Initiating Coverage

Telecom Services

Industry back in favor following upward 2G tariff revision

Recent increase in 2G tariff in select few circles by major operators is a sign that the tariff competition is the thing of the past and the average revenue per minute (ARPM) for the industry is set for an uptrend. The growth in the mobile telecom industry till now was primarily driven by affordability and penetration of pure voice. Now that the 2G business has reached maturity, the subscriber addition growth has slowed down during the past few months.

The next phase of mobile growth in the country, we believe will be driven by data and values added services (VAS) on the 3G and broadband platform. Increased scale in the 3G business and evolution of the various utility and value added billable services on the 3G platform will drive the data revolution in the country going ahead. For the same to happen, affordability and penetration of 3G enabled handsets will remain the key. Enabling various utility services, mobile gaming, web surfing, video streaming etc. on the handset and other mobile devices (tablets) etc are made easy by the introduction of 3G and would provide incremental revenue upside for mobile operators.

Meanwhile the increase in 2G tariffs by some operator signals that the 2G tariff has hit a bottom and the competitive intensity perhaps is abating. A rough simulation analysis on the leading incumbents indicates that the ARPM of major incumbents may rise by at least 3-5 paisa per minute going ahead from the quarter before following the tariff increase. Circle wide tariff hike of the same quantum may result in significant sequential upside in revenue growth to the tune of 20%-30% for major operators (assuming that the usage per subscriber is not impacted much). ***Unlike in 2G, competition in 3G will be driven by services and product offerings rather than price.***

New Telecom Policy (NTP) -2011 would have pro-industry triggers

We believe that the New Telecom Policy (NTP) -2011, that is expected to be introduced soon will have various pro-industry measures on the spectrum sharing, trading, pricing and mergers & acquisition (M&A) policy, thus compelling re-rating for the sector as a whole.

Competitive intensity reducing and the pricing power is back with operators

We are initiating coverage on the Indian telecom services sector as we like the sector following the recent 2G tariff hike in selected circles. We believe that the competitive intensity in the industry is falling and the pricing power is back with the operators. Recent increase in mobile prepaid tariffs by some of the leading operators has come after a very long time. Rather the hike has been steep 20% at select circles. Subsequently the operators may increase the 2G tariff across the circles going ahead. The Department of Telecom (DoT) recently has allowed the leading incumbents to hold spectrum up to 10 MHz (Megahertz) in metro circles. So such positive feeds in the recent past have re- ignited the hope of a turnaround for the sector in general.

A darling sector of most of the portfolio investor's allocation till a few years back, suddenly felt out of favor following the per second tariff introduction in early FY2010 as the consequent intensifying tariff competition impacted the revenue and profitability of the wireless operators considerably. Added to that was the confidence-denting 2G spectrum allocation scam. But now the tide seems to be turning around as most of the operators are expected to hike their tariffs. The absorption of the same however and its impact on minute usage would have to be closely watched and perhaps the incumbents may implement tariff hike across the circles later, if they see the usage not impacted much. 3G is another opportunity which the incumbents is expected to cash in. ***Tariffs of 3G services are at significant premium to the 2G operation currently and the ramp-up on the same front quickly will help the blended ARPM for the industry.*** High tariff of 3G are due to high 3G spectrum charge and low competition, since each circle has only 3 operators.

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Smaller scam infected 2G operators would suffer

Sustenance of many of the pure 2G operators who were issued license in 2008 is going to be difficult due to their pure voice only 2G offerings and many are currently operating at very unsustainable level average revenue per user (ARPU). Some of them are being investigated in 2G spectrum scam. Besides the unavailability of 3G license and spectrum with these new operators will place them at a competitive disadvantage compared to their incumbent peers.

Bharti Airtel and Idea Cellular are conviction buy at these levels-

We are positive on Bharti Airtel and Idea Cellular among the listed telecom services sector pack despite their run up in price recently, because of their leadership position in many circles and their subscriber quality.

