



# Bharti Airtel

**BSE SENSEX** 17,399  
**S&P CNX** 5,279

**CMP: INR310**

**TP: INR370**

**Buy**

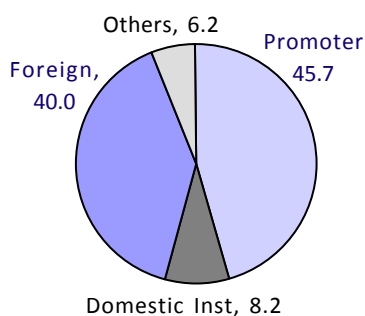


Bloomberg	BHARTI IN
Equity Shares (m)	3,793.9
52-Week Range (INR)	445/280
1,6,12 Rel. Perf. (%)	-6/-22/-12
M.Cap. (INR b)	1,176.1
M.Cap. (USD b)	21.1

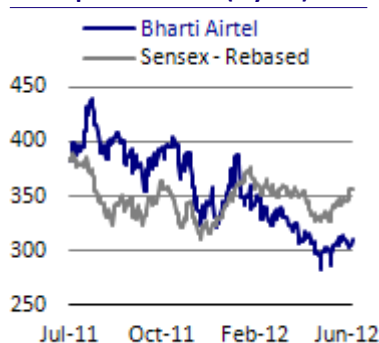
### Valuation summary (INR b)

Y/E March	2012	2013E	2014E
Net Sales	714.5	805.3	879.2
EBITDA	237.1	271.7	310.6
NP	42.6	53.2	76.5
EPS	11.2	14.0	20.2
EPS Gr. (%)	-29.6	24.9	43.7
BV/Sh.	140.7	151.6	171.9
<b>P/E (x)</b>	<b>27.6</b>	<b>22.1</b>	<b>15.4</b>
<b>P/BV (x)</b>	<b>2.2</b>	<b>2.0</b>	<b>1.8</b>
EV/EBITDA (x)	7.7	6.8	5.5
EV/Sales (x)	2.6	2.3	1.9
RoE (%)	8.1	9.6	12.5
RoCE (%)	6.2	6.8	7.9

### Shareholding pattern % (Mar-12)



### Stock performance (1 year)



## Competitive pressure aggravated by regulatory uncertainty

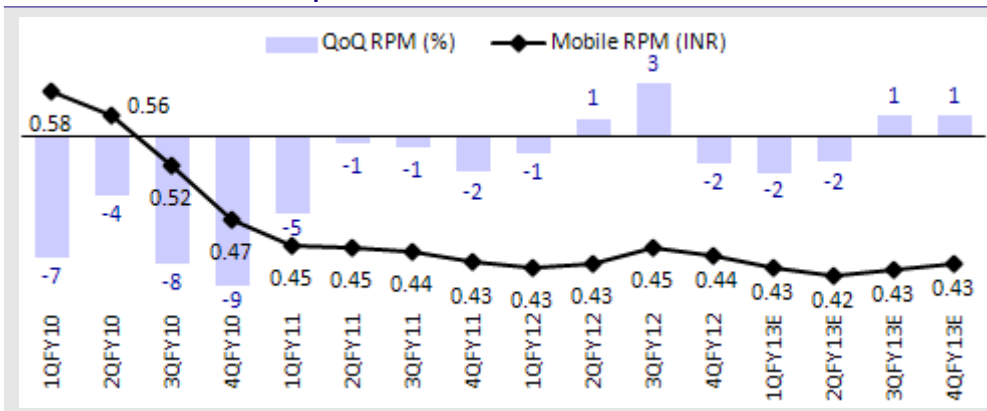
### Cutting estimates, target price

- We are downgrading FY13/14 EBITDA estimates for Bharti by 4-6% and EPS by 23% largely on lower India mobile RPM/margins given adverse pricing environment.
- Our recent industry interactions suggest pricing pressures continue in 1QFY13; industry has not been able to fully pass on the impact of: 1) increase in service tax, and 2) regulatory restrictions on sales of certain bundled top-up vouchers.
- We are incorporating INR2.3b forex loss in 1QFY13 for Bharti primarily due to estimated 4-5% loan-weighted depreciation in African currencies during the quarter. We are also tweaking our Africa business estimates to incorporate currency swings as well as lower subscriber adds/margins. We now expect FY13/14 EBITDA of USD1.3/1.6b implying an EBITDA CAGR of 21%.
- Lack of regulatory clarity on 2G spectrum auction remains an overhang given 1) potential spectrum liability, and 2) pricing pressure from challengers with unviable business models.
- Maintain Buy with a revised target price of INR370 (INR 400 earlier) based on 7.5x FY14 EV/EBITDA for India & SA business, 5x EV/EBITDA for Africa business and INR142b impact for potential regulatory outlay.

