

# Bharti Airtel

BSE SENSEX  
17,602

S&P CNX  
5,337



|                       |            |
|-----------------------|------------|
| Bloomberg             | BHARTI IN  |
| Equity Shares (m)     | 3,793.9    |
| 52-Week Range (INR)   | 417/280    |
| 1,6,12 Rel. Perf. (%) | -9/-22/-31 |
| M.Cap. (INR b)        | 1,115.4    |
| M.Cap. (USD b)        | 20.2       |

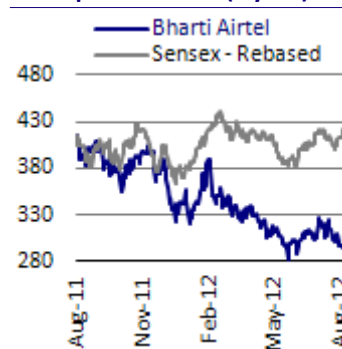
## Valuation summary (INR b)

| Y/E March     | 2012  | 2013E | 2014E |
|---------------|-------|-------|-------|
| Net Sales     | 714.5 | 805.3 | 879.2 |
| EBITDA        | 237.1 | 271.7 | 310.6 |
| NP            | 42.6  | 53.2  | 76.5  |
| EPS (INR)     | 11.2  | 14.0  | 20.2  |
| EPS Gr. (%)   | -29.6 | 24.9  | 43.7  |
| BV/Sh.        | 140.7 | 151.6 | 171.9 |
| P/E (x)       | 26.2  | 21.0  | 14.6  |
| P/BV (x)      | 2.1   | 1.9   | 1.7   |
| EV/EBITDA (x) | 7.4   | 6.5   | 5.3   |
| EV/Sales (x)  | 2.5   | 2.2   | 1.9   |
| RoE (%)       | 8.1   | 9.6   | 12.5  |
| RoCE (%)      | 6.2   | 6.8   | 7.9   |

## Shareholding pattern %

| As on     | Jun-12 | Mar-12 | Jun-11 |
|-----------|--------|--------|--------|
| Promoter  | 45.7   | 45.7   | 45.5   |
| Dom. Inst | 8.4    | 8.2    | 8.5    |
| Foreign   | 39.9   | 40.0   | 40.6   |
| Others    | 6.0    | 6.2    | 5.4    |

## Stock performance (1 year)



Investors are advised to refer through disclosures made at the end of the Research Report.

CMP: INR294

TP: INR370

Buy

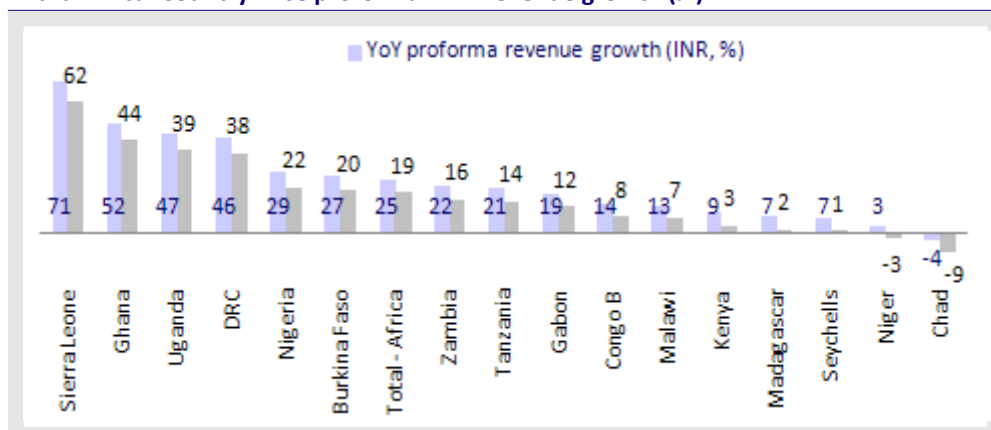
## Gearing up for data opportunity; Significant divergence in growth within Africa portfolio

Relatively high debt re-payment in FY13; forex/interest rates key swing factors

Bharti Airtel recently issued its FY12 annual report. Key Highlights:

- While Africa business proforma revenue growth at aggregate level remained strong at ~25% in INR terms (~19% in USD terms) in FY12, there was significant divergence in the performance at the individual country-level. As per our proforma estimates, Bharti Africa witnessed ~35%+ USD revenue growth in Sierra Leone, Ghana, Uganda, and DRC (together contribute 18% of Africa revenue). However, proforma revenue growth is estimated to be single-digit/negative for Chad, Niger, Seychelles, Madagascar, Kenya, Malawi and Congo B (together constitute 21% of Africa revenue).
- Gross debt remains largely USD denominated (70%) followed by INR (19%) and other currencies (11%). Debt schedule indicates relatively high re-payment in FY13 with 28% of overall gross debt (INR193b) having maturity period of less than one year. However leverage remains relatively comfortable with FY12 net debt/EBITDA at 2.75x.
- Only ~9% of the overall borrowings for Bharti are at a fixed rate implying that interest rates remain key earnings variable. Every 1% increase in USD (INR) interest rate would have impacted Bharti's FY12 PBT by INR4.8b (INR1b).
- Earnings sensitivity to exchange rate remains high as well with adverse impact of INR4.6b on FY12 PBT (7%) for a 5% appreciation in USD assuming all other variables remained constant.
- Contingent liabilities have increased significantly during FY12 largely due to increased tax-related disputes. Contingencies increased 81% YoY to INR55.5b in FY12.
- We expect 14% EBITDA CAGR for Bharti over FY12-14E. The stock trades at EV/EBITDA of 6.5x FY13E and 5.3x FY14E.
- Maintain Buy with a target price of INR370 based on 7.5x FY14 EV/EBITDA for India & SA business, 5x EV/EBITDA for Africa business and INR142b impact for potential regulatory outlay.

## Bharti Africa: Country-wise proforma FY12 revenue growth (%)



Source: Company, MOSL

**Quotes from message of Mr Sunil Bharti Mittal, Chairman and MD**

- **On emerging data-centric environment:** "At the industry level, telecom is in the midst of a tectonic shift. Data is clearly the future of mobile telecom and Airtel is gearing itself up for this. Still at an early stage of this shift, as voice continues to be the mainstay of the telecom industry, Airtel has taken some defining early initiatives to reinforce our leadership in the emerging data centric environment, much the same way as we enabled the 'voice revolution' in India."
- **On regulatory issues:** "We are hopeful that both the Regulator and the Government will finally come to a judicious auction-led pricing formula in the interest of the sector's financial health."
- **On Africa business:** "In Africa, the individual country operations stabilized considerably both in terms of customer addition rate, revenue growth and brand salience. Operating margins too strengthened significantly, as benefits of the low cost business model started to kick in. Overall, it has been a very steady, upwardly moving learning curve for us in the continent readying us for the next round of growth."

**Quotes from message of Mr Manoj Kohli, CEO (International) and Jt. MD**

- **On Bharti's performance in Africa:** "Despite the tough economic environment in a few markets such as Malawi and Madagascar, we experienced growth in our Revenue Market Share and Brand preference."....."Fortunately for us, within 21 months the Airtel brand is already getting identified as a high quality service provider.....across 17 markets. I am sure this good start will result in stronger leadership in various African markets in the years to come."
- **On challenges in Africa:** "Africa still does present its unique challenges of dealing in 17 different geographies. Consequently, we have been executing a proactive plan of managing the complexities of dealing with 17 different currencies, tax regimes, regulations and cultures."

**Quotes from message of Mr Sanjay Kapoor, CEO (India & South Asia)**

- **On operating environment:** "The year 2011-12 has been an exceptionally challenging year for the telecom industry. Uncertainty and ambiguity arising out of the regulatory developments coupled with sustained hyper-competition is making this the toughest phase for the industry since its inception."
- **On VAS initiatives:** "Focusing on the high growth and revenue potential of data, we rolled out our 3G network across geographies giving exemplary 3G experience to our consumers in more than 1100 towns and cities. A pioneering service on the telecom network in India, Airtel Money (Semi Closed Wallet) was launched nationally in Feb'12 and is currently available in over 300 towns."
- **On Sri Lanka and Bangladesh operations:** "Sri Lanka and Bangladesh are on a growing trend after being integrated into the existing systems. In Sri Lanka, we transformed our position in the market to a youth brand and in Bangladesh we moved to the new E-GSM frequencies to improve our network performance and repositioned ourselves as a contemporary brand. With 65% network penetration in Bangladesh, we continue to invest in expanding our network reach and brand presence."

### FY12 Africa proforma revenue growth estimated at ~19% in USD (~25% in INR); significant divergence in growth rate at individual country-level

- Adjusting for partial consolidation of Africa business in FY11 (only 23 days consolidation in 1QFY11), we estimate FY12 proforma revenue growth of ~19% in USD terms and ~25% on INR basis.
- Country-level revenue disclosures indicate significant divergence in growth. Countries outperforming the overall Africa business with USD denominated revenue growth of 35%+ included Sierra Leone, Ghana, Uganda, and DRC. On the other hand Chad, Niger, Seychells, Madagascar, Kenya, Malawi and Congo B are estimated to have posted less than double-digit growth in USD terms.
- Top-5 African countries account for 67% of overall revenue base of Bharti Africa. Nigeria remains the biggest market with a revenue contribution of 34% followed by Zambia (10%), DRC (9%), Gabon (7%) and Tanzania (6%).

