



**ENAM Securities**  
India Research

**Rs 292**

Target Price: Rs 318#  
Potential Upside: 9%  
Sector avg. upside: 5% to 10%  
(mkt cap wtd)

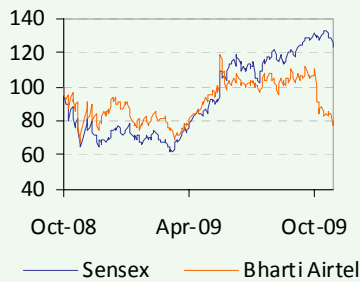
# Bharti Airtel Ltd

#Target price includes Tower Valuation of Rs 57

Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 3,797 mn
Market cap	: Rs.1,109 bn
52 week high/low	: Rs 495/ Rs 272
Avg. daily vol. (6mth)	: 12.3 mn shares
Bloomberg code	: BHARTI IB
Reuters code	: BRTI.BO

Shareholding (%)	Sep-09	QoQ chg
Promoters	: 67.7	0.3
FIs	: 18.4	(1.2)
MFs / UTI	: 3.5	0.0
Banks / FIs	: 4.7	0.2
Others	: 5.8	0.7

\*\* Average Revenue per User

\* MoUs – Minutes of Usage

^ Mobile Termination Charge

## Financial Summary

Y/E Mar	Sales (Rs mn)	EBITDA (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2008	270,250	113,715	67,008	-	17.7	(21)	-	36.9	31.9	-
2009	369,615	151,677	84,698	-	22.3	27	13.1	31.4	31.4	7.4
2010E	393,506	164,465	91,926	25.3	24.2	9	12.1	25.6	25.5	6.7
2011E	396,455	160,183	87,406	26.5	23.0	(5)	12.7	19.6	21.1	6.7

Source: \*Consensus broker estimates, Company, ENAM Research

## SECTOR DYNAMICS MAR NEAR-TERM OUTLOOK

The competitive intensity in the second half of Q2FY10 led to a 6% QoQ decline in wireless MoU\* despite a 4% QoQ decline in ARPM, leading to another 9% QoQ drop in ARPU\*\* (down 9% in Q1FY10 as well). However, cost rationalization and improved performance of the tower & enterprise business helped maintain EBITDA margins. Bharti reported consolidated revenue of Rs 98.5 bn (down 1% QoQ; up 9% YoY), EBITDA of Rs 41.4 bn (flat QoQ; up 12% YoY), and PAT of Rs 23.7 bn (down 6% QoQ; up 16% YoY).

### Key highlights:

- **Revenue:** Wireless revs fell 1.6% QoQ as subs growth (8% QoQ) was offset by decline in ARPU (9% QoQ) & MoU (6% QoQ).
- **EBITDA:** Improved tenancy for tower business, cost rationalization and decline in Access & Interconnect charges (due to MTC^ cut) led to better EBITDA.
- **PAT:** 6% QoQ decline driven by forex loss of Rs 678 mn vs a forex gain of Rs 2.5 bn in Q1FY10.
- **Capex:** FY10E capex guidance ex-towerco maintained at USD 2.0-2.2 bn; but Indus towers may see lower capex at USD 700 mn (vs USD 1 bn guided earlier).

**Outlook & valuations:** Improved tenancy and margins in the tower business will help mitigate the impact of weak wireless earnings. However, we expect Bharti's operating performance to further deteriorate, especially as the full impact of competitive tariffs will be felt Q3FY10 onwards. Despite its intention to stay clear of the aggressive price wars, we expect ARPM decline to continue in H2FY10. With ~57% of subscriber additions coming from rural areas and high competition in urban areas, we expect growth in total MoUs to decelerate. While Bharti would emerge stronger in the expected industry consolidation and is best placed in the upcoming 3G auctions, medium-term competitive challenges mar industry growth. Hence, we maintain sector **Neutral** rating while reducing our target price to Rs 318 (v/s Rs 397).

