Bharti Airtel

Performance highlights

(₹ cr)	3QFY11	2QFY11	% chg (qoq)	Angel est.	Var. (%)
Net sales	15,756	15,215	3.6	15,787	(0.2)
EBITDA	4,982	5,121	(2.7)	5,399	(7.7)
EBITDA margin (%)	31.6	33.7	(210)bp	34.2	(260)bp
PAT	1,303	1,661	(21.6)	1,535	(15.1)

Source: Company, Angel Research

Steady revenue growth: For 3QFY2011, Bharti Airtel reported consolidated revenue of ₹15,756cr with steady growth of 3.6% qoq (v/s our estimate of ₹15,787cr). This was on the back of a marginal decline in minutes of usage (MOU) to 449min (v/s our estimate of 456min) in Mobile–India and South Asia business. This was the second full quarter of Zain's consolidation, with revenue increasing to ₹4,053cr due to strong 7% qoq growth in MOU to 120min v/s 112min in 2QFY2011, but ARPM fell by 7.6% qoq to 0.061US$/min. Other segments such as enterprise services and passive infrastructure grew by 0.8% and 3.8% qoq, respectively; however, the telemedia services declined by 0.5% qoq.

EBITDA margins slip due to one-time rebranding cost: During the quarter, the company's consolidated EBITDA margins declined by 210bp to 31.6% on the back of one-time rebranding cost. The standalone India business posted a robust performance, reporting EBITDA margins of 33.5%. Margins of the Africa business stood at 20.8%.

Outlook and valuation: The trend witnessed in the average revenue per user (ARPU) over the past eight quarters points towards easing price war and decreasing price elasticity in the Indian mobile market. We expect the strong operating cash flow from the organic business to help the company to deleverage its balance sheet from current debt to equity of 1.2x to 0.9x in FY2012. Also, we expect a turnaround in Africa business, on the back of various outsourcing initiatives taken by the company to aid its margins. We expect the Indian mobile subscriber base for the company to grow at an 18.5% CAGR over FY2010–12E to 179mn subscribers. We recommend Accumulate on the stock with a Target Price of ₹360, valuing the stock at EV/EBITDA of 7x FY2012E.

Key financials (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	36,962	44,995	59,902	72,000
% chg	36.8	21.7	33.1	20.2
Net profit	8,615	12,166	6,134	8,525
% chg	27.3	41.2	(49.6)	39.0
EBITDA margin (%)	41.4	44.3	33.9	35.0
EPS (₹)	22.7	32.0	16.4	22.5
P/E (x)	14.3	10.1	19.7	14.4
P/BV (x)	4.0	2.9	2.6	2.2
RoE (%)	33.1	33.5	13.7	16.6
RoCE (%)	26.7	26.0	11.3	11.4
EV/Sales (x)	3.6	2.9	2.9	2.3
EV/EBITDA (x)	8.7	6.5	8.6	6.6

Source: Company, Angel Research

ACCUMULATE

CMP	₹323
Target Price	₹360
Investment Period	12 Months

Stock Info	
Sector	Telecom
Market Cap (₹ cr)	122,757
Beta	0.8
52 Week High / Low	377/254
Avg. Daily Volume	874,610
Face Value (₹)	5
BSE Sensex	18,091
Nifty	5,432
Reuters Code	BRTI.BO
Bloomberg Code	BHARTI@IN

Shareholding Pattern (%)	
Promoters	68.2
MF / Banks / Indian FIs	8.7
FII / NRIs / OCBs	17.3
Indian Public / Others	5.8

Abs. (%)	3m	1yr	3yr
Sensex	(11.1)	11.9	(0.8)
Bharti Airtel	(1.8)	5.3	(28.8)

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Exhibit 1: 2QFY2011 – Financial performance (Consolidated, IFRS)