#### Bharti Africa: Key financials and other details of key subsidiaries (INR b)

|                              | Shareholding (%) |          | Turnover   |            | PAT        |            | Total Assets |            | Total Liabilities |            |
|------------------------------|------------------|----------|------------|------------|------------|------------|--------------|------------|-------------------|------------|
|                              | FY11             | FY12     | FY11       | FY12       | FY11       | FY12       | FY11         | FY12       | FY11              | FY12       |
| <b>Africa Subsidiaries</b>   |                  |          |            |            |            |            |              |            |                   |            |
| Burkina Faso                 | 100              | 100      | 5.0        | 7.5        | 0.3        | 1.1        | 10           | 16         | 5                 | 11         |
| Chad                         | 100              | 100      | 4.5        | 5.1        | -0.7       | -1.2       | 10           | 13         | 10                | 15         |
| Congo B                      | 90               | 90       | 6.5        | 8.8        | -0.8       | -1.0       | 11           | 13         | 6                 | 11         |
| DRC                          | 99               | 99       | 10.6       | 18.3       | -7.0       | -3.5       | 20           | 42         | 21                | 35         |
| Gabon                        | 90               | 90       | 10.1       | 14.2       | -3.5       | 4.2        | 10           | 16         | 5                 | 8          |
| Ghana                        | 75               | 75       | 4.7        | 8.4        | -4.4       | -3.5       | 17           | 18         | 23                | 27         |
| Kenya                        | 100              | 100      | 5.3        | 6.9        | -5.0       | -4.4       | 11           | 19         | 13                | 24         |
| Madagascar                   | 100              | 100      | 3.3        | 4.2        | 0.3        | -0.3       | 5            | 7          | 6                 | 9          |
| Malawi                       | 100              | 100      | 5.7        | 7.6        | 0.6        | 1.1        | 10           | 12         | 7                 | 8          |
| Niger                        | 90               | 90       | 6.5        | 7.9        | 0.1        | 0.6        | 9            | 15         | 5                 | 9          |
| Nigeria                      | 66               | 66       | 43.8       | 67.0       | -9.9       | -6.0       | 110          | 135        | 92                | 119        |
| Sierra Leone                 | 100              | 100      | 1.5        | 3.0        | -1.2       | 1.1        | 3            | 4          | 4                 | 5          |
| Tanzania                     | 60               | 60       | 8.1        | 11.6       | -3.7       | -2.9       | 20           | 24         | 18                | 24         |
| Uganda                       | 100              | 100      | 3.0        | 5.2        | -1.9       | -1.6       | 7            | 10         | 10                | 13         |
| Zambia                       | 96               | 96       | 13.0       | 18.8       | 1.3        | 3.0        | 17           | 21         | 7                 | 9          |
| Seychells                    | 100              | 100      | 0.4        | 0.8        | 0.1        | 0.2        | 1            | 1          | 0                 | 0          |
| <b>Total - Bharti Africa</b> | <b>-</b>         | <b>-</b> | <b>132</b> | <b>196</b> | <b>-35</b> | <b>-13</b> | <b>269</b>   | <b>367</b> | <b>235</b>        | <b>326</b> |

#### Bharti Africa: Country wise business contribution (%)

|                            | Shareholding (%) |          | Turnover   |            | PAT        |            | Total Assets |            | Total Liabilities |            |
|----------------------------|------------------|----------|------------|------------|------------|------------|--------------|------------|-------------------|------------|
|                            | FY11             | FY12     | FY11       | FY12       | FY11       | FY12       | FY11         | FY12       | FY11              | FY12       |
| Nigeria                    | 66               | 66       | 33         | 34         | 28         | 47         | 41           | 37         | 39                | 37         |
| Zambia                     | 96               | 96       | 10         | 10         | -4         | -23        | 6            | 6          | 3                 | 3          |
| DRC                        | 99               | 99       | 8          | 9          | 20         | 27         | 7            | 11         | 9                 | 11         |
| Gabon                      | 90               | 90       | 8          | 7          | 10         | -32        | 4            | 4          | 2                 | 2          |
| Tanzania                   | 60               | 60       | 6          | 6          | 10         | 23         | 7            | 6          | 8                 | 7          |
| Congo B                    | 90               | 90       | 5          | 4          | 2          | 7          | 4            | 4          | 3                 | 3          |
| Ghana                      | 75               | 75       | 4          | 4          | 13         | 27         | 6            | 5          | 10                | 8          |
| Niger                      | 90               | 90       | 5          | 4          | 0          | -5         | 3            | 4          | 2                 | 3          |
| Malawi                     | 100              | 100      | 4          | 4          | -2         | -8         | 4            | 3          | 3                 | 2          |
| Burkina Faso               | 100              | 100      | 4          | 4          | -1         | -9         | 4            | 4          | 2                 | 3          |
| Kenya                      | 100              | 100      | 4          | 4          | 14         | 34         | 4            | 5          | 5                 | 8          |
| Uganda                     | 100              | 100      | 2          | 3          | 5          | 12         | 3            | 3          | 4                 | 4          |
| Chad                       | 100              | 100      | 3          | 3          | 2          | 9          | 4            | 4          | 4                 | 4          |
| Madagascar                 | 100              | 100      | 2          | 2          | -1         | 2          | 2            | 2          | 3                 | 3          |
| Sierra Leone               | 100              | 100      | 1          | 2          | 3          | -8         | 1            | 1          | 2                 | 2          |
| Seychells                  | 100              | 100      | 0          | 0          | 0          | -2         | 0            | 0          | 0                 | 0          |
| <b>Airtel Africa total</b> | <b>-</b>         | <b>-</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b>   | <b>100</b> | <b>100</b>        | <b>100</b> |