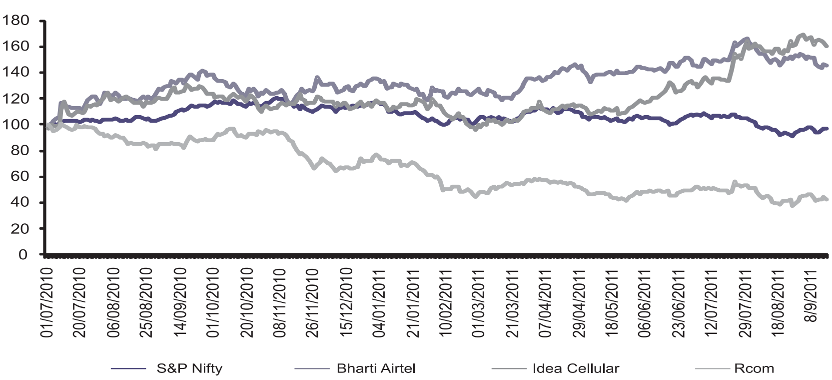
Both these operators have increased their subscriber and revenue market share considerably during the past several months. Excellent brand recall of Idea Cellular and innovative product offering in its leadership circles as well as new circles where it has launched service in 2008 presents excellent opportunity for growth. On the other hand higher tariff will enable Idea Cellular to turnaround its operation in the new circle much faster than expected, while in Bharti Airtel's case, ramp up in its Africa operation and improving efficiency there will help their numbers to turnaround. For both Bharti Airtel and Idea Cellular we believe that the revenue and profitability gain going ahead will be driven by improvement in 2G price and nation-wide launch and stabilization of their 3G operation, hence are a strong buy case despite premium valuation multiple. We would avoid Reliance Communication at this juncture despite its cheaper valuation, purely because of their poor subscriber quality and weak financial fundamentals.

Comparative valuation

Company	Year End	Total Revenue (bn Rs.)		Net Profit (bn Rs.)		EPS (Rs.)		EPS Growth %	Sales Growth %	EBIDTA Margin %	ROE %	ROCE %	P/E (x)		EV/EBITDA (x)		P/BV (x)	
		FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY12E	FY12E	FY12E	FY12E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Bharti Airtel	Mar	724.39	804.34	72.12	94.03	19	24.8	19.3	21.8	36	13.8	7.9	20.4	15.6	7.8	6.6	2.6	2.2
Rcom	Mar	263.81	288.91	11.90	19.21	5.5	8.9	-10.7	17.6	36.2	2.9	2.4	14.6	9.1	5	4.3	0.4	0.4
Idea Cellular	Mar	192.85	245.67	8.86	18.29	2.7	5.5	-1.4	24.9	27.2	7	6.7	36.1	17.5	9	6.4	2.4	1.9

Source: Company Reports, FQ Research

Telecom sector stock performance chart with Nifty- *Bharti Airtel & Idea Cellular outperformed the benchmark, while Reliance Communication underperformed*

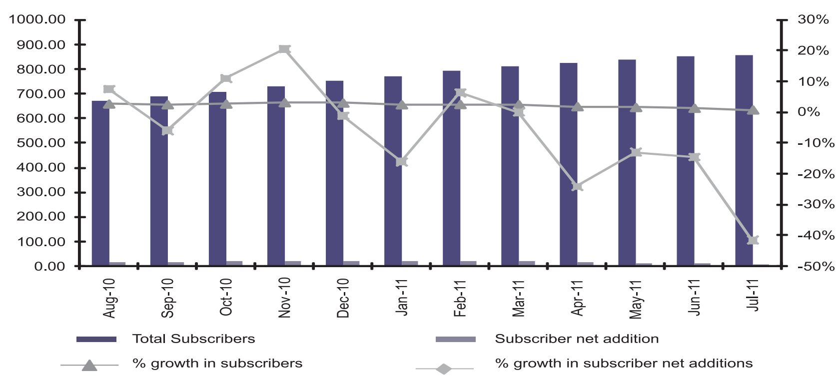


Source: NSE

Indian wireless telecom services industry -History of astounding subscriber growth, highly competitive, lower tariffs…

The subscriber growth during the past several month in the Indian Telecom industry has been phenomenal, driven by affordability of handsets and tariffs and deeper penetration into newer rural and semi urban circles. As at the end of July 2011, the total wireless subscriber base stood at 858.37 mn as per the latest available TRAI data. Such high growth attracted newer operators, thus resulting in an extremely crowded market place especially for pure voice 2G services. For e.g. there are 15 operators offering their services in various circles, with each circle having anywhere between 6-8 operators. However the top 6 operators control more than 86% of the subscriber market share as at the end of July 2011. The wireless tele-density at the end of July 2011 reached 71.59% (urban tele-density 156.69% and rural tele-density 34.92%). ***All along, the growth in subscribers has come at the expense of profitability as aggressive competition among the incumbents and new operators during the past several quarters has really hammered the ARPUs in the 2G segment. The usage per user too have witnessed a fall during the past several quarters as the incremental subscribers have been coming from price sensitive, low usage rural circles.***

Wireless subscriber and subscriber growth trend- *(Growth in subscriber net addition has slowed down considerably)*



