

Bharti Infratel

Valuations at premium

Bharti Infratel limited (Bharti Infratel) is tower and related infrastructure providing company of Bharti group. It is one of the largest tower infrastructure providers in terms of number of towers own and operated by a company having pan India presence on a consolidated basis.

Largest player in the sector: Bharti Infratel is one of the largest tower infrastructure providers in terms of number of towers own and operated by a company on a consolidated basis. Given the nationwide network of towers we believe the company is well placed to gain an advantage over their existing and potential competitors.

Long term contract provides revenue visibility: Bharti Infratel has entered into MSAs with the leading wireless telecommunications service providers in India. We believe long term contract agreement and the adverse consequences of contract termination provide stability to Bharti Infratel business throughout the term of the MSAs thereby providing comfortable visibility of future revenues.

Strong parental, an advantage: The Bharti group has been one of India's leading business conglomerates, with operations in the telecommunications, retail, insurance and real estate sectors. Over more than decade, company created a strong brand and credibility which we believe Bharti Infratel can leverage to its advantage in growing its business.

Outlook and valuation: Bharti Infratel has registered a 3.4% and 9.6% CAGR in towers and tenancies, respectively over the last three years. The company posted 15.9% and 21.0% revenue and EBITDA CAGR over FY2010-12. In terms of valuation, the current IPO price band of ₹210-240 implies a June 2012 annualized EV/EBITDA of 11-13x, EV/tower of ₹0.5-0.56cr; P/E of 45-53x, and P/BV of 2.7-3.0x, which we believe is at a premium. In addition, low asset turnover and minimal use of leverage in a capital intensive industry have resulted in low RoE for Bharti Infratel over the past three years. Bharti Infratel's RoE has remained in the range of 4.0-5.2 in the past couple of years. Also, the overcapacity in the industry is expected to limit the demand for rollout of new towers. Further, regulatory changes and the resultant uncertainty pose a risk to telecom players as their network rollout plans could be hampered. **Hence, we recommend Avoid to the issue on account of its premium valuations.**

Key financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	1HFY2013
Net Sales	5,051	7,039	8,508	9,452	4972
% chg	616.3	39.4	20.9	11.1	-
Adj. Net Profit	195	253	551	751	460
% chg	383.6	29.6	118.0	36.1	-
EBITDA Margin (%)	29.9	34.4	36.8	37.4	37.1
P/E (x) Lower End	203.1	156.8	71.9	52.8	46.5
P/E (x) Upper End	232.2	179.2	82.2	60.4	53.2
RoE (%)	1.9	1.9	3.9	5.2	5.8

Source: Company, Angel Research; Note: P/E and ROE for 1HFY13 calculated on an annualized basis

AVOID

Issue Open: December 11, 2012
 Issue Close: December 14, 2012

Issue Details

Face Value: ₹10

Present Eq. Paid-up Capital: ₹1742.4cr

Offer Size*: 18.89cr Shares

Post Eq. Paid-up Capital: ₹1888.6cr

Issue size (amount):** ₹3,967-4,534cr

Price Band: ₹210-240

Post-issue implied mkt cap**: ₹39,661cr-45,327cr

Promoters holding Pre-Issue: 86.1%

Promoters holding Post-Issue: 79.4%

Note:*42,665,888 equity shares are for offer sale
 **At the lower and upper price band, respectively

