

Super 4Q, solid outlook


Merrill Lynch

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Price target raised to Rs1000 (21% upside)

We have raised our price target for Bharti to Rs1000/sh (versus Rs850 earlier). Our PO places Bharti at the upper end of its historical trading range at a PE of ~23.5x Mar '09E & EV/EBITDA of ~13x FY09E. On our PO, Bharti will rank broadly on par with the current growth-adjusted valuations of GEM wireless majors, for significantly higher-than-average RoE. We think the wireless market in India is at least 6-12 mths away from changes in competitive landscape; meanwhile, Bharti should reap strong gains thru scale management & deepening network reach.

Concerns on capex guidance & tariffs appear exaggerated

Investor concerns post results relate to 2 issues: 1) sharp increase in the Co's capex guidance to ~US\$3.3-3.5bn in FY08E vs capex of ~US\$2bn in FY07; 2) media reports about the government wanting lower mobile tariffs. We think the concerns are exaggerated. The capex guidance is ~10% higher than anticipated but aggressive tower rollout & strengthening of optic backhaul should boost Bharti's competitive lead, esp. as we move towards a 3G environment. Tariffs are already falling & gov't intervention seems unlikely, except on international roaming.

4Q highlights - jump in wireless, fall in non-wireless

Headline PAT for 4Q stood at Rs13.5bn, up 98% YoY & 11% QoQ. Mobility margins surprised with a 150bps QoQ rise to ~39.1% despite recent cuts in roaming tariffs. Mgt. indicated that continued scale benefits should sustain margins. Non-wireless margins fell 250bps QoQ to ~35.4% due to promotional launch of Bharti's calling cards in the US; Co expects margins to recover.

Earnings tweaked up by 4-6%

Factoring 4Q FY07 trends, we have raised earnings by ~6% for FY08E & 4% for FY09E. Our numbers offer room for upside, esp. margins in the non-wireless biz.

Estimates (Mar)

(Rs)	2006A	2007A	2008E	2009E	2010E
Net Income (Adjusted - mn)	22,567	42,571	64,690	80,735	94,465
EPS	11.92	22.47	34.12	42.59	49.83
EPS Change (YoY)	47.4%	88.6%	51.9%	24.8%	17.0%
Dividend / Share	0	0	0	10.65	12.46
Free Cash Flow / Share	(5.72)	(0.010)	(0.865)	8.27	32.00

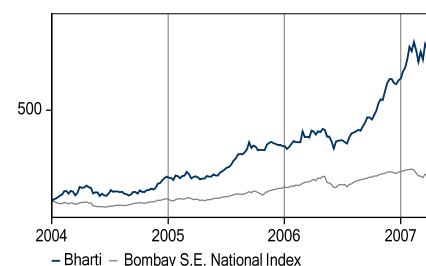
Valuation (Mar)

	2006A	2007A	2008E	2009E	2010E
P/E	69.34x	36.78x	24.21x	19.40x	16.58x
Dividend Yield	0%	0%	0%	1.29%	1.51%
EV / EBITDA*	37.20x	21.85x	14.16x	10.86x	9.11x
Free Cash Flow Yield*	-0.691%	-0.001%	-0.105%	1.00%	3.87%

* For full definitions of *iQmethod*SM measures, see page 10.

Stock Data

Price	Rs826.25
Price Objective	Rs850 to Rs1,000
Date Established	27-Apr-2007
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs310.20-Rs899.00
Mrkt Val / Shares Out (mn)	US\$38,120 / 1,895.7
Average Daily Volume	229,032
ML Symbol / Exchange	BHTIF / BSE
Bloomberg / Reuters	BHARTI IN / BRTI.BO
ROE (2008E)	38.6%
Net Dbt to Eqty (Mar-2007A)	31.3%
Est. 5-Yr EPS / DPS Growth	24.0% / NA
Free Float	33.4%



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Refer to important disclosures on page 11 to 12. Analyst Certification on page 9. Price Objective Basis/Risk on page 9.

