

Bharti Airtel Ltd----- Maintain UNDERPERFORM
4Q FY3/07 results preview: expect continuous operational improvement and strong other income EPS: ◀▶ TP: ▶▶

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- Bharti Airtel is expected to declare its Mar-07 quarter results on 26 April.
- On a consolidated basis, we expect revenues of Rs56.8bn(67% YoY), EBITDA margins of 40.8% (up 340 bps YoY) and net profit of Rs14.4bn (111% YoY). Appreciation of rupee during the quarter should lead to significant other income, thereby helping net profits.
- Mobile business should continue to grow strongly with 81% YoY revenue growth. Margins of this business could dip 30 bps QoQ on the back of reductions in roaming charges.
- The fixed-line business should also exhibit good growth driven by subscriber increases (38% YoY) and rises in ARPU (15% YoY).
- Deflation in long distance rates should continue (~5% QoQ). However, increasing traffic should help revenues and margins.
- We believe that current consensus forecasts of ARPUs could be optimistic for corresponding subscriber forecasts. This could limit any upside in FY3/08 estimates. Maintain UNDERPERFORM .

Bbg/RIC	BHARTI IN / BRTI.BO	Price (23 Apr 07, Rs)	845.55		
Rating (prev. rating)	U (U)	TP (Rs) (prev. TP)	610 (610)		
Shares outstanding (mn)	1,895.87	Est. pot. % chg. to TP	(28)		
Daily trad vol-6m avg (mn)	1.2	52-wk range (Rs)	845.55 - 321.85		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (Rs/US\$ bn)	1,603.1/ 37.2		
Free float (%)	39.0	Performance	1M	3M	12M
Major shareholders	Promoters 60.97%	Absolute	15.3	24.0	106.0
		Relative	7.5	29.1	82.1
Year	3/05A	3/06A	3/07E	3/08E	3/09E
Revenues (Rs mn)	80,028	116,632	187,191	282,414	353,259
EBITDA (Rs mn)	29,596	43,572	74,784	111,861	143,310
Net profit (Rs mn)	14,978	22,584	41,643	60,086	76,145
EPS (Rs)	8.1	12.1	22.2	32.1	40.6
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rs)	n.a.	n.a.	21.7	32.0	41.3
EPS growth (%)	194.2	48.4	84.4	44.3	26.7
P/E (x)	104.1	70.2	38.1	26.4	20.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	55.9	38.0	22.3	15.0	11.7
P/B (x)	26.1	17.4	12.0	8.3	5.9
ROE (%)	24.2	24.3	30.9	30.7	27.9
Net debt/equity (%)			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.

Figure 1: Bharti: Consolidated results summary

Rs mn	Actual 4Q2006	Actual 3Q2007	CS Estimate 4Q2007	QoQ	YoY
Revenues	34,114	49,129	56,830	15.7%	66.6%
EBITDA	12,773	20,054	23,174	15.6%	81.4%
EBITDA margin	37.4%	40.8%	40.8%		
PBT	7,414	14,412	16,648	15.5%	124.5%
PAT	6,865	12,273	14,517	18.3%	111.5%
Minority	41	122	141		
Net profits	6,824	12,151	14,376	18.3%	110.7%

Source: Company data, Credit Suisse estimates.

Figure 2: Bharti: 4QFY3/07 divisional estimates

	Actual 4Q2006	Actual 3Q2007	CS Estimates 4Q2007	QoQ	YoY
Mobile Services - Consolidated					
Total revenues	24,134	37,579	43,604	16.0%	80.7%
EBITDA	8,746	14,129	16,264	15.1%	86.0%
EBITDA margin	36.2%	37.6%	37.3%		
Broadband & Telephone Services					
Total revenues	4,102	5,984	6,591	10.1%	60.7%
EBITDA	933	1,613	1,826	13.2%	95.7%
EBITDA margin	22.7%	27.0%	27.7%		
Enterprise Services—Carriers (Long Distance)					
Total revenues	7,463	9,306	10,303	10.7%	38.0%
EBITDA	2,771	4,002	4,430	10.7%	59.9%
EBITDA margin	37.1%	43.0%	43.0%		
Enterprise Services—Corporates					
Total revenues	2,005	2,422	2,647	9.3%	32.0%
EBITDA	714	1,092	1,193	9.3%	67.1%
EBITDA margin	35.6%	45.1%	45.1%		

Source: Company data, Credit Suisse estimates.

