

'On Sale' - A quality consumer franchise

■ Bharti has lost 23% of its market cap in last 4 trading sessions

On analyzing the impact of RCOM's recent tariff plan (Rs0.5/min), we conclude that the price decline in Bharti stock is overdone. Therefore we believe that Bharti provides a compelling risk-reward opportunity for long-term fundamental investors who want exposure to high quality companies at reasonable valuations.

■ What is the street missing on Bharti?

1) Though RCOM's tariff is Rs0.50/min, the realized outgoing rate is Rs0.58/min (17% higher due to per minute rounding) 2) Bharti has a strong brand pull that enables the company to charge a premium to RCOM/Tata DoCoMo 3) Bharti has a significant first mover advantage in terms of scale that is sustainable, which enables Bharti to be a cost leader. 4) A vast majority of Indian mobile consumers may be tariff agnostic given the various conditions in the tariff plans as well as the low levels of absolute tariffs prevailing.

■ Positive aspects of price war that benefit Bharti

1) Business case for new entrants have become even more unviable implying that the industry will consolidate sooner 2) 3G licenses are unlikely to be heavily bid 3) Banks are unlikely to lend to the new entrants.

■ Decline overdone: Buy with SoTP based PT Rs480; Bharti is our top pick

While we choose to take a conservative near-term view with significant downward revisions to our earnings estimates & raise WACC from 10.2% to 11.3%, we find Bharti stock price currently provides an attractive entry opportunity. We cut our EPS estimates from Rs24.44/25.18/28.31 to Rs23.35/22.20/23.36 for FY10/11/12 and our PT from Rs555 to Rs480.

Highlights (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Revenues	270,250	369,615	409,274	451,704	490,707
EBIT (UBS)	76,455	104,097	101,820	98,531	104,007
Net Income (UBS)	67,008	85,412	88,492	84,151	88,537
EPS (UBS, Rs)	17.68	22.54	23.35	22.20	23.36
Net DPS (UBS, Rs)	0.00	2.00	2.33	6.66	14.02

Profitability & Valuation	5-yr hist av.	03/09	03/10E	03/11E	03/12E
EBIT margin %	23.7	28.2	24.9	21.8	21.2
ROIC (EBIT) %	26.4	31.9	27.9	26.9	26.0
EV/EBITDA (core) x	14.1	9.6	7.6	7.5	6.5
PE (UBS) x	24.8	16.2	14.3	15.1	14.3
Net dividend yield %	0.0	0.5	0.7	2.0	4.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs334.65 on 08 Oct 2009 23:38 HKT

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India

Wireless Communications

 12-month rating **Buy**
Unchanged

 12m price target **Rs480.00/US\$10.36**
Prior: Rs555.00/US\$11.98

 Price **Rs334.65/US\$7.23**

RIC: BRTI.BO BBG: BHARTI IB

9 October 2009

Trading data (local/US\$)

52-wk range	Rs468.80-267.23/US\$9.80-5.31
Market cap.	Rs1,270bn/US\$27.4bn
Shares o/s	3,795m (ORD)
Free float	32%
Avg. daily volume ('000)	1,683
Avg. daily value (Rsm)	664.4

Balance sheet data 03/10E

Shareholders' equity	Rs384bn
P/BV (UBS)	3.3x
Net Cash (debt)	(Rs28.6bn)

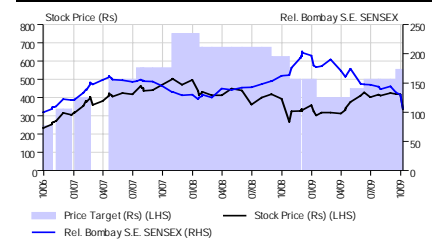
Forecast returns

Forecast price appreciation	+43.4%
Forecast dividend yield	0.8%
Forecast stock return	+44.2%
Market return assumption	12.1%
Forecast excess return	+32.1%

EPS (UBS, Rs)

	03/10E		Cons.	03/09 Actual
	From	To		
Q1E	6.64	6.64	6.98	5.37
Q2E	5.87	5.87	-	5.42
Q3E	5.96	5.38	-	5.82
Q4E	5.97	5.46	-	5.92
03/10E	24.44	23.35	25.37	
03/11E	25.18	22.20	27.04	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

Table 1: Gross voice revenue realised per minute (Rs)