Source: Company, MOSL

### FY12 gross debt at INR693b; 70% USD denominated; 28% has maturity period < 1 year

- As of FY12 USD denominated loans accounted for 70% of gross debt (73% in FY11), INR 19% (16% in FY11), and Others 11% (same as FY11).
- Bharti's consolidated debt schedule indicates relatively high re-payment in FY13 with INR193b (28% of overall gross debt) having maturity period of less than one year.
- Only ~9% of the overall borrowings for Bharti are at a fixed rate implying that interest rates remain a key earnings variable.
- Every 1% increase in USD (INR) interest rate would have impacted Bharti's FY12 PBT by INR4.8 (INR1b).
- However leverage remains comfortable with FY12 net debt/EBITDA at 2.75.

### Bharti Airtel: Consolidated gross debt currency denomination and maturity profile

| Currency of borrowing | Amount (INR b) |            |           | Borrowing mix (%) |            | Duration         | Loan amount (INRb) | Loan mix (%) |
|-----------------------|----------------|------------|-----------|-------------------|------------|------------------|--------------------|--------------|
|                       | FY11           | FY12       | YoY (%)   | FY11              | FY12       |                  |                    |              |
| INR                   | 101            | 134        | 33        | 16                | 19         | < 1 year         | 193                | 28           |
| USD                   | 454            | 484        | 6         | 73                | 70         | 1-2 years        | 82                 | 12           |
| JPY                   | 17             | 5          | -70       | 3                 | 1          | 2-5 years        | 406                | 59           |
| NGN                   | 35             | 48         | 37        | 6                 | 7          | > 5 years        | 12                 | 2            |
| XAF                   | 5              | 10         | 85        | 1                 | 1          | <b>Aggregate</b> | <b>693</b>         | <b>100</b>   |
| XOF                   | 2              | 5          | 144       | 0                 | 1          |                  |                    |              |
| Others                | 6              | 7          | 9         | 1                 | 1          |                  |                    |              |
| <b>Total</b>          | <b>621</b>     | <b>693</b> | <b>12</b> | <b>100</b>        | <b>100</b> |                  |                    |              |

Source: Company, MOSL

### High earnings sensitivity to USD exchange rate; significant increase in contingent liabilities largely led by government demands

- Bharti's earnings have a significant sensitivity to USD exchange rate.
- Assuming all other variables remaining constant, a 5% appreciation in USD would have impacted Bharti's FY12 PBT by ~INR4.6b (7%).
- Bharti continues to face significant demands from government related to various tax, duties etc.
- Contingent liabilities for the company increased 81% YoY to INR56b largely due to increased disputes related to income tax and sales/service tax.

### Tax, Duties and Other demands (under adjudication/appeal/dispute)

| As of  | March 2011 | March 2012 | YoY (%)   |
|--|------------|------------|-----------|
| - Sales Tax and Service Tax                              | 6.5        | 10.5       | 62        |
| - Income Tax   | 9.2        | 23.5       | 156       |
| - Access Charges/Port Charges                            | 3.9        | 4.8        | 22        |
| - Customs Duty   | 2.6        | 3.1        | 17        |
| - Entry Tax  | 3.9        | 4.3        | 11        |
| - Stamp Duty   | 0.6        | 0.6        | 7         |
| - Municipal Taxes  | 0.5        | 0.9        | 87        |
| - DoT demands  | 1.1        | 3.4        | 214       |
| - Other miscellaneous demands                            | 1.9        | 1.4        | -25       |
| - Claims under legal cases including arbitration matters | 0.6        | 3.0        | 412       |
| <b>Total</b>   | <b>31</b>  | <b>56</b>  | <b>81</b> |

Source: Company, MOSL

## Valuation and view

- We expect 14% EBITDA CAGR for Bharti over FY12-14E.
- The stock trades at EV/EBITDA of 6.5x FY13E and 5.3x FY14E.
- Maintain **Buy** with a target price of INR370 based on 7.5x FY14 EV/EBITDA for India & SA business, 5x EV/EBITDA for Africa business and INR142b impact for potential regulatory outlay.

