

# Bharti Airtel Ltd

**BUY**

**CMP: Rs.303.00**

**Date: November 13, 2009**

**Target Price: Rs.334.00**

**Market Cap.: Rs.1150333.44mn.**

## Key Ratios:

| Particulars    | FY09 | FY10E | FY11E |
|----------------|------|-------|-------|
| OPM(%)         | 40.5 | 41.3  | 41.3  |
| PAT Margin (%) | 21.5 | 23.3  | 23.0  |
| ROE(%)         | 27.2 | 25.1  | 21.7  |
| ROCE(%)        | 28.0 | 24.6  | 21.9  |
| EV/EBITDA (x)  | 3.80 | 6.54  | 5.84  |
| P/BV(x)        | 1.95 | 2.91  | 2.28  |
| P/E(x)         | 7.32 | 11.82 | 10.72 |
| Debt-Equity(x) | 0.26 | 0.21  | 0.17  |

## Key Data:

|                     |                       |
|---------------------|-----------------------|
| Sector              | Telecom               |
| Face Value          | Rs. 5.00              |
| 52 wk. High/Low     | Rs.990.00 / Rs.280.00 |
| Volume (2 wk. Avg.) | 2839994               |
| BSE Code            | 532454                |

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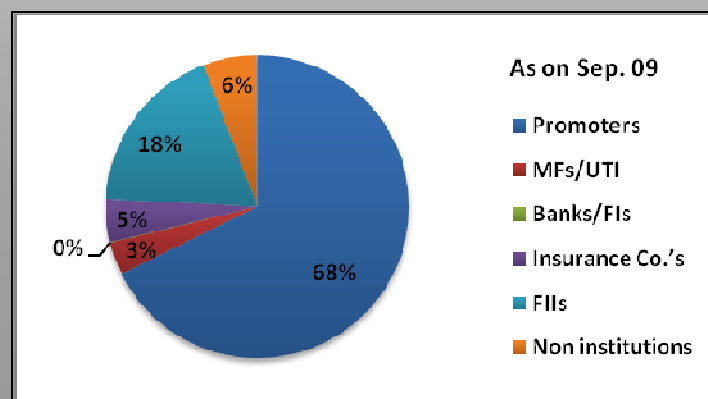
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## SYNOPSIS

- Bharti Airtel has more than 75 million customers. It is the largest cellular provider in India, and also supplies broadband and telephone services - as well as many other telecommunications services to both domestic and corporate customers.
- Bharti Airtel maintained its leadership position in the mobile segment with a market share of 24%.
- Bharti Airtel has set aside around USD 5 billion as capital expenditure (capex) for mobile services and infrastructure business for the financial year 2009-10.
- Bharti Airtel will invest Rs 6 billion to ramp up its networks in the Assam and Northeast circles in 2009-10.
- Bharti Airtel, Asia's leading integrated telecom services provider unveiled its Global Wholesale Service Portfolio with a network that will reach 50 countries across the continents of Europe, North America, Africa, Asia and Australia.
- Net sales and PAT of the Company are expected to grow at a CAGR of 21% & 19% over FY08 to FY11E.

