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Bharti Airtel Ltd.

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OUTPERFORM

Price :	Rs. 620
Traget price:	Rs.760
52-Week Range:	Rs. 645/310

Key Financials

In Mn.	2006A	2007P	2008P
Total Income	116634.0	187420.4	264714.4
EBIDTA	44640.0	74901.5	108176.2
PAT	22587.0	38024.1	59940.8
Equity	489.8	489.8	489.8
EPS	11.9	20.1	31.6
RONW	28.4	34.3	37.5
ROCE	23.3	30.4	34.3

Key Share Data

Market Cap	Rs.1175BN / \$ 25.8BN
EV / Sales - FY07	6.6
EV / EBIDTA - FY07	16.6
Volume	5,00,000
No.of Shares o/s	1895.5
Book Value	68.5
BSE / NSE	532454/ BHARTIARTL
Bloomberg	BHARTI@IN

Investment case

Indian Cellular Market is at an inflexion point and we believe that the market has the potential to mirror the growth as has happened in other developed and developing countries in a shorter time frame.

The subscriber base is expected to more than double in the next three years. With a market share of 22-23%, we expect Bharti Ltd. to benefit substantially from the growth in the subscriber base.

Offerings of 3G services and other value added services, going forward, will ensure that there is less pressure on the yield per minute and consequently on the ARPUs.

Operating Margins can improve to 40% on the back of incremental volumes of minutes and less pressure on ARPUs.

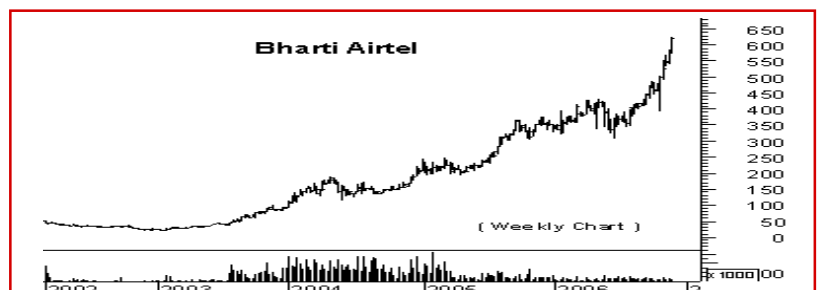
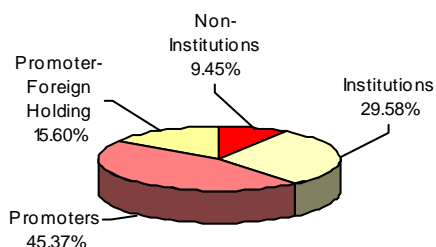
The stock trades at 20x its consolidated FY08E EPS of Rs 31.6. We believe, that the premium valuations, going forward, will be sustained due to under penetration of the market and continuous growth in the subscriber base.

Concerns

Major impact to our model could come from higher than expected fall in the tariffs.

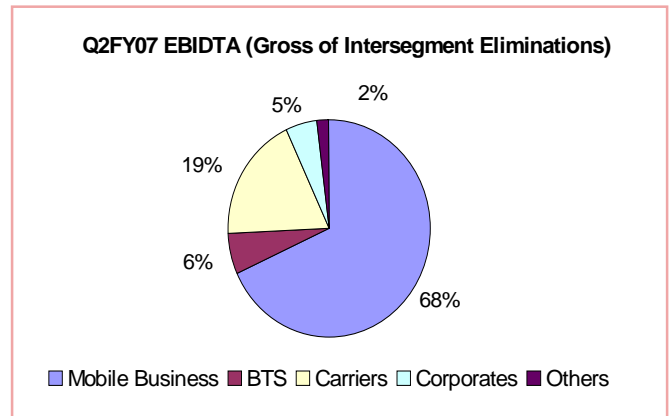
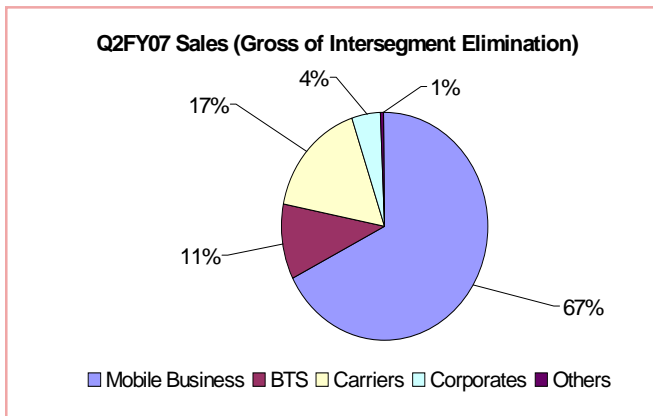
We believe that if the Voice over Internet Protocol (VOIP) technology takes off in a big way, the voice revenues of the company will be adversely affected.

