

## Equities

9 February 2012 | 15 pages

# Bharti Airtel (BRTI.BO)

## 3Q Below – Tariffs or Mins? Time to Find the Right Balance

- Company Update
- Target Price Change
- Estimate Change

■ **Weak overall though includes one-offs** — 3Q EBITDA at Rs59.6bn (+2.5%qoq) came in 5% below hit by weak mobile, Telemedia and Enterprise though some of it was due to one-off 1) Wireless - product provisioning in Bangladesh, 2) Telemedia - adverse regulation related to telemarketing and 3) a lumpy market spend. Meanwhile PAT at Rs10.1bn was further hit by high capitalization charge and tax. We cut FY12-14E EBITDA by 5%. Hit on EPS (FY13-14E) is higher given small base though comes almost entirely from EBITDA cut. TP as a result declines to Rs425.

■ **Middle approach on tariffs likely now** – The industry clearly has not matured and there continues to remain price arbitrage. Bharti's strategy of keeping tariffs high has not worked reflected in slow mins growth and falling rev market shr. While rev/min improved 4% in last 2 quarters, overall traffic fell 0.5%. We believe the company will have to re-think the strategy – the approach is likely to be nuanced with selective cuts to regain lost market share. This approach, while going against its strategy of keeping tariffs firm, may be necessitated by market dynamics. As a result we moderate rev/min assumptions though with an uptick in traffic growth.

■ **Africa – Near-term disruption but we remain confident on value accretion** – Topline (LC) grew 5%qoq though mins growth was only 3%qoq (~9-10% in previous 2). Mgmt attributed this to disruption in Nigeria and elections in DRC. Mins growth is likely to remain muted in 4Q too given disruption in Nigeria in early Jan. Encouragingly, peak capex is behind (some concern had been raised given MTN's high capex guidance early in the year).

■ **Still Top Pick; Street may wait for improvement** – Continue to prefer Bharti over Idea. While upside in Bharti may be modest, it offers downside protection – insulated from SC ruling and strong FCF - cushions impact from large regulatory outgo while other operators face business disruption (varying degrees) due to cancellations. Near term however, the Street may want to see evidence of reversal in market share loss (should be reflected in 4Q) before it gets reflected in stock price.

<b>Buy</b>	<b>1</b>
Price (08 Feb 12)	Rs354.00
Target price	Rs425.00
	<i>from Rs452.00</i>
Expected share price return	20.1%
Expected dividend yield	0.6%
<b>Expected total return</b>	<b>20.6%</b>
Market Cap	Rs1,344,326M
	US\$27,365M

### Price Performance (RIC: BRTI.BO, BB: BHARTI IN)



### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	91,025	23.97	7.4	14.8	3.2	25.4	0.3
2011A	70,198	18.48	-22.9	19.2	2.8	15.6	0.3
2012E	48,056	12.65	-31.5	28.0	2.6	9.5	0.6
2013E	88,854	23.40	84.9	15.1	2.2	15.8	1.1
2014E	109,957	28.95	23.7	12.2	2.0	17.3	2.3

