

Operational performance in line, Retain ACCUMULATE

August 3, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs427	Rs464
EPS change FY12E/13E (%)	-11.1 / -2.9
Target Price change (%)	NA
Nifty	5,405
Sensex	17,941

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	14	32	30
Rel. to Nifty	16	17	33	31

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Telecom
Bloomberg	BHARTI@IN
Equity Capital (Rs mn)	18988
Face Value(Rs)	5
No of shares o/s (mn)	3798
52 Week H/L	445/304
Market Cap (Rs bn/USD mn)	1,621/36,578
Daily Avg Volume (No of sh)	1442662
Daily Avg Turnover (US\$m)	12.4

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	68.2	68.3	68.2
FII/NRI	17.6	17.5	17.6
Institutions	8.7	8.7	8.7
Private Corp	3.6	3.7	3.6
Public	1.9	1.8	1.9

Source: Capitaline

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- Q1FY12 revenue at Rs169.8bn up 4.4% qoq (in line with est.). EBITDA at Rs57bn, up 4.8% qoq. PAT at Rs12.1bn below est. of Rs15.2bn on account of higher tax and interest outgo
- KPI's on expected lines remained stable qoq, led by stabilization in price war. APRU at Rs190 down 2.1% qoq, MoU was flat at 449 while ARPM was down 1.2% to Rs0.43
- Cons. EBITDA margin improved 13bps qoq to 33.6% (lower than our est. of 34.2%). EBITDA margin from African operation stood at 26.7% v/s 26.4% in Q4FY11
- Cut EPS by 11.1% & 2.9% for FY12E/13E on account of higher interest & tax going forward. Valuations at 8.6/6.9 EV/EBITDA for FY12E/13E. Retain ACCUMULATE with TP of Rs464

Revenues in line, EBITDA a tad lower but PAT significantly below est.

Bharti reported con. revenue of Rs169.8bn up 4.4% v/s our estimates of Rs 169.7bn, driven by 4.0% rise in mobility revenues. EBITDA stood at Rs57.1bn below our est. of Rs58.2bn, EBITDA margin was at 33.6% up 13bps qoq. PAT of Rs12.1bn was significantly below our estimate of Rs15.2bn, on account of higher tax & interest outgo.

KPI's -on a stable track

As the penetration is rising, MoM net are trending southwards, Q1FY12 registered net adds of 6.3mn v/s 9.7mn in last quarter. However, with the stable ARPU and flat MoU, mobility rev. during the quarter was up 3.0% qoq. ARPU fell marginally by 2.1% qoq to Rs190. MoU remained flat qoq at 445, while ARPM declined 1.2% qoq to Rs0.43. Traffic on network grew by 4.6%(a tad lower than its peers) to 221bn minutes. Share of VAS reduced to 14.6% v/s 15.0% in Q4FY11, management indicated it as a seasonal impact.

African safari -Volume driven growth

African revenues registered growth of 4.7% qoq v/s 2.4% in last quarter. MoU was up 5.6% qoq to 121 minutes which led to robust traffic growth 9.5% qoq to 16bn minutes. Subsequently ARPM declined 3.4% qoq, while ARPU was up 1.0% qoq to \$7.3. Stringent KYC norms in the African market are leading to slower subscriber additions. EBITDA margin improved to 26.7% v/s 26.4% in last quarter.

Passive infrastructure - Improving tenancy

Passive infrastructure reported revenue growth of 3.4% qoq to Rs22.7bn. EBITDA margin from this segment further improved to 37.7% v/s 37.0% in Q4FY11 and 35.5% in Q1FY11. Total towers for Bharti Infratel and Indus stood at 76689 and 108922. Nevertheless, tenancy improved to 1.83x (1.83x in Q4FY11) and 1.87x (1.79x for Q4FY11) for Bharti infratel and Indus towers, respectively.

Valuation at 8.6x/ 6.9x EV/EBITDA on FY12E/13E- Maintain ACCUMULATE

Considering, higher interest and tax outgo in Q1FY12, we tweak our FY12E and FY13E interest and tax rate in sync with reported number. This has led to cut in our EPS estimate by 11.1/2.9% for FY12E/13E. We maintain our positive view on the stock, however the key risks that prevails are: 1.) regulatory uncertainty in domestic market 2.) risk of margin erosion owing to aggressive 3G launch and 3.) slower than anticipated growth from African operations. We retain ACCUMULATE rating on the stock with target price Rs464. At CMP of Rs427, stock trades at 8.6x /6.9x EV/EBITDA for FY12E/13E.

