

Bharti Airtel

 BSE code: 532454
 NSE code: BHARTIARTL

CMP: Rs 798
Target: Rs 1,150
BUY

Anurag Purohit	Hitesh Punjabi
(91-22) 6612 4795	(91-22) 6612 4769
anurag.purohit@religare.in	hitesh.punjabi@religare.in

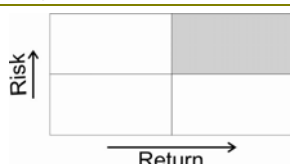
Company data

Particulars	
Market cap (Rs bn / US\$ bn)	1,512.2/35.8
Outstanding equity shares (mn)	1,895
52-week high/low (Rs)	1,149/688
2-month average daily volume	4,769,882

Financial snapshot

Particulars	FY08	FY09E	FY10E
Sales (Rs mn)	270,250	354,674	420,363
Growth (%)	45.9	31.2	18.5
Adj net inc (Rs mn)	68,019	90,903	110,415
Growth (%)	58.0	33.6	21.5
FDEPS (Rs)	35.2	47.4	57.7
Growth (%)	56.9	34.6	21.7
P/E (x)	22.7	16.8	13.8
ROE (%)	38.0	33.5	29.8

Risk-return profile



Shareholding pattern

(%)	June-08	Mar-08
Promoters	66.5	65.9
FIIs	23.6	25.0
Banks & FIs	5.7	4.6
Public	4.2	4.5

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bharti	798	3.5	(12.5)	(11.8)
Sensex	14,777	3.9	(13.7)	(19.5)
Bse Tech	2,986	(6.6)	(12.1)	(12.8)

 Company website www.airtel.in

Dialling up growth

Bharti Airtel has released a good set of numbers in Q1FY09, ahead of our estimates. Strong subscriber additions in conjunction with higher mobile traffic from existing and new clients supported a revenue growth of 8.5% QoQ. A decrease in STD rates and roaming charges boosted mobile traffic volumes but caused margins in the segment to decline. In a further dampener to mobile margins, the licence fee concession period in six circles expired during the quarter, elevating licence costs. However, ARPU (average revenue per user) in the mobile segment bettered our estimate at Rs 350, a marginal decline of 2% QoQ against our expectation of a 5.2% decline.

We have revised our ARPU assumption since the gestation period for rural customers is proving to be lower than anticipated, with traffic picking up at a rapid pace. We are increasing our revenue and earnings estimates for FY09 and FY10 based on strong subscriber additions and our revised ARPU assumptions. The stock is trading at 16.8x and 13.8x expected FY09 and FY10 earnings of Rs 47.4 and Rs 57.7 respectively. We maintain our Buy recommendation with a target price of Rs 1,150.

Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance
Revenues	84,833.0	82,300.0	3.1
EBITDA	35,221.0	34,100.0	3.3
EBITDA margin (%)	41.5	41.4	10bps
PAT	20,250.0	19,100.0	6.0
EPS	10.7	10.1	5.6

Source: Company, Religare Research

Quarterly results

(Rs mn)	Q1FY09	Q4FY08	% Chg QoQ	Q1FY08	% Chg YoY
Revenues	84,833	78,191	8.5	59,046	43.7
Operating expenditure	49,727	45,773	8.6	34,689	43.4
EBITDA	35,221	32,518	8.3	24,466	44.0
Depreciation & amort	10,045	9,702	3.5	8,119	23.7
EBIT	25,176	22,816	10.3	16,347	54.0
Finance cost (net)	1,832	2,157	(15.1)	1,752	4.6
Other income	470	473	(0.6)	802	(41.4)
Profit before taxes	23,814	21,132	12.7	18,901	26.0
Income taxes	3,282	2,085	57.4	3,594	(8.7)
Minority interests	282	518	(45.6)	191	47.6
Net income	20,250	18,529	9.3	15,116	34.0
EPS (Rs)	10.7	9.8	9.2	8.0	33.8

Source: Company, Religare Research

Result highlights

Highest-ever mobile subscriber additions and increased traffic boosted revenues

Strong revenue growth

Bharti has recorded a revenue growth of 8.5% QoQ during Q1FY09, largely due to strong subscriber additions and higher traffic stemming from a decrease in STD rates and roaming charges. Mobile services contributed 82% of revenues in Q1FY09 while non-voice revenues accounted for 14.8%. Revenues from the carrier business in the enterprise solution segment recorded a growth of 24.9% QoQ, while the corporate business has expanded by 2.8% QoQ.

