

Bharti Airtel Ltd.-----Maintain OUTPERFORM
Negative news to hurt stock performance in the near term but strong fundamentals remain
EPS: ▼ TP: ▼

Bhuvnesh Singh / Research Analyst / 65 6212 3006 / bhuvnesh.singh@credit-suisse.com

Sunil Tirumalai / Research Analyst / 91 22 6777 3714 / sunil.tirumalai@credit-suisse.com

- We believe that the launch of inexpensive GSM plans by RCOM could hurt Bharti in the near term. We expect Bharti's Marh 2009 quarter mobile revenue growth to be sub 3% QoQ compared with 9% QoQ in the December 2008 quarter.
- We also build in the impact of reduction termination rates in our model. The impact comes through higher competition. We reduce our ARPU estimates by 5-6% and EBITDA margins by ~150 bp.
- However, this impact could be much lower than what was feared by the market and hence built in the share price. It also eliminates another regulatory overhang for Bharti and is thus positive.
- Lower GDP growth in India should impact the enterprise business. We lower our revenue/margin forecasts for this segment.
- The net impact of these changes is reductions of 5%/9% for our FY10/11 EPS estimates. We reduce our target price to Rs850 (earlier Rs950, DCF-based).
- Though the short term is weak, we believe that medium-term story of Bharti remains strong. We thus maintain OUTPERFORM.

Bbg/RIC	BHARTI IN / BRTI.BO	Price (12 Mar 09, Rs)	587.75		
Rating (prev. rating)	O (O)	TP (Rs) (prev. TP)	850 (950)		
Shares outstanding (mn)	1,898.00	Est. pot. % chg. to TP	45		
Daily trad vol-6m avg (mn)	1.2	52-wk range (Rs)	927.85 - 534.45		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (Rs/US\$ bn)	1,115.5/ 21.9		
Free float (%)	39.0	Performance	1M 3M 12M		
Major shareholders	Promoters 60.97%	Absolute (12.8)	(20.8) (25.5)		
		Relative	2.8 (6.4) 47.2		
Year	3/07A	3/08A	3/09E	3/10E	3/11E
Revenues (Rs mn)	185,195	270,250	374,148	453,512	506,644
EBITDA (Rs mn)	74,508	113,225	153,974	181,403	204,870
Net profit (Rs mn)	42,570	67,007	84,305	107,994	116,983
EPS (Rs)	22.5	35.4	44.5	57.0	61.7
- Change from prev. EPS (%)	n.a.	n.a.	0	-5	-9
- Consensus EPS (Rs)	n.a.	n.a.	44.4	52.8	60.2
EPS growth (%)	85.3	57.2	25.8	28.1	8.3
P/E (x)	26.1	16.6	13.2	10.3	9.5
Dividend yield (%)	0.0	0.0	0.0	1.5	2.6
EV/EBITDA (x)	15.7	10.3	7.5	6.3	5.4
P/B (x)	8.2	5.0	3.6	2.8	2.3
ROE (%)	31.0	29.7	27.1	26.7	23.6
Net debt/equity (%)	40	24	12	2	net cash

Note 1: Bharti Airtel Limited, a part of Bharti Enterprises, provides telecommunications services throughout India. It provides GSM Mobile Services, broadband, fixed line telephone services, long distance services (international & national) & enterprise services.

Low-price plans by RCOM hurt usage

The launch of GSM by RCOM with low-priced plans in January 2009 could have hurt usage (MoU) for Bharti in the Marh 2009 quarter. We continue to believe that this impact is short term (about six months) and RCOM would increase the price of their plans going forward. We note that RCOM increased the price of their plans significantly (4x) just after a month of the launch and could increase it further.

However, near-term numbers for Bharti should be negatively impacted. We thus forecast Bharti's mobile revenue growth to drop to 2.8% QoQ for the March 2009 quarter compared with the previous three-quarter average of 7.3% QoQ.

Figure 1: Bharti's mobile business: key operating data

	30-Jun-08	30-Sep-08	31-Dec-08	31-Mar-09E
Revenues (Rs mn)	69,150	72,843	79,392	81,605
QoQ change	7.7%	5.3%	9.0%	2.8%
Subs ('000)	69,384	77,479	85,651	93,789
ARPU (Rs/ month)	350	331	324	303
MoU (min/ month)	534	524	505	488
RPM (Rs/ min)	0.65	0.63	0.64	0.62

Source: Company data, Credit Suisse estimates.

Interconnect charges – a sigh of relief

TRAI (Telecom Regulatory Authority of India) has reduced the local domestic termination charges to Rs0.20 from the earlier Rs0.30. We were earlier worried that this reduction could be much higher (termination charge of Rs0.10 or lower). Thus, this could be a positive for sentiment. Incoming international call rates have been increased to Rs0.4 from earlier Rs0.3. Short distance transit charges have been reduced to Rs0.15 from earlier Rs0.20.

