

August 27, 2010

HOLD

Price	Target Price
Rs 316	Rs345
Sensex	17,998

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	22	16	(21)
Rel. to Sensex	(1)	9	4	(32)

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	BRTI.BO
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18988
Face Value (Rs)	5
No of shares o/s (mn)	3798
52 Week H/L (Rs)	467/230
Market Cap (Rs bn/USD mn)	1,219/26,021
Daily Avg Vol (No of shares)	7578236
Daily Avg Turnover (US\$ mn)	46.2

Shareholding Pattern (%)

	J'10	M'10	D'09
Promoters	67.9	67.8	67.8
FII/NRI	17.1	18.4	17.9
Institutions	8.8	7.9	8.0
Private Corp	3.7	3.5	4.1
Public	2.5	2.3	2.2

Source: Capitaline

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- Q1FY11 performance reflects healthy traffic, and revival in revenue growth in mobile business
- Incorporating African operations in our estimates. Low base provides scope for positive surprise. Q2FY11 with first full quarter of African ops, to be the first important indicator
- Revised EPS estimates by -0.5%/7.2% to Rs20/Rs23 for FY11E/12E post consolidation of Zain African operations
- Revise target price to Rs345 (from Rs322 earlier) based on 15x FY12E EPS. Retain HOLD rating

Q1FY11 reflects healthy traffic and revenue growth

Q1FY11 results saw 2nd consecutive quarter of strong 10.2% QoQ growth in mobile traffic resulting in revived mobile revenue growth of 6.1%. Considering lack of pricing action over last few months and better than expected traffic growth we increase our ARPU assumptions by 5% and 8% resulting in similar increase in mobile revenue growth estimate for FY11E and FY12E respectively.

African operations hold key, Q2FY11 to be first indicator

We have incorporated the projections for the recently acquired African operations in our consolidated estimates. We have modeled for African subscriber CAGR of 28% over FY10-12E resulting in revenue & EBIDTA of Rs195bn and Rs61bn for FY12E, i. e. 28% and 24% of consolidated revenue and EBIDTA estimates. We highlight that our EBIDTA margin forecasts of 28.1% and 31.2% for FY11E and FY12E have upside risks. Q1FY11 results with 23 days operations of Africa reported 27.5% margins, which is not an indicator of the actual performance and hence we await Q2FY11 results with full quarter inclusion of African operation, which would be first important indicator of African biz.

Revise EPS est. to Rs20/ 23 for FY11E/12E post Zain Africa consolidation

Considering the continued strong traffic growth and lack of pricing action in the industry over last couple of quarters, we increase our India mobile revenue est. by 6.2%/11.1%. Incorporation of Zain African operations in our estimates together with the upgrade has resulted in cons. revenue and EBIDTA increase of 46.6%/63% and 35.2%/50.8% for FY11E/12E respectively. However, considering the cost of servicing large debt of Rs603bn (Q1FY11), our EPS estimate stands revised by -0.5%/7.2% resulting in EPS of Rs20/23 for FY11E/12E.

Revise target price to Rs345 – Retain HOLD

After factoring the (1) upgrade in Indian operations (2) change in accounting to IFRS and (3) incorporating African operations, we have upgraded cons. EBIDTA estimate by 35%/51% and EPS by -0.5%/7.2% to Rs20/23 FY11E/12E. Our earnings revision is lower due to cost of servicing large debt of Rs603bn. We do not rule out the possibility of positive surprise from African operations given lower revenue base, reduced active subscribers (36mn v/s 43mn during acquisition) and our est. margins of 28%/31% for FY11/12E v/s margins of 34% in CY08. We retain HOLD rating on the stock with revised price target of Rs345 (v/s Rs322 earlier) based on 15x FY12E EPS. MNP implementation remains key near term risk.