## Share Holding Pattern:



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## Investment Highlights

- Q2 FY10 Results Update

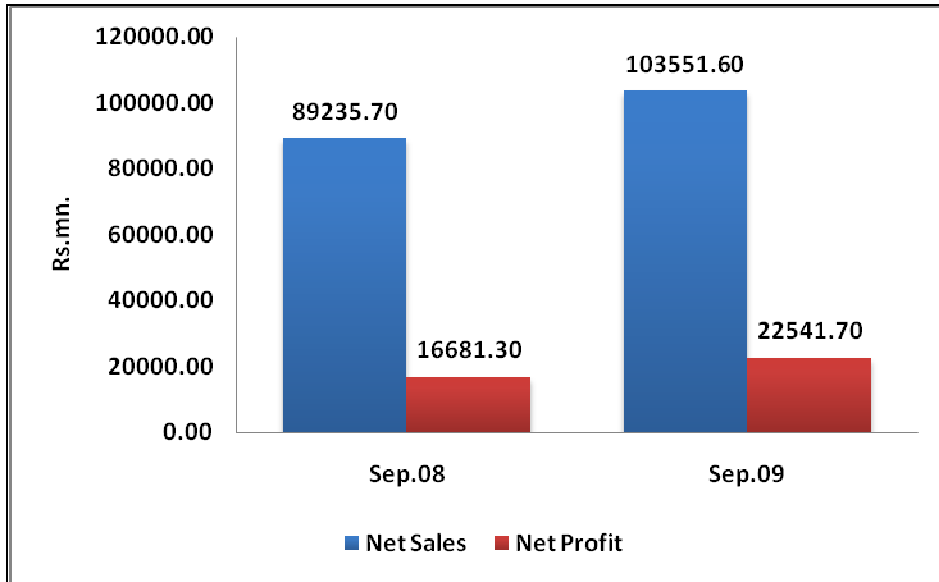
Bharti Airtel, India's leading provider of telecommunications services disclosed a rise in consolidated net profit after for the quarter ended Sep 2009. During the quarter, the profit of the company rose 35.13% to Rs 22,541.70 million from Rs 16,681.30 million in the last year. Net sales for the quarter rose 16.04% to Rs 103,551.60 million, while total income for the quarter rose 16.09% to Rs 103,930.60 million compared with the prior year period. It posted earnings of Rs 5.94 a share during the quarter, registering 35.12% growth over prior year period.

| Quarterly Results - Consolidated (Rs in mn) |            |           |         |
|---|------------|-----------|---------|
| As at                                       | Sep - 09   | Sep - 08  | %Change |
| Net Sales                                   | 103,551.60 | 89,235.70 | 16.04   |
| Net Profit                                  | 22,541.70  | 16,681.30 | 35.13   |
| Basic EPS                                   | 5.94       | 4.39      | 35.12   |

### Growth in Net Sales & Net Profit

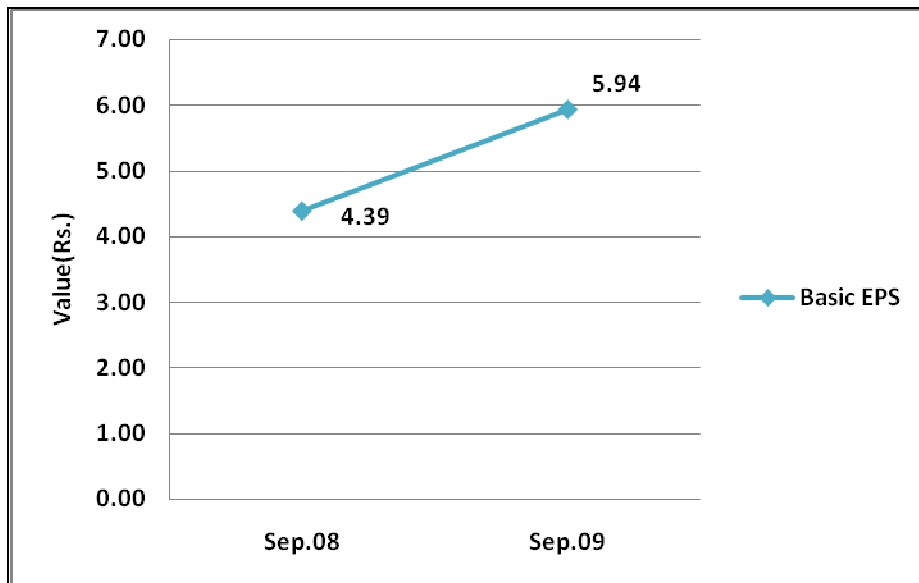
During the quarter, the revenues of the company rose to Rs 103,551.60 million, registering a rise of 16.04% from Rs 89,235.70 million in the same quarter previous year and the consolidated net profit stood at Rs 22,541.70 million for the quarter ended Sep 30, 2009, registering a rise of 35.13% as compared to Rs 16,681.30 million for the quarter ended Sep 30, 2008.





