

November 11, 2010

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs328	Rs345

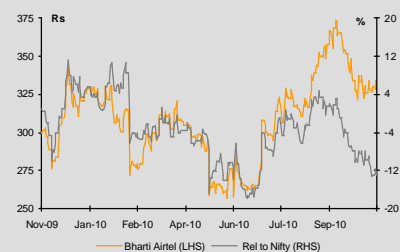
EPS change FY11E/12E (%)	-8.5/-6.3
Target Price change (%)	-
Sensex	20,876
Nifty	6,276

Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	1	25	12
Rel. to Nifty	(6)	(12)	3	(13)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18988
Face Value(Rs)	5
No of shares o/s (mn)	3798
52 Week H/L	377/230
Market Cap (Rs bn/USD mn)	1,246/28,130
Daily Avg Volume (No of sh)	5513317
Daily Avg Turnover (US\$m)	42.4

Shareholding Pattern (%)

	Sep-10	Jun-10	Mar-10
Promoters	67.9	67.9	67.8
FII/NRI	17.9	17.1	18.4
Institutions	9.0	8.8	7.9
Private Corp	3.3	3.7	3.5
Public	2.0	2.5	2.3

Source: Capitaline

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- **Q2FY11 PAT of Rs16.6bn misses estimate of Rs19.2bn on absence in domestic revenue growth owing to seasonality and margin pressure in African operations**
- **ARPU fall of 6.4% QoQ led by 5.4% drop in MOU as realization remains largely stable at Rs0.44/ minute**
- **Cut EPS estimate by 8.5% /6.3% to Rs18.3 /21.6 for FY11E/12E due to African margin pressures and higher tax**
- **Valuations at 15.2x EPS and 6.9x EBIDTA provide comfort. Retain HOLD rating with target price Rs345**

Domestic revenues flat, African margins disappoint

Bharti reported Q2FY11 Cons. profit of Rs16.6bn, was below our estimate of Rs19.2bn due to absence of revenue growth in domestic business and fall of 360bps in EBIDTA margins in Africa. Although RPAT of Rs16.6bn includes forex gain of Rs2.5bn, the benefit of the same is largely nullified due to higher tax provision for Africa (despite loss) resulting in cons. tax rate of 25.5% v/s 15.5% for domestic operations. Revenue at Rs152bn missed our estimate of Rs156bn and EBIDTA at Rs51.2bn missed our estimate of Rs55bn.

MOU fall of 5.4% QoQ impacts India revenue performance led by seasonality

Q2FY11 India mobile revenues grew by just 0.5% post lowest subscriber addition in last 10 quarters coupled with MOU decline of 5.4% QoQ. However the realizations (RPM) remained largely stable at Rs0.44/ minute. Overall India mobile traffic remained flat QoQ v/s >10% growth registered in last two quarters.

Medium term issues in Africa remain

Bharti reported the first full quarter of African performance post acquisition with sequential subscriber growth of 10% to 40.1mn and revenues at Rs38.9bn, largely in-line with estimate. However, tariff cuts, rise in off-net traffic and increased SG & A led to margin decline of 360bps QoQ to 23.9%. We highlight that Bharti's recent tariff cuts across Africa and brand launch scheduled over the next few weeks, would likely provide margin pressures over the medium term.

EPS Estimates cut by 8.5% / 6.3% for FY11E / 12E

Considering medium-term margin pressures in Africa and higher tax rate due to tax provisioning on select profit making African countries, we have cut our EBIDTA and EPS estimate by 3.5% /1.1% and 8.5% / 6.3% for FY11E / 12E respectively.

Valuation at 15.2x EPS & 6.9x EBIDTA comfortable – Retain HOLD

Despite earnings downgrade, we retain HOLD rating with target price Rs345 on the stock due to valuation comfort. At CMP of Rs328, stock trades at 8.8x and 6.9x EV/EBIDTA for FY11E and FY12E respectively. Slowdown in domestic revenue growth on moderation in subscriber addition and improvement in African operations given the tariff cuts and margin pressures, and introduction of MNP remain key near term concerns.

Financial Snapshot

										Rs Mn
Y/E	Net	EBITDA	PAT	EPS	EPS	ROE	P/E	EV/	P/BV	
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	(x)		EBITDA		
FY09	369,615	151,458	41.0	84,699	22.3	26.4	32.2	14.7	8.6	4.1
FY10	418,472	167,633	40.1	89,768	23.6	6.0	24.7	13.9	7.6	3.0
FY11E	596,984	208,418	34.9	69,513	18.3	-22.6	15.3	17.9	8.8	2.6
FY12E	697,538	251,746	36.1	81,923	21.6	17.9	15.6	15.2	6.9	2.2

Domestic revenue and EBIDTA flat sequentially

Domestic revenue growth was muted at 0.5% QoQ owing to seasonally weak quarter – Q2. Domestic EBIDTA fell by 0.5% QoQ on increase in employee expenses due to salary increments affected during Q2FY11.