### Bharti: Key assumptions and value drivers

| Mobile segment                                    | FY10        | FY11        | FY12        | FY13E       | FY14E       |
|---|-------------|-------------|-------------|-------------|-------------|
| <b>Mobile - India</b>                             |             |             |             |             |             |
| Subs (m)  | 128         | 162         | 181         | 200         | 212         |
| YoY (%)   | 36          | 27          | 12          | 10          | 6           |
| Average subs (m)                                  | 111         | 145         | 172         | 191         | 206         |
| YoY (%)   | 42          | 31          | 19          | 11          | 8           |
| Netadds per month (m)                             | 2.8         | 2.9         | 1.6         | 1.6         | 1.0         |
| YoY (%)   | 6           | 3           | -45         | -2          | -35         |
| Total mobile traffic (b min)                      | 610         | 792         | 889         | 998         | 1,073       |
| YoY (%)   | 28          | 30          | 12          | 12          | 7           |
| ARPU (INR/month)                                  | 243         | 201         | 188         | 186         | 190         |
| YoY (%)   | -25         | -17         | -6          | -1          | 2           |
| MOU   | 459         | 455         | 431         | 436         | 434         |
| YoY (%)   | -10         | -1          | -5          | 1           | -1          |
| Mobile RPM (INR)                                  | 0.53        | 0.44        | 0.44        | 0.43        | 0.44        |
| YoY (%)   | -17         | -17         | -1          | -2          | 3           |
| <b>Mobile EBITDA margin (%)</b>                   | <b>38.7</b> | <b>34.7</b> | <b>33.9</b> | <b>33.1</b> | <b>33.6</b> |
| <b>Mobile Capex (INR b)</b>                       | <b>34</b>   | <b>59</b>   | <b>32</b>   | <b>73</b>   | <b>40</b>   |
| <b>Mobile Capex/sales (%)</b>                     | <b>10</b>   | <b>16</b>   | <b>8</b>    | <b>17</b>   | <b>8</b>    |
| <b>Mobile - Africa</b>                            |             |             |             |             |             |
| Subs (m)  |             | 44          | 53          | 65          | 79          |
| YoY (%)   |             | 5           | 20          | 22          | 22          |
| Netadds per month (m)                             |             | 0.2         | 0.7         | 1.0         | 1.2         |
| ARPU (USD/month)                                  |             | 7.3         | 7.1         | 6.4         | 5.9         |
| YoY (%)   |             |             | -2          | -10         | -7          |
| <b>Capex (USD b)</b>                              |             | <b>0.9</b>  | <b>1.5</b>  | <b>1.0</b>  | <b>1.3</b>  |
| <b>Capex/Sales (%)</b>                            |             | <b>24</b>   | <b>37</b>   | <b>22</b>   | <b>25</b>   |
| <b>EBITDA margin (%)</b>                          |             | <b>25</b>   | <b>27</b>   | <b>29</b>   | <b>31</b>   |
| <b>Passive Infrastructure</b>                     |             |             |             |             |             |
| <b>Indus Towers</b>                               |             |             |             |             |             |
| Towers (000s)                                     | 103         | 109         | 109         | 113         | 117         |
| Cellsites (000s)                                  | 176         | 201         | 214         | 249         | 281         |
| Tenancy ratio (x)                                 | 1.7         | 1.9         | 2.0         | 2.2         | 2.4         |
| Sharing revenue per operator per month (INR 000s) |             | 29.5        | 31.3        | 28.7        | 27.8        |
| EBITDA margin (%)                                 |             | 26.6        | 28.5        | 30.0        | 31.9        |
| <b>Bharti Infratel</b>                            |             |             |             |             |             |
| Towers (000s)                                     | 31          | 33          | 33          | 35          | 37          |
| Cellsites (000s)                                  | 50          | 58          | 60          | 74          | 86          |
| Tenancy ratio (x)                                 | 1.6         | 1.8         | 1.8         | 2.1         | 2.3         |
| Sharing revenue per operator per month (INR 000s) | 37.2        | 37.0        | 37.3        | 36.5        | 35.2        |
| EBITDA margin (%)                                 | 46.2        | 48.1        | 47.8        | 49.5        | 51.4        |