Book Building

QIBs	Up to 50%
Non-Institutional	At least 15%
Retail	At least 35%

Post Issue Shareholding Pattern

Promoters Group	79.4
MF/Banks/Indian Fls/Flls/Public & Others	20.6

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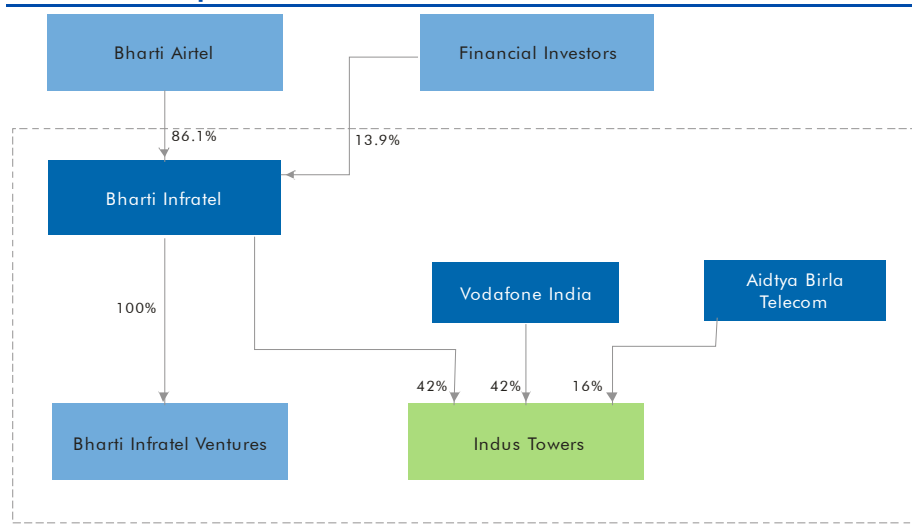
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Company Background

Bharti Infratel Limited (Bharti Infratel) is tower and related infrastructure providing company of Bharti Group. It is one of the largest tower infrastructure providers in terms of number of towers own and operated by a company having pan India presence on a consolidated basis. The business of Bharti Infratel and Indus is to acquire, build, own and operate tower and related infrastructure. Currently the company provides access to their towers primarily to wireless telecommunications service providers on long-term contracts and share basis. We believe there exist opportunity for providing additional services such as signal transmission and first level maintenance services in relation to customer equipment at towers which Bharti Infratel is well placed to tap. Bharti Infratel client includes – Bharti Airtel (together with Bharti-Hexacom), Vodafone India and Idea Cellular who are three leading wireless telecommunication service providers in India by wireless revenue. (Source: TRAI)

Bharti Infratel has a pan India presence with operations in all 22 telecommunications circles in India, with Bharti Infratel's and Indus' operations overlapping in four telecommunications circles. Bharti Infratel own and operates 33,446 towers spread across 11 telecommunications circles as on June 2012 while Indus operates 109,539 towers spread across 15 telecommunications circles. As on June 2012, the company has an economic interest of 79,452 towers (including its 42% interest in Indus) spread across 22 telecommunication circles.

Exhibit 1: Group Structure



Source: Company, Angel Research

Issue Details

The IPO comprises an issue of 188.9mn equity shares of face value ₹10 each out of which ~146.2mn equity shares are fresh equity issue to the public and remaining ~42.7mn equity shares are offer for sale. Bharti Infratel has fixed the issue price band at ₹210–240 per share, implying an equity valuation of ₹3967-4534cr (US\$7.3bn-8.3bn) for the tower portfolio. The company plans to use the IPO proceeds for installation of 4,813 towers, upgradation and replacement of existing towers and for green initiatives at tower sites.

Exhibit 2: Objects of the issue

Particulars	Amount (₹ cr)
Installation of 4,813 new towers	1,086
Upgradation and replacement of existing towers	1,214
Green initiatives at tower sites	639

Source: RHP, Angel Research

Exhibit 3: Shareholding Pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and promoter group	1,500,000,000	86.1	1,500,000,000	79.4
Total public holding	242,408,730	13.9	388,642,842	22.3
Total	1,742,408,730	100	1,888,642,842	100