Shareholding Pattern



Company Background

- Bharti Airtel Limited is India's leading provider of telecommunications services. The businesses at Bharti Airtel have been structured into three individual strategic business units (SBU's) - mobile services, broadband & telephone services (B&T) & enterprise services. The mobile services group provides GSM mobile services across India in 23 telecom circles, while the B&T business group provides broadband & telephone services in 94 cities. The Enterprise services group has two sub-units - carriers (long distance services) and services to corporates. All these services are provided under the Airtel brand. The chart below provides the Q2FY2007 segment sales and profit break up of the respective divisions.



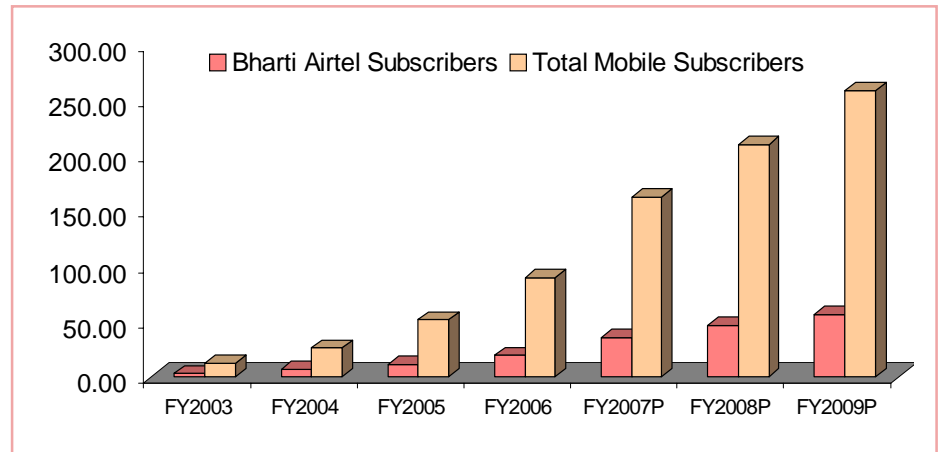
Mobile Services –

- Bharti Airtel Ltd. offers mobile and fixed wireless services (FWP) using the GSM technology and is the largest wireless service provider in the country, based on the number of customers. The company has 27.06 Mn mobile customers accounting for market share of 21.4% of wireless market, as on September 30, 2006. Of its 27.06 Mn GSM mobile customers as of September 30, 2006, postpaid customer contributed approximately 14.5% to the overall customer base while pre-paid customers contributed the balance 85.5%. The subscriber base of the company has grown at a CAGR of 107% for the last seven years from 0.12Mn to 19.58Mn in FY06.
- India's mobile market continues to accelerate, overtaking China in terms of the net subscriber additions on a monthly basis. The country's net monthly additions at 8Mn in October 2006 surpassed that of China. There are a number of estimates as to the number of mobile phone users in the country by 2010. Recently, the Minister for Communications and IT, Government of India, has targeted 500Mn mobile phone users by FY2010, whereas independent agencies have estimated the same to be in the reach of 350-400 Mn. This implies CAGR in the range of 25-32% for the next five years. For our earnings estimates purpose, we have assumed net monthly additions of 4Mn each for FY08 and FY09, which implies total mobile subscriber base of 210.6 Mn and 258.6 Mn for FY08 and FY09 respectively. Bharti Airtel Ltd., being the market leader with 22% market share, should benefit from the growth in the subscriber base. Further, we believe

