

COMPANY UPDATE

Bharti Airtel (BRTI.BO)

Buy

Equity Research

Structurally well positioned; Weakness a good entry-point; CL-Buy**What's changed**

We reiterate our Buy rating (on CL) on Bharti with a revised 12m PT of Rs460 (from Rs475) after 3Q earnings call. **Key takeaways:** **1)** Management stated that Bharti saw muted minutes growth, mainly due to impact of elasticity as Bharti had done a pan-India tariff hike (vs. selective hikes by its peers), which got reflected in a better RPM growth. **2)** Management highlighted that Africa local currency growth rate was c.5% qoq higher than the reported US\$ growth of 3% and operations were impacted due to one-off effects, like strikes in Nigeria. **3)** Despite 55% qoq decline in 3Q capex, management kept its FY12 capex guidance of US\$3.2bn unchanged (ytd spend: US\$2.3 bn). Management highlighted that as they moved from Erlang-based procurement to "Erlang and equipment" based- purchase, there is lumpiness in capex payments from quarter to quarter; **4)** 3Q EBITDA had several one-offs, namely one-off provision from Bangladesh unit; increase in "others" cost item due to sponsorships for F1 and BCCI events; one-time impact due to a fire in a company location in Mumbai in Dec 2011 and an impact in Telemedia division led by migration to new billing system, as some subs churned and led to higher bad debt provision.

Implications

While our FY12-14E revenue/EBITDA of Bharti are cut by 0.2%-1.3% post 3Q, our FY12E/FY13/FY14E/ EPS are cut by 14.8%/13.1%/13.7% as we factor in higher D&A and tax rate. We also reduce our capex after Bharti reported 55% qoq decline in 3Q capex. As a result, our 12-m SOTP-based TP is lowered by 3% to Rs460.

Valuation

On our revised numbers, Bharti trades at FY13 EV/EBITDA and P/E of 6.9X/16.3X (vs. Asian telcos avg. of 6.8X/15.2X) and offers a FY11-14E EPS CAGR of 26% (vs. Asian telcos avg of 3.8%).

Key risks

Price wars in India; Weaker than expected KPIs from African operations.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List

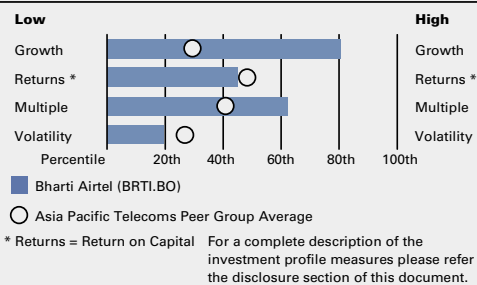
Asia Pacific Conviction Buy List

Coverage View: Neutral

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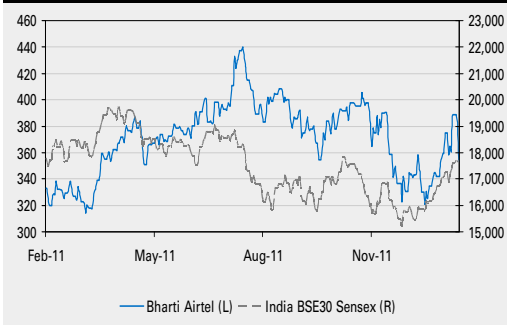
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Investment Profile

Key data	Current
Price (Rs)	354.00
12 month price target (Rs)	460.00
Market cap (Rs mn / US\$ mn)	1,343,338.0 / 27,300.8
Foreign ownership (%)	44.9

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	17.54	12.65	21.73	31.02
EPS revision (%)	0.0	(14.8)	(13.1)	(13.7)
EPS growth (%)	(22.2)	(27.9)	71.8	42.8
EPS (dil) (Rs) New	15.94	11.98	21.85	31.13
P/E (X)	20.2	28.0	16.3	11.4
P/B (X)	2.8	2.5	2.2	1.9
EV/EBITDA (X)	9.0	8.7	6.9	5.4
Dividend yield (%)	0.3	0.3	0.6	1.1
ROE (%)	13.3	8.9	14.6	18.1
CROCI (%)	10.0	12.5	13.1	14.7

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	(10.9)	(13.4)	6.2
Rel. to India BSE30 Sensex	(11.6)	(16.9)	6.6

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/08/2012 close.