Source: Company, MOSL

**Business mix**

|                             | FY10       | FY11       | FY12       | FY13E      | FY14E      |
|-----------------------------|------------|------------|------------|------------|------------|
| <b>Revenue (INR b)</b>      |            |            |            |            |            |
| Mobile                      | 331        | 363        | 403        | 442        | 488        |
| Telemedia                   | 34         | 36         | 37         | 37         | 38         |
| Enterprise                  | 45         | 41         | 45         | 45         | 45         |
| Passive Infrastructure      | 71         | 86         | 95         | 101        | 111        |
| Others                      | 6          | 10         | 16         | 19         | 22         |
| Africa                      | 0          | 131        | 198        | 245        | 267        |
| Total revenue               | 487        | 667        | 794        | 890        | 972        |
| Eliminations and others     | -68        | -72        | -80        | -84        | -93        |
| <b>Consolidated revenue</b> | <b>418</b> | <b>595</b> | <b>715</b> | <b>805</b> | <b>879</b> |
| YoY (%)                     | 13         | 42         | 20         | 13         | 9          |
| <b>EBITDA (INR b)</b>       |            |            |            |            |            |
| Mobile                      | 128        | 126        | 137        | 146        | 164        |
| Telemedia                   | 15         | 16         | 16         | 16         | 17         |
| Enterprise                  | 13         | 10         | 8          | 10         | 10         |
| Passive Infrastructure      | 25         | 32         | 36         | 40         | 46         |
| Others                      | -10        | -10        | -9         | -8         | -7         |
| <b>Total India &amp; SA</b> | <b>168</b> | <b>171</b> | <b>184</b> | <b>201</b> | <b>227</b> |
| Africa                      | 0          | 29         | 53         | 71         | 84         |
| Total revenue               | 170        | 202        | 240        | 275        | 314        |
| Eliminations and others     | -2         | -3         | -3         | -3         | -4         |
| <b>Consolidated EBITDA</b>  | <b>168</b> | <b>200</b> | <b>237</b> | <b>272</b> | <b>311</b> |
| YoY (%)                     | 11         | 19         | 19         | 15         | 14         |
| <b>Capex (INR b)</b>        |            |            |            |            |            |
| Mobile                      | 34         | 59         | 32         | 73         | 40         |
| Telemedia                   | 10         | 8          | 8          | 6          | 6          |
| Enterprise                  | 12         | 4          | 2          | 4          | 3          |
| Others                      | 16         | 14         | 9          | 5          | 5          |
| Passive infrastructure      | 12         | 23         | 14         | 12         | 12         |
| Africa                      | 0          | 36         | 76         | 54         | 67         |
| <b>Consolidated capex</b>   | <b>83</b>  | <b>143</b> | <b>140</b> | <b>155</b> | <b>134</b> |
| YoY (%)                     | -41        | 71         | -2         | 10         | -13        |
| <b>Capex/Sales (%)</b>      | <b>20</b>  | <b>24</b>  | <b>20</b>  | <b>19</b>  | <b>15</b>  |

Source: Company/MOSL

## Financials and Valuation

### Income Statement

(INR Million)

| Y/E March            | FY10           | FY11           | FY12           | FY13E          | FY14E          |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| Revenues             | 418,472        | 594,672        | 714,507        | 805,307        | 879,192        |
| Change (%)           | 13.2           | 42.1           | 20.2           | 12.7           | 9.2            |
| Total Expenses       | 250,839        | 395,007        | 477,385        | 533,580        | 568,604        |
| <b>EBITDA</b>        | <b>167,633</b> | <b>199,664</b> | <b>237,122</b> | <b>271,727</b> | <b>310,588</b> |
| % of Gross Sales     | 40.1           | 33.6           | 33.2           | 33.7           | 35.3           |
| Depn. & Amortization | 62,832         | 102,066        | 133,680        | 151,114        | 156,667        |
| EBIT                 | 104,800        | 97,598         | 103,442        | 120,613        | 153,920        |
| Net finance cost     | 178            | 21,813         | 38,185         | 40,637         | 36,124         |
| Other Income         | 468            | 998            | -73            | -80            | -87            |
| <b>PBT</b>           | <b>105,090</b> | <b>76,783</b>  | <b>65,184</b>  | <b>79,897</b>  | <b>117,709</b> |
| Tax                  | 13,453         | 17,790         | 22,602         | 26,585         | 35,058         |
| Rate (%)             | 12.8           | 23.2           | 34.7           | 33.3           | 29.8           |
| Minority Interest    | 1,870          | -1,475         | -13            | 102            | 6,174          |
| <b>Adjusted PAT</b>  | <b>89,767</b>  | <b>60,468</b>  | <b>42,595</b>  | <b>53,209</b>  | <b>76,478</b>  |