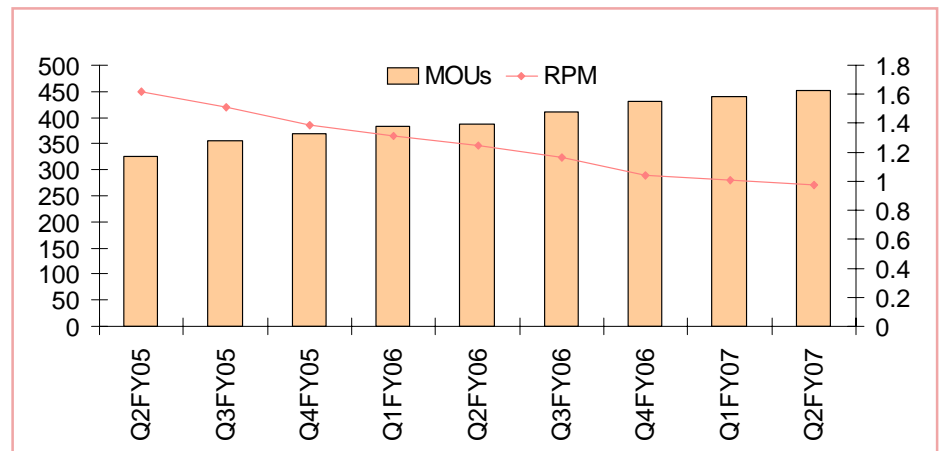


Bharti Airtel Ltd.

that the company will have enough growth opportunities post FY2010, as the penetration levels will still be at only 55% of the addressable population.



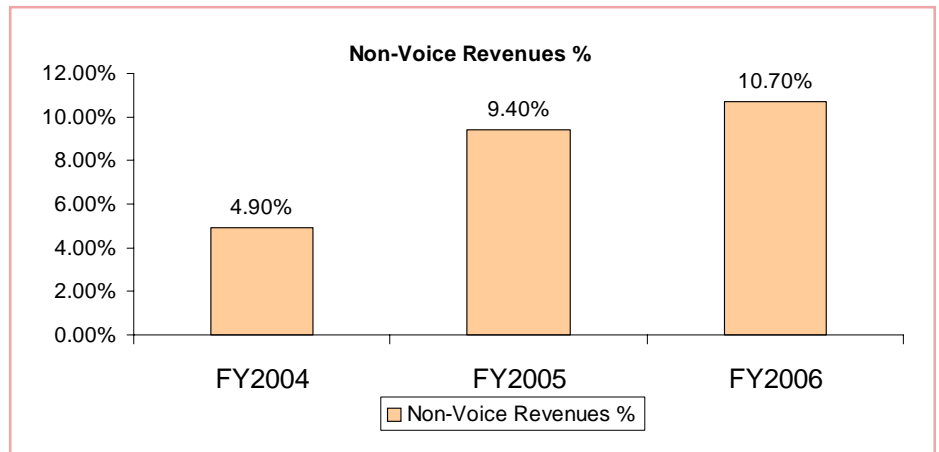
- Declining tariffs (less than USD 3 cents) and improving affordability of services and handsets are the primary reason for the phenomenal growth of mobile phone users. The chart below depicts the correlation between the tariffs and minutes of usage. The Minutes of Usage have increased steadily Q-o-Q, as the tariffs have come down. Going forward, we believe that the tariffs or the RPMs will still be under pressure, however, it may not come down in the same degree as in the past. We believe that increasing minutes of usage and subscriber base will ensure a



