

Quarterly Result Update

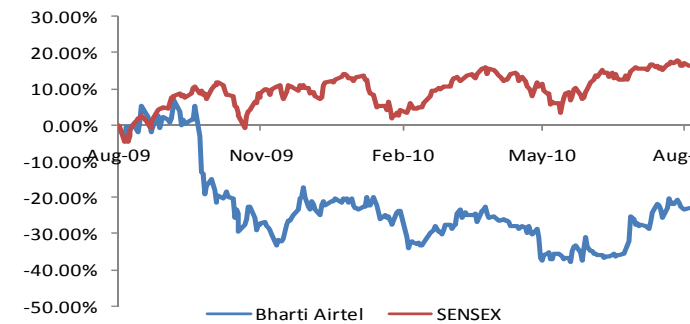
Bharti Airtel Ltd.

Recommendation	Not Rated
CMP (13/08/2010)	Rs. 317
Sector	Telecommunication

Stock Details

BSE Code	532454
NSE Code	BHARTIARTL
Bloomberg Code	BHARTI IN
Market Cap (Rs. cr)	120381
Free Float (%)	35%
52- wk HI/Lo	467/229.5
Avg. volume BSE (Quarterly)	1198130
Face Value	Rs. 5.00
Dividend (FY10)	20 %
Shares o/s (No.)	379.75 Crs

Relative Performance	1Mth	3Mth	1 Yr
Bharti Airtel	5.84%	22.64%	-23.16%
Sensex	1.01%	5.22%	17.07%



Shareholding Pattern as of 30/06/2010

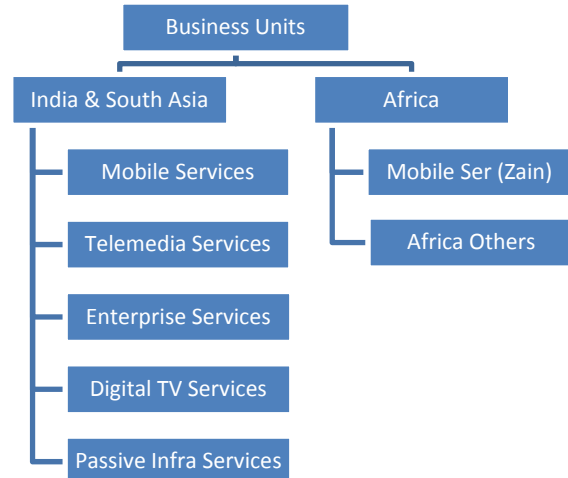
Promoter & Promoter Group – Indian	45.44%
Promoter & Promoter Group – Foreign	22.43%
Public Shareholding – Institutions	25.48%
Public Shareholding – Non-Institutions	6.65%

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Year	Net Sales Rs. in Cr	Growth	EBITDA Rs. in Cr	EBITDA Margin	PAT	EPS	PE	P/BV	ROE
FY08A	27012	46.6%	11151	41.3%	6495	17.10	18.5	5.5	29.9%
FY09A	37352	38.3%	14973	40.1%	8044	20.70	15.3	4.0	26.5%
FY10A	41829	12.0%	16572	39.6%	9362	24.13	13.1	2.9	22.6%

Snapshot

Bharti Airtel Limited (Bharti), a group company of Bharti Enterprises, is among Asia's leading integrated telecom services providers with operations in India, Sri Lanka, Bangladesh and now Africa with the completion of Zain acquisition. Bharti Airtel is restructured its business units into 2 – India & South Asia and Africa.



Key highlights for the year

- Net addition of 46.4 million customers (Incl 36.4 mn customers of Africa) in Q1 FY11.
- Bharti completed the Zain's acquisition during the quarter ended June 10 and company's consolidated numbers include 23 days of Africa operations.
- Revenues from India & South Asia's Mobile Services segment increased 6% QoQ.
- Bharti's customer base increased to 3.15 mn in Q1 FY11 from 3.07 mn in Q4 FY11. 42.6% of the customers were subscribed to broadband / internet services, as on June 30, 2010.
- Airtel Digital TV's customer base grew to 3.2 mn customers in Q1 FY11 from 2.5 customers in Q4 FY10. The company continues to lead in new customer acquisition, acquiring 1 out of every 4 new customers joining the DTH platform.

