Bharti Airtel

Q3 FY10 Earnings Review

Recommendation	**:**	**Marketperformer**
CMP	:	Rs 322
Target	**:**	**Rs 341**
Upside Potential	:	5.9%
Sensex	:	16,289

Sector	**:**	**Telecommunications**
Bloomberg code	:	BHARTI IN
Reuters Code	:	BRTI.BO

AT A GLANCE

Issued Equity Capital (Cr. Shrs)	:	379.68
Mkt. Cap (Rs. in Crs)	:	1,22,225
Major Shareholders		
Promoters (%)	:	67.41%
Free Float (%)	:	32.59%
Avg. Daily Vol. ('000)	:	2235

Background: Bharti Airtel is the flagship company of Bharti Enterprises. The business at Bharti Airtel is structured as four strategic business units - Mobile, Telemedia, Enterprise and Digital TV. The mobile business offers services in India and Sri Lanka. The Telemedia business provides broadband, IPTV and telephone services. The Enterprise business provides end-to-end telecom solutions to corporate customers and national and international long distance services to carriers. The Digital TV business provides DTH services across India. All these services are provided under the Airtel brand. Airtel's national high-speed optic fibre network currently spans over 118,337 Rkms across India. Airtel's international network infrastructure includes ownership of the i2i submarine cable system and consortium ownership in five global undersea cable systems, SEA-ME-WE 4, EIG, I-ME-WE, AAG and UNITY.

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Price elasticity drives traffic growth

Bharti Airtel's consolidated revenue for the quarter was at Rs 10,304 crore showing a marginal decline from Rs 10,355 crore in Q2 FY10. The operating metrics remained mixed. While the average realized rate per minute (ARPM) and average revenue per user (ARPU) dipped 7.8% and 8.6% QoQ, the Minutes of Usage (MoU) declined by just 0.9%, to 446 minutes compared to 450 minutes in the last quarter, thus showing elasticity to pricing. At the end of the quarter the company had 118.86 million GSM mobile customers on its network, which accounted for a market share of 22.7% of the all India mobile market. The company has added 8.35 million mobile customers during the quarter. Bharti's share of net additions was 15.9% of all India wireless subscriber net additions (18.6% in sequential quarter).

Drop in Operating Margins lower than expected

The operating profit for the quarter was at Rs 4,044 crore compared to Rs 4,223 crore in Q2 FY10. Higher marketing and administrative expenses drove the expenditure by 2%. Consequently the operating margin was down by 154 bps to 39.24%. The company has reported interest income of Rs 132 crore which includes forex gain of Rs 148.60 crore as against Rs 67.80 crore forex loss in Q2FY10. The provisioning for tax was higher by 10.5% QoQ. PAT was at Rs 2,237 crore down 0.77% QoQ.

Mobile Segment continues to witness drop in margins

The revenue from the mobile segment stood at Rs 7,980 crore down by 1.8% QoQ. The EBIT margins in the mobile business fell by 185 bps to 20.42%. Revenue from the Telemedia Services was flat at Rs 856 crore. However the EBIT margins in the Telemedia Services improved by 220 bps to 24.15%. The revenue from Enterprise Carrier segment decreased 4.18% QoQ to Rs 2068 crore. The EBIT margins in the Enterprise Carrier segment fell by 377 bps to 39.46%. Passive infrastructure business posted a strong performance with a 9.6% QoQ growth. The EBIT margins in the Passive infrastructure business improved by 243 bps to 39.46%. Total tower base of Indus was at 1,02,696 with a tenancy of 1.66 while Bharti Infratel had 29,806 towers with a tenancy of 1.57.