27 April 2007

*iQprofile*SM Bharti Airtel

Key Income Statement Data (Mar)

(Rs Millions)	2006A	2007A	2008E	2009E	2010E
Sales	116,215	185,196	275,132	355,510	420,785
Gross Profit	43,883	74,508	114,956	149,852	178,641
Sell General & Admin Expense	NA	NA	NA	NA	NA
Operating Profit	27,934	49,299	77,933	101,437	122,776
Net Interest & Other Income	(2,567)	(439)	(1,798)	(2,942)	(1,617)
Associates	0	0	0	0	0
Pretax Income	25,367	48,860	76,134	98,495	121,159
Tax (expense) / Benefit	(2,540)	(5,822)	(10,659)	(16,744)	(25,443)
Net Income (Adjusted)	22,567	42,571	64,690	80,735	94,465
Average Fully Diluted Shares Outstanding	1,894	1,895	1,896	1,896	1,896

Key Cash Flow Statement Data

Net Income (Reported)	22,567	42,571	64,690	80,735	94,465
Depreciation & Amortization	15,829	25,209	37,023	48,415	55,865
Change in Working Capital	14,132	22,254	36,181	(19,593)	8,298
Deferred Taxation Charge	0	0	0	1,970	2,423
Other Adjustments, Net	902	1,856	2,631	2,666	2,590
Cash Flow from Operations	53,429	91,890	140,525	114,192	163,641
Capital Expenditure	(64,257)	(91,909)	(142,164)	(98,518)	(102,976)
(Acquisition) / Disposal of Investments	481	8	0	0	0
Other Cash Inflow / (Outflow)	0	(368)	0	0	0
Cash Flow from Investing	(63,776)	(92,270)	(142,164)	(98,518)	(102,976)
Shares Issue / (Repurchase)	8,243	1,106	0	0	0
Cost of Dividends Paid	0	0	0	(20,184)	(23,616)
Cash Flow from Financing	7,456	4,660	1,639	(15,674)	(60,665)
Free Cash Flow	(10,828)	(19)	(1,639)	15,674	60,665
Net Debt	42,207	42,993	44,632	49,142	12,093
Change in Net Debt	1,246	786	1,639	4,510	(37,048)

Key Balance Sheet Data

Property, Plant & Equipment	142,397	210,604	316,365	367,088	414,820
Other Non-Current Assets	42,150	42,441	41,384	40,764	40,144
Trade Receivables	10,620	13,093	19,451	25,134	29,749
Cash & Equivalents	5,188	9,468	9,468	9,468	9,468
Other Current Assets	16,924	22,282	32,480	41,969	49,674
Total Assets	217,279	297,888	419,148	484,422	543,855
Long-Term Debt	34,502	41,536	43,175	47,685	10,636
Other Non-Current Liabilities	11,402	12,349	14,194	17,814	21,576
Short-Term Debt	12,893	10,925	10,925	10,925	10,925
Other Current Liabilities	65,639	95,724	148,461	144,039	164,658
Total Liabilities	124,436	160,534	216,755	220,462	207,795
Total Equity	92,843	137,354	202,393	263,960	336,060
Total Equity & Liabilities	217,279	297,888	419,148	484,422	543,855

*iQmethod*SM - Bus Performance*

Return On Capital Employed	18.6%	24.5%	28.3%	27.6%	27.0%
Return On Equity	29.5%	37.4%	38.6%	35.1%	31.9%
Operating Margin	24.0%	26.6%	28.3%	28.5%	29.2%
EBITDA Margin	37.7%	40.2%	41.8%	42.2%	42.5%

*iQmethod*SM - Quality of Earnings*

Cash Realization Ratio	2.4x	2.2x	2.2x	1.4x	1.7x
Asset Replacement Ratio	4.1x	3.6x	3.8x	2.0x	1.8x
Tax Rate (Reported)	10.0%	11.9%	14.0%	17.0%	21.0%
Net Debt-to-Equity Ratio	45.5%	31.3%	22.1%	18.6%	3.6%
Interest Cover	9.4x	34.3x	27.8x	25.7x	46.9x

Key Metrics

* For full definitions of *iQmethod*SM measures, see page 10.

Company Description

Bharti Airtel (Formerly Bharti Televentures) is India's largest private sector provider of integrated telecom services, especially wireless. The wireless business accounts for nearly two-thirds of the company's total revenue. The company is a market leader in wireless services and its wireless operations extend across all 23 domestic circles.

Stock Data

Price to Book Value 7.8x

4Q highlights - mobility drives surprise

Strong positive surprise in mobile biz: Margins in Bharti's dominant mobile business rocketed up 150bps QoQ in 4Q FY07, despite sharp cuts in roaming tariffs. This was the key positive surprise in Bharti's 4Q FY07 results & points to the company's superb scale management despite stiff competitive pressures.