(₹ cr)	3QFY11	2QFY11	% chg(qoq)	3QFY10	% chg(yoy)	9MFY11	9MFY10	% chg(yoy)
Net revenue	**15,756**	**15,215**	*3.6*	**10,306**	*52.9*	**43,202**	**20,793**	*107.8*
Operating Expenditure	10,775	10,094	*6.7*	6,228	*73.0*	28,611	12,195	*134.6*
EBITDA	4,982	5,121	*(2.7)*	4,079	*22.1*	14,591	8,598	*69.7*
Depreciation & Amortisation	2,711	2,579	*5.1*	1,588	*70.7*	7,236	3,000	*141.2*
EBIT	2,271	2,542	*(10.7)*	2,491	*(8.8)*	7,355	5,598	*31.4*
Interest Charges	748	332	*125.3*	(27)	*(2,910.9)*	1,499	80	*1,773.0*
Non operating expenditure	0	0	*0.0*	0	*33.3*	24	18	*33.0*
Other Income	26	17		18		93	48	
PBT	1,549	2,227	*(30.5)*	2,535	*(38.9)*	5,925	5,549	*6.8*
Income Tax	337	568	*(40.7)*	298	*13.0*	1,279	1,004	*27.5*
PAT	1,212	1,659	*(26.9)*	2,237	*(45.8)*	4,646	4,545	*2.2*
Share in earnings of associate	0	0	*0.0*	0	*100.0*	1	0	*250.0*
Minority Interest	(90)	(2.3)	*3830.4*	40.7	*(322.1)*	(77.4)	131.7	*(158.8)*
Adj PAT	**1,303**	**1,661**	*(21.6)*	**2,196**	*(40.7)*	**4,723**	**4,413**	*7.0*
EPS	3.4	4.4	*(21.6)*	6.0	*(42.4)*	12.2	18.3	*(33.2)*
EBITDA margin (%)	31.6	33.7	*(210)bp*	39.6	*(800)bp*	33.8	41.4	*(760)bp*
EBIT margin (%)	14.4	16.7	*(230)bp*	24.2	*(980)bp*	17.0	26.9	*(990)bp*
PAT margin (%)	8.3	10.9	*(260)bp*	21.3	*(1300)bp*	10.9	21.2	*(1030)bp*

Source: Company, Angel Research

Steady revenue growth

For 3QFY2011, Bharti Airtel's reported numbers were in line with our expectations. The consolidated revenue came in at ₹15,756cr, with steady qoq growth of 3.6% (v/s our estimate of ₹15,787cr).

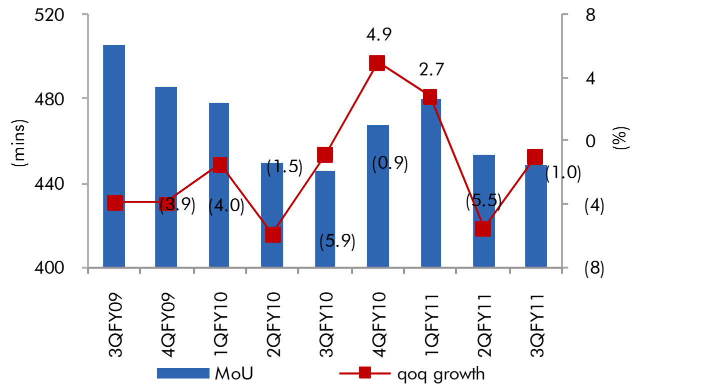
Exhibit 2: Revenue break up

Business segment (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
Mobile services–India & South Asia	9,146	8,805	*3.9*	8,070	*13.3*
Mobile services–Africa	4,053	3,891	*4.2*	-	-
Telemedia services	907	912	*(0.5)*	855	*6.1*
Enterprise services	1,050	1,042	*0.8*	1,105	*(4.9)*
Passive infrastructure services	2,197	2,116	*3.8*	1,841	*19.4*
Others	279	226	*23.6*	141	*97.7*
Eliminations	1,876	1,776	*5.6*	1,726	*8.7*
Net revenue	**15,756**	**15,215**	*3.6*	**10,285**	**53.2**

