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BUY

Bharti Airtel Ltd (Q1 FY09)

July 25, 2008

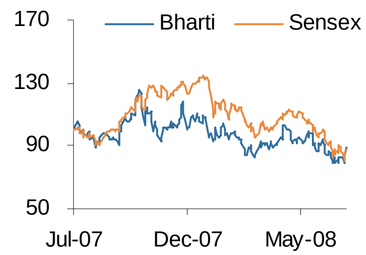
Stock data

Sensex:	14,777
CMP (Rs):	800
Target price (Rs):	1,024
Upside (%):	28.0
52 Week h/l (Rs):	1,149/688
Market cap (Rs cr)	156,443
6m Avg vol BSE&NSE ('000 nos):	4,116
No of o/s shares (mn):	1,956
FV (Rs):	10
Bloomberg code:	BHARTI IN
Reuters code:	BRTI.BO
BSE code:	532454
NSE code	BHARTIARTL

Shareholding pattern

June 2008	(%)
Promoters	66.5
FIIs & institutions	29.9
Non promoter corp hold	2.1
Others	1.5

Share price trend



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- Healthy 11.9% qoq subscriber adds and robust NLD revenues drive 8.2% rise in Q1 revenues
- Higher network operating costs nullified by lower access, SG&A expenses; margins remain essentially flat qoq
- PAT increases 14.1% qoq on interest income
- Underpinned by sustained subscriber growth, strength in non wireless business and value accretive stake in tower JV, we maintain our BUY rating

Subscriber growth at 11.9% qoq; STD/roaming tariff cuts spur higher MOU

Bharti witnessed 8.2% increase in Q1 revenues driven by 11.9% rise in subscriber base; MOU rose a robust 5.3% qoq (on the back of a 7% qoq jump in Q4 FY08) as the company cut STD and national roaming charges. Although quarterly subscriber adds were the highest ever, the pace of additions was amongst the lowest in the past three years probably reflecting the effect of a higher base.

Long distance revenues surged 24.9% qoq as STD cuts led to increased demand. While RPM declined 8.6% qoq, higher MOU/subscriber limited ARPU drop to only 2% qoq.

Margins remain mostly flat qoq; network costs increase 200bps qoq

Operating margins increased marginally by 20bps qoq as decline in access charges and SG&A expenses compensated for higher network costs due to rising fuel expenses. Also the quarter saw the full impact of transfer of tower assets to subsidiary Bharti Infratel.

PAT up 14.1% qoq on interest income

Despite increased tax outgo and lower other income, profit for the quarter increased by 14.1% qoq due to an interest income in the quarter.

Financial highlights

Period	Q1 FY09	Q1 FY08	% yoy	Q4 FY08	% qoq
(Rs mn)	(3)	(3)		(3)	
Revenues	85,060	58,735	44.8	78,637	8.2
Expenditure	(50,375)	(34,743)	45.0	(46,743)	7.8
Op.profit	34,685	23,992	44.6	31,894	8.8
Other inc.	616	837	(26.4)	663	(7.1)
Interest	945	2,649	(64.3)	(3,045)	
Depreciation	(9,972)	(7,889)	26.4	(9,350)	6.6
PBT	26,275	19,590	34.1	20,162	30.3
Tax	(4,175)	(5,161)	(19.1)	(761)	448.5
PAT	22,100	14,429	53.2	19,401	13.9
Minority Int.	(433)	(187)	132.3	(412)	5.1
Adj. PAT	21,667	14,242	52.1	18,989	14.1
Equity	18,980	18,972		18,979	
EPS (Rs)*	45.7	30.0		40.0	

Source: Company
**Annualized*

Consolidated segment revenues

Period to	Q1 FY09	Q1 FY08	% yoy	Q4 FY08	% qoq
Rs mn	**(3)**	**(3)**		**(3)**	
Mobile	69,205	47,036	47.1	64,321	7.6
Telemedia services	7,974	6,537	22.0	7,656	4.1
Long Distance	15,751	9,677	62.8	12,609	24.9
Enterprise services	4,258	2,685	58.6	4,376	(2.7)
Passive Infrastructure services	10,558	-	-	6,023	-

Source: Company

Sustained subscriber adds, non-wireless strength to drive 36.1% EPS CAGR: Maintain BUY

Bharti has guided for a capex of US$3.5bn for FY09, including US$1bn on subsidiary Infratel expansion in seven circles, and plans to ramp up population coverage to 80-85%. We expect a CAGR of 29% in wireless subscribers over next two years (103mn by FY10E), while sales and earnings would grow at a compounded rate of 28% and 36.1% respectively over the same period.

Non-wireless segments viz enterprise business and telemedia are also expected to witness firm growth with the latter estimated to have a 3.3mn subscriber base by FY10E. Indus Towers, a three way JV with Vodafone Essar and Idea, would aid in faster network roll out in 16 circles and lower capex for the company to that extent. We estimate enterprise value of Indus Towers at about US$13.3bn, a mark down from our earlier US$17-18bn range as we changed WACC assumptions to factor in higher interest rate scenario.

As network coverage reaches a majority of population, we estimate mobile capex to gradually taper off which implies company would have strong cash positions going forward (C&CE at US$1.6bn by FY10E) which could be used for inorganic growth or to bid aggressively in likely 3G auctions. Maintain BUY with a price target of Rs1,024, implying a P/E of 16.9x and EV/EBIDTA of 10.8x on our FY10E earnings.

Financial snapshot

y/e March, Rs mn	FY07	FY08	FY09E	FY10E
	(12)	**(12)**	**(12)**	**(12)**
Revenues	184,202	270,122	382,846	442,816
yoy growth (%)		46.6	41.7	15.7
Operating profit	74,344	113,700	159,264	183,769
OPM (%)	40.4	42.1	41.6	41.5
PAT	40,621	63,954	100,810	118,380
Pre-exceptional PAT	20,279	40,621	63,954	100,810
yoy growth (%)		57.4	57.6	17.4
EPS (Rs)	21.1	32.7	51.6	60.5
P/E (x)	37.9	24.5	15.5	13.2
P/BV (x)	13.4	7.2	4.9	3.6
EV/EBITDA (x)	21.3	14.5	10.2	8.6
ROE (%)	35.4	29.4	31.7	27.1
ROCE (%)	30.4	26.1	30.6	27.7

Source: Company, India Infoline Research