FY Mar (Rs Crore)	Turnover	EBITDA	Net Profit	EPS (Rs)	BVPS (Rs)	PE (X)	EV/EBIDTA (X)	D/E	ROE	ROCE
2009 A	37,352	14,973	7858.95	20.70	80.07	15.55	8.93	0.42	30.19%	27.13%
2010 E	40,800	15,944	9066.49	23.89	101.92	21.36	8.60	0.41	26.25%	21.45%
2011 E	42,889	16,727	9299.85	24.50	126.57	21.63	8.07	0.38	21.45%	18.04%

Warid Acquisition – positive in the long run

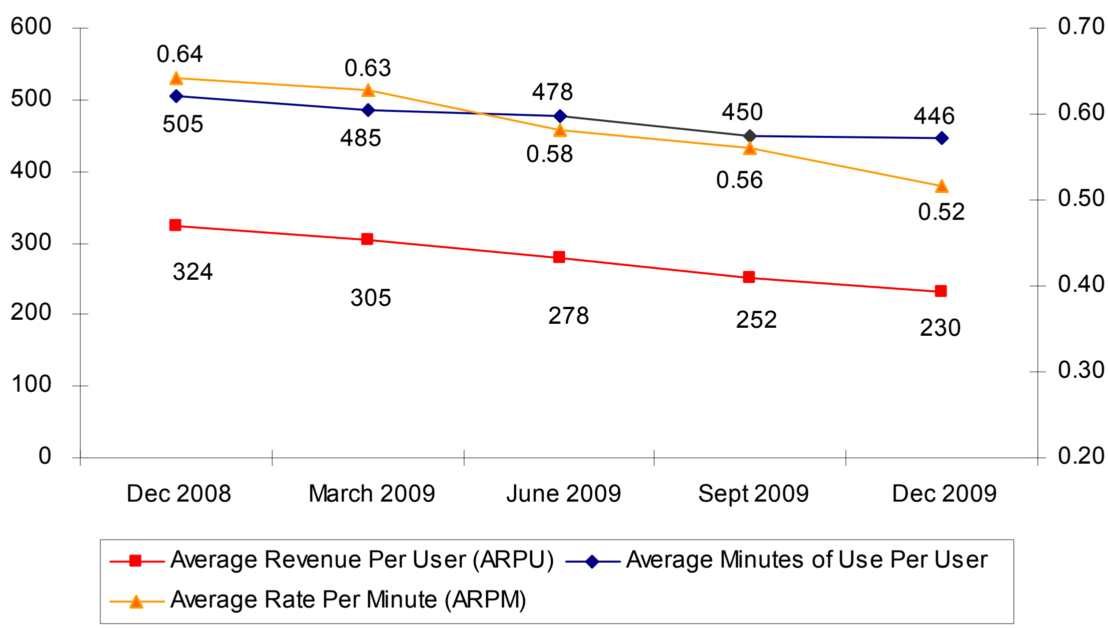
Bharti Airtel would acquire 70% stake in Warid Telecom, Bangladesh, currently a wholly owned subsidiary of the Dhabi Group. Under the agreement, Bharti Airtel will make a fresh investment of USD 300 million to rapidly expand the operations of Warid Telecom and will have management and board control of the company. Dhabi Group will continue as a strategic partner retaining 30% shareholding and have their nominees on the Board of Warid.

Warid Telecom offers mobile services across all the 64 districts of Bangladesh and has a total customer base of over 2.9 million. Warid is the fourth largest operator in Bangladesh with 2.92m subs and 5.8% subscriber market share in Nov 2009. Bangladesh mobile market has a penetration level of around 32% and there still exists significant growth potential. The Bangladesh mobile market is already competitive with six operators, resulting in declining tariffs and lower realization. We believe Bharti's experience in Indian market and its tested business model would work well in large population countries such as Bangladesh. Also SingTel has a 45% stake in Pacific Bangladesh Telecom and there could be some consolidation in the Bangladesh mobile sector.