Source: Company, Angel Research

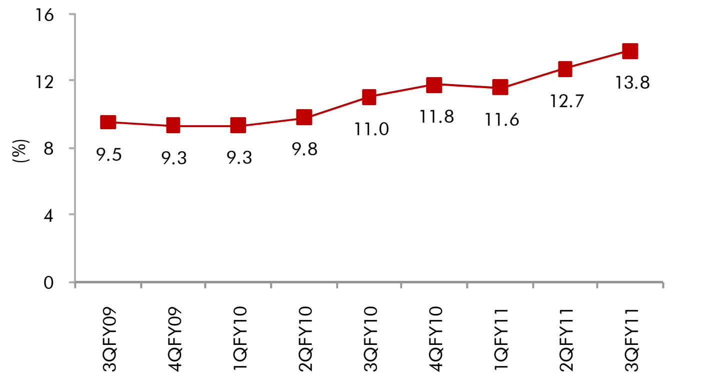
Mobile – India and South Asia: Revenue of the Mobile – India and South Africa business came in lower at ₹9,146cr on the back of a marginal decline in MOU to 449min (v/s our estimate of 456min). However, the decline in average revenue per minute (ARPM) was marginal at 1% qoq to 0.44₹/min (v/s our expectation of 0.44₹/min). This was on the back of easing competition as well as significant improvement in VAS share supporting the overall ARPM. Thus, the fall in MOU primarily impacted ARPU, pulling it down by 2% qoq to ₹198. In 3QFY2011, the company added 64.7mn SIM as compared to 52.3mn in 2QFY2011.

Exhibit 3: Trend in MOU (qoq)



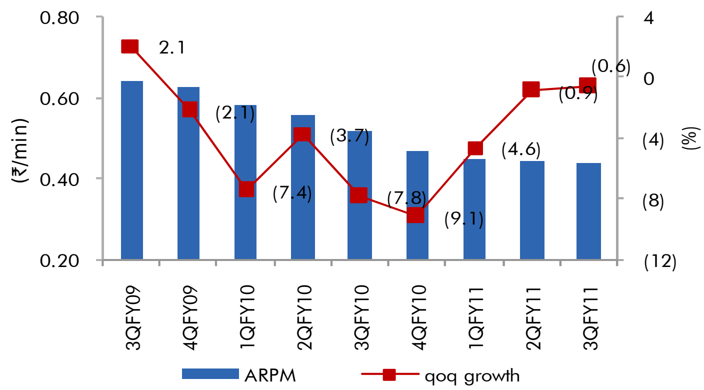
Source: Company, Angel Research

Exhibit 4: Trend in VAS share (qoq)



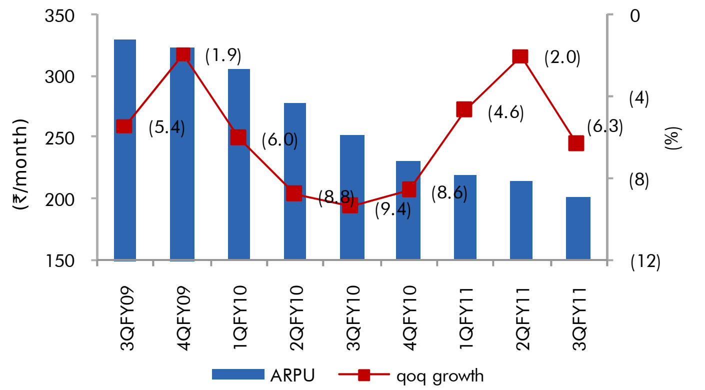
Source: Company, Angel Research

Exhibit 5: Trend in ARPM (qoq)



Source: Company, Angel Research

Exhibit 6: Trend in ARPU (qoq)



Source: Company, Angel Research

Mobile – Africa business: This was the second full quarter of Zain's (Africa business) consolidation. During the quarter, the Africa business reported 4.2% qoq growth in revenue to ₹4,053cr on the back of strong 7% qoq growth in MOU to 120min as against 112min in 2QFY2011, but ARPM declined by 7.6% qoq to 0.061US$/min. This highlights the high price elasticity behaviour in the African market. In 3QFY2011, net subscriber addition was strong for the Africa business at 2.04mn, taking total subscribers to 42.1mn.