Financial Snapshot

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	ROE (%)	P/E (x)	EV/EBITDA	P/BV
FY09	369,615	151,458	41.0	84,699	22.3	26.4	32.2	14.2	8.3	4.0
FY10	418,472	167,633	40.1	89,768	23.6	6.0	24.7	13.4	7.3	2.9
FY11E	605,956	215,877	35.6	75,933	20.0	-15.4	16.6	15.9	8.3	2.4
FY12E	702,807	254,559	36.2	87,462	23.0	15.2	16.4	13.8	6.6	2.1

Bharti India estimate changes

ARPU increased by 5.2%/ 9.6% for FY11E/12E - Considering lack of pricing action in the industry together with strong and better than expected traffic growth, we increase our mobile ARPU assumptions by 5.2% and 9.6% for FY11E and FY12E respectively.

While our India revenue estimates have been revised upwards by ~8% and ~12% for FY11E and FY12E, the increase of 13.8% and 17.7% as reflecting in the table below is due to the change in accounting standard from US GAAP to IFRS (JV equity accounting v/s proportionate consolidation).

	FY11			FY12		
	Old	New	Chg %	Old	New	Chg %
Subscribers	156,419	158,970	1.6%	180,419	182,370	1.1%
ARPU	198	208	5.2%	174	191	9.6%
Mobile revenues	337,438	358,211	6.2%	352,145	391,138	11.1%
India revenues	413,329	470,303	13.8%	431,239	507,549	17.7%
EBIDTA	159,664	177,724	11.3%	168,854	193,560	14.6%
EBIDTA %	38.6	37.8	(84)	39.2	38.1	(102)

Source: Emkay Research

Factoring Zain African operations in our estimates

We expect Bharti's recently acquired African operations to contribute 27.8% and 24% of consolidated revenue and EBIDTA for FY12E. Although we have built-in African operations in our consolidated projections, we highlight that given the lack of understanding of the African market and given the volatility in revenue and profitability of Zain's African operations over the last 2 years, the projections may not be true reflection of the business potential. We await Q2FY11 results which would include first full quarter performance of African operations post the acquisition of Bharti, and believe that the same would be an important indicator of performance, going forward.

	FY10	FY11E	FY12E	CAGR %
Revenue				
India	418,472	470,303	507,549	10.1%
South Africa	0	135,653	195,258	
Consolidated	418,472	605,956	702,807	29.6%
African contribution		22.4%	27.8%	
EBIDTA				
India	151,458	177,724	193,560	13.0%
South Africa	0	38,153	60,999	
Consolidated	151,458	215,877	254,559	29.6%
African contribution		17.7%	24.0%	
EBIDTA %				
India	36.2%	37.8%	38.1%	
South Africa		28.1%	31.2%	
Consolidated	36.2%	35.6%	36.2%	

Source: Company, Emkay Research

Change in consolidated estimates of Bharti Airtel after effect of (1) Upgrade in estimates (2) Accounting change to IFRS (3) including African operations

While we increase our EBIDTA estimates by 35% and 51% for FY11E and FY12E respectively, significant increase in finance costs has resulted in 7% increase in FY12E earnings estimate with minimal change to FY11E.

	FY11			FY12		
	Old	New	Chg %	Old	New	Chg %
Revenue	413,329	605,956	46.6%	431,239	702,807	63.0%
EBIDTA	159,664	215,877	35.2%	168,854	254,559	50.8%
EBIDTA %	38.6	35.6	-300 bps	39.2	36.2	-300 bps
PAT	76,279	75,933	-0.5%	81,572	87,462	7.2%
EPS	20.1	20.0	-0.5%	21.5	23.0	7.2%

