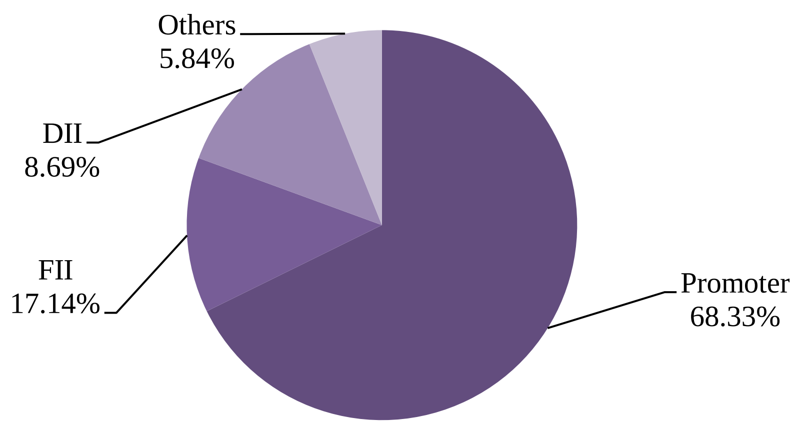
BHARTI AIRTEL – Q2 FY12 Result Update

17th November, 2011

BSE Code	532454
BSE Group / Index	A / SENSEX
CMP	Rs.395.70
Market Capitalization	Rs.1,50,268 Cr
Face Value	Rs.5
EPS (TTM)	Rs.13.04
52 Wk High (BSE)	Rs.444.70 (01 Aug,2011)
52 Wk Low (BSE)	Rs.304.25 (02 Feb,2011)

Shareholding Pattern % as of Sep, 2011



Public holding more than 1% of the Total No. of Shares (as of Sep, 2011)

Sl. No.	Name of the Shareholder	No. of Shares	Shares as % of Total No. of Shares
1	Life Insurance Corporation of India under various demat account	170,395,092	4.49
2	ICICI Prudential Life Insurance Company Ltd	45,401,782	1.20
	Total	**215,796,874**	**5.68**

Q2 FY12 – Result Highlights

Particulars (Rs. Cr)	Q2 FY12	Q2 FY11	YoY (%)	Q1 FY12	QoQ (%)	H1 FY12	H1 FY11	YoY (%)
Net Sales	**17269.80**	**15231.10**	**13.39%**	**16974.90**	**1.74%**	**34244.70**	**27473.20**	**24.65%**
Other Operating Income	6.60	0.80	725.00%	7.90	-16.46%	14.50	42.60	-65.96%
Total Income	**17276.40**	**15231.90**	**13.42%**	**16982.80**	**1.73%**	**34259.20**	**27515.80**	**24.51%**
Expenditure								
a) Employee cost	869.10	881.60	-1.42%	924.60	-6.00%	1793.70	1441.70	24.42%
b) License fees & Spectrum charges	1450.70	1305.20	11.15%	1493.90	-2.89%	2944.60	2515.20	17.07%
c) Access & Interconnection charges	2331.10	1883.90	23.74%	2215.80	5.20%	4546.90	3306.60	37.51%
d) Network operating expenses	3803.80	3252.70	16.94%	3730.80	1.96%	7534.60	5962.30	26.37%
e) Sales & marketing	1661.30	1688.60	-1.62%	1706.80	-2.67%	3368.20	2659.40	26.65%
f) Admin & Other expenditure	1345.30	1082.10	24.32%	1205.00	11.64%	2550.20	1950.80	30.73%
Total	**11461.30**	**10094.10**	**13.54%**	**11276.90**	**1.64%**	**22738.20**	**17836.00**	**27.48%**
EBIDTA	**5815.10**	**5137.80**	**13.18%**	**5705.90**	**1.91%**	**11521.00**	**9679.80**	**19.02%**
Depreciation	3183.90	2579.00	23.45%	3131.40	1.68%	6315.30	4525.70	39.54%
Interest	1118.60	332.10	236.83%	855.00	30.83%	1973.60	757.30	160.61%
Exceptional items	0.00	0.00		0.00		0.00	98.20	-100.00%
PBT	**1512.60**	**2226.70**	-32.07%	**1719.50**	**-12.03%**	**3232.10**	**4298.60**	**-24.81%**
Tax	490.00	567.80	-13.70%	514.10	-4.69%	1004.10	942.80	6.50%
PAT	**1022.60**	**1658.90**	**-38.36%**	**1205.40**	**-15.17%**	**2228.00**	**3355.80**	**-33.61%**
Minority Interest	4.40	2.30	91.30%	9.80	-55.10%	14.20	-13.00	-209.23%
NPAT	**1027.00**	**1661.20**	**-38.18%**	**1215.20**	**-15.49%**	**2242.20**	**3342.80**	**-32.92%**
Equity share capital (FV-Rs.5)	1898.80	1898.80		1898.80		1898.80	1898.80	
EPS (Rs.)	**2.70**	**4.37**		**3.20**		**5.90**	**8.80**	
EBIDTA Margin (%)	33.66%	33.73%		33.60%		33.63%	35.18%	
PAT Margin (%)	5.92%	10.89%		7.10%		6.50%	12.20%	