Source: TRAI, FQ Research

Operator-wise mobile subscribers and their market share at the end of June 2011

Service provider	Subscribers Jul-11	Subscriber market share Jul-11	Net additions Jul-11	Share of net additions Jul-11
Bharti	170.70	19.89%	1.51	22.63%
Vodafone	143.01	16.66%	1.49	22.35%
Rcom	144.79	16.87%	1.52	22.80%
Idea	96.11	11.20%	1.00	15.03%
Tata	88.32	10.29%	-2.68	-40.13%
BSNL	95.15	11.08%	1.42	21.30%
Aircel	58.59	6.83%	0.61	9.12%
Loop	3.16	0.37%	0.01	0.19%
Etisalat	1.42	0.17%	0.07	0.99%
HFCL	1.41	0.16%	0.01	0.14%
MTNL	5.52	0.64%	0.03	0.38%
Sistema	12.26	1.43%	0.53	8.00%
Stel	3.50	0.41%	0.18	2.75%
Unitech	27.39	3.19%	1.06	15.86%
Videocon	7.03	0.82%	-0.10	-1.42%
Total	**858.37**	**100.00%**	**6.67**	**100.00%**

Source: TRAI, FQ Research

Now the incumbents are focusing on value added services (VAS) and other related non voice services businesses to drive their business forward. The 3G launch by various operators will help in ramping up the data business considerably. Until the end of May 2011, the 3G subscribers in India was around 9 mn and is projected to increase to 400 mn by the end of FY15 as per a study- ***India 3G rollout (forecasts and market shares 2011 - 2015)*** conducted by Wireless Intelligence.

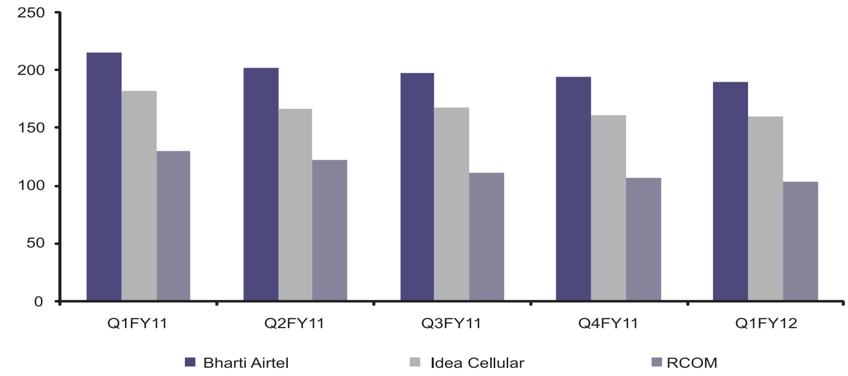
Circle wise subscriber revenue market share for the quarter ended June 2011

Circle	Bharti	Vodafone	Rcom	Idea	Tata	BSNL	Aircel	Loop	MTNL	Others
Metro & 'A' Circle										
Delhi	36%	26%	11%	10%	9%	0%	2%	0%	4%	1%
Mumbai	18%	31%	13%	7%	13%	0%	2%	8%	3%	4%
Kolkatta	27%	29%	14%	3%	12%	5%	4%	0%	0%	5%
Tamil Nadu	32%	22%	6%	2%	6%	8%	22%	0%	0%	3%
Andhra Pradesh	45%	0%	8%	19%	13%	10%	2%	0%	0%	3%
Karnataka	47%	13%	8%	9%	12%	6%	1%	0%	0%	3%
Maharashtra	20%	23%	8%	29%	10%	7%	1%	0%	0%	3%
Gujarat	18%	39%	8%	17%	7%	5%	1%	0%	0%	5%
B' Circle										
Punjab	36%	17%	5%	19%	9%	9%	1%	0%	0%	4%
Uttar Pradesh (East)	29%	30%	8%	12%	5%	9%	2%	0%	0%	5%
Uttar Pradesh (West)	17%	24%	9%	27%	8%	7%	2%	0%	0%	5%
Haryana	18%	28%	6%	21%	14%	9%	1%	0%	0%	2%
Madhya Pradesh	28%	5%	18%	31%	9%	7%	0%	0%	0%	1%
Kerala	17%	22%	5%	31%	6%	15%	2%	0%	0%	2%
Himachal Pradesh	40%	8%	14%	7%	4%	16%	7%	0%	0%	4%
Rajasthan	45%	22%	6%	10%	5%	8%	2%	0%	0%	3%
West Bengal	26%	36%	10%	3%	5%	7%	4%	0%	0%	7%
C' Circle										
Assam	32%	11%	17%	2%	2%	11%	24%	0%	0%	0%
Bihar	44%	11%	12%	9%	8%	6%	5%	0%	0%	5%
Jammu & Kashmir	40%	8%	5%	2%	3%	14%	28%	0%	0%	0%
North East	36%	10%	7%	3%	2%	16%	26%	0%	0%	0%
Orissa	5%	17%	19%	5%	13%	23%	12%	0%	0%	5%
Total	**31%**	**21%**	**9%**	**14%**	**9%**	**7%**	**5%**	**1%**	**1%**	**3%**