Source: Emkay Research

Comparison of US GAAP v/s IFRS

FY10 (Rs mn)	US GAAP	IFRS	Chg %	Remarks
Mobile revenues	324,872	331,275	2.0%	
Telemedia	34,154	34,154	0.0%	
Passive Infra	35,425	70,852	100.0%	JV equity accounting v/s proportionate consolidation
Enterprise	83,597	44,798	-46.4%	Large difference here is due to change in policy of recording only wholesale traffic in Enterprise segment v/s inclusion of captive traffic earlier.
Others	5,825	5,825	0.0%	
Inter segment	(87,723)	(68,432)	-22.0%	
India revenues	396,150	418,472	5.6%	
EBIDTA	160,084	167,633	4.7%	
EBIDTA %	40.4	40.1		
EBIT	99,627	104,798	5.2%	
PBT	106,978	105,091	-1.8%	EBIT to PBT differential is narrowed due to derivate gain/(loss) accounting
PAT	91,026	89,768	-1.4%	

Source: Company, Emkay Research

Key Financials – Quarterly

	1Q10	2Q10	3Q10	4Q10	1Q11	QoQ
Mobile	84,301	82,902	80,898	83,174	88,237	6.1%
Telemedia	8,551	8,543	8,549	8,511	8,960	5.3%
Enterprise	11,627	11,355	11,048	10,768	10,186	-5.4%
Passive Infra	15,937	17,049	18,407	19,459	20,412	4.9%
Others	1,027	1,290	1,414	2,094	1,949	-6.9%
Inter segment	(17,300)	(17,354)	(17,263)	(16,515)	(17,019)	3.1%
Revenues	104,143	103,785	103,053	107,491	122,308	13.8%
Access charges	11,372	10,698	11,166	11,570	14,227	23.0%
Licence fees, revenue share & spectrum charges	10,125	10,224	9,932	10,594	11,742	10.8%
Network operations costs	21,230	22,321	22,115	24,365	27,268	11.9%
Employee costs	5,127	4,841	4,513	4,547	5,601	23.2%
Selling, general and administration expense	13,315	12,694	14,504	15,586	19,330	24.0%
Operating Expenses	61,169	60,778	62,230	66,662	78,168	17.3%
EBIDTA	42,974	43,007	40,823	40,829	44,140	8.1%
Depreciation	14,753	15,246	15,883	16,953	19,467	14.8%
EBIT	28,221	27,761	24,940	23,876	24,673	3.3%
Finance cost	(1,284)	2,084	(266)	(356)	4,198	-1278.7%
PBT core	29,505	25,677	25,206	24,232	20,475	-15.5%
Share of results of associates	-	(6)	(10)	(32)	(72)	123.4%
Pre-operating cost	-	-	-	-	-	#DIV/0!
Other Income	111	190	182	214	548	156.1%
Non operating expense	(132)	(3)	(44)	(2)	(233)	11550.0%
PBT	29,484	25,858	25,334	24,412	20,719	-15.1%
Tax	(4,305)	(2,753)	(2,980)	(3,415)	(3,750)	9.8%
PAT	25,179	23,105	22,354	20,997	16,969	-19.2%
Minority	(433)	(477)	(407)	(553)	(153)	-72.3%
Net profit	24,746	22,628	21,947	20,444	16,816	-17.7%

% of sales						Chg bps
EBIDTA	41.3%	41.4%	39.6%	38.0%	36.1%	-189.4
EBIT	27.1%	26.7%	24.2%	22.2%	20.2%	-203.9
PAT	23.8%	21.8%	21.3%	19.0%	13.7%	-527.1
ETR	14.6%	10.6%	11.8%	14.0%	18.1%	

Source: Company, Emkay Research

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Revenues	369,615	418,472	605,956	702,807
Access cost	52,903	44,806	74,160	84,866
% of sales	14.3	10.7	12.2	12.1
License & spectrum chg	38,270	40,875	48,510	51,449
% of sales	10.4	9.8	8.0	7.3
Network optg exp	59,352	90,031	132,244	155,139
% of sales	16.1	21.5	21.8	22.1
Employee costs	16,992	19,028	31,667	35,600
% of sales	4.6	4.5	5.2	5.1
S, G & A	50,640	56,099	103,498	121,195
% of sales	13.7	13.4	17.1	17.2
Total operating expenses	218,157	250,839	390,080	448,248
EBIDTA	151,458	167,633	215,877	254,559
Depreciation	47,581	62,835	100,354	117,741
EBIT	103,877	104,798	115,522	136,818
Interest & fin chg	10,804	(293)	22,291	25,472
PBT	93,073	105,091	93,231	111,346
Taxes	6,615	13,453	16,142	22,552
PAT	86,458	91,638	77,089	88,794
Minority	(1,759)	(1,870)	(1,156)	(1,332)
Net profit	84,699	89,768	75,933	87,462

