

INDIA

## Bharti Airtel

30 April 2007

### BHARTI IN Outperform

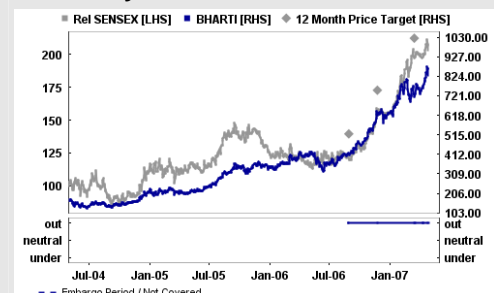
Stock price as of 27 Apr 07	Rs	826.25
12-month target	Rs	1,025.00
Upside/downside	%	+24.1
Valuation	Rs	1,025.00
- DCF (WACC 11.6%)		

GICS sector	telecommunication services	
Market cap	Rs bn	1,567
30-day avg turnover	Rs m	166.6
Market cap	US\$m	38,395
Number shares on issue	m	1,896

### Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	185.2	272.3	347.1	412.1
EBITDA	bn	74.5	115.6	149.7	180.0
EBITDA growth	%	71.0	55.2	29.5	20.2
Adjusted profit	bn	42.6	69.2	94.2	113.9
EPS adj	Rs	22.46	36.51	49.67	60.06
EPS adj growth	%	87.3	62.6	36.1	20.9
PE adj	x	36.8	22.6	16.6	13.8
Total DPS	Rs	0.00	0.00	0.00	10.00
Total div yield	%	0.0	0.0	0.0	1.2
ROA	%	19.1	22.2	21.2	19.9
ROE	%	37.4	40.7	37.4	33.0
EV/EBITDA	x	21.6	13.9	10.8	9.0
Net debt/equity	%	32.8	6.9	-13.8	-26.5
Price/book	x	11.6	7.7	5.2	4.0

### BHARTI IN rel SENSEX performance, & rec history



Source: Datastream, Macquarie Research, April 2007 (all figures in INR unless noted)

### Analysts

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## Putting its money where its mouth is

### Event

- Bharti Airtel released a good set of numbers in 4Q FY3/07. The results are largely in line with our estimates but significantly ahead of consensus at the PAT and EBITDA margin levels. However, they were marginally below at the revenue and EBITDA levels. The positive surprises were in wireless and fixed line EBITDA margins, while there were marginal shortfalls in revenues in all four business segments and in LD margin. The shortfalls in revenue were due to lower ARPU numbers for the wireless and fixed line segments.

### Impact

- EPS of Rs36.5 in FY08E, Rs49.7 in FY09E and Rs60.1 in FY10E, similar to our earlier estimates.** However, for FY08E, FY09E and FY10E, we have cut revenue numbers by 5.9%, 5% and 3%, respectively, while we have revised our EBITDA margins by +1%, +0.2% and -0.1%, respectively. As a result, our new EBITDA numbers are 3.7%, 4.5% and 3.3% lower, respectively.
- Quarter and full-year PAT doubled YoY:** Bharti's performance in 4Q and FY3/07 was impressive despite subscriber deactivation of 300k in 4Q and the hit from the phase out of roaming rentals and sharp cuts in roaming tariffs that took effect from 15 February 2007. Bharti's ROE was 37.4% in FY3/07 and free cashflow break-even was achieved in 4Q FY3/07, well before the consensus estimate. For a projected EPS CAGR of 38.8% over FY3/07-10E and EBITDA CAGR of 34.2%, we believe the stock still offers a lot of value.
- Highest-ever EBITDA margin:** EBITDA margin for 4Q was 41.6%, an expansion of 80bp QoQ and 410bp YoY. A sharp rise in wireless margin contributed to the improvement. Key cost savings were in employee costs (down 8.6% QoQ) and SG&A (up only 4.1% QoQ on revenue growth of 9.8%).
- Capex in 4Q FY3/07 at US\$392m was significantly lower** than in the last few quarters. However, this was one-off as it plans to spend US\$3.3-3.5bn for capex in FY08. 70% of this would drive wireless expansion while the rest would be for non-wireless as well as new businesses, namely Sri Lanka wireless, DTH (where Bharti will hold a 40% stake; expected rollout towards end-FY08) and IPTV (launch in NCR region by end-FY08).

### Earnings revision

- We have adjusted our estimates to factor in higher-than-expected EBITDA margin and lower ARPU in 4Q FY3/07E. However, our EPS estimate for FY3/08E and FY3/09E are similar to our earlier estimates.

### Price catalyst

- 12-month price target: Rs1,025.00 based on a DCF methodology.
- Catalyst: 1) Increased population coverage on the back of network expansion; 2) Ramp-up of fixed wireless, launch of DTH business; 3) Sequential EBITDA margin improvement; and 4) Capex and opex savings from network sharing.

### Action and recommendation

- We reiterate Outperform with a target price of Rs1,025. Bharti remains our top telecom pick in Asia.

Please refer to the important disclosures on inside back cover of this document, or on our website [www.macquarie.com.au/research/disclosures](http://www.macquarie.com.au/research/disclosures).

Fig 1 Bharti Airtel: 4Q FY3/07 quarterly results and divisional snapshot

Year to Mar (Rs m)	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	(% chg YoY)	(% chg QoQ)	4QFY07E	Deviation (%)
<b>Segmental Breakdown of Revenues:</b>									
Mobile revenues	24,134	28,411	33,022	37,579	42,431	75.8	12.9	43,199	(1.8)
Broadband & Telephone Service revenues	4,102	5,182	5,244	5,984	6,044	47.3	1.0	6,628	(8.8)
Long Distance Service revenues	7,463	7,064	8,362	9,306	10,156	36.1	9.1	10,260	(1.0)
Enterprise Service revenues	2,005	1,969	2,148	2,422	2,511	25.2	3.7	2,664	(5.8)
Others	(3,590)	(4,063)	(5,205)	(6,162)	(7,210)	100.8	17.0	(6,993)	3.1
<b>Revenues</b>									
Services	33,625	38,303	43,301	48,929	53,619	59.5	9.6	55,546	(3.5)
Indefeasible right of use sales	110	109	109	109	109	(0.9)	-	109	-
Equipment	379	151	161	91	204	(46.2)	124.2	103	97.5
<b>Total Revenues</b>	<b>34,114</b>	<b>38,563</b>	<b>43,571</b>	<b>49,129</b>	<b>53,932</b>	<b>58.1</b>	<b>9.8</b>	<b>55,758</b>	<b>(3.3)</b>
<b>Operating Expenses</b>									
Cost of services	15,214	17,126	19,211	21,912	23,669	55.6	8.0	24,624	(3.9)
(% of total revenues)	44.6%	44.4%	44.1%	44.6%	43.9%			44.2%	
- Access, license & spectrum charges	9,416	10,007	11,076	12,816	14,433	53.3	12.6	14,420	0.1
(% of total revenues)	27.6%	25.9%	25.4%	26.1%	26.8%			25.9%	
- Network operations costs	3,447	4,754	5,228	5,328	5,790	68.0	8.7	6,022	(3.9)
(% of total revenues)	10.1%	12.3%	12.0%	10.8%	10.7%			10.8%	
- Employee costs	2,351	2,365	2,908	3,769	3,446	46.6	(8.6)	4,182	(17.6)
(% of total revenues)	6.9%	6.1%	6.7%	7.7%	6.4%			7.5%	
Costs of equipment sales	281	335	(48)	(48)	350	24.6	nmf	56	527.7
(% of total revenues)	0.8%	0.9%	-0.1%	-0.1%	0.6%			0.1%	
Selling, general & administrative expenses	5,836	6,081	7,384	7,210	7,505	28.6	4.1	8,248	(9.0)
(% of total revenues)	17.1%	15.8%	16.9%	14.7%	13.9%			14.8%	
Pre-operating cost	10	9	2	-	(2)			-	
(% of total revenues)	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	
<b>Total Operating Expense</b>	<b>21,341</b>	<b>23,551</b>	<b>26,549</b>	<b>29,074</b>	<b>31,522</b>	<b>47.7</b>	<b>8.4</b>	<b>32,928</b>	<b>(4.3)</b>
(% of total revenues)	62.6%	61.1%	60.9%	59.2%	58.4%			59.1%	
<b>EBITDA</b>									
<b>EBITDA</b>	<b>12,773</b>	<b>15,012</b>	<b>17,022</b>	<b>20,055</b>	<b>22,410</b>	<b>75.4</b>	<b>11.7</b>	<b>22,830</b>	<b>(1.8)</b>
<i>EBITDA Margin</i>	<i>37.4%</i>	<i>38.9%</i>	<i>39.1%</i>	<i>40.8%</i>	<i>41.6%</i>			<i>40.9%</i>	<i>0.6%</i>
Interest expense	(286)	(2,449)	(618)	711	(688)	140.6	nmf	(618)	11.3
Interest income	(447)	757	30	607	211	(147.2)	(65.2)	406	(48.1)
Depreciation	(4,698)	(4,972)	(5,926)	(7,072)	(7,239)	54.1	2.4	(7,207)	0.4
Share of profits in associates / joint ventures	(2)	-	4	(6)	(1)	(50.0)		-	
Other income	166	250	320	118	376	126.5	218.6	150	150.7
Non operating expenses	(92)	(1)	(51)	(1)	(1)	(98.9)	-	-	
<b>Profit Before Taxes (PBT)</b>	<b>7,414</b>	<b>8,597</b>	<b>10,781</b>	<b>14,412</b>	<b>15,068</b>	<b>103.2</b>	<b>4.6</b>	<b>15,562</b>	<b>(3.2)</b>
Income tax (expense) / benefit	(549)	(952)	(1,378)	(2,139)	(1,353)	146.4	(36.7)	(2,179)	(37.9)
<i>Effective Tax Rate (%)</i>	<i>7%</i>	<i>11%</i>	<i>13%</i>	<i>15%</i>	<i>9%</i>			<i>14%</i>	
(Profit) / loss to minority shareholders	(41)	(96)	(66)	(122)	(184)	348.8	50.8	(132)	39.7
<b>Profit After Taxes (PAT)</b>	<b>6,824</b>	<b>7,549</b>	<b>9,337</b>	<b>12,151</b>	<b>13,531</b>	<b>98.3</b>	<b>11.4</b>	<b>13,251</b>	<b>2.1</b>
(% total revenues)	20.0%	19.6%	21.4%	24.7%	25.1%			23.8%	
<b>EPS Diluted</b>									
<b>EPS Diluted</b>	<b>3.61</b>	<b>3.98</b>	<b>4.93</b>	<b>6.41</b>	<b>7.14</b>	<b>97.5</b>	<b>11.4</b>	<b>6.99</b>	<b>2.1</b>

