Flashnote

HSBC Global Research

Telecoms, Media & Technology
Wireless Telecoms
Equity – India

Bharti Airtel (BHARTI)

Underweight (V)

Target price (INR)	**270.00**
Share price (INR)	**291.30**
Potential total return (%)	**-7.3**

Performance	1M	3M	12M
Absolute (%)	-7.6	-14.9	-0.9
Relative^ (%)	-13.7	-14.2	-52.6

Index^	BOMBAY SE SENSITIVE INDEX
RIC	BRTI.BO
Bloomberg	BHARTI IN
Market cap (USDm)	24,237
Market cap (INRm)	1,106,140
Enterprise value (INRm)	1,105,231
Free float (%)	

Note: (V) = volatile (please see disclosure appendix)

11 March 2010

Rajiv Sharma*
Analyst
HSBC Securities and Capital Markets (India) Private Limited
+9122 2268 1239
rajivsharma@hsbc.co.in

Tucker Grinnan*
Regional Head of Telecoms Research
The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4686
tuckergrinnan@hsbc.com.hk

Harbhajan Singh*
Associate
Bangalore

View HSBC Global Research at: http://www.research.hsbc.com

*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to NYSE and/or NASD regulations

Issuer of report: HSBC Securities and Capital Markets (India) Private Limited

UW(V): Former Celtel CSO shares views on Africa

- **Celtel co-founder emphasises infrastructure sharing as an important catalyst for cost reduction…**
- **…and local management as key to success in Africa**
- **We remain cautious on the Bharti-Zain deal**

Today, we hosted an investor call with Terry Rhodes, focusing on opportunities and challenges for Bharti Airtel in a post Bharti-Zain deal scenario. Terry Rhodes (currently director at Eaton Telecom) was co-founder of Celtel International and formerly its Chief Strategy Officer (Zain acquired Celtel in March 2005). Bharti Airtel is in discussion with Kuwait's Zain to buy its African business. The acquisition would give Bharti access to 15 African markets. Below, we paraphrase the views of Terry Rhodes:

Management diversity and cultural understanding are paramount in Africa. Our guest speaker emphasised that it would be a mistake to generalize the African market. As Africa consists of 53 countries, to operate successfully it is important to understand the dynamics of each country, including differences in culture, language and especially regulations. Terry believes Bharti would do well to put in place as few expatriates as possible and have most of its top management from Africa.

Infrastructure sharing is gaining momentum in Africa as operators face cost pressures and capital constraints. Moreover, as operators expand deeper into rural areas, tower sharing helps to reduce costs. The biggest driver of network sharing will be the shift in approach of the biggest operators, who had been unwilling to share network to sustain competitive advantage. Terry observed that there is visible network sharing in the markets of Nigeria, Ghana and South Africa, and that this is likely to pick up in other markets.

Bharti's cost savings and minute factory model could bring down costs at Zain quite significantly. A change in management approach at Zain from growth and spending to growth and cost control could work positively for Bharti. Terry believes network sharing and IT outsourcing would help operators bring down costs. While he expects costs to trend down, he did suggest that they will be higher than in India because of some of the structural costs caused by power shortage and poor infrastructure.

We retain our UW(V) rating and INR270 target price for Bharti shares. Bharti's offer of USD10.7bn to buy Zain's African assets implies 2010e EV/EBITDA of 9.9x, which we find expensive. Per our analysis, the deal would be EPS-dilutive for Bharti. A key upside risk for Bharti would be favourable spectrum policy, enabling consolidation in the Indian wireless space.

Financials & valuation

Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Profit & loss summary (INRm)				
Revenue	369,615	400,170	407,332	495,489
EBITDA	151,678	163,876	138,110	175,446
Depreciation & amortisation	-47,581	-59,607	-61,080	-64,803
Operating profit/EBIT	104,097	104,269	77,030	110,642
Net interest	-11,613	5,183	4,836	2,165
PBT	93,073	112,334	86,590	121,734
HSBC PBT	93,073	107,725	86,590	121,734
Taxation	-6,615	-13,984	-14,534	-26,692
Net profit	84,699	96,539	70,145	92,829
HSBC net profit	84,699	91,931	70,145	92,829
Cash flow summary (INRm)				
Cash flow from operations	125,393	159,563	158,408	140,117
Capex	-140,171	-83,776	-162,571	-125,892
Cash flow from investment	-140,171	-83,776	-162,571	-125,892
Dividends	-7,584	0	0	-28,495
Change in net debt	27,531	-67,838	10,521	12,432
FCF equity	-25,221	86,460	2,795	19,077
Balance sheet summary (INRm)				
Intangible fixed assets	40,364	39,419	37,254	35,306
Tangible fixed assets	409,136	439,522	501,808	564,844
Current assets	144,079	165,571	173,839	175,365
Cash & others	49,154	95,763	102,744	95,107
Total assets	603,947	656,133	921,865	994,053
Operating liabilities	170,498	152,552	190,736	193,940
Gross debt	118,801	97,572	115,073	119,868
Net debt	69,646	1,809	12,330	24,761
Shareholders funds	303,945	393,635	603,723	667,901
Invested capital	373,926	396,196	419,421	486,468

