

Bharti Airtel

 BSE SENSEX
 20,561

 S&P CNX
 6,158

Rs359

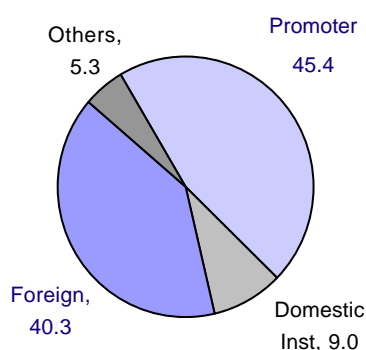
Buy



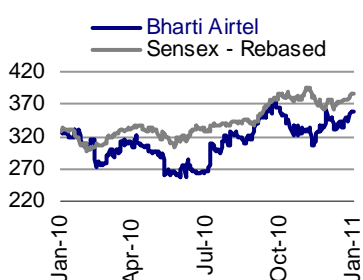
Bloomberg	BHARTIIN
Equity Shares (m)	3,793.9
52-Week Range (Rs)	377/254
1,6,12 Rel. Perf. (%)	1/18/-8
M.Cap. (Rs b)	1,363.3
M.Cap. (US\$ b)	30.5

Y/E March	2010	2011E	2012E
Sales (Rs b)	418.5	599.4	720.3
EBITDA (Rs b)	167.6	206.0	264.0
NP (Rs b)	89.8	66.7	84.5
EPS (Rs)	23.7	17.6	22.3
EPS Gr. (%)	5.9	-25.7	26.8
BV/Share	117.9	139.0	159.3
P/E (x)	15.2	20.5	16.1
P/BV (x)	3.0	2.6	2.3
EV/EBITDA (x)	8.3	9.4	7.1
EV/Sales (x)	3.3	3.2	2.6
RoE (%)	23.6	13.7	14.9
RoCE (%)	18.9	9.5	8.9

Shareholding pattern % (Sep-10)



Stock performance (1 year)



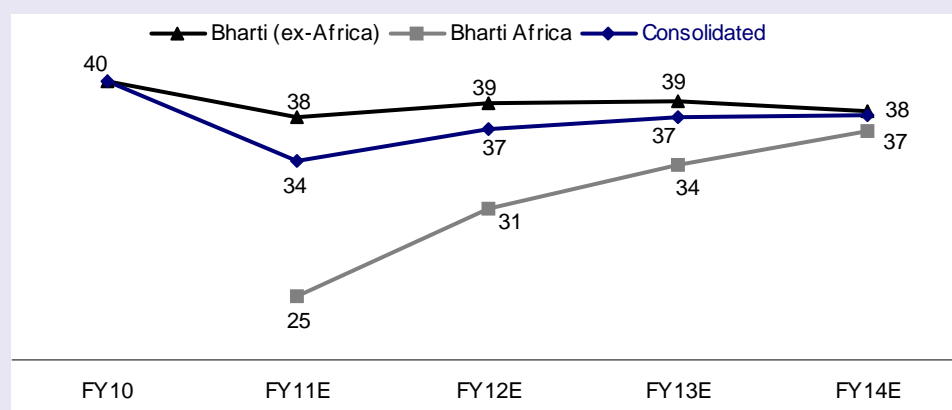
Operating environment in India continues to improve; Africa business to be self-sustaining; maintain Buy

Interaction with senior management at Bharti reinforces our view that operating environment in the India business continues to improve while Africa business is expected to be self-sustaining on cash flow basis. We continue to view Bharti as net beneficiary of on-going regulatory upheaval and remain positive given improving operating and regulatory environment in India and management confidence on Africa business. Bharti trades at 7.5x FY12 proportionate EV/EBITDA. Maintain **Buy** with a target price of Rs410/sh.

Key highlights

- Initial signs of elasticity in the Africa market are encouraging with significant room for MOU expansion.
- Except for high tariffs there is no structural reason for MOU in Africa to be significantly lower than India (112 min in Africa vs 454 min in India) implying significant potential for MOU build-up going forward.
- Margin improvement in Africa business is likely only in FY12 due to expenses being incurred on integration and restructuring.
- Bharti management remains confident that Africa business would be self-sustaining on cash flow basis.
- Recent discussions with the communications ministry have been constructive and Bharti expects to be a net beneficiary of the ongoing regulatory revamp.
- Operating environment in the India business continues to improve with lower pressure on tariffs and strong traffic growth trends.
- The management believes that 3G presents a significant opportunity and has a viable business case despite the high spectrum pay-outs.