Headline PAT higher-than-expected, EBITDA in line: Headline PAT for 4Q stood at Rs13.5bn, up 98% YoY & 11% QoQ. Headline results were above expectations, primarily due to lower-than-expected taxes & forex gains. Overall EBITDA was in line with expectations at Rs22.4bn, up 75% YoY & 12% QoQ. At an overall level, the strong positive surprise in mobility margins was offset by disappointment in non-wireless margins.

Mobility EBITDA margins up 150bps QoQ to 39%: Scale benefits boosted Bharti's mobility EBITDA margin by 150bps QoQ to 39%. This was despite a 6.5% QoQ drop in revenue per minute (rpm) to Rs0.85/min & ~5% QoQ drop in 4Q ARPU. The company explained that the drop in rpm & ARPU was primarily due to the impact of roaming rate-cuts by the regulator in mid-Feb '07. Mobile MoU grew 2% QoQ to 475 mins/sub/month.

Non-wireless biz disappoints - margins down 250bps QoQ: In 4Q, EBITDA margin for Bharti's non-wireless biz fell 250bps QoQ dragged by a 720bps collapse in long-distance margins. The company explained that promotional launch of international calling cards in the US during Dec 2006 impacted 4Q results, but expects margins to recover going forward. The Co will launch calling cards in some more markets but scale of promotions will likely be lower vs US.

Table 1: 4Q FY07 results summary

Yr to March (Rs mn)	4Q FY06	3Q FY07	4Q FY07	YoY Chng	QoQ Chng
Gross revenues	34113	49129	53932	58%	10%
Access& interconnect charges	6447	8242	9335	45%	13%
% of gross revenues	18.9%	16.8%	17.3%		
Adjusted gross revenues	27666	40887	44597		
License fees	2969	4574	5098	72%	11%
% of adjusted gross revenues	10.7%	11.2%	11.4%		
Revenues net of regulatory charges	24697	36313	39499		
Network Operating expenses	3447	5328	5790	68%	9%
% of net revenues	12.5%	14.7%	14.7%		
Personnel expenses	2351	3769	3446	47%	-9%
% of net revenues	8.5%	10.4%	8.7%		
Other operating expenses	6117	7161	7855	28%	10%
% of net revenues	22.1%	19.7%	19.9%		
Total Operating expenses	11915	16258	17091	43%	5%
Opex/Net Revenue Ratio	48.2%	44.8%	43.3%		
EBITDA	12782	20055	22408	75%	12%
EBITDA Margin	37.5%	40.8%	41.5%		
Depreciation	4698	7072	7239	54%	2%
Other Income	166	118	376	127%	219%
Other costs	104	7	0		
EBIT	8146	13094	15545	91%	19%
Interest	733	-1318	477	-35%	na
PBT	7413	14412	15068	103%	5%
Tax (Expense)/Income	549	2139	1353	146%	-37%
Minority Interest	41	121	184	349%	52%
Net Profit	6823	12151	13531	98%	11%

Source: Company, ML research

Opex/revenue improves, overall EBITDA margin up to 41.5%: On an overall basis, Bharti's EBITDA margin was up 70bps QoQ to 41.5%, primarily due to scale benefits. Opex/net revenue fell to 43.3% in 4Q FY07 led primarily by lower employee costs.

FY07 capex ~US\$2bn, up 40% YoY: In 4Q FY07, Bharti capex was ~US\$380mn, down 17% QoQ primarily due to year-end adjustments (contract closures & consequent discounts). Full year FY07 capex totaled ~US\$2bn, up 40% YoY. In its mobility business, Bharti added ~18,000 towers & population coverage increased to 59% in Mar '07 versus 42% in Mar '06. The company also enhanced its optic fiber network from ~32,900kms in FY06 to ~40,484kms in FY07.

Net debt flat, robust balance sheet: Bharti's net debt as of Mar '07 was ~Rs42bn, up 2% YoY despite the large capex that it incurred. At end-FY07, Net debt/EBITDA was ~0.57x.

FY08 capex guidance of US\$3.3-3.5bn: Bharti expects to add ~30,000 towers & ~25,000kms of optic fiber network in FY08E. The Co expects its population coverage to span 70-75% levels by Mar '08 & emphasized that its large capex rollout will not compromise capital productivity.