	Bharti	RCOM**	Tata DoCoMo	Tata Tele
MoU (min)	480.0	380.0	300.0	250.0
Incoming MoU as % to total (UBS assumption)	54.0%	48.0%	45.0%	45.0%
On-net traffic as % to total (UBS assumption)	54.0%	60.0%	40.0%	40.0%
Incoming MoU (min.)	259.2	182.4	135.0	112.5
Incoming minutes off-net (min.)	119.2	73.0	81.0	67.5
Local Termination charges (Rs/min.)	0.20	0.20	0.20	0.20
NLD/ILD termination charges (Rs/min.)	0.40	0.40	0.40	0.40
Blended IUC charges (Rs/min.)	0.24	0.23	0.23	0.23
Revenue from incoming off-net calls (Rs)	28.1	17.1	18.5	15.4
Outgoing calls analysis				
Local calls % of outgoing MoU (UBS assumption)	82.0%	82.7%	0.60	1.00
NLD calls % of outgoing MoU (UBS assumption)	16.5%	16.0%	0.60	3.00
ILD calls % of outgoing MoU (UBS assumption)	1.5%	1.3%	8.00	8.50
Local tariff (Rs/min.)	0.70	0.58	0.60	1.00*
NLD tariff (Rs/min.)	1.20	0.58	0.60	3.00*
ILD tariff (Rs/min.)	8.50	8.50	8.00	8.50
Blended tariff (Rs/min.)	0.90	0.69	36.0	
Outgoing MoU	220.8	197.6	165.0	137.5
Revenue from outgoing calls (Rs)	198.6	135.6	105.4	67.5
Revenue from extra charges (Rs)	22.0	2.0	0.0	30.0
Total revenue from outgoing calls (Rs)	220.6	137.6	105.4	97.5
Total revenue (outgoing + interconnect) (Rs)	248.7	154.7	123.9	112.9
Gross realized revenue/min.	0.52	0.41	0.41	0.45

** RCOM's new Simply Reliance one India one plan; * per call tariff.

Note: Daily extra charges include Rs0.4 and Rs0.5 charged daily for the first local and NLD calls by Bharti, Vodafone and Idea, and Rs1 rental charged by Tata Teleservices; RCom will charge a one time activation fee of Rs48 to avail this plan, we amortise it over 24 months

Source: Company data, UBS estimates

Table 2: Bharti consolidated old vs. new estimates

YE March 31(in Rs m)	2010E	2011E	2012E
Revenues - Current	409,274	451,704	490,707
Revenues - Old	414,131	461,008	514,754
% change	-1.2%	-2.0%	-4.7%
EBITDA - Current	164,137	167,979	185,681
EBITDA - Old	168,307	179,052	202,659
% change	-2.5%	-6.2%	-8.4%
Net profit - Current	88,492	84,151	88,537
Net profit - Old	92,619	95,415	107,295
% change	-4.5%	-11.8%	-17.5%
Capex - Current	114,394	115,886	112,515
Capex - Old	115,480	117,411	106,942
% change	-0.9%	-1.3%	5.2%

Source: UBS estimates

Table 3: Bharti consolidated – UBS vs. consensus estimates

YE March 31(in Rs m)	2010E	2011E	2012E
Revenues - UBS	409,274	451,704	490,707
Revenues - Consensus	422,734	478,734	534,623
% delta	-3.2%	-5.6%	-8.2%
EBITDA - UBS	164,137	167,979	185,681
EBITDA - Consensus	173,201	198,896	209,855
% delta	-5.2%	-15.5%	-11.5%
Net profit - UBS	88,492	84,151	88,537
Net profit - Consensus	100,250	112,310	124,432
% delta	-11.7%	-25.1%	-28.8%

Source: Bloomberg and UBS estimates

Table 4: Bharti Airtel (excluding Bharti Infratel and Indus) key assumptions

YE 31 March (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Mobile business										
Total mobile subscribers (m)	538	666	770	859	937	1,006	1,065	1,113	1,150	1,177
Bharti mobile subscribers (m)	124	148	166	183	197	210	222	231	238	244
Subscriber market share	23.1%	22.1%	21.6%	21.3%	21.0%	20.9%	20.8%	20.8%	20.7%	20.7%
Incremental subscriber market share	20.0%	18.1%	18.1%	18.3%	18.3%	19.2%	19.4%	19.5%	19.6%	20.0%
Bharti's mobile revenue (Rs bn)	330	352	367	426	481	530	573	612	646	677
EBITDA margin before tower lease expenses	35.2%	33.0%	33.8%	36.0%	37.0%	38.0%	39.0%	40.0%	40.0%	40.0%
Capex / Sales	16.8%	15.7%	14.0%	12.0%	12.0%	11.0%	11.0%	10.0%	10.0%	10.0%
Blended ARPU (Rs/sub/month)	252	216	195	203	211	217	221	225	230	234
% change	-22.3%	-14.4%	-9.8%	4.6%	3.7%	2.8%	1.9%	1.9%	1.9%	1.9%
Voice ARPU (Rs/sub/month)	228	193	173	182	189	195	199	203	207	211
Blended MOU (min/sub/month)	468	454	450	450	455	459	464	468	473	478
Voice revenue per min. realization	0.49	0.43	0.39	0.40	0.42	0.42	0.43	0.43	0.44	0.44
% change	-15.0%	-12.4%	-9.7%	5.0%	3.0%	2.0%	1.0%	1.0%	1.0%	1.0%
Fixed line business										
Bharti's fixed line subscribers (m)	3.15	3.55	3.95	4.31	4.67	5.03	5.27	5.51	5.75	5.99
ARPU (Rs/sub/month)	1,016	982	942	904	867	849	832	824	820	820
% change	-8.8%	-3.3%	-4.1%	-4.1%	-4.1%	-2.0%	-2.0%	-1.0%	-0.5%	0.0%
Revenue	35,731	39,438	42,352	44,762	46,684	49,420	51,428	53,288	55,383	57,745
EBITDA margin	40.5%	41.0%	41.0%	41.0%	41.0%	41.0%	40.5%	40.5%	40.0%	40.0%
Capex / Sales	36.3%	28.5%	28.0%	19.0%	18.2%	17.2%	11.0%	10.2%	9.3%	8.5%
Enterprise business										
Bharti enterprise revenue (Rs m)	91,948	109,064	127,589	142,900	157,190	169,765	181,649	194,364	206,026	218,387
% growth	8.3%	18.6%	17.0%	12.0%	10.0%	8.0%	7.0%	7.0%	6.0%	6.0%
EBITDA margin	47.5%	46.0%	46.0%	45.0%	45.0%	45.0%	45.0%	45.0%	44.0%	44.0%
Capex / Sales	16.8%	16.0%	16.0%	13.0%	12.0%	12.0%	10.0%	10.0%	9.0%	9.0%