Ratio, growth and per share analysis

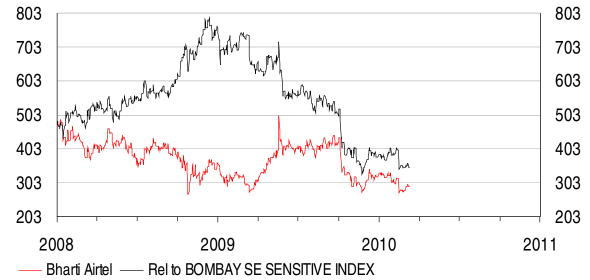
Year to	03/2009a	03/2010e	03/2011e	03/2012e
Y-o-y % change				
Revenue	36.8	8.3	1.8	21.6
EBITDA	33.4	8.0	-15.7	27.0
Operating profit	36.2	0.2	-26.1	43.6
PBT	21.6	20.7	-22.9	40.6
HSBC EPS	26.3	8.5	-23.7	32.3
Ratios (%)				
Revenue/IC (x)	1.2	1.0	1.0	1.1
ROIC	27.3	22.3	15.4	19.7
ROE	32.2	26.4	14.1	14.6
ROA	18.6	15.6	9.6	10.5
EBITDA margin	41.0	41.0	33.9	35.4
Operating profit margin	28.2	26.1	18.9	22.3
EBITDA/net interest (x)	13.1			
Net debt/equity	22.1	0.4	2.0	3.6
Net debt/EBITDA (x)	0.5	0.0	0.1	0.1
CF from operations/net debt	180.0	8822.5	1284.8	565.9
Per share data (INR)				
EPS reported (fully diluted)	22.34	25.46	18.50	24.48
HSBC EPS (fully diluted)	22.34	24.24	18.50	24.48
DPS	2.00	0.00	0.00	7.51
Book value	80.15	103.79	159.19	176.11

Valuation data

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales	3.2	2.8	2.7	2.3
EV/EBITDA	7.7	6.7	8.1	6.4
EV/IC	3.1	2.8	2.7	2.3
PE*	13.0	12.0	15.7	11.9
P/Book value	3.6	2.8	1.8	1.7
FCF yield (%)	-2.3	7.8	0.3	1.7
Dividend yield (%)	0.7	0.0	0.0	2.6

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 10 Mar 2010

HSBC

What is the minute factory model?

The minute factory model adopted by Bharti treats airtime as a perishable commodity and attempts to maximise network utilisation (capacity utilisation). The best way to understand this model is to imagine telecom networks as factories generating minutes they try to maximise throughput by maximising the consumption of minutes. This can be accomplished in two ways: (1) by maximising subscribers per base transceiver station (BTS), and (2) by maximising minutes per subscriber. Consumption of minutes is a function of tariffs and, to achieve high network utilisation, service providers tend to gradually reduce tariffs to benefit from usage buoyancy. This not only drives usage buoyancy but also has a positive read-across for subscriber growth, as it reduces the total cost of owning mobile services for subscribers.

While Bharti has mastered this model, pricing usage structures tends to be driven by industry dynamics rather than operator-specific strategies. Initially, we believe it is unlikely that Zain's African operations will replicate the model completely, opting instead for gradual adoption. Lower-tariff, high-usage models often come with big increases in capex. We note that both Indonesia and China have moved to the low-cost minute model over the past two years, with major spikes in capex to support massive increases in traffic volume.

Valuation and risks

We retain our target price of INR270 on Bharti shares. We value the core business at INR215 per share, on a mix of PE and DCF, and the tower business at INR55 per share. Our target price implies a FY11e PE of 14.7x. For our DCF analysis of the core business, we assume cost of equity at 12% (cost of debt at 11% and target debt to-capital ratio of 15%). We assume WACC at 12% and the terminal growth rate at 1% and a beta of 1.

We value Bharti's tower business – Bharti Infratel and the 42% stake in the Indus Tower JV – at INR62 on DCF, assuming a sliding WACC of 11% and a terminal growth rate of 4%. This implies FY11e EV/tower of cINR3m, which is c40% discount to recent transaction multiples.

Under our research model, for stocks with a volatility indicator, the Neutral band is 10ppt above and below our hurdle rate for Indian stocks of 10.5%, or 0.5-20.5% above the current share price. Our target price of INR270 implies a potential total return of -7.3%, which is below the Neutral band, thus, we maintain our Underweight (V) rating.

A slower-than-expected pick-up in per-second plans, Bharti's ability to retain revenue market share and a significant delay in mobile number portability (MNP) are the key upside risks, in our view.

Bharti Airtel: Target price calculation

(INR/share)	Assumptions	Value
Core business	Providing equal weight to both PE and DCF	215
Tower business	DCF	55
Target price		270

Source: HSBC estimates

HSBC Global Research website

To maximise your access to HSBC Global Research please visit our website at www.research.hsbc.com where you can:

- View the latest research and access archived reports
- Visit the dedicated product pages, including Emerging Markets and Climate Change
- Filter estimates for more than 1,000 companies under equity coverage
- Set up personal filters to put your research interests at your fingertips
- Look up HSBC research analyst contact details

E-mail subscriptions

You can receive research directly via e-mail as soon as it is published. To set up subscriptions to research reports, contact your Relationship Manager.