Financial Snapshot

Y/E	Net Sales	EBITDA (Core)	EBITDA (%)	PAT (Rs)	EPS (Rs)	EPS %chg	ROE (x)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	396150	160266	40.5	91025	24.0	7.5	24.5	17.8	10.5	3.4
FY11	594672	199610	33.6	60473	15.9	-33.6	12.7	26.8	11.2	2.8
FY12E	721869	252170	34.9	67125	17.7	11.0	12.4	24.1	8.6	2.6
FY13E	839373	303857	36.2	101466	26.7	51.2	16.5	16.0	6.9	2.2

Other business segments remain stable

Other segments (Telemedia and Enterprise) reported stable revenues qoq. Revenue for Telemedia and Enterprise was up 3.0% and 2.0% qoq, respectively. EBITDA Margin in enterprise segment declined to 22.1% v/s 25.7% in Q4FY11, while it remained flat for Telemedia.

Improving domestic landscape

Traffic growth for Bharti was lower than its peers (Idea and Vodafone). On the back of stable KPI's domestic mobile revenue grew 3.0% qoq. Mobility EBITDA margin improved to 34.2% v/s 33.6%.

Comparable financial performance (excl Africa & related costs)

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	QoQ
Revenues	107,491	112,725	113,312	117,213	121,195	126,306	4.2%
opex	66,662	70,301	71,090	75,124	76,852	80,300	4.5%
EBIDTA	40,829	42,424	42,222	42,089	44,343	46,006	3.8%
Depreciation	16,953	17,483	18,239	19,063	21,153	22,532	6.5%
EBIT	23,876	24,941	23,983	23,026	23,190	23,474	1.2%
Interest	(356)	2,191	(257)	1,514	1,685	2,569	52.5%
PBT	24,232	22,750	24,240	21,512	21,505	21,505	0.0%
Tax	3,415	3,687	3,802	3,145	3,363	5,246	56.0%
PAT	20,443	19,063	20,438	18,367	18,142	16,259	-10.4%

Domestic v/s African revenue and EBIDTA break-up

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	QoQ
Revenues							
India & Asia	107,491	112,725	113,312	117,213	121,195	126,306	4.2%
Africa		9,583	38,906	40,530	41,815	43,784	4.7%
Cons. Rev	107,491	122,308	152,150	157,560	162,654	169,822	4.4%
EBIDTA							
India	40,829	42,424	42,222	42,089	44,343	46,006	3.8%
Africa		2,635	9,311	8,435	10,995	11,702	6.4%
Cons. EBIDTA	40,829	45,059	51,533	49,816	54,500	57,058	4.7%
Cons. EBIDTA ex re-Branding cost	-	-	-	53,211			
EBIDTA %							
India	38.0%	37.6%	37.3%	35.9%	36.6%	36.4%	
Africa		27.5%	23.9%	20.8%	26.3%	26.7%	
Cons. EBIDTA %	38.0%	36.8%	33.9%	31.6%	33.5%	33.6%	
Cons. EBIDTA % ex re-Branding cost	-	-	-	33.8%			

Domestic mobile business performance

	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	QoQ
ARPU (Rs)	220	215	202	198	194	190	-2.1%
MOU (mins)	468	480	454	449	449	445	-0.9%
RPM (Rs)	0.47	0.45	0.44	0.44	0.43	0.43	-1.2%
Traffic (mn mins)	172,797	190,396	190,767	199,146	211,822	221,560	4.6%
Subscribers ('000)	127,619	136,620	143,292	152,495	162,203	169,187	4.3%

EPS cut by 11.1% /2.9% for FY12E /13E

On account of higher interest and tax charge going forward, we have revised our EPS estimate downwards. We cut our EPS estimate by 11.1% and 2.9% for FY12E and FY13E, respectively.

	FY12E			FY13E		
	Old	New	Chg %	Old	New	Chg %
Revenue	721858	721869	0.0	83,9066	839373	0.0
EBIDTA	254241	252170	(0.8)	30,3672	303857	0.1
EBIDTA %	35.2	34.9	-29 bps	36.2	36.2	0 bps
PAT	75512	67125	(11.1)	104452	101466	(2.9)
EPS	19.9	17.7	(11.1)	27.5	26.7	(2.9)