Source: UBS estimates

Table 5: Sensitivity analysis to change in MoU and Rev/min

Bharti SoTP (Rs/share)	Revenue per minute					
	-0.10	-0.05	0.00	0.05	0.10	
10.0	423	454	486	518	549	
5.0	421	452	483	514	546	
MoU	0.0	418	449	480	511	542
	-5.0	416	447	477	508	539
	-10.0	414	444	474	505	535

Source: UBS estimates

Table 6: Bharti Infratel excluding Indus key assumptions

YE 31 March (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Mobile subs (m)	28.29	35.13	39.54	42.94	46.11	49.28	52.45	55.35	57.99	60.63
Avg. subscribers per BTS	796	765	735	728	720	713	706	699	692	685
% growth	-3.9%	-3.9%	-3.9%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
BTS	35,517	45,914	53,802	59,021	64,016	69,105	74,290	79,196	83,811	88,512
Additional BTS	11,241	10,397	7,888	5,219	4,994	5,089	5,185	4,905	4,615	4,701
Total number of towers	32,578	38,978	43,978	47,978	50,978	52,978	54,478	55,978	56,978	57,578
Ground based towers										
Ground based towers	24,733	30,493	34,993	38,593	41,293	43,093	44,443	45,793	46,693	47,233
as a % of total towers	76%	78%	80%	80%	81%	81%	82%	82%	82%	82%
Occupancy ratio	1.57	1.65	1.72	1.77	1.82	1.87	1.92	1.92	1.92	1.92
Tenants	38,832	50,314	60,189	68,310	75,154	80,585	85,332	87,924	89,652	90,688
Avg. rental income per tower per month (Rs)	40,025	41,025	42,051	43,102	44,180	45,284	46,416	47,577	48,766	49,985
% growth	8.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Capex per ground based tower (Rs m)	2.92	3.00	3.10	3.19	3.25	3.25	3.25	3.25	3.25	3.25
Roof top towers										
Roof top towers	7,845	8,485	8,985	9,385	9,685	9,885	10,035	10,185	10,285	10,345
as a % of total towers	24%	22%	20%	20%	19%	19%	18%	18%	18%	18%
Single occupancy roof top towers	1,679	1,679	1,679	1,679	1,679	1,679	1,679	1,679	1,679	1,679
as a % of total towers	21%	20%	19%	18%	17%	17%	17%	16%	16%	16%
Roof top towers excl. single occupancy	6,165	6,805	7,305	7,705	8,005	8,205	8,355	8,505	8,605	8,665
Occupancy ratio	1.57	1.65	1.72	1.77	1.82	1.87	1.92	1.92	1.92	1.92
Tenants	11,359	12,908	14,244	15,317	16,249	17,023	17,721	18,009	18,201	18,316
Avg. rental income per tower per month (Rs)	29,265	29,804	30,376	31,008	31,654	32,312	32,983	33,808	34,653	35,519
% growth	6.2%	1.8%	1.9%	2.1%	2.1%	2.1%	2.1%	2.5%	2.5%	2.5%
Capex per rooftop tower (Rs m)	1.59	1.64	1.69	1.74	1.77	1.77	1.77	1.77	1.77	1.77

Source: UBS estimates

Table 7: Bharti minutes based KPI

	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10
Mobile revenues (Rs m)	28,411	33,022	37,579	42,431	46,976	50,579	56,105	64,201	69,150	72,843	79,392	82,216	82,285
% Non-voice revenue	10.8%	10.3%	10.4%	10.1%	9.9%	9.8%	9.3%	9.4%	9.7%	10.0%	9.5%	9.3%	9.3%
Voice revenue (Rs m)	25,343	29,621	33,671	38,145	42,325	45,622	50,887	58,166	62,442	65,559	71,850	74,570	74,632
Mobile minutes carried (m)	28,194	33,844	41,035	49,240	57,125	64,375	73,840	89,058	105,217	115,834	123,626	130,669	140,713
Network sites	n/a	n/a	n/a	n/a	43,658	52,826	60,299	69,141	75,876	82,554	88,319	93,368	96,149
Minutes carried per site (m)	n/a	n/a	n/a	n/a	1.31	1.22	1.22	1.29	1.39	1.40	1.40	1.40	1.46
Voice rev. per min (Rs)	0.90	0.88	0.82	0.77	0.74	0.71	0.69	0.65	0.59	0.57	0.58	0.57	0.53
Cost per min (Rs)	0.57	0.55	0.51	0.47	0.44	0.42	0.41	0.42	0.41	0.39	0.40	0.39	0.36
Spread per min (Rs)	0.33	0.32	0.31	0.30	0.30	0.29	0.28	0.23	0.18	0.17	0.18	0.18	0.18
EBITDA margin %	36.4%	36.9%	37.6%	39.1%	40.6%	41.0%	40.8%	35.5%	30.7%	30.2%	31.4%	31.5%	33.0%
ROE (LTM)	29.6%	31.5%	35.3%	38.1%	40.6%	41.7%	40.9%	39.3%	37.8%	35.9%	34.3%	32.6%	31.7%
ROCE (LTM)	23.8%	24.9%	26.2%	28.5%	29.3%	31.3%	32.7%	32.9%	33.8%	33.9%	32.5%	30.7%	28.7%