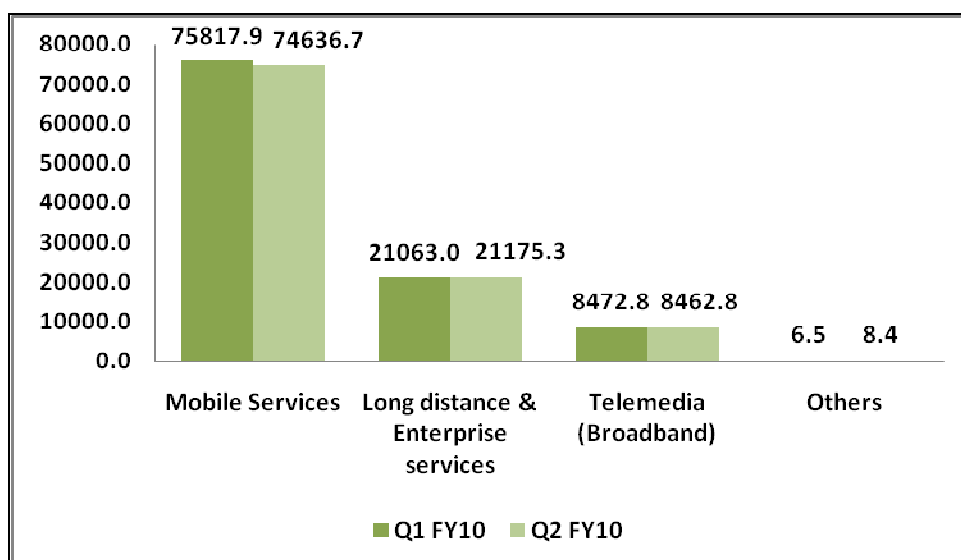
### EPS Growth

During the quarter, the company posted an EPS of Rs 5.94, registering a rise of 35.12% from Rs 4.39 in the same quarter previous year.



## Segment Wise Revenue

| Particulars (Rs.mn.)                | Q1 FY10         | Q2 FY10         |
|-------------------------------------|-----------------|-----------------|
| Mobile Services                     | 75817.9         | 74636.7         |
| Long distance & Enterprise services | 21063.0         | 21175.3         |
| Telemedia (Broadband)               | 8472.8          | 8462.8          |
| Others                              | 6.5             | 8.4             |
| <b>Total</b>                        | <b>105360.2</b> | <b>104283.2</b> |



- **SingTel hikes stake in Airtel**

Singapore Telecommunications (SingTel) has bought an additional 1.52 % stake in India's largest private telecom Bharti Airtel and will pay up to Rs 30.08 billion in three installments ranging over 18 months. In a notice to Singapore Stock Exchange, SingTel has entered into a conditional share purchase agreement with Bharti Group entity to buy an additional 7,30,000 issued shares in Bharti Telecom, a promoter company of Bharti Airtel.

- **Bharti-MTN deal has been cancelled**

The USD 23 billion deal for the merger of Bharti Airtel and South African giant MTN, which would have been the world's largest in the telecom sector, was called off. Sunil Mittal-led Bharti called off discussions with MTN due to the South African government's rejection of the



proposed merger structure, which would have created the world's third largest telecom company with combined revenues of over USD 20 billion annually and a subscriber base of over 200 million. The issue of dual listing of MTN to maintain its identity in the merged company appears to have been the deal-breaker during the tough negotiations lasting well over four months.

- **ICRA reaffirms `LAA` and A1 ratings**

Credit rating agency, ICRA has reaffirmed the LAAA and A1+ ratings assigned to the Rs 25.0 billion bank lines of Bharti Airtel (BAL). ICRA has also reaffirmed the LAAA rating assigned to the Rs 0.50 billion Non Convertible Debenture (NCD) programme of the company.

