% | 28,180 | 18,753 | 50.3% |
| Equipment Costs | 349 | 281 | 24.2% | -48 | -827.1% | 588 | 1,169 | -49.7% |
| EBITDA | 22,407 | 12,782 | 75.3% | 20,054 | 11.7% | 74,508 | 43,374 | 71.8% |
| Depreciation & Amortisation | 7,239 | 4,698 | 54.1% | 7,072 | 2.4% | 25,210 | 15,769 | 59.9% |
| Preoperating Cost | -2 | 10 | -120.0% | 0 | | 10 | 120 | |
| Operating Profit | 15,171 | 8,075 | 87.9% | 12,983 | 16.9% | 49,291 | 27,486 | 79.3% |
| Net Interest Expenditure/(Income) | 641 | 620 | 3.4% | 876 | -26.8% | 3,298 | 1,802 | 83.0% |
| Forex Income/(Losses) | 164 | -113 | -245.1% | 2,192 | -92.5% | 1,860 | -710 | -361.9% |
| Other income (Net of other expenses) | 374 | 72 | 419.4% | 111 | 236.9% | 1,007 | 392 | 157.1% |
| Profit Before Tax | 15,070 | 7,414 | 103.3% | 14,412 | 4.6% | 48,860 | 25,366 | 92.6% |
| Tax | 1,353 | 549 | 146.4% | 2,139 | -36.7% | 5,822 | 2,539 | 129.3% |
| Minoity Interest | 184 | 41 | 348.8% | 121 | 52.1% | 467 | 259.51 | 80.0% |
| Profit After Tax | 13,533 | 6,824 | 98.3% | 12,152 | 11.4% | 42,571 | 22,567 | 88.6% |
| EPS (in Rs.) | 7.15 | 3.61 | 98.1% | 6.42 | 11.4% | 22.46 | 11.93 | 88.3% |
| No of Shares (in mn) | 1,896 | 1,889 | | 1,896 | | 1,896 | 1,892 | |
| EBITDA Margin | 41.5% | 37.5% | | 40.8% | | 40.2% | 37.3% | |
| EBIT Margin | 28.1% | 23.7% | | 26.4% | | 26.6% | 23.7% | |
| NPM | 25.1% | 20.0% | | 24.7% | | 23.0% | 19.4% | |

- The company's top line growth of 58.1% Y-o-Y and 9.8% sequentially was led by a robust growth in the Mobile segment, which was up 75.8% Y-o-Y (12.9% sequentially).
- The EBITDA margin improved by 70 bps sequentially, largely due to a decline of 130 bps in employee cost (as a percentage of revenues) and 80 bps in S,G&A. Access charges increased by 50 bps, while cost of equipment rose by 75 bps. There were no significant deviations across other cost heads.
- The effective tax rate for the quarter came in at 9%, as against 14.8% in Q3 FY07, due to deferred taxes income of Rs.415 mn, as against Rs.866 mn in Q3 FY07. The current tax portion has been constant at around the MAT rate.



Segment-wise Analysis

Mobile – Decline in realization per minute a concern

Mobile segment Snapshot

| | FY07 Q4 | FY06 Q4 | Y-on-Y Chg | FY07 Q3 | Q-o-Q Chg | FY07 | FY06 | Y-on-Y Chg |
|---------------------------------|---------------|---------------|-------------|---------------|-------------|----------------|---------------|------------|
| Subscribers (in mn) | 37 | 20 | 89% | 32 | 16% | 37 | 20 | 89% |
| ARPU (Rs) | 406 | 442 | -8% | 427 | -5% | 415 | 443 | -6% |
| Voice ARPU (Rs) | 365 | 395 | -8% | 383 | -5% | 372 | 397 | -6% |
| SMS ARPU (Rs) | 24 | 30 | -19% | 26 | -8% | 26 | 30 | -15% |
| VAS ARPU (Rs) | 17 | 17 | -3% | 18 | -7% | 17 | 16 | 9% |
| Avg Mins of Usage per sub (min) | 475 | 431 | 10% | 467 | 2% | 450 | 385 | 17% |
| Revenue per minute (RPM) (Rs) | 0.9 | 1.0 | -17% | 0.9 | -7% | 0.9 | 1.1 | -20% |
| Total revenues (Rs mn) | 42,431 | 24,134 | 76% | 37,579 | 13% | 141,442 | 82,390 | 72% |
| EBITDA (Rs mn) | 16,604 | 8,746 | 90% | 14,129 | 18% | 53,253 | 29,636 | 80% |
| EBIT (Rs mn) | 11,424 | 5,673 | 101% | 9,184 | 24% | 35,654 | 19,177 | 86% |
| <i>EBITDA Margin</i> | 39.1% | 36.2% | | 37.6% | | 37.7% | 36.0% | |
| <i>EBIT Margin</i> | 26.9% | 23.5% | | 24.4% | | 25.2% | 23.3% | |
| Capex (Rs mn) | 10,706 | 17,674 | -39% | 15,597 | -31% | 71,801 | 41,594 | 73% |