Source: Company data

Table 8: Bharti sum-of-the-parts valuation

Rs m	Enterprise value	Net (debt)/cash	Equity value	Bharti's stake	Value per share (Rs)	WACC	Terminal growth (%)
Bharti Airtel (incl. 89.3% stake in Bharti Infratel excl. Indus)	1,664,066	(18,904)	1,645,162	100.0%	434	11.3%	2.0%
Indus	523,622	(56,682)	466,941	37.5%	46	10.0%	2.0%
Sum of the Parts					480		

Source: UBS estimates

Table 9: Bharti Airtel DCF valuation (excluding Bharti Infratel and Indus)

YE 31 March (Rs. m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
EBIT	99,987	88,083	90,322	116,933	140,594	162,209	183,606	207,808	226,435	247,362
Cash tax rate	16.0%	16.0%	16.0%	17.5%	19.0%	21.0%	22.0%	24.0%	25.0%	30.0%
EBIT*(1-t)	83,989	73,990	75,870	96,470	113,881	128,145	143,213	157,934	169,827	173,154
D&A	51,586	63,341	74,443	81,689	88,302	95,646	100,930	102,994	100,323	96,649
Capex	(100,386)	(96,597)	(96,688)	(90,009)	(96,255)	(98,039)	(97,473)	(96,686)	(98,981)	(102,870)
Change in WC	(9,513)	5,506	4,338	4,333	6,287	2,796	2,438	3,101	3,747	4,980
FCFF	25,676	46,240	57,963	92,484	112,215	128,547	149,107	167,343	174,916	171,912
FCFF - Discounted	25,676	43,830	49,362	70,762	77,141	79,395	82,741	83,430	78,351	69,185
WACC Calculation										
Value of cash-flows 2011-2019	634,197		Risk free rate		7.0%					
Terminal value - 2% growth	780,916		Equity risk premium		5.0%					
			Beta		1.00					
Enterprise value	1,415,113		Cost of equity		12.0%					
(Net Debt)	(18,904)		Cost of debt (post tax)		7.4%					
Equity value	1,396,209		Debt / Total capital		15.0%					
Value per share	368		WACC		11.3%					

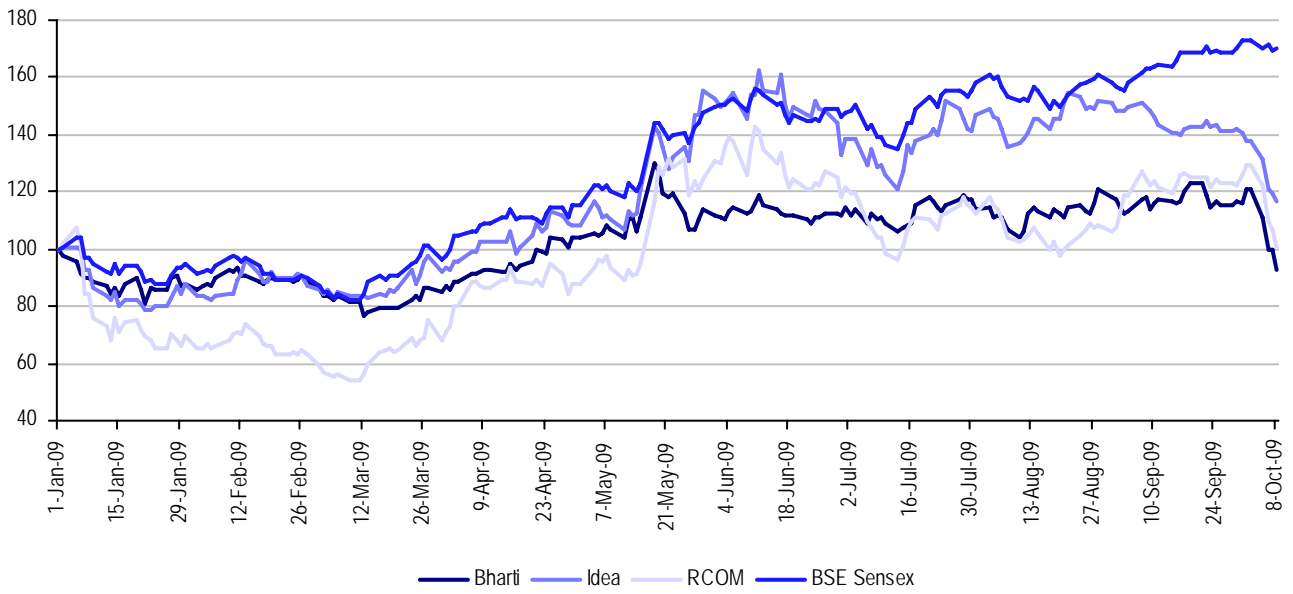
Source: UBS estimates

Table 10: Sensitivity analysis to WACC and terminal growth rate

Bharti Airtel value per share (Rs)	WACC				
	10.3%	10.8%	11.3%	11.8%	12.3%
1.0%	371	359	348	338	328
1.5%	381	369	358	347	337
Terminal growth rate	392	380	368	357	346
2.5%	405	392	380	368	357
3.0%	419	406	393	381	369

