

Rumit Dugar (+91 22 6639 9186, rumit.dugar@alchemyonline.com)

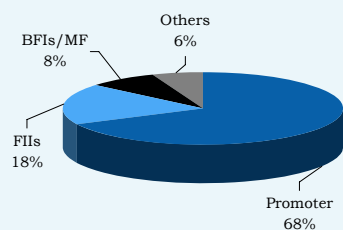
Key points

- 2QFY10 Headline miss, revenue decline sequentially.
- MOUs slip 6% qoq

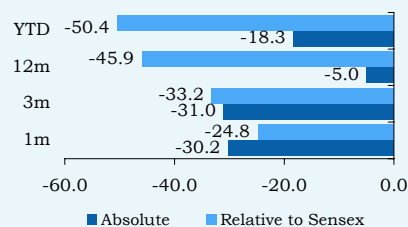
CMP **Rs292**

Reuters code	BRTI.BO
Bloomberg code	BHARTI IB
Shares o/s (mn)	3797
Mkt Cap	Rs1109bn/US\$24bn
52 wk high / Low	Rs495/272
Avg daily trad vol	13.96(mn shs)
BSE Sensex	15,896
Nifty	4,712

Shareholding pattern



Performance



Share price movement



Weak 2QFY10; per second to add to the ARPM hit. Remain negative

Outlook	
Revenue	We expect Rev/EBITDA CAGR of 4%/1% FY09-FY11
Margin	Expect wireless margins to drop to 25% in FY11.
Valuation	Currently trading at 13x our FY10E EPS and 7.4x EV/EBITDA

Struggle for growth and profitability to only intensify

Bharti reported 2QFY10 numbers, with a miss on the headline numbers. The Rev/EBITDA/PAT came in at Rs98.4bn/Rs41.4bn/Rs23.2bn vs. our est. of Rs103bn/Rs41.8bn/Rs23.9bn. Revenues were down 1% on qoq basis and EBITDA growth was flat sequentially. The EBITDA margin was better at 42.1% vs. our expectation of 40.5%. This was largely led by improvement in margins across all non-wireless businesses. The capex for the quarter was slightly below expectations at Rs22.7bn (our est. of Rs26bn). Bharti has maintained its annual capex guidance of \$2-\$2.2bn. Further growth in other businesses has been largely flat, except passive infra. Given the sharp fall in wireless pricing we believe that Bharti would struggle to show growth in its headline numbers.

Weak wireless performance

Wireless business revenues were down 1.6% q/q at Rs80.9bn despite 8% q/q subscriber growth. The ARPM was inline at Rs0.56, however the MOUs fell 6% qoq basis to 450mins leading to a slide on the wireless topline. Further the traffic growth slowed to 2% qoq much in line with what we saw from Idea Cellular. The wireless EBITDA margin was down from 33% in 1QFY10 to 31.9% in 2QFY10, leading to EBITDA degrowth of 5% on a sequential basis.

Margins in non-wireless the saving grace

While wireless business margins slipped, margins on their non wireless business were the saving grace. Margins improved on a sequential basis across all non wireless businesses. Infratel margins improved to 46.8% (44.4% in 1QFY10), Telemidia margins to 42.9% (40.5% in 2QFY10) and Enterprise to 51.7% (48.8% in 1QFY10). However growth was disappointing across non-wireless businesses too with Telemidia reporting flat sequential revenues and Enterprise reporting 2% qoq growth. Passive infra grew 7% qoq driven by improved tenancy to 1.49x (1.43x in 1QFY10) and better yields at Rs36,696 up 1 %qoq.

Investment view

Overall a weak quarter by Bharti reflecting pressure on growth/profitability. Further Bharti has introduced per second pulse on the pre paid. Strategically, Bharti's entry into the market matching the lowest price plans, does reduce the value proposition for the new operators. Nevertheless it does come at a cost of its own profitability. We are adjusting our estimates to factoring in weak MOUs and drop in traffic growth. Further we were building in a 16% qoq drop in ARPMs in 4QFY10; we are now rolling over the same to 3QFY10 on the back of per second pulse introduction. We retain our negative view on the sector and recommend investors to avoid telecom sector.

Financial summary

Year end march (Rs.mn)	FY07	FY08	FY09	FY10E	FY11E
Net sales	229,135	326,637	369,615	376,760	406,447
Net Profit	86,509	123,395	84,699	87,140	90,962
EPS RS	11.2	17.7	22.3	23.0	24.0
P/E(x)	34.0	23.4	14.0	12.7	12.2
ROCE(%)	26.8	27.1	27.8	20.6	17.4
ROE(%)	37.4	38.0	32.5	25.3	21.3
EV / EBITDA	20.0	14.2	8.3	7.4	6.8
P / BV	15.8	11.6	5.5	3.6	2.9

