Bharti Airtel BRTI.NS BHARTI IN

TELECOMS

NOMURA
EQUITY RESEARCH

Downgrade to Reduce

Too many unknowns, yet too expensive

August 22, 2012

Rating Down from Neutral	**Reduce**
Target price Reduced from 280	INR 210
Closing price August 21, 2012	INR 259
Potential downside	-18.9%

Action/ Valuation: Downgrade to Reduce

Recent 1Q results have raised a lot more questions on Bharti's domestic wireless strategy, African potential, capital needs, regulatory impacts, etc, with little clarity in sight. Bharti's earnings are also becoming inherently difficult to forecast, and in the past two years, although the market has given it the benefit of the doubt consistently, analysts have subsequently downgraded it (negative 60% revisions since Jan-11, based on Bloomberg consensus). FY13 EPS is likely to be low (INR8-12 range), but we believe the issue is more on the growth profile (consensus still expects 30% EPS CAGR over the next 2-3 years vs a profit decline every year for the past three years). Given the extent of negativity, it could be argued that downside may be limited from here, but this is hardly being reflected in its high valuation of 20x FY14 P/E. Downgrade to Reduce with a INR210 TP.

Catalysts and concerns

1) Potential listing of its towers could be a positive catalyst, but is in our view more reflective of its capital needs rather than optimising value given weak market conditions along with muted underlying performance. 2) Post 1Q results, the market has become more unsettled on its operating outlook and how effective its strategy of protecting revenue share will be – domestic voice pressures could continue even if there are 3-4 viable players. 3) It was widely expected that Africa will show consistent margin improvement, but in 1Q it fell 200bps to 26% (28% in 4Q), and we believe these trends will remain choppy. 4) On regulations, the concern now is more on the 'process' rather than just the 'prices' which in our view will likely be high anyway. A deferred payment structure for spectrum could see more competition.

31 Mar	FY12		FY13F		FY14F		FY15F
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	714,508	802,988	788,371	867,524	840,260	934,414	901,815
Reported net profit (mn)	42,594	52,304	40,910	65,541	49,981	79,303	58,570
Normalised net profit (mn)	47,890	52,304	40,910	65,541	49,981	79,303	58,570
FD normalised EPS	12.61	13.77	10.77	17.26	13.16	20.89	15.43
FD norm. EPS growth (%)	-27.3	9.2	-14.6	25.3	22.2	21.0	17.2
FD normalised P/E (x)	20.8	N/A	24.3	N/A	19.9	N/A	17.0
EV/EBITDA (x)	7.3	7.2	7.0	6.2	6.2	5.4	5.5
Price/book (x)	2.0	N/A	1.8	N/A	1.7	N/A	1.5
Dividend yield (%)	0.4	N/A	0.4	N/A	0.8	N/A	1.5
ROE (%)	8.6	9.9	7.8	11.2	8.8	12.3	9.5
Net debt/equity (%)	132.4	117.0	121.7	95.1	104.7	74.8	86.0

Source: Company data, Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Improvements in Africa, progress on 3G/data and competition in India are key themes, while we expect regulations to be a key overhang.

Nomura vs consensus

Our target price is 30% below consensus due to operational and regulatory concerns.

Research analysts

India Telecoms

Sachin Gupta, CFA - NSL
sachin.gupta@nomura.com
+65 6433 6968

Neeraja Natarajan - NSL
neeraja.natarajan@nomura.com
+65 6433 6961

Pankaj Suri - NSFSPL
pankaj.suri@nomura.com
+91 22 4053 3724

Gopakumar Pullaikodi - NSFSPL
gopakumar.pullaikodi@nomura.com
+91 22 4053 3733

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

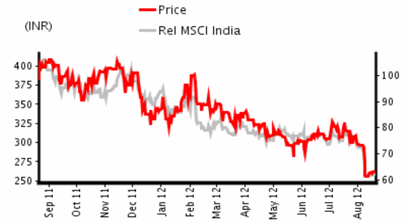
Key data on Bharti Airtel

Income statement (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Revenue	595,383	714,508	788,371	840,260	901,815
Cost of goods sold	-123,054	-147,960	-173,609	-179,232	-188,633
Gross profit	472,329	566,548	614,762	661,028	713,182
SG&A	-373,677	-463,106	-515,520	-550,154	-593,645
Employee share expense	0	0	0	0	0
Operating profit	98,652	103,442	99,242	110,874	119,537
EBITDA	200,718	237,123	244,385	268,586	291,389
Depreciation	-102,066	-133,681	-145,143	-157,712	-171,852
Amortisation	0	0	0	0	0
EBIT	98,652	103,442	99,242	110,874	119,537
Net interest expense	-21,813	-38,185	-38,195	-36,346	-32,227
Associates & JCEs	0	0	0	0	0
Other income	-57	-74	0	0	0
Earnings before tax	76,782	65,183	61,047	74,528	87,310
Income tax	-17,790	-22,602	-19,535	-23,849	-27,939
Net profit after tax	58,992	42,581	41,512	50,679	59,371
Minority interests	1,475	13	-601	-698	-800
Other items	5,397	5,296	0	0	0
Preferred dividends	0	0	0	0	0
Normalised NPAT	65,864	47,890	40,910	49,981	58,570
Extraordinary items	-5,397	-5,296	0	0	0
Reported NPAT	60,467	42,594	40,910	49,981	58,570
Dividends	-3,797	-3,797	-3,647	-7,497	-14,643
Transfer to reserves	56,670	38,797	37,263	42,484	43,928
Valuation and ratio analysis					
Reported P/E (x)	16.5	23.4	24.3	19.9	17.0
Normalised P/E (x)	15.1	20.8	24.3	19.9	17.0
FD normalised P/E (x)	15.1	20.8	24.3	19.9	17.0
FD normalised P/E at price target (x)	17.0	23.4	27.4	22.4	19.1
Dividend yield (%)	0.4	0.4	0.4	0.8	1.5
Price/cashflow (x)	6.0	5.2	5.3	4.8	4.2
Price/book (x)	2.0	2.0	1.8	1.7	1.5
EV/EBITDA (x)	8.3	7.3	7.0	6.2	5.5
EV/EBIT (x)	16.8	16.6	17.2	15.0	13.3
Gross margin (%)	79.3	79.3	78.0	78.7	79.1
EBITDA margin (%)	33.7	33.2	31.0	32.0	32.3
EBIT margin (%)	16.6	14.5	12.6	13.2	13.3
Net margin (%)	10.2	6.0	5.2	5.9	6.5
Effective tax rate (%)	23.2	34.7	32.0	32.0	32.0
Dividend payout (%)	6.3	8.9	8.9	15.0	25.0
Capex to sales (%)	38.9	25.7	22.3	19.1	17.8
Capex to depreciation (x)	2.3	1.4	1.2	1.0	0.9
ROE (%)	13.4	8.6	7.8	8.8	9.5
ROA (pretax %)	9.4	6.9	6.3	6.9	7.5
Growth (%)					
Revenue	52.5	20.0	10.3	6.6	7.3
EBITDA	25.2	18.1	3.1	9.9	8.5
EBIT					
Normalised EPS	-24.9	-27.3	-14.6	22.2	17.2
Normalised FDEPS	-24.8	-27.3	-14.6	22.2	17.2
Per share					
Reported EPS (INR)	15.94	11.22	10.77	13.16	15.43
Norm EPS (INR)	17.36	12.61	10.77	13.16	15.43
Fully diluted norm EPS (INR)	17.35	12.61	10.77	13.16	15.43
Book value per share (INR)	128.44	133.29	143.07	155.27	169.27
DPS (INR)	1.00	1.00	0.96	1.97	3.87