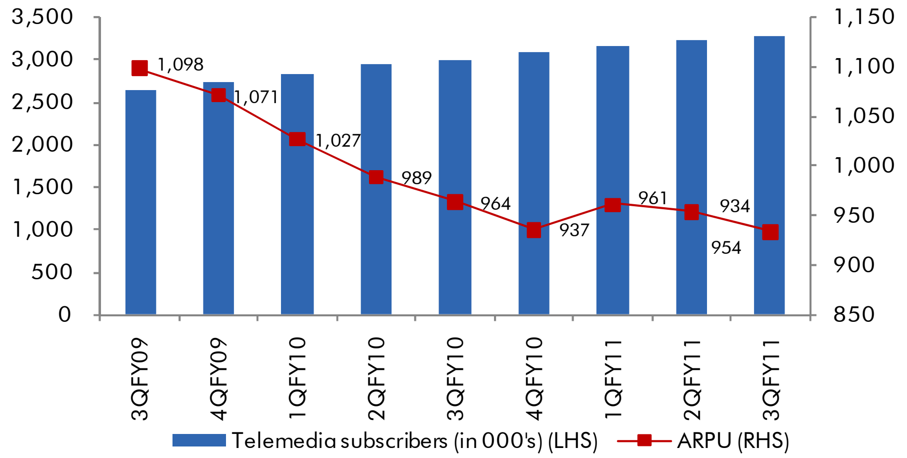
Exhibit 7: KPIs – Africa business

	3QFY2011	2QFY2011	% qoq
ARPM (US ¢/min)	6.10	6.60	*(7.6)*
MOU (mins)	120	112	*7.1*
ARPU (US$/month)	7.3	7.4	*(1.4)*
Subscriber base (mn)	42.1	40.1	*5.0*

Source: Company, Angel Research

Telemedia services: During 3QFY2011, revenue of the telemedia business declined by 0.5% qoq to ₹907cr on the back of sluggish net addition in subscriber base at 41,055 (v/s 63,208 in 2QFY2011 and 60,291 in 3QFY2010), with ARPU declining to ₹934 (v/s ₹954 in 2QFY2011 and ₹964 in 3QFY2010).

Exhibit 8: Telemedia – Subscribers and ARPU trend (qoq)

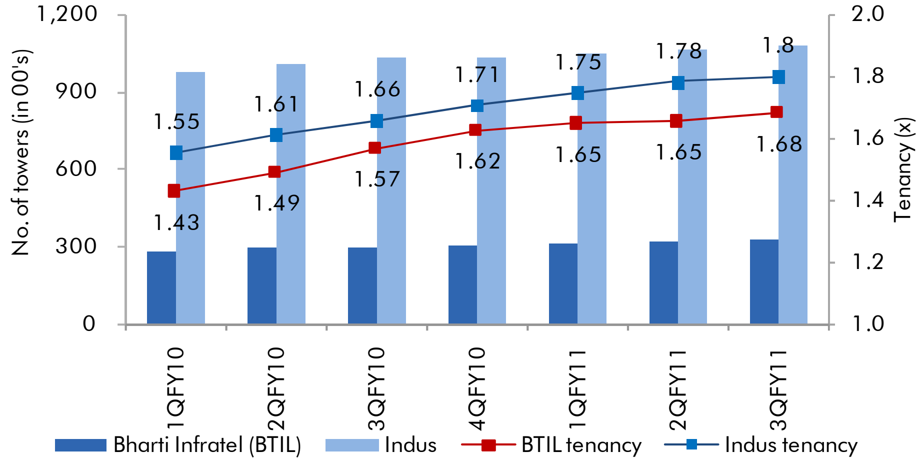


Source: Company, Angel Research

Enterprise services: During 3QFY2011, the enterprise services business grew by 0.8% qoq, down 4.9% yoy, reporting revenue of ₹1,050cr.