Source: Alchemy, Company, Bloomberg

2QFY10 - Growth difficult to come by

Exhibit 1 - Bharti: 2QFY10 Results Summary

Rs in millions, Year-end March	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
Mobile Revenues	69,150	72,843	79,392	82,216	82,285	80,994
Q/Q Growth	7.7	5.3	9.0	3.6	0.1	-1.6
Y/Y Growth	47.2	44.0	41.5	28.1	19.0	11.2
Telemedia Revenues	7,988	8,486	8,458	8,585	8,550	8,544
Q/Q Growth	4.5	6.2	-0.3	1.5	-0.4	-0.1
Y/Y Growth	22.6	20.8	15.8	12.4	7.0	0.7
Passive Infrastructure Revenues	10,563	11,983	12,702	7,241	8,020	8,586
Q/Q Growth	75.4	13.4	6.0	-43.0	10.8	7.1
Y/Y Growth	NM	NM	NM	20.2	-24.1	-28.3
Enterprise Revenues	19,572	21,874	21,808	21,628	20,982	21,331
Q/Q Growth	19.8	11.8	-0.3	-0.8	-3.0	1.7
Y/Y Growth	63.9	62.4	49.0	32.4	7.2	-2.5
Total Revenues	84,833	90,203	96,334	98,245	99,416	98,455
Q/Q Growth	8.5	6.3	6.8	2.0	1.2	-1.0
Y/Y Growth	43.7	42.3	38.3	25.6	17.2	9.1
Total EBITDA	35,221	36,993	39,450	40,014	41,518	41,416
EBITDA Margin (%)	41.5%	41.0%	41.0%	40.7%	41.8%	42.1%
Q/Q Growth	8.3	5.0	6.6	1.4	3.8	-0.2
Y/Y Growth	44.0	36.5	33.1	23.1	17.9	12.0
PBT	23,814	19,724	24,629	24,906	30,088	26,589
Q/Q Growth	12.7	-17.2	24.9	1.1	20.8	-11.6
Y/Y Growth	26.0	12.9	29.4	17.9	26.3	34.8
PAT	20,250	20,463	21,593	22,393	25,167	23,210
Q/Q Growth	9.3	1.1	5.5	3.7	12.4	-7.8
Y/Y Growth	34.0	26.8	25.4	20.9	24.3	13.4

Source: Company

The wireless revenues declined 1.6% q/q at Rs80.9bn vs. our estimate of Rs85.1bn on the back sharp slip on MOUs.

Further there was no sequential growth in Telemedia segment, while Enterprise the growth was muted at 1.7% qoq.

Only passive infra saw good growth of 7% qoq, driven by improved tenancy and 1% sequential growth in yields.

The revenues came in below our expectations driven largely by soft wireless business performance.

The EBITDA margins on the wireless business fell to 31.9% in 2QFY10 vs. 33% in 1QFY10. Overall EBITDA margins improved driven by non-wireless businesses

Exhibit 2 - Bharti: Key Operating Metrics

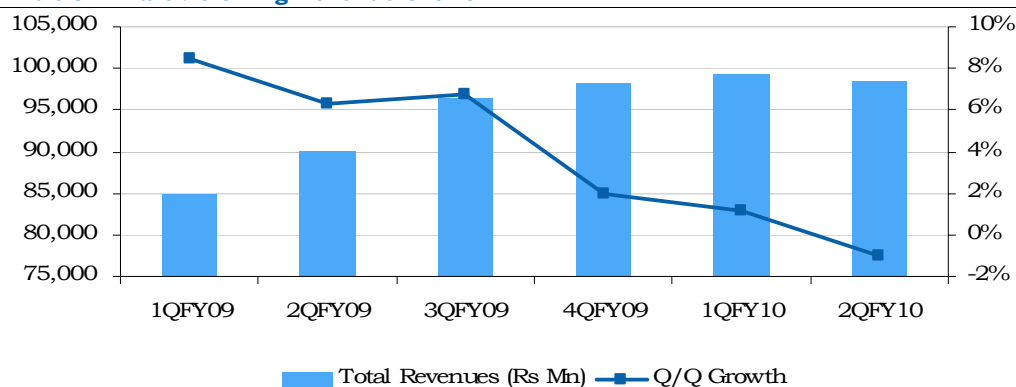
Key Metrics	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
Mobile subscribers ('000)	69,384	77,479	85,651	93,923	102,368	110,511
Incremental subscribers ('000)	7,399	8,095	8,172	8,273	8,445	8,144
ARPU (Rs)	350	331	324	305	278	252
Q/Q Growth	-2.0	-5.4	-2.0	-6.0	-8.8	-9.4
Y/Y Growth	-10.3	-9.6	-9.4	-14.6	-20.5	-23.9
Blended MOU	534	536	505	485	478	450
Q/Q Growth	5.3	0.4	-5.7	-4.0	-1.5	-5.9
Y/Y Growth	11.7	14.3	6.6	-4.3	-10.5	-16.1
ARPM (Rs/minute)	0.66	0.62	0.64	0.63	0.58	0.56
Q/Q Growth	-8.8	-6.0	4.0	-2.1	-7.5	-3.7
Y/Y Growth	-20.1	-21.4	-15.5	-12.8	-11.5	-9.2
Mobile traffic (mn mins)	105,217	115,834	123,626	130,669	140,713	143,680
Q/Q Growth	18.1	10.1	6.7	5.7	7.7	2.1
Y/Y Growth	84.2	79.9	67.4	46.7	33.7	24.0

Source: Company

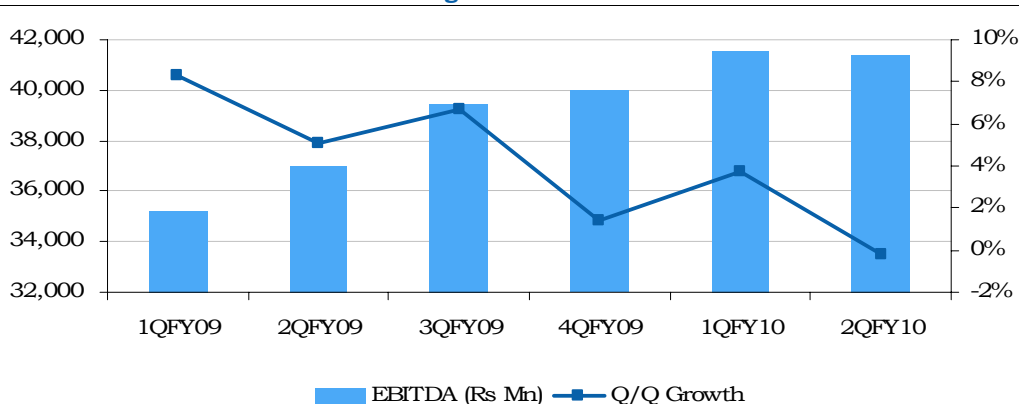
Wireless metrics for Bharti were weak as the MOUs fell sharply and came in at 450 (down 6% q/q and 16% y/y) vs. our estimate of 471.

ARPMs continue to decline with Bharti reporting 2QFY10 ARPMs at Rs0.56 (down 3.7% q/q and 9% y/y) vs. our estimate of Rs0.56.