Segmental Revenue

Particulars (Rs. Cr)	Q2 FY12	Q2 FY11	YoY (%)	Q1 FY12	QoQ (%)	H1 FY12	H1 FY11	YoY (%)
Revenues								
Mobile Services (India & South Asia)	9782.70	8820.60	10.91%	9840.40	-0.59%	19623.10	17655.60	11.14%
Mobile Services (Africa)	4703.20	3890.60	20.89%	4378.30	7.42%	9081.60	4848.80	87.30%
Telemedia Services	952.70	911.80	4.49%	945.80	0.73%	1898.50	1807.80	5.02%
Enterprise Services	1104.10	1038.20	6.35%	1041.00	6.06%	2145.10	2061.10	4.08%
DTH	313.40	169.00	85.44%	NA	NA	606.90	307.20	97.56%
Passive Infrastructure Services	2376.60	2116.10	12.31%	2276.70	4.39%	4653.30	4157.30	11.93%
Others	85.90	59.70	43.89%	370.00	-76.78%	165.00	119.20	38.42%
EBIT								
Mobile Services (India & South Asia)	1977.60	2120.60	-6.74%	2085.40	-5.17%	4063.10	4345.80	-6.51%
Mobile Services (Africa)	376.80	135.30	178.49%	292.00	29.04%	603.90	108.80	455.06%
Telemedia Services	212.40	223.90	-5.14%	222.10	-4.37%	434.50	409.30	6.16%
Enterprise Services	105.30	148.00	-28.85%	68.30	54.17%	173.50	293.20	-40.83%
DTH	-180.60	-137.00	31.82%	NA	NA	-329.80	-249.60	32.13%
Passive Infrastructure Services	352.10	288.50	22.05%	343.20	2.59%	695.30	545.80	27.39%
Others	-211.90	-220.20	-3.77%	-435.60	-51.35%	-433.40	-401.20	8.03%
EBIT Margins (%)								
Mobile Services (India & South Asia)	20.22%	24.04%		21.19%		20.71%	24.61%	
Mobile Services (Africa)	8.01%	3.48%		6.67%		6.65%	2.24%	
Telemedia Services	22.29%	24.56%		23.48%		22.89%	22.64%	
Enterprise Services	9.54%	14.26%		6.56%		8.09%	14.23%	
DTH	-57.63%	-81.07%		NA		-54.34%	-81.25%	
Passive Infrastructure Services	14.82%	13.63%		15.07%		14.94%	13.13%	
Others	-246.68%	-368.84%		-117.73%		-262.67%	-336.58%	

Key Highlights of Q2FY12

- Bharti reported 13.39% YoY and 1.74% QoQ growth in revenues at Rs.17,629.80Cr. EBITDA stood at Rs.5815.10Cr which is up 13.18% over Q2FY11 and 1.91% over Q1FY12. EBITDA margins stood at 33.66%. Net profit for the quarter was Rs.1027Cr, which was down by 15.49% QoQ and down by 38.18% YoY. Net profit margin for the quarter was 5.92%.
- Bharti's African business posted strong revenues of US$1030Mn and EBITDA of US$270Mn for Q2FY12 in the mobile services segment. EBITDA margin stood at 26.2%.
- In its dominant India & SE Asia wireless business, Bharti's EBITDA margin stood at 33.7% vs 35.2% in Q2FY11. In Q2FY12, Bharti's monthly subscriber churn increased to 7.2% versus 6.4% in Q1FY12.
- Among the non-wireless businesses, passive-infrastructure posted margin improvement but a sharp drop in enterprise and telemedia services margins dragged overall nonwireless performance.
- During the quarter, the US dollar appreciated against the Indian Rupee and several African currencies, resulting in forex restatement losses of US$52Mn (Rs.239Cr) (vs gain of US$54Mn (Rs.249Cr) in Q2FY11).