- **Unveils 'The Airtel Advantage' Offers 50 paisa per minute on both STD and local calls**

Bharti Airtel, Asia's leading integrated telecom service provider, launched the 'Airtel Advantage' initiative. Airtel has the single largest telecom customer base in the country with over 110 million people. This initiative is aimed at offering the added advantage to this significantly vast Airtel community to be in touch with each other at a remarkably affordable rate of 50 paisa per minute – be it a national long distance call (STD) or a local call.

- **Forms Strategic Business Alliance with Cisco to help Drive Growth for Indian Enterprises**

Bharti Airtel, Asia's leading integrated telecom service provider, and Cisco had formed a strategic business alliance to help drive growth for Indian enterprises. The alliance will combine the strengths of Airtel's network service provider leadership and Cisco's Internet Protocol (IP) technologies and expertise to work together to create and sell in a phased manner a set of unique products and services - including managed data services, hosted unified communications, connected branch services and Cisco TelePresence.

- **Unveils New Global Wholesale Service Portfolio for Telcos across the World**

Bharti Airtel, Asia's leading integrated telecom services provider unveiled its Global Wholesale Service Portfolio with a network that will reach 50 countries across the continents of Europe, North America, Africa, Asia and Australia. Bharti Airtel's portfolio will enable the global carrier community access to Bharti Airtel's services to and from any part of the globe. This expanded connectivity has come on the back of investments of over USD 500 million made on building cable capacity, network infrastructure and international Points of Presence.

- **Plans to bid for Lankan teleco**

Bharti Airtel plans to bid for Luxembourg-based Millicom's Sri Lankan mobile network, in a move that could make it the second largest mobile phone operator in the island nation. India's largest telecom operator will have to compete with an array of suitors such as Malaysia's Axiata Group, Russia's Vimpelcom and UAE's Etisalat, which are reportedly



interested Millicom's Asian assets, including Tigo network in Sri Lanka. A successful bid will help Bharti, which has a subscriber base of one million in Lanka, to treble its user base.

Millicom International had put its operations across Cambodia, Laos and Sri Lanka on the block in July. Millicom's Tigo network is Sri Lanka's third largest in that country with over two million subscribers and is worth USD 150-200 million.

- **Invests Rs 6 bn to boost networks in Northeast**

Bharti Airtel will invest Rs 6 billion to ramp up its networks in the Assam and Northeast circles in 2009-10. The company will invest about Rs 5 billion in network rollout and around Rs 1 billion in other associated activities in 2009-10. The company had spent a similar sum last fiscal. Bharti Airtel's cumulative investment in the twin circles since 2005 has been roughly Rs 18 billion. Airtel will bolster its network and cover more highways, tourist hotspots and religious sites in Assam and across the Northeast.

- **Plans USD 5 bn capex for 2009-10**

Bharti Airtel has set aside around USD 5 billion as capital expenditure (capex) for mobile services and infrastructure business for the financial year 2009-10. The company has allocated nearly USD 2.5 billion as capex for mobile services and approximately USD 2.5-3 billion for the passive infrastructure. The company will spend around USD 3 billion in the tower business worked by Bharti Infratel (a wholly owned subsidiary) and Indus Towers, an independent tower company formed by Bharti, Vodafone and Idea to provide passive infrastructure services in India.

But, this capex does not include the amount the company will spend during 3G auctions and the money will be brought up internally for 3G auctions if the bids are sensible.

## **Company Profile**

Bharti Airtel Limited's Airtel is India's largest integrated and the first private telecom services provider with a footprint in all the 23 telecom circles. Bharti Airtel since its inception has been at the forefront of technology and has steered the course of the telecom sector in the country with its world class products and services. The businesses at Bharti Airtel have been structured into three individual strategic business units (SBU's) - Mobile Services, Airtel Telemedia Services & Enterprise Services. The mobile business provides mobile & fixed wireless services using GSM technology across 23 telecom circles while the Airtel Telemedia Services business offers broadband & telephone services in 94 cities. The Enterprise services provide end-to-end telecom solutions to corporate customers and national & international long distance services to carriers. All these services are provided under the Airtel brand. Telecom giant Bharti Airtel is the flagship company of Bharti Enterprises.



