

RESULTS REVIEW

Bharti Airtel Limited

Buy

Share Data

Market Cap	Rs. 1,346.99 bn
Price	Rs. 709.65
BSE Sensex	9,715.29
Reuters	BRTI.BO
Bloomberg	BHARTI IN
Avg. Volume (52 Week)	0.77 mn
52-Week High/Low	Rs. 1,027/484
Shares Outstanding	1,898.10 mn

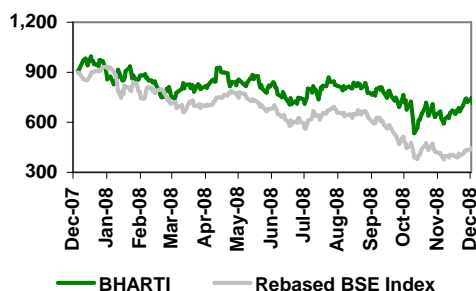
Valuation Ratios (Consolidated)

FY end 31 March	2009E	2010E
EPS (Rs.)	42.2	54.7
+/- (%)	19.6%	29.6%
PER (x)	15.4x	11.9x
EV/Subscriber (Rs.)	14,760	10,297
EV/ Sales (x)	3.7x	3.0x
EV/ EBITDA (x)	9.2x	7.6x

Shareholding Pattern (%)

Promoters	67
FII's	23
Institutions	6
Public & Others	4

Relative Performance



Mark of excellence

Bharti Airtel Limited (Bharti) remains a strong Buy, in our view, on account of its scaled-up operations, superior execution, strong financial metrics, and attractive valuation.

Market dominance: The pan-India existence together with the first-mover advantage and the brand equity is likely to ensure Bharti's leadership position in the near term. Besides, the major chunk of high-end customers in the Metro and Class A circles will help the Company maintain its ARPU above the all-India average.

Performance par excellence: The consistent quality of services over and above the wide network connectivity should help the Company grab a bigger bite from the all-India net additions and gain a market share of 25% by FY09 end. Thereafter, we expect Bharti to maintain it at 24.6% till FY10 end.

Attractive margins: Bharti's initiative to rein in distribution overheads and rationalise clearance processes should help it maintain the EBITDA margin at ~40% in FY09 and FY10, offsetting the inevitable rise in network costs and advertising spends. Besides, the non-wireless EBITDA margin of more than 40% will back up the wireless business to combat cost pressures.

Sound cash position to fund CAPEX plans: Bharti boasts of a strong cash position with a healthy free cash flow generation and a cash balance of Rs. 10 bn. Besides, it has a very comfortable debt-to-equity ratio of 0.09, excluding the compulsory convertible debentures.

Target price of Rs. 1,056: Currently, the stock is trading at a forward P/E of 15.4x FY09E and 11.9x FY10E. Our DCF-based valuation gives a fair value of Rs. 1,056, which provides an upside of around 48%.

Key Figures (Consolidated)

Quarterly Data	Q1'08	Q1'09	Q2'09	YoY%	QoQ%	H1'08	H1'09	YoY%
(Figures in Rs mn, except per share data)								
Net Sales	63,374	84,833	90,203	42.3%	6.3%	122,420	175,036	43.0%
EBITDA	26,962	35,106	36,993	37.2%	5.4%	51,319	72,099	40.5%
EBITDA Margin	42.5%	41.4%	41.0%			41.9%	41.2%	
Mobile subscribers	48.9	69.4	77.5	58.5%	11.7%	48.9	77.5	58.5%
Telemedia subscribers	2.1	2.4	2.5	20.9%	4.8%	2.1	2.5	20.9%
ARPU (Mobile)	366	350	331	(9.5%)	(5.4%)			
ARPU (Telemedia)	1,150	1,138	1,147	(0.3%)	0.8%			
MoU (Mobile)	469	534	526	12.2%	(1.5%)			
Per Share Data (Rs.)								
EPS	8.5	10.7	10.8	26.8%	1.1%	16.5	21.5	30.3%

Result Highlights

In the second quarter of FY09, Bharti displayed good performance across all four operational segments.