Mobile Services (India & South Asia)

Wireless revenues for Indian and South Asia operations have decreased marginally by 0.6% QoQ to Rs. 9782.70Cr as against Rs.9840.40Cr in Q1FY12 signifying a seasonally weak quarter for the industry. The traffic reduced by 1.9% to 271 billion minutes while the ARPM increased marginally to 43.2 paisa from 42.8 paisa in the previous quarter. Share of value-added revenues in the total topline decreased marginally from 14.6% in Q1FY12 to 14.5% in Q2FY12. MoU for the quarter declined from 445 to 423. Total Indian subscriber base grew by 2.1% to 172.8 million subscribers while that for Bangladesh and Sri Lanka increased by 1.2% QoQ to 5.8 million. ARPU for Indian operations in Q2FY12 stood at Rs.183, down from Rs.190 in Q1FY12, reporting a decline of 4.0%. Airtel has about 7 million subscribers active on 3G while about 25% use 3G on a daily basis.

Mobile Services (Africa)

Bharti reported strong revenue growth of 7.42% QoQ driven by ~10% growth in volumes. Volume growth was largely led by 5% growth in MoU and subscriber addition of 2.1 mn during the quarter. ARPU was flat q-o-q at US$7.3/month in Q2FY12. EBIT margin of the Africa operation improved considerably to 8.01% in Q2FY12 as compared to 3.48% in Q2FY11 due to savings made in sales, general & administrative expenses and network operating expenses during the quarter. The management has indicated that this growth could continue at a steady rate. Capex for Africa was higher at US$575Mn taking the total capex for H1FY12 to US$1Bn. The management has increased its capex guidance to US$1.4Bn - 1.5Bn for the full year from US$1.2bn on account of strong execution and market growth.

Telemedia & Enterprise Services

The telemedia segment reported revenue growth of 0.73% QoQ to Rs.952.70Cr. The subscriber base at the end of Q2FY12 stood at 3.3 million remaining more or less flat QoQ while the ARPU increased marginally by 0.3% to Rs.955. EBIT margins for the telemedia segment contracted by 119 bps QoQ to 22.29% as compared to 23.48% in Q1FY12. Revenues from enterprise services stood at Rs.1104.10Cr, growing 6.06% QoQ from Rs.1041Cr. The YoY comparison is not meaningful as the NLD (National Long Distance) and ILD (International Long Distance) business has been transferred to mobility only in Q3FY11.

DTH Business

Bharti started reporting DTH numbers separately for the first time in Q2FY12. The DTH subscriber base grew by 0.4 mn in Q2FY12 as compared to an increase of 0.6 mn in Q1FY12. The total subscriber base at the end of Q2FY12 stood at 6.6 mn. The ARPU for the quarter stood at Rs.161 as compared to Rs.158 in Q2FY11. DTH Market share is estimated at ~12-13%.

Passive Infrastructure Services

The passive infrastructure segment, including both Bharti Infratel and Indus, grew by 4.39% to Rs.2376.60 Cr against Rs.2276.70Cr in Q1FY12. The EBIT margin in this segment remained more or less flat at 14.82% in Q2FY12 vs 15.07% in Q1FY12. Bharti Infratel has a portfolio of 33,056 towers with a tenancy ratio of 1.79x. Indus Towers has a portfolio of 108,998 towers with a tenancy ratio of 1.89x.

Trai's Recent Recommendations

The recent recommendations released by Trai were in contrast with its recommendations in May,2010. The regulator has recommended liberalized M&A guidelines by increasing the cap on the market share of combined entity to 60% from 40% earlier and secondly, limit of spectrum held by the resultant combined entity be revised to 25% of spectrum assigned in the particular service area as against earlier recommended cap of 14.4MHz /10MHz for GSM/CDMA, respectively. The recommendation gives clear direction for the consolidation in the 14 player highly competitive Indian telecom market.

The regulator has maintained its stance on gradual reduction of license fees to 6% as against DoT's recommendation of floor of 8.5%. Trai has also sought further consultation on spectrum re-farming, which seems a breather for incumbents. However, spectrum charges for beyond the contractual limit of 6.2 MHz and bringing passive infrastructure under license fee regime remains negative for the sector.

Outlook

Bharti continues to consolidate its wireless leadership in India, with a wireless subscriber share of ~27% and adjusted gross revenue share of 30%+. Management indicated that Bharti's operating margins could increase with higher realization from wireless operations in India driven by 2G tariff increase and pick up of the 3G business. Furthermore, higher capacity utilization in the Africa operations is likely to drive EBITDA margin. It also indicated that selling & distribution expenses could fall going forward as commissions were overheated during the earlier phase of hyper competition. Further potential cost savings due to recent organizational restructuring could also help going forward. Bharti with its scale, high quality users and 3G spectrum in key circles is best placed to benefit in the telecom sector in the long-term.

Disclaimer:

Analyst Holding: Yes
Recommended to Clients: Yes
Relationship with Management: No

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