

Subdued quarter, Retain ACCUMULATE

February 8, 2012

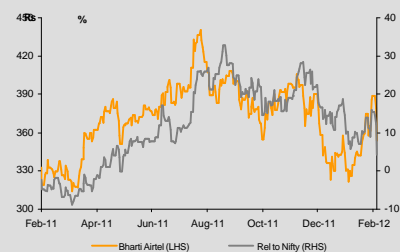
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs354	Rs412
EPS change FY12E/13E (%)	-17.6/-20.4
Target Price change (%)	-11.2
Nifty	5,368
Sensex	17,707

Price Performance

(%)	1M	3M	6M	12M
Absolute	10	(11)	(13)	6
Rel. to Nifty	(3)	(12)	(16)	5

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	445/309
Market Cap (Rs bn/USD mn)	1,344/27,314
Daily Avg Volume (No of sh)	7061835
Daily Avg Turnover (US\$m)	52.4

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	68.5	68.3	68.3
FII/NRI	17.8	17.4	17.8
Institutions	8.2	8.7	8.5
Private Corp	4.1	4.1	3.7
Public	1.5	1.5	1.7

Source: Capitaline

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- Results below expectation on EBITDA level. Q3FY12 revenue at Rs185.1bn up 7.1% qoq. EBITDA at Rs59.6bn, up 2.5% qoq. PAT at Rs10.3bn declined 1.5% QoQ
- Seasonally strong quarter was unable to boost traffic on network, indicating -ve elasticity led by tariff hike. Higher SG&A cost & access charge led to EBITDA margin decline of 147bps qoq to 32.2%
- Impact of tariff hike in ARPU (+ve) and MoU (-ve) would continue in Q4FY12E also, till price hikes get absorbed. We expect traffic on network to start gaining traction by Q1FY13
- We expect EBITDA margin to improve from hereon, however we cut our EPS est. by 17.6% & 20.4% for FY12E/13E. We Maintain ACCUMULATE with revised TP of Rs412

Revenue in-line but margins take a hit

Bharti reported consolidated revenues of Rs185.1bn improving 7.1%, a tad below our estimate. India & SA mobile revenue for the quarter improved 4.0% sequentially, led by improvement of 3.2% in ARPU. EBITDA stood at Rs59.6bn below our estimate of Rs63.4bn, EBITDA margin declined 147bps QoQ to 33.7%. Decline is attributed to high SG&A and access charge. PAT of Rs10.3bn was below our estimate of Rs13.9bn, on account of 1) higher tax rate and 2) lower than expected EBITDA and 3) higher than expected depreciation (on account of one-off item). For Q3FY12 company reported forex gain of Rs70mn v/s Rs2.5bn of forex loss in Q2FY12.

KPI's – traffic growth disappoints

Despite seasonally strong quarter, minutes on network at 219bn remained subdued with 0.8% QoQ growth. Slower growth is attributed to -ve elasticity due to tariff hike initiated in July, 2011. ARPU during the quarter stood at Rs187 was up 2.2% qoq. MoU declined 1.0% qoq to 419, subsequently ARPM improved 3.2% QoQ to Rs0.45. Q3FY12 registered net adds of 2.9mn v/s 3.6mn in last quarter. VAS revenue stood at 14.3% v/s 14.5% in Q2FY11, attributed to decline in SMS revenue to 9.0% v/s 9.5% in Q2FY12.

African safari – Weak KPI's

Africa revenue reported growth of 13.9% qoq to Rs53.6bn, aided by impact of rupee depreciation. Subscriber growth at 5.2% QoQ remained strong but other KPI's saw weakness. MoU declined 2.5% qoq to 125 fro 128 in Q2FY12, ARPU declined 2.3% QoQ. We expect MoU decline to continue in Q4FY12E, led by strike in Nigeria in Jan'2012. Africa operations turned FCF +ve on account of lower capex during Q3FY12, however management has maintained its capex guidance for FY12E. EBITDA stood at Rs14.3bn with EBITDA margin of 26.8% v/s 26.4% in Q2FY12.

