

Elephant starts dancing, Upgrade to ACCUMULATE

July 25, 2011

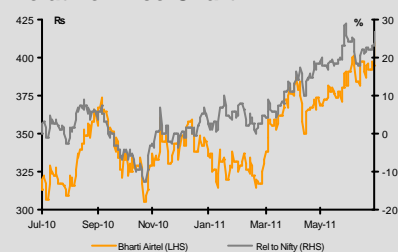
Reco	Previous Reco
Accumulate	Hold
CMP	Target Price
Rs411	Rs464
EPS change FY12E/13E (%)	4.0 / 7.9
Target Price change (%)	14
Nifty	5,634
Sensex	18,722

Price Performance

(%)	1M	3M	6M	12M
Absolute	8	9	22	36
Rel. to Nifty	1	14	23	31

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18988
Face Value(Rs)	5
No of shares o/s (mn)	3798
52 Week H/L	413/293
Market Cap (Rs bn/USD mn)	1,561/35,193
Daily Avg Volume (No of sh)	1186549
Daily Avg Turnover (US\$mn)	9.9

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	68.3	68.3	68.2
FII/NRI	17.8	17.5	17.6
Institutions	8.5	8.7	8.7
Private Corp	3.7	3.7	3.6
Public	1.7	1.8	1.9

Source: Capitaline

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- Bharti increased call rates by 20% in six circles, which contribute ~45% of AGR. This move came after Tata DoComO increased call rates for new subscribers during last month
- Positive for the sector as other operators are expected to follow the suit. Cut in dealer's commission and call rate hike to drive incremental EBITDA
- Bharti could witness higher churn if other operators come with a lag. Improvement in ARPU and ARPM to happen gradually (primarily from H2FY12E)
- Revise EPS est. by 4.0% & 7.9% for FY12E/13E. Valuations at 8.3x and 6.6x EV/EBIDTA for FY12E and FY13E. Upgrade to ACCUMULATE with revised TP of Rs464

Bharti initiates tariff hike– Signs of pricing power coming back

Bharti on Friday announced a tariff hike of 20% in six of its circles (A.P, Delhi, Rajasthan, Bihar, U.P (E) and M.P), these six circles account for ~45% of the total AGR. The rate hike pertains to its Freedom and Advantage plan, call tariff now stands at Rs0.6pm from Rs0.5pm. Bharti's move for the sector signifies that pricing power is coming back in the hands of incumbents. Tata DoComO, in last month had increased call rates but only for new subscribers and only in TN region. We believe other operators would follow Bharti's move, as operating costs due to 3G expansion are increasing for all incumbents.

Margin improvement led by Price hike and cut in dealer commission

With the price hike last week and cut in dealer commission (by almost all the operators) few days back is incrementally positive for the sector. We believe, as the penetration has reached decent level and net have also started declining MoM, the operators are left with no other option but to go for a price hike. Increase in tariffs and other cost rationalization measures taken by operators would support strong margin going forward.

Churn rate could increase and hurt Bharti

As Bharti has proactively taken a price hike in the circles where it enjoys leadership position and other operators are expected to follow, but, if the other operators increase tariffs with a lag which could lead to higher churn for Bharti in short term. Nevertheless, we believe the price hike to sustain and competitors would quickly follow. Operators across the sector have been plagued with huge debt on balance sheet so price hike (no other option for improving RoI) augurs well for better profitability which all the operators are looking for.

Outlook and Valuation

We welcome Bharti's proactive move to initiate tariff hike. Given the stretched balance sheet owing to 3G spectrum fees has led to limited scope for telcos to go aggressive with 3G expansion. We believe the impact of price hike would be visible in the coming quarters leading to better profitability, leaving scope for telcos to expand their 3G network aggressively. Some risks which still prevail include 1.) regulatory uncertainty in domestic market 2) slower than expected growth from African operations. Post this event we upgrade the stock to ACCUMULATE from HOLD with revised target price Rs464 (earlier Rs406). At CMP of Rs411, stock trades at 8.3x and 6.7x EV/EBIDTA for FY12E and FY13E respectively.

