

RESULTS REVIEW
Bharti Airtel Limited
Buy
Share Data

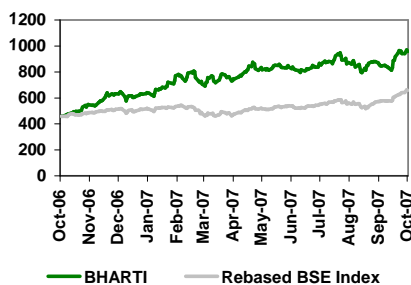
Market Cap	Rs. 1,816.52 bn
Price	Rs. 957.50
BSE Sensex	17,777.14
Reuters	BRTI.BO
Bloomberg	BHARTI IN
Avg. Volume (52 Week)	0.24 mn
52-Week High/Low	Rs. 1,000.1/455.1
Shares Outstanding	1,897.15 mn

Valuation Ratios (Consolidated)

FY end 31 March	2008E	2009E
EPS (Rs.)	33.6	44.3
+/- (%)	49.3%	31.9%
PER (x)	28.5x	21.6x
EV/Subscriber (Rs.)	31,587.2	23,522.7
EV/ Sales (x)	6.7x	5.2x
EV/ EBITDA (x)	16.1x	12.5x

Shareholding Pattern (%)

Promoters	61
FII's	25
Institutions	4
Public & Others	10

Relative Performance

Expanding horizons

Bharti Airtel Limited's (Bharti) results were in line with our expectations, as the Company reported strong financials for 1QFY08. Net sales increased 53.1% yoy to Rs. 59,046 mn driven by excellent performance across all the segments. Bharti's subscriber base reached to approx. 45 mn by the end of 1QFY08. EBITDA increased by 62.9% yoy to Rs. 24,466 mn as a result of economies of scale coupled with higher sales. In addition, EBITDA margin improved by 250 bps to 41.4% due to declining costs and SG&A expenses as a percentage of sales. Bharti's net profit doubled to Rs. 15,115 mn as compared to 1QFY07, primarily due to higher forex gains arising out of rupee appreciation. However, rising tax charges as well as depreciation cost partially wiped off some of the increase in net profits.

With the expected increase in subscriber base coupled with higher minutes of use (MoU), we estimate the sales to grow at a CAGR of 38.6% for FY07-FY09E. In addition, Bharti's plan to demerge its tower business as well as venture into international markets will further fuel the growth of the Company. At the current price of Rs. 957.5, the stock is trading at a forward PE of 28.5x FY08E and 21.6x FY09E. We thus upgrade the rating to **Buy**, with a target price of Rs. 1,092 (excluding tower business) based on DCF valuation.

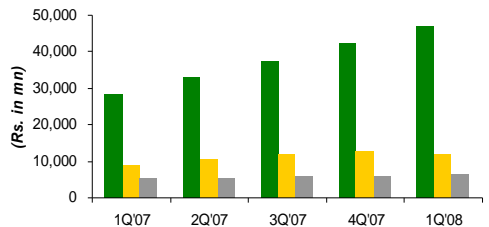
Result Highlights

On a yoy basis, net sales increased by 53.1% to Rs. 59,046 mn driven by robust performance across all the strategic business units.

Key Figures (Consolidated)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	38,563	53,932	59,046	53.1%	9.5%
EBITDA	15,020	22,409	24,466	62.9%	9.2%
<i>EBITDA Margin</i>	38.9%	41.6%	41.4%		
Mobile subscribers	23.1	37.1	42.7	85.1%	15.0%
Broadband & Telephone subscribers	1.5	1.9	2.0	31.1%	5.4%
ARPU (Mobile)	441	406	390	(11.5%)	(3.9%)
ARPU (Broadband & Telephone)	1,202	1,112	1,121	(6.7%)	0.9%
AMU (Mobile)	441	475	478	8.2%	0.7%
Per Share Data (Rs.)					
EPS	4.0	7.1	8.0	99.9%	11.8%

Segment net sales



■ Mobile Services ■ Enterprise Services ■ Broadband & Telephone Services

Increase in sales as a result of enhanced subscriber base and higher MoU

Mobile segment's sales increased by 65.3% yoy to Rs. 46,976 mn driven by enhanced subscriber base of 42.7 mn (up 85.1% yoy) and higher MoU (478 minutes). However, lower ARPU of Rs. 390 partially offset the increase in sales. Bharti's sales and ARPU were affected by change in the policy of the Company, under which income from lifetime schemes which was earlier charged over a period of 18 months is now charged over 24 months. Thus sales decreased by Rs. 700 mn as a result of this change.

Broadband & telephone segment's sales increased by 25.7% yoy to Rs. 6,513 mn due to the addition of 0.5 mn subscribers coupled with higher MoU. In addition, the Company has shifted its focus on high quality and high ARPU customers in this segment which in turn has led to higher ARPU qoq. In the future, increased ARPU will further contribute to revenue growth.

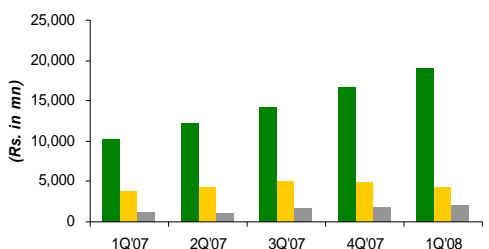
Enterprise segment's sales rose by 32.2% yoy to Rs. 11,940 mn. Increase in sales was however affected by: (i) rupee appreciation which resulted in lower revenues from incoming calls, (ii) lower tariffs as a result of reduction in access deficit charge which was passed on to the customers, (iii) reduction in NLD and ILD traffic from other operators as they built their own network.