Management reiterates plans for DTH launch & overseas expansion: Bharti has budgeted capex for its DTH launch by end-FY08/early-FY09. The DTH venture will be 40%-owned by Bharti Airtel owing to foreign ownership restrictions; Bharti will hold an option to buy the remaining stake when possible from its group Co. Bharti has also budgeted for launch of its mobile operations in Sri Lanka in FY08; the Co continues to evaluate overseas opportunities.

Table 2: Key divisional trends in Revenue, EBITDA, EBITDA margin & Capex

(Rs mn)	4Q FY06	3QFY07	4Q FY07	YoY chng	QoQ chng
Wireless subs (mn)	19.6	32.0	37.1	90%	16%
Fixed line subs (mn)	1.3	1.7	1.9	39%	8%
Mobility Revenues	24,134	37,579	42,431	76%	13%
Wireless EBITDA	8,746	14,129	16,604	90%	18%
Wireless EBITDA Margin	36.2%	37.6%	39.1%		
Wireless Capex	17,674	15,597	10,706	-39%	-31%
Non-wireless Revenues	13,570	17,712	18,711	38%	6%
Non-wireless EBITDA	4,419	6,707	6,624	50%	-1%
Non-wireless EBITDA Margin	32.6%	37.9%	35.4%		
Non-wireless Capex	6,531	4,631	6,194	-5%	34%
Fixed Line Revenues	4,102	5,984	6,044	47%	1%
Fixed Line EBITDA	934	1,613	1,727	85%	7%
Fixed Line EBITDA Margin	22.8%	27.0%	28.6%		
Fixed Line Capex	4182	1644	1894	-55%	15%
Long Distance Revenues	7,463	9,306	10,156	36%	9%
Long Distance EBITDA	2,771	4,002	3,640	31%	-9%
Long Distance EBITDA Margin	37.1%	43.0%	35.8%		
Long Distance Capex	1,085	1,485	2,317	114%	56%
Enterprise Business Revenues	2,005	2,422	2,511	25%	4%
Enterprise Business EBITDA	714	1,092	1,257	76%	15%
Enterprise Business EBITDA Margin	35.6%	45.1%	50.1%		
Enterprise Business Capex	1264	1502	1983	57%	32%

Source: Company, ML research

Earnings tweaked up by 4-6%

Factoring 4Q FY07 trends, we have raised our profit forecasts for Bharti by ~6% for FY08E & 4% for FY09E. We now expect 52% YoY growth in FY08E to be followed by ~25% YoY growth in FY09E.

We think our numbers offer room for potential upside, especially in the non-wireless biz, where we assume a relatively muted EBITDA margin recovery in the long distance business versus 4Q FY07 levels. Also, across the non-wireless business, we conservatively model flat-to-lower margins on a YoY basis.

In the mobile business, we expect FY08 EBITDA margin to sustain ~39.2% versus 39.1% in 4Q FY07. For FY09E, we forecast a stronger 60bps YoY margin improvement as coverage expansion should start to peak out thereby easing network costs.

PO raised to Rs1000/sh, 21% upside

We have raised our price target for Bharti to Rs1000 (versus Rs850 earlier). Our PO places Bharti at the upper end of its trading range historically at a PE of ~23.5x Mar '09E & EV/EBITDA of ~13x FY09E.

We recognize that the stock could witness intermittent volatility as investors weigh the market's robust growth prospects versus possible increase in competitive intensity. We think the market is at least 6-12 months away from any major changes in the competitive landscape on account of factors like BSNL's mega capacity expansion plan or the imminent entry of Vodafone. Meanwhile, we think Bharti's strong scale management & deepening network reach will likely yield strong upside for investors.

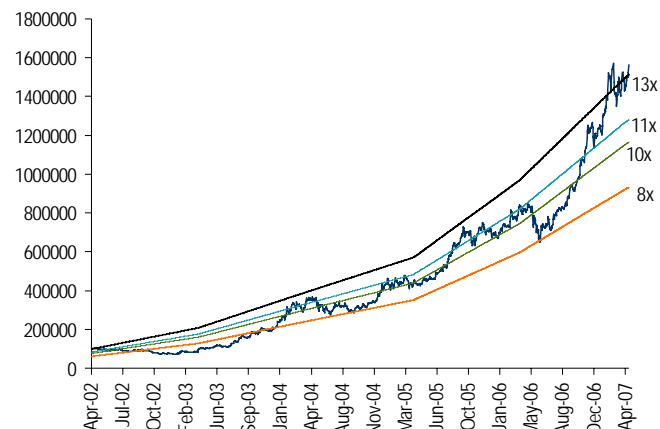
On our price target, Bharti would rank broadly on par with the current growth-adjusted valuations of GEM wireless majors, averaging at ~0.8x on PE-to-2yr-growth & ~0.4x on EV/E-to-2yr-growth, for significantly higher-than-average RoE. Bharti closed FY07 with an RoE of 37%; we expect RoE to remain in the top quartile across GEM wireless majors.