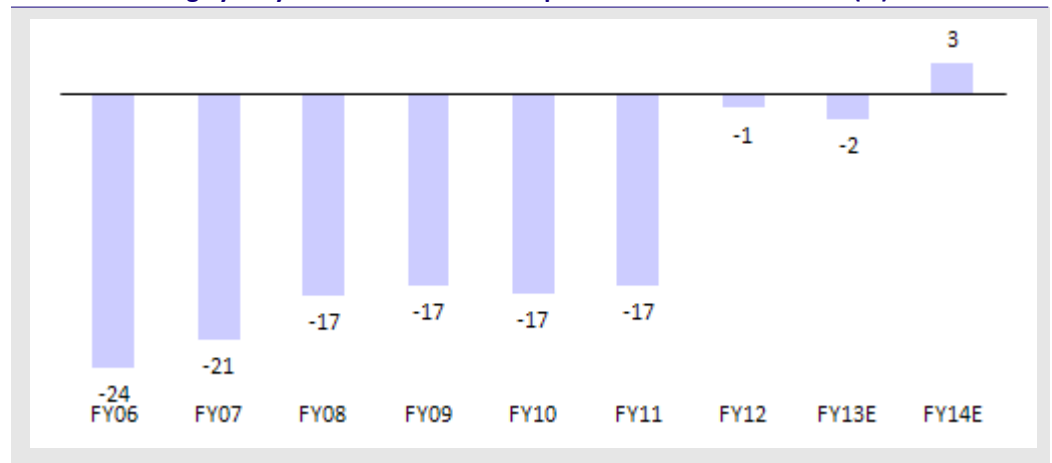
### Pricing trends negative for second consecutive quarter

- Our recent industry interactions suggest price declines have continued in 1QFY13; industry has not been able to pass on increase in service tax and impact from regulatory restrictions on sales of certain bundled top-up vouchers.
- While Bharti continues to be aggressive on pricing, we believe this is largely a defensive strategy aimed at protecting its revenue market share which has been under pressure over past several quarters.
- Bharti is simultaneously attempting to improve yields in some of the leadership circles like Delhi where competition is relatively benign.
- We have downgraded our FY13/14 India mobile RPM estimates for Bharti by ~3% to 42.6p (down 2% YoY) /43.8p (up 3% YoY).

### Bharti India: Mobile RPM expected to decline in 1HFY13



**Bharti India: Large yearly RPM declines arrested post tariff increases in 2011 (%)**

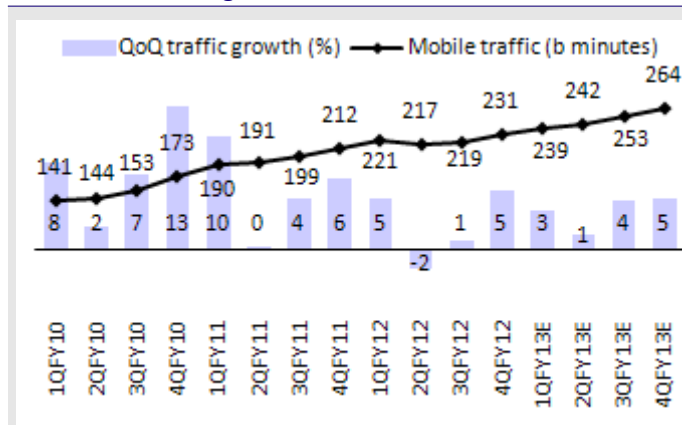


Source: Company/MOSL

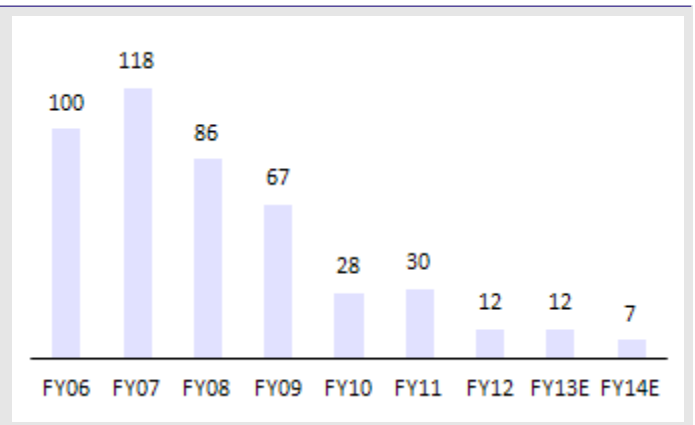
**Our 12% traffic growth assumption for FY13 is largely back-ended; limited possibility of a positive surprise, in our view**

- While volume growth is expected to remain strong, current operating environment implies that any upside surprise to our FY13 minutes growth estimate of 12% would be difficult.
- Our estimates imply 3.5% CQGR in India mobile traffic over next four quarters (1Q-4QFY13) including seasonally weak 2Q.
- We are modeling back-ended traffic growth with 2.4% CQGR in 1HFY13 and 4.5% in 2HFY13.
- Higher growth expectation in 2H reflects better seasonality and likely benefit from improved industry structure post 2G spectrum auction.