Source: Macquarie Research, April 2007

Fig 1 Bharti Airtel: 4Q FY3/07 quarterly results and divisional snapshot (-cont)

Year to Mar (Rs m)	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07	(% chg YoY)	(% chg QoQ)	4QFY07E	Deviation (%)
<b>Segmental Breakdown of EBITDA</b>									
Mobile revenues	8,746	10,341	12,179	14,129	16,604	89.8	17.5	16,376	1.4
Broadband & Telephone Service revenues	934	1,193	1,069	1,613	1,727	84.9	7.1	1,790	(3.5)
Long Distance Service revenues	2,771	2,750	3,367	4,002	3,640	31.4	(9.0)	4,432	(17.9)
Enterprise Service revenues	714	936	907	1,092	1,257	76.1	15.1	1,146	9.7
Others	(392)	(208)	(500)	(781)	(818)	108.7	4.7	(913)	(10.4)
<b>Segment-wise EBITDA Margin (%)</b>									
Mobile revenues	36.2%	36.4%	36.9%	37.6%	39.1%			37.9%	1.2%
Broadband & Telephone Service revenues	22.8%	23.0%	20.4%	27.0%	28.6%			27.0%	1.6%
Long Distance Service revenues	37.1%	38.9%	40.3%	43.0%	35.8%			43.2%	-7.4%
Enterprise Service revenues	35.6%	47.5%	42.2%	45.1%	50.1%			43.0%	7.1%
<b>Capex</b>									
	<b>24,207</b>	<b>21,495</b>	<b>32,911</b>	<b>19,078</b>	<b>15,787</b>	<b>(34.8)</b>	<b>(17.3)</b>	<b>26,393</b>	<b>(40.2)</b>
Mobility	17,674	18,054	27,444	15,597	10,706	(39.4)	(31.4)	20,354	(47.4)
Broadband & Telephone Service	4,182	3,962	1,631	1,644	1,894	(54.7)	15.2	3,181	(40.5)
Long Distance Service	1,085	1,306	3,232	1,485	2,317	113.5	56.0	1,847	25.5
Enterprise Services	1,264	55	1,682	1,502	1,983	56.9	32.0	2,010	(1.4)
Others	2	(1,882)	(1,078)	(1,150)	(1,113)			(1,000)	
<b>Subscriber Base</b>									
Wireless	19.6	23.1	27.1	32.0	37.1	89.7	16.2	37.2	(0.0)
Wireline	1.3	1.5	1.6	1.7	1.9	41.3	7.7	1.9	(2.3)
<b>ARPU</b>									
Wireless	442.0	441.0	438.0	426.6	406.0	(8.1)	(4.8)	416.6	(2.6)
Wireline	1,063.0	1,202.0	1,115.0	1,197.9	1,112.0	4.6	(7.2)	1,209.8	(8.1)
<b>Average Minutes of Usage Per User</b>									
Wireless	431.0	441.0	451.0	467.3	474.7	10.1	1.6	473.4	0.3
<b>Average Revenue Per Minute</b>									
Wireless	1.03	1.00	0.97	0.91	0.86	(16.6)	(6.3)	0.88	(2.8)
<b>Other Key Statistics</b>									
<b>No of census towns covered</b>	<b>3,778</b>	<b>4,026</b>	<b>4,357</b>	<b>4,581</b>	<b>4,676</b>	<b>23.8</b>	<b>2.1</b>		
Net census towns added	478	248	331	224	95				
<b>No of non-census towns and villages covered</b>	<b>80,627</b>	<b>101,614</b>	<b>155,076</b>	<b>176,593</b>	<b>207,327</b>	<b>157.1</b>	<b>17.4</b>		
Net non-census towns and villages added	22,627	20,987	53,462	21,517	30,734				
Population coverage	42%	46%	50%	54%	59%				
<b>Optic Fibre Cable</b>	<b>32,900</b>	<b>35,016</b>	<b>36,151</b>	<b>39,330</b>	<b>40,484</b>	<b>23.1</b>	<b>2.9</b>		

Source: Macquarie Research, April 2007

## Change in forecasts

**Increase in subscriber market share:** Bharti has gained substantial market share in the last two months on the back of strong momentum in subscribers net adds. Deactivation of 5.6m subscribers by Reliance Communications (RCOM IN, Rs460, Outperform, Rs650) in March 2007 has also aided the increase in market share, which stood at 23% in March 2007. We have revised our market share estimates for Bharti on the back of changing market dynamics.

**Lower ARPU to result from higher subscriber base:** Bharti's ARPU in 4Q was down 4.8% QoQ to Rs406 per month. We believe Bharti's ARPU can go down more than our earlier estimates as strong subscriber growth will come at a cost of reducing ARPUs. We have reduced our ARPU estimates by 4.1% for FY08E, 5.3% for FY09E and 5.7% for FY10E.

**Higher wireless EBITDA margin:** Bharti's EBITDA margin has improved significantly in the last quarter on the back of better-than-expected EBITDA margins in both the wireless and broadband segments. Better economies of scale on the back of a huge subscriber base have resulted in marked improvement in wireless EBITDA margin. We believe the margins for the wireless segment can improve even further with continued subscriber growth momentum. Zero access deficit charges from the current quarter will also result in EBITDA margin expansion.

**Fixed line and broadband:** In the fixed line segment, Bharti plans to limit its presence to top-tier cities only. The company does not plan to expand its coverage to all parts of the country as the cost of setting up infrastructure is quite high. Instead, company plans to add more customers on its existing infrastructure, which will help it to improve EBITDA margins. In line with the company's stated strategy, we have revised our revenue and EBITDA estimate for the segment.

**Long distance business:** The long distance market is becoming increasingly competitive with more and more players entering the arena. Idea (IDEA IN, Rs112.5, Outperform, TP: Rs130) has already received the license to launch NLD services. We also expect Vodafone Essar (Not listed) to enter the long distance market. We have revised our margin estimate for the long distance business to reflect increasing competition.

**Higher capex due to new businesses not yet factored in:** We have not yet factored in any revenue or capex from Bharti's new businesses, namely Sri Lanka wireless, DTH and IPTV, as no financial details on any of these projects are currently available. In the absence of any information, we have excluded these ventures from our model. Therefore, our capex estimates are lower than the company's guidance of US\$3.3bn capex in FY08E.

