



Bharti Airtel

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,316	BHARTI IN
	REUTERS CODE
S&P CNX: 4,038	BRTI.BO

18 September 2008

Buy

Rs760

Previous Recommendation: Buy

Equity Shares (m)	1,896
52-Week Range (Rs)	1,149/688
1,6,12 Rel. Perf. (%)	3/11/4
M.Cap. (Rs b)	1,441.2
M.Cap. (US\$ b)	30.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	185,196	42,572	22.5	88.0	33.9	10.5	37.0	26.6	8.0	19.9
3/08A	270,250	67,008	35.4	57.4	21.5	6.4	36.9	27.3	5.5	13.0
3/09E	376,555	90,448	47.7	34.8	16.0	4.5	33.2	25.5	3.9	9.5
3/10E	465,010	108,742	57.3	20.2	13.3	3.5	29.5	23.0	3.2	7.5

We recently visited Bharti Airtel. We present below our key takeaways.

- Sustained business momentum:** Bharti remains positive on the overall business momentum. We believe that continued strong MOU outlook and lack of major headline tariff cuts should cushion ARPU decline for the current quarter and enable 8-9% QoQ revenue growth. Margin outlook remains stable, though residual transfer pricing impact of increased carriage charges could result in some margin shift from the mobile segment towards the long-distance segment. Bharti is confident of sustaining the current monthly subscriber netadds runrate of 2.7m/month.
- Potential termination cut unlikely to have a material impact:** There have been media reports suggesting that the regulator is undertaking a comprehensive review of interconnect usage charges, including termination charges that currently stand at Rs0.3/min and have not been revised since 2003. TRAI review and implementation of a possible termination cut is unlikely before March 2009. We believe lower termination charges do not pose material risk to earnings as potential revenue loss would be offset by lower termination charges payable to other operators.
- 3G launch is a year away; delay in auctions possible for Mumbai and Delhi:** Government seems to be moving fast on 3G bidding process, which is likely to be completed by the 2008-end. However, 3G rollouts are expected only by 2QFY10. Potential over-bidding in select circles like Mumbai and Delhi remains a concern given limited spectrum availability but there is also a possibility that auctions in these circles get deferred until more spectrum is available.
- Tower synergies to pick-up in FY10; awaiting DTH, Sri Lanka launch:** Incorporation of Indus is expected during 3QFY09 pending certain approvals. While the outlook on tower business remains robust, the potential for jump in tenancy ratio and EBITDA margin could be limited in the near-term as new tower rollouts continue at a fast pace. Synergies from tower sharing are likely to reflect in FY10 as demand for towers increases on 3G rollouts, sharing between the Indus JV partners (Bharti, Idea, Vodafone) picks up, and new licences start rolling out. DTH launch is expected by 2008-end while Sri Lanka launch is likely during early 2009.
- Reiterate Buy; Bharti top pick in sector:** Bharti offers highest earnings visibility in the sector. Valuations at 9.5x FY09E and 7.5x FY10E EV/EBITDA are at lower end of its historical 9-15x EV/EBITDA band and attractive considering 2-year EBITDA CAGR of ~31%. Maintain **Buy**. Key risks: (1) pressure on tariffs/margins given aggressive capex plans of major operators; and (2) aggressive bidding for 3G spectrum. We do not foresee any significant regulatory risks for Bharti given enhanced clarity on implementation and timeline for most issues including MNP, 3G policy, intra-circle roaming, infrastructure sharing, and spectrum allocation.

COMPARATIVE VALUATIONS (FY09)

COMPANY	RECO	CMP	TARGET	UPSIDE	MCAP	EV	EPS	P/E	EV/	EV/	ROE	ROIC
		(RS)	(RS)	(%)	(US\$B)	(US\$B)	(RS)	(X)	EBITDA (X)	SALES (X)	(%)	(%)
Bharti	Buy	760	1,020	34.1	30.9	31.8	47.7	16.0	9.5	3.9	33.2	29.7
Idea	Buy	75	135	80.0	5.0	6.2	4.1	18.4	8.6	2.7	15.4	13.1
RCOM	Buy	356	520	46.3	15.6	17.7	28.1	12.6	8.9	3.8	19.3	13.6