Outlook & Valuation

Bharti Airtel has recorded flat performance during the quarter despite of tough price war prevailing in the sector. With 70% stake acquisition in Bangladesh, would strengthen Bharti's position in South East Asia. Going forward, the company would be looking for strategic acquisitions in other emerging markets. Back home the competition from new entrants is beginning to impact Bharti as reflected by increase in churn in pre-paid subscribers from 4.6% during Q2 FY10 to 6.5% during Q3 FY10. The headwinds faced by the telecom sector in terms of tariff pressures continue to persist. At CMP the stock is quoting at 8x its FY11E EV/EBITDA, we reiterate our Marketperformer rating on the stock with a revised price target of Rs 341.

Chart 1: Operating Metrics



Trending for Key Performance Indicators

Parameters	Unit	Dec 2009	Sept 2009	June 2009	March 2009	Dec 2008
Consolidated						
Customers	000's	121,853	113,440	105,196	96,649	88,270
Employees	No.	18,201	18,598	23,789	24,538	25,553
Mobile services						
Customers	000's	118,864	110,511	102,368	93,923	85,651
Pre-paid customers as a % of total customers	%	95.3%	95.2%	94.7%	94.2%	93.5%
Post-paid customers as a % of total customers	%	4.7%	4.8%	5.3%	5.8%	6.5%
Bharti's mobile subscribers market share	%	22.7%	23.5%	24.0%	24.0%	24.7%
Average Revenue Per User (ARPU)	Rs.	230	252	278	305	324
Average Rate Per Minute (ARPM)	Rs	0.52	0.56	0.58	0.63	0.64
Average Minutes of Use Per User	Minutes	446	450	478	485	505
Post-paid Voluntary Churn	%	1.0%	0.9%	1.2%	1.2%	1.1%
Post-paid Company Initiated Churn	%	0.9%	1.0%	1.3%	1.4%	1.2%
Pre- paid Churn	%	6.5%	4.6%	3.5%	3.2%	2.9%
SMS Revenue as a % of Total Mobile Revenues	%	6.0%	4.9%	4.3%	3.7%	4.1%
Employees	No.	7,185	7,322	7,646	7,832	8,115
Telemedia Services						
Customers	000's	2,989	2,928	2,828	2,726	2,619
Average Revenue Per User (ARPU)	Rs.	964	989	1,027	1,071	1,098
Employees	No.	4,473	4,705	9,514	10,022	10,827
Enterprise Services						
Employees	No.	3,046	3,191	3,364	3,646	3,701
Others						
Employees	No.	2,655	2,604	2,539	2,418	2,330
Passive Infrastructure Services						
Employees	No.	842	776	726	620	580

Q3 FY10 Results summary and comments

Particulars (in Rs. Crs)	Q3 FY10	Q2 FY10	QoQ	Q3 FY09	YoY	Comments
Revenues	**10304.95**	**10355.16**	**-0.48%**	**9667.37**	**6.60%**	
Expenses	6261.23	6132.52	**2.10%**	5791.52	**8.11%**	
EBIDTA	**4043.72**	**4222.64**	**-4.24%**	**3875.85**	**4.33%**	
Depreciation	1591.45	1499.68	**6.12%**	1248.79	**27.44%**	
Other Income	22.62	37.9	**-40.32%**	21.13	**7.05%**	
Interest	-131.88	159.71	**-182.57%**	457.56	**-128.82%**	Includes forex gain of Rs 148.60 crore against Rs 67.80 crore forex loss in Q2FY10
PBT	2606.77	2601.15	**0.22%**	2190.63	**19.00%**	
Tax	327.14	296.08	**10.49%**	167.14	**95.73%**	
Extraordinary income	0	0	**-**	0	**-**	
Adjusted PAT	**2236.90**	**2254.17**	**-0.77%**	**1976.41**	**13.18%**	
EBIDTA margin	39.24%	40.78%	22 bps	40.09%	-85 bps	
EffectiveTax rate	12.55%	11.38%		7.63%		
Net profit margin	21.71%	21.77%	-6 bps	20.44%	126 bps	

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STOCK RATING: Outperformer: > 20% upside over the next 12 months; Marketperformer: trade within a +/-20% range over the next 12 months; Underperformer: > 20% downside over the next 12 months.