Mobile traffic growth was disappointing and slowed to 2% qoq.

Exhibit 3 - Bharti: Slowing Revenue Growth


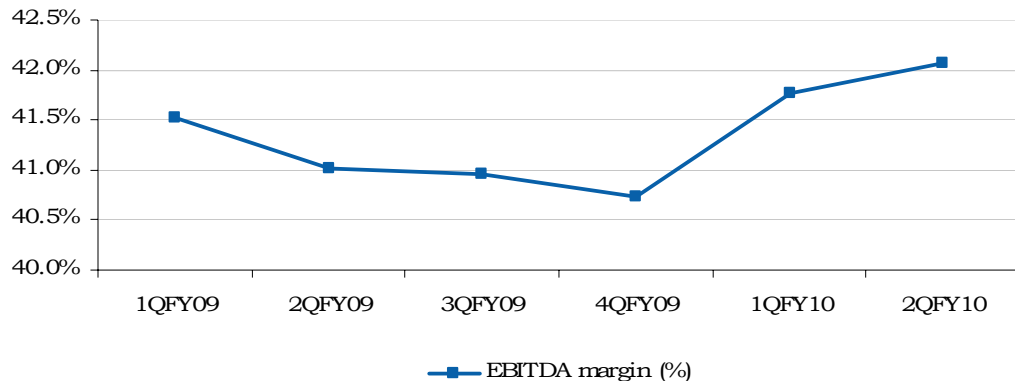
Source: Company

Exhibit 4 - Bharti: EBITDA and EBITDA growth


Source: Company

Exhibit 5 - Bharti: EBITDA margins (%)

EBITDA margin improvement led by non-wireless



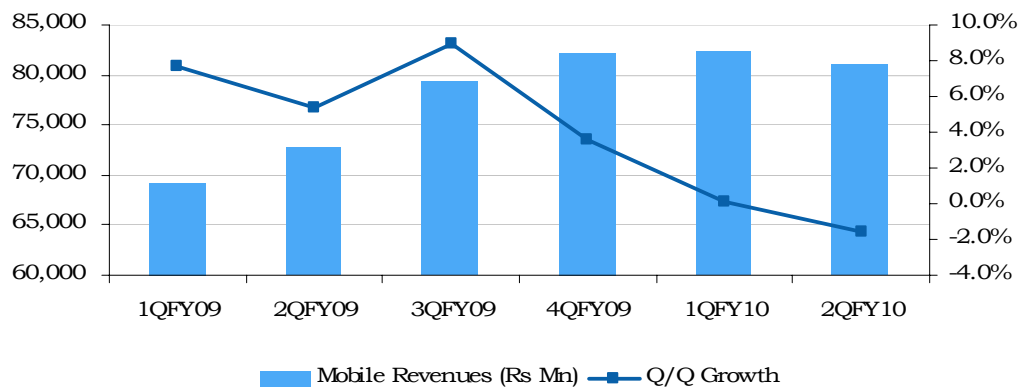
Source: Company

Wireless Business

The wireless business continues to show pressure on the back of rapidly deteriorating metrics and sequential revenue decline despite 8% qoq growth in subscribers

Wireless growth drops qoq on the back of pricing pressure

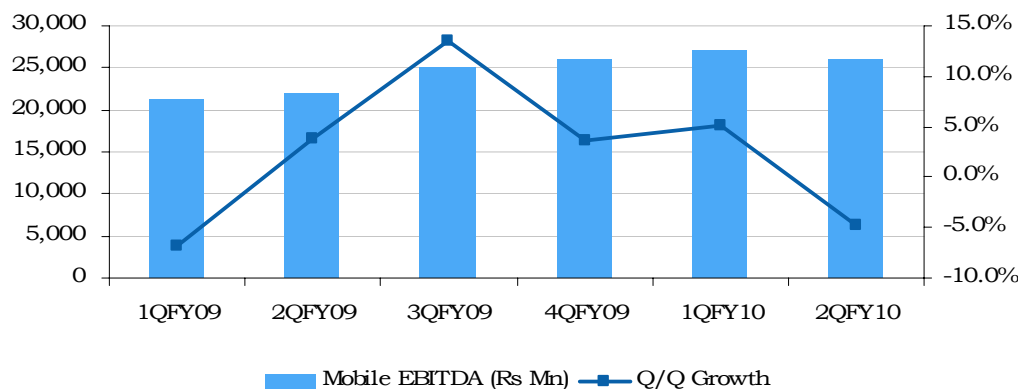
Exhibit 6 - Bharti: Slowing wireless growth - Sequential decline in 2QFY10



Source: Company

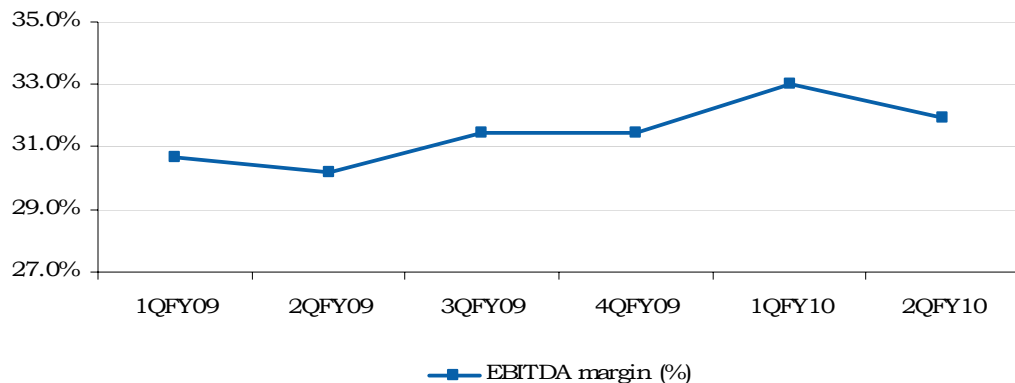
Exhibit 7 - Bharti : Slowing EBITDA growth

Wireless EBITDA growth fell 5% qoq, as margins fell 110bps qoq to 31.9%.



