

August 13<sup>th</sup>, 2010.

Key Data	
CMP (₹)	320
Target Price (₹)	342
Bloomberg Code	BHARTI IN
Reuters Code	BRTI.BO
BSE Code	532454
NSE Code	BHARTIARTL
Face Value (₹)	5
Market Cap (₹ Bn)	1215
52 Week High (₹)	467
52 Week Low (₹)	230
Avg. Daily Volume (6m)	8179118
F & O	
Market Lot	1000
Turnover (₹ Mn)	401

Shareholding	%
Promoters	67.9
Mutual Funds / Bank/ FI	3.8
Foreign Institutional Investors	16.7
Insurance Companies	5.0
Others	6.7
Total	100.0

## Bharti Airtel Ltd

*Bharti Airtel Limited (Bharti Airtel) reported its financial results for 1QFY11. Its mobile subscribers were 136.6 million as on June 2010. Bharti Airtel continues to be the market leader with a domestic mobile subs market share of 21.5% as on June 2010.*

### KEY HIGHLIGHTS FOR 1Q FY11:

- Bharti Airtel's consolidated total revenue increased 17.4% YoY to INR122 billion in 1QFY11, as against INR104 billion in 1Q FY10. Sequentially, the revenues grew by 14%.
- The company's consolidated EBIDTA rose 5.8% YoY to INR45.4 billion, vs. INR42.9 billion in 1Q FY10. The EBITDA margin declined to 37.1% in 1Q FY11 from 41.2% in 1QFY10. This is attributable to increase in network opex and access charges.
- The company's net profit declined by 32% YoY to INR16.9 billion in 1Q FY11 and its net profit margin was 13.7%. This is mainly on account of decline in operating profits and increased interest cost on account of 3G and Zain related debt.
- Bharti has guided for \$1.7-2bn capex for India and South Asia business, \$300-350m for Bharti Infratel and \$800m capex in Zain for FY11.

### Valuation and recommendation

The first quarter results were in line driven by the strong elasticity witnessed by the mobile segment. The operating metrics have stabilized with reduced intensity of price wars. The margins were under pressure on account of the increased spectrum charge provision and Zain consolidation. Going forward we expect the pressure on margins to continue. Further with increase in debt and the 3G capex we believe that the net profit will also be under pressure.

With consolidation with Zain, we expect the revenues to register a CAGR of 30.6% during FY10-12, however we expect the earnings to decline in FY11 and thereafter register a growth of 35% in FY12. Factors to watch in the coming quarters would be the performance of operating metrics, Zain's performance and 3G rollout.

Based on SOTP valuation, we have valued Bharti Airtel as under

SOTP Valuation	
Core business	293
Bharti Infratel (Ex Indus)	43
Indus Towers	46
Zain	-40
<b>Total</b>	<b>342</b>

Source: ACMIIL research.

**We maintain our "BUY on Declines" recommendation on Bharti Airtel.**

**Analyst**  
**Deepti Chauhan**  
research@acm.co.in  
Tel: +91-22 2858 3408

### Segmental Analysis

#### MOBILE SEGMENT (India and South Asia)

- The mobile services segment was the major revenue contributor at 80%.
- Of the 136.6 million mobile customers in India, pre-paid customers accounted for 96%. With the acquisitions of Africa, Bharti Airtel now has operations in 18 countries and has population coverage of 1.82 bn.
- On account of heightened competition in India, the company's market share declined from 21.8% as of 4Q FY10 to 21.5% in 1QFY11.
- With reduced intensity of price wars, the 1QFY11 witnessed stability in the ARPUs which declined by 2.5% QoQ to INR215. MOU's have also registered growth of 2.5% to 480 minutes per user.
- Consequently, the mobile segment's revenue increased 4.7% on a YoY basis to INR88, 237 million, as against INR84, 301 million in 1Q FY10.
- On account of converging to IFRS the company has reclassified the operating segment as a result of which the revenues from the captive NLD segment have now been included in the mobile segment revenues.

Mobile Segment: Performance						₹ Mn
	1QFY11	1QFY10	Y-o-Y Chg %	FY10	FY11E	FY12E
Subscriber Base (Nos)	127.6	93.9	35.9	127.6	155.6	177.6
Net Revenue	88237	84301	-0.3%	324872	351079	394316
EBITDA	22236	25770	-7.3%	101190	119367	134068
EBITDA Margin	35.9%	40.5%		31.1%	34.0%	34.0%

**Source: Company and ACMIIL estimates.**

#### MOBILE SEGMENT (Africa)

- The African operations of Bharti have been consolidated for 23 days during 1QFY11. Revenues were at INR9.6 billion while EBIDTA was at INR2.6 billion implying margins at 27.5%.
- The subscriber base reported was 36.4 million customers as against 42.2 million customers. The change is mainly on account of change in subscriber recognition norms to make it at par with Bharti Airtel.
- APRU was at US\$7.4, while reported MoU were at 103.
- Management has indicated that the integration process is going on and should be completed by the year-end. The brand launch is expected to take place in the month of October 2010.