Quarterly financials

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	YoY (%)
Mobile	97,820	126,951	132,281	136,764	142,187	45.4	4.0	142,187	97,820	45.4
Broadband	8,960	9,118	9,068	9,178	9,458	5.6	3.1	9,458	8,960	5.6
Enterprise Total	10,186	10,424	10,503	10,179	10,410	2.2	2.3	10,410	10,186	2.2
Others	1,949	2,260	2,793	3,314	3,779	93.9	14.0	3,779	1,949	93.9
Passive Infrastructure	20,412	21,161	21,972	22,010	22,767	11.5	3.4	22767.0	20412.0	11.5
Total gross Sales	139,327	169,914	176,617	181,445	188,601	35.4	3.9	188,601	139,327	35.4
Inter-segmental elimination	17019.0	17764.0	19056.9	18791.0	18773.0	10.3	(0.1)	18,773	17,019	10.3
Net Sales	122,308	152,150	157,560	162,654	169,828	38.9	4.4	169,828	122,308	38.9
Access charge	14227.0	18885.0	20273.0	21379.0	22158.0	55.7	3.6	22,158	14,227	55.7
as % of sales	11.6	12.4	12.9	13.1	13.0			13.0	11.6	
Network Operating	27268.0	33096.0	32896.0	34644.0	37308.0	36.8	7.7	37,308	27,268	36.8
as % of sales	22.3	21.8	20.9	21.3	22.0			22.0	22.3	
Employee Expenses	5601.0	8835.0	8833.0	9534.0	9246.0	65.1	(3.0)	9,246	5,601	65.1
as % of sales	4.6	5.8	5.6	5.9	5.4			5.4	4.6	
Marketing Expenses	19330.0	27582.0	32181.0	28768.0	29118.0	50.6	1.2	29,118	19,330	50.6
as % of sales	15.8	18.1	20.4	17.7	17.1			17.1	15.8	
License Fee	11742.0	12540.0	13561.0	13887.0	14939.0	27.2	7.6	14,939	11,742	27.2
as % of sales	9.6	8.2	8.6	8.5	8.8			8.8	9.6	
Total operating expenditure	78168	100938	107744	108212	112769	44.3	4.2	112769	78168	44.3
EBITDA	44140	51212	49816	54442	57059	29.3	4.8	57,059	44,140	29.3
Depreciation	19467	25790	27107	29702	31314	60.9	5.4	31,314	19,467	60.9
EBIT	24673	25422	22709	24740	25745	4.3	4.1	25745	24673	4.3
Other Income	548	169	258	388	0			0	548	(100.0)
Interest	4198	3319	7470	6826	8550	103.7	25.3	8,550	4,198	103.7
Non operating expenses	233.0	3.0	2.0	0.0	0.0			0	233	(100.0)
PBT	20790	22269	15495	18302	17195	(17.3)	(6.0)	17195	20790	(17.3)
Tax	3750	5678	3366	4996	5141	37.1	2.9	5,141	3,750	37.1
PAT before MI	17040	16591	12129	13306	12054	(29.3)	(9.4)	12054	17040	(29.3)
Minority interest	153	-23	-904	-701	-98	(164.1)	(86.0)	-98	153	(164.1)
PAT MI	16887	16614	13033	14007	12152	(28.0)	(13.2)	12152	16887	(28.0)
share of associates	-72	-2	0	0	0			0	-72	(100.0)
PAT	16816	16612	13033	14007	12152	(27.7)	(13.2)	12152	16816	(27.7)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	36.1	33.7	31.6	33.5	33.6	(249)	13	33.6	36.1	(249)
EBIT	20.2	16.7	14.4	15.2	15.2	(501)	(5)	15.2	20.2	(501)
EBT	17.0	14.6	9.8	11.3	10.1	(687)	(113)	10.1	17.0	(687)
PAT	13.7	10.9	8.3	8.6	7.2	(659)	(146)	7.2	13.7	(659)
Effective Tax rate	18.0	25.5	21.7	27.3	29.9	1,186	260	29.9	18.0	1,186

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	396,150	594,672	721,869	839,373
<i>Growth (%)</i>	7.2	50.1	21.4	16.3
Employee cost		32,803	39,071	43,312
Marketing expenses	56,881	107,861	120,110	138,578
Access charge	44,807	74,764	95,285	112,150
Network operating charge	76,396	127,904	152,203	168,282
License fee	40,875	51,730	63,030	73,194
Total operating exp.	235,884	395,062	469,698	535,516
EBITDA	160,266	199,610	252,170	303,857
<i>Growth (%)</i>	5.7	24.5	26.3	20.5
Depreciation	60,457	102,061	131,602	140,088
Other non-operating exp.	178	238	0	0
<i>EBIT</i>	99,630	97,311	120,568	163,770
EBIT margin (%)	25.1	16.4	16.7	19.5
Other Income	19,491	1,363	1,200	1,680
Interest expenses	12,434	21,813	33,467	27,831
PBT	106,687	76,861	88,301	137,619
Tax	13,959	17,790	22,870	37,157
<i>Effective tax rate (%)</i>	13.1	23.1	25.9	27.0
PAT before MI	92,729	59,071	65,431	100,462
Minority interest	1,994	-1,475	-1,694	-1,005
Adjusted PAT after MI	90,735	60,546	67,125	101,466
Profit from associates	-290.2	73.5	0.0	0.0
PAT	91024	60473	67124	101466