Source: Motilal Oswal Securities

BHARTI AIRTEL: SOTP VALUATION (RS)

	METHODOLOGY	FAIR VALUE	IMPLIED EV/EBITDA (FY10E)	IMPLIED P/E (FY10E)
Core Business (ex-towers)	DCF	769	9.4	
Stake in Indus	DCF	164	12.1	
Bharti Infratel	DCF	88	11.8	
Total Value		1,020	10.0	17.8
CMP		760		
Upside (%)		34.2		

Source: Motilal Oswal Securities

COMPARATIVE VALUATIONS

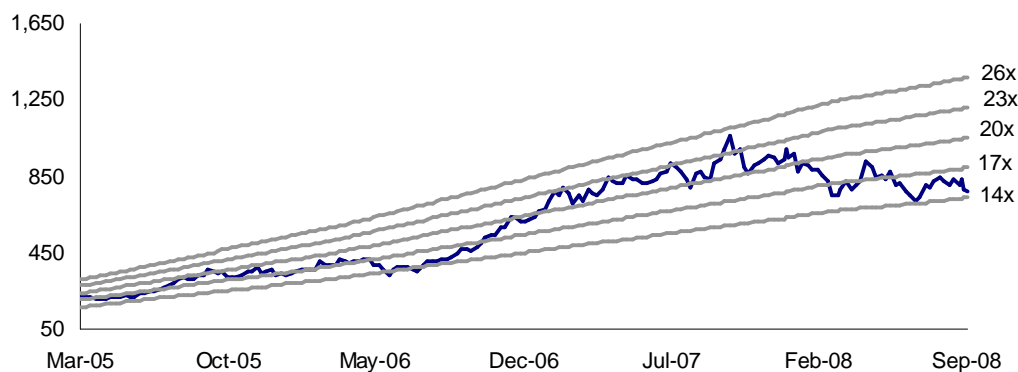
	CMP (Rs)	Rating	Target (Rs)	Upside (%)	Mcap (US\$b)	EV (US\$b)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
							FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Bharti	760	Buy	1,020	34.1	30.9	31.8	21.5	16.0	13.3	13.0	9.5	7.5	5.5	3.9	3.2
Idea	75	Buy	135	80.0	5.0	6.2	19.0	18.4	12.3	12.8	8.6	6.4	4.3	2.7	2.0
RCOM	356	Buy	520	46.3	15.6	17.7	13.3	12.6	10.6	10.1	8.9	6.4	4.3	3.8	2.9
TTML	24	Not Rated	-	-	1.0	1.5	N.A.	N.A.	99.1	17.7	12.8	9.5	4.2	3.5	2.9

	RoIC (%)			RoE (%)			EBITDA Margin (%)			Net Debt/EBITDA (x)			Net Debt/Equity (x)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Bharti	30.5	29.7	27.0	36.9	33.2	29.5	42.1	41.7	42.2	0.4	0.3	0.1	0.2	0.1	0.1
Idea	17.1	13.1	13.6	30.2	15.4	14.6	33.5	30.8	31.5	2.5	0.7	0.4	1.6	0.2	0.1
RCOM	17.4	13.6	14.4	22.7	19.3	19.8	43.0	42.8	45.0	1.2	1.9	1.1	0.4	0.6	0.4
TTML	-1.8	3.9	8.0	N.A.	N.A.	N.A.	23.6	27.6	30.7	6.4	4.4	3.4	N.A.	N.A.	N.A.