## Peer Group Comparison

| Name of the company     | CMP<br>(As on Nov. 13, 2009) | Market Cap.<br>(Rs. Mn.) | EPS<br>(Rs.) | P/E<br>(x) | P/BV<br>(x) | Dividend (%) |
|-------------------------|------------------------------|--------------------------|--------------|------------|-------------|--------------|
| BHARTI AIRTEL           | 303.00                       | 1,150,333.44             | 23.91        | 12.67      | 4.18        | 20.00        |
| TATA COMMUNICATIONS     | 374.05                       | 106,604.30               | 14.94        | 25.04      | 1.57        | 45.00        |
| IDEA CELLULAR           | 50.50                        | 156,554.80               | 3.78         | 13.36      | 3.12        | -            |
| RELIANCE COMMUNICATIONS | 174.75                       | 360,688.70               | 8.67         | 20.16      | 0.70        | 16.00        |

## Key Concerns

- Stiffer-than-expected competition in the wireless business
- Continual tariff cuts
- Huge out-payments to obtain 3G spectrum
- Lower-than-expected increase in long distance volumes
- Increasing competitors like Idea cellular, Reliance Comm.
- Declining Average revenue per user (ARPU) driven by lower IUC, lower mix of urban consumers in subscriber additions and intensifying competition
- Slow down in telemedia, wireless and enterprise segments.





## Financials

### 12 Months Ended Profit & Loss Account (Consolidated)

| Value(Rs. in million)    | FY08             | FY09             | FY10E            | FY11E            |
|--------------------------|------------------|------------------|------------------|------------------|
| Description              | 12m              | 12m              | 12m              | 12m              |
| <b>Net Sales</b>         | <b>270122.00</b> | <b>373520.80</b> | <b>425813.71</b> | <b>476911.36</b> |
| Other Income             | 2796.10          | 1523.80          | 1219.04          | 1340.94          |
| <b>Total Income</b>      | <b>272918.10</b> | <b>375044.60</b> | <b>427032.75</b> | <b>478252.30</b> |
| Expenditure              | -158610.20       | -223794.00       | -251230.09       | -281377.70       |
| <b>Operating Profit</b>  | <b>114307.90</b> | <b>151250.60</b> | <b>175802.66</b> | <b>196874.60</b> |
| Interest                 | -5278.70         | -18612.80        | -3406.51         | -3747.16         |
| <b>Gross Profit</b>      | <b>109029.20</b> | <b>132637.80</b> | <b>172396.15</b> | <b>193127.44</b> |
| Depreciation             | -35914.10        | -46727.70        | -58876.90        | -67708.44        |
| <b>Profit before Tax</b> | <b>73115.10</b>  | <b>85910.10</b>  | <b>113519.25</b> | <b>125419.00</b> |
| Tax                      | -8161.50         | -5468.30         | -14189.91        | -15677.38        |
| <b>Profit after Tax</b>  | <b>64953.60</b>  | <b>80441.80</b>  | <b>99329.34</b>  | <b>109741.63</b> |
| Minority Interest        | -1000.20         | -1852.30         | -2037.53         | -2445.04         |
| <b>Net Profit</b>        | <b>63953.40</b>  | <b>78589.50</b>  | <b>97291.81</b>  | <b>107296.59</b> |
| Equity Capital           | 18979.10         | 18982.40         | 18982.40         | 18982.40         |
| Reserves                 | 204056.30        | 276714.30        | 376043.64        | 485785.27        |
| Face Value (Rs)          | 10.00            | 10.00            | 5.00             | 5.00             |
| Total No. of Shares      | 1897.91          | 1898.24          | 3796.48          | 3796.48          |
| <b>EPS (Rs)</b>          | <b>33.70</b>     | <b>41.40</b>     | <b>25.63</b>     | <b>28.26</b>     |