Source: Company Reports

- ❑ The Mobile segment's revenues grew by 13% sequentially (up 76% Y-o-Y), despite a decline of 6% sequentially (down 8% Y-o-Y) in the ARPU to Rs.406, aided by robust subscriber growth of 16% sequentially (up 89% Y-o-Y). The company's mobile revenues and ARPU were impacted to the extent of Rs.600 mn and Rs.6 respectively by the TRAI induced reduction in roaming charges.
- ❑ Revenue per minute declined by 6% sequentially on the back of a similar decline in Q3 FY07. Even after adjusting for the adverse impact of a cut in roaming charges, revenue per minute declined by 4.2%. The decline is a concern, as the current market conditions are comparatively easier due to the delay in the expansion plans of RCOM and BSNL.
- ❑ The average MoU per subscriber per month is showing some early signs of cooling off and grew by 1.7% sequentially, as against an average of 3.4% over the last seven quarters. *We believe that the MoU will decline due to the increasing proportion of low usage subscribers. The addition of high usage subscribers from under penetrated subscribers might have been responsible for the increasing usage trend over the last few quarters.*

Revenue per minute declined by 6% sequentially on the back of a similar decline in Q3 FY07. Even after adjusting for the adverse impact of a cut in roaming charges, revenue per minute declined by 4.2%. The decline is a concern, as the current market conditions are comparatively easier due to the delay in the expansion plans of RCOM and BSNL



- The capex for Q4 FY07 was lower at Rs.10.7 bn, as against an average of Rs.2 bn for the first three quarters. The company has outlined a capex of \$2.3-2.5 bn (Rs.95-100 bn) for FY08.

Broadband & Telephony (B&T) – ARPU decline results in lower revenue growth

Broadband & Telephony (B&T) segment snapshot

| | FY07 Q4 | FY06 Q4 | Y-on-Y Chg | FY07 Q3 | Q-o-Q Chg | FY07 | FY06 | Y-on-Y Chg |
|-------------------------------|--------------|--------------|-------------|--------------|-------------|---------------|---------------|------------|
| Subscribers (in 000s) | 1,871 | 1,347 | 39% | 1,738 | 8% | 1,871 | 1,347 | 39% |
| ARPU (Rs) | 1,116 | 1,074 | 4% | 1,184 | -6% | 1,163 | 1,136 | 2% |
| Average MOU per sub (Min) | 783 | 929 | -16% | 802 | -2% | 837 | 978 | -14% |
| RPM (Rs) | 1.43 | 1.16 | 23% | 1.48 | -3% | 1.39 | 1.16 | 20% |
| Total revenues (Rs mn) | 6,044 | 4,102 | 47% | 5,984 | 1% | 22,453 | 15,015 | 50% |
| EBITDA (Rs mn) | 1,727 | 934 | 85% | 1,613 | 7% | 5,602 | 3,595 | 56% |
| EBIT (Rs mn) | 833 | 215 | 287% | 328 | 154% | 1,740 | 1,107 | 57% |
| EBITDA Margin | 28.6% | 22.8% | | 27.0% | | 24.9% | 23.9% | |
| EBIT Margin | 13.8% | 5.2% | | 5.5% | | 7.7% | 7.4% | |
| Capex (Rs mn) | 1894 | 4182 | -55% | 1644 | 15% | 9,131 | 13,012 | -30% |

Source: Company Reports

- B&T revenues grew by a mere 1% sequentially on account of a decline of 6% in the ARPU. However, there was marked improvement in both the EBITDA as well as EBIT margins. Earlier this year, the company had indicated that it had completed the major rollouts and expected margins to improve.