Segment Net Sales

Quarterly Data	1Q'07	2Q'07	3Q'07	4Q'07	1Q'08
Mobile Services	28,411	33,022	37,579	42,431	46,976
Enterprise Services	9,033	10,510	11,728	12,667	11,940
Broadband & Telephone Services	5,182	5,244	5,984	6,044	6,513
Others (Bharti Corporate offices)	0	249	261	294	426
Sub Total	42,626	49,025	55,552	61,436	65,855
Eliminations*	(4,063)	(5,454)	(6,423)	(7,504)	(6,809)
Total	38,563	43,571	49,129	53,932	59,046

* On account of inter-segment transactions

Segment EBITDA



■ Mobile Services ■ Enterprise Services ■ Broadband & Telephone Services

EBITDA increased by 62.9% yoy to Rs. 24,466 mn on the back of economies of scale as well as increase in sales. Moreover, EBITDA margin improved by 250 bps yoy to 41.4% due to reduction in access charges, network cost, employee cost, and SG&A expenses as a percentage of sales partially offset by higher license fee and spectrum charges.

Bharti's net profit doubled to Rs. 15,115 mn as compared to 1QFY07, primarily due to higher forex gains arising out of rupee appreciation. However, rising tax charges as well as depreciation cost partially wiped off some of the increase in net profits.

Plans to launch DTH and IPTV by the end of FY08

Key Events

- The Company received the license to launch DTH services across India. It is thus planning to start its DTH and IPTV operations by the end of FY08.
- Bharti has signed contracts with Nokia Siemens Network and Ericsson worth USD 2.9 bn to expand its GSM coverage.

Entry of the multinational giant Vodafone poses a major threat

Key Risks

- Entry of Vodafone in the market presents a major risk to the Company's growth.
- With the Company growing its presence in rural circles, APRU and MoU might take a hit, thus affecting its sales.

Planned investment of around USD 3.3 to 3.5 bn for FY08

Key Developments

- The Company plans to spend USD 3.3-3.5 bn on capital expenditure for FY08. Out of the total amount, USD 1 bn has been exclusively set aside for tower business, as Bharti plans to increase the number of towers from 40,000 to 65,000 by the end of FY08.
- Bharti plans to spend USD 110 mn to acquire 100% stake in i2i cable that connects Singapore to Chennai.
- The Company is planning to demerge its tower business into a separate entity, Bharti Infratel Ltd. In addition, it is also planning to sell stake in its tower business.
- Bharti is planning to enter into various international markets like Vietnam, Europe and SAARC countries. It has also made a bid for acquiring license for mobile operations in Qatar as well as acquiring 51% share in Telkom Kenya.
- The Company's subsidiary, Bharti Airtel Lanka (BAL), plans to invest USD 200 mn to offer mobile services in Sri Lanka.

Demerger of tower business into Bharti Infratel Ltd

Venturing into international markets

Huge opportunity for subscriber addition

Demerger of tower business will add to the shareholder value

Outlook

Indian telecom market still has a huge potential for growth with a teledensity of just 20%. Currently, Bharti is present in just 4,855 towns and 243,584 villages which leaves a large scope for expansion. Internationally also, the Company is planning to foray into new markets. Thus going forward, Bharti's subscriber base is expected to increase along with higher MoU. As a result, we estimate the Company's net sales to grow at a CAGR of 38.6% for FY07-FY09E.

Moreover, Bharti's plan to demerge its tower business, will further provide a push to the Company's growth. Recently, Reliance communications Ltd (RCOM) sold 5% stake in its tower business for Rs. 14 bn, thus valuing the total business around Rs. 270 bn. Bharti having a much bigger tower base and being a market leader can command a much higher price than RCOM.

In addition, the Company's initiatives like the possible launch of DTH and IPTV applications by the end of FY08, will also contribute to its sales growth.

At the current price of Rs. 957.5, the stock is trading at a forward PE of 28.5x FY08E and 21.6x FY09E. Taking the above factors into account, we upgrade the rating to **Buy**, with a target price of Rs. 1,092 (excluding tower business valuation) based on DCF valuation.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data) (FY07-09E)						
Net Sales	80,028	116,215	185,195	277,607	355,893	38.6%
EBITDA	30,128	43,374	74,506	115,485	148,407	41.1%
<i>EBITDA Margin</i>	37.6%	37.3%	40.2%	41.6%	41.7%	
Mobile subscribers	11.0	19.6	37.1	56.5	76.2	43.2%
Broadband & Telephone subscribers	0.9	1.3	1.9	2.3	2.7	20.9%
ARPU (Mobile)	505	442	406	378	359	(6.0)%
ARPU (Broadband & Telephone)	1,229	1,063	1,112	1,134	1,157	2.0%
AMU (Mobile)	370	431	475	508	543	7.0%
Per Share Data (Rs.)						
EPS	8.1	12.0	22.5	33.6	44.3	40.4%
PER (x)	25.5x	34.5x	42.6x	28.5x	21.6x	

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