

# Bharti Airtel

**BUY**
**Muted results, revise estimates downwards**
**CMP: Rs397**
**Target Price: Rs467**

**Bharti Airtel reported 1.7% qoq revenue growth to Rs172.7bn, marginally below our expectation, due to weaker than expected performance in India business from seasonal factors that caused 1.9% qoq decline in volume. EBITDA margin remained stable sequentially at 33.6% as rising margin in Africa business compensated for weak India business. Bharti's Africa revenue grew 5.3% qoq (7% qoq in constant currency) to US\$1.03bn with EBITDA margin of 26.2% (v/s 24.9% in Q1FY12). Consolidated earnings declined 15.5% qoq to Rs10.3bn due to 31% higher interest outgo on finance charges and forex losses.**

**ARR improves, volume decline in India:** Total minutes of usage in India and South Asia for Bharti declined to 225.2bn in Q2FY12 from 228.9bn in Q1FY12. At the same time, Average realised rate (ARR) improved by 1% sequentially to 43.2paisa/min from 42.8 paisa/min in Q1FY12. We believe ARR may continue to improve as (1) tariff hike will spread across whole subscriber base, and (2) volume growth will return in H2FY12 which is seasonally stronger period.

**Strong growth in African business:** Bharti posted 5.3% increase in sequential revenue led by 9.9% sequential growth in volume. EBITDA margin increased to 26.2% in Q2FY12 from 24.9% in Q1FY12 driven by (1) decline in employee cost (down 10.4% sequentially), and (2) stable network cost despite strong revenue growth. Bharti is expanding its network in Africa and added 925 sites to take total number of sites to 13,628. It has also increased capex guidance for Africa business for FY12 to US\$1.5bn from US\$ 1.2bn.

**3G growth on track:** Bharti currently has 7mn 3G subscribers of which around 25% are active on daily basis. Bharti management believes data will contribute to revenue growth significantly in urban markets where voice business is almost saturated. Recently, Bharti has reduced 3G pricing anomaly (v/s older data plan) which has resulted in increase in volumes and may lead to increased revenue in coming quarters.

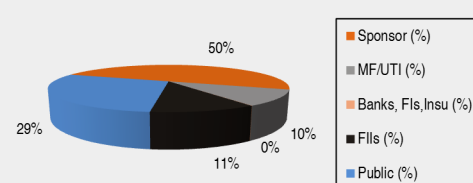
**Revise estimates downwards:** We have revised our revenue estimates downwards by 1.8% for FY12E and FY13E and EBITDA estimates by 1.8% for FY12E and 0.7% for FY13E to factor in muted Q2FY12, moderation in minutes growth, and higher administrative expenses. Earnings are also revised downwards by 11.1% for FY12E and 2.1% for FY13E to additionally factor in higher interest cost.

**Outlook and valuation:** The stock trades at EV/EBITDA of 8.9x FY12E and 7.1x FY13E. Maintain Buy based on (1) likely ARR improvement, (2) possible margin expansion over FY13, (3) start of monetisation of 3G assets, and (4) improving performance in Africa operations. Though target EV/EBITDA of 8x FY13E is unchanged, target price is reduced to Rs467 (earlier Rs480) as FY13E EBITDA is revised downwards.

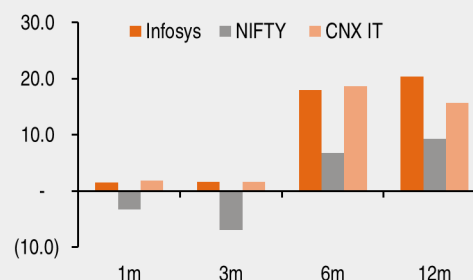
**KEY DATA**

Bloomberg	BHARTI IN
Reuters	BRTI.BO
52-wk H/L (Rs)	448/303
6-m avg trd value	US\$40.0mn
Market cap	Rs1,508.8bn/US\$30.7bn
Shares o/s	3,797.5mn
Face value	Rs5