Comparable financial performance (excl Zain Africa & related costs)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ
Revenues	104,143	103,785	103,053	107,491	112,725	113,312	0.5%
opex	61,169	60,778	62,230	66,662	70,301	71,090	1.1%
EBIDTA	42,974	43,007	40,823	40,829	42,424	42,222	-0.5%
Depr	14,753	15,246	15,883	16,953	17,483	18,239	4.3%
EBIT	28,221	27,761	24,940	23,876	24,941	23,983	-3.8%
Int	(1,284)	2,084	(266)	(356)	2,191	(257)	-111.7%
PBT	29,505	25,677	25,206	24,232	22,750	24,240	6.5%
Tax	4,305	2,753	2,980	3,415	3,687	3,802	3.1%
PAT	24,745	22,630	21,949	20,443	19,063	20,438	7.2%

Domestic v/s African revenue and EBIDTA break-up

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ
Revenues							
India mobile	84,301	82,902	80,898	83,174	88,237	88,045	-0.2%
India & Asia	104,143	103,785	103,053	107,491	112,725	113,312	0.5%
Africa					9,583	38,906	306.0%
Cons. Rev	104,143	103,785	103,053	107,491	122,308	152,150	24.4%
EBIDTA							
India	42,974	43,007	40,823	40,829	42,424	42,222	-0.5%
Africa					2,635	9,311	253.4%
Cons. EBIDTA	42,974	43,007	40,823	40,829	45,059	51,533	14.4%
EBIDTA %							
India	41.3%	41.4%	39.6%	38.0%	37.6%	37.3%	
Africa					27.5%	23.9%	
Cons. EBIDTA %	41.3%	41.4%	39.6%	38.0%	36.8%	33.9%	

EPS Estimates cut by 8.4% /6.3% for FY11E /12E

	FY11			FY12		
	Old	New	Chg %	Old	New	Chg %
Revenue	605,956	596,984	-1.5%	702,807	697,538	-0.7%
EBIDTA	215,877	208,418	-3.5%	254,559	251,746	-1.1%
EBIDTA %	35.6	34.9		36.2	36.1	
PAT	75,933	69,513	-8.5%	87,462	81,923	-6.3%
EPS	20.0	18.3	-8.5%	23.0	21.6	-6.3%