**Bharti India: traffic growth could remain muted in 1HFY13**



**Bharti India: FY13 India mobile traffic growth likely to remain at FY12 levels**

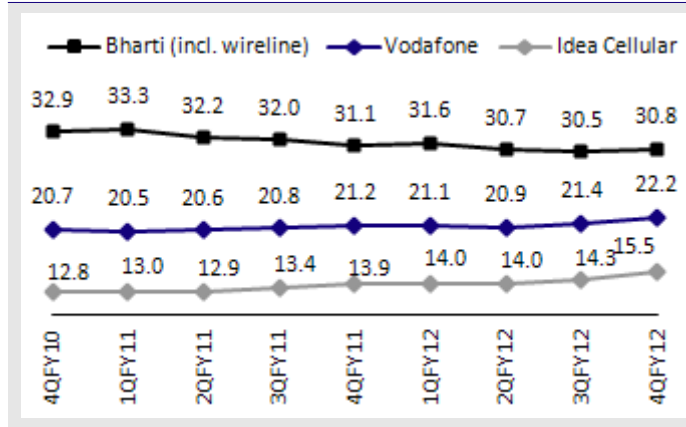


Source: Company/MOSL

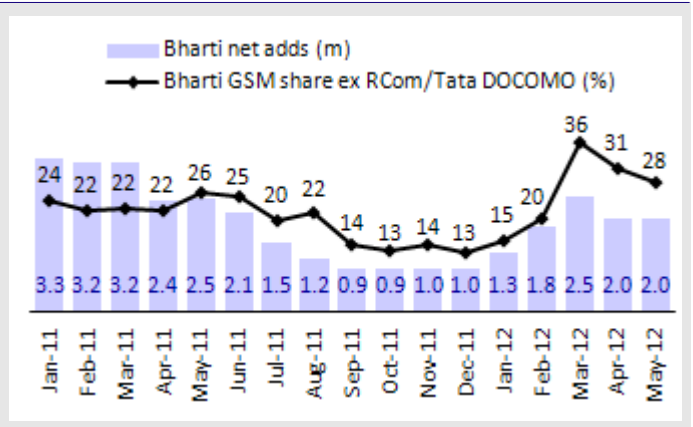
**Bharti India: Market share declines getting arrested**

- With increased market aggression in CY12, we believe the trend in declining market share is likely to get arrested for Bharti.
- Monthly subscriber net adds for Bharti have doubled over the past six months, likely led by more aggressive pricing and commissions.
- Our subscriber addition estimates remain conservative at 1.55m for FY13 and 1m for FY14 as compared to recent monthly run-rate of 2-2.5m.