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	-16.6	-11.5	-31.6
Absolute (USD)	-17.0	-13.3	-43.6
Relative to index	-20.1	-20.8	-41.6
Market cap (USDmn)	17,942.6		
Estimated free float (%)	32.1		
52-week range (INR)	418.95/252.9		
3-mth avg daily turnover (USDmn)	28.02		
Major shareholders (%)			
Bharti Telecom Ltd	45.3		
Singapore Telecom	15.6		

Source: Thomson Reuters, Nomura research

Notes

Earnings risks remain – both in India and Africa

Cashflow (INRmn)

Year-end 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	200,718	237,123	244,385	268,586	291,389
Change in working capital	120,566	-3,054	2,608	454	1,418
Other operating cashflow	-154,584	-41,169	-58,341	-60,940	-58,420
Cashflow from operations	166,700	192,900	188,652	208,099	234,387
Capital expenditure	-231,819	-183,609	-176,088	-160,623	-160,630
Free cashflow	-65,119	9,291	12,564	47,476	73,756
Reduction in investments	57,079	-11,908	0	0	0
Net acquisitions	-372,676	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	-57,079	11,908	0	0	0
Cashflow after investing acts	-437,795	9,291	12,564	47,476	73,756
Cash dividends	-3,794	-3,797	-3,797	-3,647	-7,497
Equity issue	0	0	0	0	0
Debt issue	578,290	-2,830	0	-20,000	-30,000
Convertible debt issue					0
Others	-141,029	8,061	0	0	0
Cashflow from financial acts	433,467	1,434	-3,797	-23,647	-37,497
Net cashflow	-4,328	10,725	8,767	23,829	36,259
Beginning cash	13,903	9,575	20,300	29,067	52,897
Ending cash	9,575	20,300	29,067	52,897	89,156
Ending net debt	607,133	669,932	661,165	617,335	551,076

Source: Company data, Nomura estimates

Notes

Cashflows are strong – but many risks ahead still

Balance sheet (INRmn)

As at 31 Mar	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	9,575	20,300	29,067	52,897	89,156
Marketable securities	6,224	18,132	18,132	18,132	18,132
Accounts receivable	54,929	63,735	69,671	70,091	71,403
Inventories	2,139	1,308	1,373	1,442	1,514
Other current assets	39,210	44,609	44,609	44,609	44,609
Total current assets	112,077	148,084	162,853	187,171	224,814
LT investments	0	0	0	0	0
Fixed assets	651,426	674,932	680,671	668,118	641,574
Goodwill	0	0	0	0	0
Other intangible assets	637,317	660,889	690,889	710,889	730,889
Other LT assets	64,244	86,711	87,010	87,220	87,469
Total assets	1,465,064	1,570,616	1,621,423	1,653,398	1,684,745
Short-term debt	84,370	193,078	143,078	143,078	143,078
Accounts payable	197,947	190,913	209,282	211,150	217,057
Other current liabilities	87,528	104,882	95,122	94,197	91,091
Total current liabilities	369,845	488,873	447,483	448,425	451,226
Long-term debt	532,338	497,154	547,154	527,154	497,154
Convertible debt	0	0			
Other LT liabilities	46,650	50,781	55,264	59,264	65,937
Total liabilities	948,833	1,036,808	1,049,900	1,034,843	1,014,317
Minority interest	28,563	27,695	28,296	28,994	29,794
Preferred stock	0	0	0	0	0
Common stock	116,472	116,739	116,739	116,739	116,739
Retained earnings	357,446	395,682	432,795	479,130	530,203
Proposed dividends	0	0	0	0	0
Other equity and reserves	13,750	-6,308	-6,308	-6,308	-6,308
Total shareholders' equity	487,668	506,113	543,226	589,560	640,634
Total equity & liabilities	1,465,064	1,570,616	1,621,423	1,653,398	1,684,745
Liquidity (x)					
Current ratio	0.30	0.30	0.36	0.42	0.50
Interest cover	4.5	2.7	2.6	3.1	3.7
Leverage					
Net debt/EBITDA (x)	3.02	2.83	2.71	2.30	1.89
Net debt/equity (%)	124.50	132.37	121.71	104.71	86.02
Activity (days)					
Days receivable	24.3	30.4	30.9	30.4	28.6
Days inventory	3.9	4.3	2.8	2.9	2.9
Days payable	325.3	481.0	420.7	428.1	414.3
Cash cycle	-297.1	-446.3	-387.0	-394.9	-382.8