However, we now build the impact of this change in termination charges in our model. We think that this should be reflected in an increase in competition (rather than net termination costs) and hence reduce our ARPU numbers and EBITDA margins.

Weaker GDP could impact enterprise business's growth

Our economists believe that Indian GDP growth could be 4.9% in FY3/10 compared with 9% in FY3/08 and 7.1% in FY3/09. We believe this should negatively impact Bharti's enterprise business for Indian corporates. We accordingly lower our growth forecasts of this business to 15% YoY from earlier 25% YoY.

Figure 2: Bharti's enterprise business

	FY3/08	FY3/09E	FY3/10E	FY3/11E
Revenues (Rs mn)	13,217	16,521	18,999	21,849
YoY growth	46.1%	25.0%	15.0%	15.0%
EBITDA margins	46.3%	42.5%	40.0%	40.0%

Source: Company data, Credit Suisse estimates.

Changes to the consolidated model

We reduce Bharti's consolidated revenues by 4.8%/5.7% for FY10/11 and our EPS estimates by 5%/ 9% for FY10/11. We also reduce our medium-term NOPAT margin forecasts by 100 bp for the company. We cut our DCF-based target price to Rs850 (earlier Rs950).

Investment conclusion

Despite the near-term pressure, we continue to believe in the long-term story of Bharti. We also believe that regulatory threats are receding and there are not many other open issues where regulatory pressure could negatively impact Bharti. The recent reduction in termination charges has been less than expected and has come as a relief. Further, the current credit crisis has 1) delayed the launch plans of new entrants, and 2) raised cash issues at RCOM.

As our recent rural survey indicates, Bharti is building a near unassailable lead in rural India which could be sticky. We will thus take any sell-off in the stock as an opportunity to buy. We maintain our OUTPERFORM rating with a target price of Rs850.

Companies Mentioned (Price as of 03 Nov 09)

Bharti Airtel Ltd (BRTI.BO, Rs587.75, OUTPERFORM, TP Rs850.00, MARKET WEIGHT)
 Reliance Communication Ltd (RLCM.BO, Rs132.25, UNDERPERFORM [V], TP Rs200.00, MARKET WEIGHT)
 Idea Cellular Ltd (IDEA.BO, Rs44.80, OUTPERFORM [V], TP Rs60.00, MARKET WEIGHT)
 Vodafone Group (VOD.L, 115.75 p, NEUTRAL, TP 150.00 p, MARKET WEIGHT)