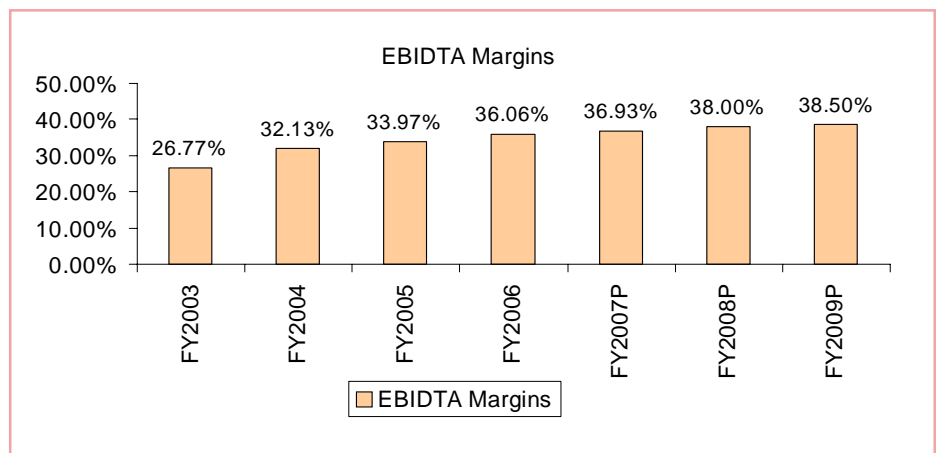
- The company offers both postpaid, prepaid, roaming and value added services. The company has an extensive geographical coverage with presence in 4,357 census towns and over 1,55,000 non-census towns & villages in India, thus covering approximately 50% of the country's population. The network coverage is also one of the widest in the Indian telecom space with over 30,000 sites across the country. The company has a state of the art network-operating center in Gurgaon to monitor the health of mobile telecommunication infrastructure across India. The management intends to widen its coverage to 55% of the population by FY2007.



- Currently, the value added services accounts for only 10% of the total mobile revenues. Value added services primarily consists of SMS services, caller tunes, GPRS, MMS etc. As a percentage of mobile revenues, the value added services or the non-voice business has continuously increased. The chart below indicates the trend over the last three years. We believe with the introduction of 3G services, this percentage can only improve. In other countries, the proportion of non-voice business stands between 20-25% of the mobile business revenues. However, at the same time, we believe that availability of low priced 3G compatible handsets and “value for money” services will be key to the growth of the non voice business. Higher proportion of non-voice business will also reduce the downward pressure on ARPU.



- The Operating Margins of the company have improved steadily, primarily due to rising volumes of minutes and economies of scale in SG&A expenses. Improving outgoing:incoming mix has also contributed to the margin expansion.



- We expect the Mobile Business to grow by 74% in FY07 and 51% in FY08, primarily led by increasing subscriber base.**

Broadband and Telephone Services –

- The company provides broadband (DSL) & telephone services (fixed line) in 94 cities. The product offering in this segment includes supply & installation of a fixed-line telephones providing local, national & international long distance voice connectivity and broadband Internet access through DSL. The business also provides value added services such as intelligent network based advanced management services, viz. toll free numbers, virtual private automatic branch exchange networks, ring back tones and call forwarding among others. Going forward, the intention of the management is to be present in 100 cities and towns. The company also intends to launch IPTV in the next year in select towns and cities. This will enable the company to better utilise its infrastructure and leverage its last mile connectivity.
- At the end of the quarter ended September 30, 2006, the total subscriber base of the company stands at 1.63 Mn, out of which approximately 29% have subscribed to the broadband connection. The ARPUs of the segment for the quarter ended September 2006 were Rs 1115. The minute per customer per month is also coming down every quarter vindicating our theme of switch of volumes from fixed line to mobile.
- Since, the company has almost reached its targeted presence of 100 cities and towns, we believe that the revenues of the BTS segment will stabilize at the current level. However, we expect the pressure on ARPUs to ease as more percentage of customers subscribe to broadband and IPTV connections.

Enterprise Business - Carriers and Corporates

- The Enterprise Services division comprises of the Carriers and Corporates business units. The Carriers unit is India's first private long distance communications service provider offering a portfolio of wholesale services in data and voice domain. This business segment includes the pan India network infrastructure including the optical transport network, national and international voice-switching network, multi protocol label switches (MPLS), asynchronous transfer modes (ATM) and frame relays (FR) among others. It offers extensive coverage through 36,151 km long optical transport network connected with two international submarine cable landing stations in Chennai for Network i2i (owned by an associate company) and SMW 4 (owned by a consortium of 16 telecom operators including Bharti Airtel). The cable stations provide international connectivity across transatlantic and transpacific routes with resilience and restorability. This business unit has strategic partnership with international carriers that include BT, AT&T, MCI/VZB and SingTel to provide services to their customers in India. More than two-third of the traffic carried by this segment is captive traffic and going forward, we believe that the growth of the carriers segment will be more in line with the volumes of minutes in the Mobile business and BTS segment.
- The Enterprise Corporate Business unit serves as the single point of contact

for all data and telecommunication needs for corporates and provides end-to-end telecom solutions. Services provided include mobile services, voice services, satellite services (BIT internet, VPNs, satellite based IPLCs for redundancy reasons), managed data & Internet services, managed e-business services and managed customised integrated solutions. The growth of this segment is more driven by the need for totally outsourced telecom solutions.

