

EXPANDING REACH ACROSS BORDERS

1Q FY11 Conference Call Update

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Bharti Airtel, is ₹ 41829 crore (March 2010) company. It has four strategic business units – mobile services, telemedia services, enterprise services and passive infrastructure services. It is one of World's leading GSM player with presence in all 22 telecom circles in India and operations in 17 more countries including Sri Lanka, Bangladesh and African countries. Bharti Airtel has over 18.34 crore customer base globally and more than 21.5% wireless market share in India. Tele-density in India is at 56.8% - Bharti is our top pick in the sector. **Currently, the stock is trading at 14.6x on TTM EPS of ₹ 21.8. We recommend BUY at current levels & accumulate at every drop in share price with a 12 month price target of ₹ 378, an upside of 19%.**

1Q FY11 Highlights

- ◆ Consolidated net sales during 1Q FY11 was 17.4% up (Y-o-Y) at ₹ 12230.8 crore mainly due to addition of 9 million subscribers during the quarter and also includes 23 days revenues from Zain telecom. EBITDA was nominal 3.3% up (Y-o-Y) at ₹ 4438.4 crore.
- ◆ PAT for 1Q FY11 was drastically down by 23.6% (Y-o-Y) at ₹ 1697 crore due to forex loss of ₹ 216.1 crore (includes ₹ 98 crore for acquisition cost relating to Zain Telecom) as compared to gain of ₹ 159.7 crore in 4Q FY10. Increase in effective tax rate by 4% to 18% (Y-o-Y) squeezed the profitability.
- ◆ The interest cost of ₹ 46 crore is attributable to 3G and BWA loans which is capitalized due to pending commercial launch. The Net Debt – Equity ratio stood at 1.38, and the Net Debt – EBITDA ratio at 2.87.
- ◆ ARPU was down by 2% to ₹ 215 per minute while it added 9 million mobile subscribers during 1Q FY11 (8.75 million subscribers Q-o-Q). Revenue per minute dipped by 5% Q-o-Q to ₹ 0.45 per minute while MoU increased by 3% Q-o-Q to 480 minutes. Overall customer base stands at 18.34 crore, across 18 countries.
- ◆ During Q1FY11 DoT completed 3G & BWA auctions and earned ₹ 106262 crore for the Government. 3G auction lasted for 34 days (183 rounds) and raised ₹ 67719 crore. Airtel, Aircel and RCom won spectrum in 13 circles, Idea for 11, whereas Tata and Vodafone each for 9 service areas. The spectrum allotment is scheduled in the month of September by DoT. BWA auction lasted 16 days (117 rounds) raising ₹ 38543 crore income for the Government. Giants like Infotel (now acquired by RIL) only has pan India presence, Aircel won in 8 circles, Airtel and Qualcomm each won in 4 circles and Augere for 1 service area.

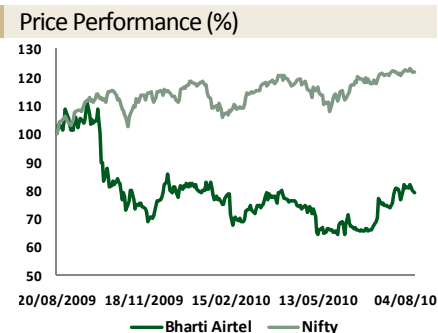
Rating	BUY
Target Price	₹ 378.0
CMP	₹ 317.2
Upside	19%
Sensex	18167

Key Data	
Bloomberg Code	BHARTI IN
Reuters Code	BRTI.BO
NSE Code	BHARTIARTL
Current Share o/s (mn)	3797.5
Diluted Share o/s (mn)	3797.5
MktCap (₹bn/\$mn)	1203.6/25733.1
52 WK H/L (₹)	485/229.5
Daily Vol. (3M NSE Avg)	8696370
Face Value (₹)	5
Beta	0.87
1USD/₹	46.8

Shareholding Pattern (%)	
Promoters	67.9
FII	16.7
Others	15.5

Price Performance (%)			
	1M	6M	1yr
Bharti Airtel	5.7	22.7	-23.3
NIFTY	1.0	5.3	18.4

Source: Bloomberg; *As on 13th August, 2010



Source: Company, Networth Research

Capex Plans

Consolidated capex payout throughout 1Q FY11 was limited to \$39.4 crore while the consolidated free cash flow for 1Q FY11 was an all-time high of \$78.6 crore. The planned capex for the FY11 is \$310 crore which includes around \$200 crore to be used for Indian operations, \$80 crore for Africa and rest for Indus operations.