Passive infrastructure services: During the quarter, the passive infrastructure services business grew by 3.8% qoq to ₹2,197cr. Growth in the business can be attributed to improvement in tenancy ratio to 1.75 (v/s 1.73 in 2QFY2011).

Exhibit 9: Trend in passive infrastructure business (qoq)



Source: Company, Angel Research

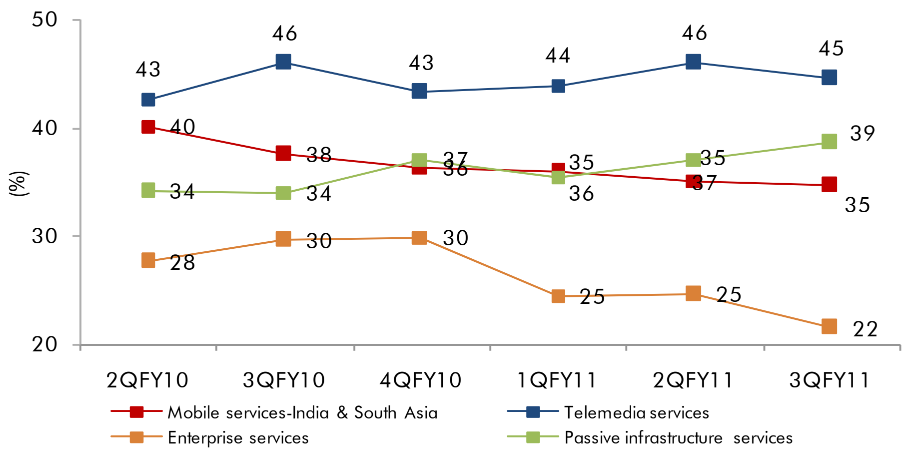
EBITDA margins slip due to one-time branding expense

During the quarter, the company's consolidated EBITDA margins declined by 210bp to 31.6% on the back of one-time rebranding cost. Margins of the Africa business stood at 20.8%.

The Mobile – India and South Asia business posted a robust performance, reporting EBITDA margins of 35% despite a fall in MOU. This was on the back of a marginal decline in ARPM due to higher VAS share as well as operating gains due to lower proportion of access charges and abating license fees.

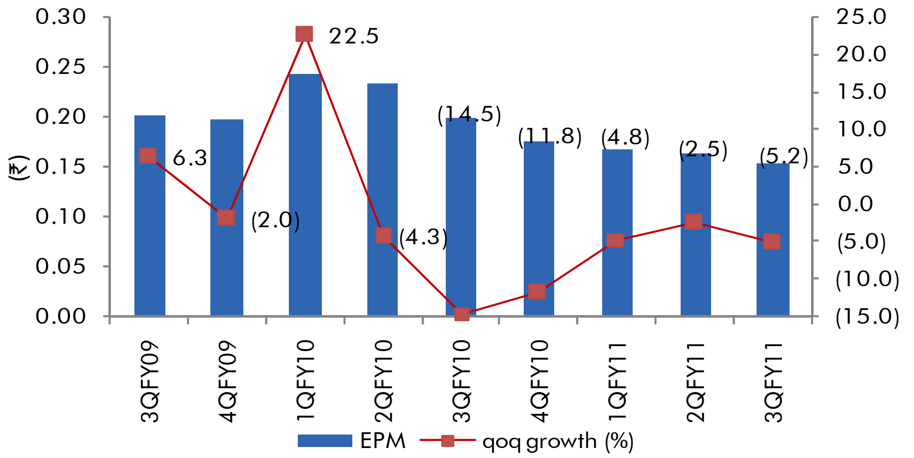
The passive infrastructure business witnessed a 486bp qoq expansion in EBITDA to 38.6% during the quarter.

