

23rd July 2009

BUY

Price	Target Price
Rs814	Rs952
Sensex	15,231

Price Performance

(%)	1M	3M	6M	12M
Absolute	4	15	31	(0)
Rel. to Sensex	(3)	(19)	(24)	(2)

Source: Bloomberg

Stock Details

Sector	Telecom
Reuters	BRTI1.BO
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18982
Face Value (Rs)	10
52 Week H/L (Rs)	990/484
Market Cap (Rs bn)	1,545
Daily Avg Vol (No of sh)	5371103
Daily Avg Turnover (US\$ mn)	88.3

Shareholding Pattern (%)

 (31st Mar.'09)

Promoters	67.4
FII/NRI	20.0
Institutions	7.9
Private Corp.	3.4
Public	1.4

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Bharti Airtel

Result Update

Subdued revenue growth but profits firm

Bharti Airtel's Q1FY10 EBIDTA and PAT performance were in-line with estimates however the revenue growth remained subdued at 1.2% QoQ. Revenue growth was mainly impacted by the reduction in MTC (mobile termination charge) effective from 1st Apr-09. Also the revenues from Enterprise and Telemedia business remain flat QoQ. EBIDTA grew by 3.8% QoQ to Rs41.5bn (v/s our estimate of Rs41.8bn) with 110bps expansion in EBIDTA margins. PAT grew by 12.4% QoQ to Rs25.2bn v/s our est. of Rs26.2bn led by net interest income of Rs2.6bn. With high focus on rural net-adds consistently resulting in MOU fall coupled with step fall of 7.4% in RPM due to MTC cut resulted in 9% ARPU drop to Rs278. While mobile revenues were hit by lower termination charges, so were access costs (down 20% QoQ) with due to which mobile margins improved by 160bps and cons. margins by 110bps.

With revenue growth on the backseat due to sharper fall in ARPU, we have cut our ARPU estimates by ~6% revenue estimates by ~5% for both FY10E and FY11E. However with MTC having minimal impact on profitability due to proportionate benefit in access costs, the changes to our EBIDTA and PAT estimates are minimal. Our EPS estimates of Rs53 and Rs59.7 for FY10E and FY11E respectively imply an EPS CAGR of 16% over FY09-11E. While the Q1FY10 results have disappointed on revenue growth front, we believe that the effect was higher due to step fall on account of MTC cut and believe that major correction in RPM has gone by. We continue to retain BUY rating with price target of Rs952 given the attractive valuations of 8.6x and 7x EV/EBIDTA for FY10E and FY11E respectively.

Mobile business KPI's disappoint on MTC cut

Mobile revenues during the quarter remained flat due to 9% QoQ fall in ARPU to Rs278. The ARPU fall was mainly due to 7.4% fall in RPM to Re0.58 on account of MTC cut effective from the beginning of Q1FY10. MOU fall continued with drop of 1.5% QoQ to 478 minutes due to increasing proportion of users from rural India having lower usage. Mobile traffic growth remained healthy at 7.8% QoQ to 140bn minutes. With MTC cut having nullified affect between the termination revenues and access costs the mobile business EBIDTA margins increased by 160bps reflecting negligible impact of MTC on EBIDTA. Bharti's post-paid subscriber base for the 2nd time saw sequential decline of 1.8% QoQ which indicates intensifying competitive effects especially given that the MNP implementation is due in a couple of quarters.

Telemedia and Enterprise segments also show poor revenue growth

While the sharp 4% drop in Telemedia ARPU resulted in flattish revenue growth in the segment, lack of non-captive long distance traffic resulted in 1.4% drop in Enterprise business revenues. Overall the 1.2% revenue growth for the quarter was due to growth in passive infrastructure revenues which grew by healthy 11% QoQ on account of increased rentals and tenancy, driven by capex efficiencies being generated by Indus.

FY10 EPS cut by 6%, price target cut to Rs952 - Maintain BUY

Post poor revenue growth performance led by the impact of MTC reduction we have cut our revenue estimates by 5% each for FY10E and FY11E however with EBIDTA and PAT estimates remaining largely unchanged. We retain BUY rating on the stock and maintain our price target of Rs952 per share. 3G auction and MNP implementation remain medium term risks while M&A with MTN remains key near term risk to our BUY call.