Source: Company data, Nomura estimates

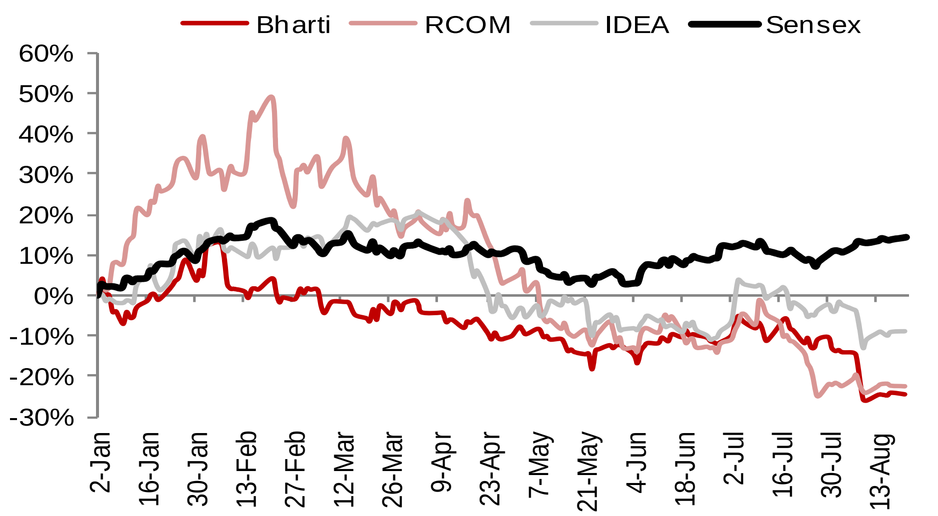
Notes

Geared balance-sheet

Various unknowns

- Bharti's recent 1Q results have left most people confused about: 1) the impact of its current revenue-share focused strategy, which is incurring high costs; 2) the African turnaround potential or lack thereof; and 3) potential capitalization given its high gearing levels (USD13bn in net debt). After a further assessment of the recent results along with a review of catalysts, we see more risks ahead and downgrade Bharti to Reduce with a target price of INR210. Its current FY13-14 P/E of 20-24x is expensive, in our opinion, and we also do not rule out the possibility of an equity raising, especially if refinancing (USD3bn in short-term loans) becomes difficult or expensive.
- We have been bearish on Indian telcos for a while, but we kept Bharti at Neutral previously as we thought the EPS downside risks were moderating. But recent results again highlights that this downward revision cycle is far from over. Current consensus EPS for FY13-15 is INR14, INR20 and INR24 (as per Bloomberg), which implies a 30% CAGR. The CAGR for the previous three-years is *minus* 20%.
  - –Analysts' track record in forecasting Bharti's earnings over the past two years has been very ordinary to say the least. Domestic operations have remained volatile and the tendency has always been to generalise pan-India strategy as one, although there has been different approaches in different circles. The net impact at the group level is that average pricing pressure has continued, alongside margin pressure and there is still little evidence of share gain.
  - –Even for Africa, since the acquisition in 2011, the market has given Bharti the benefit of the doubt on a consistent improvement in margins and earnings where there has been very little visibility on the market. A lot of the trends/ expectations such as elasticity has not played out – average prices still remain high at US5c while usage is relatively lower (compared to India) at 120 MoUs. There have also been some one-offs every quarter – and given the complexity of these markets, these one-offs will likely continue, in our view.

Fig. 1: YTD price chart



Source: Bloomberg

What has happened, and what do we expect now?

Domestic wireless trends

- Over the four quarters in FY12, Bharti averaged 3% sequential domestic wireless revenue growth, translating to about 11% y-y growth. Bharti added INR38-39bn in incremental wireless revenues in FY11-12, and for FY13-14F, we model in a rise of INR39-42bn in wireless revenues which is in-line with past trends. There are still (and will likely be) 4-5 viable players and hence, we believe it is difficult to see many surprises on prices or volume. We expect data take-up to pick up, and expect this to rise 2-3 pp ever year to contribute 21% of revenues by FY15F.
- Likewise, sequential EBITDA growth through FY12 averaged 3% q-q, translating into an 8% y-y growth. In FY12, Bharti added INR10bn in incremental wireless EBITDA. However, in 1Q13, EBITDA declined sharply by 9% q-q (lower by INR3bn) and 4% y-y. Despite this, we are expecting flat EBITDA in FY13F and incremental EBITDA of INR13bn in FY14F.

Fig. 2: Quarterly wireless trends – India

MOBILE OPERATIONAL DATA	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Reported Mobile Revenue	83,174	88,237	88,045	91,459	95,224	98,404	97,827	101,764	105,096	106,848
- % Chg (YoY)	*1%*	*5%*	*6%*	*13%*	*14%*	*12%*	*11%*	*11%*	*10%*	*9%*
- % Chg (QoQ)	*3%*	*6%*	*0%*	*4%*	*4%*	*3%*	*-1%*	*4%*	*3%*	*2%*
Reported Mobile EBITDA	30,327	31,710	30,964	31,954	31,970	33,614	32,926	34,431	35,719	32,350
- % Chg (YoY)	*17%*	*-7%*	*-7%*	*5%*	*5%*	*6%*	*6%*	*8%*	*12%*	*-4%*
- % Chg (QoQ)	*0%*	*5%*	*-2%*	*3%*	*0%*	*5%*	*-2%*	*5%*	*4%*	*-9%*
- Mobile Margin	*36.5%*	*35.9%*	*35.2%*	*34.9%*	*33.6%*	*34.2%*	*33.7%*	*33.8%*	*34.0%*	*30.3%*