Source: Company

Exhibit 8 - Bharti: Wireless profitability slides

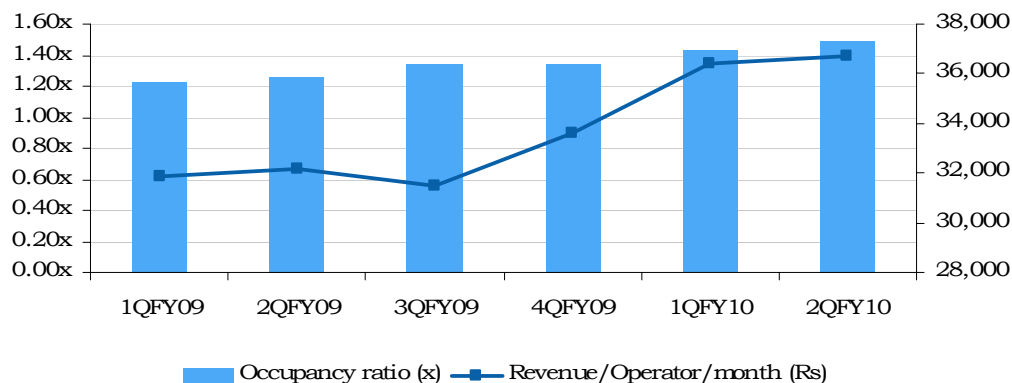


Source: Company

Passive Infrastructure

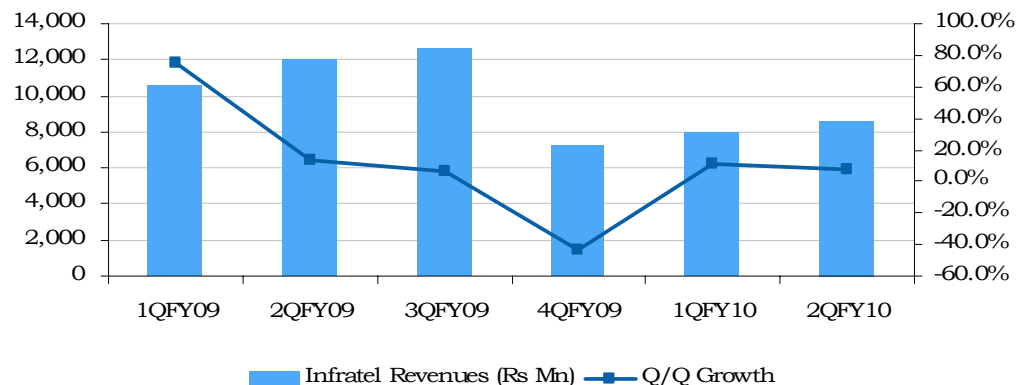
Infratel business was the only saving grace this quarter as the business recorded a 7% qoq growth. The rental yields at Rs36,696 was up 0.8% qoq and a higher tenancy of 1.49x. We believe that new operators would continue to share infrastructure and established telcos will benefit from the same. Further given the sharing revenue comes at almost no incremental cost, it helps achieve superior margins.

Exhibit 9 - Bharti: Passive Infra metrics strong



Source: Company

Exhibit 10 - Bharti: Good revenue growth on passive infra

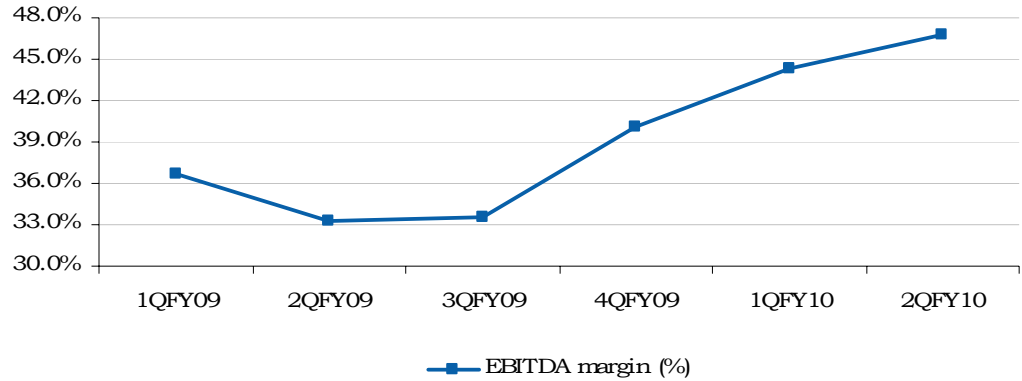


Source: Company

The rental yields at Rs36,696 was up 0.8% qoq and a higher tenancy of 1.49x

Passive infra margins improved qoq to 46.8% (44.4%) driven by improvement in tenancy. Sustainability is the key with dwindling wireless profitability.

Exhibit 11 - Bharti: Strong Passive Infra EBITDA Margins (%)