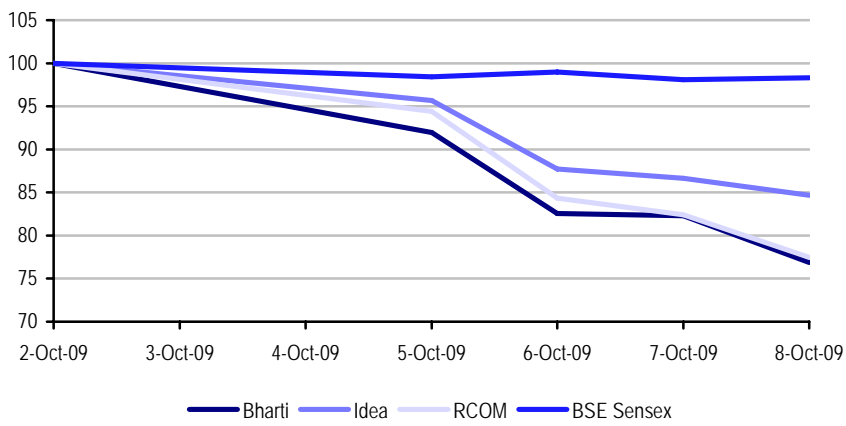
Source: UBS estimates

Chart 1: Stock price performance YTD



Source: Bloomberg

Chart 2: Stock price performance since Oct 5, 2009



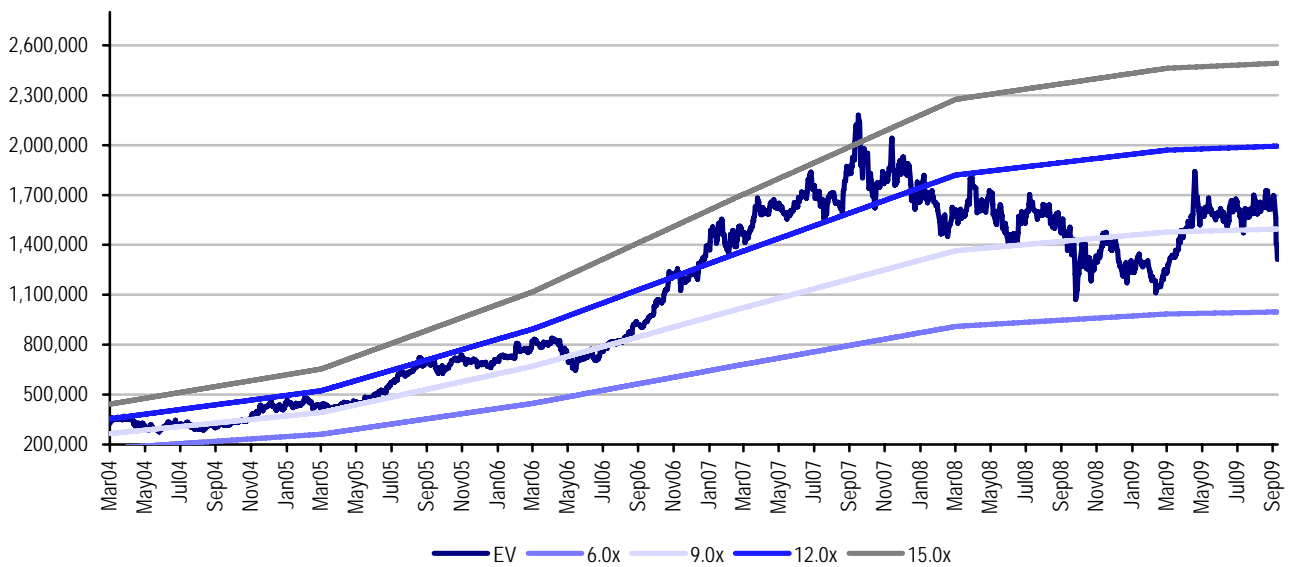
Source: Bloomberg

Chart 3: One year forward PE



Source: Bloomberg, Company data, UBS estimates

Chart 4: One year forward EV/EBITDA



Source: Bloomberg, Company data, UBS estimates

Bharti Airtel Ltd.