Fig 2 Bharti Airtel – changes in estimates

Amount in Rs m, unless otherwise stated	New estimates			Old estimates			Change (%)		
	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
<b>India wireless subscribers incl. fixed wireless (m)</b>	<b>254.9</b>	<b>345.1</b>	<b>425.0</b>	<b>266.2</b>	<b>352.0</b>	<b>425.0</b>	<b>-4.2</b>	<b>-1.9</b>	<b>0.0</b>
<b>Bharti's wireless subscribers (m)</b>	<b>60.0</b>	<b>80.9</b>	<b>99.4</b>	<b>59.7</b>	<b>78.5</b>	<b>94.7</b>	<b>0.5</b>	<b>3.0</b>	<b>5.0</b>
Bharti's market share (%)	23.5	23.4	23.4	22.4	22.3	22.3	1.1	1.1	1.1
<b>Total revenues</b>	<b>272,309</b>	<b>347,080</b>	<b>412,128</b>	<b>289,404</b>	<b>365,347</b>	<b>424,981</b>	<b>-5.9</b>	<b>-5.0</b>	<b>-3.0</b>
Total EBITDA	115,616	149,706	179,982	120,005	156,828	186,075	-3.7	-4.5	-3.3
EBITDA margin (%)	42.5	43.1	43.7	41.5	42.9	43.8	1.0	0.2	-0.1
Total capex	118,500	109,944	100,477	119,197	108,219	94,947	-0.6	1.6	5.8
<b>Diluted EPS (Rs)</b>	<b>36.5</b>	<b>49.7</b>	<b>60.1</b>	<b>36.6</b>	<b>49.7</b>	<b>60.4</b>	<b>-0.3</b>	<b>-0.1</b>	<b>-0.6</b>
Gross mobile ARPU (Rs per month)	374	335	317	390	354	336	-4.1	-5.3	-5.7
<b>Mobility revenues</b>	<b>217,604</b>	<b>283,399</b>	<b>343,058</b>	<b>226,206</b>	<b>293,568</b>	<b>349,295</b>	<b>-3.8</b>	<b>-3.5</b>	<b>-1.8</b>
Mobility EBITDA	85,720	114,144	139,576	86,795	117,362	141,936	-1.2	-2.7	-1.7
Mobility EBITDA margin (%)	39.4	40.3	40.7	38.4	40.0	40.6	1.0	0.3	0.1
Mobility capex	100,366	90,883	79,585	92,460	87,653	75,421	8.6	3.7	5.5
Broadband & fixed line gross ARPL (Rs per month)	1,018	935	916	1,148	1,060	1,039	-11.3	-11.8	-11.8
<b>Broadband &amp; fixed line revenues</b>	<b>25,746</b>	<b>29,140</b>	<b>34,398</b>	<b>31,779</b>	<b>37,110</b>	<b>40,686</b>	<b>-19.0</b>	<b>-21.5</b>	<b>-15.5</b>
Broadband & fixed line EBITDA	7,614	8,927	11,007	8,721	10,494	12,002	-12.7	-14.9	-8.3
Broadband & fixed line EBITDA margin (%)	29.6	30.6	32.0	27.4	28.3	29.5	2.1	2.4	2.5
Broadband & fixed line capex	6,528	6,802	8,402	14,357	7,497	6,125	-54.5	-9.3	37.2
<b>Long distance revenues</b>	<b>51,355</b>	<b>62,191</b>	<b>68,279</b>	<b>53,794</b>	<b>63,657</b>	<b>69,182</b>	<b>-4.5</b>	<b>-2.3</b>	<b>-1.3</b>
Long distance EBITDA	20,506	24,874	27,774	23,267	27,688	30,745	-11.9	-10.2	-9.7
Long distance EBITDA margin (%)	39.9	40.0	40.7	43.3	43.5	44.4	-3.3	-3.5	-3.8
Long distance capex	9,481	10,563	11,266	10,221	11,458	12,453	-7.2	-7.8	-9.5
<b>Weighted Average Cost of Capital for DCF (%)</b>	<b>11.65%</b>			<b>11.52%</b>					

Source: Macquarie Research, April 2007

### Asian peer group comparison – Bharti looks great on PEG and EV/EBITDA by EBITDA CAGR

- We believe absolute valuation comparisons (near-term PER or EV/EBITDA) between Indian wireless stocks and their Asian peers are not as meaningful as growth-adjusted valuation comparables such as PEG and EV/EBITDA by EBITDA CAGR. This is because these companies are at different stages in their lifecycles (as a wireless market) and have completely different growth outlooks, owing to the different levels of telecom penetration and market maturity.
- We believe the relevant metrics to measure relative valuation are EV/EBITDA adjusted for EBITDA CAGR (EV/EBITDA divided by 2-year EBITDA CAGR) and PEG (PER divided by 2-year EPS CAGR) multiples. We note that Bharti trades at an 'EV/EBITDA by EBITDA CAGR' multiple of 0.52x only. Most of its peers in the Asia Pacific region trade at much higher growth-adjusted multiples. On a PEG basis, Bharti trades at a multiple of just 0.76x, once again lower than most of the companies in the Asian wireless universe.

## Valuation comparisons with Asia Pacific wireless peers and Indian high-growth peers across sectors

Fig 3 Macquarie – Asia wireless telecom valuation table (December year-ends)

Company name	Bloomberg ticker	Rating	27-Apr Price (lcy)	Market cap (US\$m)	EV/EBITDA			EV/EBITDA by	PER			PEG
					2006E	2007E	2008E	EBITDA CAGR 2006-08E	2006E	2007E	2008E	2006E-08E
Bharti Airtel*	BHARTI IN	Outperform	826.25	38,395	21.6	13.9	10.8	0.52	35.0	21.3	15.7	0.76
Reliance Communications*	RCOM IN	Outperform	460.15	23,060	16.6	11.4	8.0	0.38	29.9	19.7	13.7	0.62
Idea Cellular*	IDEA IN	Outperform	112.50	7,149	22.0	14.9	11.2	0.49	58.9	33.3	23.6	0.96
China Mobile	941 HK	Outperform	72.20	184,557	8.1	7.1	6.5	0.66	21.3	18.6	16.1	1.40
China Unicom	762 HK	Underperform	12	18,978	5.0	4.7	4.4	0.68	23.8	21.7	20.1	2.70
SK Telecom	017670 KS	Neutral	197000	17,216	4.4	4.2	4.2	4.53	10.1	8.3	8.0	0.83
KT Freetel	032390 KS	Underperform	29200	6,151	3.9	3.6	3.6	-8.09	14.3	12.1	11.8	1.43
LG Telecom	032640 KQ	Outperform	9750	2,910	4.3	4.1	3.7	0.54	11.4	7.1	5.9	0.30
Far EasTone	4904 TT	Outperform	37.60	4,377	5.1	5.6	5.9	-0.64	11.1	12.3	12.6	-1.82
Taiwan Cellular	3045 TT	Underperform	34.60	5,200	6.4	7.1	7.3	-1.42	10.5	12.4	13.6	-0.88
MobileOne	M1 SP	Neutral	2.23	1,460	7.1	7.5	7.6	-2.24	13.3	13.9	14.0	-5.59
AIS	ADVANC TB	Underperform	75.50	6,803	5.7	5.2	4.8	0.61	12.8	11.7	10.6	1.28
TAC	TAC SP	Neutral	4.90	2,244	6.4	5.4	4.6	0.34	15.4	10.8	8.3	0.42
Maxis	MAXIS MK	Outperform	13.00	9,625	8.9	8.7	6.6	0.51	16.7	16.9	13.5	1.50
Digi.Com	DIGI MK	Outperform	19.30	4,232	8.2	7.3	6.9	0.92	20.1	15.8	14.4	1.10
Indosat	ISAT IJ	Outperform	6850	4,101	6.8	5.5	4.5	0.29	22.9	18.4	13.1	0.72
Globe	GLO PM	Outperform	1235	3,442	5.2	4.9	4.7	0.82	14.0	13.8	12.1	1.85
<b>Average</b>					<b>8.1</b>	<b>6.8</b>	<b>5.9</b>		<b>21.2</b>	<b>16.7</b>	<b>13.9</b>	

\* December year end for all companies except Bharti, RCOM and Idea; For eg, Mar07E=Dec06, Mar08E=Dec07E, Mar09E=Dec08E; lcy: local currency

Source: Macquarie Research, April 2007

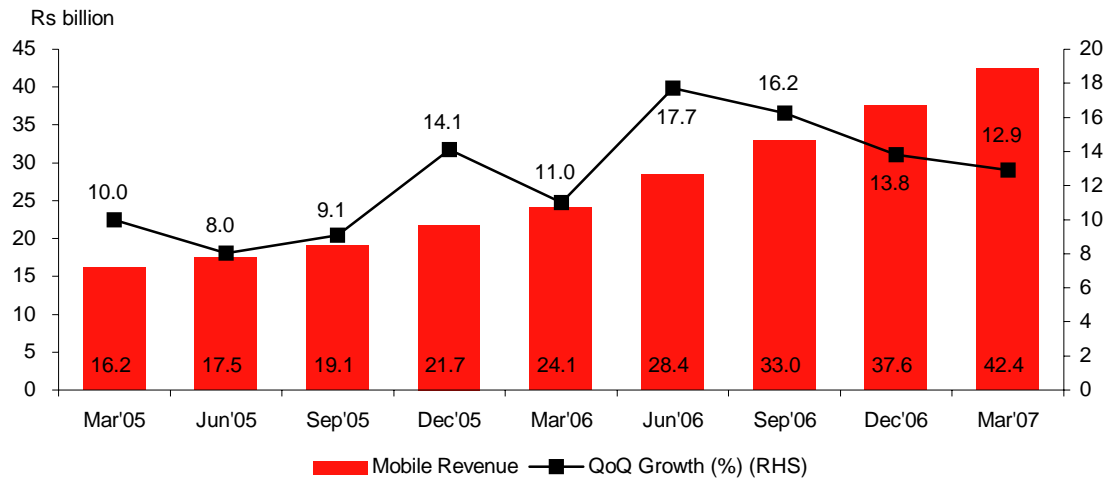
## 4Q FY3/07 and full-year FY3/07 results details