**India Telecom: Adjusted gross revenue (AGR) market share of GSM incumbents (%)**



**Bharti India: Significant acceleration in mobile subscriber adds from Feb-12**

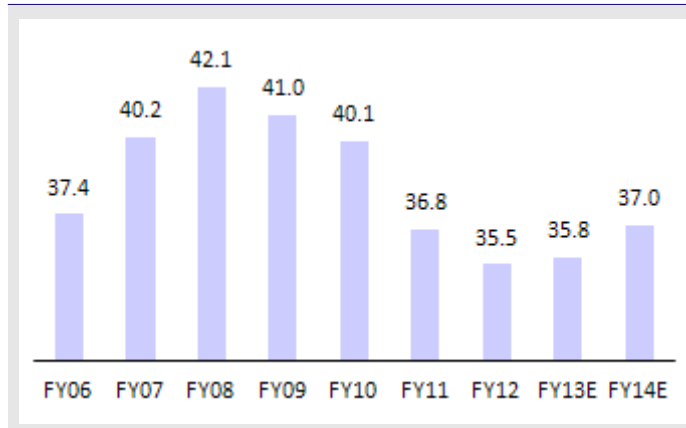


Source: Company/MOSL

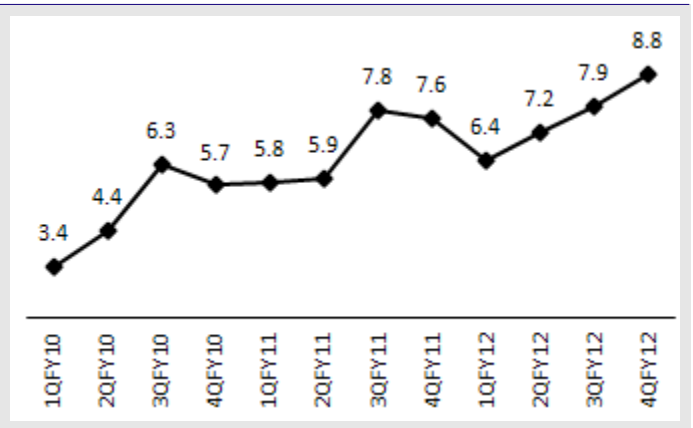
**Downgrading margins for India & SA business ; expect operating leverage to play out from 2HFY13**

- Given high competitive intensity, we expect margins for India and SA business to be impacted in the near-term.
- Blended churn for Bharti's India mobile business reached an all-time high level of 8.8% per month in 4QFY12.
- We expect strong volume growth and relatively lower competitive intensity in 2HFY13 to support margin expansion.
- We have toned down our margin estimates, thus implying only 30bp EBITDA margin expansion in FY13E followed by 120bp expansion in FY14E.

**Bharti: EBITDA margin for India & SA business (%)**



**Bharti: Monthly churn for India mobile business at historically highest level (%)**

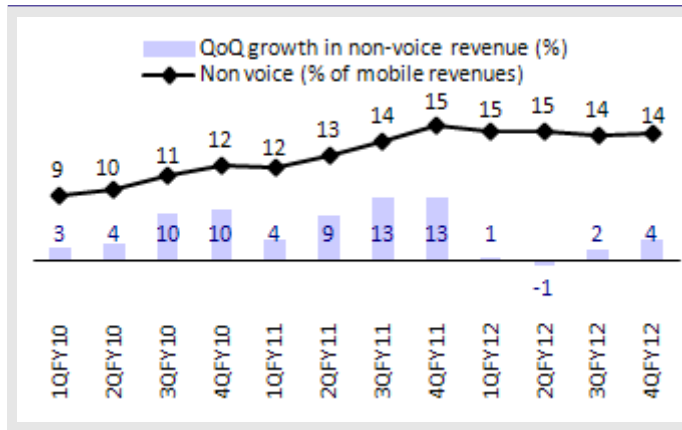


Source: Company/MOSL

**Rationalization of 3G data plans to aid penetration**

- During the current quarter Bharti rationalized its 3G data tariffs significantly, followed by similar price-cuts by other operators.
- Operators had been reluctant to offer lower 3G tariffs given high cost of 3G spectrum.
- We believe the price cuts make 3G data pricing more competitive v/s 2G pricing which should drive better subscriber uptake.
- Bharti's non-voice revenue contribution remained largely stagnant in FY12 despite launch of 3G services, largely led by regulatory issues related to traditional mobile value added services.
- We expect incremental 3G revenue to constitute 2.5% of Bharti's domestic mobile business in FY13E and 5% in FY14E.

**Bharti India: Non-voice contribution static at 14-15%**



**Bharti India: Significant cut in 3G tariffs should boost penetration**

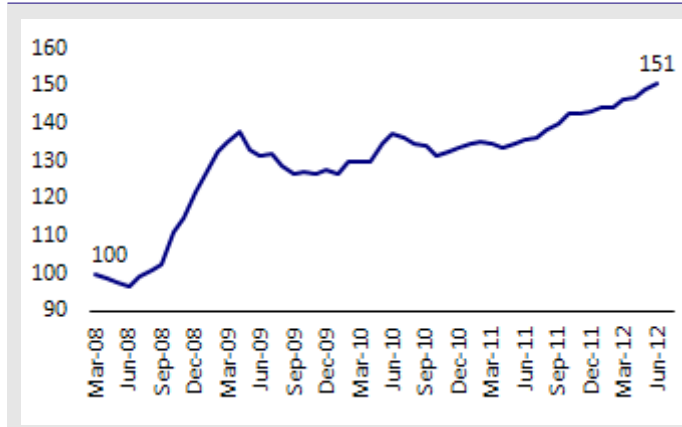
Bharti standard 3G packs (INR)/30 days validity	Bundled data (MB)		Price per MB (p)	
	Earlier	Current	Earlier	Current
100	100	300	100	33
200	250	-	80	-
450	600	2,000	75	23
750	2,000	4,000	38	19