Exhibit 10: Segment-wise EBITDA margin trend (qoq)



Source: Company, Angel Research

Exhibit 11: Trend in EPM – Mobile – India & South Asia (qoq)



Source: Company, Angel Research

Investment arguments

Competition easing off

The decline in ARPU run rate over the quarters has abated to a great extent. ARPU has been declining since the onset of the price war in 3QFY2009. The company's ARPU witnessed a ~₹25 qoq decline in absolute terms till 3QFY2010, post which the decline run-rate settled down at lower ~₹10 qoq. This envisages that the hyper competition intensity, which haunted the industry, is abating. Going forward, we expect MOU to hold on and ARPMs to marginally decline from current levels as the improving VAS share will arrest its downside.

Strong cash flows from the organic business to help debt management

The Mobile – India and South Asia business along with other businesses such as telemedia and passive infrastructure is operationally strong, contributing more than 85% to the company's EBITDA. Easing competition in the Mobile – India and South Asia business and improving operating metrics due to lower NOE will drive the strong operating cash flows. Also, with Telcos looking at cutting cost via sharing of passive infrastructure, the scope for improvement in tenancy ratio as well as an uptick in sharing revenue per sharing operator per month will aid margins. Also, capex, which had peaked in 1HFY2011, will drop down to ~₹11,500cr from FY2012. Hence, we expect the strong operational cash flow from the India business to help the company to deleverage its balance sheet from the current debt-to-equity of 1.2x to 0.9x in FY2012.

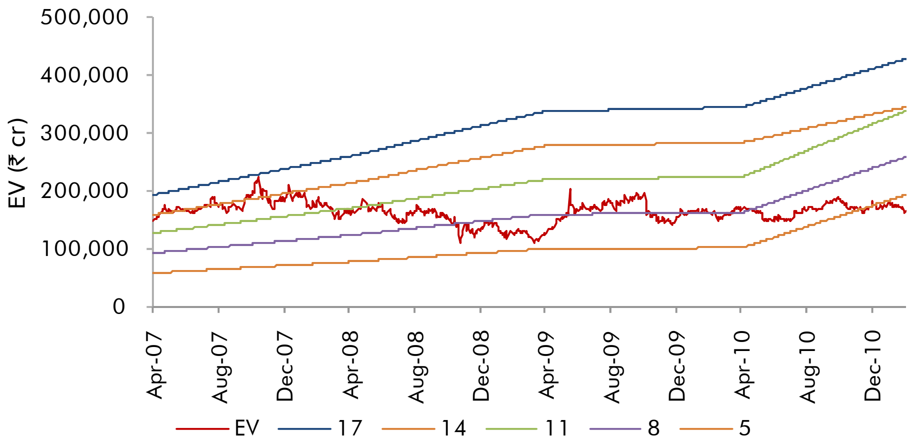
Turnaround in Africa to aid profitability

Turnaround in the Africa business will also aid profitability. The company is focussing on growing this business via exploiting the high-price elasticity nature of the African market. Also, the company has undertaken various outsourcing initiatives to cut down on Zain-Africa's network operating expenses as well as employee cost. We expect Zain's EBITDA to scale up to 26.6% in FY2012.

Outlook and valuation

We expect the Indian mobile subscriber base for the company to grow at an 18.5% CAGR over FY2010–12E to 179mn subscribers and revenue to grow at an 11% CAGR. For the Africa business, we expect decent subscriber net additions, taking the subscriber base to 53mn in FY2012 from the current 42mn. **We recommend Accumulate on the stock with a Target Price of ₹360, valuing the stock at EV/EBITDA of 7x FY2012E.**

Exhibit 12: One-year forward EV/EBITDA (x)



Source: Company, Angel Research

Exhibit 13: Valuation

(₹ cr)	FY2012E
EBITDA	25,213
Target EV/EBITDA (x)	7.0
Target EV	176,490
Debt	49,628
Cash	9,848
Target Mcap	136,710
Target price (₹)	360

Source: Company, Angel Research

Exhibit 14: Key assumptions

	FY2009	FY2010	FY2011E	FY2012E	% CAGR
ARPM (₹/min)	0.64	0.53	0.45	0.45	(11.1)
MOU (min) – EOP	485	468	449	460	(1.8)
Subscriber base (mn) – EOP	93.9	127.6	158.5	182.5	24.8