### TELEMEDIA SEGMENT (broadband and fixed line)

- Telemedia revenues registered a YoY growth of 4.8% to INR8960 million in 1QFY11. Data and broadband segment growth remains strong, while the fixed line voice business is steadily declining. The management had indicated that it would increase focus on the data business. This has enabled Bharti to improve margins for this segment to 44% in 1QFY11 vs 40.5% in 1QFY10.

Telemedia Segment- Performance						₹ Mn
	1QFY11	1QFY10	Y-o-Y Chg %	FY10	FY11E	FY12E
Net Revenue	8960	8551	-0.9%	34154	36818	39211
EBITDA	3938	3466	2.4%	14776	16126	17488
EBITDA Margin	44.0%	40.5%		43.3%	43.8%	44.6%

Source: Company and ACMIL estimates

### ENTERPRISE SEGMENT

- Enterprise segment revenues have declined by 12% YoY to INR10, 186 million in 1QFY11. The EBIDTA margins declined to 24.5% in 1QFY11 from 25.3% in 1QFY10.

Enterprise Segment- Performance						₹ Mn
	1QFY11	1QFY10	Y-o-Y Chg %	FY10	FY11E	FY12E
Net Revenue	10186	11627	-4.1%	83597	45142	48212.1
EBITDA	2497	2942	-0.7%	41150	11286	11812
EBITDA Margin	24.5%	25.3%		49.2%	25.0%	24.5%

Source: Company and ACMIL estimates

### PASSIVE INFRASTRUCTURE SERVICES SEGMENT

- As of end-June, Bharti Airtel had 31,196 towers in 11 circles. Sharing factor for the quarter ended June 2010 was 1.65 times.
- This segment's revenue recorded sequential growth of 28% to INR20, 412 million owing to improvement in the sharing factor. EBIDTA margin stood at 35.5%. The passive infra now includes 42% share of Indus revenues.

Passive Infrastructure Segment- Performance						₹ Mn
	1QFY11	1QFY10	Y-o-Y Chg %	FY10	FY11E	FY12E
Net Revenue	20412	15937	31.9%	35425	83328	97929
EBITDA	7240	5201	55.3%	16353	33316	39858
EBITDA Margin	35.5%	32.6%		46.2%	40.0%	40.7%

Source: Company and ACMIL estimates

### **Revision in estimates**

- We have consolidated Zain's revenues with Bharti Airtel. Further we believe that with the commencement of 3G by the end of CY10, we expect the mobile revenues would witness uplift.

- However we expect the margins to be under pressure on account of consolidation of Zain (lower margins), higher network opex on account of 3g rollout and higher spectrum charges.
- Further we have also increased our depreciation estimates to factor in the 3G capex. Interest cost has also been increased on account of the Zain and 3G related debt.

### Our revised estimates are as follows:

Particulars	FY11			FY12		
	Original Estimates	Revised Estimates	% Change	Original Estimates	Revised Estimates	% Change
Revenues	424150.3	579579.5	36.6	482828.6	676122.2	40.0
EBITDA	162091.5	199916.7	23.3	183727.7	241520.2	31.5
Net Profit	73002.6	58180.7	-20.3	81711.2	78720.5	-3.7
EBITDA Margin	38.2%	34.5%	-3.7	38.1%	35.7%	-2.3
NPM	17.2%	10.0%	-7.2	16.9%	11.6%	-5.3
EPS	19.2	15.3	-20.3	21.5	20.7	-3.7

Source: ACMIIL estimates.

### Valuation and Recommendation

The first quarter results were in line driven by the strong elasticity witnessed by the mobile segment. The operating metrics have stabilized with reduced intensity of price wars. The margins were under pressure on account of the increased spectrum charge provision and Zain consolidation. Going forward we expect the pressure on margins to continue. Further with increase in debt and the 3G capex we believe that the net profit will also be under pressure.

With consolidation with Zain, we expect the revenues to register a CAGR of 30.6% during FY10-12, however we expect the earnings to decline in FY11 and thereafter register a growth of 35% in FY12. Factors to watch in the coming quarters would be the performance of operating metrics, Zain's performance and 3G rollout.

We have arrived at the fair value for the core business and the tower business for Bharti on DCF basis whereas we have valued Zain on EV/Ebitda basis taking into account the high net debt for Zain. We have assigned a multiple of 6x to FY12 Ebitda of Zain.