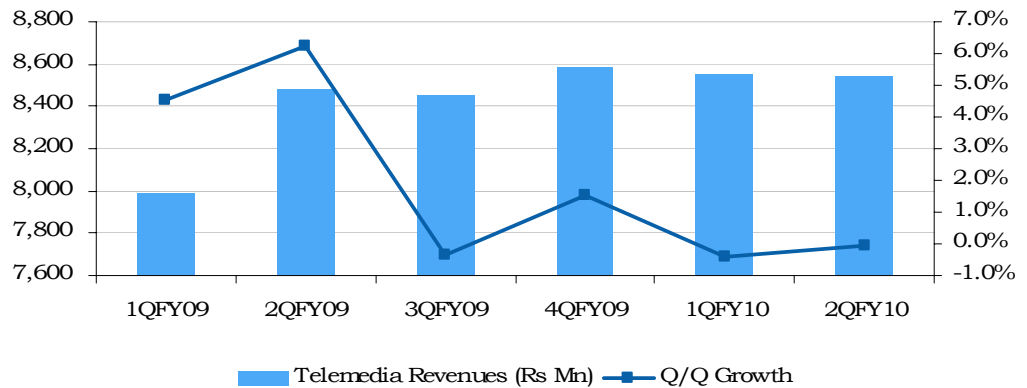


Source: Company

Telemedia remains soft

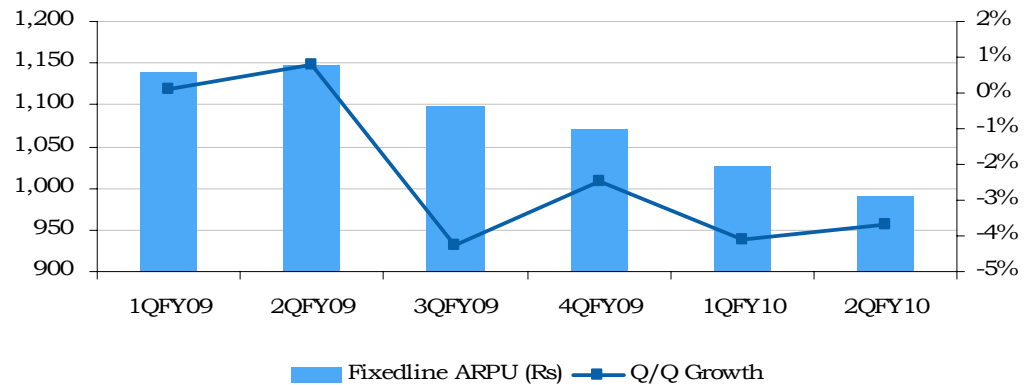
While Telemedia net adds remain stable, the ARPU decline in the segment continues. Further given Bharti is not expanding its services beyond the 95 cities could hamper growth, as is evident with second quarter of flat qoq growth. The ARPUs declined 3.7% qoq to Rs989.

Exhibit 12 - Bharti: Telemedia Struggling for growth



Source: Company

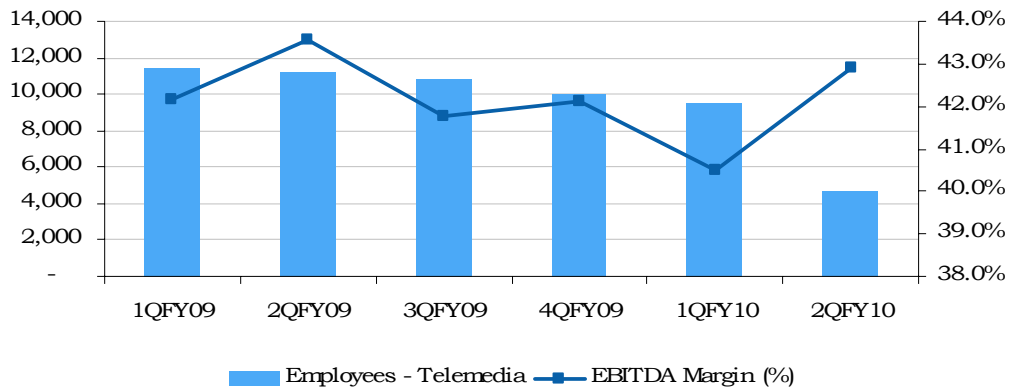
Exhibit 13 - Bharti: ...as Telemedia ARPUs continue to decline



Source: Company

EBITDA margins in Telemedia led by employee reduction on the back of ALU JV

Exhibit 14 - Bharti: EBITDA margins improved in Telemedia

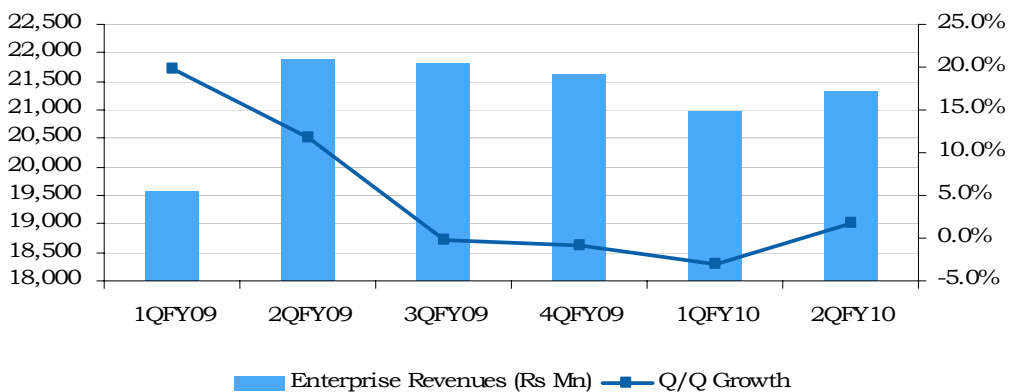


Source: Company

Enterprise services

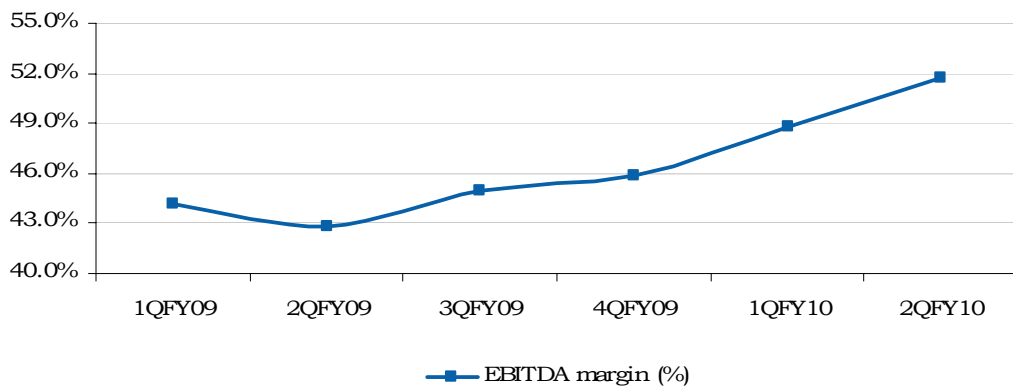
Enterprise business, which was impacted by sluggish macro environment saw revenues up 1.7% q/q (down 2.5% Y/Y). However margins in this segment improved 280bps qoq to 51.7%.