Source: Bloomberg

**SHAREHOLDING (%)**


Source: CMIE As of 30 September 2011

**RELATIVE PRICE PERFORMANCE**


Source: Bloomberg

**Key financials (Rs mn)**

Particulars	FY12E	FY13E	FY14E
Sales	712,541	825,835	943,104
EBITDA	244,716	304,582	353,746
OPM (%)	34.3	36.9	37.5
PAT	57,462	101,579	126,574
FDEPS	15.1	26.7	33.3
EPS Growth (%)	(6)	77	25
P/E	26.3	14.9	11.9
Net Debt	616,302	586,607	540,664
Net Debt/EBITDA	2.5	1.9	1.5

Source: Company, BRICS Research

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**Q2FY12 results; revenue in line but net income lower than expectation:** Bharti reported 1.7% qoq revenue growth, marginally below expectation. Reported EPS at Rs2.7 is significantly below expectation (of Rs4.1). The deviation was mainly due to higher than expected interest outgo.

**Exhibit 1: September 2011 quarter performance** (Rs mn)

Particulars	Sep 11 actual	Sep 11 estimate	Difference %	Sep 10	yoy (%)	Jun 11	qoq (%)
Revenue	172,698	176,781	(2.3)	152,150	13.5	169,749	1.7
EBITDA	58,085	60,464	(3.9)	51,209	13.4	56,980	1.9
OPM (%)	33.6	34.2		33.7		33.6	
Depreciation	31,839	32,096	(0.8)	25,790	23.5	31,314	1.7
PBT	15,126	19,639	(23.0)	22,263	(32.1)	17,195	(12.0)
Tax	(4,900)	(4,321)	13.4	(5,678)	(13.7)	(5,141)	(4.7)
PAT	10,270	15,416	(33.4)	16,608	(38.2)	12,152	(15.5)
EPS (Rs)	2.7	4.1	(33.3)	4.4	(38.1)	3.2	(15.4)

Source: Company, BRICS Research

**Revise estimates downwards:** We have revised our revenue estimates downwards by 1.8% for FY12 and FY13 and EBITDA estimates by 1.8% for FY12 and 0.7% for FY13 to factor in muted Q2FY12, moderation in minutes growth, and higher administrative expenses. Earnings are also revised downwards by 11.1% for FY12E and 2.1% for FY13E to additionally factor in higher interest cost.

**Exhibit 2: Earnings estimates revision** (Rs mn)

Particulars	Old estimates			New estimates		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Sales	725,580	840,947	956,997	712,541	825,835	943,104
EBITDA	249,123	306,775	358,933	244,716	304,582	353,746
Margin (%)	34.3%	36.5%	37.5%	34.3%	36.9%	37.5%
PBT	83,869	135,093	171,763	79,802	132,483	166,242
PAT	64,618	103,738	130,932	57,462	101,579	126,574
EPS (Rs)	17.0	27.3	34.5	15.1	26.7	33.3

Source: BRICS Research

**India Business:** Minutes of Usage (MoU) per subscriber has gone down to 423 minutes from 445 minutes in Q1FY12. Non-voice revenue as % of revenue has declined marginally to 14.5% (from 14.6% in Q1FY12) despite increase in 3G usage as Bharti has reduced 3G price anomaly which has resulted in decreased revenue.

**Exhibit 3: India mobile business operational performance**

Particulars	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Subscribers (mn)	143.3	152.5	162.2	169.2	172.8
Minutes of use	454	449	449	445	423
Monthly churn (%)	5.9	7.8	7.6	6.4	7.2
Non voice revenue as % of revenue	12.7	13.8	15.0	14.6	14.5
ARPU (Rs)	202	198	194	190	183
ARR (paisa/min)	44.4	44.2	43.1	42.8	43.2
EBITDA margin (%)	35.2	34.6	33.3	34.2	33.7