Financial Snapshot

									Rs Mn	
Y/E	Net	EBITDA		PAT	EPS	EPS	ROE	P/E	EV/	P/BV
Mar	Sales	(Core)	(%)	(Rs)	(Rs)	%chg	(x)		EBITDA	
FY10	396150	160266	40.5	91025	24.0	7.5	24.5	17.1	10.1	3.4
FY11E	594672	199610	33.6	60473	15.9	-33.6	12.8	25.8	10.9	2.9
FY12E	721858	254241	35.2	75512	19.9	24.9	13.9	20.7	8.3	2.6
FY13E	839066	303672	36.2	104452	27.5	38.3	16.8	14.9	6.6	2.2

Changes in key metrics

We have revised our ARPM estimate by 3.9% and 9.9% for FY12E and FY13E, respectively. As Q2 being the seasonally weak quarter, we estimate that full impact of the price hike to be visible from H2FY12E. We also estimate decline in MoU as price hike would impact the usage per subscriber. Nevertheless, we view this move as a big positive for the company. The exact impact of the price increase would depend on the product mix that company would offer from now onwards.

	FY12E		FY13E	
	Old	New	Old	New
APRU	190	194	190	200
ARPM	0.42	0.44	0.42	0.47
MoU	448	439	449	424

EPS estimates increased by 4.0%/7.9% for FY12E /13E

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	71,368.7	72185.8	1.1	81,910.7	83906.6	2.4
EBIDTA	24,908.5	25424.1	2.1	29,377.0	30367.2	3.4
EBIDTA %	34.9	35.2	32 bps	35.9	36.2	33 bps
PAT	7264.2	7551.2	4.0	9681.5	10445.2	7.9
EPS	19.1	19.9	4.0	25.5	27.5	7.9

Circle-wise details

	Q4FY11				Bharti's ARPU Premium over peers
	Subs	Gross Rev	AGR	ARPU	
A.P					
Bharti Airtel	17,243,746	10,105	8,181	200.65	
IDEA	8,428,994	4,229	3,323	171.07	17%
Vodafone Essar	7,347,024	2,810	2,028	128.91	56%
Delhi					
Bharti Airtel	8301831	8485	4,939.10	340.69	
Vodafone Essar	7788376	6847.1	3791	293.05	16%
IDEA	3991264	2673.3	1,410.20	223.26	53%
Rajasthan					
Bharti Airtel	12561588	6828.8	5,420.90	181.21	
Vodafone Essar	8711277	3360.6	2,485.40	128.59	41%
IDEA	3092185	1409.5	876	151.94	19%
U.P (East)					
Bharti Airtel	13044951	5403.4	4410	138.07	
Vodafone Essar	14237217	5513.4	4,552.10	129.08	7%
IDEA	6369289	2164.2	1,588.30	113.26	22%
Bihar					
Bharti Airtel	16076532	6923.7	5817	1,435.57	
IDEA	4896810	1410.4	1018	96.01	1395%
Vodafone Essar	5244148	1542.3	1,089	980.33	46%
M.P.					
Bharti Airtel	9547099	4022.2	3,061.30	140.43	
IDEA	11839576	4316.5	3,591.50	121.53	16%
Vodafone Essar	3135580	641.3	371.10	68.17	106%

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Net Sales	396,150	594,672	721,858	839,066
<i>Growth (%)</i>	7.2	50.1	21.4	16.2
Employee cost	16,925	32,803	42,032	47,593
Marketing expenses	56,881	107,861	120,876	140,668
Access charge	44,807	74,764	95,504	112,329
Network opt. charge	76,396	127,904	147,845	163,440
License fee	40,875	51,730	61,360	71,364
Total opt. expenditure	235,884	395,062	467,617	535,394
EBITDA	160,266	199,610	254,241	303,672
<i>Growth (%)</i>	5.7	24.5	27.4	19.4
Depreciation	60,457	102,061	132,227	146,200
Other non-op exp.	178	238	0	0
<i>EBIT</i>	<i>99,630</i>	<i>97,311</i>	<i>122,014</i>	<i>157,471</i>
EBIT margin (%)	25.1	16.4	16.9	18.8
Other Income	19,491	1,363	1,600	1,680
Interest expenses	12,434	21,813	29,623	24,565
PBT	106,687	76,861	93,991	134,586
Tax	13,959	17,790	20,678	29,609
<i>Effective tax rate (%)</i>	<i>13.1</i>	<i>23.1</i>	<i>22.0</i>	<i>22.0</i>
PAT before MI	92,729	59,071	73,313	104,977
Minority interest	1,994	-1,475	-2,199	525
Adjusted PAT after MI	90,735	60,546	75,512	104,452
Profit from associates	-290.2	73.5	0.0	0.0
PAT	91024.7	60473.0	75512.2	104452.4