Valuation at 7.9x/ 6.4x EV/EBITDA on FY12E/13E– Maintain ACCUMULATE

Bharti reported lower than expected traffic on network, indicating -ve elasticity led by tariff hike. Disappointing EBITDA led by higher SG&A and access charge dented the overall performance. We have incorporated higher SG&A and re-aligned our Africa estimate factoring lower ARPU and MoU. Key risks that prevail for the company are: 1) slower off-take in 3G, and 2) Slower than anticipated revenue and EBITDA growth from African operations. We retain ACCUMULATE rating on the stock with revised TP Rs412 (from Rs464). At CMP of Rs354, stock trades at 7.9x /6.4x EV/EBITDA for FY12E/13E.

Financial Snapshot

Y/E	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (x)	P/E	EV/EBITDA	P/BV
Mar										
FY10	396150	160266	40.5	91025	13.9	-39.6	22.0	25.4	11.1	3.0
FY11	594672	199610	33.6	60468	15.6	12.3	12.4	22.7	9.7	2.6
FY12E	721464	238379	33.0	47376	12.4	-20.3	8.9	28.4	7.9	2.4
FY13E	823405	280327	34.0	75916	19.8	59.1	12.6	17.9	6.4	2.1

Pricing remains +ve but traffic growth disappoints

Traffic growth for Bharti grew just 0.8% qoq to 219bn minutes, indicating –ve elasticity led by tariff hike initiated during Q2FY12. Bharti's growth in minutes was in contrast with the Idea Cellular's traffic growth of 7.3% QoQ.

Comparable financial performance (excl Africa & related costs)

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ
Revenues	113,312	117,213	121195	126306	126,790	131,628	3.8%
opex	71,090	75,124	76852	80300	81,062	86,403	6.6%
EBIDTA	42,222	42,089	44343	46006	45,728	45,225	-1.1%
Depreciation	18,239	19,063	21153	22532	23,205	24,492	5.5%
EBIT	23,983	23,026	23,190	23,474	22,523	20,733	-7.9%
Interest	(257)	1,514	1685	2569	3,523	3,721	5.6%
PBT	24,240	21,512	21505	21505	19,000	17,012	-10.5%
Tax	3,802	3,145	3,363	5246	4,079	4,140	1.5%
PAT	20,438	18,367	18,142	16259	14,921	12,872	-13.7%

Domestic v/s African revenue and EBIDTA break-up

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ
Revenues							
India & Asia	113,312	117,213	121195	126306	126790	131,628	3.8%
Africa	38,906	40,530	41815	43784	47032	53577	13.9%
Cons. Rev	152,150	157,560	162654	169822	172766	184767	6.9%
EBIDTA							
India	42,222	42,089	44343	46006	45728	45225	-1.1%
Africa	9,311	8,435	10998	11702	12403	14351	15.7%
Cons. EBIDTA	51,533	49,816	54500	57058	58151	59576	2.5%
EBIDTA %							
India	37.3%	35.9%	36.6%	36.4%	36.1%	34.4%	
Africa	23.9%	20.8%	26.3%	25.2%	26.4%	26.8%	
Cons. EBIDTA %	33.9%	31.6%	33.5%	33.6%	33.7%	32.2%	

Domestic mobile business performance

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ
ARPU (Rs)	202	198	194	190	183	187	2.2%
MOU (mins)	454	449	449	445	423	419	-1.0%
RPM (Rs)	0.44	0.44	0.43	0.43	0.43	0.45	3.2%
Traffic (mn mins)	190,767	199,146	211,822	221,560	217,408	219,152	0.8%
Subscribers ('000)	143,292	152,495	162,203	168,542	172,782	175,652	1.7%
VAS revenue share	12.7%	13.8%	15.0%	14.6%	14.5%	14.0%	

Key metrics – African operations

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ
ARPU (\$)	7.40	7.30	7.20	7.27	7.29	7.1	-2.3%
MOU (mins)	112	120	115	121	128	125	-2.5%
RPM (\$/c)	6.6	6.1	6.2	6.0	5.7	5.7	-0.4%
Traffic (mn mins)	12,782	14,904	14,915	16,337	17,950	18,496	3.0%
Subscribers ('000)	40,082	42,124	44,206	46,306	48,437	50,949	5.2%

Passive infrastructure – Tenancy on uptrend

Passive infrastructure reported revenue growth of 2.6% qoq to Rs24.4bn. EBITDA margin remained flat sequentially at 37.3%. Total towers for Bharti Infratel and Indus stood at 79025 and 109101. Nevertheless, tenancy improved to 1.87x (1.85x in Q2FY12) and 1.91x (1.89x for Q2FY12) for Bharti infratel and Indus towers, respectively.