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PAT	84,699	91,026	75,933	87,462
Depreciation	47,581	60,457	100,354	117,741
interest	10,804	(7,351)	22,291	25,472
Others	1,759	1,994	1,156	1,332
Change in WC	(9,947)	3,212	78,093	12,979
Tax	6,615	13,958	16,142	22,552
Others	0	0	0	0
CFO	141,511	163,296	293,970	267,538
(Inc)/Dec in fixed assets	(141,304)	(104,606)	(804,608)	(105,800)
Free cash flow	207	58,690	(510,638)	161,738
Net Investments	(20)	(44)	0	0
Others	(2,264)	(9,348)	0	0
CFI	(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	(22,291)	(25,472)
Others	(2,805)	219	(16,142)	(22,552)
CFF	4,789	(32,324)	506,013	(154,688)
Inc/(dec) in cash	2,713	16,974	(4,625)	7,049
Cash beginning	57,998	60,711	77,685	73,060
Cash ending	60,711	77,685	73,060	80,109

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	473,331	554,129
Net worth	303,945	421,940	492,319	573,117
Minority interest	10,704	25,285	26,441	27,773
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	1,223,656	1,205,786
Gross Block	557,821	700,318	928,637	1,034,437
Less Depreciation	148,685	217,689	318,043	435,784
Net Fixed Assets	409,136	482,629	610,594	598,653
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	62,128
Cash and Bank	60,711	77,685	73,060	80,109
Other CA	53,889	23,805	35,708	35,708
Total Curr. Assets	144,091	137,685	163,786	179,397
Current Liabilities	152,377	108,819	217,638	239,178
Net Current Assets	(8,287)	28,866	(53,852)	(59,782)
Capital Deployed	451,570	602,121	1,223,656	1,205,786

Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	41.0	40.1	35.6	36.2
Net Margin	23.4	21.9	12.7	12.6
ROCE	26.3	19.9	12.7	11.3
ROE	32.2	24.7	16.6	16.4
RolC	31.0	22.9	13.8	12.0
Per Share Data (Rs)				
EPS	22.3	23.6	20.0	23.0
CEPS	34.8	40.2	46.4	54.0
BVPS	80.1	111.1	129.6	150.9
DPS	0.0	1.0	1.3	1.5
Valuations (x)				
PE	14.2	13.4	15.9	13.8
Cash PE	9.1	7.9	6.8	5.9
P/BV	4.0	2.9	2.4	2.1
EV/Sales	3.4	2.9	2.9	2.4
EV/EBITDA	8.3	7.3	8.3	6.6
Dividend yield	0.0	0.3	0.4	0.5
Gearing Ratio (x)				
Net Debt/ Equity	0.2	0.1	1.2	0.8
Net Debt/EBIDTA	0.4	0.1	2.7	1.9

Recommendation History: Bharti Airtel – BHARTI IN

Date	Reports	Reco	CMP	Target
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
13.01.2010	Bharti Airtel Event Update	Reduce	322	250

Recent Research Reports

Date	Reports	Reco	CMP	Target
10.08.2010	Tulip Telecom Q1FY11 Result Update	Buy	183	240
03.08.2010	DB Corp Q1FY11 Result Update	Accumulate	248	284
02.08.2010	Jagran Prakashan Q1FY11 Result Update	Buy	121	155
29.07.2010	LMW Q1FY11 Result Update	Hold	2,099	2,170

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