Source: Company reports

Fig. 3: Annual wireless trends – India

MOBILE	2010	2011	2012	2013F	2014F
Subs (mn)	127.62	162.20	181.28	201.68	220.88
Monthly net adds (mn)	2.81	2.88	1.59	1.70	1.60
ARPU (INR)	244	201	187	185	183
Chg % y-y	*-26%*	*-18%*	*-7%*	*-1%*	*-1%*
MoU (minutes)	459	456	431	430	429
Chg % y-y	*-10%*	*-1%*	*-6%*	*0%*	*0%*
RPM (INR)	0.53	0.44	0.43	0.43	0.43
Chg % y-y	*-17%*	*-17%*	*-1%*	*-1%*	*-1%*
Revenues (INR mn)	324,872	363,400	403,091	445,881	485,111
Chg % y-y	*6%*	*8%*	*11%*	*11%*	*9%*
EBITDA (INR mn)	101,190	126,921	136,690	136,246	148,719
Chg % y-y	*8%*	*25%*	*8%*	*0%*	*9%*
Margin %	*31%*	*35%*	*34%*	*31%*	*31%*

Source: Company reports

Africa

- In Africa, we estimate Bharti added around USD500mn in incremental revenues in 2012, but only USD230mn in incremental EBITDA; we believe this should see margins improve from 24% to 28% through FY12.
- Despite no revenue/EBITDA improvement in 1Q13 and margins going backward, our FY13F estimates mimic a similar improvement in revenue and EBITDA as seen in 2012.

Fig. 4: Quarterly wireless trends – Africa

AFRICA (in US$ m)	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Revenue (reported)	205	838	911	924	979	1,030	1,057	1,071	1,066
- % Chg (YoY)						23%	16%	16%	9%
- % Chg (QoQ)			9%	1%	6%	5%	3%	1%	0%
Revenue (constant currency)					913	978	1,026	1,054	1,066
- % Chg (YoY)									17%
- % Chg (QoQ)						7%	5%	3%	1%
EBITDA (adj.)	56	194	212	224	246	270	282	298	275
- % Chg (YoY)						39%	33%	33%	12%
- % Chg (QoQ)			9%	6%	10%	10%	4%	6%	-8%
Margin (%)	27%	23%	23.3%	24.2%	25.1%	26.2%	26.7%	27.8%	25.8%

Source: Company reports

Fig. 5: Annual wireless trends – Africa

Africa overview	2011	2012	2013F	2014F
Total subs (mn)	44.2	53.1	64.1	74.1
Net adds	2.2	8.9	11.0	10.0
ARPU (US$)	7.1	6.8	6.4	5.9
Net adds	-4%	-4%	-5%	-8%
(US $ mn)				
Revenues	3,647	4,137	4,528	4,932
Chg % y-y		13%	9%	9%
EBITDA	867	1,097	1,227	1,484
Margins	24%	27%	27%	30%
Chg % y-y		27%	12%	21%

Source: Company reports

Other businesses

- Trends in other businesses have been mixed in the past couple of years and have not been major drivers of growth or earnings revision for Bharti.
  - In enterprise, margins have dropped from mid 20's to mid-teens now.
  - In Telemedia, growth has been in the low single-digit range.
  - Bharti began to report DTH as a separate segment recently, and this business is just turning EBITDA profitable. However, content costs remains a risk as seen in 1Q13 where EBITDA margins dropped to negative 1% (vs an average of 4% in the previous three quarters).

Fig. 6: Combined annual trends for other businesses

OTHER BUSINESSES	2011	2012	2013F	2014F
Revenue	173,659	192,935	202,232	211,683
Chg % y-y		*11%*	*5%*	*5%*
EBITDA	48,125	50,853	50,345	52,416
Chg % y-y		*6%*	*-1%*	*4%*
Margin %	*28%*	*26%*	*25%*	*25%*

Source: Company reports

Fig. 7: Combined quarterly trends for other businesses

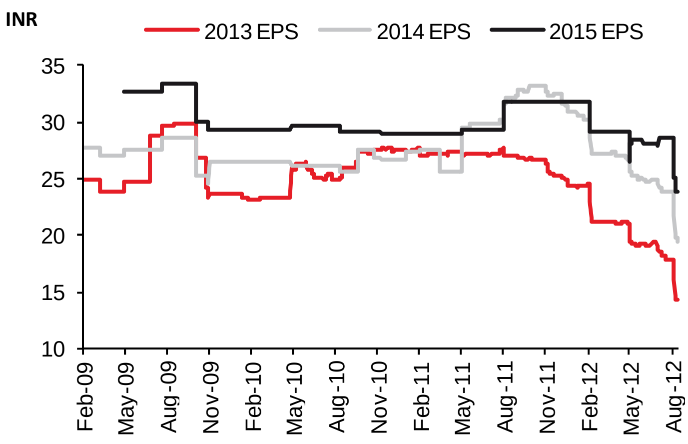
Other Business (ex africa ex india mobile)	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
Revenue	40,831	41,507	42,964	44,336	44,724	46,334	48,330	49,395	48,854	49,871
Chg % y-y	*-33%*	*-24%*	*-23%*	*-22%*	*10%*	*12%*	*12%*	*11%*	*9%*	*8%*
Chg % q-q	*-28%*	*2%*	*4%*	*3%*	*1%*	*4%*	*4%*	*2%*	*-1%*	*2%*
EBITDA	11,227	11,316	11,915	11,058	13,502	13,175	13,517	11,521	12,226	12,065
Chg % y-y	*-25%*	*19%*	*16%*	*0%*	*20%*	*16%*	*13%*	*4%*	*-9%*	*-8%*
Chg % q-q	*2%*	*1%*	*5%*	*-7%*	*22%*	*-2%*	*3%*	*-15%*	*6%*	*-1%*
Margin %		*27%*	*28%*	*25%*	*30%*	*28%*	*28%*	*23%*	*25%*	*24%*