Source: Company/MOSL

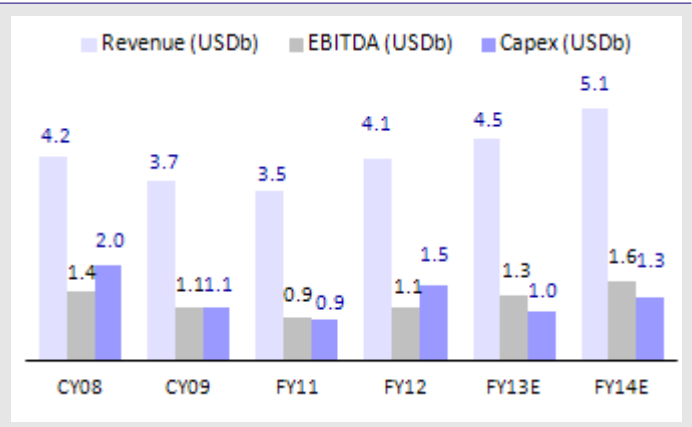
**Bharti Africa: EBITDA downgrade on currency swing; lower netadds/margin assumptions**

- We estimate 3-4% depreciation in African currency basket based on estimated revenue weights for Bharti.
- Over the past quarter Malawi Kwacha has depreciated by more than 60% while Ghana Cedi has depreciated by ~10%. Most other currencies have depreciated 0-5%.
- Currency impact and lower net adds/margin assumptions drive downgrade of 5% in revenue and 8-12% in EBITDA for Bharti Africa business in USD terms.
- We now expect FY13/14 EBITDA of USD1.3/1.6b implying an EBITDA CAGR of 21%.
- Additionally, we are incorporating INR2.3b forex loss in 1QFY13 for Bharti primarily due to estimated 4-5% loan-weighted depreciation in African currencies during the quarter.

**Bharti Africa: Estimated movement in revenue-weighted currency index**



**Bharti Africa: Expect revenue/EBITDA of USD5.1b/1.6b in FY14**



Source: Company/MOSL

**Valuation and view**

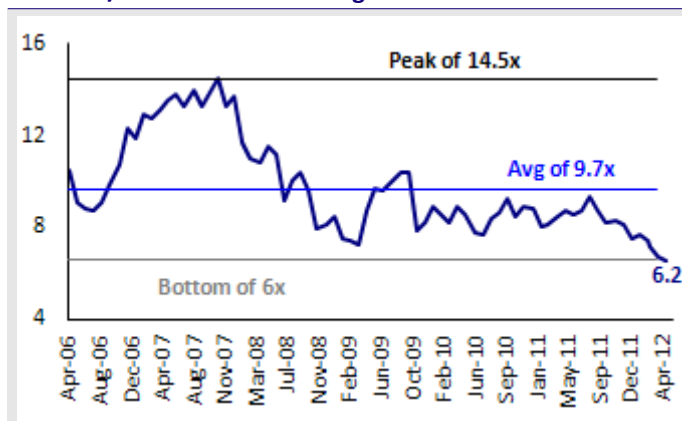
- We are downgrading FY13/14 EBITDA estimates by 4-6% and EPS by 23% on lower India mobile RPM assumptions given adverse pricing environment.
- Lack of regulatory clarity on 2G spectrum auction remains an overhang given 1) potential spectrum liability and 2) pricing pressure from challengers with unviable business models.
- The stock trades at EV/EBITDA of 6.8x FY13 and 5.5x FY14. Maintain **Buy** with a revised target price of INR370 (INR400 earlier) based on 7.5x FY14 EV/EBITDA for India & SA business, 5x EV/EBITDA for Africa business and INR142b impact for potential regulatory outlay.

**SOTP Valuation for Bharti Airtel**

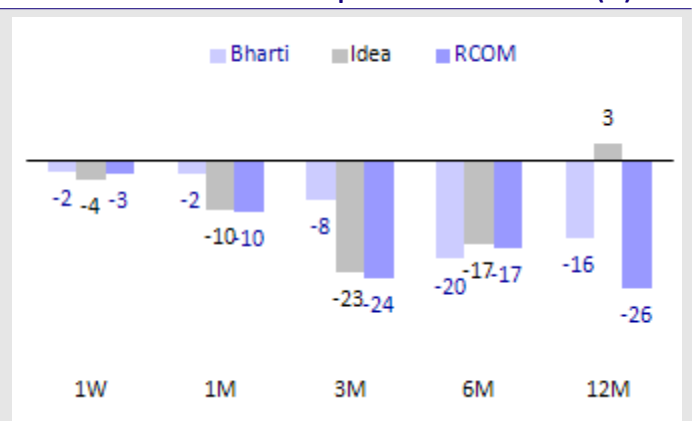
FY14 Basis	FY14 EBITDA (INR B)	Ownership (%)	Proportionate EBITDA (INR b)	EV/EBITDA	Fair value (INR b)	Value/Sh (INR)
India business (incl. towers)	227	100%	227	7.5	1,701	448
Africa business	84	90%	75	5.0	377	99
Less FY14 net debt					531	140
Less 50% of potential spectrum liability					142	37
<b>Total Value</b>					<b>1,405</b>	<b>370</b>
Shares o/s (b)	3.79					
CMP						310
<b>Upside (%)</b>						<b>19.4</b>