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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BRTI.BO: Fiscal year end 31-Mar						Price: Rs354.00; TP: Rs425.00; Market Cap: Rs1,344,326m; Recomm: Buy					
Profit & Loss (Rsm)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	396,150	594,672	714,668	791,248	843,377	PE (x)	14.8	19.2	28.0	15.1	12.2
Cost of sales	-54,600	-356,547	-395,336	-413,412	-429,455	PB (x)	3.2	2.8	2.6	2.2	2.0
Gross profit	341,550	238,125	319,332	377,836	413,922	EV/EBITDA (x)	8.9	8.2	8.1	6.8	5.8
Gross Margin (%)	86.2	40.0	44.7	47.8	49.1	FCF yield (%)	2.2	-6.6	2.4	8.2	10.5
<b>EBITDA</b>	<b>156,531</b>	<b>199,664</b>	<b>237,220</b>	<b>280,496</b>	<b>316,567</b>	Dividend yield (%)	0.3	0.3	0.6	1.1	2.3
EBITDA Margin (%)	39.5	33.6	33.2	35.4	37.5	Payout ratio (%)	4	5	16	17	28
Depreciation	-53,885	-86,980	-101,238	-113,013	-124,029	ROE (%)	25.4	15.6	9.5	15.8	17.3
Amortisation	-2,836	-15,086	-29,663	-17,593	-16,237	<b>Cashflow (Rsm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>
<b>EBIT</b>	<b>99,810</b>	<b>97,598</b>	<b>106,319</b>	<b>149,891</b>	<b>176,302</b>	EBITDA	156,531	199,664	237,220	280,496	316,567
EBIT Margin (%)	25.2	16.4	14.9	18.9	20.9	Working capital	-10,706	9,577	-30,757	-34,633	-22,799
Net interest	5,782	-21,813	-36,632	-28,750	-25,584	Other	-13,677	-20,728	-34,525	-28,795	-35,799
Associates	292	0	0	0	0	<b>Operating cashflow</b>	<b>132,149</b>	<b>188,513</b>	<b>171,938</b>	<b>217,068</b>	<b>257,970</b>
Non-op/Except	1,093	0	0	0	0	Capex	-102,296	-277,877	-139,916	-106,978	-116,856
<b>Pre-tax profit</b>	<b>106,978</b>	<b>75,785</b>	<b>69,686</b>	<b>121,141</b>	<b>150,718</b>	Net acq/disposals	413	47,373	0	0	0
Tax	-13,959	-17,790	-21,496	-28,795	-35,799	Other	-165	-373,991	440	271	303
Extraord./Min.Int./Pref.div.	-1,994	12,203	-135	-3,492	-4,963	<b>Investing cashflow</b>	<b>-102,048</b>	<b>-604,495</b>	<b>-139,475</b>	<b>-106,707</b>	<b>-116,554</b>
<b>Reported net profit</b>	<b>91,025</b>	<b>70,198</b>	<b>48,056</b>	<b>88,854</b>	<b>109,957</b>	Dividends paid	-4,442	-4,428	-8,545	-17,089	-34,178
Net Margin (%)	23.0	11.8	6.7	11.2	13.0	<b>Financing cashflow</b>	<b>-27,344</b>	<b>397,153</b>	<b>-38,671</b>	<b>-113,899</b>	<b>-136,059</b>
Core NPAT	91,025	70,198	48,056	88,854	109,957	<b>Net change in cash</b>	<b>2,757</b>	<b>-18,953</b>	<b>-6,209</b>	<b>-3,538</b>	<b>5,357</b>
<b>Per share data</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>Free cashflow to s/holders</b>	<b>29,853</b>	<b>-89,364</b>	<b>32,023</b>	<b>110,090</b>	<b>141,113</b>
Reported EPS (Rs)	23.97	18.48	12.65	23.40	28.95						
Core EPS (Rs)	23.97	18.48	12.65	23.40	28.95						
DPS (Rs)	1.00	1.00	2.00	4.00	8.00						
CFPS (Rs)	34.80	49.64	45.28	57.16	67.93						
FCFPS (Rs)	7.86	-23.53	8.43	28.99	37.16						
BVPS (Rs)	108.94	128.41	138.82	157.72	177.67						
Wtd avg ord shares (m)	3,798	3,798	3,798	3,798	3,798						
Wtd avg diluted shares (m)	3,798	3,798	3,798	3,798	3,798						
<b>Growth rates</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Sales revenue (%)	7.2	50.1	20.2	10.7	6.6						
EBIT (%)	-4.1	-2.2	8.9	41.0	17.6						
Core NPAT (%)	7.5	-22.9	-31.5	84.9	23.7						
Core EPS (%)	7.4	-22.9	-31.5	84.9	23.7						
<b>Balance Sheet (Rsm)</b>	<b>2010</b>	<b>2011</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>						
Cash & cash equiv.	77,034	15,799	9,590	6,052	11,409						
Accounts receivables	24,335	54,929	66,013	73,086	77,901						
Inventory	484	2,139	2,443	2,630	2,777						
Net fixed & other tangibles	506,890	1,307,926	1,323,420	1,300,284	1,277,379						
Goodwill & intangibles	0	0	0	0	0						
Financial & other assets	37,666	84,271	85,251	86,256	87,286						
<b>Total assets</b>	<b>646,409</b>	<b>1,465,064</b>	<b>1,486,717</b>	<b>1,468,309</b>	<b>1,456,753</b>						
Accounts payable	0	0	0	0	0						
Short-term debt	0	0	0	0	0						
Long-term debt	64,619	616,708	616,625	548,836	472,841						
Provisions & other liab	139,601	324,860	306,950	281,074	272,036						
<b>Total liabilities</b>	<b>204,220</b>	<b>941,568</b>	<b>923,575</b>	<b>829,910</b>	<b>744,877</b>						
Shareholders' equity	413,700	487,668	527,179	598,944	674,722						
Minority interests	28,489	28,563	28,698	32,190	37,153						
<b>Total equity</b>	<b>442,189</b>	<b>516,231</b>	<b>555,877</b>	<b>631,134</b>	<b>711,875</b>						
<b>Net debt</b>	<b>-12,415</b>	<b>600,909</b>	<b>607,034</b>	<b>542,784</b>	<b>461,432</b>						
Net debt to equity (%)	-2.8	116.4	109.2	86.0	64.8						

