

# Bharti Airtel Ltd

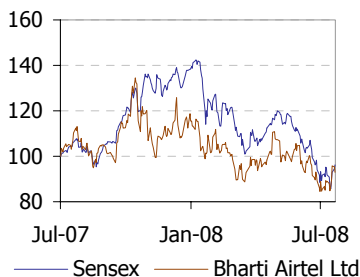
 Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares	: 1,898mn
Market cap	: Rs.1,514bn
52 week high/low	: Rs 1,149/ Rs 688
Avg. daily vol. (6mth)	: 4.1mn shares
Bloomberg code	: BHARTI IB
Reuters code	: BRTI.BO

## Shareholding (%) Jun-08 QoQ chg

Promoters	: 66.5	0.6
FIIs	: 23.6	(1.4)
MFs / UTI	: 2.9	0.8
Banks / FIs	: 2.8	0.4
Others	: 4.2	(0.4)

\* MoUs – Minutes of Usage

# Excludes valuations of tower business, valued at Rs 181 per share

## NON-WIRELESS BUSINESSES DRIVE GROWTH

Bharti reported consolidated revenues of Rs 84.8bn (↑8.5% QoQ and ↑43.7% YoY), EBITDA of Rs 35.2bn (↑8.3% QoQ and ↑44.0% YoY), and PAT of Rs 20.3bn (↑9.3% QoQ and ↑34.0% YoY) in Q1FY09.

### Key highlights:

- **Revenues:** Consolidated MoUs increased 16.6% QoQ (v/s 19.5% QoQ in Q4FY08). Wireless ARPU decline was ~2% QoQ whereas ARPUs in the Broadband segment remained steady.
- **EBITDA:** Growth led by Enterprise Carrier segment whereas wireless EBITDA was impacted by passive infrastructure charges for 3 months (v/s 2months in Q4FY08), higher carriage charges and completion of moratorium period for 6 circles leading to higher license fee outgo.
- **PAT:** Lower tax outgo led to a higher PAT than our expectations.

### Non-wireless business performance was better

- **Core wireless business parameters were mixed:** While MoUs\* increased 5.4% QoQ and were a positive surprise to us (given the 7.0% QoQ increase in MoUs observed in Q4FY08), we believe that the 4.8% QoQ decline in EBITDA margins were higher than estimated. This coupled with recent tariff decline and increasing competition could lower RoIs in the wireless business.
- **Growth in Enterprise Carrier segment:** The 25% QoQ increase in topline and 71% in EBITDA in long distance segment has been driven by increased carriage charges. We believe this super-normal growth rate is difficult to sustain on a consistent basis.

**Regulatory uncertainty to dominate:** The core wireless business for GSM operators in general and Bharti in particular (given its 24.2% market share & 28.7% market share in net additions) may continue to see pressure on EBITDA margins in the coming quarters when DoT implements its proposed increase in spectrum charges. Our estimates indicate dent of ~90-100bps on consolidated EBITDA if these annual charges (excluding the one-time fee) were to be implemented. The other risk could accrue from overbidding in the 3G auctions.

**Valuations:** Our DCF value remains at Rs 821, with additional Rs 181 from tower entities to be unlocked over next 2-3 yrs. Given the competitive scenario and regulatory uncertainty, we maintain our sector **Neutral** rating.

## Financial summary

Y/E Mar	Sales (Rs.mn)	EBITDA (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2007	185,195	74,506	42,571	-	22.5	88	-	37.0	30.4	-
2008	270,250	113,715	67,009	-	35.3	57	22.6	36.9	30.9	14.1
2009E	356,714	141,733	87,115	44.8	45.9	30	17.4	32.2	31.4	10.5
2010E	432,139	166,590	104,825	55.2	55.2	20	14.4	28.4	31.1	8.5

Source: \*Consensus broker estimates, Company, ENAM Research.