Revenue trend

(Rs mn)	Q1FY08	Q2Y08	Q3FY08	Q4FY08	Q1FY09
Mobile Services	46,976	50,579	56,105	64,201	69,150
% Growth	10.7	7.7	10.9	14.4	7.7
Telemedia Services	6,513	7,023	7,307	7,641	7,988
% Growth	7.8	7.8	4.0	4.6	4.5
Enterprise Services	11,940	13,471	14,636	16,340	19,572
% Growth	(5.7)	12.8	8.6	11.6	19.8

Source: Company, Religare Research

Monthly usage has increased to 534 minutes per user from 507 minutes

Rise in minutes of usage (MOU)

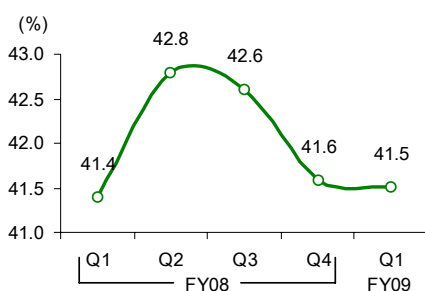
Total mobile traffic grew 18.1% QoQ and 84.2% YoY to 105bn minutes in Q1FY09. The monthly MOU per user has increased to 534 minutes from 507 minutes last quarter, implying increased usage by existing customers, even as the company adds low MOU and ARPU subscribers from rural areas.

Minutes and network statistics

(mn minutes)	Q1FY08	Q2Y08	Q3FY08	Q4FY08	Q1FY09
Mobile Services	57,125	64,375	73,840	89,058	105,217
% Growth	16.0	12.7	14.7	20.6	18.1
Telemedia Services	4,454	4,596	4,604	4,736	4,842
% Growth	5.0	3.2	0.2	2.9	2.2
National Long Distance Services	5,856	6,774	7,898	9,398	10,322
% Growth	17.0	15.7	16.6	19.0	9.8
International Long Distance Services	1,243	1,345	1,591	1,850	2,048
% Growth	4.1	8.2	18.3	16.3	10.7
Total Minutes on Network	68,678	77,089	87,933	105,042	122,428

Source: Company, Religare Research

EBITDA margin trend



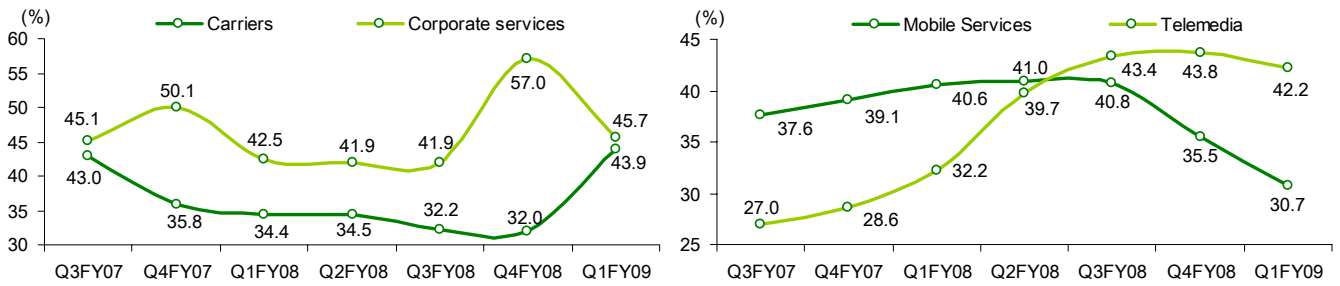
Source: Company, Religare Research

EBITDA margin flat as carrier segment cushions fall in mobile margin

The carrier business recorded a sharp increase in EBITDA margin from 32% in Q4FY08 to 43.9%. However, margins in the mobile business dipped 480bps QoQ to 30.7% due to the reduction in STD and roaming charges, which the company passed on to customers, coupled with higher licence costs following expiry of the concession period in six circles (concession of 2% of AGR). This kept the overall EBITDA margin flat at 41.5%.

Bharti has transferred a part of its passive infrastructure to the joint venture company, Indus Towers. This has resulted in an increase in operating expenses as a percentage of total cost, putting further pressure on margins. The company is confident of maintaining margins at the current level on expectations of lower operational cost, mainly driven by economies of scale on the back of a rapidly growing subscriber base.