Source: Company reports

Consensus EPS revisions – downward cycle far from over

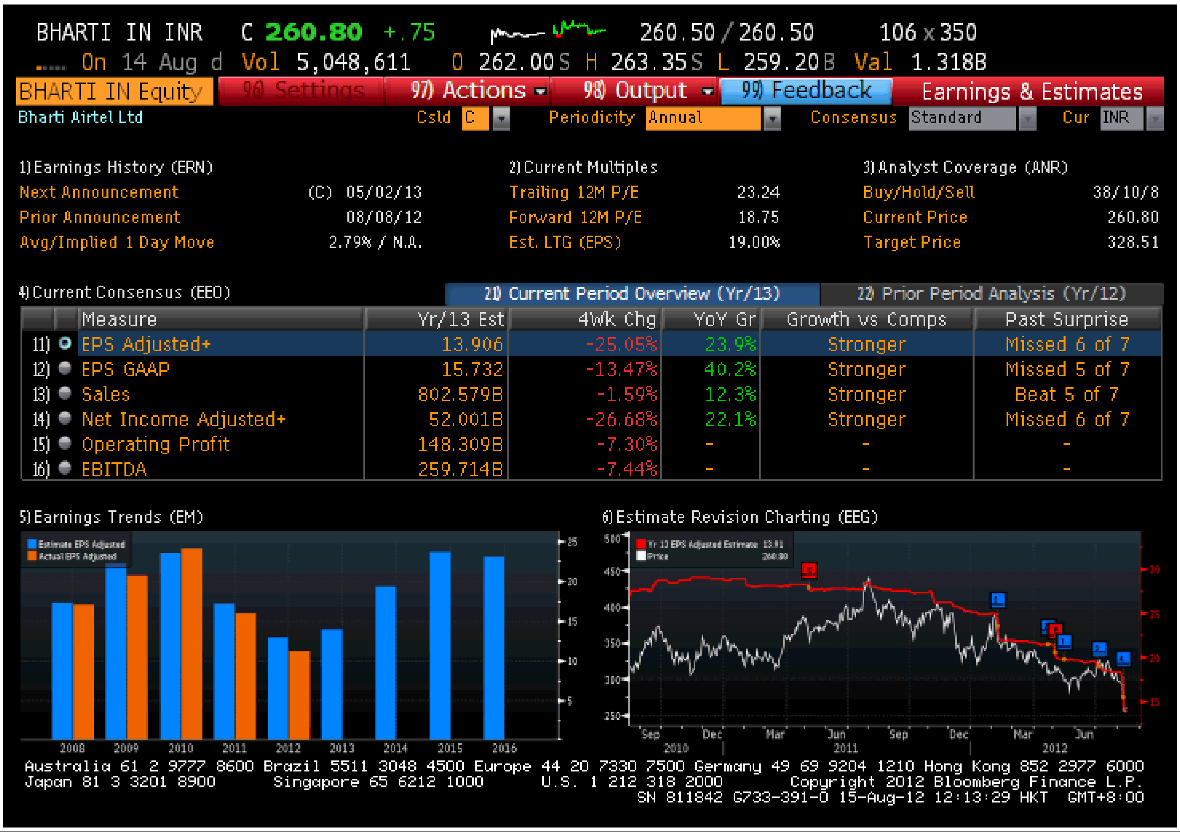
- Despite close to 40-60% negative revisions to Bharti's EPS outlook over the past 1-2 years, we still think consensus EPS remains high.
- Current consensus EPS for FY13-15 is INR14, INR20 and INR24, which implies a 30% CAGR.
- The CAGR for the previous 3-years is *minus* 20%.
- We have given Bharti the benefit of doubt in the past – be it for the ability to sustain domestic price increases or Africa turnaround. However, this hasn't quite panned out as expected and it is hard to see the stock re-rating when there are still downside risks to earnings.

Fig. 8: EPS revision trend



Source: Bloomberg

Fig. 9: Consensus forecast – still forecasting strong rebound in FY13-14F



Source: Bloomberg

Balance sheet concerns

- Of its USD13bn net debt, Bharti has refinanced USD2bn this year, and has another USD3bn in short-term loans (or around USD1.5bn for acquisition re-financing). Further refinancing/repayments could coincide with potential spectrum renewal payments.
- Gearing levels remain high at 3x net debt to EBITDA – especially as its operating trends have remained lacklustre, and there could be potential cash outflows for regulatory payments (eg, upcoming auctions) in India. Total debt at the end of the quarter was INR740bn or net debt of INR717bn (USD13.5bn).
- We think that further refinancing or capitalisation is likely in the next 6-12 months. This could also coincide with license renewals. Management also discussed the possibility of listing its tower portfolio; however, this has been discussed in the past too, and could take time to conclude. Africa is unlikely to be significantly FCF-positive (post interest) in the near-term, we believe.
- In the June quarter, Bharti appears to have refinanced its short-term debt with long term ones, in our view. As per the cash flow statement, it paid off INR97bn but also raised INR95bn. On the conference call, management noted that around USD2bn of debt was refinanced and another USD1.3bn would be up for repayment in a year, which it believes is manageable.

Fig. 10: Balance sheet trends

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
Current Debt	72,309	84,370	167,720	196,218	219,308	193,078	163,075
Non Current Debt	549,947	532,338	460,118	478,689	507,405	497,154	577,569
Total Debt	622,256	616,708	627,838	674,907	726,713	690,232	740,644
Current/ total debt	*12%*	*14%*	*27%*	*29%*	*30%*	*28%*	*22%*
Net Cash & Equivalents	15,644	9,575	13,554	15,701	18,563	20,300	22,938
Net Debt	606,612	607,133	614,284	659,206	708,150	669,932	717,706
Equity	497,163	516,231	526,363	512,582	519,497	533,808	522,849
Total Capital	1,103,775	1,123,364	1,140,647	1,171,788	1,227,647	1,203,740	1,240,555
Net Debt/ Equity	122%	118%	117%	129%	136%	126%	137%
Net Debt/ Capital	55%	54%	54%	56%	58%	56%	58%
Net Debt/EBITDA	3.03x	2.77x	2.69x	2.83x	2.97x	2.69x	3.07x
Total Liabilities	952,383	948,833	957,473	1,029,714	1,096,272	1,036,808	1,137,279
Non Interest Bearing Liabilities	330,127	332,125	329,635	354,807	369,559	346,576	396,635
Total Assets	1,449,546	1,465,064	1,483,836	1,542,296	1,615,769	1,570,616	1,660,128
Net Operating Assets	1,103,775	1,123,364	1,140,647	1,171,788	1,227,647	1,203,740	1,240,555
Operating Revenue	157,721	162,930	169,749	172,698	184,767	187,294	193,501
NOPAT	17,976	18,269	18,047	17,788	15,381	16,351	12,885
Operating profit margin	11%	11%	11%	10%	8%	9%	7%
Operating asset turnover	1.0	1.0	1.1	1.1	1.1	1.2	1.2
Annualised RoIC	11.5%	11.5%	11.2%	11.0%	9.4%	10.1%	7.9%

Source: Company reports, Nomura research

Regulations – what next?

