

04 Nov 2011 - 12:41:32 AM IST

COMPANY ALERT

Bharti Airtel Limited

2QFY12 preview: watch for three data points

Results

Buy

Reuters:BRTI.BO Exchange:BSE Ticker:BRTI

Price (INR)	392.55
Price target (INR)	460.00
52-week range (INR)	440.25 - 306.05
Market cap (USDm)	30,312
Shares outstanding (m)	3,798.0
Net debt/equity (%)	75.4
Book value/share (INR)	153.74
Price/book (x)	2.6

FYE 3/31	2011A	2012E	2013E
Sales (INRm)	595,279	747,909	887,325
Net Profit (INRm)	60,390.0	100,695.2	146,689.7
DB EPS (INR)	16.33	26.51	38.62
PER (x)	19.5	14.8	10.2
Yield (net) (%)	0.3	0.3	0.3

****Bharti reports its 2QFY12 results on 4-Nov-11 (Friday). The three data points to watch for are:****

1. India wireless minutes - our forecast is 219bn minutes (-1% QoQ, 15 YoY)
2. Revenue per minute - our forecast is Rs 0.428 (flat QoQ)
3. Africa revenues and EBITDA margins - we expect Africa revenue at \$1bn and EBITDA margins to improve 50bps to 25.5%.

We note that Idea reported wireless minutes growth of 25% YoY and its revenue/min increased 4% QoQ to Rs 0.427.

**** Summary of estimates ****

We expect consolidated revenues at Rs 171bn, EBITDA at Rs 60 bn (35% margin) and net profit of Rs 14.8bn. For the India-based business, we expect revenues at Rs 126bn and EBITDA of Rs 48bn (38.4% margin).

**** Potential translation loss does not impact recurring profit and cash-flows ****

The INR has depreciated 9.5% during 2QFY12 versus the USD which has led to concerns due to the elevated level of USD-denominated debt (75% of gross debt) on Bharti's balance sheet. While the translation losses could be material, the impact on finance costs and recurring profit should be minimal.

Bharti's USD debt is related to its African acquisition but is serviced out of the Indian cashflows. The first instalment of the principal payments would fall due around June 2013. We estimate the interest cost of the acquisition debt at around \$200m/yr. The INR depreciation would have a negative impact on the cost of servicing the acquisition debt. We understand that Bharti manages its medium-term forex exposure on both interest payments and payables through an active hedging policy. Hence, the overall impact on the income statement will depend on the MTM losses/gains on the outstanding hedges and the exchange gains/losses. There is a significant variation in this cost (-Rs2.4bn to +Rs1.7bn) in the last four quarters.

We maintain our Buy rating on Bharti with target price of Rs 460.

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