Figure 3: Bharti: Operating data estimates

	Actual 4Q2006	Actual 3Q2007	CS Estimates 4Q2007	QoQ	YoY
Mobile subscribers	19,579	31,974	37,141	16.2%	89.7%
Mobile ARPU (Rs)	442	427	421	-1.5%	-4.8%
Mobile MoU	431	466	480	3.0%	11.6%
Fixed line sub	1.35	1.74	1.86	6.9%	37.9%
Fixed line ARPU (Rs)	1,063	1,198	1,222	2.0%	15.0%

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 23 Apr 07)

Bharti Airtel Ltd (BRTI.BO, Rs845.55, UNDERPERFORM, TP Rs610.00, MARKET WEIGHT)

Reliance Communication Ltd (RLCM.BO, Rs456.40, UNDERPERFORM, TP Rs385.00, MARKET WEIGHT)

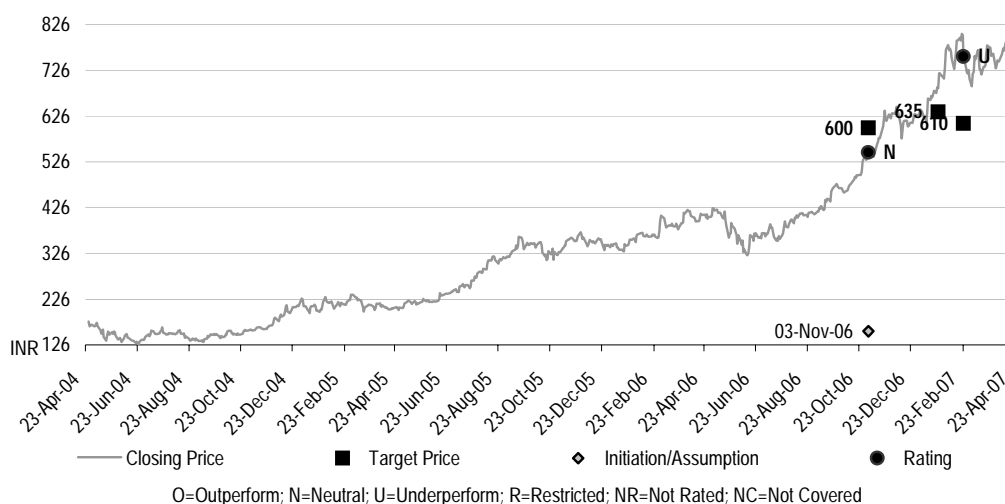
Disclosure Appendix

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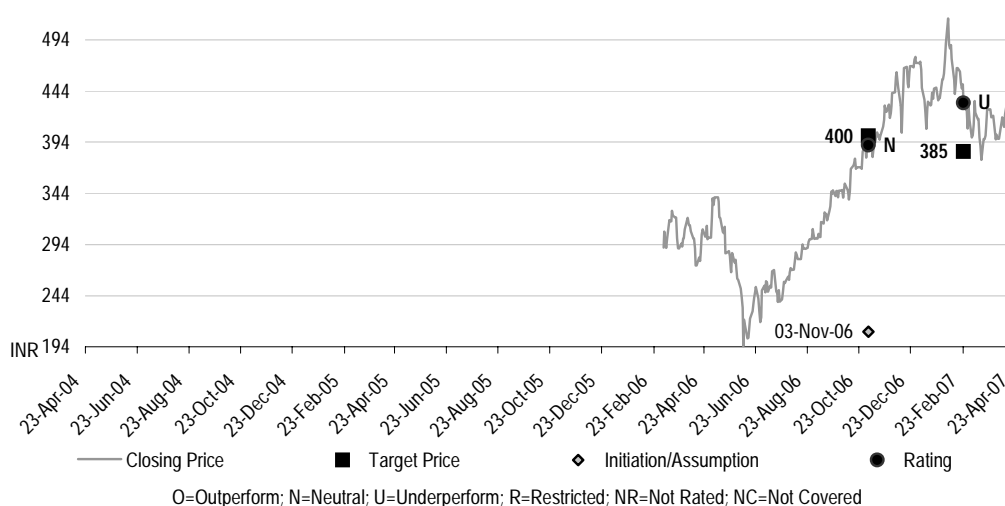
See the *Companies Mentioned* section for full company names.

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



BRTI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
3-Nov-06	546.65	600	NEUTRAL	X
24-Jan-07	686.9	635		
23-Feb-07	756.1	610	UNDERPERFORM	

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



RLCM.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
3-Nov-06	391	400	NEUTRAL	X
23-Feb-07	432.35	385	UNDERPERFORM	

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

Method: Our 12-month target price of Rs610 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6.

Risks: Risks to our 12-month target price of Rs610 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

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

Method: Our 12-month target price of Rs385 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6 and beta of 1.2. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 3% terminal growth

Risks: Key risk to our target price of Rs385 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

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