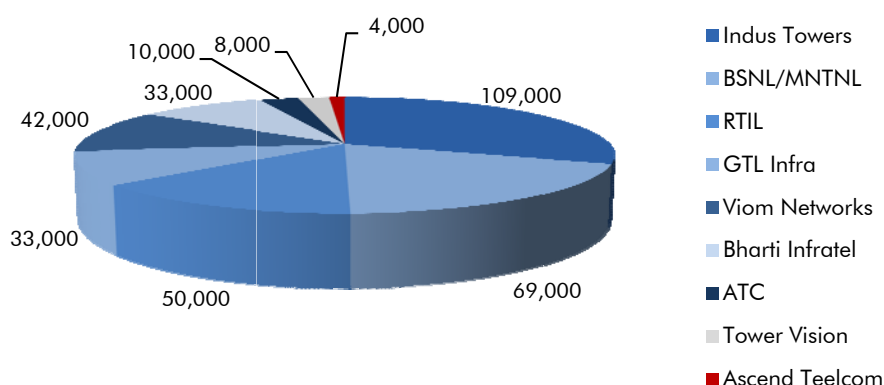
Source: Source: RHP, Angel Research

Investment arguments

Largest player in the sector

Bharti Infratel is one of the largest tower infrastructure providers in terms of no. of towers own and operated by a company on a consolidated basis. Given the nationwide network of towers we believe the company is well placed to gain an advantage over their existing and potential competitors. The costs of establishing a tower infrastructure business includes huge capital expenditure required to acquire and develop towers, high costs incurred to comply with local laws and entering into long-term contracts between tower providers and wireless service providers. Additionally, a sharing operator who requests the creation of a new tower by another tower infrastructure provider will incur higher rental expense, operating costs and energy costs as the sole operator at that site, compared with the lower rent and operating costs of sharing an existing tower of Bharti Infratel or Indus. Going forward, we believe that the capacity available on Bharti Infratel's and Indus' tower portfolios positions them well to capitalize on an increase in tower sharing in India.

Exhibit 4: Installed tower base (As on FY2012)



Source: RHP, Angel Research

Extensive presence across India

Bharti Infratel has a pan India presence with operations in all 22 telecommunications circles in India, with Bharti Infratel's and Indus' operations overlapping in four telecommunications Circles. The company has a significant presence in B-category and C-category telecommunications circles, while Indus operates in the metros and A-category and B-category telecommunications circles. The B-category and C-category circles have an untapped consumer potential for voice services and will also see increasing demand for data services. In addition, rural areas in India currently suffer from low penetration of telecommunications services, and we believe that these areas offer potential for growth of voice and, over time, data services. Further, demand for data services increases, wireless telecommunications service providers in the metros and A-category circles will seek to expand their existing networks to accommodate the roll out of 3G services, as well as newer technologies such as 4G. Given the absence of extensive wire-line services in rural areas along with growing demand for data services in metros; we

believe that Bharti Infratel's and Indus' existing portfolios of towers, will stand to benefit as it provide customers with operational efficiencies such as strategically located towers and faster time to market.

Long term contracts provides revenue visibility

Bharti Infratel has entered into master service agreements (MSAs) with the leading wireless telecommunications service providers in India. This includes long-term contracts which set out the terms on which access is provided to Bharti Infratel towers. All of the service provided is being offered substantially at the same terms and receiving equal treatment at towers where they have installed their active infrastructure. This helps in co-locations and encourages telecommunications service providers in India to use the tower infrastructure of Bharti Infratel. Bharti Infratel has 27,276 co-locations as of June 30, 2012 from wireless telecommunications service providers other than Bharti Airtel. We believe long term contract agreement and the adverse consequences of contract termination provide stability to Bharti Infratel business throughout the term of the MSAs thereby providing comfortable visibility of future revenues.

Comfortable balance sheet

The costs of establishing a tower infrastructure business includes huge capital expenditure required to acquire and develop towers. The balance sheet is relatively unlevered with 2QFY2013 net debt/EBITDA at 0.8x. This leaves room for inorganic expansion in India and abroad. Given its strong balance sheet and ready access to capital we believe Bharti Infratel has the ability to expand their tower portfolio at the rate, in the manner and within the constraints required by wireless telecommunications service providers.