Enterprise services – Carriers – Traffic growth moderates... margins decline

Enterprise – Carrier segment snapshot

| | FY07 Q4 | FY06 Q4 | Y-on-Y Chg | FY07 Q3 | Q-o-Q Chg | FY07 | FY06 | Y-on-Y Chg |
|------------------------------------|---------------|--------------|-------------|--------------|-------------|---------------|---------------|-------------|
| Total MOU | 6,198 | 2,892 | 114% | 5,488 | 13% | 19,831 | 8,936 | 122% |
| - Domestic (mn min) | 5,004 | 2,208 | 127% | 4,429 | 13% | 15,943 | 6,858 | 132% |
| - International (mn min) | 1,194 | 684 | 75% | 1,059 | 13% | 3,888 | 2,078 | 87% |
| Realization per minute (Rs) | 1.64 | 2.58 | -37% | 1.70 | -3% | 1.76 | 2.74 | -36% |
| Total revenues (Rs mn) | 10,156 | 7,463 | 36% | 9,306 | 9% | 34,889 | 24,522 | 42% |
| EBITDA (Rs mn) | 3,640 | 2,771 | 31% | 4,002 | -9% | 13,759 | 8,761 | 57% |
| EBIT (Rs mn) | 2,966 | 2,249 | 32% | 3,388 | -12% | 11,496 | 6,861 | 68% |
| EBITDA Margin | 35.8% | 37.1% | | 43.0% | | 39.4% | 35.7% | |
| EBIT Margin | 29.2% | 30.1% | | 36.4% | | 33.0% | 28.0% | |
| Capex (Rs mn) | 2,317 | 1,085 | 114% | 1,485 | 56% | 8,340 | 5,311 | 57% |

Source: Company Reports



- ❑ The segment witnessed moderate traffic growth of 13% sequentially, as against an average of 25% recorded over the past four quarters. However, the segment’s total revenues per minute (which is not the best indicator, as the segment also has data revenues) declined by 3.5% sequentially, as against an average of 10% over the last four quarters, thereby helping the company post a revenue growth of 9% sequentially.
- ❑ *It must be noted that the Carrier segment caters mainly to the company’s Mobile segment and the decline in carriage charges led to a decline in the former’s margins and possibly an increase in the latter’s margins.*
- ❑ The company plans to expand its fibre optic network by 20,000 to 25,000 route kms in FY08, as against the expansion of 7500 route kms in FY07. The strong growth in National Long Distance (NLD) recorded over the last few quarters might have resulted in high utilization levels, thereby necessitating expansion. Besides, the company plans to increase the share of mobile traffic carried on its own network from the current 80% to 90-95%.

The strong growth in National Long Distance (NLD) recorded over the last few quarters might have resulted in high utilization levels, thereby necessitating expansion.

Enterprise Services – Corporate records strong margin expansion

Enterprise – Corporate segment snapshot

| | FY07 Q4 | FY06 Q4 | Y-on-Y Chg | FY07 Q3 | Q-o-Q Chg | FY07 | FY06 | Y-on-Y Chg |
|-------------------------------|--------------|--------------|------------|--------------|------------|--------------|--------------|------------|
| Total revenues (Rs mn) | 2,511 | 2,005 | 25% | 2,422 | 4% | 9,050 | 7,076 | 28% |
| EBITDA (Rs mn) | 1,257 | 714 | 76% | 1,092 | 15% | 4,192 | 2,575 | 63% |
| EBIT (Rs mn) | 1,067 | 555 | 92% | 855 | 25% | 3,484 | 2,177 | 60% |
| EBITDA Margin | 50% | 36% | | 45% | 11% | 46% | 36% | |
| EBIT Margin | 42% | 28% | | 35% | | 38% | 31% | |
| Capex (Rs mn) | 1,983 | 1,264 | 57% | 1,502 | 32% | 5,222 | 3,394 | 54% |

Source: Company Reports

- ❑ The EBITDA margin expanded to 45% in the quarter from 42% in Q2 FY07. Historically, the segment’s EBITDA margin has been very volatile, especially on a sequential basis.