Financial Analysis and Capex -

- The net revenues of the company for the year ended FY2006 increased by 45.2% from Rs. 80.3Bn to Rs 116.63Bn. The growth in the revenues was primarily driven by 52% growth in revenues in the mobile telephone business. For the half year ended September 2006, the net revenues stood at Rs. 82.1Bn, an increase of 57%.
- The EBIDTA margins of the company stood at 37.4% in FY2006. For the half year ended September 2006, the margins stood at 39.0%, an improvement of approximately 140bps on a y-o-y basis.
- The effective tax rate for the company is approximately 12-14%. For our earnings estimate, we have taken tax rate of 14%.
- The management has indicated that the total capex requirement for the company for FY2007 will be approximately USD 2Bn. More than 70% of the capex has been committed to the mobile business in order to improve and expand the coverage. We believe that the company may up its capex guidance for the full year, primarily depending upon its analysis of the market.
- Going forward, we expect the total capex for the company to be in the range of USD 1.5-2Bn, as the company expands to cover more cities and towns to provide mobile telephony. It should be noted that the management has not given any guidance as to the capex requirement for the coming years.
- We believe that the capex will not put a strain on the balance sheet as the current debt equity ratio stands below 1. Going forward, we expect, the internal accruals to take care of the capex requirement.

Valuation and Outlook -

- The mobile subscriber base is expected to more than double in the next three years. We believe that Bharti Airtel Ltd., with a market share of 22-23% is one of the best play on the growing mobile subscriber base.
- With the launch of 3G services and IPTV, we expect the company to leverage its network capability and the last mile connectivity and thereby reduce the pressure on the ARPU's.
- The stock trades at 20x its consolidated FY08E EPS of Rs 31.6. We believe, that the premium valuations, going forward, will be sustained due to under penetration of the market and continuous growth in the subscriber base.

Financials :

Profit and Loss Account					
Particulars (Rs MN)	Mar'05	Mar'06	Mar'07P	Mar'08P	Mar'09P
Mobile Revenues	54356.0	82392.0	143054.3	216427.8	257215.1
Broadband and Telephone Services	11270.0	15016.0	20750.2	19897.3	18316.4
Carriers	18661.0	24557.0	35537.5	47228.9	53227.0
Corporates	5381.0	7184.0	8542.7	9824.2	11297.8
Others	0.0	0.0	749.0	749.0	749.0
Total Revenues	89668.0	129149.0	208633.7	294127.2	340805.3
Less - Inter segment Revenues	(9322.0)	(12515.0)	(21213.3)	(29412.7)	(34080.5)
Operating income	80346.0	116634.0	187420.4	264714.4	306724.7
Other income	321.0	1036.0	1757.0	1000.0	1250.0
Total income	80667.0	117670.0	189177.4	265714.4	307974.7
EBIDTA - Mobile	18465.0	29712.0	52827.5	82242.6	99027.8
EBIDTA - BTS	3270.0	3675.0	4636.6	4377.4	3846.5
EBIDTA - Carriers	6035.0	8791.0	14013.1	18891.6	21290.8
EBIDTA- Corporate	2544.0	2701.0	3613.3	3929.7	4519.1
EBIDTA - Others	(608.0)	(1263.0)	(1265.0)	(1265.0)	(1265.0)
NET EBIDTA	30390.0	44640.0	74901.5	108176.2	127169.1
Interest	(2249.0)	(3096.0)	(6500.0)	(5350.0)	(3500.0)
PBDT	28141.0	41544.0	68401.5	102826.2	123669.1
Depreciation	(11186.0)	(15830.0)	(23997.5)	(32636.6)	(39097.9)
Profit before tax	16955.0	25714.0	44404.0	70189.6	84571.3
Provision for tax	(1889.0)	(2736.0)	(6021.9)	(9818.8)	(11830.9)
Profit after tax	15066.0	22978.0	38382.1	60370.8	72740.4
Adjusted PAT	14394.0	22587.0	38024.1	59940.8	72175.4
Profitability indicators (%)					
PBIDT (Ex-other income)	37.4	37.4	39.0	40.5	41.1
Adjusted PAT	17.8	19.2	20.1	22.6	23.4
Growth ratios (yoy) %					
Net sales	-	45.2	60.7	41.2	15.9
PBIDT	-	46.9	67.8	44.4	17.6
Adjusted PAT	-	56.9	68.3	57.6	20.4

