

Analyst:

Abhishek Gupta
abhishekq@bajajcapital.com

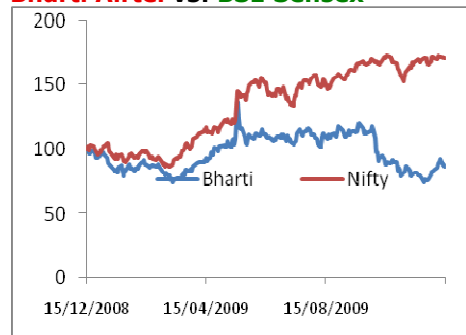
Reviewed by:

Alok Agarwala
aloka@bajajcapital.com

BUY

CMP (23.12.09) : **Rs. 326.25**
Target : **Rs. 419.00**
Upside Potential : **28.4%**
Horizon : **6-8 mths**

Bharti Airtel vs. BSE Sensex



Bharti Airtel Limited

Bharti Airtel is Asia's leading provider of telecommunication services with presence in all the 22 Circles in India, and in Sri Lanka. It has an aggregate of 113,439,670 customers as of September 30, 2009 of whom 110,511,416 subscribe to GSM services and 2,928,254 use Telemedia Services either for voice and/or broadband access delivered through DSL. It also offers DTH and IPTV Services. The company also deploys, owns and manages passive infrastructure pertaining to telecom operations under its subsidiary Bharti Infratel Limited. Bharti Infratel owns 42% of Indus Towers Limited. Bharti Infratel and Indus Towers are the two top providers of passive infrastructure services in India. In a market of nearly 500 million mobile subscribers, Airtel continues to be the market leader with over 110 million users, maintaining a market share of about 25%.

Post closure of MTN deal the stock plummeted by more than 30% from its closing high in last one year. The stock has majorly underperformed the broader market which rose by ~ 20% during the period.

Bharti Airtel has a strong balance sheet of assets worth more than \$13 billion and is the only telecom company to have positive free cash flows in FY09. In fact the company has enjoyed free cash flows in 3 out of last 5 years. This reflects highly on the ability of the company to finance its expansion plans through internal accruals. The stock looks promising in the light of current tariff price war in the telecommunication services segment and on expectations of a consolidation in the industry in the future.

Key Investment Arguments

Better placed to acquire and monetize 3G spectrum: Looking at its strong balance sheet, Bharti is better placed as compared to its peers to acquire 3G spectrum. It also fares well in the high-end subscriber segment (as reflected from its comparatively higher ARPUs) which will help in the adoption of 3G services once launched.

Company	Net Sales(TTM)	EBITDA (TTM)	APAT (TTM)	EBITDAM	APATM
	Rs.cr.	Rs.cr.	Rs.cr.	%	%
Bharti Airtel	35789.1	14107.4	9076.7	39.4	25.4
Rel Comm	12445.8	3651.4	1100.4	29.3	8.8
Idea Cellular	11004.1	3008.2	1170.7	27.3	10.6
TTML	1943.1	540.5	-208.6	27.8	-10.7

Unviable Business strategy: Be it lack of brand pull or lack of access to quality distribution channel or a frequency (1800 MHz) which has high operating cost attached with it, Pricing is the only tactic, which competitors of Bharti Airtel can pursue to acquire customers.

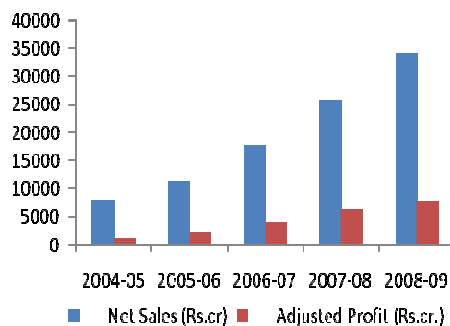
Brief Profile

Industry	Telecom Service provider	
House	Bharti	
CMP – 23.12.09 (Rs.)	326.25	
Mkt. Cap (Rs cr)	123875.8	
Face Value (Rs.)	5.0	
52 week (Rs)	High	518.0
	Low	270.6
Book value (Rs)	72.8	
P/BV (ttm)	4.5	
P/E Ratio (ttm)	13.6	
Last Dividend (%)	185.0	
Avg. daily volume	1763147	

Shareholding Pattern

	30-Sep-09 (%)
Promoters	67.7
Indian	45.3
Foreign	22.4
Non Promoters	32.3
FII/DFI	18.4
FI/MF	8.1
Public	5.8
Total	100.0

Strong growth in revenues and profits



Further, given the late entrant disadvantage, these new operators are banking either on the churn of low-end customers or second phone users. Hence, they get only a small share of existing customer's wallet. Given the prevailing tariff viewed against significant differential of cost structures between new operators and present operators, the new players do not seem to have any viable business model.