	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	ROCE (%)	EV/EBITDA	P/BV (Rs)	EPS (Rs)	P/E
FY08	270,250	113,398	42.0	67,007	28.2	14.0	6.9	35.3	23.1
FY09	369,615	151,458	41.0	84,699	26.3	10.6	5.1	44.6	18.2
FY10E	425,509	180,331	42.4	100,573	24.9	8.6	3.9	53.0	15.4
FY11E	485,902	205,439	42.3	113,311	24.2	7.0	3.1	59.7	13.6

Revenue estimates cut by 5% to factor impact of MTC; EBIDTA and PAT estimates largely unchanged

To factor the impact of MTC reduction in our estimates, we have cut our ARPU estimate by ~6% for FY10E/FY11E resulting in ~5% cut in revenues for the same period. However with largely nullified impact of MTC on termination revenues and access costs, our EBIDTA and PAT estimates remain largely unchanged. Our EPS estimates for FY10E and FY11E are at Rs53 and Rs59.7 respectively.

	FY10E estimates				FY11E estimates		
	FY09A	Old	New	Chg %	Old	New	Chg %
Subscribers	93,923	124,995	124,995	0.0%	148,839	148,839	0.0%
ARPU	325	284	266	-6.3%	260	245	-5.8%
MOU	508	478	472	-1.2%	463	454	-2.0%
RPM	0.64	0.59	0.56	-4.5%	0.56	0.54	-3.6%
Revenues	369,615	446,889	425,509	-4.8%	509,295	485,902	-4.6%
EBIDTA	151,458	180,900	180,331	-0.3%	205,653	205,439	-0.1%
EBIDTA %	41	40.5	42.4	188	40.4	42.3	188
PAT	84,699	100,133	100,573	0.4%	113,198	113,311	0.1%
EPS	44.6	52.8	53.0	0.4%	59.6	59.7	0.2%

Source: Company, Emkay Research

Mobile business – MTC cut impacts KPI's

The mobile business segment showed muted performance for the quarter due to sharp fall of 7.4% in RPM resulting in 9% ARPU drop which in turn resulted in flat revenues for the quarter. While the RPM drop of 7.4% was due to MTC reduction from Rs0.3/ minute to Rs0.2/ minute effective from 1st April-09, the MOU also continued declining streak with fall of 1.5% QoQ to 478 minutes. EBIDTA margins for the quarter improved by 160bps led by lower access cost, which was again due to MTC reduction. We once again highlight that Bharti has witnessed decline in its post-paid subscriber base which we believe is a matter of concern considering the sharp increase in competitive intensity especially when MNP implementation is due in couple of quarters.

Mobile KPIs	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	% QoQ
Revenues	46,976	50,579	56,105	64,201	69,150	72,843	79,392	82,216	82,285	0.1
EBIDTA	19,087	20,728	22,887	22,779	21,218	22,009	24,963	25,860	27,183	5.1
EBIDTA%	40.6	41.0	40.8	35.5	30.7	30.2	31.4	31.5	33.0	158
Traffic (mn mins)	57,125	64,375	73,840	89,058	105,217	115,834	123,626	130,669	140,713	7.7
MOU (mins)	478	469	474	507	534	526	505	485	478	-1.5
ARPU (Rs)	390	366	358	357	350	331	324	305	278	-8.8
RPM	0.82	0.78	0.76	0.70	0.65	0.63	0.64	0.63	0.58	-7.4
EPM	0.33	0.32	0.31	0.26	0.20	0.19	0.20	0.20	0.19	-2.4
Subscribers ('000)	42,704	48,876	55,163	61,985	69,384	77,479	85,651	93,923	102,368	9.0
Post-paid	4,396	4,680	4,968	5,222	5,376	5,508	5,538	5,476	5,380	-1.8%

Source: Company, Emkay Research

Telemedia segment

The Telemedia segment revenue remained flat at Rs8.6bn due to a sharp 4% fall in ARPU. The EBIDTA margins in the segment also fell by 160bps on lower realizations. With Bharti's strategy of cherry picking in the segment, such large fall in ARPU remains cause of concern.