	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12
Bharti Infratel (cons.)						
Total Towers	76,535	77,695	78,398	78,689	78,835	79,025
Tenancy	1.73	1.75	1.79	1.83	1.85	1.87
Sharing Revenue / sharing operator / month	33,898	33,524	32,828	33,533	33,098	34,290
Indus Towers						
Total Towers	106,438	107,789	108,586	108,922	108,998	109,101
Tenancy	1.78	1.80	1.83	1.87	1.89	1.91
Sharing Revenue / sharing operator / month	31,389	30,847	30,501	31,963	31,112	32,272

Other business segment performance - EBITDA margins disappoint

Revenue for Telemedia declined 4.2% due to seasonally weak quarter while for Enterprise revenue grew 7.6%. EBITDA margin in both the segments declined, enterprise segment reported margin decline of 457bps QoQ impacted by fire at Mumbai data centre. EBITDA margin in Telemedia segment declined 541bps QoQ to 38.8%. Management highlighted that margin to rebound going forward.

DTH business

DTH revenue grew 6.1% qoq to Rs3.3bn with EBITDA of Rs90mn (decline of 22.5% QoQ). Total subscriber base at the end of Q3FY12 stood at 7.0mn with net adds during the quarter at 0.45mn. ARPU during the quarter declined 0.5% and churn rate remained high at 1.2%.

	3Q11	4Q11	1Q12	2Q12	3Q12	QoQ
Digital TV subs (000's)	4,932	5,663	6,262	6,614	7,069	6.9%
Net additions (000's)	1,033	730	600	352	455	29.5%
ARPU (Rs)	160	161	163	161	160	-0.5%
Monthly Churn	0.4%	0.7%	0.7%	1.2%	1.2%	
Revenue (Rs mn)	2,133	2,555	2,934	3,135	3,327	6.1%
EBITDA (Rs mn)	(150)	158	50	116	90	-22.5%
EBITDA %	-7.0%	6.2%	1.7%	3.7%	2.7%	

EPS cut by 17.6%/20.4% for FY12E/13E

Disappointing EBITDA led by higher SG&A and access charge dented the overall performance. We have incorporated higher SG&A and re-aligned our Africa estimate factoring lower ARPU and MoU. We expect minute growth on network would remain sluggish for another quarter (impacted by tariff hike) and we expect rebound in traffic growth to happen from Q1FY13E. We have revised our EBITDA estimate for domestic and Africa business downwards which has led to cut in EBITDA estimate 4.4%/7.5% for FY12E/13E. Our revised EPS stands at Rs17.6/Rs20.4 for FY12E/13E.

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	721383	721464	0.0	839383	823405	-1.9
EBIDTA	249398	238379	-4.4	303010	280327	-7.5
EBIDTA %	34.6	33.0	-153 bps	36.1	34.0	-205 bps
PAT	57491	47376	-17.6	9531.5	75916	-20.4
EPS	15.1	12.5	-17.6	25.1	20.0	-20.4