Quarterly Result Analysis

- Bharti Airtel's Q1 FY11 revenues grew 13.9% QoQ to Rs. 12,231 Crs. However, excluding the revenues from the Zain operations company's top-line grew 8.1% YoY and 5.0% QoQ to Rs. 11,272 Crs driven by increase in customer base and increase in Minutes of Usage (MOU) which partially offset by a marginal decline in Average Revenue Per User (ARPU).
- EBITDA margin (excluding the figures of Zain) increased 78 bps QoQ to 37.5% in Q1 FY11 reflecting the growth in top-line.
- Bharti Airtel's Adjusted PAT declined 16.1% QoQ to Rs. 1780 Crs in Q1 FY11 due to the increase in net interest expense. The company reported a net interest expense of Rs. 420 Crs in Q1 FY11 as against net interest income of Rs. 175 in Q4 FY10 due to significant increase in debt to fund the acquisition of Zain.

Consolidated in Rs Crs	Q1 FY11	Q4 FY10	QoQ	Q1 FY10	YoY
Income from Operations	12231	10739	13.9%	10430	17.3%
Expenditure					
Employee Cost	560	456	22.9%	512	9.3%
License Fee & Spectrum Charges	1174	1059	10.8%	1013	16.0%
Access & Interconnection Charges	1423	1158	22.9%	1137	25.1%
Network Operating Expenses	2710	2372	14.3%	2106	28.7%
Sales and Marketing	971	770	26.0%	675	43.7%
Administrative and Others	881	756	16.6%	683	29.1%
Other Expenditure	23	95	-75.6%	73	-68.3%
EBITDA	4489	4074	10.2%	4231	6.1%
Margin	36.7%	37.9%	-123 bps	40.6%	-386 bps
Depreciation	1947	1671	16.5%	1437	35.5%
EBIT	2542	2403	5.8%	2794	-9.0%
Other Income	48	40	19.3%	19	154.4%
Interest Expense/(Income)	420	-175	-340.3%	-356	-218.1%
Exceptional Items	98	98	0.6%	0	N/A
PBT	2072	2520	-17.8%	3168	-34.6%
Tax Expenses	375	438	-14.3%	473	-20.7%
Minority Interest	15	58	-73.4%	47	-67.5%
PAT	1682	2024	-16.9%	2648	-36.5%
Margin	13.7%	18.8%	-510 bps	25.4%	-1164 bps
Adjusted PAT	1780	2122	-16.1%	2648	-32.8%
Adjusted EPS	4.69	5.59	-16.1%	6.97	-32.8%

Source: Company data, Nirmal Bang Research

Africa (Zain Business)

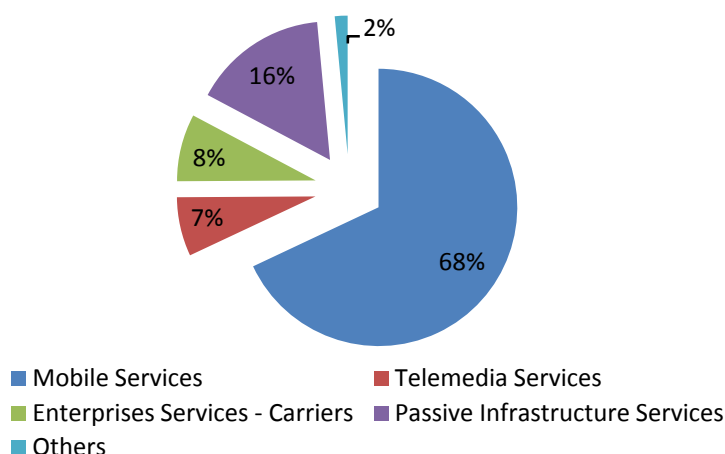
Consolidated in Rs Crs	Q1 FY11
Revenue	958
EBITDA	264
PBT	-75
PAT	-92

Source: Company data, Nirmal Bang Research

Revenues by Segment (before inter segment elimination)

Bharti generated around 68% of its India & South Asia segments revenues from its mobile services in Q1 FY11 as compared to 63.4% in Q4 FY10 and 69.4% in Q1 FY10. Passive Infrastructure Services continue to remain the second largest contributor to the company's revenues.

Breakup of India & South Asia revenues (before segment elimination)