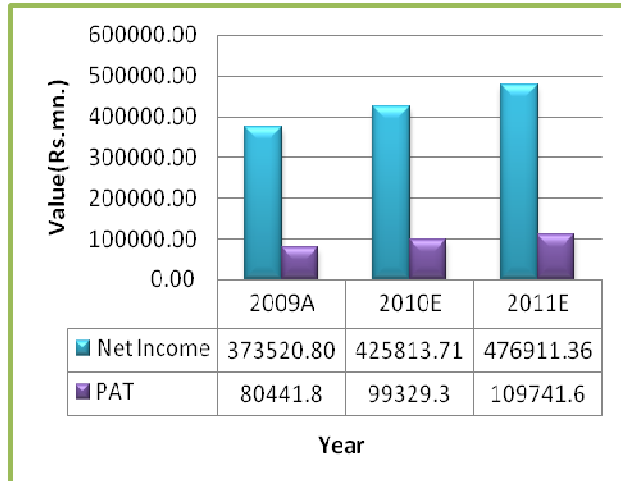
### Quarterly Ended Profit & Loss Account (Consolidated)

| Value(Rs. in million)    | 31-Mar-09 | 30-Jun-09 | 30-Sep-09 | 31-Dec-09E |
|--------------------------|-----------|-----------|-----------|------------|
| Description              | 3m        | 3m        | 3m        | 3m         |
| <b>Net Sales</b>         | 102551.40 | 104299.40 | 103551.60 | 105622.63  |
| Other Income             | 405.10    | 187.50    | 379.00    | 397.95     |
| <b>Total Income</b>      | 102956.50 | 104486.90 | 103930.60 | 106020.58  |
| Expenditure              | -62219.50 | -61990.60 | -61325.20 | -62317.35  |
| <b>Operating Profit</b>  | 40737.00  | 42496.30  | 42605.40  | 43703.23   |
| Interest                 | -3986.90  | 3555.40   | -1591.00  | -1750.10   |
| <b>Gross Profit</b>      | 36750.10  | 46051.70  | 41014.40  | 41953.13   |
| Depreciation             | -13246.40 | -14371.80 | -14996.80 | -15596.67  |
| <b>Profit before Tax</b> | 23503.70  | 31679.90  | 26017.60  | 26356.46   |
| Tax                      | -2543.40  | -4729.00  | -2960.80  | -2899.21   |
| <b>Profit after Tax</b>  | 20960.30  | 26950.90  | 23056.80  | 23457.25   |
| Minority Interest        | -483.00   | -471.40   | -515.10   | -530.55    |
| <b>Net Profit</b>        | 20477.30  | 26479.50  | 22541.70  | 22926.69   |
| Equity Capital           | 18982.40  | 18982.40  | 18982.40  | 18982.40   |
| Face Value (Rs)          | 10.00     | 10.00     | 5.00      | 5.00       |
| Total No. of Shares      | 1898.24   | 1898.24   | 3796.48   | 3796.48    |
| <b>EPS (Rs)</b>          | 10.79     | 13.95     | 5.94      | 6.04       |