Quarterly financials

	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Mobile	132,281	136,763	142,188	144,859	155,341	17.4	7.2	442,388	357,052	23.9
Tele-media	9,068	9,178	9,457	9,528	9,128	0.7	(4.2)	28,113	27,146	3.6
Enterprise Total	10,503	10,179	10,410	11,042	11,881	13.1	7.6	33,333	31,113	7.1
Others	2,823	3,345	3,779	4,059	3,987	41.2	(1.8)	11,825	7,058	67.5
Passive Infrastructure	21,972	22,010	22,767	23,766	24,393	11.0	2.6	70926.0	63545.0	11.6
Total gross Sales	176,647	181,475	188,601	193,254	204,730	15.9	5.9	586,585	485,914	20.7
Inter-segmental elimination	19,087	18,821	18,773	20,488	19,983	4.7	(2.5)	59,244	53,896	9.9
Net Sales	157,560	162,654	169,828	172,766	185,078	17.5	7.1	527,672	432,018	22.1
Access charge	20,273	21,379	22,158	23,311	26,234	29.4	12.5	71,703	53,385	34.3
<i>as % of sales</i>	12.9	13.1	13.0	13.5	14.2			13.6	12.4	
Network Operating	32,896	34,644	37,308	38,038	40,669	23.6	6.9	116,015	93,260	24.4
<i>as % of sales</i>	20.9	21.3	22.0	22.0	22.0			22.0	21.6	
Employee Expenses	8,833	9,534	9,246	8,691	8,505	(3.7)	(2.1)	26,442	23,269	13.6
<i>as % of sales</i>	5.6	5.9	5.4	5.0	4.6			5.0	5.4	
Marketing Expenses	32,181	28,768	29,118	30,066	34,651	7.7	15.2	93,835	79,093	18.6
<i>as % of sales</i>	20.4	17.7	17.1	17.4	18.7			17.8	18.3	
License Fee	13,561	13,887	14,939	14,507	15,435	13.8	6.4	44,881	37,843	18.6
<i>as % of sales</i>	8.6	8.5	8.8	8.4	8.3			8.5	8.8	
Total expenditure	107,744	108,212	112,769	114,613	125,494	16.5	9.5	352876	286850	23.0
EBITDA	49,816	54,442	57,059	58,153	59,584	19.6	2.5	174,796	145,168	20.4
Depreciation	27,107	29,702	31,314	31,839	35,845	32.2	12.6	98,998	72,364	36.8
EBIT	22,709	24,740	25,745	26,314	23,739	4.5	(9.8)	75798	72804	4.1
Other Income	258	388	0	0	0			0	975	(100.0)
Interest	7,470	6,826	8,550	11,186	7,877	5.4	(29.6)	27,613	14,987	84.3
Non operating expenses	2	0	0	0	0			0	238	(100.0)
PBT	15,495	18,302	17,195	15,128	15,862	2.4	4.9	48185	58554	(17.7)
Tax	3,366	4,996	5,141	4,900	5,585	65.9	14.0	15,626	12,794	22.1
PAT before MI	12,129	13,306	12,054	10,228	10,277	(15.3)	0.5	32559	45760	(28.8)
Minority interest	-904	-701	-98	-44	108	(111.9)	(345.5)	-34	-774	(95.6)
PAT MI	13,033	14,007	12,152	10,272	10,169	(22.0)	(1.0)	32593	46534	(30.0)
share of associates	0	0	0	0	-56			-56	-74	(23.8)
PAT	13,033	14,007	12,152	10,272	10,113	(22.4)	(1.5)	32537	46461	(30.0)

Margins (%)	(bps)					(bps)	(bps)			(bps)
EBIDTA	31.6	33.5	33.6	33.7	32.2	58	(147)	33.1	33.6	(48)
EBIT	14.4	15.2	15.2	15.2	12.8	(159)	(240)	14.4	16.9	(249)
EBT	9.8	11.3	10.1	8.8	8.6	(126)	(19)	9.1	13.6	(442)
PAT	8.3	8.6	7.2	5.9	5.5	(281)	(48)	6.2	10.8	(459)
Effective Tax rate	21.7	27.3	29.9	32.4	35.2	1,349	282	32.4	21.8	1,058

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	396,150	594,672	721,339	823,405
<i>Growth (%)</i>	7.2	50.1	21.3	14.1
Employee cost	16925	32803	36311	43524
Access Charge	44807	74764	99817	113241
Network Operating cost	76396	127904	158785	179584
License fees	40875	51730	60860	67957
SG&A	56166	107861	126996	138771
Others	715	0	166	0
Total operating exp	235,884	395,062	482,935	543,078
EBITDA	160,266	199,610	238,405	280,327
<i>Growth (%)</i>	5.7	24.5	19.4	17.6
Depreciation	60457	102066	132453	141983
EBIT	99,809	97,544	105,951	138,344
EBIT margin (%)	25.2	16.4	14.7	16.8
Other Income	19,491	1,363	400	1,680
Interest expenses	12,434	21,813	35,919	27,839
Exceptional items	178	238	0	0
PBT	106,687	76,856	70,433	112,185
Tax	13,959	17,790	23,170	37,021
<i>Effective tax rate (%)</i>	13.1	23.1	32.9	33.0
PAT before MI	92,729	59,066	47,263	75,164
MI & Profit from asso.	1703.8	-1401.5	-131.2	-751.6
Reported PAT	91,025	60,468	47,394	75,916