Exhibit 15 - Bharti: Enterprise Revenue Growth



Source: Company

Chart 10: Bharti: Enterprise EBITDA Margins improve



Source: Company data

Estimate Changes

Exhibit 16 - Bharti: Estimate Change Summary

Revenues	FY10	Old	Change (%)	FY11	Old	Change (%)
Mobile (Wireless)	304,822	333,513	-9%	325,441	352,394	-8%
Telemedia (fixed line)	33,879	34,135	-1%	34,274	34,999	-2%
Enterprise	88,108	91,955	-4%	97,826	97,378	0%
Passive infrastructure	34,976	34,406	2%	41,148	40,341	2%
Others	5,432	4,652	17%	10,367	8,371	24%
Total Revenues	376,760	405,026	-7%	406,447	432,720	-6%

EBITDA						
Mobile (Wireless)	90,090	103,332	-13%	83,982	95,501	-12%
Telemedia (fixed line)	14,270	14,034	2%	14,257	14,027	2%
Enterprise	44,267	45,167	-2%	48,822	47,572	3%
Passive infrastructure	16,167	14,817	9%	17,207	16,912	2%
Others	-8,589	-7,764	11%	-4,636	-3,798	22%
Total EBITDA	152,189	165,218	-8%	154,808	165,515	-6%

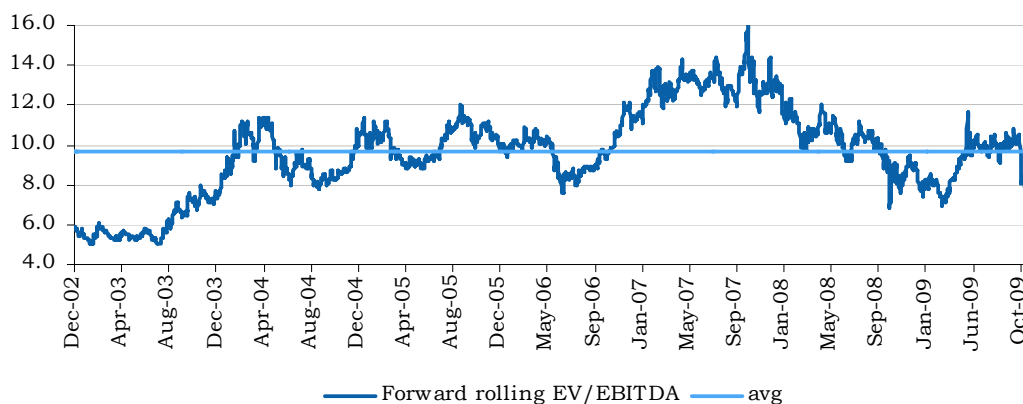
EBITDA Margins						
Mobile (Wireless)	29.6%	31.0%		25.8%	27.1%	
Telemedia (fixed line)	42.1%	41.1%		41.6%	40.1%	
Enterprise	50.2%	49.1%		49.9%	48.9%	
Passive infrastructure	46.2%	43.1%		41.8%	41.9%	
Others	-158.1%	-166.9%		-44.7%	-45.4%	
Total EBITDA	40.4%	40.8%		38.1%	38.3%	

EBIT						
EBIT	97,266	109,620	-11%	100,767	107,451	-6%
EBIT Margin (%)	25.8%	27.1%		24.8%	24.8%	
PBT	102,787	115,441	-11%	112,207	117,089	-4%
Net Profit	87,140	96,920	-10%	90,962	94,920	-4%
EPS	23.0	25.5	-10%	24.0	25.0	-4%

ARPU (Rs)	233	255	-8.6%	196	213	-7.7%
MoU per user per month (minutes)	448	474	-5.3%	455	470	-3.2%
ARPM (Rs/min)	0.52	0.54	-3.5%	0.43	0.45	-4.7%