On the regulatory side, we believe the focus will now shift to the auction processes and outcome, given that lower pricing appears to be a foregone conclusion. Recent decision by the cabinet to lower reserve prices by around 20% (at INR140bn) doesn't necessarily improve the economics and it is hard to know what final prices could be. Most importantly, a staggered payment structure has also been decided upon by the group of ministers which would allow more players to participate and keep competition tight.
The Department of Telecommunications is likely to release a draft information memorandum, and auctions are now expected to be delayed to end-November vs the court's decided deadline of end-August.

Earnings revisions and valuation

- We revise our earnings estimates lower by 22-24% for FY13F and FY14F to account for slower top-line growth, weaker margins and also higher D&A/interest costs.
- Following which, our DCF-based (valuation methodology unchanged) target price moves to INR280. To this, we apply a discount of 23% to factor in operational, currency and regulatory risks. This yields a target price of INR210.

Fig. 11: Earnings revisions (INRmn)

New Forecasts	2013E	2014E
Revenue	788,371	840,260
EBITDA	244,385	268,586
Dep & Amort	(145,143)	(157,712)
EBIT	99,242	110,874
Net interest	(38,195)	(36,346)
NPAT	40,910	49,981
Adjusted NPAT	40,910	49,981

Old Forecasts	2013E	2014E
Revenue	802,988	867,524
EBITDA	262,651	293,434
Dep & Amort	(146,512)	(159,736)
EBIT	116,139	133,698
Net interest	(38,228)	(36,151)
NPAT	52,304	65,541
Adjusted NPAT	52,304	65,541

% Change		
Revenue	*(2)*	*(3)*
EBITDA	*(7)*	*(8)*
Dep & Amort	*(1)*	*(1)*
EBIT	*(15)*	*(17)*
Net interest	*(0)*	*1*
NPAT	*(22)*	*(24)*
Adjusted NPAT	*(22)*	*(24)*

Source: Nomura estimates

Fig. 12: India & SA, and Africa – changes in revenue and EBITDA estimates

New Forecasts	*2013E*	*2014E*
India and SA (INRmn)		
Wireless revenue	445,881	485,111
Wireless EBITDA	136,246	148,719
Africa (USDmn)		
Revenue	4,528	4,932
EBITDA	1,227	1,484
Africa (INRmn)		
Revenue	226,423	236,720
EBITDA	61,361	71,253
Old Forecasts	*2013E*	*2014E*
India and SA (INRmn)		
Wireless revenue	437,279	475,975
Wireless EBITDA	138,673	151,896
Africa (USDmn)		
Revenue	4,573	5,085
EBITDA	1,264	1,553
Africa (INRmn)		
Revenue	228,641	244,074
EBITDA	63,219	74,564
% Changes	*2013E*	*2014E*
India and SA (INRmn)		
Wireless revenue	*2%*	*2%*
Wireless EBITDA	*-2%*	*-2%*
Africa (USDmn)		
Revenue	*-1%*	*-3%*
EBITDA	*-3%*	*-4%*
Africa (INRmn)		
Revenue	*-1%*	*-3%*
EBITDA	*-3%*	*-4%*

Source: Nomura estimates

Investment risks

Key upside risks that we see include: Greater-than-expected stability in pricing in India, and faster-than-expected turnaround in Africa. Tower divestment could be an upside catalyst, too.

Appendix A-1

Analyst Certification

I, Sachin Gupta, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

The term "Nomura Group Company" used herein refers to Nomura Holdings, Inc. or any affiliate or subsidiary of Nomura Holdings, Inc. Nomura Group Companies involved in the production of Research are detailed in the disclaimer below.

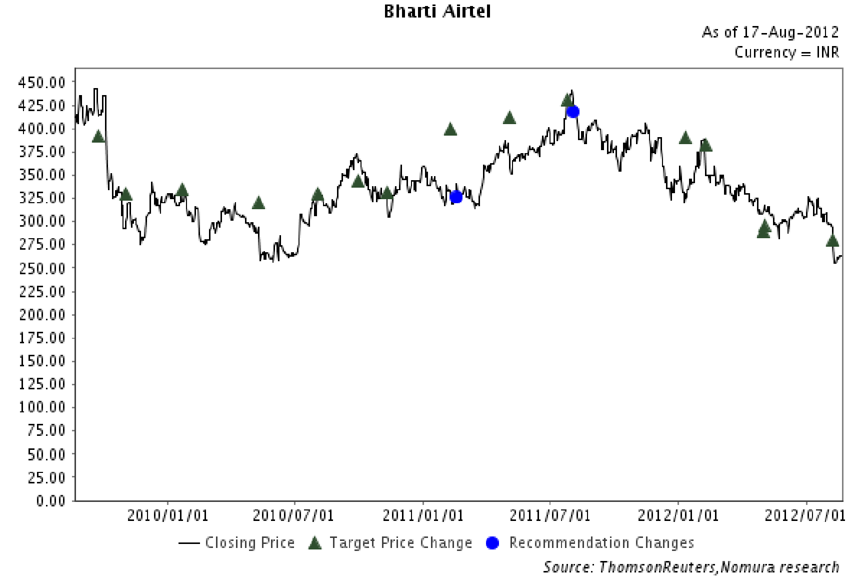
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Bharti Airtel	BHARTI IN	INR 259	21-Aug-2012	Reduce	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Bharti Airtel	Neutral	22-Aug-2012

Bharti Airtel (BHARTI IN) **INR 259 (21-Aug-2012)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
08-Aug-12		280.00	274.35
02-May-12		295.00	317.95
30-Apr-12		290.00	310.50
08-Feb-12		382.00	354.00
10-Jan-12		390.00	330.35
26-Jul-11	Neutral		424.60
26-Jul-11		430.00	424.60
04-May-11		412.00	369.75
09-Feb-11	Buy		332.15
09-Feb-11		400.00	332.15
11-Nov-10		332.00	316.75
30-Sep-10		344.00	366.30
04-Aug-10		330.00	323.15
11-May-10		320.00	284.70
22-Jan-10		335.00	322.15
02-Nov-09		330.00	292.85
23-Sep-09		392.00	413.50

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We derive a DCF-based valuation of INR280, assuming a WACC of 9.2% and growth rate of 3%, with cash flows discounted back to FY17F. To this, we apply a discount of 23% to factor in operational, currency and regulatory risks as detailed in the note. This yields a target price of INR210.