Customer base

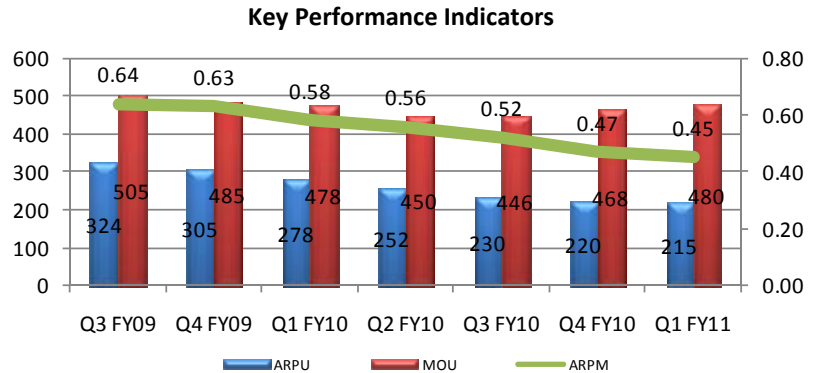
As at the end of Q1 FY11, Bharti had 136.62 mn GSM mobile customers on its network in India & South Asia, which accounted for a market share of 21.5% of the all India mobile market. While company's Africa unit have 36.36 mn GSM mobile customers on its network. Africa's population stands at 1 bn and is projected to grow at an annual average rate of 2.3% with a GDP growth rate of 3.1% (*Source: Company filings*). The population in 15 countries that Bharti operate is around 459 mn with a mobile customer base of 178 mn representing a penetration of 38%. This offers significant growth opportunities to the company in the African region.

Parameters (In '000)	30-Jun-10	31-Mar-10	QoQ
Mobile Services	176,975	131,349	34.7%
India & South	140,613	131,349	7.1%
Africa	36,362		
Telemedia Services	3,153	3,067	2.8%
Digital TV Services	3,244	2,597	24.9%
Total	183,372	137,013	33.8%

Bharti's total customer base has expanded substantially with the acquisition of Zain. Company's customers for Digital TV Services has also demonstrated strong growth in Q1 FY11 and is expected to remain high.

Performance Indicators

The subscriber growth has slowed down over last couple of quarters as compared to 2009 levels.

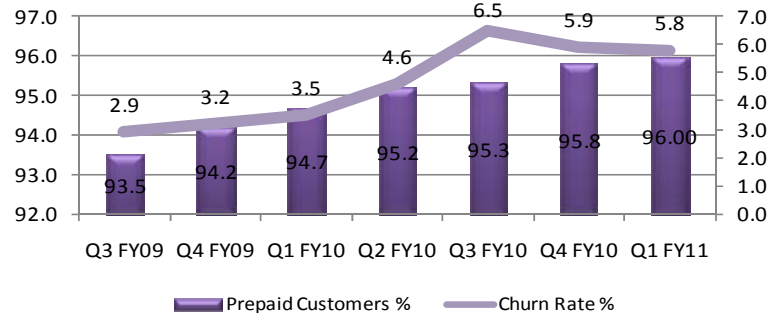


The price war which began in Q2 FY10, caused even strong incumbent players like Bharti Airtel to reduce their tariff rates and come up with schemes like per second plans. This caused the ARPM to fall from 0.63 in Q4 FY09 to 0.47 in Q4 FY10. We have witnessed a marginal decline in ARPM during Q1 FY11 which indicates that prices have stabilized now. Moreover, MOU increase over last couple of quarters has been encouraging. This suggests that the tariff war has come to an end for the time being.

Prepaid Customers and Churn Rate:

Over the years, share of prepaid customers as a percentage of overall subscriber base have been increasing. After a sequential increase in the churn rates since the eruption of price war, there has been a decline in the churn rate over last couple of quarters. It was because of the arrest in further decline of tariffs and the ability of Bharti Airtel to retain its customer base by leveraging on its service quality. The increasing trend in the MoU for Bharti Airtel since last couple of quarters indicates the strength of its service quality supported by a pan India network coverage and its brand strength. As and when Mobile Number Portability is launched, there might be a slight increase in the churn rate, but Bharti Airtel is poised to emerge as a much stronger global player by leveraging on its strengths. For Q1 FY10, Bharti Airtel’s churn rate was 5.8% as against 6.9% in Q4 FY10.

Subscriber Pattern of Bharti Airtel



Valuation

At current price of Rs.317 Bharti Airtel is trading at PE multiple of 14.69x at its TTM EPS of Rs.21.59. Going forward the margins for players in telecom industry is expected to remain under pressure because of the entry of new players and stiff price competition. Moreover, Zain's consolidation will impact the company's margin in near term as Zain has significantly lower EBITDA margin as compared to Bharti. Bharti Airtel has raised US \$ 9 bn for the acquisition of the African assets of Zain Telecom via a SPV formed for the purpose which has increased its interest expenses as expected. Moreover, successful bid by Bharti Airtel for 3G airwaves has seen a further increase in the company's debt burden. However, we expect the company to derive tremendous benefits from Zain in the form of cost saving by implementing its low cost model. Moreover, start of 3G will further augment the company's top-line going forward. Therefore, our long term outlook remains positive for Bharti Airtel.



NOTE

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