Africa margin improvement likely from FY12 (%)



Source: Company/MOSL

Bharti Africa: Improving traction visible in KPIs; margin improvement likely from FY12

- There has been pressure on the Africa margins since the company is still engaged in integration and re-structuring activities.
- Bharti has already selected its outsourcing partners for Africa.
- The initial signs of elasticity have been encouraging.
- While RPM declined from 7.2 US cents in 1QFY11 to 6.6 US cents in 2QFY11, MOU per subscriber increased to 112 minutes per month (vs 103 mins in 1QFY11).
- Bharti has been initially focusing on adding network capacity within the coverage area before expanding the coverage footprint.
- Apart from MOU elasticity, data services is another critical growth driver for African operations; Bharti already has 3G spectrum in 9/16 countries.

Africa business to be self-sustaining on cash flow basis

- Bharti management remains confident that Africa business would be self-sustaining on cash flow basis.
- Bharti believes it has a superior capex and opex model which would drive significant cost savings.
- Competitors to find it difficult to replicate Bharti given the scale differential and lack of experience in using a managed services model.

Operating environment in the India business continues to improve

- There has been rationality and stability in the competitive intensity in the India business.
- Lower tariff pressure and strong operating environment should drive superior growth.
- Bharti remains confident of strong FCF in the India business that would be used to de-leverage.

Management confident of a viable 3G business case despite high spectrum payout

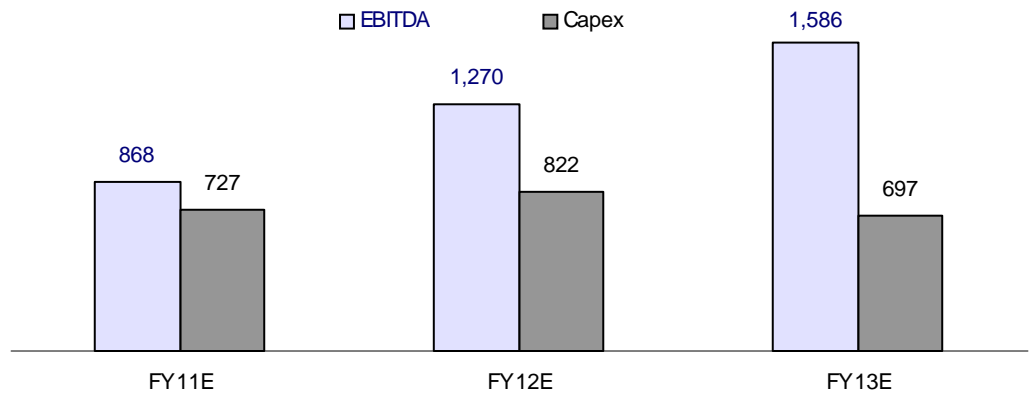
- Bharti believes that 3G presents a significant opportunity and has a viable business case despite high spectrum payout given low broadband penetration (<1%) and data revenue potential.
- Bharti has 'semi-closed wallet' license from the RBI which would be used to rollout m-commerce services.
- The company believes that other similar utility services like m-banking, m-education, m-health will strongly pick up given strong demand and lower cost of the mobile platform v/s other mediums.

Valuation and view

- We believe that a potential policy revamp would be positive for Bharti.
- We expect India business revenue and EBITDA growth to rebound driven by: (1) normalization of traffic growth, (2) abating tariff pressure, and (3) launch of 3G services.
- Bharti trades at proportionate EV/EBITDA of 9.7x FY11E and 7.5x FY12E.
- Reiterate **Buy** with a price target of Rs410 (8.5x EV/EBITDA for India business and 7x EV/EBITDA for Africa business).

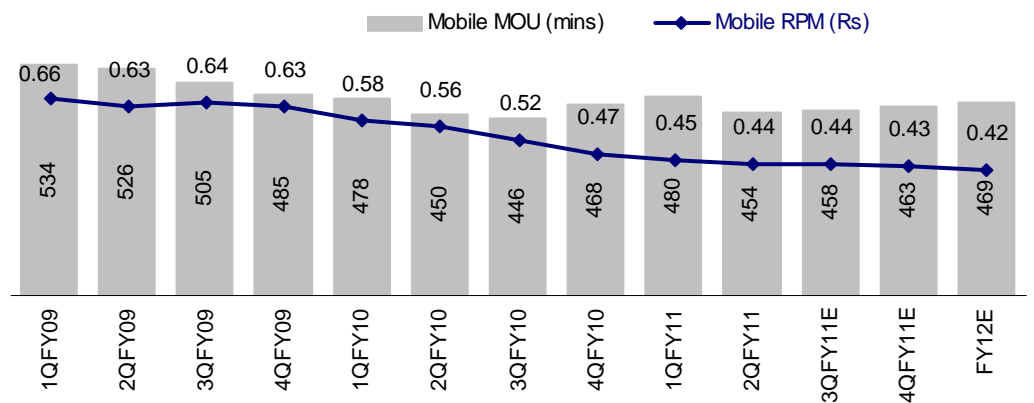
Bharti Africa: Proforma EBITDA and Capex trends (US\$m)