**Results update**

(Rs mn)	Quarter ended					12 months ended		
	Jun-08	Jun-07	% Chg	Mar-08	% Chg	Mar-09E	Mar-08	% Chg
<b>Net Sales</b>	<b>84,833</b>	<b>59,046</b>	<b>43.7</b>	<b>78,191</b>	<b>8.5</b>	<b>356,714</b>	<b>270,250</b>	<b>32.0</b>
<b>EBITDA</b>	<b>35,220</b>	<b>24,466</b>	<b>44.0</b>	<b>32,518</b>	<b>8.3</b>	<b>141,733</b>	<b>113,715</b>	<b>24.6</b>
Other income	584	809	(27.8)	683	(14.5)	5,138	2,423	112.0
<b>PBIDT</b>	<b>35,804</b>	<b>25,275</b>	<b>41.7</b>	<b>33,201</b>	<b>7.8</b>	<b>146,870</b>	<b>116,138</b>	<b>26.5</b>
Depreciation	10,045	8,119	23.7	9,702	3.5	44,342	37,260	19.0
Interest	1,832	(1,745)	-	2,367	(22.6)	699	2,341	(70.2)
Other expenditure	114	7	-	210	-	-	-	-
<b>PBT</b>	<b>23,814</b>	<b>18,901</b>	<b>26.0</b>	<b>21,132</b>	<b>12.7</b>	<b>101,829</b>	<b>76,537</b>	<b>33.0</b>
Tax	3,282	3,594	(8.7)	2,085	57.4	13,432	8,378	60.3
Minority Interest	282	191	-	518	-	1,283	1,150	11.5
<b>PAT</b>	<b>20,250</b>	<b>15,116</b>	<b>34.0</b>	<b>18,529</b>	<b>9.3</b>	<b>87,115</b>	<b>67,009</b>	<b>30.0</b>
No. of shares (mn)	1,898	1,896	-	1,898	-	1,898	1,895	-
EBITDA margins (%)	41.5	41.4	8 bps	41.6	(7) bps	39.7	42.1	(235) bps
PBIDT margins (%)	42.2	42.8	(60) bps	42.5	(26) bps	41.2	43.0	(180) bps
<b>EPS - annualized (Rs.)</b>	<b>42.7</b>	<b>31.9</b>	<b>33.8</b>	<b>39.1</b>	<b>9.3</b>	<b>45.9</b>	<b>35.3</b>	<b>30.0</b>

Source: ENAM Research, Company

**Segmental information**

(Rs mn)	Q1FY09	% chg QoQ	% chg YoY	Comments/ Highlights
<b>Mobile Services</b>				
Revenues	69,150	7.7	47.2	Led by subscriber additions at 11.9% QoQ and MoU increase (~5.4%), partially offset by ~2%QoQ decline in ARPUs. Total increase in MoU was 18.1% QoQ.
EBITDA	21,218	(6.9)	11.2	Negative Impact of Passive Infrastructure Charges (for complete quarter in Q1FY09 v/s 2 months in Q4FY08), increase in carriage charges and S&M expenses. Additionally completion of moratorium period for 6 circles with effect from 1/4/08 led to increase in licence fees outgo.
EBIT	15,720	(7.2)	18.0	
EBITDA Margins (%)	30.7	(480) bps	(992) bps	
Capex	16,900	-	-	
MoUs (mn mins)	105,217	18.1	84.2	
<b>Broadband &amp; Telephone Services</b>				
Revenues	7,988	4.5	22.6	Growth led by 4.8% QoQ growth in subscriber base, with steady ARPUs.
EBITDA	3,367	0.7	60.3	EBITDA growth led by higher share of broadband subscribers to ~35.6% (~34.8% in Q4FY08).
EBIT	1,981	3.7	110.1	
EBITDA Margins (%)	42.2	(161) bps	995 bps	
Capex	2,301	-	-	
MoUs (mn mins)	4,842	2.2	8.7	
<b>Enterprise Services – Carriers</b>				
Revenues	15,694	24.9	70.4	Led by increase in carriage charges, volume growth of 9.8% QoQ in NLD minutes and 10.7% QoQ in ILD minutes.
EBITDA	6,884	70.9	117.2	
EBIT	5,987	88.9	117.2	
EBITDA Margins (%)	43.9	1,182 bps	946 bps	Improvement in margins due to increase in carriage charges and ADC phase off.
Capex	5,239	-	-	
MoUs (mn mins) - NLD	10,322	9.8	76.3	
MoUs (mn mins) - ILD	2,048	10.7	64.7	
<b>Enterprise Services – Corporates</b>				
Revenues	3,878	2.8	42.1	
EBITDA	1,771	(17.7)	52.8	
EBIT	1,396	(22.4)	58.1	
EBITDA Margins (%)	45.7	(1,135) bps	317 bps	
Capex	253	-	-	
<b>Passive Infrastructure Services</b>				
Revenues	10,563	75	-	The current quarter had 3 months of passive infrastructure charges v/s 2 months in past quarter. No: of cell sites have increased from 69,141 to 78,540.
EBITDA	3,870	73	-	
EBIT	1,574	60	-	
EBITDA Margins (%)	36.6	(49)	-	
Capex	15,327	-	-	
<b>Consolidated</b>				
Capex	40,671	-	-	
MoUs	122,428	16.6	78.3	

Source: Company, ENAM Research