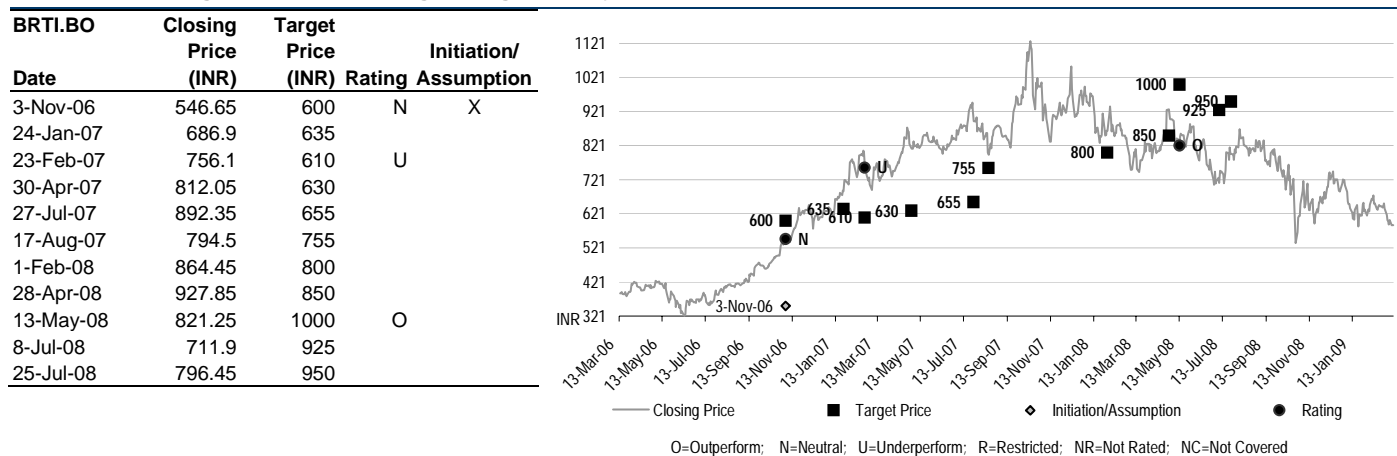
Disclosure Appendix

Important Global Disclosures

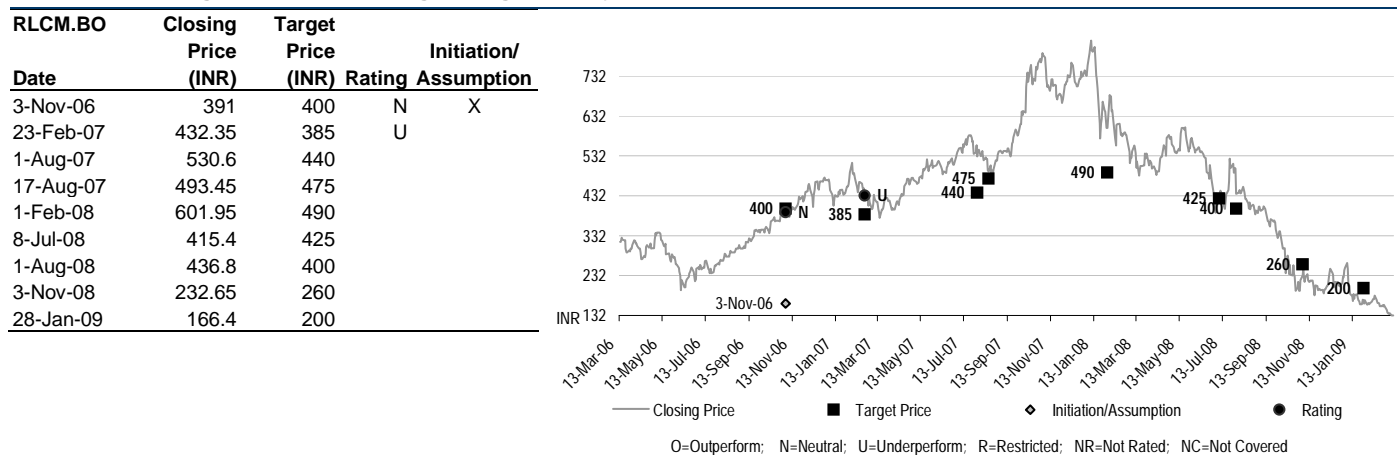
I, Bhuvnesh Singh, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



3-Year Price, Target Price and Rating Change History Chart for RLCM.BO



The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows*:**

Outperform (O): The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the industry average* (range of ±10%) over the next 12 months.

Underperform (U):** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

*The industry average refers to the average total return of the relevant country or regional index (except with respect to Europe, where stock ratings are relative to the analyst's industry coverage universe).

**In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.

***For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.

Restricted (R): In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution		
Outperform/Buy*	38%	(57% banking clients)
Neutral/Hold*	44%	(55% banking clients)
Underperform/Sell*	17%	(47% banking clients)
Restricted	2%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs850 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 12 and beta of 0.9. Our DCF model builds in strong cashflow growth till FY3/15, a 4% medium term growth (FY3/15 - FY3/30) and 3% terminal growth. Our target price also includes the value add due to sharing of infrastructure.

Risks: Risks to our 12-month target price of Rs850 for Bharti include faster than expected roll out of operations by new competitors entering the Indian telecom market and players looking for new network roll out like RCOM, Aircel etc., as also faster than expected drop in pricing

Price Target: (12 months) for (RLCM.BO)

Method: Our 12-month target price of Rs200 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 13.1 and beta of 1.05. Our DCF model builds in strong cashflow growth till FY3/16, a 2.5% medium term growth (FY3/16 - FY3/31) and 3% terminal growth. Our target price also includes the value add due to sharing of infrastructure.

Risks: Key risk to our target price of Rs200 for Reliance includes 1) execution risk of the shift to GSM network from CDMA network, 2) stronger than expected margin performance and 3) continuous uptrend in overall market

See the Companies Mentioned section for full company names.

The subject company (RLCM.BO) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (RLCM.BO) within the past 12 months.

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (BRTI.BO, RLCM.BO) within the next 3 months.

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (BRTI.BO, RLCM.BO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

The following disclosed European company/ies have estimates that comply with IFRS: VOD.L.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at anytime after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors:

The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

- Bhuvnesh Singh, non-U.S. analyst, is a research analyst employed by Credit Suisse Singapore Branch.
- Sunil Tirumalai, non-U.S. analyst, is a research analyst employed by Credit Suisse Securities (India) Private Limited.

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice.

The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Firm, Director-General of Kanto Local Finance Bureau (Kinsho) No. 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch, Credit Suisse Securities (India) Private Limited, Credit Suisse Securities (Europe) Limited, Seoul Branch, Credit Suisse Taipei Branch, PT Credit Suisse Securities Indonesia, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

If this report is being distributed by a financial institution other than Credit Suisse, or its affiliates, that financial institution is solely responsible for distribution. Clients of that institution should contact that institution to effect a transaction in the securities mentioned in this report or require further information. This report does not constitute investment advice by Credit Suisse to the clients of the distributing financial institution, and neither Credit Suisse, its affiliates, and their respective officers, directors and employees accept any liability whatsoever for any direct or consequential loss arising from their use of this report or its content.

Copyright 2009 CREDIT SUISSE and/or its affiliates. All rights reserved.