Free Cash Flow Analysis

The company's aggressive capex plans is likely to result in company remaining free cash flow (FCF) negative in FY08 as well. In the past, the company had indicated it would be investing around \$ 8 bn till FY10. We believe the company is looking at more front-ended investments to take advantage of relatively easy market conditions.

Prospective free cash flow

| (Rs. Million) | 2006 | 2007E | 2008E | 2009E | 2010E |
|---|----------------|----------------|-----------------|----------------|----------------|
| Calculation of Net Operating profit Less Adjusted taxes (NOPLAT) | | | | | |
| EBITA | 28,813 | 50,795 | 79,585 | 102,659 | 116,559 |
| Less: Adjusted taxes | 2,752 | 5,873 | 10,141 | 15,399 | 18,649 |
| Plus: Change in Deferred Tax Liabilities/(Assets) | 15 | 88 | 981 | 1,507 | 1,501 |
| Plus: Change in Income Tax Payable | - | - | 0 | 0 | 0 |
| NOPLAT | 26,076 | 45,010 | 70,426 | 88,766 | 99,410 |
| Plus: Depreciation | 14,266 | 23,703 | 35,192 | 48,008 | 58,958 |
| Gross cash flow | 40,342 | 68,713 | 105,618 | 136,775 | 158,368 |
| Less: Inc/(Dec) in Non cash working capital | (9,715) | (1,039) | (9,733) | (9,159) | (2,814) |
| Operating cash flow | 50,057 | 69,751 | 115,351 | 145,933 | 161,182 |
| Less: Capex | | | | | |
| Gross capex | 64,080 | 91,896 | 143,375 | 124,740 | 104,328 |
| Credit from equipment suppliers | (7,935) | (17,592) | (14,337) | (9,979) | (7,303) |
| Net Capex | 56,145 | 74,304 | 129,037 | 114,761 | 97,025 |
| Less: Inc/(Dec) Other Assets, net of other Liabilities | (78) | (1,208) | (657) | (512) | (591) |
| FCF from Operations | (6,010) | (3,344) | (13,030) | 31,685 | 64,747 |
| Less: Inc/(Dec) in Investments | 19 | (8) | - | - | - |
| Less: Investment in Goodwill and other intangibles | 676 | 746 | - | - | - |
| Total FCF | (6,705) | (4,082) | (13,030) | 31,685 | 64,747 |
| Financing Cash Flow | | | | | |
| Interest exp/(inc) after tax, net | 1,908 | 380 | 2,213 | 1,881 | (573) |
| Inc/(dec) in cash and marketable securities | (3,627) | 2,912 | 2,562 | 15,805 | 31,046 |
| Dec/(Inc) in Debt | 3,300 | (7,033) | (18,464) | 5,000 | 19,000 |
| Dividends | - | - | - | 8,487 | 14,684 |
| Share repurchase | (8,287) | (339) | 657 | 512 | 591 |
| Total Financing Flow | (6,705) | (4,080) | (13,032) | 31,685 | 64,747 |