Africa business to be self-sustaining on a cash flow basis



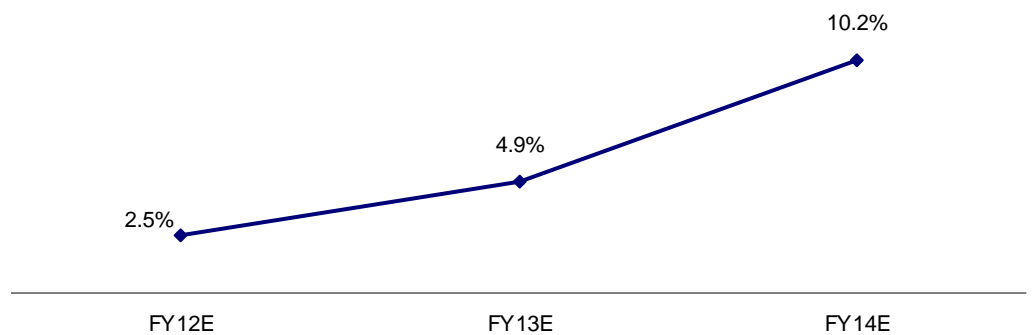
Bharti India: Tariff pressure abating

Receding tariff pressure resulting in a flattening RPM trajectory in India



Bharti India: Incremental 3G revenue (% of wireless revenue)

3G presents a significant opportunity and has a viable business case in India



Source: Company/MOSL

Bharti: SOTP valuation

	FY12 EBITDA (Rs b)	Owner ship (%)	Propor tionate EBITDA (Rs b)	EV/EBITDA (x)	Fair Value (Rs)	Value/sh (Rs)
India business (incl. towers)	207	100	207	8.5	1,759	464
Africa business	57	80	46	7.0	319	84
FY12 net debt					520	137
Total Value					1,558	410
Shares o/s (b)	3.79					
CMP						359
Upside (%)						14.0

Source: Company/MOSL

Comparative valuations

	CMP (Rs)	Rating	Mcap (US\$b)	EV (US\$b)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Bharti *	359	Buy	30.2	43.0	15.2	20.5	16.1	8.3	9.7	7.5	3.3	3.4	2.8
Idea	71	Buy	5.2	7.9	23.0	39.2	26.5	8.3	9.6	7.0	2.3	2.3	1.9
RCom	148	Under Review	6.8	13.4	6.3	21.5	17.5	6.4	9.0	7.2	2.3	2.9	2.4

	RoIC (%)			RoE (%)			EBITDA Margin (%)			Net Debt/EBITDA (x)			Net Debt/Equity (x)		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Bharti*	22.0	10.9	10.0	23.6	13.7	14.9	40.1	34.4	36.6	0.1	2.8	2.0	0.1	1.1	0.9
Idea	7.0	5.6	6.9	7.6	5.1	7.1	27.4	24.4	27.1	1.9	3.3	2.2	0.6	1.0	0.9
RCom	6.3	4.5	4.3	12.6	3.6	4.3	35.5	32.5	33.8	2.5	4.4	3.4	0.5	0.8	0.7

	Capex/Sales (%)			Sales Growth (%)			EBITDA Growth (%)			EPS (Rs)			EPS Growth (%)		
	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY10	FY11E	FY12E
Bharti*	19.9	49.2	16.3	13.2	43.2	20.2	10.5	22.9	28.2	23.7	17.6	22.3	5.9	-25.7	26.8
Idea	26.5	64.5	15.8	22.7	22.2	18.3	20.2	8.7	31.7	3.1	1.8	2.7	2.0	-41.4	48.3
RCom	18.7	59.7	13.6	-3.0	-6.4	13.6	-15.1	-14.2	18.1	23.7	6.9	8.5	-20.7	-70.9	22.8

* Proportionate EV/EBITDA and EV/sales

Financials and Valuation

INCOME STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Revenues	418,472	599,360	720,284	801,616	
<i>Change (%)</i>	<i>13.2</i>	<i>43.2</i>	<i>20.2</i>	<i>11.3</i>	
Total Expenses	250,839	393,381	456,315	501,207	
EBITDA	167,633	205,980	263,969	300,409	
<i>% of Gross Sales</i>	<i>40.1</i>	<i>34.4</i>	<i>36.6</i>	<i>37.5</i>	
Depn. & Amortization	62,832	101,882	128,336	135,592	
EBIT	104,800	104,098	135,634	164,817	
Net finance cost	178	20,713	28,355	23,517	
Other Income	468	926	1,129	1,247	
PBT	105,090	84,310	108,407	142,547	
Tax	13,453	17,641	22,631	31,745	
<i>Rate (%)</i>	<i>12.8</i>	<i>20.9</i>	<i>20.9</i>	<i>22.3</i>	
Minority Interest	1,870	16	1,278	2,703	
Adjusted PAT	89,767	66,653	84,499	108,099	