Balance Sheet	Mar'05	Mar'06	Mar'07P	Mar'08P	Mar'09P
Equity capital	18534.0	18939.0	18955.0	18955.0	18955.0
Net worth	67434.0	91893.0	129933.1	189873.9	262049.3
Total debt	40875.0	46855.0	65996.0	54835.0	36921.0
Capital employed	108309.0	138748.0	195929.1	244708.9	298970.3
Net block	92746.0	142397.0	261838.4	336340.4	402998.0
Acquired Intangible Assets and Goodwill	41190.0	38200.0	0.0	0.0	0.0
Investments	4799.0	3219.0	3029.0	3029.0	3029.0
Inventories	545.0	381.0	612.2	864.7	1002.0
Sundry debtors	7415.0	14249.0	22896.9	32339.8	37472.1
Cash & bank	4101.0	2662.0	7598.5	10913.1	16029.2
Other current assets	11968.0	16172.0	24009.6	32567.8	37219.3
Equimment Supply Payables	(17109.0)	(25045.0)	(40245.1)	(56842.5)	(65863.5)
Trade Payables	0.0	(14306.0)	(22988.5)	(32469.1)	(37622.0)
Acceptances/other liabilities	(37346.0)	(39181.0)	(55135.5)	(72556.7)	(82025.3)
Provision for dividend	0.0	0.0	(5686.5)	(9477.5)	(13268.5)
Working capital	(30426.0)	(45068.0)	(68938.3)	(94660.5)	(107056.7)
Capital deployed	108309.0	138748.0	195929.1	244708.9	298970.3
Return on (%)					
Networth (post tax)	-	28.4	34.3	37.5	31.9
Capital employed (pre tax)	-	23.3	30.4	34.3	32.4
Per share (Rs)					
Net earnings (EPS)(ex-extord. Expenses)	7.8	11.9	20.1	31.6	38.1
Net book value (NAV)	36.4	48.5	68.5	100.2	138.2

Cash Flow Statement	Mar'06	Mar'07P	Mar'08P	Mar'09P
Pre tax profits from operations	24678.0	42647.0	69189.6	83321.3
Depreciation	15830.0	23997.5	32636.6	39097.9
Expenses (deferred)/written off	0.0	0.0	0.0	0.0
Other income/prior period ad	645.0	1399.0	570.0	685.0
Tax	(2736.0)	(6021.9)	(9818.8)	(11830.9)
Cash profits	38417.0	62021.6	92577.3	111273.3
(Inc)/Dec in				
-Sundry debtors	(6834.0)	(8647.9)	(9442.9)	(5132.3)
-Inventories	164.0	(231.2)	(252.5)	(137.2)
-Loans/advances	(4204.0)	(7837.6)	(8558.2)	(4651.5)
-Sundry creditors	14306.0	8682.5	9480.7	5152.9
-Others	9771.0	36841.1	37809.7	22280.6
Change in working capital	13203.0	28806.8	29036.8	17512.4
Operating activities	51620.0	90828.4	121614.1	128785.7
(Inc)/Dec in fixed assets	(62491.0)	(105238.9)	(107138.5)	(105755.5)
(Inc)/Dec in Investments	1580.0	190.0	0.0	0.0
Investing activities	(60911.0)	(105048.9)	(107138.5)	(105755.5)
Inc/(Dec) in debt	5980.0	19141.0	(11161.0)	(17914.0)
Inc/(Dec) in equity/premium	21129.0	16.0	0.0	0.0
Trf from amalgamated subsidiary	(19257.0)	5686.5	9477.5	13268.5
Dividends	0.0	(5686.5)	(9477.5)	(13268.5)
Financing activities	7852.0	19157.0	(11161.0)	(17914.0)
Cash generated/(utilised)	(1439.0)	4936.5	3314.6	5116.2
Cash at start of the year	4101.0	2662.0	7598.5	10913.1

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