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## Bharti – Shaken and should now get stirred

Bharti's topline growth from 2QFY09 to 2QFY12 has been slower compared to GSM incumbents (Vodafone/Idea) in the last past few quarters. Idea's CQGR since 2QFY09 has been 4.9% while it is 3.6% for Vodafone and Bharti's has only been 1.9%. In addition, it has also lost 310bps revenue market share (pan-India) since 2QFY09 vs. gains of 330/250bps by Idea/Vodafone respectively. The slower topline growth has generally been attributed to its larger scale while the consolidated revenue share gains for Vodafone/Idea have been linked to their new circle launches.

We analyse TRAI data (from 2QFY09 to 2QFY12) which provides excellent granularity of circle-wise operator revenues. We drill deeper to the circle level to analyze how much to attribute the growth/rev share movement to these arguments. In order to normalize for scale distortions, we have taken the top 5 circles, which together account for 45-55% of each operator's revenues. These circles include

1. **Bharti** – Karnataka, Delhi, AP, TN, Bihar
2. **Vodafone** – Delhi, Gujarat, Mumbai, TN, UP(E)
3. **Idea** – Maharashtra, AP, Kerala, MP, UP(W)

### **Bharti lost rev market share in 4/5 top circles**

Bharti has lost 90-600bps revenue share in 4 of the top 5 circles. The largest revenue contributor (Karnataka; 11% of revenues) has witnessed a 480bps loss. The only circle which saw some improvement has been Andhra Pradesh (170bps). Vodafone on the other hand has witnessed revenue share loss (70-140bps) in only 2 of its 5 circles – Mumbai and UP (E). Idea meanwhile has not seen any revenue share loss in its top 5 circles, instead gaining 50-810bps revenue market share

Expanding this beyond the top 5 circles, Bharti has lost revenue share in 16/22 circles; Vodafone on the other hand has lost in 5/22 circles while Idea has managed to improve market share across all of its circles.

Figure 1. Revenue market share and trends from 2QFY09 to 2QFY12 (last 12 quarters)