Strong relationship with parental

The Bharti group has been one of India's leading business conglomerates, with operations in the telecommunications, retail, insurance and real estate sectors. Over more than decade, company created a strong brand and credibility which we believe Bharti Infratel can leverage to its advantage in growing its business. Further, pursuant to a letter agreement dated September 8, 2012, Bharti Airtel has granted Bharti Infratel a right of first refusal in relation to all of Bharti Airtel's new tower and co-location requirements. We believe that this strong relationship with Bharti Airtel is a significant advantage, and that Bharti Infratel will continue to benefit from it as Bharti Airtel expands its operations across India.

Key concerns

Decline in demand can lead to lower revenue

The business of Bharti Infratel consists of building, acquiring, owning and operating tower and related infrastructure and providing access to these towers primarily to wireless telecommunications service providers. Factors such as (a) decrease in consumer demand, (b) deterioration in the financial condition of wireless telecommunications service providers owing to declining tariffs, media convergence or other factors or their access to capital adversely, (c) decrease in the overall growth rate of wireless telecommunications and (d) ability and willingness of wireless telecommunications service providers to maintain or increase capital expenditures affects the demand for tower space in India which may adversely affect operating results of these operators.

High dependence on factors affecting telecommunication industry

Bharti Infratel performance is directly related to the performance of the Indian wireless telecommunications industry and is therefore affected by factors that generally affect that industry. The wireless telecommunications industry is sensitive to factors such as consumer demand and wireless telecommunications service providers' debt levels, their ability to service their debt and other obligations and general economic conditions. In addition, the Indian telecommunications industry may face policy changes in response to recent industry developments. We believe such adverse industry conditions and increased cost pressure on customers may result in Bharti Infratel having to reduce rents or in co-location exits in excess of those permitted under the MSAs affecting profitability of the company going forward.

Competition may lead to margin compression

The tower infrastructure business in India is highly competitive in nature. The company faces strong competition in the market from the tower infrastructure provided by wireless telecommunications service providers, tower infrastructure companies backed by wireless telecommunications service providers and independent tower infrastructure companies. Increasing competition in the tower industry and increasing tariff pressures on Bharti Infratel may create pricing pressures that may adversely affect operating performance of the company.

Policy paralysis could hamper growth

The Indian telecommunications industry may face policy changes in response to recent industry developments, including the cancellation of 2G licenses' issued to certain wireless telecommunications service providers. Also the standardization of telecommunications tower designs could result in Bharti Infratel having to make modifications to their existing towers, which may be costly and could have an adverse effect on their cash flows and profitability.

Outlook and valuation

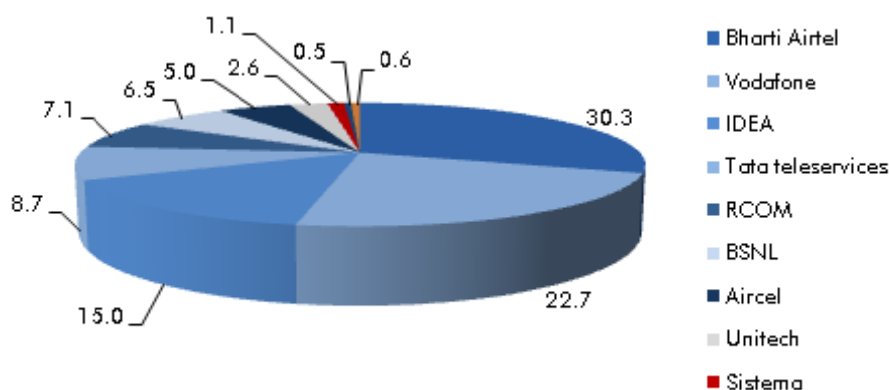
Bharti Infratel has registered a 3.4% and 9.6% CAGR in towers and tenancies, respectively over the last three years. The company posted 15.9% and 21.0% revenue and EBITDA CAGR over FY2010-12. In terms of valuation, the current IPO price band of ₹210-240 implies a June 2012 annualized EV/EBITDA of 11-13x, EV/tower of ₹0.5-0.56cr; P/E of 45-53x, and P/BV of 2.7-3.0x, which we believe is at a premium. In addition, low asset turnover and minimal use of leverage in a capital intensive industry have resulted in low RoE for Bharti Infratel over the past three years. Bharti Infratel's RoE has remained in the range of 4.0-5.2 in the past couple of years. Also, the overcapacity in the industry is expected to limit the demand for rollout of new towers. Further, regulatory changes and the resultant uncertainty pose a risk to telecom players as their network rollout plans could be hampered. **Hence, we recommend Avoid to the issue on account of its premium valuations.**