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
PBT	87,487	75,425	92,391	132,906
Depreciation	60,457	102,061	132,227	146,200
Interest	12,434	21,813	29,623	24,565
Other Non-Cash items	25,058	3,885	4,103	-19,709
Chg in working cap	11,922	135,292	26,858	4,690
Tax paid	-13,959	-17,790	-20,678	-29,609
Operating Cashflow	183,398	320,685	264,524	259,044
Capital expenditure	-97,724	-931,094	-135,000	-100,000
Free Cash Flow	85,674	-610,409	129,524	159,044
Other income	19,491	1,363	1,600	1,680
Investments	-34,676	80,817	0	0
Investing Cashflow	-112,910	-848,913	-133,400	-98,320
Equity Capital Raised	5	1,549	0	0
Loans Taken / (Repaid)	-54,183	551,822	-63,000	-87,000
Interest Paid	-12,434	-21,813	-29,623	-24,565
Dividend paid (incl tax)	-4,442	-4,442	-4,442	-4,442
Financing Cashflow	-71,053	527,116	-97,065	-116,007
Net chg in cash	-565	-1,112	34,059	44,717
Opening cash position	6,799	6,234	5,122	39,181
Closing cash position	6,234	5,122	39,181	83,898

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity share capital	18,988	18,988	18,988	18,988
Reserves & surplus	386,848	464,229	527,700	627,710
Net worth	405,836	483,217	546,687	646,698
Minority Interest	28,489	28,563	26,364	26,889
Loan funds	64,618	616,708	553,708	466,708
Net deferred tax liab.	-9,442	-32,574	-32,574	-32,574
Other non current liab.	8,448	34,163	34,163	34,163
Total Liabilities	497,949	1,130,077	1,128,348	1,141,883
Gross Block	621,717	1,571,687	1,636,687	1,736,687
Less: Depreciation	213,101	282,942	415,169	561,369
Net block	459,712	1,288,745	1,291,518	1,245,318
Investment	100,074	19,183	19,183	19,183
Current Assets	58,328	77,120	132,973	197,252
Inventories	484	2,139	1,045	2,656
Sundry debtors	13,757	54,929	58,591	60,948
Cash & bank balance	6,234	5,122	39,181	83,898
Loans & advances	10,578	9,650	13,449	20,113
Other current assets	27,275	5,280	20,707	29,637
Current lia & Prov	130,279	285,475	334,127	358,379
Current liabilities	129,325	284,295	332,746	356,898
Provisions	954	1,180	1,381	1,481
Net current assets	-71,951	-208,355	-201,154	-161,127
Other non current assets	10,114	30,504	18,801	38,510
Total Assets	497,949	1,130,077	1,128,348	1,141,883

Key Ratios

Y/E, Mar	FY10	FY11E	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	40.4	33.5	35.2	36.2
Net Margin	21.9	12.6	13.2	14.6
ROCE	26.0	12.1	10.8	13.9
ROE	24.5	12.8	13.9	16.8
RoIC	28.1	13.1	11.5	15.8
Per Share Data (Rs)				
EPS (adjusted)	24.0	15.9	19.9	27.5
CEPS	39.9	42.8	54.7	66.0
BVPS	114.4	134.9	151.0	177.5
DPS	1.0	1.0	1.0	1.0
Valuations (x)				
PER	17.1	25.8	20.7	14.9
P/CEPS	10.3	9.6	7.5	6.2
P/BV	3.4	2.9	2.6	2.2
EV / Sales	4.1	3.7	2.9	2.4
EV / EBITDA	10.1	10.9	8.3	6.6
Gearing Ratio (x)				
Net Debt/ Equity	0.1	1.3	0.9	0.6
Net Debt/EBIDTA	0.4	3.1	2.2	1.5

Recommendation History: Bharti Airtel – BHARTI IN

Date	Reports	Reco	CMP	Target
05/05/2011	Bharti Airtel Q4FY11 Result Update	Hold	358	406
02/02/2011	Bharti Airtel Q3FY11 Result Update	Hold	323	345
11/11/2010	Bharti Airtel Q2FY11 Result Update	Hold	328	345
27/08/2010	Bharti Airtel Company Update	Hold	316	345

Recent Research Reports

Date	Reports	Reco	CMP	Target
22/07/2011	DB Corp Q1FY12 Result Update.pdf	Accumulate	238	271
20/07/2011	Dish TV Q1FY12 Result Update	Accumulate	89	99
18/07/2011	HT Media Q1FY12 Result Update	Buy	159	183
21/06/2011	Dish TV Initiating Coverage Report	Accumulate	79	93

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