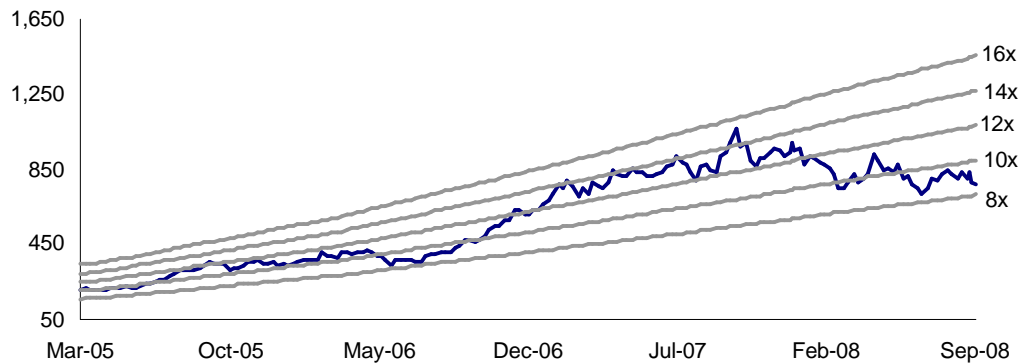
	Capex/Sales (%)			Sales Growth (%)			EBITDA Growth (%)			Net Profit Growth (%)			EPS Growth (%)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Bharti	51.2	30.4	23.0	45.9	39.3	23.5	52.6	38.0	25.1	57.4	35.0	20.2	57.4	34.8	20.2
Idea	69.8	46.1	33.5	53.9	41.8	30.1	53.8	30.4	32.8	110.2	15.7	56.9	77.6	3.2	49.1
RCOM	111.1	105.7	30.6	31.8	27.1	25.6	43.3	26.6	32.0	72.5	5.4	18.9	71.0	5.4	18.9
TTML	40.8	37.3	18.0	21.3	24.0	17.3	41.4	44.7	30.6	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Motilal Oswal Securities

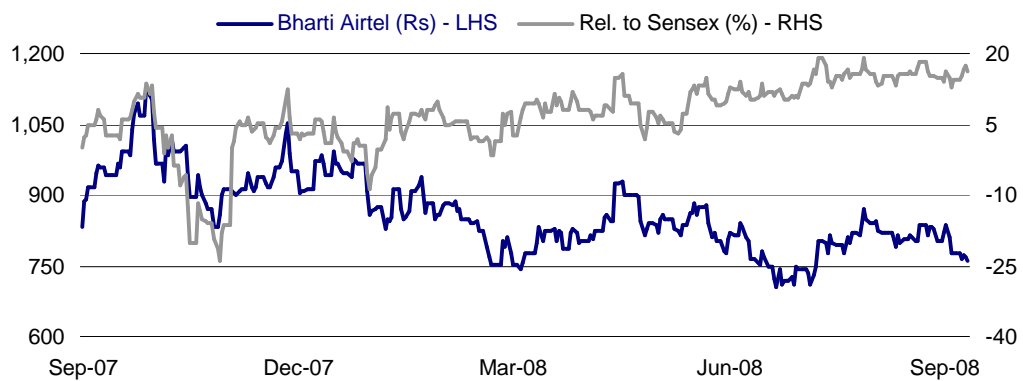
BHARTI AIRTEL: P/E BAND



BHARTI AIRTEL: EV/EBITDA BAND



STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Revenues	116,633	185,196	270,250	376,555	465,010
Change (%)	45.7	58.8	45.9	39.3	23.5
Total Expenses	73,032	110,688	156,535	219,616	268,702
EBITDA	43,601	74,508	113,715	156,939	196,307
% of Gross Sales	37.4	40.2	42.1	41.7	42.2
Depn. & Amortisation	15,829	25,208	37,260	45,516	56,828
EBIT	27,772	49,300	76,455	111,424	139,480
Net Interest	2,650	1,438	2,341	4,360	1,667
Other Income	453	999	2,423	1,597	1,757
PBT	25,576	48,862	76,537	108,656	139,565
Tax	2,736	5,822	8,378	16,949	29,308
Rate (%)	10.7	11.9	10.9	5.6	2.10
Minority Interest	254	468	1,151	1,260	1,514
Adjusted PAT	22,586	42,572	67,008	90,448	108,742