Non-Mobile Businesses: To expand its non-mobile businesses, Bharti has recently announced a strategic business alliance with Cisco to help expand their market coverage in rapidly growing managed services market and pursue leadership in B2B segments. The company plans to consolidate its telemedia business going forward which saw flat revenues quarter on quarter. However the company has been able to maintain the EBITDA margin of 40%.

What differentiates Bharti Airtel from its competitors: It has a network rollout with over 1 lac sites, healthy combination of 900-1800 Megahertz Spectrum, over 100,000 route Km of fiber optic, 83% of population coverage which is far ahead of any other operator, widest distribution network with presence of over 1.5 million retailers, excellent customer service with customer satisfaction scores ahead of competition and strong leadership talent pool. This proves that Bharti's execution is far superior to other operators and finally a strong brand appeal across 240 million households in urban and rural districts. Collectively all of these put Airtel in a much superior position of strength vis-à-vis its competitors. The company has its capex plan intact for the year and plans to spend \$2-2.2 billion in the current year.

Total customer base for Bharti increased to 113.4 million (as on September 30) with an addition of 8.2 million subscribers in the last quarter. Mobile segment increased to 110 million and Telemedia to 2.9 million. The customer market share stands at 23.5% (Mobile market share) despite strong competition.

Positive free Cash Flows: Bharti is the only company in the Telecom sector to have positive cash flows for FY2009. It has enjoyed positive free cash flows in three out of the last 5 years. Since FY05 the aggregate of free cash flows has been positive, showing that the growth in the company has been majorly/entirely funded by internal accruals. Hence in the current scenario Bharti is better placed than its competitors to absorb the impact of the ongoing tariff war in the industry. Companies with negative cash flows cannot go on forever with the price war. Negative cash flows over a long term will either lead to poor quality of services or consolidation within the industry. Bharti is likely to be a key beneficiary in both the scenarios.

Growth without equity dilution: Bharti has grown at a 4 year CAGR of 44%. The stock has shown impressive growth without diluting its equity significantly since its public issue and without raising significant debt. The growth becomes even more

impressive as the capital expenditure has been done majorly from internal accruals.

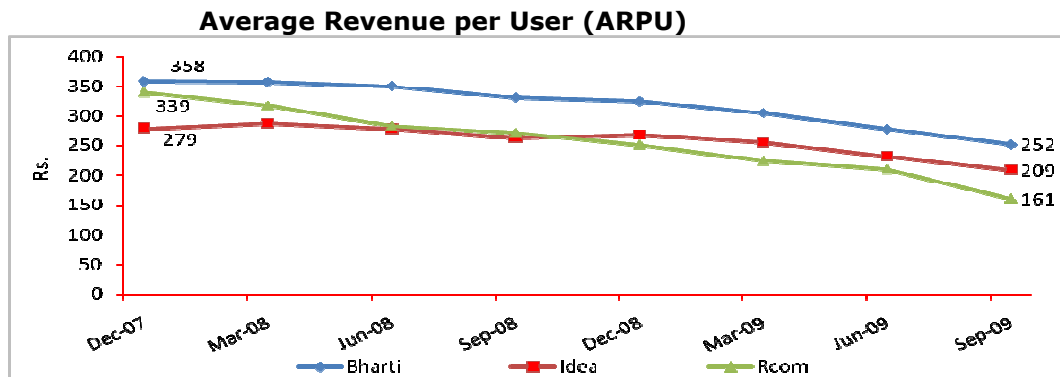
Company	Price(as on 15 th Dec)	P/E	Debt/Equity	EPS	Cash Flow from Operation	Cash Flow from Investing	Free Cash Flows
	Rs.				Rs.cr.	Rs.cr.	Rs.cr.
Bharti Airtel	319.6	13.4	0.30	23.9	11853.2	-10894.0	959.1
Rel Comm	181.3	34.0	0.67	5.3	1887.8	-7650.5	-5762.8
Idea Cellular	58.3	15.4	0.95	3.8	1863.7	-7655.4	-5791.6
TTML	26.7	-	-0.74	0.0	381.7	-578.6	-196.9

Strong Balance Sheet: The Company has a strong balance sheet possessing Assets worth over \$13 billion and debts to the extent of only \$200 million.