Quarterly financials

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ %	YoY %	YTD '10	YTD '11	YoY %
Mobile	84,301	82,902	80,898	83,174	88,237	88,045	-0.2%	6.2%	167,203	176,282	5.4%
Telemedia	8,551	8,543	8,549	8,511	8,960	9,118	1.8%	6.7%	17,094	18,078	5.8%
Enterprise	11,627	11,355	11,048	10,768	10,186	10,424	2.3%	-8.2%	22,982	20,610	-10.3%
Passive Infra	15,937	17,049	18,407	19,459	20,412	21,161	3.7%	24.1%	32,986	41,573	26.0%
Others	1,027	1,290	1,414	2,094	1,949	41,166	2012.2%	3091.2%	2,317	43,115	1760.8%
Inter segment	(17,300)	(17,354)	(17,263)	(16,515)	(17,019)	(17,764)	4.4%	2.4%	(34,654)	(34,783)	0.4%
Revenues	104,143	103,785	103,053	107,491	122,308	152,150	24.4%	46.6%	207,928	274,458	32.0%
Access charges	11,372	10,698	11,166	11,570	14,227	18,839	32.4%	76.1%	22,070	33,066	49.8%
% of sales	10.9	10.3	10.8	10.8	11.6	12.4			10.6	12.0	
Licence & spectrum chg	10,125	10,224	9,932	10,594	11,742	12,540	6.8%	22.7%	20,349	24,282	19.3%
% of sales	9.7	9.9	9.6	9.9	9.6	8.2			9.8	8.8	
Network operations costs	21,230	22,321	22,115	24,365	27,268	33,165	21.6%	48.6%	43,551	60,433	38.8%
% of sales	20.4	21.5	21.5	22.7	22.3	21.8			20.9	22.0	
Employee costs	5,127	4,841	4,513	4,547	5,601	8,816	57.4%	82.1%	9,968	14,417	44.6%
% of sales	4.9	4.7	4.4	4.2	4.6	5.8			4.8	5.3	
SG&A expense	13,315	12,694	14,504	15,586	19,330	27,578	42.7%	117.3%	26,009	46,908	80.4%
% of sales	12.8	12.2	14.1	14.5	15.8	18.1			12.5	17.1	
Operating Expenses	61,215	60,824	62,276	66,710	78,216	100,986	29.1%	66.0%	122,039	179,202	46.8%
EBIDTA	42,928	42,961	40,777	40,781	44,092	51,164	16.0%	19.1%	85,889	95,256	10.9%
Depreciation	14,753	15,246	15,883	16,953	19,467	25,790	32.5%	69.2%	29,999	45,257	50.9%
EBIT	28,175	27,715	24,894	23,828	24,625	25,374	3.0%	-8.4%	55,890	49,999	-10.5%
Finance cost	(1,284)	2,084	(266)	(356)	4,198	3,318	-21.0%	59.2%	800	7,516	839.3%
PBT core	29,459	25,631	25,159	24,185	20,427	22,056	8.0%	-13.9%	55,090	42,483	-22.9%
Share of associates	-	(6)	(10)	(32)	(72)	(2)	-97.2%	-66.7%	(6)	(74)	1125.0%
Other Income	111	190	182	214	548	169	-69.2%	-11.1%	301	717	138.2%
Non operating expense	(132)	(3)	(44)	(2)	(233)	(3)	-98.7%	0.0%	(135)	(236)	74.8%
PBT	29,438	25,812	25,287	24,365	20,671	22,220	7.5%	-13.9%	55,250	42,890	-22.4%
Tax	(4,305)	(2,753)	(2,980)	(3,415)	(3,750)	(5,678)	51.4%	106.2%	(7,058)	(9,428)	33.6%
PAT	25,133	23,059	22,307	20,950	16,921	16,542	-2.2%	-28.3%	48,192	33,462	-30.6%
Minority	(433)	(477)	(407)	(553)	(153)	23	-115.0%	-104.8%	(910)	(130)	-85.7%
Net profit	24,700	22,582	21,900	20,397	16,768	16,565	-1.2%	-26.6%	47,282	33,332	-29.5%

% of sales							Chg bps	Chg bps			Chg bps
EBIDTA	41.2%	41.4%	39.6%	37.9%	36.0%	33.6%	(242)	(777)	41.3%	34.7%	(660)
EBIT	27.1%	26.7%	24.2%	22.2%	20.1%	16.7%	(346)	(1,003)	26.9%	18.2%	(866)
EBT	28.3%	24.9%	24.5%	22.7%	16.9%	14.6%	(230)	(1,027)	26.6%	15.6%	(1,094)
PAT	23.7%	21.8%	21.3%	19.0%	13.7%	10.9%	(282)	(1,087)	22.7%	12.1%	(1,059)
ETR	14.6%	10.7%	11.8%	14.0%	18.1%	25.6%	741	1,489	12.8%	22.0%	921

Domestic mobile business performance

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	QoQ
Revenues (Rs mn)	84,301	82,902	80,898	83,174	88,237	88,045	-0.2%
EBIDTA (Rs mn)	34,106	33,310	30,400	30,237	31,710	30,964	-2.4%
EBIDTA %	40.5%	40.2%	37.6%	36.4%	35.9%	35.2%	(77)
ARPU (Rs)	278	252	230	220	215	202	-6.4%
MOU (mins)	478	450	446	468	480	454	-5.4%
RPM (Rs)	0.58	0.56	0.52	0.47	0.45	0.44	-1.0%
Traffic (mn mins)	140,713	143,680	153,241	172,797	190,396	190,767	0.2%
Subscribers ('000)	102,368	110,511	118,864	127,619	136,620	143,292	4.9%

Financials**Income Statement**

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Revenues	369,615	418,472	596,984	697,538
Growth %	36.8%	13.2%	42.7%	16.8%
Access cost	52,903	44,806	73,117	83,939
License & spectrum chg	38,270	40,875	47,535	50,885
Network optg exp	59,352	90,031	130,418	153,474
Employee costs	16,992	19,028	32,071	36,005
S, G & A exp	50,640	56,099	105,425	121,489
Total operating exp	218,157	250,839	388,566	445,792
EBIDTA	151,458	167,633	208,418	251,746
Depreciation	47,581	62,835	99,303	118,286
EBIT	103,877	104,798	109,115	133,460
Interest & fin chg	10,804	(293)	20,194	25,827
PBT	93,073	105,091	88,921	107,633
Taxes	6,615	13,453	18,705	24,462
PAT	86,458	91,638	70,215	83,171
Minority	(1,759)	(1,870)	(702)	(1,248)
E/O items	0	0	0	0
Net profit	84,699	89,768	69,513	81,923
Growth %	26.4%	6.0%	-22.6%	17.9%