	BSNL		Idea		Vodafone		Bharti		Aircel		Tata Tele		RCOM		Uninor	
	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend	Mkt share	Trend
AP	9.4%	1.1%	17.3%	0.5%	10.8%	-2.6%	39.5%	1.7%	1.6%	1.6%	11.2%	0.0%	7.3%	-5.4%	2.3%	2.3%
Assam	10.8%	-13.7%	1.9%	1.9%	13.1%	12.5%	31.0%	0.2%	23.7%	0.4%	2.5%	2.5%	16.7%	-4.0%	0.0%	0.0%
Bihar	6.2%	-5.9%	8.9%	8.9%	11.4%	11.4%	43.3%	-6.1%	4.3%	1.2%	7.6%	-0.9%	12.1%	-14.8%	3.5%	3.5%
Kolkata	4.7%	-2.5%	3.3%	3.3%	31.0%	0.9%	26.7%	-3.7%	4.1%	3.4%	11.5%	1.0%	12.5%	-8.5%	3.6%	3.6%
Gujarat	5.4%	-1.9%	17.6%	1.4%	39.1%	1.3%	17.4%	-2.4%	NA	NA	7.8%	1.5%	7.6%	-5.0%	3.4%	3.4%
Haryana	10.2%	-6.5%	21.8%	3.3%	27.9%	5.2%	17.7%	-2.9%	1.0%	1.0%	13.2%	2.2%	6.1%	-4.4%	0.0%	0.0%
HP	15.4%	-2.5%	7.6%	2.7%	8.2%	8.2%	40.4%	-7.5%	6.7%	5.5%	4.2%	-0.9%	14.4%	-8.7%	0.0%	0.0%
J&K	15.6%	-6.0%	2.2%	2.2%	8.5%	8.5%	38.5%	-29.3%	27.0%	16.5%	3.1%	3.1%	5.1%	5.0%	0.0%	0.0%
Karnataka	5.9%	-3.1%	8.6%	2.3%	14.5%	-1.5%	45.8%	-4.8%	1.5%	1.5%	12.0%	4.6%	7.8%	-2.8%	1.3%	1.3%
Kerala	14.7%	-1.2%	32.0%	8.1%	22.5%	5.0%	16.5%	-3.5%	2.1%	2.1%	6.0%	-0.7%	4.4%	-11.7%	0.6%	0.6%
MP	8.2%	-3.4%	30.9%	2.4%	6.1%	6.1%	25.9%	-7.3%	0.8%	0.8%	8.9%	4.4%	18.1%	-4.0%	0.0%	0.0%
Mah	6.6%	-4.0%	28.1%	2.0%	23.3%	6.4%	19.8%	-4.0%	0.9%	0.9%	10.4%	-0.9%	7.4%	-4.0%	3.0%	3.0%
NE	13.7%	-12.4%	2.5%	2.5%	11.5%	10.9%	36.6%	1.0%	25.5%	1.1%	3.0%	3.0%	7.0%	-6.4%	0.0%	0.0%
Orissa	16.0%	-6.3%	3.2%	3.2%	12.2%	11.8%	36.0%	-7.3%	7.4%	2.9%	8.6%	1.3%	12.7%	-9.5%	2.5%	2.5%
Punjab	7.6%	-6.3%	19.6%	2.0%	17.8%	3.5%	36.3%	0.3%	1.6%	1.6%	8.4%	1.8%	5.2%	-2.1%	0.0%	0.0%
Rajasthan	7.5%	-8.9%	10.3%	5.0%	22.4%	1.8%	42.4%	2.9%	2.2%	2.2%	6.3%	-0.6%	5.6%	-3.6%	0.0%	0.0%
TN	7.8%	-3.5%	2.2%	2.2%	23.0%	4.3%	31.2%	-0.9%	21.1%	-1.3%	5.4%	0.6%	6.2%	-4.4%	1.0%	1.0%
UP (E)	11.0%	-7.3%	11.8%	5.1%	28.6%	-0.7%	27.8%	0.7%	2.0%	2.0%	4.8%	0.6%	8.2%	-6.1%	5.4%	5.4%
UP (W)	7.7%	-5.4%	28.1%	3.6%	22.7%	-0.7%	16.9%	-0.2%	2.5%	2.5%	8.1%	0.3%	8.4%	-5.6%	5.1%	5.1%
WB	6.7%	-6.5%	3.3%	3.3%	35.8%	0.4%	25.7%	-1.7%	4.1%	1.3%	5.1%	-0.3%	10.9%	-4.9%	4.7%	4.7%
Delhi	4.9%	1.0%	10.3%	0.5%	27.1%	5.0%	35.2%	-4.0%	2.4%	2.4%	7.7%	-4.6%	11.2%	-1.4%	0.0%	0.0%
Mumbai	2.7%	-3.4%	7.2%	6.9%	31.1%	-1.4%	18.7%	-2.4%	1.9%	1.9%	13.6%	-0.7%	12.9%	-4.2%	1.8%	1.8%

Source: Citi Investment Research and Analysis

Meanwhile the industry has clearly not matured with continued price arbitrage. Bharti's strategy of keeping tariffs low clearly has not worked, reflected in a lackluster mins growth; a trend divergent when compared to its peers when seen in context to the rev/min trend witnessed since the tariff hikes (July -11).

Figure 2. Traffic growth

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bharti	0.2%	4.4%	6.4%	7.8%	-1.6%	1.1%
Idea	14.3%	10.2%	9.0%	6.5%	-2.2%	7.3%
Vodafone	1.6%	5.5%	7.8%	7.0%	0.1%	NA
Uninor	137.7%	69.7%	79.3%	31.3%	25.4%	21.4%

Source: Citi Investment Research and Analysis

Figure 3. Rev/min trend (Rs)

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Bharti	0.44	0.44	0.43	0.43	0.43	0.45
Idea	0.42	0.42	0.41	0.41	0.43	0.43
Vodafone	0.57	0.57	0.56	0.55	0.57	NA
Uninor	0.36	0.40	0.32	0.31	0.30	0.28

Source: Citi Investment Research and Analysis, For Vodafone see trend and not absolute number since it doesn't double count on-net mins

**Given the continued market share losses and muted mins growth, we believe the company will have to re-think its strategy of focusing on rev/min though we don't expect an across the board cut. The company is likely to fine tune its strategy on tariffs selectively to counter the falling revenue market share.**

As a result, we tweak our wireless assumptions – moderating the rev/min increase though with higher traffic growth. Wireless margins too come down by 70-90bps as a result.