- **Results mostly in line with our estimate:** For 4Q FY3/07, revenue stood at Rs53.9bn, up 9.8% QoQ and 58.1% YoY. Revenue was 3.3% lower than our estimate of Rs55.8bn primarily due to lower ARPM than our estimate. Despite lower-than-expected revenue, PAT in 4Q FY3/07 was up 11.4% QoQ and 98.3% YoY to Rs13.5bn, marginally ahead of our estimate of Rs13.3bn but significantly higher than the consensus estimate of Rs12.3bn. PAT for the quarter was aided by better-than-expected expansion in EBITDA margin and gains on account of deferred tax.
- Mobility business revenue grew 12.9% QoQ and 75.8% YoY to Rs42.4bn. ARPU in the quarter stood at Rs406, compared to Rs427 in 3Q FY3/07 (down 4.8% QoQ). Loss from roaming cuts (Rs600m in 4Q FY3/07) also contributed to the lower ARPU in 4Q FY3/07. MOU per month increased to 475 minutes compared to 467 minutes in 3Q, in line with our expectations.
- For the full year, revenue grew 59.4% to Rs185.2bn compared to 116.2bn in FY3/06. EBITDA margin for the full year improved 310bp to 40.2% from 37.1% in FY3/06. Strong growth in revenue coupled with expansion in margin led to EBITDA increasing to Rs74.5bn, translating to growth of 72.9% YoY. Thanks to strong growth in EBITDA, PAT witnessed impressive growth of 88.6% in FY07.

## Mobile business: Strong growth continues

- Mobile revenue grew 12.9% QoQ and 75.8% YoY to Rs42.4bn led by 16.2% QoQ growth in subscribers partly offset by 4.8% fall in ARPU. Bharti's total wireless subscriber base stood at 37.1m in March 2007. We expect Bharti to increase its subscriber base at a fast pace in next three years. We forecast a subscriber base of 96.5m for Bharti in FY10E.
- EBITDA for the mobility segment witnessed a much higher growth rate of 17.5% QoQ on the back of a significant increase in EBITDA margins. EBITDA margin for the wireless segment expanded 150bp in 4Q FY3/07 to a historic high of 39.1%. The expansion in EBITDA margin happened much earlier than we had expected. Management expects to maintain EBITDA margins at current levels, in which case there is upside to our earning estimates.
- For the full year FY07, Bharti's mobility revenue grew 71.7% YoY to Rs141.4bn on the back of strong growth in subscribers. EBITDA margin for the full year improved by 150bp to 37.6%. Thanks to higher revenue and better margins, the segmental EBITDA grew 79.2% to Rs53.3bn compared to Rs29.7bn in FY3/06.
- ARPU for the quarter fell 4.8% to Rs406 from Rs427 in 3Q FY3/07. Roaming cuts in the middle of the quarter contributed ~1.5% to the overall drop in ARPU. We believe, with elasticity of demand coming into play, ARPU in the current quarter should hold up. Coupled with strong growth in subscribers, this should translate into a significant increase in wireless revenue.
- Total mobile traffic minutes grew 19% QoQ and 112% YoY to 49.2bn minutes in 4Q FY3/07. The MOU per month, per user, increased to 475 minutes from 467 minutes last quarter, implying increased usage by existing customers even as it adds low MOU/ARPU subscribers. As a result, mobility ARPM (average revenue per minute) declined by 6.3% to Rs0.86, compared to Rs0.91 in the last quarter.
- On the issue of subscriber verification, Bharti has deactivated 300,000 of its customers. Bharti expects these subscribers to come back into the network after producing necessary documents. We believe a reduction of 300,000 subscribers over a total subscriber base of 37.1m is miniscule and will not have any impact on Bharti's long-term revenue or profit growth.

**Fig 4 Mobile revenues – strong growth continues**

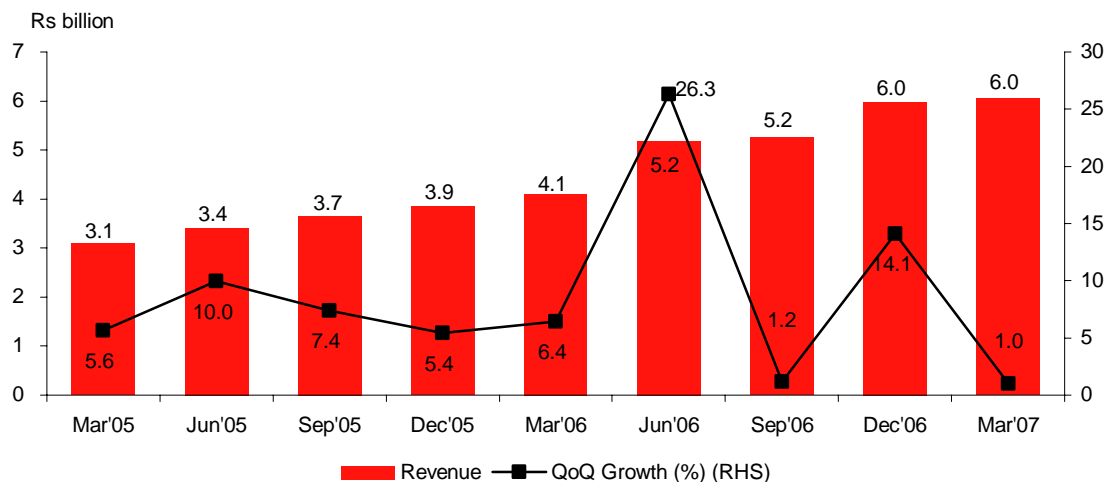


Source: Macquarie Research, April 2007

**Broadband and fixed line services**

- Wire line and broadband revenue grew marginally QoQ due to a significant fall in ARPL. Revenue grew 1% QoQ and 47.3% YoY to Rs6bn. Management attributed the slow growth to reclassification of segmental revenue. Due to the reclassification, numbers for this quarter are not strictly comparable to the previous quarters' numbers.
- For the full year, revenue grew by almost 49.5% to Rs22.5bn compared to Rs15bn in FY3/06. EBITDA margin at 24.9% was marginally higher than the 25.4% registered in FY3/06. Due to the marginal increase in margins, EBITDA grew in line with revenue to Rs5.6bn (52.4% YoY growth).
- Bharti is aiming to deepen its presence rather than broaden it in this segment. Bharti currently provides services in 94 cities. The company is not looking to aggressively increase its coverage in different cities. Instead it is trying to increase its customer base in the currently covered cities only. We believe this strategy should help the company to increase its margin, as the incremental cost for an additional customer is quite a bit less.
- Thanks to the high operating leverage of the business, EBITDA margin in the fourth quarter improved to 28.6% compared to 27% in the previous quarter.
- Bharti plans to launch the IPTV service by 4Q FY3/08. This service will ride on the existing copper/DSL network of Bharti.

**Fig 5 Broadband and telephone revenues**



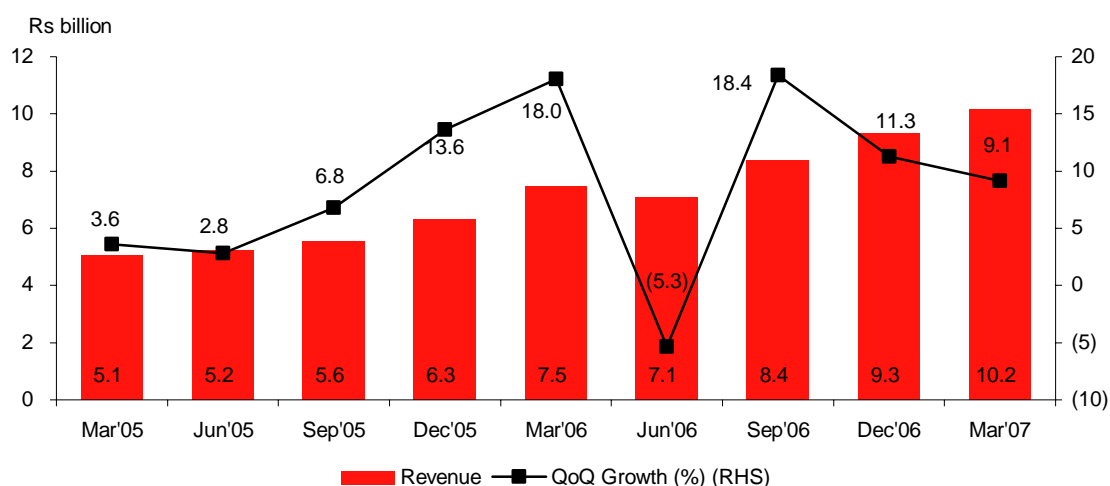
Source: Macquarie Research, April 2007



## Long distance revenue

- Long distance revenues showed healthy 9.1% QoQ and 36.1% YoY growth to Rs10.2bn, led by higher traffic on both the ILD and NLD networks of Bharti.
- National long distance traffic grew 13% QoQ to 5bn minutes while international long distance traffic grew 13% QoQ to 1.2bn minutes.
- Margins in the long distance segment fell sharply to 35.8% from 43% in the last quarter. However, with increased sales of India calling cards, margins should see an improvement in the coming quarters.
- For the full year, revenue increased to Rs34.9bn from Rs24.6bn in FY3/06 translating to growth of 42.1% YoY. EBITDA grew stronger at 56.5% YoY to Rs13.8bn thanks to a 3.6% jump in EBITDA margin.
- Bharti plans to launch the India calling card to locations outside the US as well. We expect a significant surge in margins on the back of increased penetration of the card.

