

Bharti Airtel Ltd ----- Maintain UNDERPERFORM
ARPU and capex concerns come to the fore

EPS: ◀▶ TP: ▲

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- Bharti's Mar-07 results came below expectations primarily due to weak ARPU numbers and lower growth of non mobile business.
- Revenues grew 58% yoy, 5% below our numbers. Strong margin increase led to in line EBIT. Net profit was 6% below estimates due to lower other income.
- Management indicated that ARPU decline could continue on the back of increased focus on rural subscribers.
- Company also increased its FY3/08 capex guidance to US\$3.5bn from US\$2.5bn guidance given in Jan-07.
- We believe that Bharti's subscriber market share could stabilise at current levels on the back of increasing competition.
- Post results, our EPS numbers have increased by 3% for FY3/08 and declined by 1-2% for '09 and '10 on the back of lower ARPUs, higher EBITDA margins and lower depreciation.
- We also increase our target price from Rs610 to Rs630 (DCF based). We maintain our UNDERPERFORM rating on the share.

Further, we believe that increase in margins would not be enough to compensate for the revenue impact of lower ARPUs.

Increase in capex guidance was expected, though the quantum surprised us. We believe that this is a reflection of market share race amongst wireless operators.

Further, continuous market share gains are a reflection of weak competitive response. We believe that resolution of BSNL's capex woes and finalisation of sale of Hutch-Essar to Vodafone could lead to an increase in competition.

Our EPS estimates have changed slightly on the back of lower revenues and lower depreciation. Our target price has increased to Rs630 on the back of rolling it forward by three months. We maintain our UNDERPERFORM rating.

Bbg/RIC	BHARTI IN / BRTI.BO	Price (27 Apr 07, Rs)	826.25		
Rating (prev. rating)	U (U)	TP (Rs) (prev. TP)	630 (610)		
Shares outstanding (mn)	1,894.00	Est. pot. % chg. to TP	(24)		
Daily trad vol-6m avg (mn)	1.2	52-wk range (Rs)	873.70 - 321.85		
Daily trad val-6m avg (US\$ mn)	0.3	Mkt cap (Rs/US\$ bn)	1,564.9/ 38.4		
Free float (%)	39.0	Performance	1M 3M 12M		
Major shareholders	Promoters 60.97%	Absolute	6.5 14.8 105.6		
		Relative	(1.8) 15.2 71.0		
Year	3/06A	3/07A	3/08E	3/09E	3/10E
Revenues (Rs mn)	116,215	185,195	270,279	330,728	387,131
EBITDA (Rs mn)	43,512	74,508	112,467	139,289	164,428
Net profit (Rs mn)	22,761	42,570	62,457	76,557	89,809
EPS (Rs)	12.1	22.2	33.0	40.4	47.4
- Change from prev. EPS (%)	n.a.	n.a.	3	-1	n.a.
- Consensus EPS (Rs)	n.a.	n.a.	32.9	41.7	47.7
EPS growth (%)	49.6	83.0	48.4	22.6	17.3
P/E (x)	68.0	37.2	25.1	20.4	17.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.9
EV/EBITDA (x)	37.2	21.7	14.4	11.4	9.5
P/B (x)	17.0	11.5	7.9	5.7	4.5
ROE (%)	24.5	31.0	31.2	27.6	25.3
Net debt/equity (%)		net cash			

Note 1: Bharti Airtel Limited, a part of Bharti Enterprises, provides telecommunications services throughout India. It provides GSM Mobile Services, broadband, fixed line telephone services, long distance services (international & national) & enterprise services.

Investment Summary

Bharti results exhibited two of the three concerns we have on the company a) ARPU decline led to revenue and EBITDA numbers coming below expectations and b) company raised its FY3/08 capex guidance to US\$3.5bn from US\$2.5bn indicated in January. On the other hand, subscriber market share continues to grow on the back of weak competitive response.

ARPU declined 5% qoq, second highest in past fourteen quarters. Management indicated that ARPU decline could continue as they focus on rural subscribers. We believe that ARPUs could continue to remain under pressure as wireless operators go down the affordability curve to add marginal subscribers. This could impact revenue growth.

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Figure 1: Bharti: Consolidated results

Rs mn	Actual 4Q2006	Actual 3Q2007	Actual 4Q2007	QoQ	YoY	CS Estimate 4Q2007	Act/ Est
Revenues	34,114	49,129	53,932	9.8%	58.1%	56,830	-5.1%
EBITDA	12,773	20,054	22,411	11.8%	75.5%	23,174	-3.3%
EBITDA margin	37.4%	40.8%	41.6%			40.8%	
EBIT	8,075	12,983	15,172	16.9%	87.9%	15,218	-0.3%
EBIT margins	23.7%	26.4%	28.1%			26.8%	
Net profits	6,824	12,151	13,532	11.4%	98.3%	14,376	-5.9%

Source: Company data, Credit Suisse estimates.