Source: Company, BRICS Research

**Exhibit 4: India business segmental revenue (Rs mn)**

Particulars	Revenue	qoq growth	yoy growth	EBITDA	EBITDA margin	qoq growth	yoy growth
Mobile Services	97,827	-0.6%	10.9%	32,926	33.7%	-2.0%	5.7%
Telemedia Services	9,528	0.8%	4.5%	4,213	44.2%	-2.1%	-1.3%
Digital TV Services	3,135	6.9%	85.6%	116	3.7%	132.9%	-119%
Enterprise Services	11,042	6.1%	5.5%	2,371	21.5%	3.0%	-9.2%
Passive Infrastructure Services	23,766	4.4%	12.3%	8,902	37.5%	3.7%	13.2%
Others	859	8.6%	43.9%	(1,969)	-229.2%	-4.7%	-6.9%

Source: Company, BRICS Research

**Africa business:** In Q2FY12, Bharti added 2.1mn subscribers in Africa. Average revenue per user (ARPU) remained stable at US\$7.3 with increase in MoU to 128 minutes per subscriber (from 121 minutes in Q1FY12) leading to decline in ARPM to US¢5.7 (from US¢6.0 in Q1FY12). Non-voice revenue as % of revenue also improved marginally to 8.5% (from 8.4% in Q1FY12).

**Exhibit 5: Africa business operational performance**

Particulars	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Subscribers (mn)	40.1	42.1	44.2	46.3	48.4
Minutes of use	112	120	115	121	128
Monthly churn (%)	5.8	5.9	6.2	6.3	6.1
Non voice revenue as % of revenue	7.1	7.9	7.8	8.4	8.5
ARPU (US\$)	7.4	7.3	7.2	7.3	7.3
ARR (US¢/min)	6.6	6.1	6.2	6.0	5.7
EBITDA margin (%)	23.1	19.1	24.3	25.2	26.2

Source: Company, BRICS Research

**Exhibit 6: Africa business revenue, EBITDA (US\$ mn)**

Revenue	qoq growth	yoy growth	EBITDA	EBITDA margin	qoq growth	yoy growth
1,030	5.3%	22.9%	270	26.2%	9.7%	39.3%

Source: Company, BRICS Research

## Financial summary

Income statement					Balance sheet				
(Rs mn)					(Rs mn)				
Y/E 31 March	2011	2012E	2013E	2014E	Y/E 31 March	2011	2012E	2013E	2014E
Revenue	594,672	720,042	834,529	949,694	Net fixed assets	651,426	749,140	861,511	990,738
Revenue growth (%)	42.1	21.1	15.9	13.8	Investments	—	4,727	5,667	6,508
Operating exp	394,316	471,213	530,557	596,971	Current assets	112,077	111,562	124,036	135,674
EBITDA	200,356	248,829	303,972	352,723	Inventories	2,139	2,310	2,495	2,695
EBITDA margin (%)	33.7	34.6	36.4	37.1	Sundry debtors	54,929	60,422	65,860	71,787
Depreciation	102,066	130,009	142,637	163,641	Cash & bank balance	9,575	729	1,530	212
EBIT	98,290	118,820	161,335	189,082	Loans & advances	—	—	—	—
MTM profit / (loss)	—	—	—	—	Other current assets	33,186	36,055	40,836	46,253
Other income	1,363	1,502	1,833	2,163	Total assets	1,465,064	1,583,570	1,703,041	1,840,132
Interest paid	20,189	31,188	28,004	22,508	Net worth	468,680	564,935	678,936	821,265
PBT	79,152	89,090	135,244	168,818	Share capital	18,988	18,988	18,988	18,988
Tax	17,790	20,609	30,930	38,828	Reserves & surplus	449,692	545,947	659,948	802,277
PAT	62,837	68,873	104,706	130,382	Minority interest	28,563	28,563	28,563	28,563
Minority interest	(1,475)	(392)	(392)	(392)	Total debt	616,708	568,255	508,714	452,080
EO income	—	—	—	—	Secured loans	532,338	494,010	441,151	392,624
APAT	62,837	68,873	104,706	130,382	Unsecured loans	84,370	74,246	67,563	59,456
PAT growth (%)	(25.7)	9.6	52.0	24.5	Current liabilities & prov	291,560	358,031	419,070	466,038
Shares o/s (mn)	3,798	3,798	3,798	3,798	Current liabilities	284,295	349,805	409,690	455,255
Fully diluted o/s shrs (mn)	3,798	3,798	3,798	3,798	Provisions	7,265	8,226	9,380	10,783
FDEPS (Rs) recurring	16.1	17.9	27.4	34.3	Net deferred tax liab	12,487	14,735	16,503	18,483
					Total liabilities	1,465,064	1,583,570	1,703,040	1,840,132