Based on SOTP valuation, we have valued Bharti Airtel as under

SOTP Valuation	
Core business	293
Bharti Infratel (Ex Indus)	43
Indus Towers	46
Zain	-40
<b>Total</b>	<b>342</b>

Source: ACMIIL research.

**We maintain our "BUY on Declines" recommendation on Bharti Airtel.**

Region wise revenue Break up ( ₹ Mn)	Bharti (Ex Africa)	Africa	Total	Bharti (Ex Africa)	YoY Growth
Particulars	1QFY11	1QFY11	1QFY11	1QFY10	Ex Africa
Net Sales	112725	9583	122308	104299	8.1
EBITDA	43721	1716	45437	42496	2.9
Adjusted EBITDA	44837			42496	5.5
Net Profit	19048	-2232	16816	26480	-28.1
Adjusted Net Profit	20473			26480	-22.7
Equity Share Capital			18988	18984	
EPS			4.4	7.0	
<b>Profitability Ratios</b>					
EBIDTA Margin (%)	38.8	17.9	37.1	40.7	
PAT Margin (%)	16.9	-23.3	13.7	25.4	

Source: Company

EBIDTA adjusted for spectrum charges and one time acquisition cost and net profit adjusted for forex loss

Interim Results					₹ Mn
Particulars	1QFY11	1QFY10	YoY Growth %	4QFY10	QoQ Growth %
<b>Net Sales</b>	<b>122,308.0</b>	<b>104,143.0</b>	<b>17.4</b>	<b>107,491.0</b>	<b>0.1</b>
Total Expenditure	77,419.0	61,301.0		66,664.0	
Operating Profits	44,889.0	42,842.0		40,827.0	
Other Income	548.0	111.0		214.0	
<b>EBDIT</b>	<b>45,437.0</b>	<b>42,953.0</b>	<b>5.8</b>	<b>41,041.0</b>	<b>0.1</b>
Depreciation	19,467.0	14,754.0		16,953.0	
EBIT	25,970.0	28,199.0		24,088.0	
Interest	4,198.0	-1,284.0		-356.0	
PBT before extraordinary item	21,772.0	29,483.0		24,444.0	
Extraordinary item	982.0	0.0		0.0	
Profit before tax	20,790.0	29,483.0		24,444.0	
Taxes	3,750.0	4,305.0		3,415.0	
Profit After Tax	17,040.0	25,178.0		21,029.0	
Minority Interest	153.0	433.0		553.0	
Share of loss/Gain in associate	71.0	0.0		32.0	
<b>Net Profit</b>	<b>16,816.0</b>	<b>24,745.0</b>	<b>-32.0</b>	<b>20,444.0</b>	<b>-0.2</b>
Equity Share Capital	18,988.0	18,983.7		18,984.2	
EPS	4.4	6.5		5.4	
CEPS	9.6	10.4		9.8	
<b>Profitability Ratios</b>					
EBIDT Margin (%)	37.1	41.2		38.2	
PAT Margin (%)	13.7	23.8		19.0	

Source: Company

Earnings Summary				₹ Mn
Particulars	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>373,520.8</b>	<b>396,149.0</b>	<b>579,579.5</b>	<b>676,122.2</b>
Total Expenditure	223,794.0	235,086.7	381,691.4	436,968.5
Operating Profits	149,726.8	161,062.3	197,888.1	239,153.7
Other income	1,523.8	1,275.0	2,028.5	2,366.4
<b>EBDIT</b>	<b>151,250.6</b>	<b>162,337.3</b>	<b>199,916.7</b>	<b>241,520.2</b>
Depreciation	46,727.7	60,457.0	110,556.0	124,100.9
EBIT	104,522.9	101,880.3	89,360.7	117,419.3
Interest	18,612.8	-5,784.0	21,810.8	26,022.0
PBT before extraordinary item	85910.1	107664.3	67549.9	91397.3
Extraordinary item	0.0	976.4	0.0	0.0
Profit before tax	85910.1	106687.9	67549.9	91397.3
Taxes	5,468.3	13,959.0	8,781.5	11,881.6
Profit After Tax	80,441.8	92,728.9	58,768.4	79,515.7
Minority Interest/ Share of loss/Gain in associate	1852.3	2286.0	1763.1	2385.5
<b>Net Profits</b>	<b>78,589.5</b>	<b>91,026.9</b>	<b>58,180.7</b>	<b>78,720.5</b>
Growth in sales (%)	38.3%	6.1%	46.3%	16.7%
Operating Profits Growth (%)	34.3%	7.6%	22.9%	20.9%
PAT Growth (%)	22.9%	15.8%	-36.1%	35.3%
Operating Profit Margin (%)	40.1%	40.7%	34.1%	35.4%
Net Profit Margin (%)	21.0%	23.0%	10.0%	11.6%

Source: Company reports and ACMIL estimates.