Table 3: Valuations of wireless majors across emerging markets

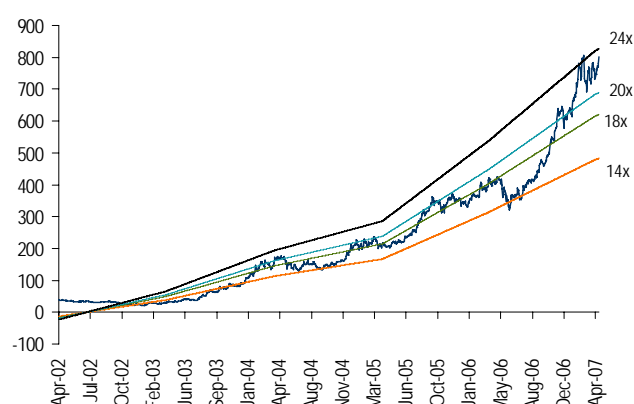
Company name	Market Cap US\$ bn	Sh Price - Mar'07 (Local Curr)	ML Rating	P/E		PEG (2006/2-yr) (x)	ROE 2007E	EV/EBITDA		EV/E-to-2-Yr Growth
				CY07E	CY08E			CY07E	CY08E	
ECMS Mobinil	2.8	157.5	C-2-7	10.7	11.9	-5.4	84.3	5.6	5.2	0.7
Partner	2.3	61.1	B-1-7	11.5	10.0	0.8	55.6	5.9	5.7	2.0
MTN Group	24.1	94.6	C-2-7	15.9	14.2	2.2	26.2	9.9	9.2	0.8
MTS	22.5	56.7	C-1-7	11.5	10.7	0.6	42.8	5.9	5.4	0.4
Turkcell	11.1	7.1	C-1-7	9.1	8.7	0.6	27.4	5.0	4.8	1.7
Advanced Info	5.9	70.5	C-3-7	10.9	9.6	0.9	24.5	4.7	4.4	0.5
Bharti	34.8	825	C-1-9	24.2	19.4	0.6	38.6	14.0	10.8	0.33
RCom	20.9	460	C-1-7	19.5	14.3	0.4	29.6	11.4	8.7	0.25
VimpelCom	20.0	97.6	C-1-9	15.8	13.8	0.8	27.9	7.1	6.4	0.4
SK Telecom	16.6	192000.0	B-2-7	10.2	8.8	1.0	15.8	4.6	4.3	3.2
FarEasTone	4.4	37.5	C-2-8	11.2	11.2	22.2	17.5	4.9	4.9	4.8
China Mobile	182.1	71.1	C-1-7	15.9	12.3	0.7	26.0	6.4	5.6	0.3
KTF	5.4	26100.0	C-3-7	14.9	12.8	-23.7	7.7	3.6	3.5	2.5
Indosat	3.7	6300.0	C-1-7	16.8	14.2	0.8	13.6	5.1	4.3	0.3
LG TeleCom	3.2	10750.0	C-1-9	8.4	7.4	0.4	21.2	4.8	4.4	0.9
Maxis Comm	8.6	11.9	A-1-7	14.8	13.5	2.6	27.1	8.0	7.1	0.7
Total Access	10.8	4.6	C-1-7	45.0	34.3	NM	16.1	17.0	14.6	0.9
China Unicom	18.2	11.3	C-1-7	20.1	15.0	1.0	8.5	4.5	4.0	0.5
America Movil	83.8	46.7	C-1-7	14.9	11.8	0.6	45.2	9.0	7.6	0.4
SmarTone	0.7	9.0	B-2-7	35.6	21.3	NM	4.3	4.9	4.4	0.5
AVERAGE				16.8	13.4	0.7	29.8	7.9	6.7	0.4