Figure 4. Wireless revisions

	FY12E			FY13E			FY14E		
	Previous	New	Change	Previous	New	Change	Previous	New	Change
Rev/min (Rs)	0.44	0.44	0.7%	0.45	0.45	-1.7%	0.46	0.45	-3.2%
ARPU (Rs)	194	192	-1.0%	196	191	-2.5%	199	195	-2.2%
MoU (mins)	439	431	-1.7%	433	430	-0.8%	432	437	1.1%
Traffic Growth (%)	14.0%	12.5%	-1.6%	7.0%	7.9%	0.9%	5.9%	6.8%	0.9%
Wireless rev (Rs m)	410,131	407,453	-0.7%	450,643	440,275	-2.3%	485,284	471,086	-2.9%
EBITDA/min (Rs)	0.15	0.15	-0.6%	0.16	0.16	-0.6%	0.17	0.16	-5.5%
Wireless Margins (%)	34.6%	34.2%	-0.4%	36.4%	35.6%	-0.7%	37.8%	36.9%	-0.9%

Source: Citi Investment Research and Analysis estimates

Figure 5. EBITDA down by 5%; impact on EPS higher due to low base and comes almost entirely from EBITDA cut

	FY12E			FY13E			FY14E		
	Previous	New	Change	Previous	New	Change	Previous	New	Change
EBITDA (Rs m)	249,982	237,220	-5%	295,071	280,496	-5%	334,408	316,567	-5%
EPS (Rs)	17.6	12.7	-28%	27.0	23.4	-13%	33.8	29.0	-14%

Source: Citi Investment Research and Analysis estimates

Figure 6. TP breakdown (Rs/share)

	New	Old
Core business	320	344
Towerco	90	93
Zain	39	39
Regulatory outgo	-24	-24
<b>Total</b>	<b>425</b>	<b>452</b>

Source: Citi Investment Research and Analysis

## Quarterly Summary

Figure 7. Quarterly Financials

Rs m	3QFY12	2QFY12	3QFY11	Y/Y (%)	Q/Q (%)
Income from Services	184,767	172,698	157,560	17.3%	7.0%
Access Charges	26,309	24,000	20,327	29.4%	9.6%
Network Op. Costs	40,815	38,220	32,899	24.1%	6.8%
Staff + SGA	43,357	39,058	40,452	7.2%	11.0%
License Fee	15,435	14,510	13,502	14.3%	6.4%
EBITDA	59,585	58,151	49,816	19.6%	2.5%
PBT	15,806	15,126	15,495	2.0%	4.5%
PAT	10,113	10,270	13,033	-22.4%	-1.5%

Source: Company, Citi Investment Research and Analysis

### Wireless – Muted mins growth; company likely to start taking selective cuts

Figure 8. Wireless Business Parameters

Rs m	3Q11	4Q11	1Q12	2Q12	3Q12	Remarks
Revenue	91,459	94,948	98,404	97,827	101,764	
qoq growth (%)	3.9%	3.8%	3.6%	-0.6%	4.0%	Comes primarily from rev/min increase
EBITDA	31,954	31,620	33,614	32,926	34,431	
EBITDA margin (%)	34.6	33.3	34.2	33.7	33.8	Hit by product provisioning in Bangladesh
ARPU	198	194	190	183	187	
MoU	449	449	445	423	419	
Prepaid as % of net adds	0	0	0	0	0	
Data as % of revenues	13.8	15.0	14.6	14.5	14.3	Data uptake continues, VAS impacted from adverse regulation
Number of cell sites	113,587	116,261	117,144	118,011	119,044	Steady increase
QoQ increase	3,549	2,674	883	867	1,033	
Census towns	5,104	5,113	5,114	5,115	5,116	
Non-census towns/villages	450,293	452,215	452,719	453,148	453,294	
Population coverage	85.8%	86.1%	86.2%	86.3%	86.4%	Sustained improvement in coverage
Minutes (mn)	205,018	218,190	228,331	224,734	227,115	
qoq growth (%)	7.5%	6.4%	4.6%	-1.6%	1.1%	Primarily due to focus on rev/min
Revenue per minute (Rs)	0.44	0.43	0.43	0.43	0.45	
Revenue per minute (paisa)	44.20	43.10	42.80	43.20	44.56	
EBITDA per minute (Rs)	0.16	0.145	0.147	0.147	0.152	Benefitted from rev/min increase
Capex per minute (Rs)	0.31	1.96	2.45	1.43	NM	