ARPU for Bharti remain the best in the industry despite decline: Bharti Airtel recorded a 1% qoq de-growth in its Top-line in 2QFY2010, owing to a significant decline of 9.4% qoq in Mobile revenues per user per month (ARPUs). ARPU for Bharti stood at Rs. 252 in 2QFY2010. The mobile subscriber base was up by 8% qoq and stood at 110.5mn as at 2QFY2010 end. Despite this, Bharti has got the highest ARPU in the industry as seen in the graph below. Moreover the fall in ARPU since Dec '07 has been the lowest in Bharti (-29.6%) as compared to its peers, Rel Com (-38.3%) & Idea Cellular (-42.3%)

Average Revenue Per User (ARPU) (Rs.)

	Bharti Airtel	Idea Cellular	Reliance Communication
	Rs.	Rs.	Rs.
Sep-09	252	209	161
Jun-09	278	232	210
Mar-09	305	255	224
Dec-08	324	268	251
Sep-08	331	263	271
Jun-08	350	278	282
Mar-08	357	287	317
Dec-07	358	279	339



Growth being led by robust subscriber additions: On a yoy basis, consolidated top line grew by 16.0%, backed by a strong growth of 43% in the mobile subscriber base, while the ARPUs declined by 24%. Telemedia Services grew by 1% yoy, as growth

in fixed-line subscribers remained negligible. Enterprise Services growth remained negative yoy (-2%), as pricing remained under pressure.

Passive Infrastructure Services segment lends support:

Bharti Infratel, a subsidiary of Bharti Airtel, had 29,112 towers (ex-Indus) with a tenancy ratio of 1.49x. Indus Towers, in which Bharti Infratel holds a 42% stake, had 1,00,728 towers with a tenancy ratio of 1.61x. Together they cover almost 83% of the population. The passive infrastructure services segment has seen a steady growth in tenancy. It has started contributing to the bottom line of the company and remains an important factor in the expansion plans of Bharti Airtel in the hitherto under penetrated rural areas.

Following table shows the steady growth in the sharing factor quarter on quarter. Higher sharing factor leads to higher tenancy.

Tenancy Ratio

Quarterly	Bharti Infratel	Indus tower
Mar-08	1.22	-
Jun-08	1.22	-
Sep-08	1.26	-
Dec-08	1.34	-
Mar-09	1.34	1.48
Jun-09	1.43	1.48
Sep-09	1.49	1.61

Key Concerns

Tariff War: Indian telecom industry is in the midst of a tariff war. Telecom industry is now grappling with the overcapacity created by new players. In 2007, the Government allotted licenses to new players, including Unitech, Datacom, Loop telecom, and Swan Telecom. Tariff war is expected to intensify as existing players try to match the lower rates offered by new entrants. This has already hit the margins of the telecom industry but we believe such move is likely to trigger consolidation forcing the weakest players to either sell out or raise rates to levels sustainable enough to survive. Bharti despite having concerns over its margins in the near term is the best placed player among peers with an exception of being the only one to have free cash flows among all the operators. It is likely to come out relatively unscathed from the current price war owing to its size, brand appeal and balance sheet strength.

Conclusion

On the basis of our research, we feel that this is a good stock to buy at the current market price of Rs. 317.1. If everything goes well, the price is likely to appreciate to Rs.419.00, within 6-8 months, translating into a gain of about 28.4%.

Financials (standalone)

(Rs. in cr)