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Bharti Airtel: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	594,672.0	717,866.6	841,702.0	965,005.6	Cash & equivalents	16,543.0	22,465.4	9,194.1	34,521.8
Cost of goods sold	(254,151.0)	(316,507.3)	(371,759.7)	(413,833.5)	Accounts receivable	54,929.0	66,080.4	75,654.3	85,325.0
SG&A	(136,536.0)	(163,934.4)	(178,149.3)	(192,870.2)	Inventory	2,139.0	3,042.9	3,355.6	3,611.4
R&D	--	--	--	--	Other current assets	38,466.0	72,754.1	76,774.1	83,620.0
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	112,077.0	164,342.9	164,978.3	207,078.1
EBITDA	203,985.0	237,864.5	292,353.9	358,963.2	Net PP&E	651,426.0	706,320.1	742,948.8	787,073.8
Depreciation & amortization	(102,066.0)	(134,875.8)	(144,920.2)	(152,777.7)	Net intangibles	637,317.0	696,675.7	674,944.4	653,007.7
EBIT	101,919.0	102,988.8	147,433.7	206,185.5	Total investments	0.0	0.0	0.0	0.0
Interest income	1,776.9	5,057.7	4,274.7	4,075.5	Other long-term assets	64,244.0	89,941.6	89,941.6	89,941.6
Interest expense	(21,915.0)	(36,130.7)	(30,333.5)	(33,080.5)	Total assets	1,465,064.0	1,657,280.3	1,672,813.1	1,737,101.2
Income/(loss) from uncons. subs.	(73.5)	0.0	0.0	0.0	Accounts payable	249,737.0	259,270.0	285,914.2	307,701.9
Others	1,127.0	(3,307.8)	1,166.2	1,019.0	Short-term loans	84,370.0	219,308.0	219,308.0	219,308.0
Pretax profits	82,834.4	68,608.0	122,541.1	178,199.4	Other current liabilities	35,738.0	60,738.0	65,175.7	74,050.9
Income tax	(17,790.0)	(23,567.3)	(38,763.4)	(57,655.3)	Total current liabilities	369,845.0	539,316.0	570,397.9	601,060.8
Minorities	1,475.0	392.0	(907.1)	(2,470.8)	Long-term debt	532,338.0	508,725.5	428,725.5	363,725.5
Net income pre-preferred dividends	66,519.4	45,432.6	82,870.6	118,073.4	Other long-term liabilities	46,650.0	52,378.0	41,902.4	37,712.2
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	578,988.0	561,103.5	470,627.9	401,437.7
Net income (pre-exceptionals)	66,519.4	47,967.2	82,421.9	117,673.8	Total liabilities	948,833.0	1,100,419.5	1,041,025.8	1,002,498.5
Post-tax exceptionals	(6,052.4)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	60,467.0	45,432.6	82,870.6	118,073.4	Total common equity	487,668.0	528,689.8	602,709.3	703,053.9
EPS (basic, pre-exception) (Rs)	17.54	12.65	21.73	31.02	Minority interest	28,563.0	28,171.0	29,078.1	31,548.8
EPS (basic, post-exception) (Rs)	15.94	11.98	21.85	31.13	Total liabilities & equity	1,465,064.0	1,657,280.3	1,672,813.1	1,737,101.2
EPS (diluted, post-exception) (Rs)	15.94	11.98	21.85	31.13	BVPS (Rs)	128.57	139.39	158.90	185.36
DPS (Rs)	1.00	1.00	2.00	4.00	Net debt	600,165.0	705,568.1	638,839.4	548,511.7
Dividend payout ratio (%)	6.3	8.3	9.2	12.8	Ratios	3/11	3/12E	3/13E	3/14E