Segment Net Sales

Quarterly Data (Rs. in mn)	Q2'08	Q1'09	Q2'09	YoY%	QoQ%
Mobile Services	50,579	69,150	72,843	44.0%	5.3%
Enterprise Services	13,471	19,572	21,874	62.4%	11.8%
Telemedia Services	7,023	7,988	8,486	20.8%	6.2%
Others	546	826	911	66.8%	10.3%
Passive Infrastructure services#	0	10,563	11,983	na	13.4%
Sub Total	71,619	108,099	116,097	62.1%	7.4%
Eliminations*	(8,561)	(23,266)	(27,109)		
Total	63,058	84,529	88,988	41.1%	5.3%

* On account of inter-segment transactions

#Passive infrastructure introduced as a separate segment

Note: Net sales does not include revenue from equipment sale

Source: Company data, Indiabulls research

Mobile Services

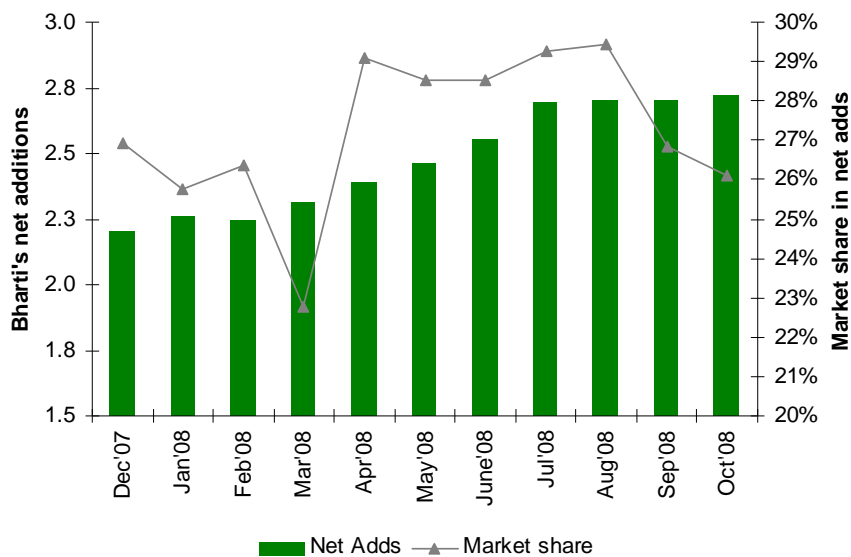
The Mobile segment's sales went up 5.3% qoq to Rs. 72.8 bn, led by an increase in the subscriber base (up 11.7% qoq to 77.5 mn) and an MoU of 526 minutes, higher than all-India average. EBITDA declined to Rs. 22 bn and the EBITDA margin slipped marginally to 30.2%, post the 482-bps drop last quarter. The higher network costs-to-sales of 16% continued to pressurise the margin as the Company penetrated deeper into the rural areas. Though fuel prices have softened, we remain conservative in our estimates.

Expanding subscriber base

The Company added 8.1 mn subscribers in Q2'09, taking the count to 77.5 mn. Beating our expectation, in H1'09, Bharti grabbed an average 28.3% share in the monthly all-India net subscriber additions. With a market share of 24.6% as on September 30 and its stake in net adds soaring to more than 26% (as shown in the following table), we have upgraded our previous estimate and expect Bharti to gain a market share of 25% by FY09 end. Thereafter, in FY10, we expect the market share to slide down to 24.6% after RCOM and Idea go full swing on their pan-India GSM roll-outs.

Population coverage increased to 77% by expanding its presence in two new census towns and 20,000 non-census towns and villages

In number terms, our subscriber estimate moves up from 93 mn to 95.4 mn for FY09 and from 135.5 mn to 137.4 mn for FY10.



ARPU and MOU

In Q2'09, although the realisation rate of Re 0.63 as well as the minutes of usage (MOU) of 526 min was lower than the previous quarter, the Company's operational metrics remained better than the all-India average. Considering that the second quarter is relatively sluggish on seasonality basis than the third and fourth quarters, we continue to believe that Bharti's MOU will grow to 540 min in FY09 and to 561 min in FY10. However, we believe the realisation rate will continue to drop to Re. 0.52 by FY10 end, because of increasing competition.

Telemedia Services

Around 116,000 subscribers were added this quarter, taking the total customer base to 2.51 mn. Besides the volume growth, the improved ARPU of Rs. 1,147, from Rs. 1,138 in Q1'08, resulted in a 6.2% qoq growth in revenue to Rs. 8.5 bn. EBITDA grew by 9.8% to Rs. 3.7 bn, and the EBITDA margin rallied back to 43.6% after remaining subdued in the last quarter. Given the growing number of net additions and constant growth in the ARPU as the coverage area expands, we have upgraded our estimate for subscribers by 1.5% for FY09 to 2.72 mn and by 2.6% for FY10 to 3.16 mn. The ARPU is expected to grow to Rs. 1,143 and Rs. 1,160 by FY09 and FY10, respectively.