**Fig 6 Long distance revenue**

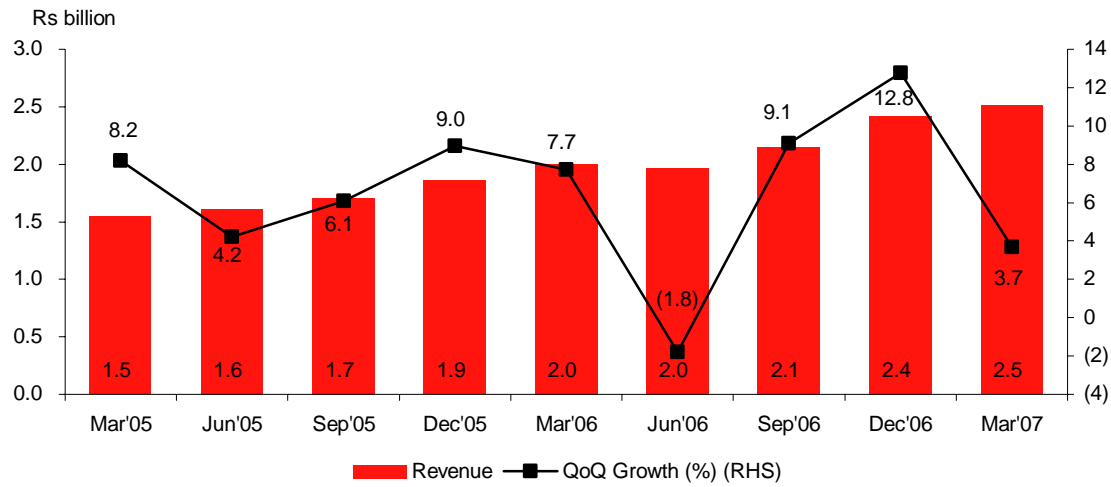


Source: Macquarie Research, April 2007

## Enterprise business

- Enterprise service revenues grew 3.7% QoQ and 25.2% YoY to Rs2.5bn, while EBITDA margin improved by 500bp QoQ to 50.1%.
- Management attributed this fluctuating performance to the turnkey nature of the business, resulting in issues in recognition of income.
- For the full year, revenue grew 26% to Rs9bn in FY07 compared to Rs7.2bn in FY06. EBITDA for the segment grew 55.2% to Rs4.2bn thanks to significant expansion (870bp increase) in EBITDA margin.

**Fig 7 Enterprise services**



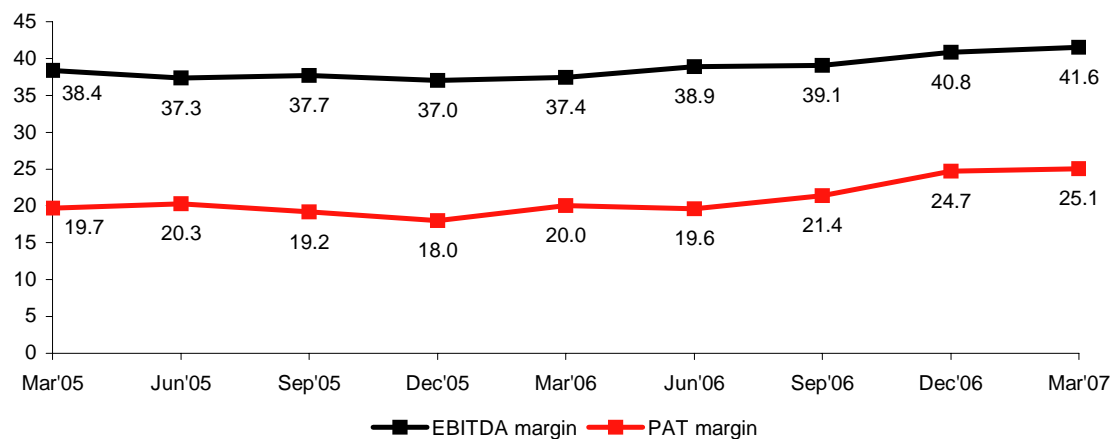
Source: Macquarie Research, April 2007

**Profit margins surprise yet again!**

EBITDA for 4Q grew by 11.7% QoQ to Rs22.4bn and EBITDA margin was at 41.6% – this is historically the strongest EBITDA margin registered by Bharti, improving on its previous high of 40.8% in last quarter. PAT margin also came in at an all-time high of 25.1%, partly aided by gains on account of deferred taxation.

For the full year as well, EBITDA margin at 40.2% was significantly higher than 37.1% margin registered in FY06. This led to significantly higher PAT margin, which came in at 23% compared to 19.4% in FY06.

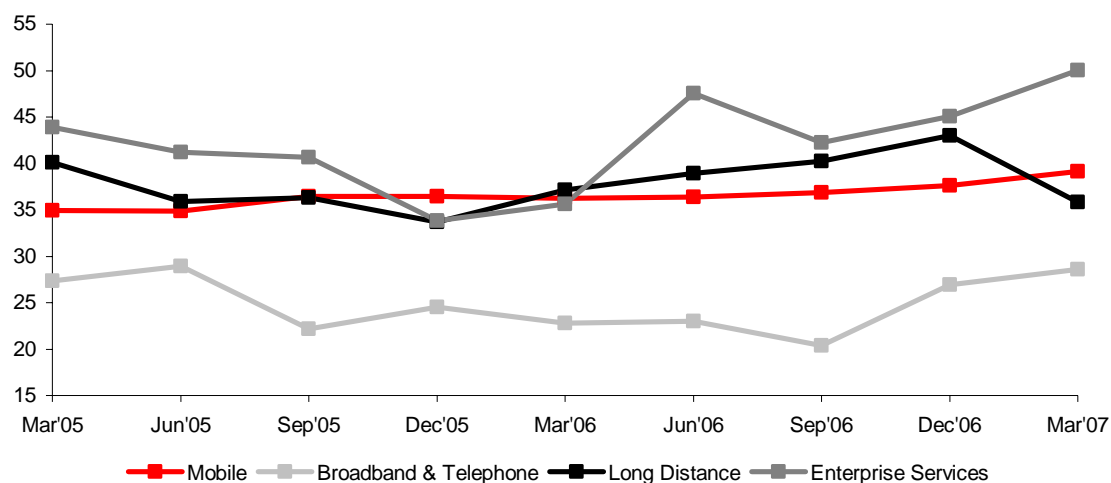
**Fig 8 Margins continue to go up**



Source: Macquarie Research, April 2007

Segmental analysis of EBITDA margins reveals strong performance of all segments except the long distance segment. The mobility segment EBITDA margin surged to 39.1% compared to 37.6% in the last quarter. Mobile contributed 74% to the overall EBITDA of the company in 4Q. Overall margins also grew strongly on the back of the strong performance in the mobile business.

Fig 9 EBITDA margin by segment



Source: Macquarie Research, April 2007

### Huge capex outlay – a drag or a boon?

- Bharti also disclosed its capex plan for FY3/08. The company plans to incur US\$3.3–3.5bn in FY08 across various business segments to support its aggressive growth plans. We see this as a huge positive for Bharti, as it will help it to penetrate into more distant parts of the country as well.
- As discussed in our recent telecom sector report, 'Faster, Higher, Stronger... and Cheaper!', dated 16 March 2007, we believe rural penetration is going to be the next big driver of subscriber growth in India. With its huge capex plan, Bharti ensures its reach in more distant parts of India as well. The company aims to set up 30,000 more cell sites in FY08 to increase its population coverage to more than 70% by the end of the year. We believe better coverage will help to capture a significant portion of rural customers.
- Some portion of this huge capex plan is also attributed to its Sri Lanka operation and the DTH service operation (launch expected towards the end of this year). We have not yet factored revenue and profit from either of these ventures into our model, providing an upside to our estimates.