Figure 2: Bharti: Division wise key numbers

Rs mn	Actual 4Q2006	Actual 3Q2007	Actual 4Q2007	QoQ	YoY	CS Estimate 4Q2007	Act/ Est
Mobile Services - Consolidated							
Total revenues	24,134	37,579	42,431	12.9%	75.8%	43,604	-2.7%
EBITDA	8,746	14,129	16,604	17.5%	89.8%	16,264	2.1%
EBITDA margin	36.2%	37.6%	39.1%			37.3%	
Broadband & Telephone Services							
Total revenues	4,102	5,984	6,044	1.0%	47.3%	6,591	-8.3%
EBITDA	933	1,613	1,727	7.1%	85.1%	1,826	-5.4%
EBITDA margin	22.7%	27.0%	28.6%			27.7%	
Enterprise Services - Carriers (Long Distance)							
Total revenues	7,463	9,306	10,156	9.1%	36.1%	10,303	-1.4%
EBITDA	2,771	4,002	3,640	-9.0%	31.4%	4,430	-17.8%
EBITDA margin	37.1%	43.0%	35.8%			43.0%	
Enterprise Services - Corporates							
Total revenues	2,005	2,422	2,511	3.7%	25.2%	2,647	-5.1%
EBITDA	714	1,092	1,257	15.1%	76.1%	1,193	5.3%
EBITDA margin	35.6%	45.1%	50.1%			45.1%	

Source: Company data, Credit Suisse estimates.

Figure 3: Bharti: Estimate change

Rs mn	New estimates			Change		
	FY3/08	FY3/09	FY3/10	FY3/08	FY3/09	FY3/10
Revenues	270,279	330,728	387,131	-4.5%	-6.5%	-8.1%
YoY growth	45.9%	22.4%	17.1%			
EBITDA	112,467	139,289	164,428	0.3%	-3.0%	-6.2%
Margins	41.6%	42.1%	42.5%			
EPS	32.98	40.42	47.42	2.4%	-0.9%	-2.4%

Source: Credit Suisse estimates.

Companies Mentioned (Price as of 27 Apr 07)

Bharti Airtel Ltd (BRTI.BO, Rs826.25, UNDERPERFORM, TP Rs610.00, MARKET WEIGHT)
 Reliance Communication Ltd (RLCM.BO, Rs460.15, UNDERPERFORM, TP Rs385.00, MARKET WEIGHT)
 Idea Cellular Ltd (IDEA.BO, Rs112.50, NOT RATED)
 Vodafone Group (VOD.L, 142.90 p, NEUTRAL, TP 145.00 p, MARKET WEIGHT)

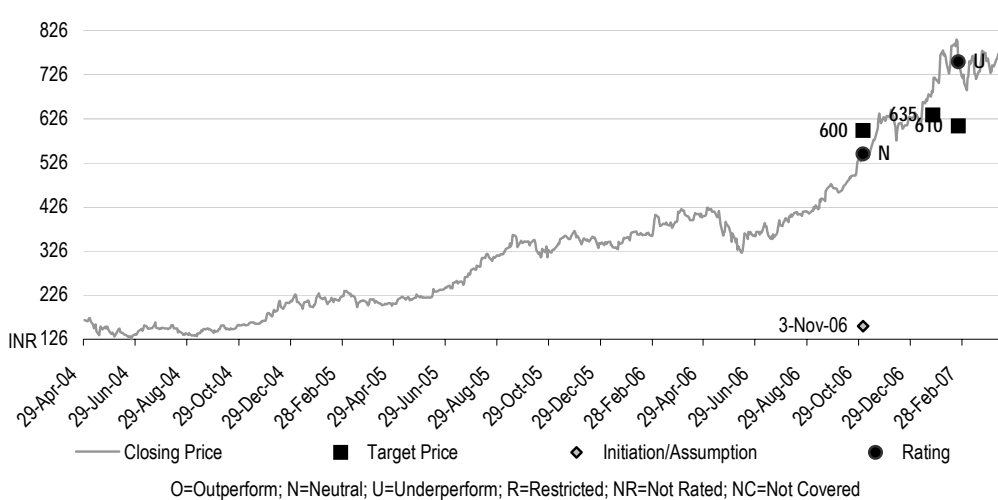
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3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



BRTI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
03-Nov-06	546.65	600	NEUTRAL	X
24-Jan-07	686.9	635		
23-Feb-07	756.1	610	UNDERPERFORM	

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Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs630 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6.

Risks: Risks to our 12-month target price of Rs630 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

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