Risks that may impede the achievement of the target price Key upside risks: Greater-than-expected stability in pricing in India, and faster-than-expected turnaround in Africa. Tower divestment could be an upside catalyst, too.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

Nomura research is available on www.nomuranow.com/research, Bloomberg, Capital IQ, Factset, MarkitHub, Reuters and ThomsonOne. Important disclosures may be read at http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx or requested from Nomura Securities International, Inc., on 1-877-865-5752. If you have any difficulties with the website, please email grpsupport-eu@nomura.com for help.

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by Investment Banking activities. Unless otherwise noted, the non-US analysts listed at the front of this report are not registered/qualified as research analysts under FINRA/NYSE rules, may not be associated persons of NSI, and may not be subject to FINRA Rule 2711 and NYSE Rule 472 restrictions on communications with covered companies, public appearances, and trading securities held by a research analyst account.

Any authors named in this report are research analysts unless otherwise indicated. *Industry Specialists* identified in some Nomura International plc research reports are employees within the Firm who are responsible for the sales and trading effort in the sector for which they have coverage. Industry Specialists do not contribute in any manner to the content of research reports in which their names appear. *Marketing Analysts* identified in some Nomura research reports are research analysts employed by Nomura International plc who are primarily responsible for marketing Nomura's Equity Research product in the sector for which they have coverage. Marketing Analysts may also contribute to research reports in which their names appear and publish research on their sector.

Distribution of ratings (US)

The distribution of all ratings published by Nomura US Equity Research is as follows:
43% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 21% of companies with this rating are investment banking clients of the Nomura Group*.
51% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 9% of companies with this rating are investment banking clients of the Nomura Group*.
6% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 0% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 June 2012. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Distribution of ratings (Global)

The distribution of all ratings published by Nomura Global Equity Research is as follows:
46% have been assigned a Buy rating which, for purposes of mandatory disclosures, are classified as a Buy rating; 40% of companies with this rating are investment banking clients of the Nomura Group*.
43% have been assigned a Neutral rating which, for purposes of mandatory disclosures, is classified as a Hold rating; 46% of companies with this rating are investment banking clients of the Nomura Group*.
11% have been assigned a Reduce rating which, for purposes of mandatory disclosures, are classified as a Sell rating; 21% of companies with this rating are investment banking clients of the Nomura Group*.
As at 30 June 2012. **The Nomura Group as defined in the Disclaimer section at the end of this report.*

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America

The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
Benchmarks are as follows: **United States/Europe**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

SECTORS

A '**Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A '**Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A '**Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.
Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

Securities and/or companies that are labelled as '**Not rated'** or shown as '**No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

Disclaimers

This document contains material that has been prepared by the Nomura entity identified at the top or bottom of page 1 herein, if any, and/or, with the sole or joint contributions of one or more Nomura entities whose employees and their respective affiliations are specified on page 1 herein or identified elsewhere in the document. Affiliates and subsidiaries of Nomura Holdings, Inc. (collectively, the 'Nomura Group'), include: Nomura Securities Co., Ltd. ('NSC') Tokyo, Japan; Nomura International plc ('NIplc'), UK; Nomura Securities International, Inc. ('NSI'), New York, US; Nomura International (Hong Kong) Ltd. ('NIHK'), Hong Kong; Nomura Financial Investment (Korea) Co., Ltd. ('NFIK'), Korea (Information on Nomura analysts registered with the Korea Financial Investment Association ('KOFIA') can be found on the KOFIA Intranet at http://dis.kofia.or.kr); Nomura Singapore Ltd. ('NSL'), Singapore (Registration number 197201440E, regulated by the Monetary Authority of Singapore); Capital Nomura Securities Public Company Limited ('CNS'), Thailand; Nomura Australia Ltd. ('NAL'), Australia (ABN 48 003 032 513), regulated by the Australian Securities and Investment Commission ('ASIC') and holder of an Australian financial services licence number 246412; P.T. Nomura Indonesia ('PTNI'), Indonesia; Nomura Securities Malaysia Sdn. Bhd. ('NSM'), Malaysia; Nomura International (Hong Kong) Ltd., Taipei Branch ('NITB'), Taiwan; Nomura Financial Advisory and Securities (India) Private Limited ('NFASL'), Mumbai, India (Registered Address: Ceejay House, Level 11, Plot F, Shivsagar Estate, Dr. Annie Besant Road, Worli, Mumbai- 400 018, India; Tel: +91 22 4037 4037, Fax: +91 22 4037 4111; SEBI Registration No: BSE INB011299030, NSE INB231299034, INF231299034, INE 231299034, MCX: INE261299034); NIplc, Dubai Branch ('NIplc, Dubai'); NIplc, Madrid Branch ('NIplc, Madrid') and NIplc, Italian Branch ('NIplc, Italy'). 'CNS Thailand' next to an analyst's name on the front page of a research report indicates that the analyst is employed by Capital Nomura Securities Public Company Limited ('CNS') to provide research assistance services to NSL under a Research Assistance Agreement. CNS is not a Nomura entity.
THIS MATERIAL IS: (I) FOR YOUR PRIVATE INFORMATION, AND WE ARE NOT SOLICITING ANY ACTION BASED UPON IT; (II) NOT TO BE CONSTRUED AS AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITY IN ANY JURISDICTION WHERE SUCH OFFER OR SOLICITATION WOULD BE ILLEGAL; AND (III) BASED UPON INFORMATION FROM SOURCES THAT WE CONSIDER RELIABLE, BUT HAS NOT BEEN INDEPENDENTLY VERIFIED BY NOMURA GROUP.