### Balance Sheet

(INR Million)

| Y/E March                      | FY10           | FY11             | FY12             | FY13E            | FY14E            |
|--------------------------------|----------------|------------------|------------------|------------------|------------------|
| Share Capital                  | 18,988         | 18,988           | 18,988           | 18,988           | 18,988           |
| Additional Paid up Capital     | 56,499         | 56,499           | 56,499           | 56,499           | 56,499           |
| Reserves                       | 346,453        | 412,181          | 430,626          | 473,432          | 544,322          |
| <b>Net Worth</b>               | <b>421,940</b> | <b>487,668</b>   | <b>506,113</b>   | <b>548,919</b>   | <b>619,809</b>   |
| Loans                          | 101,898        | 616,708          | 690,232          | 842,681          | 901,910          |
| Minority Interest              | 25,285         | 28,563           | 27,695           | 26,095           | 32,372           |
| Other Liabilities              | 45,018         | 28,078           | 31,920           | 33,168           | 33,430           |
| Deferred Tax Liability         | 7,980          | 18,572           | 18,861           | 20,400           | 20,669           |
| <b>Capital Employed</b>        | <b>602,121</b> | <b>1,179,589</b> | <b>1,274,821</b> | <b>1,471,262</b> | <b>1,608,190</b> |
| Gross Block                    | 761,040        | 1,599,377        | 1,776,560        | 1,931,273        | 2,065,310        |
| Less : Depreciation            | 218,521        | 310,634          | 440,740          | 532,315          | 727,311          |
| <b>Net Block</b>               | <b>542,519</b> | <b>1,288,743</b> | <b>1,335,820</b> | <b>1,398,959</b> | <b>1,338,000</b> |
| Other Non-Current Assets       | 30,736         | 64,244           | 86,711           | 89,600           | 88,803           |
| <b>Curr. Assets</b>            | <b>137,685</b> | <b>112,077</b>   | <b>148,084</b>   | <b>298,224</b>   | <b>498,057</b>   |
| Inventories                    | 484            | 2,139            | 1,308            | 1,431            | 1,551            |
| Debtors                        | 35,711         | 54,929           | 63,735           | 69,128           | 75,723           |
| Cash & Bank Balance            | 25,323         | 9,575            | 20,300           | 82,921           | 172,302          |
| Short-term investments         | 52,362         | 6,968            | 18,934           | 98,345           | 198,721          |
| Other Current Assets           | 23,805         | 38,466           | 43,807           | 46,399           | 49,759           |
| <b>Curr. Liab. &amp; Prov.</b> | <b>108,819</b> | <b>285,475</b>   | <b>295,795</b>   | <b>315,521</b>   | <b>316,668</b>   |
| Creditors                      | 107,702        | 249,737          | 243,461          | 258,234          | 262,182          |
| Other Current Liabilities      | 1,117          | 35,738           | 52,334           | 57,287           | 54,486           |
| <b>Net Curr. Assets</b>        | <b>28,866</b>  | <b>-173,398</b>  | <b>-147,710</b>  | <b>-17,297</b>   | <b>181,388</b>   |
| <b>Appl. of Funds</b>          | <b>602,121</b> | <b>1,179,589</b> | <b>1,274,821</b> | <b>1,471,262</b> | <b>1,608,190</b> |

E: MOSL Estimates

## Financials and Valuation

### Ratios

| Y/E March                | FY10        | FY11        | FY12        | FY13E       | FY14E       |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Basic (INR)</b>       |             |             |             |             |             |
| <b>EPS</b>               | <b>23.7</b> | <b>15.9</b> | <b>11.2</b> | <b>14.0</b> | <b>20.2</b> |
| Cash EPS                 | 40.2        | 42.8        | 46.5        | 53.9        | 61.5        |
| Book Value               | 117.9       | 136.1       | 140.7       | 151.6       | 171.9       |
| DPS                      | 1.0         | 1.0         | 1.1         | 1.4         | 2.0         |
| Payout %(Incl.Div.Taxes) | 4.2         | 6.3         | 10.0        | 10.0        | 10.0        |

### Valuation (x)

|                    |  |  |      |      |      |
|--------------------|--|--|------|------|------|
| P/E                |  |  | 26.2 | 21.0 | 14.6 |
| Cash P/E           |  |  | 6.3  | 5.5  | 4.8  |
| EV/EBITDA          |  |  | 7.4  | 6.5  | 5.3  |
| EV/Sales           |  |  | 2.5  | 2.2  | 1.9  |
| Price/Book Value   |  |  | 2.1  | 1.9  | 1.7  |
| Dividend Yield (%) |  |  | 0.4  | 0.5  | 0.7  |