Source: Company, Citi Investment Research and Analysis

## Towerco – Healthy growth in tenancy

Figure 9. Bharti Infratel/Indus Summary

Rs m	3Q11	4Q11	4Q11	4Q11	4Q11	Remarks
Revenue	21,972	22,010	22,767	23,766	24,393	Includes 42% stake of Indus
EBITDA	8,486	8,153	8,585	8,902	9,110	Healthy growth from both increase in tower count and tenancy
EBITDA margin (%)	39%	37%	38%	37%	37%	
Number of towers	32,424	32,792	32,942	33,056	33,203	Continues to grow
Tenancy	1.68	1.73	1.77	1.79	1.81	Sustained rise in tenancy
Rental/tower/month	37,859	36,599	36,203	37,117	37,623	Doesn't include pass through costs
Gross Rentals (incl. passthrough)	53,602	51,679	52,136	53,818	54,557	
Indus						
Total towers	107,789	108,586	108,992	108,998	109,101	
Tenancy	1.80	1.83	1.87	1.89	1.91	Steady improvement
Infratel consolidated						
Towers	77,695	78,398	78,689	78,835	79,025	
Tenancies	1.75	1.79	1.83	1.85	1.87	

Source: Company, Citi Investment Research and Analysis

## Enterprise – Benefitted from favorable fx movement

Figure 10. Enterprise Summary

Rs m	3Q11	4Q11	1Q12	2Q12	3Q12	Remarks
Revenue	9,068	9,178	9,457	9,528	9,128	Hit from adverse regulation which impacted telemarketing
EBITDA	4,045	4,147	4,304	4,213	3,542	
EBITDA margin (%)	44.6	45.2	45.5	44.2	38.8	Should bounce back to longer-term trend of ~44%
ARPU	934	934	952	955	916	
Coverage of towns	87	87	87	87	87	
Number of DSL subs	3,257,000	3,296,000	3,322,000	3,328,000	3,317,000	Decline primarily from telemarketing

Source: Company, Citi Investment Research and Analysis

## Fixed line – Hit by adverse regulations

Figure 11. Fixed line and Broadband Summary parameters

Rs m	3Q11	4Q11	1Q12	2Q12	3Q12	Remarks
Revenue	10,503	10,179	10,410	11,042	11,881	Benefits from currency
EBITDA	2,260	2,619	2,303	2,371	2,008	
EBITDA margins (%)	21.5%	25.7%	22.1%	21.5%	16.9%	Should bounce back
NLD Minutes	18,063	19,542	19,878	20,305	20,551	Sustained growth
ILD Minutes	3,192	3,047	3,119	3,519	3,529	

Source: Company, Citi Investment Research and Analysis

## DTH – EBITDA margins should start moving up

Figure 12. DTH Summary

Rs m	3Q11	4Q11	1Q12	2Q12	3Q12	Remarks
Revenue	2,133	2,555	2,934	3,135	3,327	
EBITDA	(150)	158	50	116	90	
EBITDA margins (%)	-7.0%	6.2%	1.7%	3.7%	2.7%	Should start accelerating
Digital TV Customers	4,932,000		6,262,000	6,614,000	7,069,000	Half of DishTV; market share of ~12-13%
ARPU (Rs)	161		163	161	160	
Monthly Churn (%)	1.2		0.7	1.2	1.2	
# Districts covered	505		550	582	587	

Source: Company, Citi Investment Research and Analysis

## Africa – Hit by one-offs but longer term we remain positive

Figure 13. Africa business parameters

Rs m	3Q11	4Q11	1Q12	2Q12	3Q12	Remarks
Revenues	40,530	41,805	43,784	47,032	53,589	
% growth	4.2%	3.1%	4.7%	7.4%	13.9%	LC growth at 5%
EBITDA	7,724	10,176	11,002	12,329	14,299	
EBITDA margins	19.1%	24.3%	25.1%	26.2%	26.7%	Steady improvement
Total customer base ('000)	42,124	44,206	46,306	48,437	50,949	
Net additions	2042	2082	2100	2131	2512	Steady increase
Pre-paid as % of total subs	99.3%	99.3%	99.3%	99.3%	99.3%	In-line with the Indian trend
Mins (mn)	14,904	14,915	16,337	17,950	18,496	Muted growth hit by business disruption in Nigeria and elections in DRC
ARPU	7.3	7.2	7.3	7.3	7.3	
Rev/min (US\$ cents)	6.1	6.2	6.0	5.7	5.7	
MoU	120	115	121	128	125	
Churn	5.9%	6.2%	6.3%	6.1%	5.4%	Lower than India
Non-voice as % of mobile revenues	7.9%	7.8%	8.4%	8.5%	8.0%	
<b>Traffic details</b>						
Wireless mins	14,904	14,915	16,337	17,950	18,496	Healthy growth in the last 2 quarters
Growth	16.6%	0.1%	9.5%	9.9%	3.0%	
Network opex/min	0.44	0.41	0.45	0.42	0.44	Has shown a sustained decline
EBITDA/min	0.52	0.68	0.67	0.69	0.77	
<b>Coverage</b>						
Network sites	11,338	11,912	12,703	13,628	14,112	Maintains capex guidance of US\$1.3-1.4bn