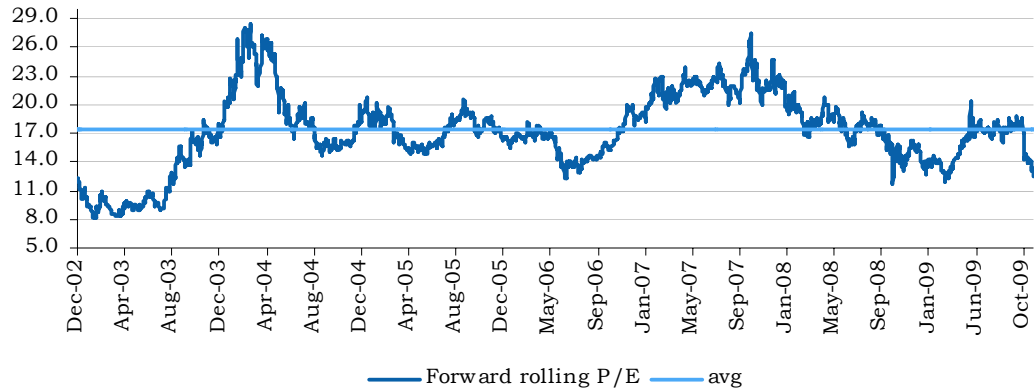
Source: Company, Alchemy Research

Exhibit 17 - Bharti: EV/EBITDA Average



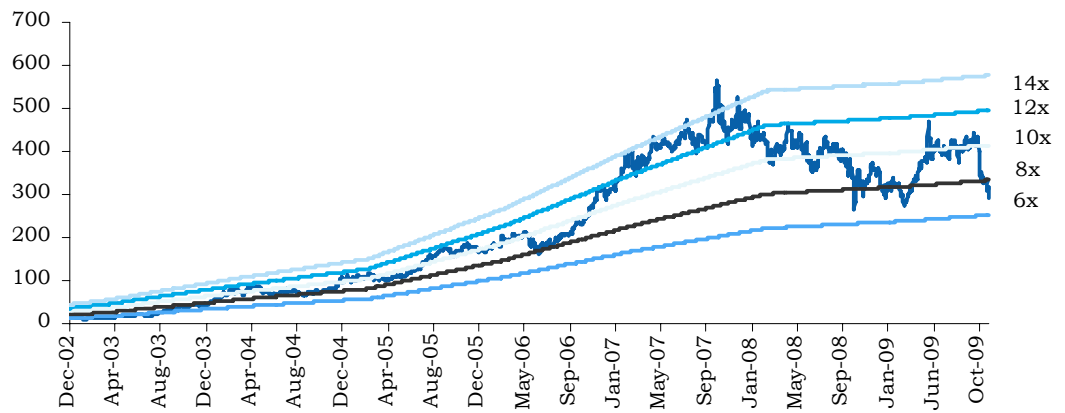
Source: Alchemy Research, Bloomberg, Company

Exhibit 18 - Bharti: Average PE Multiple



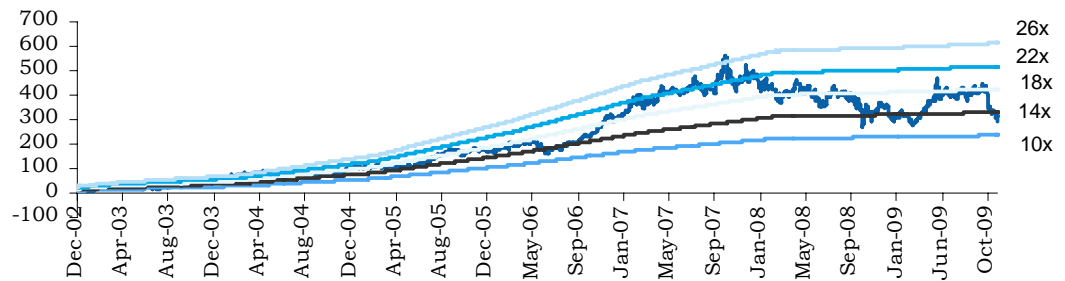
Source: Alchemy Research, Bloomberg, Company

Exhibit 19 - Bharti: EV/EBITDA Band



Source: Alchemy Research, Bloomberg, Company

Exhibit 20 - Bharti: PE Band



Source: Alchemy Research, Bloomberg, Company

Income Statement (Rs mn)

March end	FY08	FY09	FY10E	FY11E
Mobile (Wireless)	217,861	303,601	304,822	325,441
Telemidia (fixed line)	28,484	33,517	33,879	34,274
Enterprise	56,387	84,882	88,108	97,826
Passive infrastructure	6,023	42,489	34,976	41,148
Others	2,431	3,611	5,432	10,367
Eliminations	(40,935)	(98,485)	(90,458)	(102,609)
Total revenues	326,637	369,615	376,760	406,447
Interconnection	(41,110)	(52,903)	(37,869)	(37,593)
License fee & spectrum charges	(26,900)	(38,266)	(38,649)	(41,587)
Network operating costs	(33,002)	(59,355)	(76,929)	(88,937)
SG&A	(40,755)	(50,421)	(54,253)	(64,901)
Employee Costs	(14,768)	(16,992)	(16,669)	(18,188)
Total costs	(156,535)	(217,937)	(224,370)	(251,206)
EBITDA	170,103	151,678	152,390	155,242
EBITDA margin (%)	52%	41%	40%	38%
Depreciation	(36,266)	(46,048)	(53,079)	(52,595)
Amortization	(995)	(1,533)	(2,045)	(1,880)
Operating profits	132,842	104,097	97,266	100,767
EBIT	132,842	104,097	97,266	100,767
Interest income	2,422	589	792	200
Finance costs	(2,341)	(11,613)	2,823	3,907
Associates		0	1,907	7,333
Profit before tax	132,923	93,073	102,787	112,207
Tax	(8,378)	(6,615)	(13,767)	(19,067)
Tax Rate (%)	6%	7%	13%	17%
Minority interest	(1,150)	(1,759)	(1,880)	(2,178)
Net income	123,395	84,699	87,140	90,962
EPS (Rs)	17.7	22.3	23.0	24.0

Ratios

March end	FY08	FY09	FY10E	FY11E
% of net sales				
Raw material costs	75.8	75.3	73.0	74.0
Employee costs	8.0	9.5	10.5	10.0
Other expenses	7.0	8.2	8.5	8.5
Total expenses	90.8	93.0	92.0	92.5
EBIDTA	10.4	7.8	8.0	7.5
PAT	6.0	3.2	4.2	3.9
Asset based ratios (%)				
ROCE	24.4	8.2	7.7	7.6
ROE	21.8	5.5	7.0	7.1
Turnover ratios (days)				
Debtor days	21.2	40.7	46.8	34.9
Inventory days	54.2	77.9	66.5	51.0
Creditors days	71.8	97.4	98.0	96.4
Working capital days	36.5	49.7	49.2	26.1
Total asset turnover ratio	131.6	258.4	353.5	329.5
Growth ratios (%)				
Net Sales	7.8	(22.6)	(4.1)	15.5
EBITDA	14.4	(41.6)	(2.2)	8.3
EPS	6.4	(59.5)	31.5	4.4
CEPS	9.3	(43.0)	18.0	6.0
Per share (Rs)				
EPS	3.5	1.4	1.9	2.0
CEPS	4.9	2.8	3.3	3.5
BV	16.2	26.2	26.9	27.7
DPS	1.8	1.2	1.2	1.2
Valuations (x)				
P/E	12.9	32.0	24.3	23.3
P/CEPS	9.4	16.5	14.0	13.2
P/BV	2.8	1.7	1.7	1.7
Yield (%)	0.5	0.8	0.6	0.6
EV/EBITDA	3.2	11.4	11.2	12.2
EV/sales	0.3	0.9	0.9	0.9
Solvency ratios				
Current ratio	1.3	1.5	1.3	1.2
Quick ratio	0.7	0.9	0.9	0.7
D/E ratio	0.4	0.6	0.6	0.7

