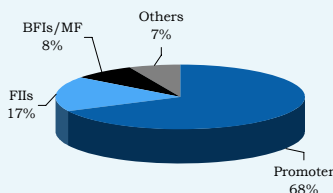


Key points

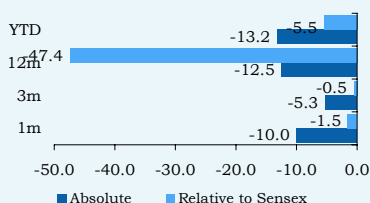
- Bharti in talks with Zain to acquire African assets for USD10.7bn.
- C35% premium to Bharti on EV/Sub.
- Maintain negative view.

CMP	Rs285
Reuters code	BRTL.BO
Bloomberg code	BHARTI IB
Shares o/s (mn)	3797
Mkt Cap	Rs1084bn/US\$23.4bn
52 wk high / Low	Rs495/230
Avg daily trad vol	8.12(mn shs)
BSE Sensex	16,038
Nifty	4,802

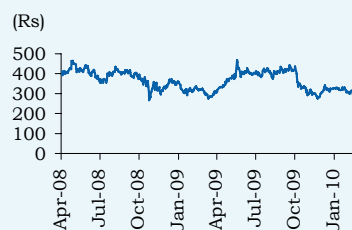
Shareholding pattern



Performance



Share price movement



African hunt restarts

Bharti in talks to buy Zain's African assets: As per the company Bharti is in exclusive talks with Zain until 25-Mar-2010 to buy their African operations (excluding Sudan and Morocco) for USD10.7bn (EV). Zain, a Kuwait based company, has operations in 23 countries spanning Middle-East and Africa. As of Sep-09, the company had a subscriber base of 71.8mn, of which 42mn subscribers were from Africa.

Zain, an inferior asset as compared to MTN; banking on turnaround potential: Bharti's negotiations with Zain comes after two failed attempts to enter the African continent through MTN. Zain is the only other operator with reasonable African access and willing to part with its African operations. However Zain's returns profile is significantly lower as compared to MTN. Even on the margins front, MTN in Africa is superior as compared to Zain. In our view, strategically Bharti intends to participate in the African growth with Zain potentially being a turnaround story. However Africa remains a challenging market with high geopolitical as well as currency risks.

Growth looks expensive: Based on Zain-Africa subscriber base of c42mn, the deal is valued at USD255/subscriber, a c35% premium to Bharti. Zain's Africa operations has 9MCY09 EBITDA of cUSD870mn, so on a proportionate annualized basis, the implied EV/EBITDA looks to be in the range of c10x-11x, a 100% premium to African and Middle eastern peer group. We believe that it's the turn around potential that could have prompted Bharti to consider paying a significant premium as compared to its peer group.

Deal Financing: We believe this is likely to be an all cash deal and Bharti would need to raise cUSD7.4bn of additional debt (Bharti has cash of cUSD1.66bn and debt on Zain Africa is USD1.7bn). Adjusting for lower cash balances and new debt @ 8% + tax shield, Bharti could have a material EPS hit of 10%-12%. Further Zain has made losses in African operations for the 9MCY09 on the back of steep currency fluctuations, which could lead to incremental pressure at net profit level for Bharti.

Investment view: Bharti's management has maintained its intentions of global expansion with Africa being the prime focus. As the competition at the home turf remains intense, growth will be increasing difficult. While African market does offer growth opportunities, it comes with its own set of challenges. Further turning around Zain could be challenging, given the difficult operating environment in Africa and strong competition from MTN. The deal, if closed, could keep Bharti's earnings depressed for 1-2 years. With acquisition overhang and continued domestic competitive intensity we maintain our negative view on Bharti.

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

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