Cash flow statement				
(Rs mn)				
Y/E 31 March	2011	2012E	2013E	2014E
PBT	79,152	89,090	135,244	168,818
Depreciation	102,066	130,009	142,637	163,641
Amortisation	1,786	1,786	1,786	1,786
Interest paid	19,692	30,572	27,240	21,561
Tax paid	(17,790)	(20,609)	(30,930)	(38,828)
Chg in working capital	119,008	57,929	52,076	36,946
Int/div in other income	—	—	—	—
Other operations	—	—	—	—
CF from operations (a)	302,289	288,062	327,288	353,924
Capital expenditure	(270,863)	(212,723)	(255,008)	(292,867)
Chg in investments	(531,589)	(3,937)	16,367	16,628
Other investing act	—	6,217	6,217	6,217
Int/div in other income	—	—	—	—
CF from investments (b)	(802,452)	(210,443)	(232,424)	(270,022)
Free cash flow (a+b)	(500,163)	77,619	94,863	83,901
Equity raised/(repaid)	164	164	164	164
Debt raised/(repaid)	514,810	(48,453)	(59,541)	(56,634)
Interest paid	(21,804)	(33,683)	(30,244)	(24,309)
Dividend (incl tax)	(4,441)	(4,441)	(4,441)	(4,441)
Other fin activities	—	—	—	—
CF from financing (c)	488,729	(86,413)	(94,062)	(85,220)
Net chg in cash (a+b+c)	(11,434)	(8,794)	801	(1,318)
Opening balance	—	—	—	—
Closing balance	—	—	—	—

Key ratios				
Y/E 31 March	2011	2012E	2013E	2014E
<b>Valuation ratios</b>				
PE (x)	24.6	22.1	14.5	11.6
CEPS (Rs)	43.0	52.3	65.0	77.3
PCE (x)	9.2	7.6	6.1	5.1
BVPS (Rs)	123	149	179	216
Price/Book (x)	3.2	2.7	2.2	1.8
EV/EBITDA (x)	10.4	8.2	6.5	5.5
EV/Revenue (x)	3.5	2.8	2.4	2.0
Dividend yield (%)	—	—	—	—
Cash flow yield (%)	(33.2)	5.1	6.3	5.6
<b>Performance ratios</b>				
Raw material to sales (%)	—	—	—	—
SGA to sales (%)	—	—	—	—
Effective tax rate (%)	22.5	23.1	22.9	23.0
PAT margin (%)	10.6	9.6	12.5	13.7
DPS (Rs)	—	—	—	—
Dividend payout ratio (%)	—	—	—	—
<b>Return ratios</b>				
RoE avg (%)	14.4	13.3	16.8	17.4
RoCE avg (%)	11.4	12.9	16.9	18.5
Fixed asset turnover (x)	1.0	1.0	1.0	1.0
<b>Working capital ratios</b>				
Inventory (days)	—	—	—	—
Payable (days)	—	—	—	—
Receivable (days)	34	31	29	28
Working capital (days)	34	31	29	28
<b>Leverage ratios</b>				
Interest cost (%)	5.6	5.3	5.2	4.7
Net debt/equity (x)	1.3	1.0	0.7	0.6
Interest coverage (x)	4.9	3.8	5.8	8.4

#### BRICS RECOMMENDATION SCALE

<b>BUY:</b>	More than 15% upside
<b>ADD:</b>	Upside up to 15% (between 0% and 15%)
<b>REDUCE:</b>	Downside up to 15% (between 0% and -15%)
<b>SELL:</b>	More than 15% downside

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