Balance Sheet (Rs mn)

March end	FY08	FY09	FY10E	FY11E
Cash & cash equivalents	6,777	11,145	28,705	91,620
Accounts receivable	15,986	18,262	19,841	23,882
Unbilled receivables	12,076	10,266	9,920	11,941
Inventories	1,142	963	1,046	1,259
Short term investments	48,086	37,925	57,504	57,504
Deferred taxes on income	2,770	8,810	9,072	9,072
Derivative financial instruments	2,992	11,545	7,622	7,622
Restricted cash	85	84	85	85
Prepaid expenses and other current assets	23,522	29,957	26,785	32,241
Due from related parties	346	15,122	9,563	9,563
Total Current Assets	113,782	144,079	170,143	244,789
Property and equipment, net	313,407	409,136	440,661	457,017
Acquired intangible assets, net	13,204	13,310	13,362	13,362
Goodwill	27,043	27,054	27,054	27,054
Investment in associates and joint ventures	108	128	1,831	7,844
Restricted cash, non-current	58	12	14	14
Other assets	5,041	10,230	8,135	9,792
Total Assets	472,643	603,947	661,200	759,872
LIABILITIES AND STOCKHOLDERS' EQUITY				
Short-term debt	19,348	64,808	57,967	57,967
Trade payables	18,749	18,771	23,811	26,273
Equipment supply payables	61,069	62,359	61,396	69,125
Accrued expenses	19,543	31,358	28,273	31,644
Unearned income	25,080	30,912	28,071	31,400
Unearned inc.Indefeasible right to use sales	336	292	292	292
Derivative financial instruments	3,184	499	427	427
Due to related parties	0	40	41	41
Other current liabilities	6,826	8,148	10,548	10,548
Deferred taxes on income	0	0	198	198
Total current liabilities	154,135	217,185	211,022	227,912
Long-term debt, net of current portion	77,715	53,993	40,476	34,243
Deferred taxes on income	5,301	7,556	2,565	1,435
Unearned inc.-IRU	3,464	3,330	3,093	2,893
Other liabilities	6,430	7,234	7,403	7,403
Total liabilities	247,045	289,298	264,559	273,886
Minority interest	8,556	10,704	12,583	14,761
Common stock	18,979	18,982	18,984	18,984
Advances against equity	12	3	0	0
Additional paid in capital	72,202	74,103	74,943	74,943
Treasury stock	(119)	(107)	(101)	(101)
Retained earnings / (deficit)	125,964	210,664	289,566	376,733
Accumulated other comprehensive income	4	301	666	666
Total stockholders' equity	217,042	303,945	384,058	471,225
Cash Flow (Rs mn)				
March end	FY08	FY09	FY10E	FY11E
Net Income	42572	67008	84699	87140
Depreciation	25209	37261	47581	55124
Changes in working capital	21923	15471	-18500	-2724
Taxes paid	5822	8378	6615	13767
Others	-8392	-11545	104	-7939
Cash flow from operations	87134	116573	120498	145369
Capex	(89271)	(138468)	(140171)	(84793)
Others	8	74	-20	-1702
Cash flow from other investing activities	(89263)	(138394)	(140191)	(86495)
Cash from new shares issued	1647	21236	4352	-2502
Increase/(decrease) in debt/bonds	4716	45437	9500	-15543
Dividend paid		0	0	-3795
Cash flow from financing activities	6363	66673	13852	-21840
Change in cash	4234	44852	-5840	37033

Source: Company, Alchemy Research

The ratings are based on the absolute upside of our target price from the current price.

Upside more than 25%	Strong Buy
Upside between 15-25%	Buy
Upside of up to 15%	Accumulate
Downside of up to 15%	Reduce
Downside of more than 15%	Sell
Sector Relative call:	
Outperform	>5% upside to sector benchmark
Marketperform	+5% to -5% of sector benchmark
Underperform	>5% downside to sector benchmark
Sector Weightage	
Overweight	
Equal weight	
Underweight	

Sales

91-22-6639 9125 91-22-6639 9126 91-22-6639 9178

Trade Execution

91-22-6639 9121 91-22-6639 9134 91-22-6639 9167

Disclaimer

This report is not a solicitation or offer to buy or sell any securities or related financial products. The information and commentaries are also not meant to be endorsements or offerings of any securities, options, stocks or other investment vehicles. The report is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The securities discussed in this report may not be suitable for all investors. The appropriateness of any particular investment or strategy whether opined on or referred to in this report or otherwise will depend on an investor's circumstances and objectives and should be independently evaluated and confirmed by such investor, and advice should be sought from a financial adviser concerning the suitability of the investment or strategy, taking into account the specific investment objectives, financial situation or particular needs of the investor, before the investor makes a commitment to deal in an investment or implement a strategy.

Investment ideas and/or corporations discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realised. Those losses may equal the original investment. Some investments may not be readily realisable and it may be difficult to sell or realise those investments. Similarly, it may prove difficult to obtain reliable information about the value and risks to which such an investment is exposed. Neither us nor any of our affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained in this report.

Past performance is not necessarily indicative of future results and there can be no assurance that any investment will achieve comparable results or its investment objectives. Investors may not get back the full amount invested and the net asset value of the investment will fluctuate. Exchange rate fluctuations may affect the return to investors.

Alchemy Share and Stock Broker Pvt. Ltd., their respective affiliate companies, associates, directors and/or employees may have investments in securities or derivatives of securities of companies mentioned in this report, and may make investment decisions that are inconsistent with the views expressed in this report.

ALCHEMY SHARE & STOCK BROKERS PVT. LTD.

Navsari Building, 4th Floor, 240 Dr D. N. Road, Fort, Mumbai: 400 001. India
(Tel): 91-22-6639 9100 (Fax): 91-22-2203 3575