Source: ML research

27 April 2007

Chart 1: Bharti – 1 year forward EV/EBITDA bands


Source: ML research

Chart 2: Bharti – 1 year forward EV/EBITDA bands


Source: ML research

Table 4: Key assumptions for our forecasts

Yr to March	FY06	FY07	FY08E	FY09E
Mobility Division:				
India - wireless subs ('000)	96739	162200	252543	324807
% wireless penetration	9%	14%	22%	28%
Bharti - wireless subs ('000)	19,579	37,198	60,181	77,878
% market share	20%	23%	24%	24%
Prepaid as % of Total Subs	83%	88.5%	91%	92%
Blended ARPU (Rs/month)	449	415	382	360
% change in ARPU	-13%	-8%	-8%	-6%
Fixed-line Division:				
Total fixed-line subs ('000)	1,347	1,871	2,396	2,860
ARPL (Rs/month)	1,135	1,163	1,039	950
% change in ARPL	-10%	2%	-11%	-9%

Source: ML research

Table 5: Cash flow summary

Yr to March (Rs mn)	FY06	FY07E	FY08E	FY09E
Net Profit (incl exceptionals)	22,567	42,571	64,690	80,735
Deferred taxes	-	-	-	1,970
Depreciation and amortization	15,829	25,209	37,023	48,415
Change in working capital	14,132	22,254	36,181	(19,593)
Change in other operating items	700	1,006	1,845	1,649
Operating cashflows	53,227	91,040	139,739	113,175
Capex	(64,257)	(91,909)	(142,164)	(98,518)
Goodwill acquisition	-	-	-	-
Investing cashflows	(63,776)	(92,270)	(142,164)	(98,518)
Issue/ (repayment) of Debts	(1,645)	5,066	1,639	4,510
Shares issuance	8,243	1,106	-	-
Change in minorities interest	202	850	786	1,017
Dividend	-	-	-	(20,184)
Other Items	858	(1,512)	-	-
Financing cashflows	7,658	5,510	2,425	(14,657)
Net cashflows	(2,891)	4,280	-	-
Beginning cash and equivalent	8,079	5,188	9,468	9,468
Ending cash and equivalent	5,188	9,468	9,468	9,468
Net Debt	42,207	42,993	44,632	49,142

Source: ML research

Table 6: Detailed profit/loss statement

Yr to March (Rs mn)	FY06	FY07	FY08E	FY09E
Revenues:				
Wireless - Total	82,391	141,445	222,859	297,357
% chg y-o-y	53%	72%	58%	33%
Infotel - Total	46,613	66,390	85,907	101,613
% chg y-o-y	32%	42%	29%	18%
Wireline & Broadband	15,015	22,453	26,610	29,955
% chg y-o-y	34%	50%	19%	13%
Long Distance Services	24,522	34,889	47,985	58,085
% chg y-o-y	32%	42%	38%	21%
Enterprise Services	7,076	9,049	11,311	13,574
% chg y-o-y	30%	28%	25%	20%
Inter segment elimination	(12,789)	(22,639)	(33,634)	(43,459)
Consolidated Revenue	116,215	185,196	275,132	355,510
% chg y-o-y	45%	59%	49%	29%
EBITDA :				
Wireless - Total	29,636	53,279	87,334	118,321
% chg y-o-y	60%	80%	64%	35%
% margin	36.0%	37.7%	39.2%	39.8%
Infotel - Total	14,931	23,553	30,116	34,299
% chg y-o-y	26%	58%	28%	14%
% margin	32.0%	35.5%	35.1%	33.8%
Wireline & Broadband	3,595	5,602	7,200	8,131
% chg y-o-y	26%	56%	29%	13%
% margin	23.9%	25.0%	27.1%	27.1%
Long Distance Services	8,761	13,758	17,903	20,423
% chg y-o-y	39%	57%	30%	14%
% margin	35.7%	39.4%	37.3%	35.2%
Enterprise Services	2,575	4,192	5,014	5,745
% chg y-o-y	-4%	63%	20%	15%
% margin	36.4%	46.3%	44.3%	42.3%
Corporate expenses	(1,272)	(1,714)	(1,885)	(2,074)
Inter segment elimination	587	(609)	(609)	(694)
Consolidated EBITDA	43,883	74,508	114,956	149,852
% chg y-o-y	46%	70%	54%	30%
Con. EBITDA margin	37.8%	40.2%	41.8%	42.2%
Depreciation and Amortization	15,829	25,209	37,023	48,415
Pre-operating costs	120	-	-	-
Operating Profit	27,934	49,299	77,933	101,437
Operating margin	24%	27%	28%	29%
Interest (Expenses)	(2,958)	(1,439)	(2,798)	(3,942)
Non-operating income/(exp)	391	1,000	1,000	1,000
Profit before tax	25,367	48,860	76,134	98,495
Taxes	2,540	5,822	10,659	16,744
(Profit)/losses to Minorities	(260)	(467)	(786)	(1,017)
Net Profit	22,567	42,571	64,690	80,735
% chg y-o-y	51%	89%	52%	25%