Source: Company, Citi Investment Research and Analysis



## Bharti Airtel

### Company description

Bharti Airtel, through its group companies, provides cellular-phone services in all of India's 23 telecom circles. The group also provides fixed-line phone services, broadband, long-distance and enterprise services. It is listed on The Stock Exchange, Mumbai (BSE) and The National Stock Exchange of India Limited (NSE). Major shareholders are Bharti Telecom, SingTel and Vodafone.

### Investment strategy

We rate Bharti Buy with a target price of Rs425. The domestic business has witnessed slowed mins growth since the tariff hikes undertaken in July. With continued price arbitrage, we believe that Bharti will re-think its strategy of keeping tariffs high - the approach however is likely to be nuanced with selective cuts to regain lost mkt share. This while going against its strategy of keeping tariffs firm, may be necessitated by market dynamics. Longer-term we remain confident of the structural improvement in the telecom industry post license cancellation with 1) traffic migration and 2) higher visibility of spectrum. Competitive intensity should also somewhat abate. Further steady revenue stream of towerco (15% of EPS in the next 2 years) should also provide some stability to the earnings.

Initial signs emanating from Africa have been positive – 1) sub adds have been healthy and 2) revenue growth has revived. While 3QFY12 saw some business disruption, we believe that healthy mins growth and cost efficiencies should manifest into healthier margins over the next 6-9 months.

### Valuation

Our target price of Rs425 comprises: (i) Core business value of Rs320 based on Dec-12E DCF; (ii) we estimate value accretion from Africa acquisition at Rs39/share; (iii) We add the towerco value (100% Infratel + 42% of Indus) at Rs90; and (iv) We reduce the potential cash outgo (Rs24) related to one-time excess spectrum charges and license renewal fees. The DCF is based on a WACC of 11.2%, a terminal growth rate of 3% and beta of 0.8. We prefer DCF as peak capex burden is behind us and the company should start to generate significant free cash flows. The domestic business DCF implies FY13E EV/EBITDA of 7.1x, P/CEPS of 8.5x and P/E of 18.6x.

### Risks

They key risks to our investment thesis and target price on Bharti are: 1) business disruption through slower-than-expected volume growth despite fine-tuning of tariffs in case the competition gets aggressive; 2) slower turnaround at acquisition; and 3) high regulatory cash outflows (low probability in our view). We however believe that the following factors help to mitigate downside risks: 1) Bharti has a track record of profitability and execution; and 2) strong FCF generation notwithstanding the high debt following an acquisition.

## IDEA Cellular

(IDEA.BO; Rs92.25; 1)

### Valuation

Our target price of Rs111 is based on (i) core business value at Rs113/share based on Mar-12 DCF; plus (ii) the Indus Towers stake valued at Rs15/share; minus (iii) Rs17 cash outgo related to one-time spectrum charges and license renewals from TRAI recommendations. The DCF is based on a WACC of 11.0%, a terminal growth rate of 3% and beta of 1.1. We prefer DCF as peak capex burden is behind us and the company should now start to generate free cash flows. The DCF implies a Mar13E EV/EBITDA value of 8.2x.

### Risks

High leverage is a concern for Idea; it is however mitigated by the track record of superior execution that the management has established. The management has done an exceptional job in navigating through rough patch in the telecom sector in the past couple of years which is evident in the revenue share gains the company has made. As a result, we believe any risks arising from having a stretched B/S have reduced. Downside risks that could impede the stock from reaching our target price include: 1) Adverse regulations regulated to higher-than-expected regulatory charges (license fee renewals and excess spectrum charges) and a sharper than expected decline in traffic growth or revenue market share loss in case the competition doesn't match the tariff increases, which may also lead to a roll back.

