

Bharti Airtel Ltd

₹ 272

*Take Your Call***Buy**

April 05, 2013

Company Background

Bharti Airtel Ltd is an integrated telecom operator with presence in fixed-line, wireless & broadband, long distance, enterprise & passive infrastructure services across India, Sri Lanka, Bangladesh & Africa. It is the largest Indian wireless operator with revenue market share of ~30% & population coverage of 86%. Bharti Airtel is the 3rd largest wireless Company globally by subscribers.

Key Highlights

- ➔ The company successfully listed its subsidiary Bharti Infratel on the bourses during the quarter resulting in an additional cash of Rs. 3200 crore on the books of the company.
- ➔ Bharti Airtel announced that its wholly-owned subsidiary Bharti Airtel International (Netherlands) B.V. has successfully raised USD 500 million notes in addition to the recently concluded transaction of USD 1,000 million 5.125% Fixed Rate Senior Unsecured Guaranteed 144A/Reg S Notes due 2023. The Additional Notes were issued at a premium and priced at 100.625% to yield 5.044% and will be consolidated and form a single series along with the USD 1,000 million 5.125% Guaranteed Senior Notes due 2023 issued on March 11, 2013.
- ➔ Bharti Infratel owns 34,668 towers across 11 circles. Owns 42% stake in Indus Towers, amongst the largest independent tower companies in the world, with 111,240 towers across 15 circles with an average tenancy ratio of ~1.92.
- ➔ Telemedia Services offers fixed telephony and broadband internet (DSL + IPTV) Customer base of 3.3 million; large broadband & internet customers. Services provided across 87 cities.
- ➔ Bharti Airtel Business provides services to large enterprises and carriers. Serves as single point of contact for all telecom needs. Global infrastructure of over 225,000 Rkms covering 50 countries across 5 continents.
- ➔ Empowered Group of Ministers (EGoM) has approved the schedule for the second round of spectrum auction. The auction for 1,800 MHz and 900 MHz (re-farmed) spectrum would start and would be followed by auction for 800MHz spectrum currently used by CDMA operators.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	368,381.0	385,095.0	422,314.0
Rev. growth (%)	6.65	4.54	9.66
EBITDA (INR mn)	151,895.0	140,895.0	147,172.0
Net profit (INR mn)	94,262.0	77,169.0	57,300.0
Shares outstanding (mn)	3,797.5	3,797.5	3,797.5
EPS (INR)	24.8	20.3	15.1
EPS growth (%)	(39.15)	(18.13)	(25.75)
P/E (x)	12.6	17.6	22.3
RONW (%)	29.5	18.7	12.3
ROCE (%)	24.6	15.5	9.6

Arpit Jain

aj@indiratrade.com

Info Codes

Reuters	: BRTI.BO
Bloomberg	: BHARTI@IN
NSE	: BHARTIARTL
BSE	: 532454

Market Data

52 Wk Range (₹)	: 501 / 332
Shares in Issue (mn)	: 3797.5
Mkt. Cap (₹ bn)	: 1027.8
BSE 2 Wk Avg Vol	: 382000

Share Holding Pattern (%)

Promoters	: 68.50
DII's	: 08.18
FII's	: 17.28
Others	: 06.04

Investment Theme

Bharti continues to maintain its Indian wireless leadership with a subscriber share of ~20% & adjusted revenue share of ~30%. It is well positioned to capture rural growth by leveraging deep coverage & favorable frequency allocation - a significant competitive advantage in low-density regions. It has won 3G spectrum in 13 circles & BWA spectrum in 4 circles for a total outlay of INR 156 bn, which will support voice decongestion as well as development of new revenue streams. The IPO & listing of Bharti Infratel infrastructure subsidiary of Bharti also added to its books. We expect 9% revenue CAGR and 11% EBITDA CAGR over FY12-14E. We believe sustained RPM improvement would be imperative for a turnaround in the India business as mobile traffic growth is already down to single-digits and data revenue is yet to contribute significantly.