Telemedia	Q108	Q208	Q308	Q408	Q109	Q209	Q309	Q409	Q110	% QoQ
Revenues	6,513	7,023	7,307	7,641	7,988	8,486	8,458	8,585	8,550	-0.4
EBIDTA	2,100	2,790	3,173	3,344	3,367	3,696	3,531	3,614	3,463	-4.2
EBIDTA%	32.2	39.7	43.4	43.8	42.2	43.6	41.7	42.1	40.5	-159
Subscribers	1,972	2,075	2,178	2,283	2,394	2,509	2,619	2,726	2,828	3.7
ARPU	1,121	1,150	1,140	1,137	1,138	1,147	1,098	1,071	1,027	-4.1

Source: Company, Emkay Research

Consolidated quarterly results

	Q308	Q408	Q109	Q209	Q309	Q409	Q110	QoQ %
Mobility	56,105	64,201	69,150	72,843	79,392	82,216	82,285	0.1
Broadband & Telecom	7,307	7,641	7,988	8,486	8,458	8,585	8,550	-0.4
Long distance	11,346	12,566	15,694	17,002	17,733	17,508	21,333	-1.4
Enterprise services	3,945	4,578	4,704	5,783	5,004	5,065	1,027	8.7
Passive Infrastructure	0	6,023	10,563	11,983	12,702	7,241	8,020	10.8
Inter segment	(9,064)	(16,818)	(23,266)	(25,894)	(26,955)	(22,370)	(21,799)	
Net revenues	69,639	78,191	84,833	90,203	96,334	98,245	99,416	1.2
<i>Growth QoQ%</i>	<i>9.90%</i>	<i>12.30%</i>	<i>8.50%</i>	<i>6.33%</i>	<i>6.80%</i>	<i>1.98%</i>	<i>1.19%</i>	
Access charges	10,424	12,298	12,426	12,902	13,426	14,149	11,371	-19.6
License fees, & charges	6,991	7,801	8,532	9,096	10,030	10,608	10,126	-4.5
Network operations costs	8,851	9,807	12,324	14,392	15,734	16,905	18,165	7.5
Employee costs	3,789	3,722	3,967	4,209	4,311	4,505	4,662	3.5
Costs of equipment sales	184	89	185	865	225	174	93	-46.6
Sales & marketing exp	9,766	11,956	12,179	11,746	13,158	11,890	13,481	13.4
Total operating exp	40,005	45,673	49,613	53,210	56,884	58,231	57,898	-0.6
EBIDTA	29,634	32,518	35,220	36,993	39,450	40,014	41,518	3.8
Depreciation	10,377	9,702	10,045	11,549	12,702	13,285	14,330	7.9
EBIT	19,257	22,816	25,176	25,444	26,748	26,729	27,188	1.7
Interest charges	810	2,157	1,832	5,741	1,904	2,136	-2,605	-222.0
Other income	643	683	584	274	239	425	186	-56.2
Pre operative costs	57	208	1	160	3	56	131	
Loss in JV & associates	1	2	113	93	451	56	(240)	
PBT	19,032	21,132	23,814	19,724	24,629	24,906	30,088	20.8
Taxes	1,564	2,085	3,282	-1,247	2,558	2,022	4,442	
Minority interest	(244)	(518)	(282)	(508)	(478)	(491)	(479)	-2.4
PAT	17,224	18,529	20,250	20,463	21,593	22,393	25,167	12.4

% of Net sales	Chg bps							
Access charges	15.0	15.7	14.6	14.3	13.9	14.4	11.4	-296
License fees, & charges	10.0	10.0	10.1	10.1	10.4	10.8	10.2	-61
Network operations costs	12.7	12.5	14.5	16.0	16.3	17.2	18.3	106
Employee costs	5.4	4.8	4.7	4.7	4.5	4.6	4.7	10
Sales & marketing exp	14.0	15.3	14.4	13.0	13.7	12.1	13.6	146
EBIDTA	42.6	41.6	41.5	41.0	41.0	40.7	41.8	103
EBIT	27.7	29.2	29.7	28.2	27.8	27.2	27.3	14
PAT	24.7	23.7	23.9	22.7	22.4	22.8	25.3	252

