

Bharti Airtel Ltd (Q4 FY08)

April 28, 2008

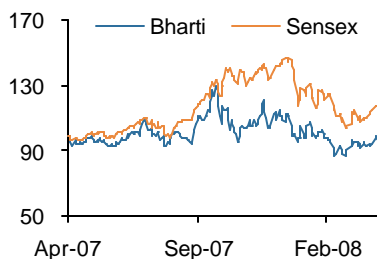
Stock data

Sensex:	17,126
CMP (Rs):	922
Target price (Rs):	1,123
Upside (%):	21.8
52 Week h/l (Rs):	1,184/701
Market cap (Rs cr)	1,62,356
6m Avg vol BSE&NSE ('000 nos):	8,854
No of o/s shares (mn):	1,926
FV (Rs):	10
Bloomberg code:	BHARTI IN
Reuters code:	BRTI.BO
BSE code:	532454
NSE code	BHARTIARTL

Shareholding pattern

March 2008	(%)
Promoters	65.9
Flls & institutions	30.7
Non promoter corp hold	2.0
Others	1.4

Share price trend



- Revenues increase 13.1% qoq driven by 12.4% qoq subscriber growth; FY08 subscriber adds up 67%
- Q4 wireless margins fall 360bps yoy on transfer of passive infrastructure to Infratel
- Q4 PAT higher by 32.9% qoq on lower interest cost

Financial highlights

Rs mn	Q4 FY08	qoq (%)	yoy (%)	FY08	yoy (%)
Revenues	78,637	13.1	46.7	270,122	46.6
Expenditure	(46,743)	15.6	47.6	(158,610)	42.2
Op.profit	31,894	9.8	45.4	111,512	53.5
Other Inc.	663	(2.2)	77.2	2,796	149.9
Interest	(3,045)	(38.6)	620.7	(5,279)	112.1
Depreciation	(9,350)	(5.2)	33.7	(35,914)	46.7
PBT	20,162	35.2	35.3	73,116	56.3
Tax	(761)	83.6	(49.9)	(8,162)	43.7
PAT	19,401	33.9	45.0	64,954	58.0
Min.Interest	(412)	97.7	110.3	(1,000)	107.5
Adj. PAT	18,989	32.9	44.0	63,954	57.4
Equity	18,979			18,979	
EPS (Rs)	40.0*			33.7	

Source: Company

*Annualized

Ends FY08 with 67% jump in mobile base

Bharti ended FY08 with nearly 62mn wireless subscribers giving it a 23.4% market share. Although ARPU was flat qoq, it declined 12% yoy as incremental additions have been mostly in the low ARPU rural and semi urban areas. Minutes of Usage per subscriber, however, jumped 7% qoq, the largest in the past three years on account of tariff rationalization (maximum call rate of 1 Re) and higher usage by lifetime customers which formed a substantial 37% of the subscriber base.

FY08 margins improve on lower access charges, staff costs

Operating margins in FY08 improved by 185bps yoy as access charges and staff costs declined. In Q4, Bharti transferred passive infrastructure worth Rs82bn to Bharti Infratel. This, coupled with increased marketing spends to acquire new customers and tariff rationalization led to 360bps yoy drop in mobile margins.

Consolidated segment revenues

Period to	Q4 FY08	qoq	yoy	FY08	yoy
Rs mn	(3)	(%)	(%)	(12)	(%)
Mobile	64,321	13.8	51.6	218,697	54.9
Telemedia services	7,656	4.9	26.1	28,615	27.2
Long Distance	12,609	10.4	24.7	43,798	25.3
Enterprise services	4,376	30.9	68.8	13,885	49.2
Passive Infra. services	6,023			6,023	

Source: Company

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Strong capex led growth, tower JV key positives: BUY

Bharti has guided for a capex of US\$2.5bn ex-Infratel business in FY09 and plans to ramp up population coverage to 80-85%. We expect a CAGR of 29% in wireless subscribers over next two years (103mn by FY10E), while sales and earnings would grow at a compounded rate of 27.4% and 35.9% respectively over the same period.

We value Bharti's core wireless business on a DCF basis with 12.1% WACC and terminal growth of 3% for a price of Rs943. With Infratel and Indus combine likely to add about 35,000 towers in FY09 and assured tenancy on Indus, the tower JV, we put the value of tower arm at US\$8.7bn, or Rs180 per share of Bharti. At our target price of Rs1,123, Bharti trades at a P/E of 18.3x and EV/EBIDTA of 8.3x FY10E earnings.

As network coverage reaches a majority of population, mobile capex would gradually decline which implies company would have significant free cash flows going forward (estimated US\$3.1bn by FY10) that could be used for inorganic growth or to bid aggressively in 3G auctions. Recommend BUY.

Bharti valuations

	Rs/share
Core wireless business	943
Infratel (including Indus stake)	180
Target price	1,123

Source: India Infoline Research

Financial snapshot

y/e March, Rs mn	FY07	FY08E	FY09E	FY10E
	(12)	(12)	(12)	(12)
Revenues	184,202	270,122	379,414	438,711
yoy growth (%)		46.6	40.5	15.6
Operating profit	74,344	111,512	157,229	182,666
OPM (%)	40.4	41.3	41.4	41.6
PAT	40,621	63,954	99,546	118,197
yoy growth (%)		57.4	55.7	18.7
EPS (Rs)	21.1	33.2	51.7	61.4
P/E (x)	43.7	27.8	17.8	15.0
P/BV (x)	15.5	9.9	6.4	4.5
EV/EBITDA (x)	24.5	16.3	11.2	9.3
ROE (%)	35.4	35.8	35.8	29.8
ROCE (%)	30.4	33.5	37.2	32.5

Source: Company, India Infoline Research

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