If you are having problems or need assistance with the website service, please contact your HSBC Relationship Manager or e-mail: ecare@hsbcib.com.

http://www.research.hsbc.com

HSBC

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Rajiv Sharma and Tucker Grinnan

Important disclosures

Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is 2 years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

Prior to 15 November 2004, HSBC's ratings system was based upon a two-stage recommendation structure: a combination of the analysts' view on the stock relative to its sector and the sector call relative to the market, together giving a view on the stock relative to the market. The sector call was the responsibility of the strategy team, set in co-operation with the analysts. For other companies, HSBC showed a recommendation relative to the market. The performance horizon was 6-12 months. The target price was the level the stock should have traded at if the market accepted the analysts' view of the stock.

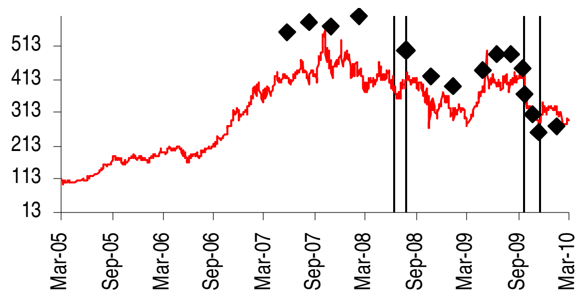
Rating distribution for long-term investment opportunities

As of 11 March 2010, the distribution of all ratings published is as follows:

Overweight (Buy)	48%	(12% of these provided with Investment Banking Services)
Neutral (Hold)	37%	(11% of these provided with Investment Banking Services)
Underweight (Sell)	15%	(10% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

Bharti Airtel (BRTI.BO) Share Price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight	Overweight	20 June 2008
Overweight	Overweight (V)	30 July 2008
Overweight (V)	Neutral (V)	30 September 2009
Neutral (V)	Underweight (V)	24 November 2009
Target Price	**Value**	**Date**
Price 1	555.00	04 June 2007
Price 2	585.00	21 August 2007
Price 3	570.00	07 November 2007
Price 4	603.00	17 February 2008
Price 5	501.50	30 July 2008
Price 6	501.00	04 August 2008
Price 7	421.50	03 November 2008
Price 8	393.00	21 January 2009
Price 9	438.00	04 May 2009
Price 10	488.50	22 June 2009
Price 11	488.50	18 August 2009
Price 12	448.00	30 September 2009
Price 13	368.00	07 October 2009
Price 14	305.00	01 November 2009
Price 15	254.00	24 November 2009
Price 16	270.00	24 January 2010

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BHARTI AIRTEL	BRTI.NS	291.30	10-Mar-2010	6, 7

Source: HSBC

1 HSBC* has managed or co-managed a public offering of securities for this company within the past 12 months.
2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
4 As of 28 February 2010 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
5 As of 31 January 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
6 As of 31 January 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking-securities related services.
7 As of 31 January 2010, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
8 A covering analyst/s has received compensation from this company in the past 12 months.
9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research.

** HSBC Legal Entities are listed in the Disclaimer below.*

Additional disclosures

1 This report is dated as at 11 March 2010.
2 All market data included in this report are dated as at close 09 March 2010, unless otherwise indicated in the report.
3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

HSBC

Disclaimer

** Legal entities as at 31 January 2010*
'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc, Toronto; HSBC Bank, Paris branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Dusseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt S.A.E., Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; 'GR' HSBC Pantelakis Securities S.A., Athens; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv, 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler A.S., Istanbul; HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, HSBC Bank Brasil S.A. - Banco Múltiplo, HSBC Bank Australia Limited, HSBC Bank Argentina S.A., HSBC Saudi Arabia Limited.

Issuer of report
HSBC Securities and Capital Markets (India) Private Limited
Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com

This document has been issued by HSBC Securities and Capital Markets (India) Private Limited ("HSBC") for the information of its customers only. HSBC Securities and Capital Markets (India) Private Limited is regulated by the Securities and Exchange Board of India. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies and may also be represented in the supervisory board or any other committee of those companies. The information and opinions contained within the research reports are based upon publicly available information and rates of taxation applicable at the time of publication which are subject to change from time to time. Past performance is not necessarily a guide to future performance. The value of any investment or income may go down as well as up and you may not get back the full amount invested. Where an investment is denominated in a currency other than the local currency of the recipient of the research report, changes in the exchange rates may have an adverse effect on the value, price or income of that investment. In case of investments for which there is no recognised market it may be difficult for investors to sell their investments or to obtain reliable information about its value or the extent of the risk to which it is exposed.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) (“SFA”) and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its “wholesale” customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business for the information of its institutional and professional customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited makes no representations that the products or services mentioned in this document are available to persons in Hong Kong or are necessarily suitable for any particular person or appropriate in accordance with local law. All inquiries by such recipients must be directed to The Hongkong and Shanghai Banking Corporation Limited. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act (“FSCMA”). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.