Source: Emkay research

Financials

Profit & Loss

	FY08	FY09	FY10E	FY11E
Net Sales	270,250	369,615	425,509	485,902
<i>Growth (%)</i>	45.9	36.8	15.1	14.2
Access & interconnect chg	41,110	52,903	53,189	60,738
<i>% to sales</i>	15.2	14.3	12.5	14.3
Network optg exp	33,002	59,352	69,358	80,174
<i>% to sales</i>	12.2	16.1	16.3	18.8
Personnel exp	14,768	16,992	19,148	21,866
<i>% to sales</i>	5.5	4.6	4.5	5.1
License fees	26,900	38,270	45,529	52,477
<i>% to sales</i>	10.0	10.4	10.7	12.3
Sales & mktg exp	40,093	48,972	57,018	64,625
<i>% to sales</i>	14.8	13.2	13.4	15.2
Other optg exp	979	1,668	936	583
<i>% to sales</i>	0.4	0.5	0.2	0.1
EBITDA	113,398	151,458	180,331	205,439
<i>EBITDA %</i>	42.0	41.0	42.4	42.3
Depreciation	37,261	47,581	61,182	71,307
EBIT	76,137	103,877	119,149	134,132
<i>EBIT %</i>	28.2	28.1	28.0	27.6
Interest	2,341	11,613	2,427	(703)
Other Income	2,739	809	1,540	1,540
PBT	76,535	93,073	118,262	136,375
Taxes	8,378	6,615	15,374	20,456
Minority	(1,150)	(1,759)	(2,315)	(2,608)
PAT	67,007	84,699	100,573	113,311

Cash Flow Statement

	FY08	FY09	FY10E	FY11E
EBIT	76,137	103,877	119,149	134,132
Depreciation	37,261	47,581	61,182	71,307
Interest (Net)	(2,341)	(11,613)	(2,427)	703
Tax Paid	(8,378)	(6,615)	(15,374)	(20,456)
Change in WC	17,734	(9,947)	6,111	11,921
Others	2,740	1,522	1,540	1,540
CFO	123,153	124,805	170,181	199,147
Net Capex	(142,512)	(141,304)	(108,000)	(94,500)
Others	2,285	(2,284)	2,919	1,059
CFI	(140,227)	(143,587)	(105,081)	(93,441)
Equity Issue	20,025	(3,339)	0	0
Net Borrowings	44,602	21,738	(45,000)	(10,000)
others	61	3,097	(4,441)	(8,881)
CFF	64,688	21,495	(49,441)	(18,881)
Inc/(dec) in cash	47,614	2,713	15,659	86,824
Opening Cash	10,384	57,998	60,711	76,370
Closing Cash	57,998	60,711	76,370	163,194

Balance Sheet

	FY08	FY09	FY10E	FY11E
Equity Capital	18,979	18,982	18,982	18,982
Reserves & surplus	203,606	284,963	381,095	485,524
Net worth	222,585	303,945	400,077	504,506
Minority interest	3,013	10,704	13,019	15,627
Total Debt	97,063	118,801	73,801	63,801
Others	15,195	18,120	18,870	18,783
Capital Employed	337,856	451,570	505,767	602,718
Gross Block	416,634	557,821	665,821	760,321
Less Depreciation	103,227	148,685	209,867	281,174
Net Fixed Assets	313,407	409,136	455,954	479,147
Net intangible assets	40,247	40,364	40,364	40,364
Investments	108	128	128	128
Other non current assets	5,041	10,230	8,061	6,916
Current assets				
Inventory	1,142	963	1,166	1,331
Debtors	28,062	28,528	29,144	31,950
Cash and Bank	57,998	60,711	76,370	163,194
Other CA	26,638	53,889	52,460	53,250
Total Curr. Assets	113,840	144,091	159,140	249,724
Current Liabilities	134,787	152,377	157,879	173,560
Net Current Assets	(20,947)	(8,287)	1,261	76,165
Capital Deployed	337,856	451,570	505,767	602,718

Ratios

	FY08	FY09	FY10E	FY11E
EBITDA %	42.0	41.0	42.4	42.3
EBIT %	28.2	28.1	28.0	27.6
NPM %	24.8	22.9	23.6	23.3
ROCE %	28.2	26.3	24.9	24.2
ROE %	37.4	32.2	28.6	25.1
ROIC %	32.3	31.0	29.1	30.9
EPS	35.3	44.6	53.0	59.7
Cash EPS	54.9	69.7	85.2	97.3
Book Value	117.3	160.1	210.8	265.8
Net Debt: Equity	0.2	0.2	(0.0)	(0.2)
Asset Turnover	0.8	0.8	0.8	0.8
PE (x)	23.1	18.2	15.4	13.6
Cash PE (x)	14.8	11.7	9.6	8.4
P/BV (x)	6.9	5.1	3.9	3.1
EV/Sales (x)	5.9	4.3	3.6	3.0
EV/EBITDA	14.0	10.6	8.6	7.0

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