EBITDA margin



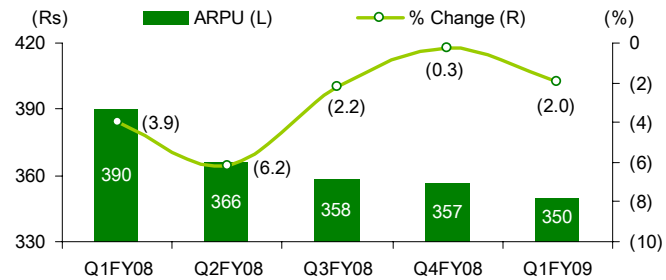
Source: Company, Religare Research

Rural customer usage ramping up faster than estimated, limiting ARPU erosion

Decline in ARPU continues but at a moderate pace

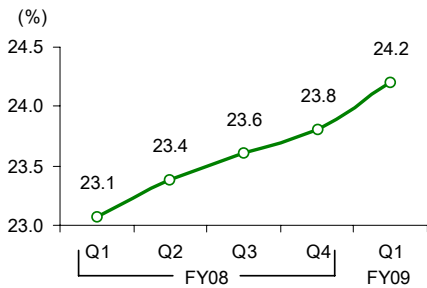
ARPU in the mobile business declined by 2% QoQ during the quarter to Rs 350 against our estimate of a 5.2% drop. Bharti has been focussing on rural areas for expansion with increased coverage in non-census towns and villages. Rural customers have shown a rapid increase in usage during the quarter, contrary to our expectation of a long gestation period for these clients. On the broadband front, the company has focused on providing services to 94 cities. ARPUs in broadband and telephone services have remained flat during the quarter.

Mobile business ARPU trend



Source: Company, Religare Research

Subscriber market share



Source: Company, Religare Research

Increase in subscriber market share

During the quarter, Bharti has recorded its highest ever subscriber additions in the mobile segment, at 7.5mn customers (net), expanding its subscriber base to 69.3mn. The company's market share has steadily risen from 23.1% in Q1FY08 to 24.2%. We expect the uptrend to continue albeit at a slower pace as competition in the GSM space would increase with the introduction of services by new players.

Management suggests possibility of renewed talks with MTN

Future outlook

Possible revival of Bharti-MTN deal

The Bharti-MTN merger proposition could return to the fore now that the South African mobile giant has called off talks with Reliance Communications. Bharti's management has stated that there is a possibility of MTN reviving talks of a merger with it. Considering the synergies between the two companies, Bharti will be a major beneficiary of such a deal in the long term.

Estimates raised to reflect increased ARPU assumptions and higher usage

Revision of estimates

We are raising our FY09 and FY10 estimates for the company to build in higher ARPU expectations and the impact of increased MOU. We expect Bharti's earnings for FY09 and FY10 to be at Rs 47.4 and Rs 57.7 respectively. Subscriber additions are likely to remain strong for FY09, driving revenue growth by 31.2% and net profit by 18.5%.

Revised estimates

(Rs mn)	FY09E			FY10E		
	Earlier	Revised	% Chg	Earlier	Revised	% Chg
Net sales	343,789.0	354,674.0	3.2	410,563.0	420,363.0	2.4
EBIDTA	145,441.0	149,961.0	3.1	179,117.0	183,028.0	2.2
EBIDTA margin (%)	42.3	42.3	-	43.6	43.5	-
Adj net income	86,581.0	90,021.0	4.0	104,305.0	109,615.0	5.1
FDEPS (Rs)	45.7	47.4	4.0	55.0	57.7	5.1

Source: Religare Research

Valuation

Maintain Buy with target price of Rs 1,150

Bharti has successfully weathered pricing pressures to remain India's leading telecom player. We maintain our positive outlook on Bharti and expect the company to retain its leadership position in the market. At the current price of Rs 798 the stock is trading at 16.8x and 13.8x its expected FY09 and FY10 earnings of Rs 47.4 and Rs 57.7 respectively. We maintain our Buy recommendation with a target price of Rs 1,150.