Source: ML research

Table 7: Balance sheet

Yr ended 31 Mar (Rs mn)	FY06	FY07	FY08E	FY09E
Net Current Assets	(32,907)	(50,881)	(87,062)	(67,468)
Net Fixed-assets	142,397	210,604	316,365	367,088
Goodwill	23,327	23,684	23,247	23,247
License Entry fees	14,873	14,116	13,496	12,876
Other non-current assets	3,950	4,641	4,641	4,641
Total Assets	151,640	202,164	270,687	340,383
Total borrowings	47,395	52,461	54,100	58,610
Other non-current liabilities, incl minority interest	12,353	14,150	16,781	21,417
Shareholder's equity	91,892	135,553	199,806	260,357
Total liabilities and shareholder's equity	151,640	202,164	270,687	340,384

Source: ML research

Price Objective Basis & Risk

Our price target of Rs1000/sh places Bharti at the upper-end of its historical trading range. Our PO pegs Bharti at a PE of 24x Mar '09E and EV/EBITDA of 13x Mar '09E versus its historical trading range of 18-24x on PE basis and 10-13x on EV/EBITDA basis. We think the stock will continue to trade close to its upper range pending any major changes in the competitive landscape.

Key risks stem from 1) unexpected growth slowdown in the Indian market, 2) unforeseen financial burden from likely 3G auctions, and 3) unexpected pressure on RoE due to overseas expansion plans.

Analyst Certification

I, Reena Verma Bhasin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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*iQmethod*SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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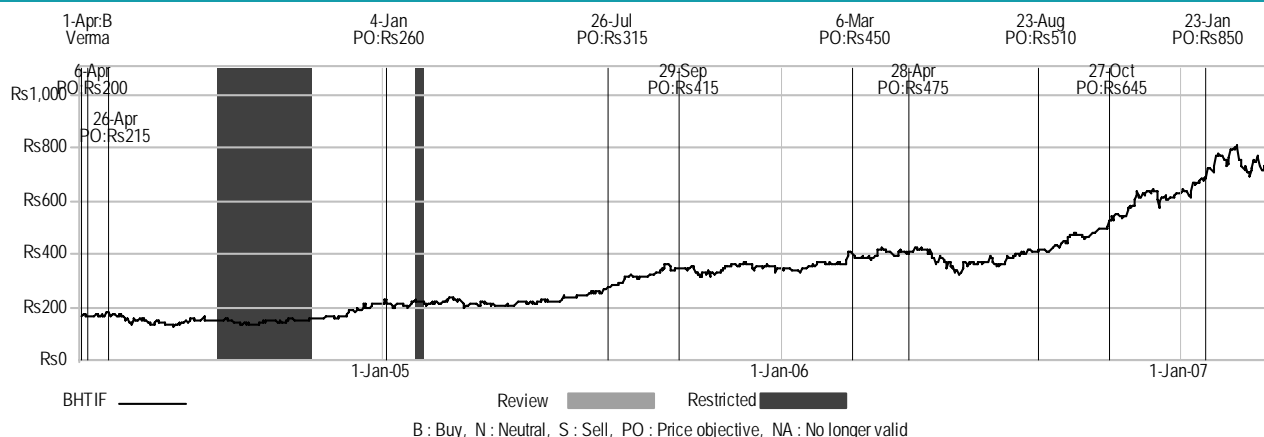
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BHTIF Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

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Investment Rating Distribution: Telecommunications Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	89	44.50%	Buy	18	24.32%
Neutral	85	42.50%	Neutral	16	22.22%
Sell	26	13.00%	Sell	8	40.00%

Investment Rating Distribution: Global Group (as of 31 Mar 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1562	45.16%	Buy	415	30.09%
Neutral	1615	46.69%	Neutral	446	30.65%
Sell	282	8.15%	Sell	49	19.76%

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