Source: Company, Angel Research

Exhibit 15: Change in estimates

	FY2011E			FY2012E		
Parameter (₹ cr)	Earlier estimates	Revised estimates	Variation (%)	Earlier estimates	Revised estimates	Variation (%)
Net revenue	59,368	59,902	0.9	71,069	72,000	1.3
EBITDA	20,520	20,332	(0.9)	25,113	25,213	0.4
Other income	138	129	(6.7)	55	124	124.6
PBT	8,130	7,783	(4.3)	10,952	11,121	1.5
Tax	1,824	1,726	(5.4)	2,409	2,574	6.9
PAT	6,292	6,134	(2.5)	8,522	8,525	0.0

Source: Company, Angel Research

Profit and Loss account (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**36,962**	**44,995**	**59,902**	**72,000**
Roaming and access charges	5,290	4,481	7,437	9,051
% of net sales	*14.3*	*10.0*	*12.4*	*12.6*
Network operating expenditure	5,936	9,003	12,733	14,468
% of net sales	*16.1*	*20.0*	*21.3*	*20.1*
License fee	3,827	4,088	5,128	5,954
% of net sales	*10.4*	*9.1*	*8.6*	*8.3*
Other expenses	6,596	7,513	14,272	17,314
Total expenditure	21,649	25,084	39,570	46,787
% of net sales	*58.6*	*55.7*	*66.1*	*65.0*
EBITDA	**15,313**	**19,911**	**20,332**	**25,213**
% of net sales	*41.4*	*44.3*	*33.9*	*35.0*
Depreciation and amortisation	4,758	6,284	10,589	12,124
Non operating expenses	22	(18)	(23)	-
EBIT	10,533	13,646	9,766	13,088
Interest charges	2,762	18	2,112	2,091
Other Income, net	1,753	70	129	124
Profit Before Tax	9,523	13,698	7,783	11,121
Provision for Tax	662	1,345	1,726	2,574
% of PBT	*6.9*	*9.8*	*22.2*	*23.1*
PAT	**8,862**	**12,353**	**6,057**	**8,547**
Share in earnings of associate	(71)	-	-	-
Minority interest	176	187	(77)	22
Profit after minority interest	**8,615**	**12,166**	**6,134**	**8,525**
Fully diluted EPS (₹)	22.7	32.0	16.4	22.5

Balance sheet (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Liabilities				
Share Capital	1,898	1,899	1,899	1,899
Reserves & Surplus	28,496	40,295	45,488	53,125
Total shareholders' funds	**30,394**	**42,194**	**47,387**	**55,023**
Minority Interest	1,070	2,529	3,200	3,200
Secured Loans	5,399	8,147	50,000	42,000
Unsecured Loans	6,481	2,042	5,000	7,628
Total Debt	**11,880**	**10,190**	**55,000**	**49,628**
Other Liabilities	1,816	4,926	7,500	8,000
Total Liabilities	**45,161**	**59,838**	**113,087**	**115,851**
Assets				
Gross Block - Fixed Assets	54,981	69,725	96,484	108,484
Accumulated Depreciation	14,067	21,462	32,051	44,175
Net Block	40,914	48,263	64,434	64,309
Goodwill	4,036	5,989	64,000	63,000
Investments	**3,805**	**7,075**	**1,878**	**3,000**
Current Assets				
Inventories	96	48	200	250
Sundry debtors	2,853	3,571	4,103	4,932
Cash and cash equivalents	1,115	2,532	2,448	6,848
Other Current Assets	6,552	2,366	2,500	3,500
Total Current Assets	10,615	8,518	9,251	15,530
Less:- Current Liabilities	15,155	10,841	22,441	25,893
Less:-Provisions	79	41	134	195
Net Current Assets	**(4,619)**	**(2,364)**	**(13,324)**	**(10,559)**
Net deferred tax	-	875	3,900	3,900
Miscellaneous expenditure	1,024	1,750	-	-
Total Assets	**45,161**	**59,838**	**113,087**	**115,851**