Free cash flow yield (%)	11.7	1.3	6.6	8.4	CROCI (%)	10.0	12.5	13.1	14.7
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	ROE (%)	13.3	8.9	14.6	18.1
Sales growth	42.1	20.7	17.3	14.6	ROA (%)	5.6	2.9	5.0	6.9
EBITDA growth	21.0	16.6	22.9	22.8	ROACE (%)	10.2	5.7	8.0	10.9
EBIT growth	(3.6)	1.0	43.2	39.8	Inventory days	1.9	3.0	3.1	3.1
Net income growth	(32.6)	(24.9)	82.4	42.5	Net debt/equity (%)	116.3	126.7	101.1	74.7
EPS growth	(32.6)	(24.9)	82.4	42.5	Interest cover - EBIT (X)	5.1	3.3	5.7	7.1
Gross margin	57.3	55.9	55.8	57.1	Total debt/total capital (%)	54.4	56.7	50.6	44.2
EBITDA margin	34.3	33.1	34.7	37.2	Valuation	3/11	3/12E	3/13E	3/14E
EBIT margin	17.1	14.3	17.5	21.4	P/E basic (X)	20.2	28.0	16.3	11.4
Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E	P/B (X)	2.8	2.5	2.2	1.9
Net income pre-preferred dividends	66,519.4	45,432.6	82,870.6	118,073.4	EV/EBITDA (X)	9.0	8.7	6.9	5.4
D&A add-back	102,066.0	134,875.8	144,920.2	152,777.7	EV/GCI (X)	1.3	1.3	1.1	1.0
Minorities interests add-back	(1,475.0)	(392.0)	907.1	2,470.8	Div yield (%)	0.3	0.3	0.6	1.1
Net (inc)/dec working capital	121,162.0	(2,522.3)	16,757.6	11,861.3	Additional metrics	3/11	3/12E	3/13E	3/14E
Other operating cash flow	(71,257.6)	(9,224.0)	(20,321.1)	(16,804.0)	Total wireline voice rev (Rs mn)	36,324.0	37,952.0	41,486.6	44,754.5
Cash flow from operations	210,962.4	168,170.1	225,134.3	268,379.2	Total wireline data rev (Rs mn)	--	--	--	--
Capital expenditures	(142,253.3)	(163,464.7)	(153,992.1)	(169,198.0)	Total mobile rev (Rs mn)	362,689.0	402,590.5	464,917.0	534,781.1
Acquisitions	(623,720.2)	0.0	0.0	0.0	Total wireline subscribers (000)	3,296.0	3,665.5	3,944.3	4,224.0
Divestitures	0.0	0.0	0.0	0.0	Total internet subscribers (000)	1,420.6	1,763.1	2,094.4	2,454.2
Others	163,022.5	(25,697.6)	0.0	0.0	Total mobile subscribers (000)	162,203.5	179,384.5	193,473.7	216,336.7
Cash flow from investments	(602,951.0)	(189,162.3)	(153,992.1)	(169,198.0)	% prepaid of total mobile subs	96.3	96.5	96.6	96.8
Dividends paid (common & pref)	(4,437.6)	(4,437.6)	(4,437.6)	(8,875.2)	Mobile blend monthly ARPU (Rs)	208.6	188.8	199.7	209.0
Inc/(dec) in debt	514,810.0	111,325.5	(80,000.0)	(65,000.0)	% blend mobile ARPU from data	--	--	--	--
Common stock issuance (repurchase)	0.3	0.0	0.0	0.0	Mobile blended MOU/sub (min)	459.2	430.3	438.0	442.4
Other financing cash flows	(179,526.1)	(79,973.2)	24.1	21.7	Mobile monthly blend churn (%)	--	--	--	--
Cash flow from financing	330,846.6	26,914.7	(84,413.5)	(73,853.5)	Marketing expense/total rev (%)	NM	NM	NM	NM
Total cash flow	(61,142.0)	5,922.4	(13,271.3)	25,327.7	Mobile capex/mobile rev (%)	16.2	15.6	16.1	16.2
Free cash flow	144,965.6	17,237.1	90,297.1	114,966.2	Wireline capex/wireline rev (%)	22.1	41.7	29.2	27.5