BALANCE SHEET		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Share Capital	18,988	18,988	18,988	18,988	
Additional Paid up Capital	56,499	56,499	56,499	56,499	
Reserves	346,453	419,869	495,593	593,444	
Net Worth	421,940	495,356	571,080	668,931	
Loans	101,898	615,034	646,114	639,641	
Minority Interest	25,285	31,901	33,179	35,883	
Other Liabilities	45,018	27,757	30,094	32,029	
Deferred Tax Liability	7,980	15,414	16,423	17,287	
Capital Employed	602,121	1,185,461	1,296,890	1,393,770	
Gross Block	761,040	1,595,157	1,712,511	1,807,103	
Less : Depreciation	218,521	335,401	460,970	593,529	
Net Block	542,519	1,259,756	1,251,540	1,213,575	
Other Non-Current Assets	30,736	60,478	60,879	61,290	
Curr. Assets	137,685	137,181	239,774	382,409	
Inventories	484	2,254	2,618	2,947	
Debtors	35,711	51,638	59,548	66,278	
Cash & Bank Balance	25,323	19,138	69,138	119,138	
Short-term investments	52,362	19,212	57,096	137,096	
Other Current Assets	23,805	44,939	51,374	56,951	
Curr. Liab. & Prov.	108,819	271,954	255,303	263,505	
Creditors	107,702	240,792	223,856	231,814	
Other Current Liabilities	1,117	31,162	31,446	31,691	
Net Curr. Assets	28,866	-134,773	-15,529	118,905	
Appl. of Funds	602,121	1,185,461	1,296,890	1,393,770	

E: MGRSL Estimates

RATIOS					
Y/E MARCH	2010	2011E	2012E	2013E	
Basic (Rs)					
EPS	23.7	17.6	22.3	28.5	
Cash EPS	40.2	44.4	56.1	64.2	
Book Value	117.9	139.0	159.3	185.8	
DPS	1.0	1.8	2.2	2.8	
Payout % (Incl.Div.Taxes)	4.2	10.0	10.0	10.0	
Valuation (x)					
P/E	15.2	20.5	16.1	12.6	
Cash P/E	8.9	8.1	6.4	5.6	
EV/EBITDA	8.3	9.4	7.1	5.8	
EV/Sales	3.3	3.2	2.6	2.2	
Price/Book Value	3.0	2.6	2.3	1.9	
Dividend Yield (%)	0.3	0.5	0.6	0.8	
Profitability Ratios (%)					
RoE	23.6	13.7	14.9	16.5	
RoCE	18.9	9.5	8.9	9.9	
Turnover Ratios					
Debtors (Days)	31	31	30	30	
Asset Turnover (x)	1.01	0.79	0.67	0.75	
Leverage Ratio					
Net Debt/Equity (x)	0.1	1.1	0.9	0.5	

CASH FLOW STATEMENT		(Rs Million)			
Y/E MARCH	2010	2011E	2012E	2013E	
Op.Profit/(Loss) bef Tax	167,633	205,980	263,969	300,409	
Other Income	468	926	1,129	1,247	
Interest Paid	-178	-20,713	-28,355	-23,517	
Direct Taxes Paid	-29,761	-37,133	-22,631	-31,745	
(Inc)/Dec in Wkg. Cap.	26,518	106,907	-28,739	-1,484	
CF from Op.Activity	164,680	255,966	185,374	244,909	
(inc)/Dec in FA + CWIP	-155,852	-819,119	-120,120	-97,626	
(Pur)/Sale of Investments	-14,282	33,207	-37,884	-80,000	
CF from Inv.Activity	-170,134	-785,912	-158,004	-177,626	
Issue of Shares	27,617	10,691	0	0	
Inc/(Dec) in Debt	-16,903	513,136	31,080	-6,473	
Other Financing Activities	8,917	-63	-8,448	-10,808	
CF from Fin.Activity	19,632	523,763	22,632	-17,281	
Inc/(Dec) in Cash	14,178	-6,185	50,000	50,000	
Add: Opening Balance	11,145	25,323	19,138	69,138	
Closing Balance	25,323	19,138	69,138	119,138	



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Disclosure of Interest Statement

Bharti Airtel

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|---|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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