	H1 201009	200903	200803	200703	200603	200503	4 yr CAGR %
Share Capital	1898.4	1898.2	1897.9	1895.9	1893.9	1853.4	
Networth		27641.8	20239.4	11411.1	7331.3	4528.8	
Revenues	17942.2	34014.3	25703.5	17851.6	11231.5	7903.0	44.0
EBITDA	7163.8	13516.2	10746.9	7265.5	4069.6	2900.6	46.9
APAT	4984.5	7531.4	6195.8	4002.0	1999.5	1182.5	58.9
Operating Cash Flows		11853.2	10459.9	8108.0	4631.3	3005.9	
Free Cash Flows		959.1	-1125.6	132.9	-453.1	675.6	
Dividend %	0.0	20.0	0.0	0.0	0.0	0.0	
CEPS (Rs.)		57.4	49.6	33.7	18.8	12.0	
EPS (Rs.)*	13.1	20.2	16.5	10.6	5.3	0.3	
Debt-Equity Ratio		0.3	0.4	0.5	0.8	0.6	
Interest Coverage Ratio	-	4.8	12.5	15.8	10.7	5.9	
RoNW %		32.4	39.5	43.0	31.8	23.9	
EBITDA Margin %	39.9	39.7	41.8	40.7	36.2	36.7	
APAT Margin %	27.8	22.1	24.1	22.4	17.8	15.0	
Total Asset Turnover Ratio		0.6	0.6	0.5	0.4		
Fixed Asset Turnover Ratio		1.5	1.3	1.1	1.0		
Price/Sales	3.5						
PE Multiple	13.6						
P/BV Ratio	4.5						

*EPS for H1FY10 is absolute and not annualized

Financials (consolidated)

(Rs. in cr)

	H1 201009	200903	200803	200703	200603	200503	4 yr CAGR %
Share Capital	1898.4	1898.2	1897.9	1895.9	1893.9	1853.4	
Networth		29125.8	21722.3	11456.3	7348.1	4529.7	
Revenues	20785.1	37352.1	27012.2	18481.6	11670.2	8112.3	46.5
EBITDA	8509.6	15570.2	11391.3	7437.0	4213.2	2945.2	51.6
APAT	5000.2	7633.4	6349.6	4031.5	2016.1	1183.6	59.4
Operating Cash Flows		13711.6	12324.4	8466.4	4869.9	3509.8	
Free Cash Flows		-1463.8	-6097.4	123.9	-432.9	615.4	
Dividend %	0.0	20.0	0.0	0.0	0.0	0.0	
CEPS (Rs.)		66.7	52.5	34.6	19.5	12.2	
EPS (Rs.)*	13.2	21.0	17.1	10.8	5.4	3.3	
Debt-Equity Ratio		0.4	0.4	0.5	0.8	1.1	
Interest Coverage Ratio	-	4.7	13.0	16.1	10.8	6.0	
RoNW %		30.3	37.8	43.0	31.9	23.7	
EBITDA Margin %	40.9	41.7	42.2	40.2	36.1	36.3	
APAT Margin %	24.1	20.4	23.5	21.8	17.3	14.6	
Total Asset Turnover Ratio		0.5	0.6	0.5	0.4		
Fixed Asset Turnover Ratio		1.0	1.0	1.1	1.0		
Price/Sales	3.0						
PE Multiple	13.8						
P/BV Ratio	4.3						

*EPS for H1FY10 is absolute and not annualized

Information Sources

1. ISI Emerging Markets
2. Capitaline Plus

Disclaimer: This document has been prepared by Bajaj Capital Centre for Investment Research (BCCIR), a unit of Bajaj Capital Limited (BCL). BCL and its subsidiaries and associated companies form an integrated unit imparting investment banking, investment advisory and brokerage services in stocks, mutual funds, debt, real estate, personal finance etc. Our research analysts and sales persons provide important input into our investment banking and advisory activities.

This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The information contained herein is from publicly available data or other sources believed to be reliable. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved). The investment discussed or views expressed may not be suitable for all investors.

Affiliates of BCL may have issued other reports that are inconsistent with and reach to a different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject BCL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

BCL & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. BCL and affiliates may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall BCL, 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. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of BCL and affiliates.

This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. BCL will not treat recipients as customers by virtue of their receiving this report.

Disclosure of interest:

1. BCL and its affiliates have not received compensation from the company covered herein in the past twelve months for Issue Management, Capital Structure, Mergers & Acquisitions, Buyback of shares and other corporate advisory services.
2. Affiliates of BCL are currently not having any mandate from the subject company.
3. BCL and its affiliates do not hold paid up capital of the company.
4. The Equity Analyst and his/her relatives/dependents hold no shares of the company covered as on the date of publication of research on the subject company.

© Copyright in this document vests exclusively with BCL.

**Bajaj Capital Centre for Investment Research
Bajaj Capital Ltd
97, Bajaj House, Nehru Place
New Delhi 110019
Tel 4169 3000, 4169 2900, Ext. 1516**

Email: bccir@bajajcapital.com