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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3Q Results Snapshot

Exhibit 1: Bharti 3QFY12 results snapshot

Bharti Airtel (Rs mn)	3QFY11A Dec-10	2QFY12A Sep-11	3QFY12E Dec-11	3QFY12A Dec-11	% YoY	% QoQ	% vs. GS Est.
Total Revenue (Net)	157,560	172,698	181,765	184,767	17.3%	7.0%	1.7%
Wireless, India, SA	91,459	97,827	101,167	101,764	11.3%	4.0%	0.6%
Wireless, Africa	40,531	47,032	52,858	53,577	32.2%	13.9%	1.4%
Telemedia	9,068	9,528	9,719	9,128	0.7%	-4.2%	-6.1%
Enterprise	10,503	11,042	11,263	11,881	13.1%	7.6%	5.5%
Passive infrastructure	21,972	23,766	24,360	24,393	11.0%	2.6%	0.1%
Others and eliminations	(15,973)	(16,497)	(17,601)	(15,976)	0.0%	-3.2%	-9.2%
Operating expenses	(104,351)	(114,612)	(120,165)	(125,494)	20.3%	9.5%	4.4%
Access charges	(20,273)	(23,310)	(25,079)	(26,234)	29.4%	12.5%	4.6%
License fee & spectrum charges	(13,561)	(14,508)	(14,541)	(15,435)	13.8%	6.4%	6.1%
Network opex	(32,896)	(38,038)	(39,261)	(40,669)	23.6%	6.9%	3.6%
Employee costs	(8,833)	(8,691)	(9,452)	(8,505)	-3.7%	-2.1%	-10.0%
S,G&A & others	(28,788)	(30,065)	(31,831)	(34,651)	20.4%	15.3%	8.9%
EBITDA	53,209	58,086	61,601	59,273	11.4%	2.0%	-3.8%
Depreciation & amortization	(27,107)	(31,839)	(32,650)	(35,845)	32.2%	12.6%	9.8%
EBIT	26,102	26,247	28,951	23,428	-10.2%	-10.7%	-19.1%
Net finance charges	(7,470)	(11,186)	(11,082)	(7,877)	5.4%	-29.6%	-28.9%
Other non-operating inc./(exp.)	258	66	66	255			
PBT	18,890	15,127	17,935	15,806	-16.3%	4.5%	-11.9%
Tax	(3,366)	(4,900)	(5,361)	(5,585)	65.9%	14.0%	4.2%
Minority interest	904	44	44	(108)			
Reported net profit	13,033	10,271	12,618	10,113	-22.4%	-1.5%	-19.8%
Consolidated capex (Rs mn)	42,866	46,871	37,079	21,233	-50.5%	-54.7%	-42.7%
Reported EBITDA margin	33.8%	33.6%	33.9%	32.1%			
Net margin	8.3%	5.9%	6.9%	5.5%			
Implied tax rate	17.8%	32.4%	29.9%	35.3%			
Wireless KPIs (India, SA)							
Monthly ARPU (Rs)	198	183	188	187	-5.6%	2.2%	-0.3%
MoU/Sub/month (mins)	449	423	428	419	-6.7%	-0.9%	-2.2%
ARPM (Rs/min)	0.44	0.43	0.44	0.45	1.2%	3.2%	2.0%
Total MOU (mn mins)	199,146	217,408	223,956	219,152	10.0%	0.8%	-2.1%
Wireless Africa (Rs mn)							
Revenues	40,531	47,032	52,858	53,577	32.2%	13.9%	1.4%
EBITDA	10,144	12,403	14,160	14,351	41.5%	15.7%	1.4%
EBITDA margin	25.0%	26.4%	26.8%	26.8%			
Capex	13,614	26,256	13,676	13,418	-1.4%	-48.9%	-1.9%
Wireless KPIs (Africa)							
Subscribers ('000s)	42,124	48,437		50,949	21.0%	5.2%	
Monthly ARPU (US\$)	7.3	7.3		7.1	-2.5%	-2.3%	
MoU/Sub/month (mins)	120	128		125	3.8%	-2.5%	
ARPM (US cents/min)	6.1	5.7		5.7	-6.0%	0.1%	
Total MOU (mn mins)	14,904	17,950		18,496	24.1%	3.0%	

Source: Company data, Goldman Sachs Research estimates.

Disclosure Appendix

Reg AC

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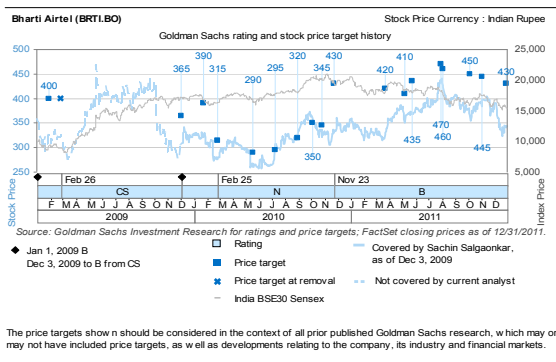
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Price target and rating history chart(s)



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