Recent Developments

- ◆ Bharti Airtel is planning to complete its integration of Zain telecom assets by December 2010. It had acquired Zain in June 2010 from Kuwaiti telecom group at \$10.7 billion to become the world's fifth-biggest mobile operator.
- ◆ Bharti Airtel will acquire 100% stake for \$62 million (₹ 288 crore) in Telecom Seychelles which has 55% GSM market share in Seychelles. It is leading mobile services provider and also provides internet services, satellite telephony and value added services including VSAT and International Gateway for International Traffic. By completion of this deal Airtel will mark its presence in 19 countries from current operations in 18 countries.

Key Risks to our target

- ◆ The company is highly leveraged with ₹ 602 billion debt on its books mainly incurred for financing Zain deal, 3G Spectrum and other capex plans
- ◆ The ongoing tariff war may lead to further decrease in ARPU and MoU
- ◆ Strengthening of US dollar against the rupee and several African currencies could lead to forex losses.
- ◆ Stiff competition coupled with MNP implementation likely in next 2.5 months would make it difficult for the company to expand its market share.

Segmentwise Performance for 1Q FY11

Revenue	India & S. Asia	Africa	Total	₹ Cr.	
				Total	% of Total
Mobile Services	8823.7	958.3	9782.0		80%
Telemedia Services	8,96.0		896.0		7%
Enterprise Services	1018.6		1018.6		8%
Passive Infra Services	2041.2		2041.2		17%
Others	194.9		194.9		2%
Sub Total	12974.4	958.3	13932.7		114%
Eliminations	(1701.9)		(1701.9)		-14%
Total	11272.5	958.3	12230.8		100%
% of Total	92%	8%	100%		

EBITDA	India & SA	Africa	Africa Others	Total	₹ Cr.	
					Total	% of Total
Mobile Services	3171.0	263.5		3434.5		78%
Telemedia Services	393.8			393.8		9%
Enterprise Services	249.7			249.7		6%
Passive Infra Services	724.0			724.0		16%
Others	(235.9)		(91.9)	(327.8)		-7%
Sub Total	4302.6	263.5	(91.9)	4474.2		101%
Eliminations	(60.2)			(60.2)		-1%
Total	4242.4	263.5	(91.9)	4414.0		100%
% of Total	96%	6%	-2%	100%		

	₹ Cr.				
CAPEX	India & SA	Africa	Africa Others	Total	% of Total
Mobile Services	707.1	93.5		800.6	44%
Telemedia Services	159.8			159.8	9%
Enterprise Services	69.4			69.4	4%
Passive Infra Services	530.1			530.1	29%
*Others	276.2			276.2	15%
Sub Total	1742.6	93.5		1836.1	100%
Eliminations	0			0	0%
Total	1742.6	93.5		1836.1	100%
% of Total	95%	5%	0%	100%	

* **Others** – comprises of Digital TV operations, corporate offices and new projects in India & South Asia.

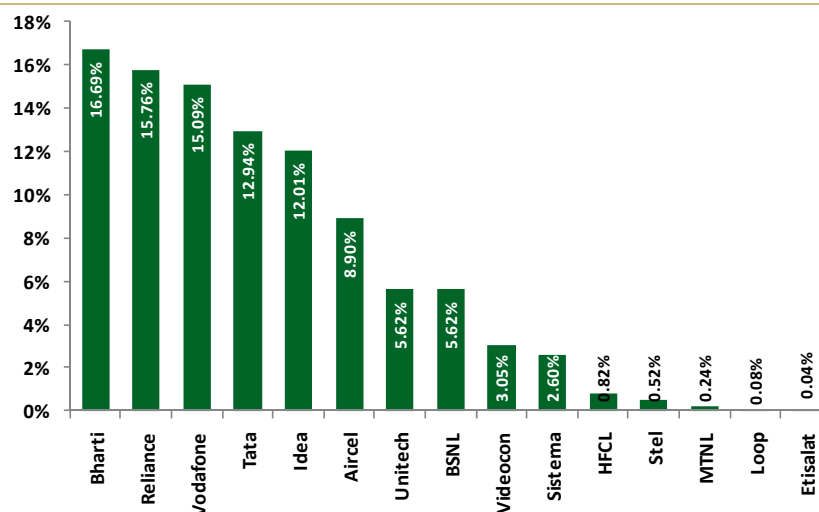
MOBILE SERVICES

Bharti Airtel has the largest wireless subscriber base in **India** with 13.7 crore GSM subscribers as on June 30, 2010 and covers 84.3% of India's population. Airtel's long distance infrastructure comprises of 129,244 Rkms of optical fibre providing a pan India reach. Airtel is strengthening its position in **Sri Lanka** with presence in 20 administrative districts and more than 0.14 crore customer base.

Airtel has entered **Bangladesh** via acquiring 70% in Warid telecom and currently has 0.25 crore customers and offers mobile services across 64 districts. The tele-density in Bangladesh is low at 36% with population over 16.5 crore, a very promising market for telecom services. Acquisition of Zain telecom of **Africa** at \$ 10.7 billion has given Airtel access to 15 countries. Airtel has more than 3.6 crore customer in these 15 countries where it operates (total population is 46 crore) with tele-density at 38% on June 30, 2010.