Nomura Group does not warrant or represent that the document is accurate, complete, reliable, fit for any particular purpose or merchantable and does not accept liability for any act (or decision not to act) resulting from use of this document and related data. To the maximum extent permissible all warranties and other assurances by Nomura group are hereby excluded and Nomura Group shall have no liability for the use, misuse, or distribution of this information.

Opinions or estimates expressed are current opinions as of the original publication date appearing on this material and the information, including the opinions and estimates contained herein, are subject to change without notice. Nomura Group is under no duty to update this document. Any comments or statements made herein are those of the author(s) and may differ from views held by other parties within Nomura Group. Clients should consider whether any advice or recommendation in this report is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. Nomura Group does not provide tax advice.

Nomura Group, and/or its officers, directors and employees, may, to the extent permitted by applicable law and/or regulation, deal as principal, agent, or otherwise, or have long or short positions in, or buy or sell, the securities, commodities or instruments, or options or other derivative instruments based thereon, of issuers or securities mentioned herein. Nomura Group companies may also act as market maker or liquidity provider (as defined within Financial Services Authority ('FSA') rules in the UK) in the financial instruments of the issuer. Where the activity of market maker is carried out in accordance with the definition given to it by specific laws and regulations of the US or other jurisdictions, this will be separately disclosed within the specific issuer disclosures.

This document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content, including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Any MSCI sourced information in this document is the exclusive property of MSCI Inc. ('MSCI'). Without prior written permission of MSCI, this information and any other MSCI intellectual property may not be reproduced, re-disseminated or used to create any financial products, including any indices. This information is provided on an "as is" basis. The user assumes the entire risk of any use made of this information. MSCI, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. MSCI and the MSCI indexes are services marks of MSCI and its affiliates.

Investors should consider this document as only a single factor in making their investment decision and, as such, the report should not be viewed as identifying or suggesting all risks, direct or indirect, that may be associated with any investment decision. Nomura Group produces a number of different types of research product including, among others, fundamental analysis, quantitative analysis and short term trading ideas; recommendations contained in one type of research product may differ from recommendations contained in other types of research product, whether as a result of differing time horizons, methodologies or otherwise. Nomura Group publishes research product in a number of different ways including the posting of product on Nomura Group portals and/or distribution directly to clients. Different groups of clients may receive different products and services from the research department depending on their individual requirements. Clients outside of the US may access the Nomura Research Trading Ideas platform (Retina) at http://go.nomuranow.com/equities/tradingideas/retina/

Figures presented herein may refer to past performance or simulations based on past performance which are not reliable indicators of future performance. Where the information contains an indication of future performance, such forecasts may not be a reliable indicator of future performance. Moreover, simulations are based on models and simplifying assumptions which may oversimplify and not reflect the future distribution of returns.

Certain securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of, or income derived from, the investment.

The securities described herein may not have been registered under the US Securities Act of 1933 (the '1933 Act'), and, in such case, may not be offered or sold in the US or to US persons unless they have been registered under the 1933 Act, or except in compliance with an exemption from the registration requirements of the 1933 Act. Unless governing law permits otherwise, any transaction should be executed via a Nomura entity in your home jurisdiction.

This document has been approved for distribution in the UK and European Economic Area as investment research by NIplc, which is authorized and regulated by the FSA and is a member of the London Stock Exchange. It does not constitute a personal recommendation, as defined by the FSA, or take into account the particular investment objectives, financial situations, or needs of individual investors. It is intended only for investors who are 'eligible counterparties' or 'professional clients' as defined by the FSA, and may not, therefore, be redistributed to retail clients as defined by the FSA. This document has been approved by NIHK, which is regulated by the Hong Kong Securities and Futures Commission, for distribution in Hong Kong by NIHK. This document has been approved for distribution in Australia by NAL, which is authorized and regulated in Australia by the ASIC. This document has also been approved for distribution in Malaysia by NSM. In Singapore, this document has been distributed by NSL. NSL accepts legal responsibility for the content of this document, where it concerns securities, futures and foreign exchange, issued by their foreign affiliates in respect of recipients who are not accredited, expert or institutional investors as defined by the Securities and Futures Act (Chapter 289). Recipients of this document in Singapore should contact NSL in respect of matters arising from, or in connection with, this document. Unless prohibited by the provisions of Regulation S of the 1933 Act, this material is distributed in the US, by NSI, a US-registered broker-dealer, which accepts responsibility for its contents in accordance with the provisions of Rule 15a-6, under the US Securities Exchange Act of 1934.

This document has not been approved for distribution in the Kingdom of Saudi Arabia ('Saudi Arabia') or to clients other than 'professional clients' in the United Arab Emirates ('UAE') by Nomura Saudi Arabia, NIplc or any other member of Nomura Group, as the case may be. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia or in the UAE or to any person located in Saudi Arabia or to clients other than 'professional clients' in the UAE. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are a 'professional client' in the UAE and agree to comply with these restrictions. Any failure to comply with these restrictions may constitute a violation of the laws of the UAE or Saudi Arabia.

NO PART OF THIS MATERIAL MAY BE (I) COPIED, PHOTOCOPIED, OR DUPLICATED IN ANY FORM, BY ANY MEANS; OR (II) REDISTRIBUTED WITHOUT THE PRIOR WRITTEN CONSENT OF A MEMBER OF NOMURA GROUP. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. If verification is required, please request a hard-copy version.

Nomura Group manages conflicts with respect to the production of research through its compliance policies and procedures (including, but not limited to, Conflicts of Interest, Chinese Wall and Confidentiality policies) as well as through the maintenance of Chinese walls and employee training.

Additional information is available upon request and disclosure information is available at the Nomura Disclosure web page: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx