

Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE Sensex: 11,149	BHARTI IN
	REUTERS CODE
S&P CNX: 3,260	BRTI.BO

10 August 2006

Buy

Previous Recommendation: Buy

Rs409

Equity Shares (m)	1,884.1
52-Week Range (Rs)	433/287
1,6,12 Rel. Perf. (%)	1/2/-9
M.Cap. (Rs b)	770.6
M.Cap. (US\$ b)	16.5

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/06A	116,631	22,584	12.0	48.3	34.1	8.4	29.5	21.6	7.1	18.9
3/07E	169,324	34,599	18.3	52.6	22.4	6.1	31.7	25.5	5.0	12.8
3/08E	209,859	45,627	24.1	31.9	17.0	4.5	30.5	26.1	4.0	9.8

The Indian Wireless Industry added 5.4m subscribers in July 2006 against 4.9m subscribers in June 2006. The growth was mainly led by GSM operators while CDMA additions were down 12% on MoM basis. Bharti, a GSM operator, added 1.3m subscribers in July 2006 compared with 1.2m additions in June 2006. The company further strengthened its leadership position in the overall wireless market. Its market share improved by 10bp over the previous month. We maintain our positive stance on the stock.

Robust GSM additions, BSNL bounces back

GSM operators added 4m subscribers in July 2006 as against 3.2m subscribers in June 2006. GSM operators improved their incremental market share from 65.8% to 72.9% led by recovery in BSNL net adds. BSNL reported subscriber additions of 0.7m for July 2006 against 0.3m in June 2006. Although BSNL lost subscribers in five circles,

net additions were up 151% on MoM basis, as Maharashtra and UP (W) accounted for 70% of net additions. Bharti added 1.3m subscribers for the month against 1.2m in June 2006, resulting in an incremental market share of 32.2% amongst GSM operators. Hutch and Idea continued acceleration in net adds. Hutch's net additions were up 10% MoM at 0.9m while Idea's net additions were up 23% MoM at 0.6m.

Lower subscriber additions by CDMA operators but Reliance maintains momentum

CDMA operators added 1.5m subscribers in July 2006 as against 1.7m subscribers in June 2006. Tata Tele's FWP additions were flat, cellular additions were down 35% taking total additions at 0.6m against 0.8m in June 2006. Reliance maintained its momentum in the CDMA segment with 0.9m additions reflecting growth of 3.1% on MoM basis.

WIRELESS SUBSCRIBER ADDITIONS (ABSOLUTE NUMBERS)

OPERATORS	APR-06	MAY-06	JUN-06	JUL-06
Bharti	1,104,694	1,176,310	1,212,367	1,265,258
BSNL	426,944	415,195	292,774	737,135
Hutch	701,211	705,478	776,662	854,903
Idea	274,343	422,185	474,114	584,459
MTNL	76,489	79,834	72,183	68,139
Spice	51,166	42,977	27,076	40,073
BPL	-29,970	-15,100	4,750	-12,500
Aircel	218,923	194,234	173,946	192,712
Reliance Telecom (GSM)	105,865	145,993	160,885	200,018
Total GSM	2,929,665	3,167,106	3,194,757	3,930,197
Reliance CDMA (DM+FWP)	502,250	521,884	873,778	901,191
TTSL CDMA (DM+FWP)	514,150	604,822	780,184	559,317
Total CDMA	1,006,719	1,124,694	1,656,402	1,461,068
Total Wireless	3,936,384	4,291,800	4,851,159	5,391,265

MARKET SHARE (%)

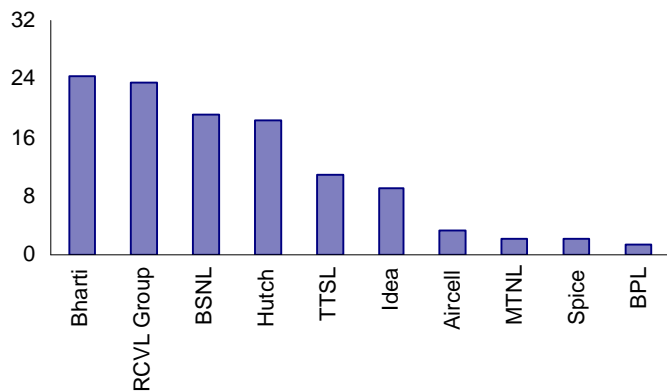
	APR-06	MAY-06	JUN-06	JUL-06
Bharti	20.6	20.9	21.1	21.2
BSNL	17.6	17.2	16.7	16.6
Hutch	16.0	16.1	16.0	16.0
Idea	7.6	7.7	7.8	8.0
MTNL	2.0	2.0	2.0	2.0
Spice	2.0	1.9	1.9	1.8
BPL	1.3	1.2	1.2	1.1
Aircel	2.8	2.9	2.9	3.0
Reliance Telecom (GSM)	2.0	2.1	2.1	2.2
Total GSM	72.0	72.1	71.8	71.8
Reliance CDMA (DM+FWP)	18.8	18.5	18.5	18.4
TTSL CDMA (DM+FWP)	9.0	9.2	9.5	9.5
Total CDMA	28.0	27.9	28.2	28.2
Total Wireless	100.0	100.0	100.0	100.0

Source: COAI, AUSPI

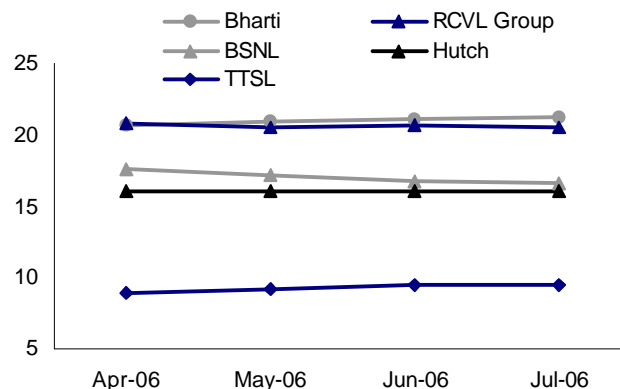
Note: 1. Since Reliance Infocomm has reported consolidated additions for both its FWP and digital mobile operations, we have consolidated numbers for other CDMA operators as well for meaningful comparison. 2. MTNL has not reported its CDMA subscriber additions for the month.

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BHARTI RETAINS ITS LEADERSHIP POSITION
SUBSCRIBERS AS AT END-JULY 2006 (M)



MARKET SHARE MOVEMENT OF TOP PLAYERS (%)



Source: Company/ Motilal Oswal Securities

Bharti maintains leadership

Bharti’s market share increased from 21.1% in June 2006 to 21.2% in July 2006. We believe that the launch of FWP will enable Bharti to increase its market share further. The capex for rolling out FWP services is likely to be minimal, as it will use its existing GSM network. We believe that the company’s superior execution and innovative business model, which have enabled it to focus on subscriber acquisitions while outsourcing other functions to vendors, have been the key drivers for its consistent performance.

Reinforcing its commitment to innovation, it has partnered with IBM to deliver India’s first ‘Service Delivery Platform’ (SDP). It is investing over US\$100m in this delivery platform. We believe differentiation will become a critical component in a highly competitive Indian telecom market. This implementation will allow Bharti to offer significantly enhanced spectrum of content and value-added services to

its customers, enabling them to continue to maintain their competitive advantage and leadership in the marketplace. We believe that Bharti Airtel will continue to be the market leader, driven by its strong execution skills.

Valuation and view

We continue to be impressed with Bharti’s subscriber additions. The company has been reporting additions in line with our estimates and ahead of market expectations. We note that additions for Bharti were impressive given the stringent verification norms. We believe that Bharti will be able to sustain its premium over other operators because of its de-risked business model and management’s ability to tap new areas of revenues and efficiency. We expect Bharti to report EPS of Rs18.3 in FY07 and Rs24.1 in FY08. The stock is currently trading at 22.4x FY07E EPS and 17x FY08E EPS. We reiterate **Buy** with a price target of Rs481 – an upside of 17.6%.

Bharti Airtel: an investment profile

Company description

Bharti Airtel, promoted by Sunil Bharti Mittal, is the largest cellular services provider in India with a subscriber base of more than 23m and a market share of over 21% of the overall cellular market. It is the first cellular services provider to have introduced the lowest denomination recharge coupon for prepaid subscribers and electronic recharge. It is also the most profitable cellular services provider and is managed by a very strong team of professionals. It is the only player to have a presence in all 23 circles in India.