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	87,487	75,425	87,101	135,939
Depreciation	60,457	102,061	131,602	140,088
Interest	12,434	21,813	33,467	27,831
Other Non-Cash items	25,058	36,841	-12,650	-148
Chg in working cap	11,922	104,788	14,360	7,837
Tax paid	-13,959	-17,790	-22,870	-37,157
Operating Cashflow	183,398	323,137	231,010	274,390
Capital expenditure	-97,724	-931,094	-135,000	-130,000
Free Cash Flow	85,674	-607,957	96,010	144,390
Other income	19,491	1,363	1,200	1,680
Investments	-34,676	82,815	0	0
Investing Cashflow	-112,910	-846,915	-133,800	-128,320
Equity Capital Raised	5	1,549	0	0
Loans Taken / (Repaid)	-54,183	551,822	-63,000	-82,000
Interest Paid	-12,434	-21,813	-33,467	-27,831
Dividend paid (incl tax)	-4,442	-4,442	-4,442	-4,442
Financing Cashflow	-71,053	527,116	-100,909	-114,273
Net chg in cash	-565	3,338	-3,699	31,797
Opening cash position	6,799	6,234	9,572	5,873
Closing cash position	6,234	9,572	5,873	37,670

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	18,988	18,988	18,988	18,988
Reserves & surplus	386,848	468,679	519,312	616,337
Net worth	405,836	487,667	538,300	635,324
Minority Interest	28,489	28,563	26,869	25,865
Loan funds	64,618	616,708	553,708	471,708
Net deferred tax liability	-9,442	-32,574	-32,574	-32,574
Other non current liabilities	8,448	34,163	34,163	34,163
Total Liabilities	497,949	1,134,527	1,120,466	1,134,486
Gross Block	621,717	1,571,687	1,636,687	1,786,687
Less: Depreciation	213,101	282,942	414,544	554,631
Net block	408,616	1,288,745	1,222,143	1,232,056
Investment	100,074	17,185	17,185	17,185
Current Assets	58,328	112,074	118,844	168,771
Inventories	484	2,139	3,023	4,359
Sundry debtors	13,757	54,929	59,779	64,402
Cash & bank balance	6,234	9,572	5,873	37,670
Loans & advances	10,578	9,650	12,295	14,565
Other current assets	27,275	35,784	37,875	47,774
Current lia & Prov	130,279	285,475	310,304	336,271
Current liabilities	129,325	284,295	309,022	334,881
Provisions	954	1,180	1,283	1,390
Net current assets	-71,951	-173,401	-191,460	-167,501
Other non current assets	10,114	1,998	2,598	2,746
Total Assets	497,949	1,134,527	1,120,466	1,134,486

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
Core EBITDA Margin	40.4	33.5	34.9	36.2
Net Margin	21.9	12.6	12.4	14.2
ROCE	26.0	12.1	10.7	14.5
ROE	24.5	12.7	12.4	16.5
RoIC	28.1	13.1	11.2	15.8
Per Share Data (Rs)				
EPS (adjusted)	24.0	15.9	17.7	26.7
CEPS	39.9	42.8	52.3	63.6
BVPS	114.4	136.0	148.9	174.2
DPS	1.0	1.0	1.0	1.0
Valuations (x)				
PER	17.8	26.8	24.1	16.0
P/CEPS	10.7	10.0	8.2	6.7
P/BV	3.4	2.8	2.6	2.2
EV / Sales	4.3	3.8	3.0	2.5
EV / EBITDA	10.5	11.2	8.6	6.9
Gearing Ratio (x)				
Net Debt/ Equity	0.1	1.2	1.0	0.7
Net Debt/EBITDA	0.4	3.1	2.2	1.6

Recommendation History: Bharti Airtel – BHARTI IN

Date	Reports	Reco	CMP	Target
25/07/2011	Bharti Airtel Event Update	Accumulate	411	464
05/05/2011	Bharti Airtel Q4FY11 Result Update	Hold	358	406
02/02/2011	Bharti Airtel Q3FY11 Result Update	Hold	323	345
11/11/2010	Bharti Airtel Q2FY11 Result Update	Hold	328	345

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/08/2011	Sterlite Technologies Q1FY12 Result Update	Hold	50	51
29/07/2011	Idea Cellular Q1FY12 Result Update	Accumulate	94	105
29/07/2011	Tulip Telecom Q1FY12 Result Update	Buy	157	218
29/07/2011	Jagran Prakashan Q1FY12 Result Update	Buy	114	149

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