## Appendix A-1

### Analyst Certification

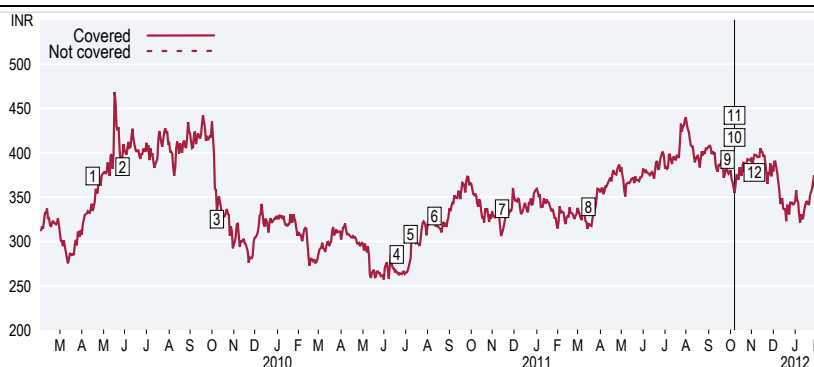
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#### Ratings and Target Price History Fundamental Research

Analyst: Gaurav Malhotra, CFA  
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	16-Apr-09	1L	*420.00	334.38
2	28-May-09	1L	*465.00	397.60
3	8-Oct-09	*2L	*370.00	334.65
4	18-Jun-10	2L	*303.00	264.85

	Date	Rating	Target Price	Closing Price
5	8-Jul-10	2L	*300.00	280.85
6	11-Aug-10	2L	*350.00	319.70
7	15-Nov-10	*1L	*400.00	309.50
8	16-Mar-11	1L	*415.00	320.45

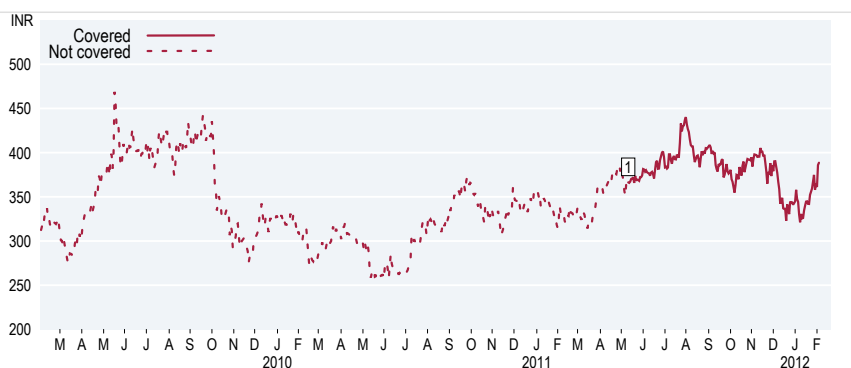
	Date	Rating	Target Price	Closing Price
9	28-Sep-11	1L	*453.00	378.75
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	453.00	354.80
12	4-Nov-11	1	*452.00	397.95

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Bharti Airtel (BRTI.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Gaurav Malhotra, CFA  
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	366.35

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**IDEA Cellular (IDEA.BO)**  
**Ratings and Target Price History**  
**Fundamental Research**

Analyst: Gaurav Malhotra, CFA  
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	26-Apr-09	*2M	*67.00	60.55
2	28-May-09	*3M	*80.00	78.65
3	8-Oct-09	3M	*55.00	62.50
4	8-Jul-10	3M	*50.00	59.00

\* Indicates change

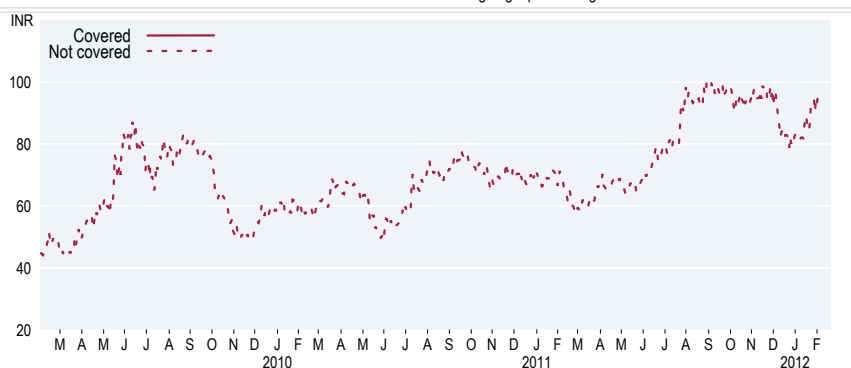
	Date	Rating	Target Price	Closing Price
5	22-Nov-10	3M	*72.00	71.65
6	16-Mar-11	*1M	*79.00	60.20
7	31-Jul-11	*1L	*105.00	94.35
8	28-Sep-11	1L	*120.00	98.20

	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	120.00	90.30
11	21-Oct-11	1	*118.00	91.40
12	13-Jan-12	1	*111.00	85.45

Rating/target price changes above reflect Eastern Standard Time

**IDEA Cellular (IDEA.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Gaurav Malhotra, CFA  
Covered since June 18 2010



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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