Key investment arguments

- ☞ Leader in the fast growing Indian cellular market and enjoys scale advantage.
- ☞ Strong innovative management, the biggest differentiator.
- ☞ Most profitable cellular services provider.

Key investment risks

- ☞ Declining ARPM's could lead to lower operating margins.
- ☞ Being a listed company, can not be a price leader due to focus on profitability and hence is reactive to competitor's pricing.

COMPARATIVE VALUATIONS

		BHARTI	INFOSYS	TCS
P/E (x)	FY07E	22.4	26.2	24.6
	FY08E	17.0	21.8	20.4
P/BV (x)	FY07E	6.1	9.6	10.7
	FY08E	4.5	7.2	7.6
EV/Sales (x)	FY07E	5.0	5.1	5.1
	FY08E	4.0	6.7	4.1
EV/EBITDA (x)	FY07E	12.8	20.7	19.4
	FY08E	9.8	16.3	15.5

SHAREHOLDING PATTERN (%)

	JUN.06	MAR.06	JUN.05
Promoters	45.4	45.5	46.0
Domestic Institutions	4.0	3.9	3.4
FII's/FDIs	47.2	48.1	47.7
Others	3.5	2.6	2.9

Recent developments

- ☞ Introduced India's first Rs999 Lifetime prepaid card with a lifetime validity on 23 December 2005.
- ☞ Launched Easy Lifetime Prepaid.
- ☞ Launched Airtel Mega its Fixed wireless phone service

Valuation and view

- ☞ Revenue CAGR of 34.1% and earnings CAGR of 42.1% over FY06-08E. Valuations at 22.4x FY07E earnings and 17x FY08E earnings are attractive and at a discount to some similar sized peers in other fast growing industries, like TCS and Infosys.
- ☞ **Buy** with a target price of Rs481, an upside of 17.6% from current levels.

Sector view

- ☞ Rapid growth in mobile subscriber base enabling the cellular market to surpass that of fixed telephony.
- ☞ We expect India's total wireless subscriber base to touch 150m by FY07E and 316m by FY10E. We estimate total telephony subscriber base will touch 429m against government target of 500m phones by 2010. We expect wireless subscriber base to grow at a CAGR of 38% from FY06 to FY10.
- ☞ Tariff cuts to be compensated by volume and cut in regulatory levies, resulting in decent margins and RoE.

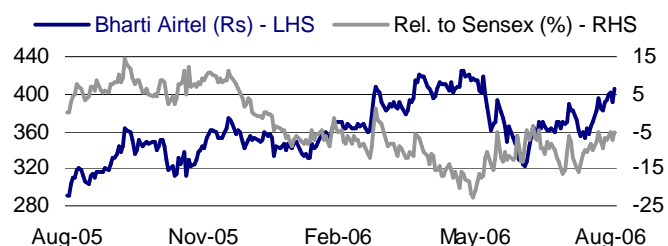
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	18.3	18.1	1.1
FY08	24.1	24.4	-1.2