Source: Company/MOSL

**Bharti EV/EBITDA bands: Trading at bottom-end**



**India Telecom: Relative stock performance vs Sensex (%)**



Source: Company/MOSL

## Bharti: Summary of estimate change

Consolidated			India & South Asia			Africa		
	FY13E	FY14E		FY13E	FY14E		FY13E	FY14E
<b>Revenue (INR b)</b>			<b>Revenue (INR b)</b>			<b>Revenue (USD b)</b>		
Old	809	882	Old	571	623	Old	4.8	5.4
New/Actual	805	879	New/Actual	561	613	New/Actual	4.5	5.1
Change (%)	-0.5	-0.3	Change (%)	-1.7	-1.6	Change (%)	-4.9	-5.2
<b>EBITDA (INR b)</b>			<b>EBITDA (INR b)</b>			<b>EBITDA (USD b)</b>		
Old	283	329	Old	211	241	Old	1.4	1.8
New/Actual	272	311	New/Actual	201	227	New/Actual	1.3	1.6
Change (%)	-4.0	-5.6	Change (%)	-5.1	-6.0	Change (%)	-8.0	-11.7
<b>Net Profit (INR b)</b>			<b>Mobile traffic (b min)</b>			<b>Subscribers (m)</b>		
Old	69	100	Old	994	1,068	Old	66	84
New/Actual	53	76	New/Actual	998	1,073	New/Actual	65	79
Change (%)	-23.2	-23.2	Change (%)	0.4	0.5	Change (%)	-1.4	-5.4
<b>EPS (INR)</b>			<b>RPM (p)</b>			<b>ARPU (USD)</b>		
Old	18.3	26.2	Old	43.9	45.1	Old	6.7	6.0
New/Actual	14.0	20.2	New/Actual	42.6	43.8	New/Actual	6.4	5.9
Change (%)	-23.2	-23.2	Change (%)	-2.9	-2.9	Change (%)	-4.4	-1.6

## Bharti: Key assumptions and value drivers

Mobile segment	FY10	FY11	FY12	FY13E	FY14E
<b>Mobile - India</b>					
Subs (m)	128	162	181	200	212
YoY (%)	36	27	12	10	6
Average subs (m)	111	145	172	191	206
YoY (%)	42	31	19	11	8
Netadds per month (m)	2.8	2.9	1.6	1.6	1.0
YoY (%)	6	3	-45	-2	-35
Total mobile traffic (b min)	610	792	889	998	1,073
YoY (%)	28	30	12	12	7
ARPU (INR/month)	243	201	188	186	190
YoY (%)	-25	-17	-6	-1	2
MOU	459	455	431	436	434
YoY (%)	-10	-1	-5	1	-1
Mobile RPM (INR)	0.53	0.44	0.44	0.43	0.44
YoY (%)	-17	-17	-1	-2	3
<b>Mobile EBITDA margin (%)</b>	<b>38.7</b>	<b>34.7</b>	<b>33.9</b>	<b>33.1</b>	<b>33.6</b>
<b>Mobile Capex (INR b)</b>	<b>34</b>	<b>59</b>	<b>32</b>	<b>73</b>	<b>40</b>
<b>Mobile Capex/sales (%)</b>	<b>10</b>	<b>16</b>	<b>8</b>	<b>17</b>	<b>8</b>
<b>Mobile - Africa</b>					
Subs (m)		44	53	65	79
YoY (%)		5	20	22	22
Netadds per month (m)		0.2	0.7	1.0	1.2
ARPU (USD/month)		7.3	7.1	6.4	5.9
YoY (%)			-2	-10	-7
Capex (USD b)		0.9	1.5	1.0	1.3
Capex/Sales (%)		24	37	22	25
EBITDA margin (%)		25	27	29	31

Passive Infrastructure	FY10	FY11	FY12	FY13E	FY14E
<b>Indus Towers</b>					
Towers (000s)	103	109	109	113	117
Cellsites (000s)	176	201	214	249	281
Tenancy ratio (x)	1.7	1.9	2.0	2.2	2.4
Sharing revenue per operator per month (INR 000s)		29.5	31.3	28.7	27.8
EBITDA margin (%)		26.6	28.5	30.0	31.9
<b>Bharti Infratel</b>					
Towers (000s)	31	33	33	35	37
Cellsites (000s)	50	58	60	74	86
Tenancy ratio (x)	1.6	1.8	1.8	2.1	2.3
Sharing revenue per operator per month (INR 000s)	37.2	37.0	37.3	36.5	35.2
EBITDA margin (%)	46.2	48.1	47.8	49.5	51.4