### Profitability Ratios (%)

|      |      |      |     |     |      |
|------|------|------|-----|-----|------|
| RoE  | 23.6 | 12.6 | 8.1 | 9.6 | 12.5 |
| RoCE | 18.9 | 8.7  | 6.2 | 6.8 | 7.9  |

### Turnover Ratios

|                    |      |      |      |      |      |
|--------------------|------|------|------|------|------|
| Debtors (Days)     | 31   | 34   | 33   | 31   | 31   |
| Asset Turnover (x) | 1.01 | 0.78 | 0.65 | 0.70 | 0.77 |

### Leverage Ratio

|                     |     |     |     |     |     |
|---------------------|-----|-----|-----|-----|-----|
| Net Debt/Equity (x) | 0.1 | 1.2 | 1.2 | 1.2 | 0.8 |
|---------------------|-----|-----|-----|-----|-----|

### Cash Flow Statement

(INR Million)

| Y/E March                   | FY10            | FY11            | FY12            | FY13E           | FY14E           |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Op.Profit/(Loss) bef Tax    | 167,633         | 199,664         | 237,122         | 271,727         | 310,588         |
| Other Income                | 468             | 998             | -73             | -80             | -87             |
| Interest Paid               | -178            | -21,813         | -38,185         | -40,637         | -36,124         |
| Direct Taxes Paid           | -29,761         | -37,970         | -25,730         | -27,305         | -34,598         |
| (Inc)/Dec in Wkg. Cap.      | 26,518          | 120,819         | -18,280         | 7,285           | -6,277          |
| <b>CF from Op.Activity</b>  | <b>164,680</b>  | <b>261,699</b>  | <b>154,854</b>  | <b>210,991</b>  | <b>233,501</b>  |
| (inc)/Dec in FA + CWIP      | -155,852        | -848,290        | -180,757        | -214,252        | -95,708         |
| (Pur)/Sale of Investments   | -14,282         | 45,451          | -11,990         | -79,387         | -100,376        |
| <b>CF from Inv.Activity</b> | <b>-170,134</b> | <b>-802,839</b> | <b>-192,748</b> | <b>-293,639</b> | <b>-196,084</b> |
| Issue of Shares             | 27,617          | 9,624           | -19,791         | -157            | 280             |
| Inc/(Dec) in Debt           | -16,903         | 514,810         | 73,524          | 152,449         | 59,229          |
| Other Financing Activities  | 8,917           | 961             | -5,113          | -7,021          | -7,544          |
| <b>CF from Fin.Activity</b> | <b>19,632</b>   | <b>525,395</b>  | <b>48,620</b>   | <b>145,271</b>  | <b>51,965</b>   |
| <b>Inc/(Dec) in Cash</b>    | <b>14,178</b>   | <b>-15,748</b>  | <b>10,725</b>   | <b>62,621</b>   | <b>89,382</b>   |
| Add: Opening Balance        | 11,145          | 25,323          | 9,575           | 20,300          | 82,921          |
| <b>Closing Balance</b>      | <b>25,323</b>   | <b>9,575</b>    | <b>20,300</b>   | <b>82,921</b>   | <b>172,303</b>  |

E: MOSL Estimates



**N O T E S**

## Disclosures

This report is for personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and Motilal Oswal Securities Limited (hereinafter referred as MOST) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt MOST or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOST or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOST or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

The information contained herein is based on publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, MOST and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent MOST and/or its affiliates from doing so. MOST or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

MOST and/or its affiliates and/or employees may have interests/positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

### Disclosure of Interest Statement

### Bharti Airtel

|   |     |
|---|-----|
| 1. Analyst ownership of the stock                       | No  |
| 2. Group/Directors ownership of the stock               | Yes |
| 3. Broking relationship with company covered            | No  |
| 4. Investment Banking relationship with company covered | No  |

## Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of MOST research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

## Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOST & its group companies to registration or licensing requirements within such jurisdictions.

### For U.K.

This report is intended for distribution only to persons having professional experience in matters relating to investments as described in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (referred to as "investment professionals"). This document must not be acted on or relied on by persons who are not investment professionals. Any investment or investment activity to which this document relates is only available to investment professionals and will be engaged in only with such persons.

### For U.S.

MOST is not a registered broker-dealer in the United States (U.S.) and, therefore, is not subject to U.S. rules. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., Motilal Oswal has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Any business interaction pursuant to this report will have to be executed within the provisions of this Chaperoning agreement.

This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors.

The Research Analysts contributing to the report may not be registered/qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, Marco Polo and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.



## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motiloswal.com