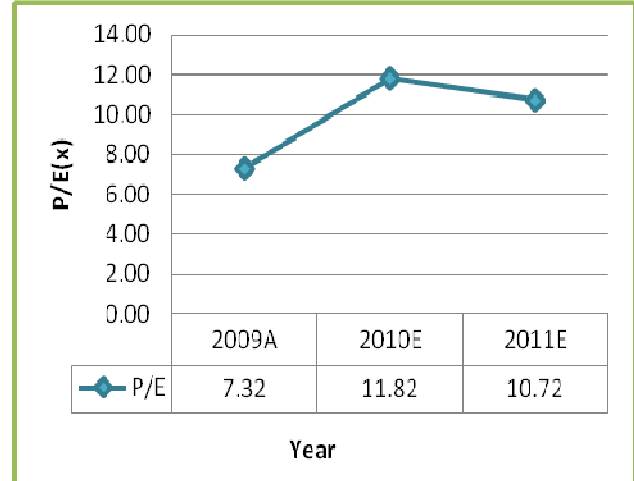


## Charts

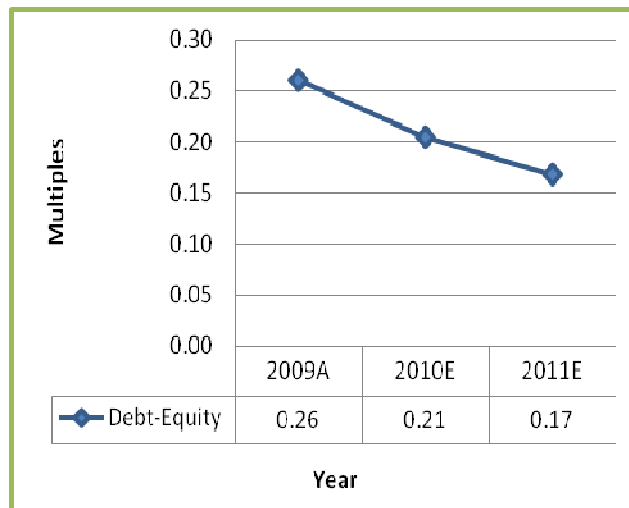
### 1) Net Sales & PAT Chart



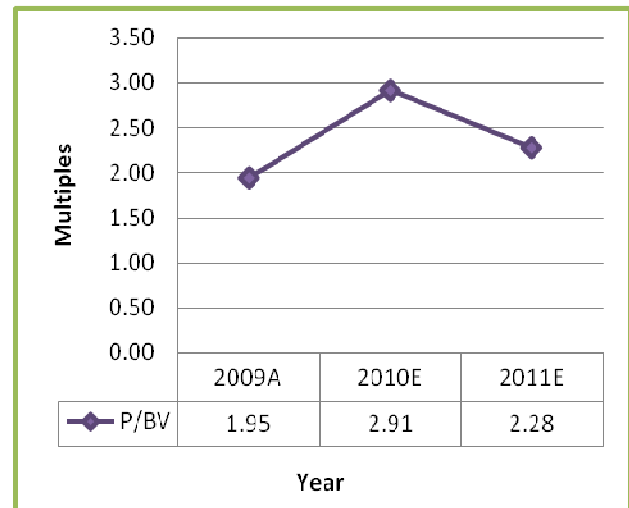
### 2) P/E Chart



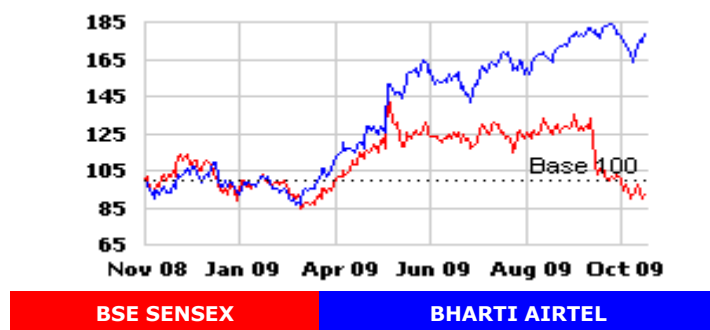
### 3) Debt-Equity Chart



### 4) P/BV Chart



## 1 Year Comparative Graph



## Outlook and Conclusion

- At the market price of Rs.303.00, the stock trades at 11.82x and 10.72x for the earnings of FY10E and FY11E respectively.
- Price to Book Value of the stock is expected to be at 2.91x and 2.28x respectively for FY10E and FY11E.
- Earning per share (EPS) of the Company for the earnings of FY10E and FY11E is seen at Rs.25.63 and Rs.28.26 respectively for equity share of Rs.5.00 each. **The company has made a sub-division (share split) of existing equity shares of Rs 10 each into 2 equity shares of Rs 5 each, subject to the approval of its shareholders.**
- Operating Profit and PAT of the Company are expected to grow at a CAGR of 20% & 19% over FY08 to FY11E.
- Bharti Airtel has set aside around USD 5 billion as capital expenditure (capex) for mobile services and infrastructure business for the financial year 2009-10.
- The company has an aggregate of over 113.4 million customers as of end September 2009, including 110.51 million mobile customers.
- Bharti Airtel, Asia's leading integrated telecom service provider, and Cisco had formed a strategic business alliance to help drive growth for Indian enterprises.
- Bharti Airtel entered into a multi-million dollar deal with Manchester United, under which its 100 million subscribers would get exclusive access to the mobile content related to one of the world's richest football clubs.