Mobile Services (India)	UNIT	1Q FY11	4Q FY10	Q-o-Q	1Q FY10	Y-o-Y
Customer Base	000's	136,620	127,619	7%	102,368	33%
Net Additions	000's	9,001	8,755	3%	8,445	7%
Market Share						
Wireless Market Share	%	21.50%	21.80%		24.00%	
Market Share of Net Additions	%	17.60%	14.80%		23.80%	
Pre-Paid Subscribers As % of total	%	96.00%	95.80%		94.70%	
Average Revenue Per User	₹	215	220	-2%	278	-23%
Average Rate Per Minute	₹	0.45	0.47	-5%	0.58	-23%
Average Minutes of Use Per User	Min	480	468	3%	478	1%

Exhibit 1: GSM Subscriber Additions for the Month of June 2010



Source: Company, Networth Research

TELEMEDIA SERVICES

Currently Airtel provides broadband (DSL), data and telephone services (fixed line) in 88 cities in India with growing focus on various data solutions for SME segment. As on June 30, 2010 42.6% of 31.5 lakh customers are subscribing to broadband / internet services.

Telemedia Services

Parameters	Unit	1Q FY11	4Q FY10	Q-o-Q	1Q FY10	Y-o-Y
Telemedia Customers	000's	3,153	3,067	3%	2,828	11%
Net additions	000's	86	78	10%	102	-15%
Average Revenue Per User	₹	961	937	3%	1,027	-6%
Average Revenue Per User	US\$	20.6	20.1	3%	22.0	-6%

ENTERPRISE SERVICES

Airtel is India's leading provider of communications services to large enterprise & carrier services. Company have made significant investments in new submarine cable systems, extending its reach across the globe and now covers over 225,000 Rkms, covering 50 countries across 5 Continents.

PASSIVE INFRASTRUCTURE

Bharti Infratel owns 42% of Indus Towers and holds 31,196 towers in 11 circles, excluding the 35,254 towers assigned to Indus in 15 circles.

Bharti Infratel	Unit	1Q FY11	4Q FY10	Q-o-Q	1Q FY10	Y-o-Y
Total Towers	Nos	31,196	30,568	628	28,078	3,118
Revenue per Sharing Operator per month	₹	36,290	36,878	-2%	36,420	0%
Sharing Factor	Times	1.65	1.62		1.43	
Indus Towers	Unit	1Q FY11	4Q FY10	Q-o-Q	1Q FY10	Y-o-Y
Total Towers	Nos	104,901	102,938	1,963	97,925	6,976
Key Indicators						
Sharing Revenue per Sharing Operator per month	₹	30,379	29,674	2%	28,915	5%
Sharing Factor	Times	1.75	1.71		1.55	
Indus KPIs are on 100% basis.						

DIGITAL TV SERVICES

Airtel Digital TV has a customer base of over 32 lakhs customers and continues to lead in new customer acquisition net additions as it acquires 1 out of every 4 new customers joining the DTH platform. It continues to expand its distribution, going beyond 9000 towns and thousands of villages.

Summarised Revenue Statement

(₹ Cr.)

Particulars	1Q FY11	1Q FY10	Y-o-Y %	4Q FY10	Q-o-Q %
Net Sales	12230.8	10414.3	17.4%	10739.4	13.9%
Other Income	54.8	11.1		43.2	26.8%
Total Income	12285.6	10425.4	17.8%	10782.6	13.9%
Total Expenditure	7847.2	6130.1	28.0%	6766.7	16.0%
PBIDT	4438.4	4295.3	3.3%	4016.0	10.5%
Interest	419.8	-128.4		-174.7	
PBDT	4018.6	4423.7	-9.2%	4190.6	-4.1%
Depreciation	1946.7	1475.4	31.9%	1671.1	16.5%
Tax	540.9	682.1	-20.7%	273.1	98.0%
Deferred Tax	-165.9	-251.6	-34.1%	164.7	
Profit After Tax	1696.9	2517.8	-32.6%	2081.7	-18.5%
EPS TTM	21.6	38.6	-44.1%	30.2	-28.5%
PBIDTM (%)	36.3	41.2	-12.0%	37.4	-2.9%
PBDTM (%)	32.9	42.5	-22.6%	39.0	-15.8%
PATM (%)	13.9	24.2	-42.6%	19.4	-28.4%

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Key to NETWORKTH Investment Rankings

Buy: Upside by >15, **Accumulate:** Upside by +5 to 15, **Hold:** Upside/Downside by -5 to +5, **Reduce:** Downside by 5 to 15, **Sell:** Downside by >15

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