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	18,939	18,959	18,979	18,980	18,980
Additional Paid up Capit:	56,060	56,645	77,757	73,165	73,165
Reserves	16,894	59,949	125,849	216,386	314,254
Net Worth	91,893	135,553	222,585	308,531	406,399
Loans	47,395	52,461	97,063	100,042	110,931
Minority Interest	951	1,801	3,013	10,207	11,721
Other Liabilities	7,727	8,733	9,894	11,979	14,000
Deferred Tax Liability	3,675	3,616	5,301	8,584	14,167
Capital Employed	151,641	202,164	337,856	439,342	557,217
Gross Block	182,829	275,487	414,638	571,696	711,474
Less : Depreciation	40,432	64,883	101,231	146,133	202,346
Net Block	142,397	210,604	313,407	425,563	509,128
Intangible Fixed Assets	14,873	14,116	13,204	12,590	11,976
Investments	692	682	108	115	115
Goodwill	23,327	23,684	27,043	27,043	27,043
Other Non-Current Asse	3,258	3,961	5,099	7,002	7,002
Curr. Assets	32,732	44,844	113,782	132,359	178,589
Inventories	381	912	1,142	1,139	1,406
Debtors	14,249	17,983	28,062	35,724	44,116
Cash & Bank Balance	2,838	7,598	6,862	3,803	33,803
Other Current Assets	15,264	18,351	77,716	91,693	99,264
Curr. Liab. & Prov.	65,639	95,725	134,787	165,329	176,636
Sundry Liabilities	62,484	91,430	127,961	151,371	159,398
Other Current Liabilities	3,155	4,295	6,826	13,959	17,238
Net Curr. Assets	-32,907	-50,881	-21,005	-32,971	1,953
Appl. of Funds	151,641	202,164	337,856	439,342	557,217

E: M OSt Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
Basic (Rs)					
EPS	11.9	22.5	35.4	47.7	57.3
Cash EPS	20.3	35.8	55.0	71.6	87.2
Book Value	49.1	72.5	119.0	167.9	220.3
DPS	0.0	0.0	0.0	0.0	5.7
Payout %(Incl.Div.Taxes)	0.0	0.0	0.0	0.0	10.0
Valuation (x)					
P/E	63.6	33.9	21.5	16.0	13.3
Cash P/E	37.4	21.3	13.8	10.6	8.7
EV/EBITDA	34.0	19.9	13.0	9.5	7.5
EV/Sales	12.7	8.0	5.5	3.9	3.2
Price/Book Value	15.5	10.5	6.4	4.5	3.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.8
Profitability Ratios (%)					
RoE	29.2	37.0	36.9	33.2	29.5
RoCE	19.7	26.6	27.3	25.5	23.0
Turnover Ratios					
Debtors (Days)	45	35	38	35	35
Asset Turnover (x)	0.98	1.18	1.21	1.19	1.14
Leverage Ratio					
Debt/Equity Ratio(x)	0.5	0.4	0.4	0.3	0.3

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Op.Profit/(Loss) bef Tax	43,601	74,508	113,715	156,939	196,307
Other Income	453	1,000	2,423	1,597	1,757
Interest Paid	-2,650	-1,438	-2,341	-4,360	-1,667
Direct Taxes Paid	-2,555	-5,881	-6,693	-13,666	-23,725
(Inc)/Dec in Wkg. Cap.	18,019	20,920	22,787	10,472	-11,734
CF from Op.Activity	56,868	89,109	129,891	150,983	160,937
(inc)/Dec in FA +CWIP	-64,619	-93,015	-142,510	-157,058	-139,778
(Pur)/Sale of Investment	2,444	533	-45,533	-3,002	0
CF from Inv.Activity	-62,175	-92,482	-188,043	-160,060	-139,778
Issue of Shares	8,243	1,106	21,176	-4,591	0
Inc/(Dec) in Debt	-3,301	7,034	36,179	4,676	19,715
Other Financing Activitie	-52	-7	61	5,934	-10,874
CF from Fin.Activity	4,890	8,133	57,416	6,020	8,843
Inc/(Dec) in Cash	-417	4,760	-736	-3,059	30,000
Add: Opening Balance	3,255	2,838	7,598	6,862	3,803
Closing Balance	2,838	7,598	6,862	3,803	33,803

E: M OSt Estimates; All Financials as per US GAAP

N O T E S



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Disclosure of Interest Statement

Bharti Airtel

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|---------------------------------------------------------|-----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | Yes |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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