Income statement (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Revenues	80,028	116,633	185,196	270,250	369,615	409,274	10.7	451,704	10.4	490,707	8.6
Operating expenses (ex deprn)	-	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	29,531	43,571	74,509	113,715	151,678	164,137	8.2	167,979	2.3	185,681	10.5
Depreciation	(11,341)	(15,829)	(25,209)	(37,261)	(47,581)	(62,317)	31.0	(69,448)	11.4	(81,674)	17.6
Operating income (EBIT, UBS)	18,190	27,742	49,300	76,455	104,097	101,820	-2.2	98,531	-3.2	104,007	5.6
Other income & associates	410	484	1,011	2,422	1,302	1,535	17.9	2,995	95.1	4,465	49.1
Net interest	(1,996)	(2,651)	(1,439)	(2,341)	(11,613)	394	-	(1,134)	-	(183)	-83.9
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	16,604	25,575	48,872	76,536	93,786	103,749	10.6	100,392	-3.2	108,289	7.9
Tax	(1,528)	(2,736)	(5,822)	(8,378)	(6,615)	(13,281)	100.8	(14,055)	5.8	(17,326)	23.3
Profit after tax	15,076	22,839	43,050	68,158	87,171	90,468	3.8	86,337	-4.6	90,963	5.4
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(98)	(254)	(467)	(1,150)	(1,759)	(1,976)	12.3	(2,186)	10.6	(2,426)	11.0
Net income (local GAAP)	14,978	22,585	42,583	67,008	85,412	88,492	3.6	84,151	-4.9	88,537	5.2
Net Income (UBS)	14,978	22,585	42,583	67,008	85,412	88,492	3.6	84,151	-4.9	88,537	5.2
Tax rate (%)	9	11	12	11	7	13	81.5	14	9.4	16	14.3
Pre-abnormal tax rate (%)	9	11	12	11	7	13	83.3	14	10.7	17	15.5
Per share (Rs)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
EPS (local GAAP)	4.04	5.96	11.23	17.68	22.54	23.35	3.6	22.20	-4.9	23.36	5.2
EPS (UBS)	4.04	5.96	11.23	17.68	22.54	23.35	3.6	22.20	-4.9	23.36	5.2
Net DPS	0.00	0.00	0.00	0.00	2.00	2.33	16.7	6.66	185.3	14.02	110.4
Cash EPS	7.10	10.14	17.88	27.51	35.09	39.79	13.4	40.53	1.9	44.91	10.8
BVPS	15.96	24.56	36.12	58.64	80.08	101.21	26.4	116.75	15.4	126.10	8.0
Balance sheet (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Net tangible fixed assets	92,597	142,411	210,604	313,408	409,134	382,527	-6.5	428,966	12.1	459,807	7.2
Net intangible fixed assets	39,211	38,560	37,800	40,247	40,364	40,055	-0.8	40,055	0.0	40,055	0.0
Net working capital (incl. other assets)	(19,184)	(34,598)	(55,915)	(70,769)	(47,128)	(57,095)	21.1	(62,489)	9.4	(66,713)	6.8
Other liabilities	(10,520)	(11,210)	(12,349)	(15,195)	(18,120)	(19,767)	9.1	(19,032)	-3.7	(20,202)	6.1
Operating invested capital	102,105	135,163	180,140	267,691	384,250	345,720	-10.0	387,500	12.1	412,947	6.6
Investments	671	190	182	108	128	79,121	61713.3	79,121	0.0	79,121	0.0
Total capital employed	102,775	135,353	180,322	267,799	384,378	424,841	10.5	466,621	9.8	492,068	5.5
Shareholders' equity	59,160	92,177	135,528	222,586	303,943	383,587	26.2	442,493	15.4	477,908	8.0
Minority interests	749	957	1,801	3,013	10,704	12,680	18.5	14,866	17.2	17,292	16.3
Total equity	59,910	93,134	137,329	225,599	314,647	396,267	25.9	457,359	15.4	495,200	8.3
Net debt / (cash)	42,865	42,219	42,993	42,200	69,731	28,574	-59.0	9,262	-67.6	(3,132)	-
Debt deemed provisions	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	102,775	135,353	180,322	267,799	384,378	424,841	10.5	466,621	9.8	492,068	5.5
Cash flow (Rsm)	03/05	03/06	03/07	03/08	03/09	03/10E	% ch	03/11E	% ch	03/12E	% ch
Operating income (EBIT, UBS)	18,190	27,742	49,300	76,455	104,097	101,820	-2.2	98,531	-3.2	104,007	5.6
Depreciation	11,341	15,829	25,209	37,261	47,581	62,317	31.0	69,448	11.4	81,674	17.6
Net change in working capital	1,029	19,184	22,487	(30,550)	(8,339)	(9,513)	14.1	5,506	-	4,338	-21.2
Other (operating)	5,235	(3,149)	(3,145)	42,855	(2,227)	602	-	(848)	-	1,056	-
Operating cash flow	35,795	59,606	93,851	126,020	141,112	155,225	10.0	172,637	11.2	191,076	10.7
Net interest received / (paid)	(1,996)	(2,651)	(1,439)	(2,341)	(11,613)	394	-	(1,134)	-	(183)	-83.9
Dividends paid	0	0	0	0	(7,580)	(8,849)	16.7	(25,245)	185.3	(53,122)	110.4
Tax paid	(1,528)	(2,736)	(5,822)	(8,378)	(6,615)	(13,281)	100.8	(14,055)	5.8	(17,326)	23.3
Capital expenditure	(26,451)	(63,337)	(89,271)	(121,259)	(140,171)	(114,394)	-18.4	(115,886)	1.3	(112,515)	-2.9
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(3,763)	837	(343)	74	7,691	1,976	-74.3	2,186	10.6	2,426	11.0
Share issues	103	8,445	1,647	21,237	0	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	2,471	394	(833)	16,625	(17,633)	19,600	-	17,117	-12.7	8,929	-47.8
FX / non cash items	(917)	252	59	(15,832)	(9,898)	21,557	-	2,195	-89.8	3,465	57.8
Balance sheet (inc)/dec in net debt	1,554	646	(774)	793	(27,531)	41,157	-	19,312	-53.1	12,394	-35.8
Core EBITDA	29,531	43,571	74,509	113,715	151,678	164,137	8.2	167,979	2.3	185,681	10.5
Maintenance capital expenditure	(26,451)	(63,337)	(89,271)	(121,259)	(140,171)	(114,394)	-18.4	(115,886)	1.3	(112,515)	-2.9
Maintenance net working capital	1,029	19,184	22,487	(30,550)	(8,339)	(9,513)	14.1	5,506	-	4,338	-21.2
Operating free cash flow, pre-tax	4,109	(582)	7,725	(38,094)	3,168	40,230	1169.9	57,599	43.2	77,504	34.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