Fig 10 Bharti Airtel – segmental snapshot

Year-end March	FY05	FY06	FY07	FY08E	FY09E	FY10E
<b>Revenues (Rs m)</b>						
Mobility	54,015	82,392	141,443	217,604	283,399	343,058
Broadband & Fixed	11,209	15,016	22,454	25,746	29,140	34,398
Long Distance	18,614	24,557	34,888	51,355	62,191	68,279
Enterprise	5,441	7,184	9,050	11,644	14,000	15,848
Others	(9,251)	(12,516)	(22,640)	(34,039)	(41,650)	(49,455)
<b>Total Revenues</b>	<b>80,028</b>	<b>116,633</b>	<b>185,195</b>	<b>272,309</b>	<b>347,080</b>	<b>412,128</b>
<b>Business mix (%)</b>						
Mobility	67.5	70.6	76.4	79.9	81.7	83.2
Broadband & Fixed	14.0	12.9	12.1	9.5	8.4	8.3
Long Distance	23.3	21.1	18.8	18.9	17.9	16.6
Enterprise	6.8	6.2	4.9	4.3	4.0	3.8
Others	(11.6)	(10.7)	(12.2)	(12.5)	(12.0)	(12.0)
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>YoY growth (%)</b>						
Mobility		52.5	71.7	53.8	30.2	21.1
Broadband & Fixed		34.0	49.5	14.7	13.2	18.0
Long Distance		31.9	42.1	47.2	21.1	9.8
Enterprise		32.0	26.0	28.7	20.2	13.2
Others		35.3	80.9	50.3	22.4	18.7
<b>Total</b>		<b>45.7</b>	<b>58.8</b>	<b>47.0</b>	<b>27.5</b>	<b>18.7</b>
<b>EBITDA (Rs m)</b>						
Mobility	18,519	29,712	53,253	85,720	114,144	139,576
Broadband & Fixed	2,853	3,675	5,602	7,614	8,927	11,007
Long Distance	6,331	8,791	13,759	20,506	24,874	27,774
Enterprise	2,695	2,701	4,192	5,822	7,000	7,924
Others	(867)	(1,783)	(2,307)	(4,047)	(5,240)	(6,299)
<b>Total EBITDA</b>	<b>29,531</b>	<b>43,096</b>	<b>74,499</b>	<b>115,616</b>	<b>149,706</b>	<b>179,982</b>
<b>EBITDA margin (%)</b>						
Mobility	34.3	36.1	37.6	39.4	40.3	40.7
Broadband & Fixed	25.5	24.5	24.9	29.6	30.6	32.0
Long Distance	34.0	35.8	39.4	39.9	40.0	40.7
Enterprise	49.5	37.6	46.3	50.0	50.0	50.0
Others	9.4	14.2	10.2	11.9	12.6	12.7
<b>Total EBITDA margin (%)</b>	<b>36.9</b>	<b>36.9</b>	<b>40.2</b>	<b>42.5</b>	<b>43.1</b>	<b>43.7</b>
<b>YoY growth (%)</b>						
Mobility		60.4	79.2	61.0	33.2	22.3
Broadband & Fixed		28.8	52.4	35.9	17.2	23.3
Long Distance		38.9	56.5	49.0	21.3	11.7
Enterprise		0.2	55.2	38.9	20.2	13.2
Others		105.7	29.4	75.4	29.5	20.2
<b>Total</b>		<b>45.9</b>	<b>72.9</b>	<b>55.2</b>	<b>29.5</b>	<b>20.2</b>
<b>Capex (Rs m)</b>						
Mobility	29,831	41,594	71,801	100,366	90,883	79,585
Broadband & Fixed	4,446	13,011	9,131	6,528	6,802	8,402
Long Distance	3,919	5,311	8,340	9,481	10,563	11,266
Enterprise	1,430	3,394	4,699	6,125	5,697	5,224
Others	21	28	(5,223)	(4,000)	(4,000)	(4,000)
<b>Total</b>	<b>39,647</b>	<b>63,338</b>	<b>88,748</b>	<b>118,500</b>	<b>109,944</b>	<b>100,477</b>
<b>YoY growth (%)</b>						
Mobility		39.4	72.6	39.8	(9.4)	(12.4)
Broadband & Fixed		192.6	(29.8)	(28.5)	4.2	23.5
Long Distance		35.5	57.0	13.7	11.4	6.7
Enterprise		137.3	38.4	30.4	(7.0)	(8.3)
<b>Total</b>		<b>59.8</b>	<b>40.1</b>	<b>33.5</b>	<b>(7.2)</b>	<b>(8.6)</b>

Source: Company data, Macquarie Research, April 2007

## Financial statements

**Fig 11 Bharti Airtel – annual income statement, fiscal year-end March**

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
<b>Revenues</b>						
Services	78,727	114,638	184,152	271,369	346,001	410,928
Indefeasible right of use sales	209	418	436	436	436	436
Equipment	1,092	1,160	607	505	644	764
<b>Total Revenues</b>	<b>80,028</b>	<b>116,215</b>	<b>185,195</b>	<b>272,309</b>	<b>347,080</b>	<b>412,128</b>
<b>Operating Expenses</b>						
Access & Interconnect Charges	24,599	32,933	48,330	68,954	84,476	97,971
(% of total revenues)	30.7%	28.3%	26.1%	25.3%	24.3%	23.8%
Network Operations Cost	6,537	11,742	21,100	29,725	35,813	41,213
(% of total revenues)	8.2%	10.1%	11.4%	10.9%	10.3%	10.0%
Employee Costs	5,155	8,244	12,488	18,626	22,549	26,788
(% of total revenues)	6.4%	7.1%	6.7%	6.8%	6.5%	6.5%
Costs of equipment sales	1,021	1,169	589	272	347	412
(% of total revenues)	1.3%	1.0%	0.3%	0.1%	0.1%	0.1%
SG&A expenses	12,652	18,912	28,180	39,116	54,189	65,762
(% of total revenues)	15.8%	16.3%	15.2%	14.4%	15.6%	16.0%
Pre-operating cost	533	120	9	-	-	-
(% of total revenues)	0.7%	0.1%	0.0%	0.0%	0.0%	0.0%
<b>Total Operating Expense</b>	<b>50,497</b>	<b>73,120</b>	<b>110,696</b>	<b>156,693</b>	<b>197,375</b>	<b>232,146</b>
(% of total revenues)	63.1%	62.9%	59.8%	57.5%	56.9%	56.3%
<b>EBITDA</b>	<b>29,531</b>	<b>43,096</b>	<b>74,499</b>	<b>115,616</b>	<b>149,706</b>	<b>179,982</b>
<b>EBITDA Margin</b>	<b>36.9%</b>	<b>37.1%</b>	<b>40.2%</b>	<b>42.5%</b>	<b>43.1%</b>	<b>43.7%</b>
Interest expense	(3,114)	(2,958)	(3,044)	(3,989)	(3,990)	(4,694)
Interest income	1,119	446	1,606	2,976	7,401	14,309
Depreciation	(11,341)	(15,610)	(25,208)	(32,829)	(40,650)	(50,882)
Share of profits in associates / JV	(38)	(5)	(3)	-	-	-
Other income	479	499	1,064	601	980	980
Non operating expenses	(31)	(103)	(54)	-	-	-
<b>Profit Before Taxes (PBT)</b>	<b>16,604</b>	<b>25,366</b>	<b>48,860</b>	<b>82,374</b>	<b>113,447</b>	<b>139,695</b>
Income tax (expense) / benefit	(1,528)	(2,539)	(5,822)	(12,356)	(18,152)	(24,447)
Effective Tax Rate	9.2%	10.0%	11.9%	15.0%	16.0%	17.5%
<b>Profit After Taxes (PAT)</b>	<b>15,076</b>	<b>22,827</b>	<b>43,038</b>	<b>70,018</b>	<b>95,295</b>	<b>115,248</b>
(Profit) / loss to minority shareholders	(98)	(260)	(467)	(804)	(1,115)	(1,373)
<b>Adjusted Net Profit</b>	<b>14,978</b>	<b>22,567</b>	<b>42,571</b>	<b>69,214</b>	<b>94,180</b>	<b>113,875</b>
<b>Adjusted Diluted EPS</b>	<b>8.0</b>	<b>12.0</b>	<b>22.5</b>	<b>36.5</b>	<b>49.7</b>	<b>60.1</b>
<b>YoY Growth (%)</b>						
Service Revenues	65.2	45.6	60.6	47.4	27.5	18.8
Total Revenues	65.6	45.2	59.4	47.0	27.5	18.7
Operating Expenses	55.7	44.8	51.4	41.6	26.0	17.6
SG&A	66.3	49.5	49.0	38.8	38.5	21.4
EBITDA	85.9	45.9	72.9	55.2	29.5	20.2
Net Profit After Taxes	195.1	50.7	88.6	62.6	36.1	20.9
Diluted EPS	188.5	50.7	87.2	62.6	36.1	20.9
<b>Key parameters</b>						
ROE	28.0%	29.5%	37.4%	40.7%	37.4%	33.0%
ROCE	13.2%	14.7%	19.5%	24.1%	24.9%	25.4%
Fixed asset turnover (X)	0.86	0.82	0.88	0.92	0.95	0.99
Total asset turnover (X)	0.31	0.34	0.37	0.35	0.34	0.32