Source: TRAI, FQ Research

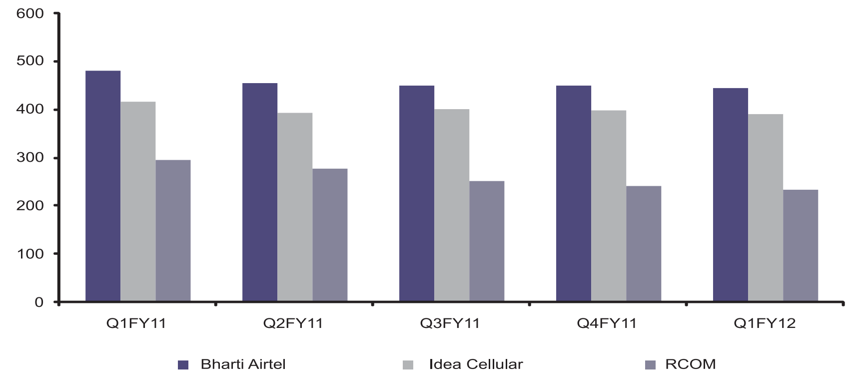
ARPU, MoU and RPM trend - IDEA, BHARTI & RCOM

Average Revenue per User (ARPU) (Rs) - *shows a declining trend*



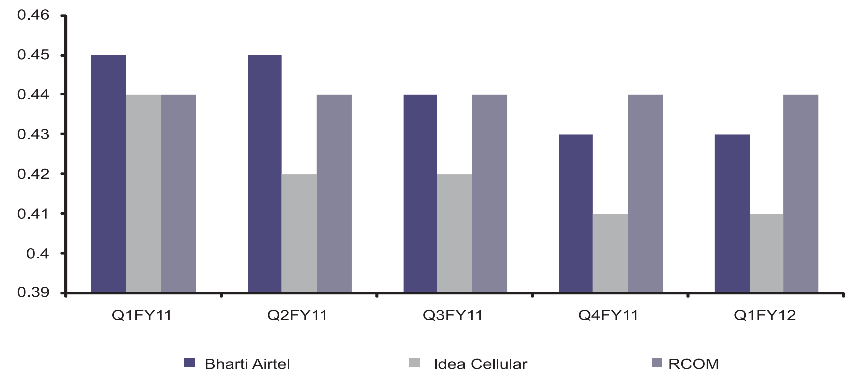
Source: Company Reports

Minutes of Usage (MOU)/ Month (in minutes) - *continues to thread down*



Source: Company Reports

Revenue per Minute (Rs.) - *Stabilizes in Q4FY11 and marginally improves in Q1FY12*



Source: Company Reports

Data and VAS on the 3G & BWA platform will be the key driver for the industry growth going ahead…

Amid high competition on the tariff front by the incumbents, most of them bid aggressively for the 3G and Broadband Wireless Access (BWA) license and spectrum that was auctioned in Q2 CY10. 3G spectrums have enabled operators to launch faster and more efficient voice and data services besides increasing their network capacity. The DoT auctioned the 3G licenses for a total consideration of Rs. 676 bn.

Operators allotted 3G & BWA spectrum

Operators	3G Investment (bn Rs)	No of Circles
Bharti Airtel	123	13
Reliance Communication	86	13
Vodafone Essar	116	9
BSNL	102	20
Idea Cellular	58	11
Tata Teleservices	59	9
Aircel	65	13
MTNL	65	2
STEL	3	3
Total	**676**	**22**

Operators	BWA Investment (bn Rs)	No of Circles
Bharti Airtel	33.1	4
Aircel	34.4	8
Infotel Broad Band	128.5	22
Qualcomm Inc	49.1	4
Tikona Digital Networks	10.6	5
Augere	1.2	1
Total	**256.9**	**22**

Source: TRAI

3G services and Broadband Wireless Access (BWA) license presents immense opportunity for the incumbent operators to not just improve the efficiency and capacity of their 2G operation, but also to widen their product offering going ahead. The impact of 3G services will be evident in the operator's book, in the form of improved blended ARPU and ARPM. Leading operators may widen their VAS offerings thus adding additional revenue stream and thereby improving blended realization. BWA spectrum will enable the operators to launch high speed data and internet services both for the retail and the enterprise front, which was so far not possible through 2G. The faster rollout of the premium 3G offering will significantly help in improving the price structure especially in the 'metro' and 'A' circles. We refrain from projecting the 3G subscribers going ahead as the tariff structure for 3G services and its acceptance in the Indian market will have to be closely watched. Nevertheless, in the medium to long term, the overall contribution of the data segment to total revenues and profitability of the mobile operators will witness a surge.