12-month rating

Buy

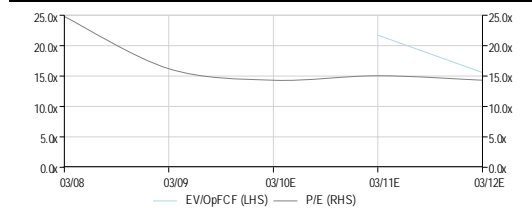
12m price target

Rs480.00

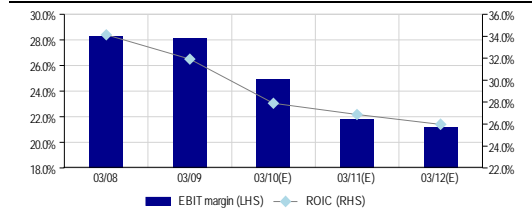
Company profile

Bharti Airtel is one of India's leading telcos. The company's revenue market share is around 25%. The mobile services group provides GSM mobile services across India in 23 telecom circles. The broadband & telephone business group provides broadband and telephone services in 100 cities. The enterprise services group has two sub-units: carriers (long-distance services) and corporate services. All these services are provided under the Airtel brand. Singapore Telecom owns around 31% of Bharti Airtel.

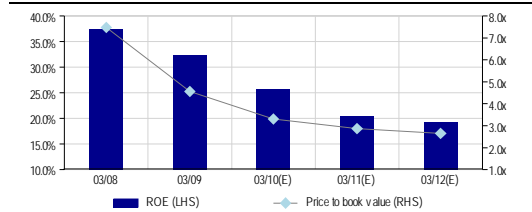
Value (EV/OpFCF & P/E)



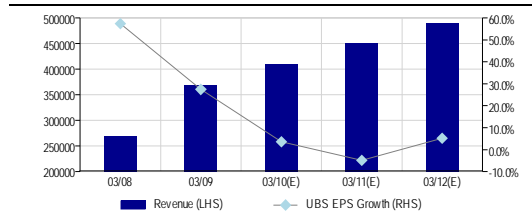
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
P/E (local GAAP)	24.8	24.8	16.2	14.3	15.1	14.3
P/E (UBS)	24.8	24.8	16.2	14.3	15.1	14.3
P/CEPS	13.9	15.9	10.4	8.4	8.3	7.5
Net dividend yield (%)	0.0	0.0	0.5	0.7	2.0	4.2
P/BV	5.9	7.5	4.6	3.3	2.9	2.7
EV/revenue (core)	5.6	6.3	3.9	3.1	2.8	2.5
EV/EBITDA (core)	14.1	15.0	9.6	7.6	7.5	6.5
EV/EBIT (core)	21.7	22.3	13.9	12.3	12.7	11.6
EV/OpFCF (core)	NM	NM	NM	NM	21.8	15.6
EV/op. invested capital	5.7	7.6	4.4	3.4	3.4	3.0

Enterprise value (Rsm)	03/08	03/09	03/10E	03/11E	03/12E
Average market cap	1,662,667	1,387,684	1,269,997	1,269,997	1,269,997
+ minority interests	2,407	6,859	11,692	13,773	16,079
+ average net debt (cash)	42,597	55,966	49,152	49,152	3,065
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(108)	(128)	(79,121)	(79,121)	(79,121)
Core enterprise value	1,707,562	1,450,380	1,251,720	1,253,801	1,210,020

Growth (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue	53.8	45.9	36.8	10.7	10.4	8.6
EBITDA (UBS)	63.6	52.6	33.4	8.2	2.3	10.5
EBIT (UBS)	75.0	55.1	36.2	-2.2	-3.2	5.6
EPS (UBS)	89.6	57.4	27.5	3.6	-4.9	5.2
Cash EPS	68.0	53.9	27.5	13.4	1.9	10.8
Net DPS	-	-	-	16.7	185.3	110.4
BVPS	47.1	62.4	36.6	26.4	15.4	8.0