**Business mix**

Revenue (INR b)	FY10	FY11	FY12	FY13E	FY14E
Mobile	331	363	403	442	488
Telemedia	34	36	37	37	38
Enterprise	45	41	45	45	45
Passive Infrastructure	71	86	95	101	111
Others	6	10	16	19	22
Africa	0	131	198	245	267
Total revenue	487	667	794	890	972
Eliminations and others	-68	-72	-80	-84	-93
<b>Consolidated revenue</b>	<b>418</b>	<b>595</b>	<b>715</b>	<b>805</b>	<b>879</b>
<b>YoY%</b>	<b>13</b>	<b>42</b>	<b>20</b>	<b>13</b>	<b>9</b>
EBITDA (INR b)	FY10	FY11	FY12	FY13E	FY14E
Mobile	128	126	137	146	164
Telemedia	15	16	16	16	17
Enterprise	13	10	8	10	10
Passive Infrastructure	25	32	36	40	46
Others	-10	-10	-9	-8	-7
<b>Total India &amp; SA</b>	<b>168</b>	<b>171</b>	<b>184</b>	<b>201</b>	<b>227</b>
Africa	0	29	53	71	84
Total revenue	170	202	240	275	314
Eliminations and others	-2	-3	-3	-3	-4
<b>Consolidated EBITDA</b>	<b>168</b>	<b>200</b>	<b>237</b>	<b>272</b>	<b>311</b>
<b>YoY%</b>	<b>11</b>	<b>19</b>	<b>19</b>	<b>15</b>	<b>14</b>
Capex (INR b)	FY10	FY11	FY12	FY13E	FY14E
Mobile	34	59	32	73	40
Telemedia	10	8	8	6	6
Enterprise	12	4	2	4	3
Others	16	14	9	5	5
Passive infrastructure	12	23	14	12	12
Africa	0	36	76	54	67
<b>Consolidated capex</b>	<b>83</b>	<b>143</b>	<b>140</b>	<b>155</b>	<b>134</b>
<b>YoY%</b>	<b>-41</b>	<b>71</b>	<b>-2</b>	<b>10</b>	<b>-13</b>
<b>Capex/Sales (%)</b>	<b>20</b>	<b>24</b>	<b>20</b>	<b>19</b>	<b>15</b>

Source: Company/MOSL

## Financials and Valuation

### Income Statement

(INR Million)

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Revenues	418,472	594,672	714,507	805,307	879,192
Change (%)	13.2	42.1	20.2	12.7	9.2
Total Expenses	250,839	395,007	477,385	533,580	568,604
<b>EBITDA</b>	<b>167,633</b>	<b>199,664</b>	<b>237,122</b>	<b>271,727</b>	<b>310,588</b>
% of Gross Sales	40.1	33.6	33.2	33.7	35.3
Depn. & Amortization	62,832	102,066	133,680	151,114	156,667
EBIT	104,800	97,598	103,442	120,613	153,920
Net finance cost	178	21,813	38,185	40,637	36,124
Other Income	468	998	-73	-80	-87
<b>PBT</b>	<b>105,090</b>	<b>76,783</b>	<b>65,184</b>	<b>79,897</b>	<b>117,709</b>
Tax	13,453	17,790	22,602	26,585	35,058
Rate (%)	12.8	23.2	34.7	33.3	29.8
Minority Interest	1,870	-1,475	-13	102	6,174
<b>Adjusted PAT</b>	<b>89,767</b>	<b>60,468</b>	<b>42,595</b>	<b>53,209</b>	<b>76,478</b>

### Balance Sheet

(INR Million)