New Telecom Policy - 2011 (NTP-2011) to be introduced soon- *Expected to address most of the ills faced by the mobile services industry…*

The NTP-2011 which is expected to be unveiled soon may introduce various pro-industry measures such as audit of spectrum usage and spectrum sharing by operators that would provide a boost to the incumbent mobile operators who are facing spectrum crunch across various circles. Favorable proposals relating to mergers & acquisition will also help stimulate meaningful consolidation in the telecom sector, besides lowering of license fee to a uniform 8.5% across all circles, as against the varying fee of 6-10% will also help the incumbents.

Companies having telecom tower assets to benefit from further 2G and 3G network expansions…

None of the operators have managed to bid for pan India 3G license, as a result most will have to enter into roaming arrangements with each other in order to offer nationwide 3G services. Further 2G penetration will necessitate additional installation of BTS (Base Transceiver Station) that will help the tower operators who would be able to increase the tenancy on their tower assets. Nationwide 3G launch will also increase the tenancy of the tower operators. ***We believe Bharti Airtel and Idea Cellular will stand to gain immensely as both of them have significant captive tower assets, which can be leased out to other operators for their network expansion. The telecom operators earns tenancy fee from offering this service.*** Bharti Airtel, Vodafone and Idea Cellular operate a separate joint venture (JV) tower company- 'Indus Tower'. Besides the increased tenancy of the tower assets, the mobile operators also stand to gain by hiving off the tower asset going ahead. Rather we expect consolidation in the tower segment specifically as some of the operators are expected to look for de-leveraging opportunities by hiving off tower operations.

Regulatory concerns still remain…

Regulatory concern with regard to one time excess 2G spectrum charges and 2G license renewal charges still remains. According to the TRAI formula the incumbents will have to make a one-time payment for the spectrum that they hold in excess of 6.2 MHz, which is even higher than the price of 3G spectrum. ***Although TRAI has allowed operators to hold 10 MHz spectrum in metros, excess spectrum in 'A', 'B' and 'C' circles has to be paid or has to be surrendered- both detrimental to the incumbents.*** Uncertainty with regard to the interconnection usage charges (IUC) is another major negative for the company on the regulation front. IUC of 20 paisa that the incumbents receive on the calls terminating on their network may be done away with or perhaps reduced, which would impact the incumbents like Bharti Airtel and Idea Cellular.

TRAI's calculated 2G price list (Amount in Mn) - *Price list too high for spectrum in excess of 6.2 MHz*

Circle	Price (Rs mn per MHz)	Price (Rs mn per MHz)	Price (Rs mn per MHz)	3G Price (Rs mn per MHz)
Metro & 'A' Circle	**in 2001**	**<=6.2MHz**	**>6.2MHz**	
Delhi	275.3	1497.8	2497.3	6633.9
Mumbai	328.5	1011.1	1573.4	6494.1
Kolkata	125.8	494.8	476	1088.5
Tamil Nadu	375.8	1873.8	4260.5	2929.9
Andhra Pradesh	166.1	1537.7	4319.5	2746.3
Karnataka	333.6	1361.6	3459.2	3159.8
Maharashtra	304.8	1171.4	3744.7	2515.6
Gujarat	175.8	1498.7	3553.7	2152.1
B' Circle				
Punjab	244.8	728.6	1805.6	644
Uttar Pradesh (East)	73	1517.6	3187.6	1028.1
Uttar Pradesh (West)	49.3	601.1	2525.5	729.1
Himachal Pradesh	1.8	93.4	281.2	74.5
Haryana	34.6	145	1079	445.2
Kerala	65.4	739.8	2321.6	625
Madhya Pradesh	28.1	877.1	2544.5	516.7
Rajasthan	52	1060.3	2788.4	642.1
C' Circle				
Assam	8.1	104	313.3	83
Bihar	16.1	510.4	1536.9	406.9
West Bengal	1.6	447.9	2169.6	247.3
Jammu & Kashmir	3.2	76	228.9	60.6
North East	3.2	106.1	319.5	84.6
Orissa	8.1	243.3	732.6	194
Total	**2675**	**17697.5**	**45718.5**	**33501.3**

Source: TRAI

Mobile Number Portability (MNP) will increase the subscriber acquisition cost besides improving the quality of services…

Unlike earlier, when the subscribers had to stick to a specific network, irrespective of its service quality and price in order to retain their service numbers, MNP has done away with the same bottleneck for the subscribers. MNP allows subscribers to change their operator without changing their numbers. In the MNP era the competition among the operators will be on the quality of the network, service quality and product diversification. ***We believe MNP will enable the operators to pouch each other cream customers and hence healthy competition will continue to prevail among the top five operators. We believe that the leading operators will continue to benefit in terms of subscriber addition at the cost of newer and smaller operators.*** Subscribers may shift to operators who have Pan India operation besides 3G and BWA license. On the other hand continued introduction of retainer plans by the incumbents will keep the subscriber acquisition cost high.