DSL penetration reached 36.7%; fixed-line and broadband operations launched in Surat, Gujarat

*Enterprise business flourished
with the expanded 83,389 Rkm
optic fibre cable network*

Enterprise Services

The Enterprise segment revenues continued to grow at 11.8% qoq to Rs. 21.9 bn. In the international long distance business, the Company is giving a tough fight to Tata Communications by grabbing a bigger share of the total ILD business. As a result, Bharti's share went up by 600 bps to 22.5%, whereas Tata Communications lost ~450 bps.

Min mn	ILD			NLD		
	Q2'08	Q2'09	YoY%	Q2'08	Q2'09	YoY%
TATACOM	5.1	5.9	15.7%	1.7	2.6	52.9%
BHARTI	1.3	2.3	69.8%	6.8	11.3	67.5%
RCOM	1.7	1.9	15.3%	5.9	7.9	34.2%

In the national long distance business too, the minutes added to its network beats its competitors by far. EBITDA grew by 8.2% qoq to Rs. 9.4 bn, but the margin dropped by 139 bps to 42.8%. Despite discounting the numbers for inconsistency in revenue due to significant government contracts, this segment's revenue surged 62.4% on a yearly basis.

Key Events

- Bharti got additional spectrum in the Tamil Nadu, Bihar, and Karnataka service areas this quarter. Allocation is awaited for the Rajasthan, Maharashtra, Delhi, UP East, Bihar, and North East circles.
- Foraying into the media space, Bharti launched its DTH services in 62 cities across the country in September.
- The Company launched its fixed-line and broadband services in Surat, Gujarat.

Key Risks

The following factors can pose a threat to our rating:

- The sudden deployment of funds by global players in the Indian telecom market through heavy premium payment for equity stake purchase
- Increased competition due to the entry of new players, coupled with the introduction of mobile number portability from Q1'CY09
- Continual tariff cuts
- Huge out-payments to obtain the 3G spectrum

Outlook

In the current scenario, as the Indian telecom market attracts huge funds of several global telecom giants, Bharti's higher profitability and strong liquidity position serves as a twin-edged weapon to combat the growing competition. In the wireless segment, a further gain in market share appears well within Bharti's scope, given its aggressive pace of net adds, till the time Idea and RCOM go full throttle on their pan-India GSM roll-outs. In the non-wireless segment, the Company is looking for new growth opportunities—its entry in the media space by launching the DTH service is one such example. In the long distance business, the Company's network quality and captive in-house volume gives it a significant competitive advantage over other carriers.

We expect Bharti's sales to grow at a CAGR of 33.4% for FY08-FY10. Due to lack of visibility, we have not factored the upsides from the Sri Lanka roll-out, the DTH business, and the 3G services.

However, we have further sliced off our EBITDA margin estimate for FY10 by 50 bps to ~40% as an increase in network costs (due to rural penetration) and additional advertising spends (to combat increasing competition) seem inevitable.

At the CMP of Rs. 709.65, the stock is trading at a forward P/E of 15.4x FY09E and 11.9x FY10E. Our DCF-based valuation gives a target price of Rs.1,056, which provides a 48% upside from the current levels. Hence, we maintain our Buy rating.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs mn, except per share data)							(FY08 -10E)
Net Sales	80,028	116,215	185,195	270,250	387,945	480,728	33.4%
EBITDA	30,128	43,374	74,506	113,086	157,582	191,764	30.2%
EBITDA Margin	37.6%	37.3%	40.2%	41.8%	40.6%	39.9%	
Mobile subscribers	11.0	19.6	37.1	62.0	95.4	137.4	48.9%
Telemedia subscribers	0.9	1.3	1.9	2.3	2.7	3.2	17.7%
ARPU (Mobile)	505	442	406	357	333	303	(7.9)%
ARPU (Telemedia)	1,229	1,063	1,112	1,137	1,143	1,160	1.0%
MOU (Mobile)	370	431	475	507	540	561	5.2%
Per Share Data (Rs.)							
EPS	8.0	11.9	22.5	35.3	42.2	54.7	24.5%
PER (x)	26.0x	34.8x	34.0x	18.4x	15.4x	11.9x	

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