Source: Company data, Macquarie Research, April 2007

Fig 12 Bharti Airtel – balance sheet, fiscal year-end March

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
<b>ASSETS</b>						
Cash and cash equivalents	3,087	2,649	7,464	51,340	101,161	182,485
Accounts receivable, net	7,308	10,574	13,093	20,935	24,244	28,228
Unbilled receivables	2,790	3,629	4,890	6,699	8,081	9,033
Inventories	545	381	912	921	1,010	1,129
Short term investments	4,992	2,527	2,004	2,831	3,416	4,056
Deferred taxes on income	2,441	1,562	1,178	1,664	2,008	2,384
Derivative financial instruments	422	532	729	729	729	729
Restricted cash	168	189	134	134	134	134
Prepaid expenses/ current assets	4,643	9,590	13,711	21,772	26,265	30,486
Due from related parties	167	675	729	1,030	1,243	1,475
<b>Total Current Assets</b>	<b>26,565</b>	<b>32,308</b>	<b>44,844</b>	<b>108,055</b>	<b>168,291</b>	<b>260,140</b>
<b>Property and equipment, net</b>	<b>92,597</b>	<b>142,411</b>	<b>210,602</b>	<b>296,273</b>	<b>365,566</b>	<b>415,162</b>
Acquired intangible assets	15,964	14,873	14,116	14,116	14,116	14,116
Goodwill	23,247	23,687	23,684	23,684	23,684	23,684
Investment in associates and JV	160	190	182	182	182	182
Investments	511	500	500	500	500	500
Restricted cash, non-current	70	56	54	54	54	54
Deferred taxes on income	-	-	20	-	-	-
Other assets	2,400	3,218	3,887	5,492	6,625	7,867
<b>Total Assets</b>	<b>161,514</b>	<b>217,243</b>	<b>297,889</b>	<b>448,356</b>	<b>579,019</b>	<b>721,705</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
<b>Current liabilities</b>						
Short-term debt / current portion of long-term debt	11,237	12,892	10,925	14,334	13,079	17,114
Trade payables	7,209	14,130	16,878	42,191	54,749	66,782
Equipment supply payables	17,106	25,041	42,633	67,122	85,545	101,763
Accrued expenses	5,974	8,313	12,523	19,178	22,812	26,713
Unearned income	5,956	12,690	17,035	25,121	30,306	26,713
Unearned income- Indefeasible right to use sales	290	336	336	436	436	436
Derivative financial instruments	1,672	1,583	1,981	1,981	1,981	1,981
Due to related parties	57	50	30	30	30	35
Other current liabilities	1,743	3,361	4,295	5,945	7,071	8,317
Deferred taxes on income	131	-	14	14	14	14
<b>Total current liabilities</b>	<b>51,376</b>	<b>78,396</b>	<b>106,650</b>	<b>176,352</b>	<b>216,022</b>	<b>249,867</b>
Long-term debt, net of current portion	37,803	34,503	41,536	51,192	46,711	61,122
Deferred taxes on income	3,494	3,508	3,616	3,616	3,616	4,294
Unearned income- Indefeasible right to use sales	3,951	4,136	3,800	3,800	3,800	3,800
Other liabilities	3,076	3,566	4,933	6,828	8,122	9,644
<b>Total liabilities</b>	<b>99,699</b>	<b>124,108</b>	<b>160,535</b>	<b>241,787</b>	<b>278,270</b>	<b>328,726</b>
Minority interest	749	957	1,801	1,801	1,801	1,801
<b>Stockholders' equity</b>						
Common stock	18,534	18,939	18,959	18,959	18,959	18,959
Additional paid in capital	47,987	56,363	56,645	56,645	56,645	56,645
Deferred stock based compensation	(69)	(419)	-	-	-	-
Treasury stock	(331)	(216)	(134)	(134)	(134)	(134)
Retained earnings / (deficit)	(5,056)	17,511	60,083	129,297	223,477	315,708
Total stockholders' equity	61,065	92,178	135,553	204,767	298,947	391,178
<b>Total liabilities and stockholders' equity</b>	<b>161,514</b>	<b>217,243</b>	<b>297,889</b>	<b>448,356</b>	<b>579,019</b>	<b>721,705</b>

Source: Company data, Macquarie Research, April 2007

Fig 13 Bharti Airtel – cashflow statement, fiscal year-end March

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
<b>Cashflows from operating activities</b>						
Net (loss) / profit	14,978	22,567	42,571	69,214	94,180	113,875
Depreciation and amortization	11,341	15,610	25,209	32,829	40,650	50,882
Deferred tax expense	583	767	1,581	(466)	(343)	301
Share of (profits) / losses in joint venture	38	5	-	-	-	-
(Gain) / loss on sale of property and equipment	4	(25)	-	-	-	-
Interest income earned	(132)	(15)	-	-	-	-
Deferred stock based compensation	64	159	-	-	-	-
Fair value loss / (gain) on trading securities	(435)	(98)	-	-	-	-
Finance costs charged	-	79	-	-	-	-
Unrealized foreign exchange gain	(439)	1,320	-	-	-	-
Provision for impairment of receivables and advances	1,647	863	-	-	-	-
Debt origination costs amortised	41	13	-	-	-	-
Fair value loss / (gain) on derivatives and other financial expenses	(47)	(124)	1,823	-	-	-
Minority interest	98	260	-	-	-	-
Indefeasible right to use sales	(209)	(418)	-	-	-	-
Current tax impact on ESOP exercised	4	2	-	-	-	-
Proceeds from Indefeasible right to use sales	4,450	649	-	-	-	-
<b>Changes in Working Capital:</b>	<b>1,302</b>	<b>7,295</b>	<b>20,645</b>	<b>48,572</b>	<b>31,651</b>	<b>20,529</b>
Accounts receivable	(3,387)	(4,106)	(881)	(7,842)	(3,310)	(3,983)
Inventories	(199)	164	111	(9)	(89)	(119)
Unbilled receivables and other current assets	(2,634)	(5,852)	(4,553)	(9,870)	(5,875)	(5,173)
Trade payables	2,891	6,512	11,964	49,802	30,980	28,251
Accrued expenses	1,968	2,339	2,666	6,655	3,634	3,901
Unearned income and other current liabilities	2,663	8,237	2,641	9,836	6,311	(2,347)
Interest accrued but not due	-	-	-	-	-	-
Non-interest bearing security deposits	-	-	-	-	-	-
Employee benefit obligations	-	-	-	-	-	-
Other non-current liabilities	(724)	571	969	1,895	1,294	1,522
Non-current assets	(535)	(641)	(2,575)	(1,605)	(1,133)	(1,242)
Due to / from related parties, net	123	(518)	14	(301)	(213)	(228)
<b>Net cash provided by/(used in) operating activities</b>	<b>32,152</b>	<b>48,320</b>	<b>90,237</b>	<b>150,138</b>	<b>166,086</b>	<b>185,640</b>
<b>Cashflows from investing activities</b>						
Purchase of property and equipment	(26,982)	(57,309)	(89,271)	(118,500)	(109,944)	(100,477)
Proceeds from sale of property and equipment	531	1,092	(2,806)	(0)	(0)	0
Proceeds of short term investments	-	-	-	-	-	-
Proceeds from sale of marketable securities	-	-	-	-	-	-
Acquisition of intangible assets	(729)	(288)	-	-	-	-
Non-current investments	(391)	11	884	-	-	-
Restricted cash	(56)	(7)	56	-	-	-
Investment in joint ventures	(44)	(35)	8	-	-	-
Short term investments	(1,130)	2,564	523	(827)	(584)	(640)
Licence entry fees	(50)	-	-	-	-	-
Cash paid for acquisition of subsidiaries, net	(657)	(122)	-	-	-	-
<b>Net cash used in investing activities</b>	<b>(29,938)</b>	<b>(54,095)</b>	<b>(90,606)</b>	<b>(119,327)</b>	<b>(110,528)</b>	<b>(101,118)</b>
<b>Cashflows from financing activities</b>						
Net movement in cash credit and bank overdraft	96	1,629	-	-	-	-
Proceeds from issuance of short-term borrowings	-	4,451	(360)	3,409	(1,255)	4,035
Repayment of short-term borrowings	(4,083)	(43)	-	-	-	-
Proceeds from issuance of long-term borrowings	13,103	18,334	3,604	9,656	(4,481)	14,411
Repayment of long-term borrowings	(9,803)	(18,841)	-	-	-	-
Proceeds from exercise of stock options	103	60	820	-	-	-
Additional paid in capital	-	-	372	(0)	(0)	-
Due to related parties./ changes in minority interest	(43)	3	748	-	-	-
Dividend (including dividend tax)	-	-	-	-	-	(21,644)
Cash paid for debt issue costs	(233)	(255)	-	-	-	-
<b>Net cash provided by/(used in) financing activities</b>	<b>(860)</b>	<b>5,337</b>	<b>5,184</b>	<b>13,065</b>	<b>(5,736)</b>	<b>(3,198)</b>
<b>Net (decrease) / increase in cash during the year</b>	<b>1,784</b>	<b>(438)</b>	<b>4,815</b>	<b>43,876</b>	<b>49,821</b>	<b>81,324</b>
Add : Balance as at the beginning of the year	1,303	3,087	2,649	7,464	51,340	101,161
<b>Balance as at the end of the year</b>	<b>3,087</b>	<b>2,649</b>	<b>7,464</b>	<b>51,340</b>	<b>101,161</b>	<b>182,485</b>