First Global's Earning Model for BHARTI AIRTEL

| YE March 31st | FY07 Q1 | FY07 Q2 | FY07 Q3 | FY07 Q4 | FY 07 | FY08E Q1 | FY08E Q2 | FY08E Q3 | FY08E Q4 | FY08E | FY09E |
|-----------------------------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Figures in mn of Rs. | | | | | | | | | | | |
| Sales from Operations | 38,563 | 43,571 | 49,129 | 53,932 | 185,195 | 59,216 | 65,196 | 70,891 | 76,360 | 271,664 | 360,584 |
| Less: | | | | | | | | | | | |
| Access Charges | 6,612 | 7,190 | 8,242 | 9,335 | 31,379 | 9,919 | 10,920 | 11,874 | 12,790 | 45,504 | 57,693 |
| Licence fees & spectrum charges | 3,395 | 3,886 | 4,574 | 5,098 | 16,953 | 5,423 | 5,970 | 6,492 | 6,993 | 24,878 | 31,803 |
| Network operations costs | 4,754 | 5,228 | 5,328 | 5,790 | 21,100 | 6,354 | 6,783 | 7,214 | 8,017 | 28,369 | 44,149 |
| Employee costs | 2,365 | 2,908 | 3,769 | 3,446 | 12,488 | 3,849 | 4,238 | 4,608 | 4,963 | 17,658 | 23,438 |
| S,G&A | 6,081 | 7,384 | 7,210 | 7,505 | 28,180 | 8,882 | 9,779 | 10,634 | 11,454 | 40,750 | 54,088 |
| EBITDA | 15,021 | 17,023 | 20,054 | 22,409 | 74,508 | 24,848 | 27,571 | 30,140 | 32,219 | 114,778 | 149,773 |
| Depreciation & Amortization | 4,972 | 5,926 | 7,072 | 7,239 | 25,209 | 7,777 | 8,796 | 9,671 | 10,529 | 36,772 | 47,115 |
| Preoperating Cost | 9 | 2 | - | (2) | 9 | - | - | - | - | - | - |
| Operating profit | 10,040 | 11,095 | 12,983 | 15,172 | 49,290 | 17,071 | 18,775 | 20,470 | 21,690 | 78,005 | 102,659 |
| Net Interest Expenditure/(Income) | 724 | 1,057 | 876 | 641 | 3,298 | 885 | 1,030 | 1,158 | 1,199 | 4,272 | 4,068 |
| Forex Income/(Losses) | (967) | 471 | 2,192 | 164 | 1,860 | - | - | - | - | - | - |
| Other income/(expenses) | 249 | 273 | 111 | 374 | 1,007 | 415 | 456 | 425 | 382 | 1,678 | 1,803 |
| Profit Before Tax | 8,597 | 10,780 | 14,412 | 15,069 | 48,859 | 16,601 | 18,201 | 19,737 | 20,872 | 75,411 | 100,394 |
| Tax | 952 | 1,378 | 2,139 | 1,353 | 5,822 | 2,158 | 2,366 | 2,566 | 2,713 | 9,803 | 15,059 |
| Minority Interest | 96 | 66 | 121 | 184 | 467 | 144 | 158 | 172 | 182 | 656 | 512 |
| Net Profit | 7,549 | 9,336 | 12,151 | 13,532 | 42,570 | 14,298 | 15,676 | 17,000 | 17,977 | 64,952 | 84,823 |
| | | | | | | | | | | | |
| Diluted EPS | 4.0 | 4.9 | 6.4 | 7.1 | 22.5 | 7.5 | 8.3 | 9.0 | 9.5 | 34.3 | 44.7 |
| Weighted average diluted shares | 1895 | 1895 | 1896 | 1,896 | 1,896 | 1,896 | 1,896 | 1,896 | 1,896 | 1,896 | 1,896 |
| | | | | | | | | | | | |
| Margin Analysis | | | | | | | | | | | |
| EBITDA Margin | 39.0% | 39.1% | 40.8% | 41.6% | 40.2% | 42.0% | 42.3% | 42.5% | 42.2% | 42.2% | 41.5% |
| EBIT Margin | 26.0% | 25.5% | 26.4% | 28.1% | 26.6% | 28.8% | 28.8% | 28.9% | 28.4% | 28.7% | 28.5% |
| Net Profit Margin | 19.6% | 21.4% | 24.7% | 25.1% | 23.0% | 24.1% | 24.0% | 24.0% | 23.5% | 23.9% | 23.5% |
| | | | | | | | | | | | |
| Effective Tax rate | 11% | 13% | 15% | 9% | 12% | 13% | 13% | 13% | 13% | 13% | 15% |
| | | | | | | | | | | | |



IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The risks that may impede achievement of the price target/investment thesis are -

- The higher than expected increase in subscriber base
- Lower than expected competition



Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: S&P CNX Nifty Index

Positive Ratings

(i) Buy (B) – This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.

(ii) Buy at Declines (BD) – This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.

(iii) Outperform (OP) – This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.

Neutral Ratings

(i) Hold (H) – This rating means that we expect no substantial move in the stock price over the specified time period.

(ii) Marketperform (MP) – This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.