Industry Overview

Indian wireless telecommunication services sector

The focus of Indian operators in the last ten years or so has been to develop an affordable mass market telecommunications service model which allows for service availability across India's urban and rural areas at affordable prices. Over the five-year period 2005-2010, the wireless telecommunications services sector has grown rapidly (Source: CRISIL.). Industry revenue reached ₹1,361bn at the end of March 2012 (Source: Analysys Mason.), and the mobile subscriber base rose to around 919 million at the end of March 2012 from 99mn at the end of 2005-2006. The Indian telecommunications industry is one of the most competitive globally with over ten operators existing in the market. However, the bulk of the revenue market share is concentrated amongst the top three operators.

Exhibit 5: Market Share in terms Revenue (%) (As on June 30,2012)



Source: RHP, Angel Research; Note: Others includes Loop Mobile, Loop Telecom, Videocon, HFCL, Etisalat, S-Tel

Trend in mobile subscribers (historical) for 2G and 3G services

In the case of 2G subscribers, the availability and affordability of services has resulted in a significant increase in the wireless user base. This subscriber base has risen from 261 million in the fiscal year 2008 to 868 million in the fiscal year 2012. There are an estimated 640,000 2G installed base stations in India across operators and Circles, translating into around 1,360 2G subscribers per base station. (Source: Analysys Mason.) The penetration of 3G has remained limited, due to limited device penetration, initial glitches in the user experience owing to coverage issues and more importantly service pricing relative to the pricing of GPRS / EDGE. With declining prices of 3G services in India, the adoption and traffic has increased across telecommunications Circles and is expected to continue to grow with increasingly good service and device affordability and coverage expansion.

Indian tower industry

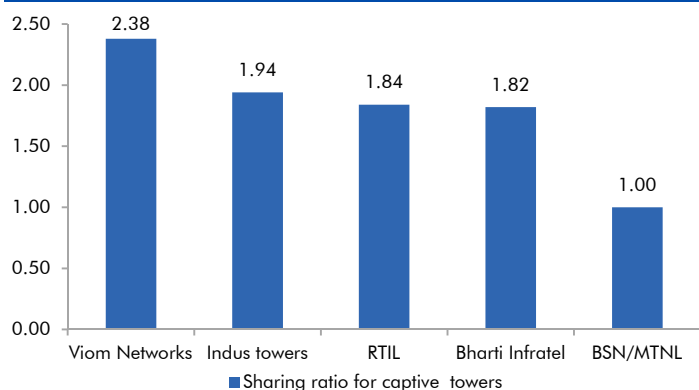
Wireless telecommunications service providers have made considerable investment in building network infrastructure to address the high subscriber growth and consequent increase in traffic. The extent and spread of infrastructure and the

number of subscribers supported by the infrastructure created by operators is dependent upon the subscriber base, usage per subscriber, stage of network rollout by the operator, technology platform, frequency band of operation and spectrum availability. Typically, for a GSM operator providing 2G services, the number of subscribers that are served by a base transceiver station (“BTS”) is 850 to 1,200. This number could vary based on the technology, the spectrum and other factors. (Source: CRISIL.)