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
409	481	17.6	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Revenues	48,320	80,028	116,631	169,324	209,859	
Change (%)	64.0	65.6	45.7	45.2	23.9	
Total Expenses	32,443	49,963	73,032	103,329	124,105	
EBITDA	15,907	30,065	43,599	65,995	85,754	
% of Gross sales	32.9	37.6	37.4	39.0	40.9	
Depn. & Amortisation	7,733	11,341	15,830	21,844	26,914	
EBIT	8,174	18,724	27,769	44,152	58,840	
Net Interest	2,380	1,996	2,651	4,493	5,167	
Other Income	182	-124	456	571	640	
PBT	5,976	16,604	25,574	40,230	54,313	
Tax	901	1,528	2,736	5,222	8,147	
Rate (%)	15.1	9.2	10.7	13.0	15.0	
Adjusted PAT	5,076	14,978	22,584	34,599	45,627	
Change (%)	4.0	195.1	50.8	53.2	31.9	
PAT after EO	5,376	14,978	22,584	34,599	45,627	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Share Capital	18,534	18,534	18,939	18,952	18,952	
Additional Paid up Capital	48,116	47,987	56,060	56,060	56,060	
Reserves	-20,733	-5,455	16,894	51,660	97,387	
Net Worth	45,916	61,065	91,893	126,672	172,399	
Loans	45,723	49,040	47,395	68,661	69,290	
Minority Interest	0	749	951	1,360	1,899	
Other Liabilities	3,694	3,076	3,704	5,556	5,834	
Deferred Tax Liability	1,127	1,183	1,945	1,945	1,945	
Capital Employed	96,460	115,114	145,888	204,194	251,368	
Gross Block	120,455	163,634	228,252	311,197	367,197	
Less : Depreciation	20,484	31,825	47,655	69,499	96,413	
Net Block	99,972	131,879	180,598	241,898	270,784	
Intangible Fixed assets	36,388	39,211	38,200	34,380	33,349	
Investments	158	671	692	567	1,020	
Other Non-Current Assets	1,911	2,400	3,258	3,421	5,131	
Curr. Assets	15,138	24,124	31,002	44,895	61,496	
Inventories	317	545	381	431	451	
Debtors	5,030	7,308	10,620	22,267	29,898	
Cash & Bank Balance	1,305	3,256	2,838	2,838	8,001	
Other current assets	8,486	13,015	17,163	19,358	23,147	
Curr. Liab. & Prov.	20,719	43,959	69,662	86,586	87,064	
Sundry Liabilities	17,460	40,486	64,879	81,085	81,288	
Other Current Liabilities	3,259	3,473	4,783	5,500	5,775	
Net Curr. Assets	-5,581	-19,835	-38,660	-41,691	-25,567	
Appl. of Funds	96,461	115,114	145,888	204,194	251,368	

E: M OSt Estimates

RATIOS						
Y/E MARCH	2004	2005	2006	2007E	2008E	
Basic (Rs)						
EPS	2.7	8.1	12.0	18.3	24.1	
Cash EPS	7.1	14.2	20.3	29.8	38.3	
Book Value	24.8	32.9	48.5	66.8	91.0	
DPS	0.0	0.0	0.0	0.0	0.0	
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	0.0	0.0	
Valuation (x)						
P/E		50.6	34.1	22.4	17.0	
Cash P/E		28.8	20.2	13.7	10.7	
EV/EBITDA		26.8	18.9	12.8	9.8	
EV/Sales		10.1	7.1	5.0	4.0	
Price/Book Value		12.4	8.4	6.1	4.5	
Dividend Yield (%)		0.0	0.0	10	10	
Profitability Ratios (%)						
RoE	12.4	28.0	29.5	31.7	30.5	
RoCE	9.8	17.6	21.6	25.5	26.1	
Turnover Ratios						
Debtors (Days)	50	42	41	58	63	
Asset Turnover (x)	0.3	0.4	0.4	0.5	0.5	
Leverage Ratio						
Debt/Equity Ratio(x)	1.1	0.9	0.6	0.6	0.4	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Op.Profit/(Loss) bef Tax	15,907	30,065	43,599	65,995	85,754	
Other Income	182	-124	456	571	640	
Interest Paid	-2,380	-1,996	-2,651	-4,493	-5,167	
Direct Taxes Paid	-1,012	-1,472	-1,974	-5,222	-8,147	
(Inc)/Dec in Wkg. Cap.	9,488	16,731	15,712	4,734	-11,130	
CF from Op.Activity	22,186	43,205	55,142	61,585	61,950	
(inc)/Dec in FA +CWIP	-39,684	-43,248	-64,549	-83,144	-55,800	
(Pur)/Sale of Investments	1,939	-2,146	2,848	125	-1,717	
CF from Inv.Activity	-37,745	-45,393	-61,701	-83,019	-57,517	
Issue of Shares	-81	-129	8,073	0	0	
Inc/(Dec) in Debt	15,994	3,317	-1,645	21,266	629	
Other Financing Activities	346	951	-288	168	101	
CF from Fin.Activity	16,259	4,139	6,141	21,434	730	
Inc/(Dec) in Cash	700	1,951	-418	0	5,163	
Add: Opening Balance	606	1,305	3,256	2,838	2,838	
Closing Balance	1,305	3,256	2,837	2,838	8,001	

E: M OSt Estimates; All Financials as per US GAAP

N O T E S



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Bharti Airtel

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|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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