FINQUEST YOUR FINANCIAL GOAL. OUR QUEST

Initiating Coverage

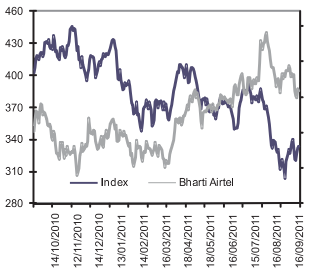
CMP : INR 387
Rating : Buy
Target : INR 495

KEY DATA	
Market Cap (INR bn)	1465.8
Market Cap (USD mn)	31188.1
52 WK High / Low	444 / 304
Avg Daily Volume (BSE)	544696
Face Value (INR)	5

BSE Sensex	16745
Nifty	5032
BSE Code	532454
NSE Code	BHARTIARTL
Reuters Code	BRTI.BO
Bloomberg Code	BHARTI IN

Shareholding %	3Q	4Q	1Q
Promoters	68.0	68.0	68.0
MF/Banks/Indian FIs	9.0	9.0	8.0
FII/ NRIs/ OCBs	18.0	17.0	18.0
Indian Public	5.0	6.0	6.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	(5.8)	(7.8)	(12.8)
Relative	(9.9)	(28.2)	(23.8)

Bharti Airtel

Banking on the turnaround in Africa operation and the 3G business...

Bharti Airtel is the best of the telecom services pack in India and we like the stock at the current price levels because of the expected turnaround of its Africa operation and expected traction in India due to 2G tariff increase and ramp up in 3G services. The company management has set a target to achieve 100 mn subscribers in Africa by the end of FY13 with revenue and EBIDTA target set at US$ 5 bn and US$ 2 bn respectively. The set target may seem too optimistic; nevertheless we see significant improvement in operating performance in the company's Africa operation going ahead. So far the Africa operation has been a drag on the company's overall performance as it has been posting loss since its acquisition by Bharti Airtel in June 2010. The operating margins in the Africa operation too has been quiet lower compared to the company's India operation due to significantly high cost structure. For e.g., during the previous quarter ended June 2011, the EBIDTA margin of the company's Africa operation was around 25% as compared to 36.6% for its India operation. We expect the profitability improvement to come from operational improvement in Africa. ***We believe the company's move to outsource critical functions to strategic partners in Africa could drive a turnaround in the Africa operations, and the same would be visible on the numbers from the second half of FY12, there by improving the EBIDTA margin significantly going ahead. Also, Bharti Airtel's passive infrastructure business, Telemedia and its enterprise businesses will allow the company to diversify and provide a hedge against any weakness in the voice business.*** Move to share telecom infrastructure in the African continent will also help lower capex and improve operational efficiency.

On the operational front we estimate the company to have a subscriber base of 202 mn (India and South Asia) by the end of FY13 thus increasing its subscriber market share to more than 20%. Recent 2G tariff increase would result in marginal improvement in ARPM in the proceeding quarters.

Consolidated Financial Snapshot

Consolidated Financials (Mn. Rs.)	FY10	FY11	FY12E	FY13E
Net Sales	**418,472**	**594,672**	**724,390**	**804,344**
Sales Growth (%)	*13.2%*	*42.1%*	*21.8%*	*11.0%*
EBIDTA	**167,633**	**199,664**	**260,565**	**294,434**
EBIDTA Growth (%)	*11.7%*	*19.1%*	*30.5%*	*13.0%*
EPS	**23.7**	**15.9**	**19.0**	**24.8**
EPS Growth (%)	*6.0%*	*-32.7%*	*19.3%*	*30.4%*
PE (x)	**16.4**	**24.3**	**20.4**	**15.6**

Source: Company, FQ Research

Bharti Airtel is the market leader with highest subscriber and revenue market share in India

Bharti Airtel is the market leader in the world's fastest growing telecom market, with a subscriber and revenue market share of 19.8% and around 30% respectively. At the end of June 2011, Bharti Airtel (India, Bangladesh and Sri Lanka) had a total subscriber base of 169.2 mn, while the company has 46.3 mn subscribers in its Africa network. Since the acquisition of Zain Telecom's mobile operations in 15 African countries in June 2010, Bharti Airtel has achieved significant success in the region especially on the brand front and now the company seeks to introduce the same low-cost business model in Africa that was so successful in India. Africa is a high ARPU, low voice usage but high data usage market. Since the acquisition in Africa, Bharti Airtel has managed to rationalize the tariff (was at premium compared to competitors) in Africa, while at the same time increase the subscribers on the network. During the previous quarter ended June 2011, the company's Africa ARPU was around Rs 326.5 per user per month, which is significantly higher than the Rs 190 ARPU in India. However the average minutes of usage (AMOU) per month per subscriber were lower in Africa at 121 minutes as compared to 445 minutes in India. The company has outsourced several critical functions ranging from customer care, network expansion and network maintenance to its various channel and technology partners in order to reduce cost. Now these measures are expected to translate into improved bottom-line soon.