Source: Company data, Macquarie Research, April 2007

**Bharti Airtel Limited (BHARTI IN, Outperform, Target price: Rs1,025.00)**

Quarterly Results					Profit & Loss						
	4Q/07A	1Q/08E	2Q/08E	3Q/08E		2007A	2008E	2009E	2010E		
<b>Revenue</b>	m	53,932	59,725	65,404	70,979	<b>Revenue</b>	m	185,195	272,309	347,080	412,128
<b>Gross Profit</b>	m	29,913	33,629	37,025	40,367	<b>Gross Profit</b>	m	102,688	154,732	203,895	245,743
Cost of Goods Sold	m	24,019	26,096	28,379	30,611	Cost of Goods Sold	m	82,507	117,578	143,186	166,385
<b>EBITDA</b>	m	22,410	25,119	27,730	30,195	<b>EBITDA</b>	m	74,499	115,616	149,706	179,982
Depreciation	m	7,239	7,429	7,955	8,476	Depreciation	m	25,209	32,829	40,650	50,882
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
<b>EBIT</b>	m	15,171	17,690	19,775	21,719	<b>EBIT</b>	m	49,290	82,787	109,055	129,100
Net Interest Income	m	-477	-365	-315	-225	Net Interest Income	m	-1,439	-1,013	3,412	9,614
Associates	m	-1	0	0	0	Associates	m	-3	0	0	0
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	375	150	150	150	Other Pre-Tax Income	m	1,010	601	980	980
<b>Pre-Tax Profit</b>	m	15,068	17,475	19,610	21,644	<b>Pre-Tax Profit</b>	m	48,858	82,374	113,447	139,695
Tax Expense	m	-1,353	-2,621	-2,942	-3,247	Tax Expense	m	-5,822	-12,356	-18,152	-24,447
<b>Net Profit</b>	m	13,715	14,853	16,669	18,397	<b>Net Profit</b>	m	43,036	70,018	95,295	115,248
Minority Interests	m	-184	-167	-183	-213	Minority Interests	m	-468	-804	-1,115	-1,373
<b>Reported Earnings</b>	m	13,531	14,686	16,485	18,184	<b>Reported Earnings</b>	m	42,568	69,214	94,180	113,875
<b>Adjusted Earnings</b>	m	13,531	14,686	16,485	18,184	<b>Adjusted Earnings</b>	m	42,568	69,214	94,180	113,875
EPS (rep)		7.14	7.75	8.70	9.59	EPS (rep)		22.46	36.51	49.67	60.06
EPS (adj)		7.14	7.75	8.70	9.59	EPS (adj)		22.46	36.51	49.67	60.06
EPS Growth yoy (adj)	%	97.6	94.5	76.5	49.6	EPS Growth (adj)	%	87.3	62.6	36.1	20.9
						PE (rep)	x	36.8	22.6	16.6	13.8
						PE (adj)	x	36.8	22.6	16.6	13.8
EBITDA Margin	%	41.6	42.1	42.4	42.5	Total DPS		0.00	0.00	0.00	10.00
EBIT Margin	%	28.1	29.6	30.2	30.6	Total Div Yield	%	0.0	0.0	0.0	1.2
Earnings Split	%	31.8	21.2	23.8	26.3	Weighted Average Shares	m	1,895	1,896	1,896	1,896
Revenue Growth	%	58.1	54.9	50.1	44.5	Period End Shares	m	1,896	1,896	1,896	1,896
EBIT Growth	%	87.9	76.2	78.2	67.3						
Profit and Loss Ratios					Cashflow Analysis						
	2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E		
Revenue Growth	%	58.8	47.0	27.5	18.7	<b>EBITDA</b>	m	71,184	101,577	134,487	165,058
EBITDA Growth	%	71.0	55.2	29.5	20.2	Tax Paid	m	0	0	0	0
EBIT Growth	%	77.7	68.0	31.7	18.4	Chgs in Working Cap	m	20,645	48,572	31,651	20,529
Gross Profit Margin	%	55.4	56.8	58.7	59.6	Net Interest Paid	m	0	0	0	0
EBITDA Margin	%	40.2	42.5	43.1	43.7	Other	m	-1,592	-11	-52	53
EBIT Margin	%	26.6	30.4	31.4	31.3	<b>Operating Cashflow</b>	m	90,237	150,138	166,086	185,640
Net Profit Margin	%	23.2	25.7	27.5	28.0	Acquisitions	m	1,415	-827	-584	-640
Payout Ratio	%	0.0	0.0	0.0	16.6	Capex	m	-89,271	-118,500	-109,944	-100,477
EV/EBITDA	x	21.6	13.9	10.8	9.0	Asset Sales	m	-2,806	-0	-0	0
EV/EBIT	x	32.7	19.5	14.8	12.5	Other	m	56	0	0	0
<b>Balance Sheet Ratios</b>					<b>Investing Cashflow</b>	m	-90,606	-119,327	-110,528	-101,118	
ROE	%	37.4	40.7	37.4	33.0	Dividend (Ordinary)	m	0	0	0	-21,644
ROA	%	19.1	22.2	21.2	19.9	Equity Raised	m	1,192	-0	-0	0
ROIC	%	31.5	38.6	41.5	41.1	Debt Movements	m	3,244	13,065	-5,736	18,446
Net Debt/Equity	%	32.8	6.9	-13.8	-26.5	Other	m	748	0	0	0
Interest Cover	x	34.3	81.7	nmf	nmf	<b>Financing Cashflow</b>	m	5,184	13,065	-5,736	-3,198
Price/Book	x	11.6	7.7	5.2	4.0	<b>Net Chg in Cash/Debt</b>	m	4,815	43,876	49,821	81,324
Book Value per Share		71.5	108.0	157.7	206.3						
					Balance Sheet						
		2007A	2008E	2009E	2010E		2007A	2008E	2009E	2010E	
Cash	m	7,464	51,340	101,161	182,485	Cash	m	7,464	51,340	101,161	182,485
Receivables	m	17,983	27,634	32,326	37,261	Receivables	m	17,983	27,634	32,326	37,261
Inventories	m	912	921	1,010	1,129	Inventories	m	912	921	1,010	1,129
Investments	m	2,504	3,331	3,916	4,556	Investments	m	2,504	3,331	3,916	4,556
Fixed Assets	m	210,602	296,273	365,566	415,162	Fixed Assets	m	210,602	296,273	365,566	415,162
Intangibles	m	23,684	23,684	23,684	23,684	Intangibles	m	23,684	23,684	23,684	23,684
Other Assets	m	34,740	45,173	51,356	57,428	Other Assets	m	34,740	45,173	51,356	57,428
<b>Total Assets</b>	m	297,889	448,356	579,019	721,705	<b>Total Assets</b>	m	297,889	448,356	579,019	721,705
Payables	m	59,511	109,313	140,294	168,545	Payables	m	59,511	109,313	140,294	168,545
Short Term Debt	m	10,925	14,334	13,079	17,114	Short Term Debt	m	10,925	14,334	13,079	17,114
Long Term Debt	m	41,536	51,192	46,711	61,122	Long Term Debt	m	41,536	51,192	46,711	61,122
Provisions	m	0	0	0	0	Provisions	m	0	0	0	0
Other Liabilities	m	48,563	66,949	78,187	81,946	Other Liabilities	m	48,563	66,949	78,187	81,946
<b>Total Liabilities</b>	m	160,535	241,787	278,270	328,726	<b>Total Liabilities</b>	m	160,535	241,787	278,270	328,726
Shareholders' Funds	m	135,553	204,767	298,947	391,178	Shareholders' Funds	m	135,553	204,767	298,947	391,178
Minority Interests	m	1,801	1,801	1,801	1,801	Minority Interests	m	1,801	1,801	1,801	1,801
Other	m	0	0	0	0	Other	m	0	0	0	0
<b>Total S/H Equity</b>	m	137,354	206,568	300,748	392,979	<b>Total S/H Equity</b>	m	137,354	206,568	300,748	392,979
<b>Total Liab &amp; S/H Funds</b>	m	297,889	448,356	579,019	721,705	<b>Total Liab &amp; S/H Funds</b>	m	297,889	448,356	579,019	721,705

All figures in INR unless noted.

Source: Macquarie Research, April 2007



## Important disclosures:

## Recommendation definitions

## Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)  
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)  
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

## Macquarie Asia

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

## Macquarie First South Securities (South Africa)

Outperform – expected return >+5%  
 Neutral – expected return from -5% to +5%  
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

## Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

## Volatility index definition\*

This is calculated from the volatility of historic price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ stocks only

## Financial definitions

All "Adjusted" data items have had the following adjustments made:  
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa\*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

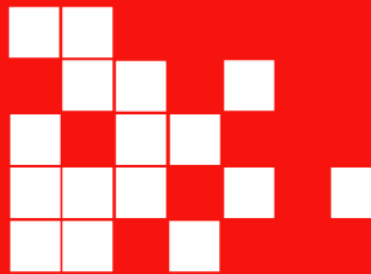
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