Margins (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBITDA / revenue	37.9	42.1	41.0	40.1	37.2	37.8
EBIT / revenue	23.7	28.3	28.2	24.9	21.8	21.2
Net profit (UBS) / revenue	19.3	24.8	23.1	21.6	18.6	18.0

Return on capital (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT ROIC (UBS)	26.4	34.1	31.9	27.9	26.9	26.0
ROIC post tax	-	30.4	29.7	24.3	23.0	21.7
Net ROE	28.8	37.4	32.4	25.7	20.4	19.2

Coverage ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
EBIT / net interest	18.4	NM	9.1	-	NM	NM
Dividend cover (UBS EPS)	-	-	11.3	10.0	3.3	1.7
Div. payout ratio (% , UBS EPS)	-	-	8.9	10.0	30.0	60.0
Net debt / EBITDA	0.8	0.4	0.5	0.2	0.1	NM

Efficiency ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Revenue / op. invested capital	1.0	1.2	1.1	1.1	1.2	1.2
Revenue / fixed assets	0.8	0.9	0.9	0.9	1.0	1.0
Revenue / net working capital	NM	NM	NM	NM	NM	NM

Investment ratios (x)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
OpFCF / EBIT	NM	NM	0.0	0.4	0.6	0.7
Capex / revenue (%)	NM	NM	NM	28.0	25.7	22.9
Capex / depreciation	3.3	3.3	2.9	1.8	1.7	1.4

Capital structure (%)	5Yr Avg	03/08	03/09	03/10E	03/11E	03/12E
Net debt / total equity	38.6	19.0	22.9	7.4	2.1	(0.7)
Net debt / (net debt + equity)	27.9	15.9	18.7	6.9	2.1	(0.7)
Net debt (core) / EV	5.4	2.5	3.9	3.9	3.9	0.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs334.65 on 08 Oct 2009 23:38 HKT Market cap(E) may include forecast share issues/buybacks.

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■ **Bharti Airtel Ltd.**

Bharti Airtel is one of India's leading telcos. The company's revenue market share is around 25%. The mobile services group provides GSM mobile services across India in 23 telecom circles. The broadband & telephone business group provides broadband and telephone services in 100 cities. The enterprise services group has two sub-units: carriers (long-distance services) and corporate services. All these services are provided under the Airtel brand. Singapore Telecom owns around 31% of Bharti Airtel.

■ **Statement of Risk**

Irrational competition among the operators, the shortage of frequency spectrum and over-bidding during the 3G spectrum auction are the key risks facing all the operators at the industry level.

We believe Bharti faces execution risk in light of the rapid growth of India's mobile subscriber base. The company recently announced a shift in strategy and will focus on overseas acquisitions as another means of creating shareholder value. While Bharti's management has historically had good discipline when it comes to investing capital, we believe there is a risk of Bharti overpaying for acquisitions, given that there are typically multiple bidders in most transactions.

■ **Analyst Certification**

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	44%	39%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	15%	27%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	33%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2009.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

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Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities India Private Ltd: Suresh A Mahadevan, CFA; Nupur Agarwal.

Company Disclosures

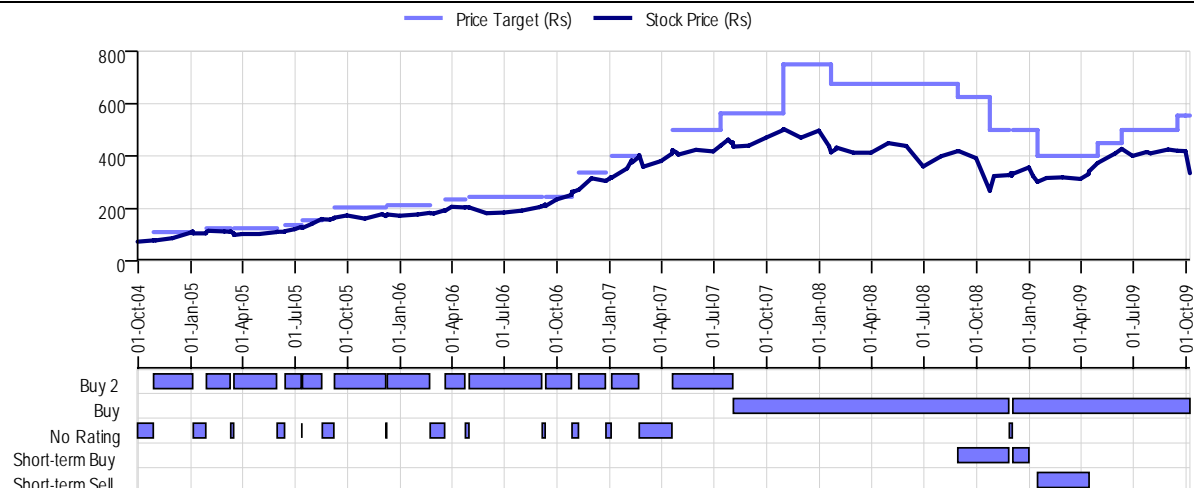
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bharti Airtel Ltd.	BRTI.BO	Buy	N/A	Rs334.65	08 Oct 2009

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bharti Airtel Ltd. (Rs)



Source: UBS; as of 08 Oct 2009

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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