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	18,988	18,988	18,988	18,988
Reserves & surplus	394,908	468,680	512,277	584,396
Net worth	413,896	487,668	531,265	603,384
Loan Funds	64,618	616,708	636,708	574,708
Net deferred tax liability	-9,442	-37,854	-37,854	-37,854
Minorities	28,489	28,563	28,376	27,624
Other liabilities	8,448	19,227	23,322	26,622
Total Liabilities	506,009	1,114,312	1,181,818	1,194,485
Gross Block	613,409	1,481,219	1,580,063	1,679,539
Less: Depreciation	204,793	265,573	351,849	447,306
Net block	408,616	1,215,646	1,228,214	1,232,233
Capital work in progress	51,097	73,097	68,097	58,097
Investment	100,074	17,185	17,185	17,185
Current Assets	66,387	106,797	194,745	228,049
Inventories	484	2,139	3,316	4,609
Sundry debtors	13,757	54,929	63,647	71,707
Cash & bank balance	14,294	9,575	82,681	106,016
Loans & advances	10,578	9,650	11,705	11,715
Other current assets	27,275	30,504	33,395	34,003
Net Current liabilities	130,279	300,411	328,420	343,077
Net current assets	-63,891	-193,614	-133,676	-115,028
Other Non Current	10,114	1,998	1,998	1,998
Total Assets	506,009	1,114,312	1,181,818	1,194,485

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	47,278	75,731	70,033	110,505
Depreciation	60,457	102,066	132,453	141,983
Interest	12,434	21,813	35,919	27,839
Other Non-Cash items	-2,301	18,895	4,095	3,300
Chg in working cap	11,922	125,004	13,168	4,687
Tax paid	-13,959	-17,790	-23,170	-37,021
Operating Cashflow	115,831	325,719	232,498	251,292
Capital expenditure	-97,724	-931,097	-140,020	-136,003
Free Cash Flow	18,106	-605,378	92,477	115,290
Other income	19,491	1,363	400	1,680
Investments	-34,967	82,889	0	0
Investing Cashflow	-113,200	-846,845	-139,620	-134,323
Equity Capital Raised	17,790	74	-187	-752
Loans Taken / (Repaid)	-54,183	552,090	20,000	-62,000
Interest Paid	-12,434	-21,813	-35,919	-27,839
Dividend paid (incl tax)	-4,442	-4,442	-4,442	-4,442
Dividend paid (incl tax)	53,690	-9,502	776	1,397
Financing Cashflow	422	516,407	-19,771	-93,635
Net chg in cash	3,053	-4,719	73,106	23,335
Opening cash position	11,241	14,294	9,575	82,681
Closing cash position	14294	9575	82681	106016

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	30.3	33.6	33.1	34.0
Net Margin	11.9	12.6	9.9	11.3
ROCE	20.9	8.8	9.1	11.7
ROE	22.0	12.4	8.9	12.6
RoIC	16.8	14.3	10.7	14.0
Per Share Data (Rs)				
EPS (adjusted)	13.9	15.6	12.4	19.8
CEPS	29.8	42.5	47.3	57.2
BVPS	116.5	136.0	147.4	166.2
DPS	1.0	1.0	1.0	1.0
Valuations (x)				
PER	25.4	22.7	28.4	17.9
P/CEPS	11.9	8.3	7.5	6.2
P/BV	3.0	2.6	2.4	2.1
EV / Sales	3.4	3.3	2.6	2.2
EV / EBITDA	11.1	9.7	7.9	6.4
Dividend Yield (%)	0.3	0.3	0.3	0.3
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.2	0.1	-0.1
Net Debt/EBIDTA	-0.1	3.0	2.3	1.6

Recommendation History: Bharti Airtel – BHARTI IN

Date	Reports	Reco	CMP	Target
04/11/2011	Bharti Airtel Q2FY12 Result Update	Accumulate	398	464
03/08/2011	Bharti Airtel Q1FY12 Result Update	Accumulate	427	464
25/07/2011	Bharti Airtel Event Update	Accumulate	411	464
05/05/2011	Bharti Airtel Q4FY11 Result Update	Hold	358	406

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/02/2012	Telecom Sector Update			
01/02/2012	Jagran Prakashan Q3FY12 Result Update	Accumulate	97	116
25/01/2012	Sterlite Technologies Q3FY12 Result Update	Hold	38	34
24/01/2012	Lakshmi Machine Works Q3FY12 Result Update	Accumulate	1,569	1,980

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