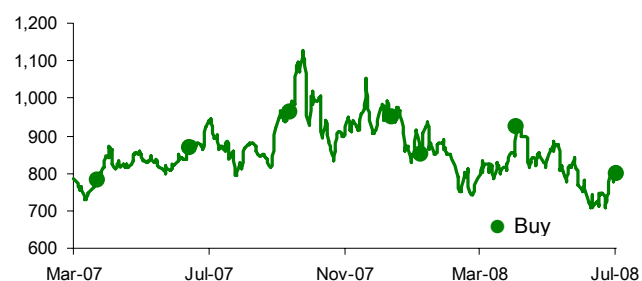
Leading player with consistent growth in market share despite pricing pressures - Buy

Recommendation history

Date	Event	Reco price	Tgt price	Reco
16-Apr-07	Quarterly Preview	761	970	Buy
10-Jul-07	Quarterly Preview	866	970	Buy
5-Oct-07	Quarterly Preview	961	1,042	Buy
7-Jan-08	Quarterly Preview	948	1,150	Buy
31-Jan-08	Results Update	852	1,150	Buy
29-Apr-08	Results Update	922	1,150	Buy
28-Jul-08	Results Update	798	1,150	Buy

Source: Religare Research

Stock performance



Source: Religare Research

Consolidated financials

Profit and Loss statement

(Rs mn)	FY07	FY08	FY09E	FY10E
Revenues	185,197	270,250	354,674	420,363
Growth (%)	58.8	45.9	31.2	18.5
EBITDA	74,510	113,580	149,961	183,028
Growth (%)	70.9	52.4	32.0	22.1
Depreciation	25,207	37,260	45,305	58,434
EBIT	49,296	76,320	104,656	124,594
Growth (%)	77.7	54.8	37.1	19.1
Interest	1,438	2,341	4,333	3,996
Other income	1,007	2,418	2,283	2,900
EBT	48,865	76,397	102,605	123,497
Income taxes	5,822	8,378	11,703	13,082
Effective tax rate (%)	11.9	11.0	11.4	10.6
Adjusted net income	43,043	68,019	90,903	110,415
Growth (%)	88.5	58.0	33.6	21.5
Min. int / inc. from	467	1,150	882	800
Reported net income	42,576	66,869	90,021	109,615
Growth (%)	88.5	57.1	34.6	21.8
Shares outstanding (mn)	1,893.0	1,895.0	1,897.0	1,898.0
Basic EPS (Rs) (adj)	22.5	35.3	47.5	57.8
FDEPS (Rs) (adj)	22.5	35.2	47.4	57.7
DPS (Rs)	-	-	-	-

Source: Company, Religare Research

Cash flow statement

(Rs mn)	FY07	FY08	FY09E	FY10E
Net income	42,576	66,869	90,021	109,615
Depreciation	25,207	37,260	45,305	58,434
Other adjustments, net	(2,568)	7,681	(5,951)	(6,962)
Changes in working capital	21,922	4,763	4,384	(11,255)
Cash flow from operations	87,137	116,573	133,759	149,832
Capital expenditure	(89,271)	(138,470)	(148,000)	(137,000)
Change in investments	7	74	-	-
Other investing inc/(exp)	-	-	-	-
Cash flow from investing	(89,264)	(138,396)	(148,000)	(137,000)
Free cash flow	(2,127)	(21,823)	(14,241)	12,832
Issue of equity	1,647	21,237	0	0
Issue/repay debt	4,716	45,437	18,000	3,886
Dividends paid	-	-	-	-
Other financing cash flow	-	-	-	-
Cash flow from financing	6,363	66,674	18,000	3,886
Change in cash & cash eq	4,236	44,851	3,759	16,719
Opening cash & cash eq	5,921	10,157	55,008	58,767
Closing cash & cash eq	10,157	55,006	58,767	75,485

Source: Company, Religare Research

Balance sheet

(Rs mn)	FY07	FY08	FY09E	FY10E
Cash and cash eq	10,157	55,006	58,767	75,485
Accounts receivable	17,982	28,062	33,803	47,927
Inventories	912	1,142	1,536	1,838
Others current assets	16,347	29,630	34,531	40,443
Current assets	45,398	113,840	128,637	165,692
Long-term investments	182	108	108	108
Net fixed assets	210,604	313,407	461,407	598,407
Intangible assets	37,800	40,247	39,673	39,073
Deferred tax assets, net	(3,616)	(5,301)	(5,301)	(5,301)
Other assets	3,907	5,041	6,127	7,448
Total assets	294,274	467,342	630,651	805,427
Accounts payable	27,803	38,097	48,616	57,947
Others	78,847	116,038	151,179	207,779
Current liabilities	106,650	154,135	199,795	265,726
Debt funds	41,536	77,715	95,715	99,601
Other liabilities	10,534	12,907	15,175	19,016
Equity capital	18,959	18,979	18,970	18,980
Reserves	116,595	203,606	300,997	402,104
Shareholder's funds	135,554	222,585	319,967	421,084
Total liabilities	294,274	467,342	630,651	805,427
BVPS (Rs)	72.3	117.6	168.8	222.0