- We see Bharti Airtel as a very strong GSM player with its proven execution capabilities and wide range of network with the widest population coverage in India. The company's tower sharing as well as a massive investment will help the company to remain a leader and sustain its margins. So we recommend 'BUY' in this particular scrip with a target price of Rs.334.00 for Medium to long term investment.

## **Industry Overview**

Indian telecom is more than 165 years old, beginning with the commissioning of the first telegraph line between Kolkata and Diamond Harbour in 1839. In 1948, India had 0.1 million telephone connections with a telephone density of about 0.02 telephones per hundred population. As of June 2007, there were 225.21 million telephone (including cellular mobile) connections in the country with a telephone density of 19.86 telephones per hundred population. Out of total 225.21 million telephone connections, 185.13 million (nearly 82 percent) connections pertained to wireless and mobile phones.

Telecommunications is one of the prime support services needed for rapid growth and modernization of various sectors of the economy. It has become especially important in recent years because of enormous growth of Information Technology (IT) and its significant impact on the rest of the economy. India is perceived to have a special comparative advantage in IT and in IT-enabled services. However, sustaining this advantage depends critically on high quality telecommunication infrastructure. It is equally important to speed up structural changes in this sector in line with trends in other countries to ensure that telecommunication services are not only made available on the scale needed to sustain rapid growth in the economy as a whole but also that their cost are in tune with the expectations of a modernizing economy.

Telecom sector is considered to be one of the most vibrant sector with the highest growth rate which has nearly more than 60 lakh customers added every month. Today the Indian telecommunications network with over 270 million connections is the third largest in the world and the second largest among the emerging economies of Asia. Over the last few years the sector has witnessed high growth rates. The current addition of about eight million lines per month plus the telecommunications sector is on a strong footing to achieve the target of 500 million connections by 2010.



| Year Ending             | Broadband Subscribers | Internet Subscribers |
|-------------------------|-----------------------|----------------------|
| 2005                    | 3 mn                  | 6 mn                 |
| 2007                    | 9 mn                  | 18 mn                |
| 2010E                   | 20 mn                 | 40 mn                |
| Source: Cris Infac, DoT |                       |                      |

This industry offers a plethora of services. It is also easily accessible and easily available for every individual today. One of the best advantages in this industry is its drastic reduction in tariff compared to the prior periods. And it has a number of public as well as private sector companies which give a world class service to their customers.

The major classes of services in this sector are:

- ➔ Fixed – Copper, Optical Fibre, Wireless
- ➔ Mobile – GSM and CDMA Based
- ➔ Narrow band – Voice, Internet, Fax
- ➔ Broadband – High speed Internet, Video

### Key Indian Companies



- **BSNL** - Incumbent service provider and World's 7<sup>th</sup> largest Telecommunications Company providing comprehensive range of telecom services in India
- Services include Wire line, CDMA mobile, GSM Mobile, Internet, Broadband, Carrier service, MPLS-VPN, VSAT, VoIP services, IN Services etc.



- **MTNL** - State owned operator covering the cities of Mumbai and Delhi
- Provides both fixed and mobile services.



- **Bharti Airtel** - Integrated operator with presence in all segments
- Leads the mobile segment in the country.



- **Reliance Communications** - Largest player in India in the CDMA segment
- Plans a GSM network.



- **Tata Teleservices** - Integrated operator (with VSNL) with presence in all segments
- Provides CDMA services in 20 circles.

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