Cashflow statement (Consolidated, IFRS)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Pre tax profit from operations	7,771	13,628	7,654	10,997
Depreciation	4,758	6,284	10,589	12,124
Expenses (deffered)/written off/others	-	-	-	-
Pre tax cash from operations	12,529	19,912	18,243	23,122
Other income/prior period ad	1,753	70	129	124
Net cash from operations	14,282	19,981	18,372	23,245
Tax	(662)	(1,345)	(1,726)	(2,574)
Cash profits	**13,620**	**18,636**	**16,632**	**20,651**
(Inc)/Dec in				
Current assets	(3,609)	3,515	(817)	(1,879)
Current liabilities	1,755	(4,352)	11,693	3,513
Net trade working capital	(1,854)	(837)	10,876	1,634
Cashflow from operating activities	**11,766**	**17,799**	**27,508**	**22,285**
(Inc)/Dec in fixed assets	(14,331)	(13,633)	(26,760)	(12,000)
(Inc)/Dec in intangibles	(12)	(1,953)	(51,922)	998
(Inc)/Dec in investments	1,014	(3,270)	5,197	(1,122)
(Inc)/Dec in net Deferred Tax asset	-	(875)	(3,025)	-
(Inc)/Dec in Minority interest	215	1,458	672	-
(Inc)/Dec in other non-current assets	(514)	837	1,750	-
Cashflow from investing activities	**(13,628)**	**(17,435)**	**(74,088)**	**(12,124)**
Inc/(Dec) in debt	2,174	(1,690)	44,810	(5,373)
Inc/(Dec) in equity/premium	272	78	(444)	(444)
Others	297	3,110	2,574	500
Dividends	444	444	444	444
Cashflow from financing activities	**2,299**	**1,054**	**46,496**	**(5,761)**
Cash generated/(utilised)	**437**	**1,418**	**(84)**	**4,401**
Cash at start of the year	678	1,115	2,532	2,448
Cash at end of the year	1,115	2,532	2,448	6,848

Key ratios

Y/E March	FY2009	FY2010	FY2011E	FY2012E
Valuation ratio (x)				
P/E (on FDEPS)	14.3	10.1	19.7	14.4
P/CEPS	9.2	6.7	7.3	5.9
P/BVPS	4.0	2.9	2.6	2.2
Dividend yield	0.3%	0.3%	0.3%	0.3%
EV/Sales	3.6	2.9	2.9	2.3
EV/EBITDA	8.7	6.5	8.6	6.6
EV/Total assets	3.0	2.2	1.5	1.4
Per share data (₹)				
EPS	22.7	32.0	16.4	22.5
Cash EPS	35.3	48.6	44.1	54.4
Dividend	1.0	1.0	1.0	1.0
Book value	80.1	111.2	124.9	145.1
Dupont analysis				
Tax retention ratio (PAT/PBT)	0.9	0.9	0.8	0.8
Cost of debt (PBT/EBIT)	0.9	1.0	0.8	0.8
EBIT margin (EBIT/Sales)	0.3	0.3	0.2	0.2
Asset turnover ratio (Sales/Assets)	0.8	0.8	0.5	0.6
Leverage ratio (Assets/Equity)	1.5	1.4	2.4	2.1
Operating ROE	28.3	28.8	12.9	15.5
Return ratios (%)				
RoCE (pre-tax)	26.7	26.0	11.3	11.4
Angel RoIC	30.5	29.9	19.9	28.3
RoE	33.1	33.5	13.7	16.6
Turnover ratios (x)				
Asset turnover (fixed assets)	0.9	0.9	0.7	0.6
Receivables days	28	26	23	23
Payable days	238	189	153	189

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DISCLAIMER

Disclosure of Interest Statement	**Bharti Airtel**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	*Buy (> 15%)* Reduce (-5% to 15%)	*Accumulate (5% to 15%)* Sell (< -15%)	*Neutral (-5 to 5%)*