Trend in number of tenancies (historical) for 2G and 3G

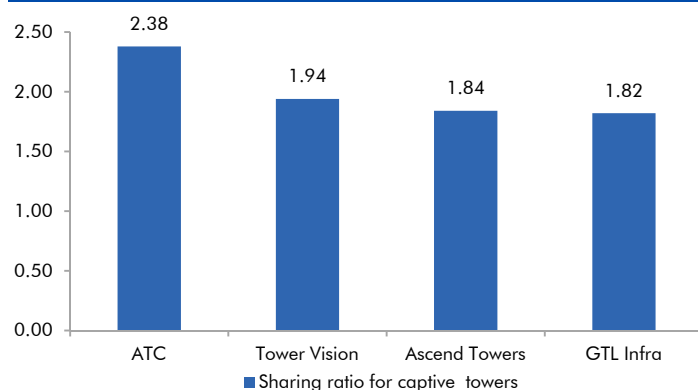
Industry tenancy has grown from 1.05 in 2007-2008 to 1.70 in 2011-2012. Tower tenancy currently stands at 1.70 times for 2G towers, of which tenancies for telco-owned tower companies are estimated at around 1.94 times and tenancies for independent telcos are estimated at around 1.46 times. Consolidation among tower companies will further increase the tenancy ratio; consolidation among tower companies will lower the proportion of operator-owned tower assets. (Source: Analysys Mason.) The tenancy metrics vary by tower Company and reflect the genesis of these tower companies. Large tower companies such as Indus towers were formed by a carve-out of the tower portfolio of multiple operators, and hence have a high captive tenancy.

Exhibit 6: Tenancies for telco owned tower companies



Source: RHP, Angel Research

Exhibit 7: Tenancies for independent tower companies



Source: RHP, Angel Research

Income statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
Revenue from operations	705	5,051	7,039	8,508	9,452
Other income	1	127	90	118	145
Total income	706	5,177	7,129	8,626	9,597
Power and fuel expenses	258	1,946	2,525	3,015	3,358
Rent	71	527	880	977	1,058
Employee benefit expenses	18	131	240	285	298
Other expenses	100	936	975	1,101	1,199
Total expenses	447	3,540	4,620	5,379	5,913
EBITDA	258	1,510	2,418	3,129	3,539
Dep. and amortization exp.	203	1,477	1,996	2,245	2,371
EBIT	55	33	423	884	1,168
Less: Adjustment	(40)	(240)	(234)	(226)	(225)
Finance expenses	34	114	354	433	407
PBT	62	285	393	795	1,131
Tax					
Current tax	7	45	80	169	305
Less: MAT credit	(7)	(45)	(80)	(113)	(64)
Deferred tax	21	89	140	187	139
Fringe benefit tax	0	1	-	-	-
PAT	40	195	253	551	751

Balance Sheet

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
Non-current assets					
Tangible assets	11,539	16,227	17,552	17,634	16,701
Intangible assets	-	4	23	33	27
Capital WIP	402	953	365	288	186
Deferred tax assets	1	38	21	-	-
Long term loans and advances	295	475	698	1,081	1,130
Other non-current assets	29	224	605	944	1,217
Current assets					
Current investments	3,193	287	395	246	336
Trade receivables	86	405	901	699	683
Cash and bank balances	148	209	681	14	48
Short-term loans and advances	375	1,612	790	1,926	2,568
Other current assets	0	292	480	426	579
Total assets	16,066	20,728	22,512	23,289	23,474
Non-current liabilities					
Long term borrowings	3,026	1,377	3,966	3,717	2,389
Deferred tax liabilities	180	306	429	596	735
Other long term liabilities	149	860	1,404	1,773	1,852
Long term provisions	522	999	577	499	514
Current liabilities					
Short term borrowings	109	1,207	325	547	770
Trade payables	256	92	419	221	402
Other current liabilities	1,568	5,532	1,757	1,932	2,279
Short term provisions	1	3	8	10	10
Total liabilities	5,811	10,376	8,885	9,294	8,950
Total sharecapital	0	541	581	581	581
Securities premium account	2,017	1,595	4,759	4,759	4,759
Stock option outstanding account	-	23	76	122	137
General rReserve	8,198	7,958	7,724	7,494	7,258
Net surplus (profit and loss)	40	236	489	1,039	1,790
Total Reserves and surplus	10,255	9,811	13,047	13,414	13,943
Net worth	10,255	10,352	13,628	13,995	14,524
Total equity and liabilities	16,066	20,728	22,512	23,289	23,474

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