In India Bharti has managed to increase its subscriber base considerably during the past several months, but in the process the company's ARPU has suffered badly, which was down from Rs.242.8 per user per month at the end of FY10 to Rs.190 per user per month on Q1 FY12. During the same period, the realized Revenue per Minute (RPM) fell by nearly 15% to Rs. 0.43. We believe that the RPM should thread upward following the recent tariff increase in some of the circle. The 3G and BWA services will also help in improving blended ARPM going ahead. Similarly we expect Bharti Airtel to continue to garner the largest share of monthly subscriber additions due to its extensive geographic presence and integrated product offerings. The extensive penetration of the company's network across the country will enable it to ramp up the VAS, m-commerce and mobile banking business. ***Due to the extensive service coverage across the country, Bharti Airtel is able to mop a huge sum as Interconnect Usage Charges from other operators whose calls get terminated on its network. But regulatory changes could result in the discontinuation of termination charges going ahead.***

Diversification across the telecom technology value chain and leadership position across various circles

Bharti Airtel not just has presence in the voice business, but also has strong presence in the enterprise service space, tele-media, DTH and Passive Infrastructure. Thus such segment diversification not just offers hedge, but also offer operational and technological synergy that fastens business growth and improves efficiency. The company also bagged the 3G and BWA license that was auctioned in FY11. Its position of leadership and integrated business operations give it a competitive edge in the challenging business environment of the world's fastest growing telecom market.

3G spectrum availability has reduced the spectrum crunch issue for the company in some circles

3G spectrum allotment to the company has in a way reduced the spectrum crunch issue for the company in some circles. Bharti Airtel faced significant spectrum crunch especially in the metro and 'A' circles. More 2G spectrums would be freed up by the TRAI and perhaps cancellation of 2G license of erring operators will free up additional spectrum, which would solve the spectrum issue for the incumbents like Bharti Airtel. The trading of excess spectrum that is expected to be permitted in NTP-2011 also bodes well for operators who are facing a spectrum crunch.

3G services will help in improvement in blended ARPU

Launch of premium 3G services and Broadband Wireless Access (BWA) services and the pick up of various data and high Value Added Services (VAS) on the same platform will help in improvement of blended ARPU for Bharti Airtel. The company has already launched 3G services spanning across major cities in its circles. As a result the revenue composition would witness sea change going ahead as the contribution of the non-voice revenue to the total revenue will increase substantially. The launch of 3G services will enable Bharti Airtel to use its network infrastructure optimally. The scope of services that can be offered through 3G is also much wider in comparison to the 2G network.

BWA spectrum will help in fast rollout of wireless broadband services, thereby further increasing the non-voice revenues-

However, it is too early to quantify the revenue and margin impact of the 3G and BWA launches as there is still lack of clarity on the proportion of customers upgrading to 3G, new subscriber response and tariff absorption.

Passive infrastructure business set to post healthy growth-

The tower assets of Bharti Infratel and Indus Towers are expected to witness substantial growth in tenancy as various operators expand their services. This segment contributes an additional revenue stream for the company and its contribution to the total revenue is set to rise. Bharti Airtel even plans to consolidate its tower assets in Africa and present the infrastructure sharing proposition to its competitors there, thereby monetizing the capacity on its assets as well as lower capex requirement.

Bharti Airtel's subsidiary, Bharti Infratel, provides passive infrastructure services on a non-discriminatory basis to all telecom operators in India. The company deploys, owns and manages telecom towers in 11 circles of India. Bharti Infratel also holds 42% share in Indus Towers (its Joint-venture with Vodafone and Idea Cellular). Indus operates in 15 circles (4 circles common with Infratel, 11 circles on an exclusive basis).

Bharti Infratel has 32,792 towers in 11 circles, excluding the 35,254 towers in 11 circles for which the right of use has been assigned to Indus with effect from January 1, 2009. Indus Towers has a portfolio of 108,586 towers including the towers under right of use. Thus the total towers of Bharti Infratel were 78,398 and the total tenancies were 142,039 as on March 2011, amounting to a tenancy ratio of 1.79.