2G, 3G, 4G here G = Growth !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	356095.0	380177.0	6.76	416038.0	9.43
Other Income	11163.0	4672.0	(58.15)	5803.0	24.21
Change in Stocks	(5.0)	0.0	(100.00)	0.0	-
Raw Material Con.	0.0	0.0	-	0.0	-
Employee Exp.	15305.0	14512.0	(5.18)	13915.0	(4.11)
Indirect Taxes	204.0	81.0	(60.29)	595.0	634.57
Other Exp.	199849.0	229361.0	14.77	260159.0	13.43
Operating Exp.	215363.0	243954.0	13.28	274669.0	12.59
Operating Profit	140732.0	136223.0	(3.20)	141369.0	3.78
Total Interest	2832.0	3409.0	20.37	13962.0	309.56
Gross Profit	149063.0	137486.0	(7.77)	133210.0	(3.11)
Net Dep.	43022.0	50215.0	16.72	63619.0	26.69
Total Taxation	11779.0	10102.0	(14.24)	12291.0	21.67
Net Profit/Loss	94262.0	77169.0	(18.13)	57300.0	(25.75)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	353,554.8	417,740.0	560,070.0	647,289.0
Equity Share capital	18,982.4	18,988.0	18,988.0	18,988.0
Share Application Money	2.9	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	257,432.9	348,363.0	422,107.0	475,287.0
Long Term Loans	70,892.8	43,667.0	99,131.0	109,317.0
Short Term Loans	6,243.8	6,722.0	19,844.0	43,697.0
USES OF FUNDS	353,554.8	417,740.0	560,070.0	647,289.0
Gross Block	372,667.1	442,125.0	614,374.0	669,068.0
Less : Revaluation Reserves	21.3	21.0	21.0	21.0
Less : Accumulated Depreciation	122,533.5	161,875.0	207,367.0	264,660.0
Net Block	250,112.3	280,229.0	406,986.0	404,387.0
Capital Work in Progress	25,666.7	15,947.0	64,792.0	44,665.0
Investments	116,047.9	153,100.0	118,130.0	123,378.0
Current Assets	141,173.4	164,091.0	205,393.0	328,269.0
Less : Current Liabilities	179,446.4	195,627.0	236,220.0	254,156.0
Total Net Current Assets	(38,273.0)	(31,536.0)	(30,827.0)	74,113.0
Misc. Expenses not written	0.9	0.0	989.0	746.0
NOTE				
Bk Val Unquoted Investments	97,255.9	111,566.0	117,080.0	118,071.0
Mkt Val. Quoted Investments	18,877.6	42,167.0	1,051.0	5,334.0
Contingent Liabilities	48,605.5	45,810.0	543,571.0	591,145.0
Dividend (%)	20	20	20	20

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 12	Jun 12	Sep 12	Dec 12
Net Sales	107,572.00	109,806.00	115,230.00	112,990.00
Cost Of Sales	72,477.00	77,593.00	80,495.00	81,235.00
Operating Profit	35,095.00	32,213.00	34,735.00	31,755.00
Recurring Income	1,863.00	6,423.00	7,956.00	450.00
Adjusted PBDIT	36,958.00	38,636.00	42,691.00	32,205.00
Financial Expenses	3,102.00	5,459.00	3,359.00	4,897.00
Depreciation	15,352.00	16,519.00	16,800.00	17,380.00
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	18,504.00	16,658.00	22,532.00	9,928.00
Tax Charges	2,761.00	1,958.00	4,616.00	2,425.00
Adjusted PAT	15,743.00	14,700.00	17,916.00	7,503.00
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	15,743.00	14,700.00	17,916.00	7,503.00

52 Week Index Relative Percentage Appreciation

Bharti Airtel vs SENSEX vs TEC
Points to Ponder

Bharti Infratel Limited (BIL), a subsidiary of the Company, made an Initial Public Offering (IPO) through book building process of 188,900,000 equity shares of Rs 10 each. The IPO comprised of fresh issue of 146,234,112 equity shares of Rs 10 each by BIL and an offer for sale of 42,665,888 equity shares of Rs 10 each by the existing shareholders. BIL has raised Rs 32,303 Mn from fresh issue of shares. Post the issue, the holding of the Company in BIL has reduced from 86.09% to 79.42%, with the resultant change in the share of net assets recognized directly in consolidated statement of changes in equity.

Risks Associated

- Significant outlay towards spectrum renewal/refarming if spectrum pricing remains at current government determined level of INR140b for a 5Mhz pan-India spectrum block in 1800MHz band.
- High forex risk given exposure to significant USD denominated debt.
- On January 8, 2013 the Department of Telecommunications ('DoT') issued a demand on the Company and one of its subsidiaries for Rs. 52,013 Mn towards levy of one time spectrum charge. The demand includes a retrospective charge of Rs. 9,090 Mn for holding GSM Spectrum beyond 6.2 Mhz for the period from July 1, 2008 to December 31, 2012 and also a prospective charge of Rs. 42,923 Mn for GSM spectrum held beyond 4.4 Mhz for the period from January 1, 2013, till the expiry of the initial terms of the respective licenses.

In a Nutshell

Bharti Airtel is a leading global telecommunications company with operations in 20 countries across Asia and Africa. Headquartered in New Delhi, the company ranks among the top 4 mobile service providers globally in terms of subscribers. In India, the company's product offerings include 2G, 3G and 4G wireless services, mobile commerce, fixed line services, high speed DSL broadband, IPTV, DTH, enterprise services including national & international long distance services to carriers. Bharti Airtel had over 246 million customers across its operations at the end of February 2012. Bharti Airtel business unit delivers end to end telecom solutions to India's large corporates. It serves as the single point of contact for all telecommunication needs for corporate customers in India by providing full suite of communication services across data, voice and managed services. It specializes in providing customized solutions to address unique requirements of different industry verticals; BFSI, IT, ITeS, Manufacturing and distribution, media, education, telecom, Government and PSUs and retail among others. Global business unit provides long distance wholesale voice and data services to global customers as well as to other business units of Airtel. It also offers virtual calling card services in the overseas markets. The business unit owns a state of the art national and international long distance network infrastructure enabling it to provide connectivity services both within India and connecting India to the world. The international infrastructure includes i2i submarine cable system connecting Chennai to Singapore, consortium ownership to SMW4 submarine cable system and investment in capacities across a number of diverse submarine cable systems across transatlantic and transpacific routes. We are therefore bullish on the company.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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