Sources and Application of Funds				₹ Mn
Particulars	FY09	FY10E	FY11E	FY12E
<b>Sources of Funds</b>				
Share Capital	18,982.4	18,987.7	18,987.7	18,987.7
Reserves and Surplus	272,296.8	379,801.5	437,982.2	516,702.7
Outstanding Stock Options	291,279.2	398,789.1	456,969.8	535,690.3
Total Shareholders Funds	135,171.5	102,881.4	670,285.4	645,285.4
Total Loan Funds	12,297.5	28,555.3	29,730.7	31,321.0
Net Deferred Tax Liability	-293.0	4,046.9	4,046.9	4,046.9
<b>Total Capital Employed</b>	<b>438,455.3</b>	<b>534,272.8</b>	<b>1,161,032.8</b>	<b>1,216,343.7</b>
<b>Application of Funds</b>				
Gross Block	586,616.1	721,163.4	1,391,161.7	1,514,344.0
Less: Accumulated Depreciation	147,129.6	212,672.8	323,228.8	447,329.7
Net Block	439,486.4	508,490.6	1,067,932.9	1,067,014.3
Capital Work in Progress	41,436.5	24,359.4	45,195.0	61,147.0
Investments	23,489.5	51,620.7	25,820.0	25,820.0
Net Current Assets	-65,958.1	-50,197.9	22,084.9	62,362.4
Misc Expenses	0.9	0.0	0.0	0.0
<b>Total Assets</b>	<b>438,455.3</b>	<b>534,272.8</b>	<b>1,161,032.8</b>	<b>1,216,343.7</b>

Source: Company reports and ACMIL estimates.

Cash Flow Statement				₹ Mn
Particulars	FY09	FY10E	FY11E	FY12E
<b>Pre tax profits</b>	<b>85910.1</b>	<b>107664.3</b>	<b>67549.9</b>	<b>91397.3</b>
Operating Profit before WC changes	157333.6	175335.4	193526.3	249239.7
Cash from Operations	137115.6	154564.5	191834.9	245977.4
Cash from Investment activities	-151753.7	-147031.3	-665033.3	-139134.2
Cash from Finance	20648.5	-13749.2	545593.2	-51022.0
<b>Total cash generated</b>	<b>6010.3</b>	<b>-6216.0</b>	<b>72394.8</b>	<b>55821.2</b>
<b>Cash at the beginning</b>	<b>7034.1</b>	<b>13044.5</b>	<b>21036.0</b>	<b>106589.8</b>
<b>Cash acquired on acquisitions</b>	<b>0</b>	<b>14207.5</b>	<b>13159.0</b>	<b>0.0</b>
<b>Cash Balance</b>	<b>13044.5</b>	<b>21036.0</b>	<b>106589.8</b>	<b>162411.0</b>
<i>Source: Company reports and ACMIIL estimates.</i>				

Key Ratios				
Particulars	FY09	FY10E	FY11E	FY12E
<b>Profitability Ratios</b>				
Operating Profit Margin (%)	40.1%	40.7%	34.1%	35.4%
EBIDTA Margin (%)	40.5%	41.0%	34.5%	35.7%
PAT Margin (%)	21.0%	23.0%	10.0%	11.6%
RONW (%)	30.9%	26.4%	13.6%	15.9%
ROCE (%)	19.0%	15.4%	8.6%	8.3%
<b>Per Share Ratios #</b>				
Earnings (Rs.)	20.7	24.0	15.3	20.7
Cash Earnings (Rs.)	41.3	46.4	55.0	66.7
Book Value (Rs.)	76.4	104.3	119.6	140.4
<b>Valuation Ratios</b>				
P/E (x)	-	-	17.7	16.6
Cash P/E (x)	-	-	7.7	7.1
P/BV (x)	-	-	3.1	2.6
<b>Capital Structure Ratios</b>				
Debt/Equity	0.5	0.3	1.5	1.2
Current Ratio	0.6	0.7	1.1	1.3
<b>Turnover Ratios</b>				
Debtors Turnover (x)	13.0	13.0	14.8	13.5
Fixed Asset Turnover (x)	0.8	0.8	0.5	0.6
<i>Source: Company reports and ACMIIL estimates.</i>				
<i># FY09 numbers adjusted for Split in face value of shares.</i>				

## Notes

### Institutional Sales:

Ravindra Nath, Tel: +91 22 2858 3400

Kirti Bagri, Tel: +91 22 2858 3731

Himanshu Varia, Tel: +91 22 2858 3732

Email: [instsales@acm.co.in](mailto:instsales@acm.co.in)

### Institutional Dealing:

Email: [instdealing@acm.co.in](mailto:instdealing@acm.co.in)



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