Negative Ratings

(i) Sell (S) – This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.

(ii) Sell into Strength (SS) – This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.

(iii) Underperform (UP) – This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.

(iv) Avoid (A) – This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.



FIRST GLOBAL

Nirmal, 6th Floor, Backbay Reclamation,
Nariman Point, Mumbai - 400 021, India.

Dealing Desk (India):

Tel.: +91-22-4001 2400

email: fgindiasales@bloomberg.net

FG Markets, Inc.

90 John Street, Suite 703,
New York, NY 10038

Dealing Desk (US):

Tel. No: +1-845-462 3300

email: us@fglobal.com

FIRST GLOBAL (UK) Ltd.

The Cobalt Building, 19-20, Noel Street,
London W1F 8GW, United Kingdom

Dealing Desk (UK & Europe):

Tel. No: 00-44-207-959 5300

email: uk@fglobal.com

The information and opinions in this report were prepared by First Global. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources, believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness. Any statements nonfactual in nature constitute only current opinions, which are subject to change. First Global does not undertake to advise you of changes in its opinion or information. First Global and others associated with it may make markets or specialize in, have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies.

Whilst all reasonable care has been taken to ensure the facts stated and the opinions given are fair, neither First Global (UK) Limited nor FG Markets, Inc. nor any of their affiliates shall be in any way responsible for its contents, nor do they accept any liability for any loss or damage (including without limitation loss of profit) which may arise directly or indirectly from use of or reliance on such information. First Global (or one of its affiliates or subsidiaries) or their officers, directors, analysts, employees, agents, independent contractors, or consultants may have positions in securities or commodities referred to herein and may, as principal or agent, buy and sell such securities or commodities. An employee, analyst, officer, agent, independent contractor, a director, or a consultant of First Global, its affiliates, or its subsidiaries may serve as a director for companies mentioned in this report.

First Global and its affiliates may, to the extent permitted under applicable law, have acted upon or used the information prior to or immediately following its publication, provided that we could not reasonably expect any such action to have a material effect on the price. This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell or a solicitation of an offer to buy or sell the securities mentioned.

The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors as they believe necessary. Where an investment is denominated in a currency other than the investor's currency, changes in rates of exchange may have an adverse effect on the value, price of, or income derived from the investment. There may be instances when fundamental, technical, and quantitative opinions may not be in concert.

Past performance is not necessarily a guide to future performance. Income from investments may fluctuate. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. There are risks inherent in international investments, which may make such investments unsuitable for certain clients. These include, for example, economic, political, currency exchange rate fluctuations, and limited availability of information on international securities.

The value of investments and the income from them may vary and you may realize less than the sum invested. Part of the capital invested may be used to pay that income. In the case of higher volatility investments, these may be subject to sudden and large falls in value and you may realize a large loss equal to the amount invested. Some investments are not readily realizable and investors may have difficulty in selling or realizing the investment or obtaining reliable information on the value or risks associated with the investment. Where a security is denominated in a currency other than sterling (for UK investors) or dollar (for US investors), changes in exchange rates may have an adverse effect on the value of the security and the income thereon. The tax treatment of some of the investments mentioned above may change with future legislation. The investment or investment service may not be suitable for all recipients of this publication and any doubts regarding this should be addressed to your broker. While First Global has prepared this report, First Global (UK) Ltd. and FG Markets, Inc. is distributing the report in the UK & US and accept responsibility for its contents. Any person receiving this report and wishing to effect transactions in any security discussed herein should do so only with a representative of First Global (UK) Ltd. or FG Markets, Inc.

First Global (UK) Limited is regulated by FSA and is a Member firm of the London Stock Exchange.

FG Markets, Inc. is regulated by SEC and is a member of National Association of Security Dealers (NASD) and Securities Investor Protection Corporation (SIPC). FG Markets, Inc., its affiliates, and its subsidiaries make no representation that the companies which issue securities which are the subject of their research reports are in compliance with certain informational reporting requirements imposed by the Securities Exchange Act of 1934. Sales of securities covered by this report may be made only in those jurisdictions where the security is qualified for sale. Additional information on recommended securities is available on request.

This report may not be resold or redistributed without the prior written consent of First Global.