Source: Company, Religare Research

Financial ratios

	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	40.2	42.0	42.3	43.5
EBIT margin (%)	26.6	28.2	29.5	29.6
Net profit margin (%)	23.2	25.2	25.6	26.3
FDEPS growth (%)	87.3	56.9	34.6	21.7
Receivables (days)	31.7	31.1	31.8	35.5
Inventory (days)	2.1	2.4	2.4	2.6
Payables (days)	90.4	76.8	77.3	81.9
Current ratio (x)	0.4	0.7	0.6	0.6
Quick ratio (x)	0.4	0.7	0.6	0.6
Interest coverage ratio (x)	30.9	30.1	22.0	28.6
Debt / equity (x)	0.3	0.3	0.3	0.2
ROE (%)	37.8	38.0	33.5	29.8
ROA (%)	16.9	17.9	16.6	15.4
ROCE (%)	30.5	30.5	28.1	25.7
EV/Sales (x)	8.4	5.7	4.4	3.7
EV/EBITDA (x)	20.8	13.6	10.3	8.5
P/E (x)	35.5	22.7	16.8	13.8
P/BV (x)	11.0	6.8	4.7	3.6

Source: Company, Religare Research

RELIGARE RESEARCH
Fundamental Research

Amitabh Chakraborty, CFA, FRM	President - Equity	amitabh.chakraborty@religare.in	(91-22) 6612 4602
Piyush Parag	Automobiles, Shipping	piyush.parag@religare.in	(91-22) 6612 4730
Abhishek Banerjee	Automobiles, Shipping	abhishek.banerjee@religare.in	(91-22) 6612 4764
Abhishek Agarwal	Banking, Sugar	abhishek.a@religare.in	(91-22) 6612 4753
Dinesh Shukla	Banking, Sugar	dinesh.shukla@religare.in	(91-22) 6612 4739
Vinod Nair	Capital Goods, Engineering, Power	nair.vinod@religare.in	(91-22) 6612 4731
Ronald Siyoni	Capital Goods, Engineering	ronald.siyoni@religare.in	(91-22) 6612 4615
Sumit Arora	Cement	arora.sumit@religare.in	(91-22) 6612 4659
Suman Memani	Construction, Realty, Mid-caps	suman.memani@religare.in	(91-22) 6612 4736
Anurag Purohit	IT, Telecom, Power	anurag.purohit@religare.in	(91-22) 6612 4795
Hitesh Punjabi	IT, Telecom	hitesh.punjabi@religare.in	(91-22) 6612 4769
Ram Patnaik	Media, FMCG	ram.patnaik@religare.in	(91-22) 6612 4752
Nihal Wagle	Media, FMCG	nihal.wagle@religare.in	(91-22) 6612 4696
Rahul Singhvi	Metals	rahul.singhvi@religare.in	(91-22) 6612 4644
Sudeep Anand	Oil & Gas, Chemicals	sudeep.anand@religare.in	(91-22) 6612 4670
Alok Dalal	Pharmaceuticals	alok.dalal@religare.in	(91-22) 6612 4750
Varun Rao	Pharmaceuticals	varun.rao@religare.in	(91-22) 6612 4712
Rahul Gajare	Power	rahul.gajare@religare.in	(91-22) 6612 4749

Technical Research

Birendrakumar Singh	birendrakumar.singh@religare.in	(91-22) 6612 4657
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Derivatives Research

Somendra Agarwal	somendra.agarwal@religare.in	(91-22) 6612 4639
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Production

Anisha deSa	anisha.desa@religare.in	(91-22) 6612 4729
Rajesh Mhatre	rajesh.mhatre@religare.in	(91-22) 6612 4728
R Murali	r.murali@religare.in	(91-22) 6612 4674

Administration

Shraddha Hosalkar	shraddha.hosalkar@religare.in	(91-22) 6612 4680
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Recommendation parameters

Large-caps*	> 10%	< - 5%	Returns	Absolute
	BUY	SELL		
Mid-caps**	> 25%	< 10%		

*Market cap over US\$ 1bn **Market cap less than US\$ 1bn

Religare Securities

Mumbai: 3rd Floor, Dheeraj Arma, Anant Kanekar Marg, Bandra (East), Mumbai-400 051. Phone: +91 22 66124600 Fax- 66124781
New Delhi: 19, Nehru Place, New Delhi - 110019, Phone: +91 11 30815100.

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