## Result Update

(Rs mn)	Quarter ended					12 months ended		
	Sep-09	Sep-08	% Chg	Jun-09	% Chg	Mar-10E	Mar-09	% Chg
Net Sales	98,455	90,203	9.1	99,416	(1.0)	393,506	369,615	6.5
EBIDTA	41,416	36,993	12.0	41,518	(0.2)	164,465	151,677	8.4
Other income	409	274	49.3	186	-	784	1,302	(39.8)
<b>PBIDT</b>	<b>41,825</b>	<b>37,267</b>	<b>12.2</b>	<b>41,704</b>	<b>0.3</b>	<b>165,249</b>	<b>152,979</b>	<b>8.0</b>
Depreciation	14,796	11,549	28.1	14,330	3.3	60,654	47,581	27.5
Interest	428	5,994	(92.9)	(2,714)	-	(1,245)	11,613	-
Other expenditure	12	253	(95.3)	(109)	-	-	-	-
<b>PBT</b>	<b>26,589</b>	<b>19,724</b>	<b>34.8</b>	<b>30,088</b>	<b>(11.6)</b>	<b>105,841</b>	<b>93,785</b>	<b>12.9</b>
Tax	2,873	(1,247)	-	4442	(35.3)	12,672	6,615	91.6
Minority Interest	-	508	-	479	-	1,672	1,046	59.8
<b>PAT</b>	<b>23,716</b>	<b>20,463</b>	<b>15.9</b>	<b>25,167</b>	<b>(5.8)</b>	<b>91,926</b>	<b>84,698</b>	<b>8.5</b>
No. of shares (mn)	3,794	3,794	-	3,795	-	3,794	3,793	-
EBIDTA margins (%)	42.1	41.0	106 bps	41.8	30 bps	41.8	41.0	76 bps
PBIDT margins (%)	42.5	41.3	117 bps	41.9	53 bps	42.0	41.4	61 bps
<b>EPS - quarter (Rs.)</b>	<b>6.3</b>	<b>5.4</b>	<b>15.9</b>	<b>6.6</b>	<b>(5.7)</b>	<b>24.2</b>	<b>22.3</b>	<b>8.5</b>

Source: Company, ENAM Research

## Segmental information

(Rs mn)	Q2FY10	% chg QoQ	% chg YoY	Comments/ Highlights
<b>Mobile Services</b>				
Revenues	80,994	(1.6)	11.2	Increase in subscriber growth (8.0% QoQ) was offset by decline in ARPM (3.7% QoQ) and MoU (5.9% QoQ). Consequently, ARPU declined by 9.4%
EBITDA	25,860	(4.9)	17.5	
EBIT	18,148	(5.8)	15.4	
EBITDA Margins (%)	31.9%	-	-	
Capex	11,464	-	-	
MoUs (mn mins)	143,680	2.1	24.0	
<b>Broadband &amp; Telephone Services</b>				
Revenues	8,544	(0.1)	0.7	
EBITDA	3,667	5.9	(0.8)	
EBIT	1,886	5.5	(16.9)	
EBITDA Margins (%)	42.9%	-	-	Cost rationalization due to outsourcing of infra management
Capex	1,790	-	-	Scaling back capex in the short term as migration from fixed to wireless continues
MoUs (mn mins)	4,796	1.0	(4.1)	

Continued overleaf...

(Rs mn)	Q2FY10	% chg QoQ	% chg YoY	Comments/ Highlights
<b>Enterprise Services</b>				
Revenues	21,331	0.0	(2.5)	
EBITDA	11,023	5.3	17.7	
EBIT	9,351	7.0	17.3	
EBITDA Margins (%)	51.7%	-	-	Margins expanded but, in our view, unsustainable at these levels
Capex	3,013	-	-	
MoUs (mn mins) - NLD	12,417	5.4	9.4	
MoUs (mn mins) - ILD	3,181	10.9	39.3	
<b>Passive Infrastructure Services</b>				
Revenues*	8,586	7.1	(28.3)	No: of cell sites for Bharti Infratel have increased from 28,078 to 29,112 and for Indus, it increased from 97,925 to 100,728
EBITDA*	4,020	13.0	0.7	Tenancy increase for Bharti infratel from 1.43x to 1.49x and Indus from 1.55x to 1.61x led to robust EBITDA growth
EBIT*	537	65.2	496.0	
EBITDA Margins (%)	46.8%	-	-	
Capex	3,564	-	-	
<b>Consolidated</b>				
Capex	22,788	(15.9)	(28.5)	Bharti Infratel capex as planned, but in Indus, partners looking to go slow. Consolidated capex scaled down to Rs 23 bn from Rs 27 bn in Q1FY10
MoUs	164,074	2.5	22.0	

Source: Company, ENAM Research \* Note: YoY change is not comparable due to transfer of towers to Indus

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