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Share Capital	18,988	18,988	18,988	18,988	18,988
Additional Paid up Capital	56,499	56,499	56,499	56,499	56,499
Reserves	346,453	412,181	430,626	473,432	544,322
<b>Net Worth</b>	<b>421,940</b>	<b>487,668</b>	<b>506,113</b>	<b>548,919</b>	<b>619,809</b>
Loans	101,898	616,708	690,232	842,681	901,910
Minority Interest	25,285	28,563	27,695	26,095	32,372
Other Liabilities	45,018	28,078	31,920	33,168	33,430
Deferred Tax Liability	7,980	18,572	18,861	20,400	20,669
<b>Capital Employed</b>	<b>602,121</b>	<b>1,179,589</b>	<b>1,274,821</b>	<b>1,471,262</b>	<b>1,608,190</b>
Gross Block	761,040	1,599,377	1,776,560	1,931,273	2,065,310
Less : Depreciation	218,521	310,634	440,740	532,315	727,311
<b>Net Block</b>	<b>542,519</b>	<b>1,288,743</b>	<b>1,335,820</b>	<b>1,398,959</b>	<b>1,338,000</b>
Other Non-Current Assets	30,736	64,244	86,711	89,600	88,803
<b>Curr. Assets</b>	<b>137,685</b>	<b>112,077</b>	<b>148,084</b>	<b>298,224</b>	<b>498,057</b>
Inventories	484	2,139	1,308	1,431	1,551
Debtors	35,711	54,929	63,735	69,128	75,723
Cash & Bank Balance	25,323	9,575	20,300	82,921	172,302
Short-term investments	52,362	6,968	18,934	98,345	198,721
Other Current Assets	23,805	38,466	43,807	46,399	49,759
<b>Curr. Liab. &amp; Prov.</b>	<b>108,819</b>	<b>285,475</b>	<b>295,795</b>	<b>315,521</b>	<b>316,668</b>
Creditors	107,702	249,737	243,461	258,234	262,182
Other Current Liabilities	1,117	35,738	52,334	57,287	54,486
<b>Net Curr. Assets</b>	<b>28,866</b>	<b>-173,398</b>	<b>-147,710</b>	<b>-17,297</b>	<b>181,388</b>
<b>Appl. of Funds</b>	<b>602,121</b>	<b>1,179,589</b>	<b>1,274,821</b>	<b>1,471,262</b>	<b>1,608,190</b>

E: MOSL Estimates



## Financials and Valuation

### Ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E
<b>Basic (INR)</b>					
<b>EPS</b>	<b>23.7</b>	<b>15.9</b>	<b>11.2</b>	<b>14.0</b>	<b>20.2</b>
Cash EPS	40.2	42.8	46.5	53.9	61.5
Book Value	117.9	136.1	140.7	151.6	171.9
DPS	1.0	1.0	1.1	1.4	2.0
Payout %(Incl.Div.Taxes)	4.2	6.3	10.0	10.0	10.0

### Valuation (x)

P/E			27.6	22.1	15.4
Cash P/E			6.7	5.8	5.0
EV/EBITDA			7.7	6.8	5.5
EV/Sales			2.6	2.3	1.9
Price/Book Value			2.2	2.0	1.8
Dividend Yield (%)			0.4	0.5	0.7

### Profitability Ratios (%)

RoE	23.6	12.6	8.1	9.6	12.5
RoCE	18.9	8.7	6.2	6.8	7.9

### Turnover Ratios

Debtors (Days)	31	34	33	31	31
Asset Turnover (x)	1.01	0.78	0.65	0.70	0.77

### Leverage Ratio

Net Debt/Equity (x)	0.1	1.2	1.2	1.2	0.8
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### Cash Flow Statement

(INR Million)

Y/E March	FY10	FY11	FY12	FY13E	FY14E
Op.Profit/(Loss) bef Tax	167,633	199,664	237,122	271,727	310,588
Other Income	468	998	-73	-80	-87
Interest Paid	-178	-21,813	-38,185	-40,637	-36,124
Direct Taxes Paid	-29,761	-37,970	-25,730	-27,305	-34,598
(Inc)/Dec in Wkg. Cap.	26,518	120,819	-18,280	7,285	-6,277
<b>CF from Op.Activity</b>	<b>164,680</b>	<b>261,699</b>	<b>154,854</b>	<b>210,991</b>	<b>233,501</b>
(inc)/Dec in FA + CWIP	-155,852	-848,290	-180,757	-214,252	-95,708
(Pur)/Sale of Investments	-14,282	45,451	-11,990	-79,387	-100,376
<b>CF from Inv.Activity</b>	<b>-170,134</b>	<b>-802,839</b>	<b>-192,748</b>	<b>-293,639</b>	<b>-196,084</b>
Issue of Shares	27,617	9,624	-19,791	-157	280
Inc/(Dec) in Debt	-16,903	514,810	73,524	152,449	59,229
Other Financing Activities	8,917	961	-5,113	-7,021	-7,544
<b>CF from Fin.Activity</b>	<b>19,632</b>	<b>525,395</b>	<b>48,620</b>	<b>145,271</b>	<b>51,965</b>
<b>Inc/(Dec) in Cash</b>	<b>14,178</b>	<b>-15,748</b>	<b>10,725</b>	<b>62,621</b>	<b>89,382</b>
Add: Opening Balance	11,145	25,323	9,575	20,300	82,921
<b>Closing Balance</b>	<b>25,323</b>	<b>9,575</b>	<b>20,300</b>	<b>82,921</b>	<b>172,303</b>

E: MOSL Estimates

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