

Bharti Infratel Ltd. (BIL) : "AVOID"

7th December, 2012

Bharti Infratel is a provider of tower and related infrastructure and on a consolidated basis, one of the largest tower infrastructure providers in India. It has a nationwide presence with operations in all 22 telecommunications Circles in India. As on September 2012, Bharti Infratel owned and operated 34,220 towers in 11 telecommunications circles. With Bharti Infratel's towers and Bharti infratel's 42 percent interest in Indus (operated 1,10,561 towers in 15 telecommunications circles), BIL has an economic interest in the equivalent of 80,656 towers as of September 30, 2012. The Company's first mover advantage in the industry, large scale of operations, long term contracts yielding strong & stable cashflows and pool sharing arrangement with companies like Bharti Airtel, Vodafone and Aditya Birla Telecom (subsidiary of Idea Cellular) has resulted in better-than-industry tenancy ratio are its key strengths. While the operating financial numbers looks good for BIL, its future business potential is correlated to the fortunes of the struggling telecom sector. An indication of its troubles came from the poor response to the 2G auction last month.

At the upper band of the issue price, BIL is valued at 49x – H1FY13 Annualized EPS/share of Rs. 4.88/- at upper end of the price band. On EV/EBITDA basis, the issue is priced at 12x on H1FY13 annualised basis which looks expensive. Implied EV/tower in the IPO band is Rs 5mn-Rs 5.6mn With due consideration to factors like a) capital intensive nature of business, b) poor ROEs as compared to global peers like American Towers and Crown Castle, c) lower asset turnover, d) regulatory changes and the resultant uncertainty pose a risk to telecom players as their network rollout plans could be hampered and e) key risk of potential leveraging of the balance sheet to expand inorganically internationally. We recommend investors to "AVOID" the issue.

Financial summary (Consolidated)

Y/e 31 Mar (Rs. cr)	H1FY13	FY12	FY11	FY10
Total income	4,972	9,452	8,508	7,039
EBITDA	1,963	3,684	3,247	2,509
EBITDA Margin (%)	39.5	39.0	38.2	35.6
Reported PAT	461	751	551	253
PAT margin (%)	9.3	7.9	6.5	3.6
EPS (Rs.)	4.88**	3.98	2.92	1.34
P/E (x) at upper end of price band	49	60	82	179
Equity Capital	1,742.4	580.8	580.8	580.8
Networth	14,304.8	14,524.2	13,994.9	13,627.5
Total Debt	3,216.9	3,159.3	4,263.8	4290.8
Debt/Equity (x)	0.22	0.21	0.30	0.31
RoNW (%)	-	5.2	3.9	1.9

Source: RHP, Ajcon Research

Note: ** Annualised EPS on Post IPO equity, EPS for all the years in the metric are calculated on Post IPO equity

Issue date	December 11 – 14, 2012	
Issue size	Rs. 45.3 bn at upper end of the price band	
FV	Rs.10	
Price Band	Rs. 210 - 240 per share	
Discount	Rs. 10 to retail investors	
Lot size	50 Equity Shares and in multiples of 50 Equity Shares thereafter.	
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%	
Type of issue	Fresh Issue: 146.23 mn equity shares Offer for sale: 42.67 mn equity shares (4 PE players)	
Equity shares post issue	188.9 mn equity shares	
Post issue market capitalization	Rs. 45.33 bn at upper end of the price band	
Book Running Lead Managers	ENAM Sec., Barclays Sec., Deutsche Eq., HSBC Sec., Kotak Mahindra Cap., BoFA Merrill, JP Morgan, Standard Chartered & UBS Sec.	
IPO Grading	Grade 4/5 by CRISIL indicating above average fundamentals	
Registrar to the issue	Karvy Computershare Pvt. Ltd.	
Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters & Promoter Group	86.09	79.42
Public & Others	-	10.58
Total	100	100

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ABOUT THE COMPANY

OBJECTS OF THE ISSUE

S. No.	Particulars	Amount (Rs. in bn)
1.	Installation of 4813 new towers	10.87
2.	Upgradation and replacement of existing towers	12.15
3.	Green initiatives at tower site	6.39
4.	General Corporate Purposes	-

Source: RHP, Ajcon Research

For research related queries contact Mr. Akash Jain, VP - Research at research@ajcon.net

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