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity Capital	18,982	18,988	18,988	18,988
Reserves & surplus	284,963	402,952	466,912	542,171
Net worth	303,945	421,940	485,900	561,159
Minority interest	10,704	25,285	25,987	27,235
Total Debt	118,801	101,898	651,898	551,898
Others	18,120	52,998	52,998	52,998
Capital Employed	451,570	602,121	1,216,783	1,193,290
Gross Block	557,821	700,318	930,885	1,036,685
Less Depreciation	148,685	217,689	316,992	435,278
Net Fixed Assets	409,136	482,629	613,893	601,407
Net intangible assets	40,364	59,890	636,179	636,179
Investments	128	57	57	57
Other non cur. assets	10,230	30,679	30,679	30,679
Current assets				
Inventory	963	484	1,452	1,452
Debtors	28,528	35,711	53,567	62,589
Cash and Bank	60,711	77,685	62,887	64,398
Other CA	53,889	23,805	35,708	35,708
Total Curr. Assets	144,091	137,685	153,613	164,146
Current Liabilities	152,377	108,819	217,638	239,178
Net Current Assets	(8,287)	28,866	(64,025)	(75,032)
Capital Deployed	451,570	602,121	1,216,783	1,193,290

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PAT	84,699	91,026	69,513	81,923
Depreciation	47,581	60,457	99,303	118,286
interest	10,804	(7,351)	20,194	25,827
Others	1,759	1,994	702	1,248
Change in WC	(9,947)	3,212	78,093	12,518
Tax	6,615	13,958	18,705	24,462
Others	0	0	0	0
Operating cash flow	141,511	163,296	286,511	264,264
(Inc)/Dec in fixed assets	(141,304)	(104,606)	(806,856)	(105,800)
Free cash flow	207	58,690	(520,345)	158,464
Net Investments	(20)	(44)	0	0
Others	(2,264)	(9,348)	0	0
Investing cash flow	(2,284)	(9,392)	0	0
Change in share prem	(3,339)	18,729	0	0
Change in borrowings	21,738	(54,183)	550,000	(100,000)
Dividend paid	0	(4,441)	(5,554)	(6,664)
Interest	(10,804)	7,351	(20,194)	(25,827)
Others	(2,805)	219	(18,705)	(24,462)
Financing cash flow	4,789	(32,324)	505,547	(156,953)
Inc/(dec) in cash	2,713	16,974	(14,798)	1,511
Cash beginning	57,998	60,711	77,685	62,887
Cash ending	60,711	77,685	62,887	64,398

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	41.0	40.1	34.9	36.1
Net Margin	23.4	21.9	11.8	11.9
ROCE	26.3	19.9	12.0	11.1
ROE	32.2	24.7	15.3	15.6
RoIC	31.0	22.9	13.0	11.7
Per Share Data (Rs)				
EPS	22.3	23.6	18.3	21.6
CEPS	34.8	40.2	44.5	52.7
BVPS	80.1	111.1	127.9	147.8
DPS	0.0	1.0	1.3	1.5
Valuations (x)				
PE	14.7	13.9	17.9	15.2
Cash PE	9.4	8.2	7.4	6.2
P/BV	4.1	3.0	2.6	2.2
EV/Sales	3.5	3.0	3.1	2.5
EV/EBITDA	8.6	7.6	8.8	6.9
Dividend yield	0.0	0.3	0.4	0.5
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.1	1.2	0.9
Net Debt/EBITDA	0.4	0.1	2.8	1.9

Recommendation History: Bharti Airtel – BHARTI IN

Date	Reports	Reco	CMP	Target
27/08/2010	Bharti Airtel Company Update	Hold	316	345
30/04/2010	Bharti Airtel 4QFY10 result update	Hold	298	322
15/02/2010	Bharti Airtel Event Update	Reduce	315	250
25/01/2010	Bharti Airtel 3QFY10 result update	Reduce	322	250

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2010	Jagran Prakashan Q2FY11 Result Update	Buy	129	155
28/10/2010	HT Media Q2FY11 Result Update	Hold	165	175
27/10/2010	DB Corp Q2FY11 Result Update	Hold	284	284
26/10/2010	Idea Cellular Q2FY11 Result Update	Sell	72	60

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