Recommend 'Buy' with a target price of Rs. 495

Considering the emergence of new business opportunities through 3G and BWA for the leading telecom operators in India and the general improvement in the operating environment of the mobile operators we believe that the sector deserves a renewed look, especially leading operators like Bharti Airtel. The company's stock is currently trading at a PE of 20.4x FY12 estimated EPS of Rs. 19 and at a PE of 15.6x FY13 estimated EPS of Rs 24.8. The forward EV/EBIDTA for FY12E and FY13E are 7.8x and 6.6x. We estimate the company's EBIDTA margin to improve by 240 bps in FY12E to 36% while it is further expected to improve by 60 bps to 36.6% in FY13E. Higher finance charges and amortization expenses will lower the return ratios marginally in FY12, although the same is expected to sharply improve in FY13. Both the ROE and ROCE are expected to come in at 15.5% and 9.2% respectively in FY13. ***We believe that most of the negatives are already priced in the stock and there could be potential upside in top-line in the near term if the company manages to hike its tariffs across the circles, which is perhaps not reflected in the price. Even our estimates do not fully incorporate the tariff rise across the circle and scheme as it has still not happened.*** Considering revenue increase probability from tariff increase, improved Africa operation and 3G with improved profitability margins, we assign a PE multiple of 20x (in-line with long term average) FY13E EPS of Rs 24.8, which would take our target price for the stock to Rs 495 (Potential upside 28% from the CMP).

Company Description

Bharti Airtel is India's largest telecommunication operator, with a presence across all the 22 licensed telecom circles in the country, as well as in Sri Lanka, Bangladesh and 17 countries in Africa. On June 8, 2010, Bharti acquired the Africa operations of the Kuwait based, Zain Group, excluding its Sudanese & Moroccan operations, for a total enterprise value of $10.7 bn. Later Bharti also acquired 100% of Telecom Seychelles Limited on August 27, 2010. The company also bagged 2G & 3G license in Rwanda in September 2011.

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Sector

Telecom Services

Key Management Personnel

Sunil Bharti Mittal
Chairman & Managing Director

Sanjay Kapoor
CEO- India & South Asia

Manoj Kohli
Joint Managing Director & CEO

Valuation Thesis

Considering revenue increase probability from tariff increase, improved Africa operation and 3G with improved profitability margins, we assign a PE multiple of 20x (in-line with long term average) FY13E EPS of Rs 24.8, which would take our target price for the stock to Rs 495 (Potential upside 28% from the CMP).

Company Background

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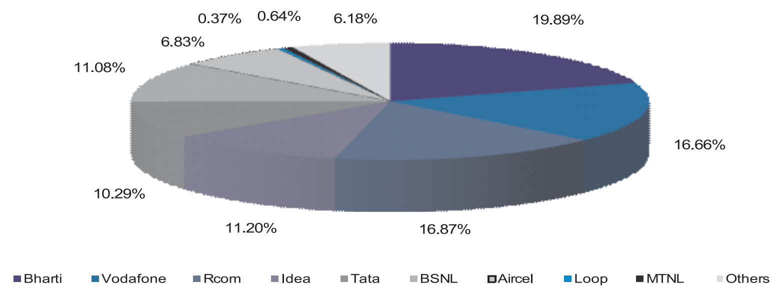
Operator-wise subscriber market share as at the end of July 2011



Source: TRAI, COAI, AUSPI, FQ Research

Bharti Airtel's national long distance infrastructure comprises of 148,792 Rkms of optical fibre, thus providing it with a pan India reach. The company's international infrastructure includes ownership of the i2i submarine cable system connecting Chennai to Singapore, consortium ownership of the SMW 4 submarine cable system connecting Chennai and Mumbai to Singapore and Europe, and investments in new cable systems, such as Asia America Gateway (AAG), India Middle East and Western Europe (IMEW E), Unity, EIG (Europe India Gateway) and East Africa Submarine System (EASSy), thus expanding its global network to over 225,000 Rkms, covering 50 countries across five continents.

Bharti deploys, owns and manages passive infrastructure pertaining to telecom operations under its subsidiary, Bharti Infratel Limited, which owns 42% of Indus Towers Limited (a joint venture between Bharti Infratel, Vodafone and Idea). Bharti Infratel and Indus Towers are among India's top providers of passive infrastructure services. Bharti Infratel deploys, owns and manages passive infrastructure in 11 circles in India, while Indus Towers operates in 15 circles (4 circles common with Bharti Infratel & 11 circles on an exclusive basis). Bharti Infratel has 32942 towers, while Indus Tower has 108922 towers.

Key Concerns

High competition across the circles for 2G services…

Although many of the leading operators have increased their 2G tariffs recently, healthy competition to pouch subscribers will continue among the leading incumbents. While the competition on the tariff front may be over, since the tariffs have hit their bottom, we believe that a huge number of operators per circle in India still are unhealthy. Each circle has at least 8-12 operators competing against each other for subscriber market share. The top four operators hold any where between 70% - 80% of the subscriber's market share in each of these circles. Posts the launches of MNP the competition among the incumbents have only increased to pouch each others subscribers.

Circle-wise total subscribers and Bharti Airtel's subscriber & market share as at the end of July 2011

Circle	Subscribers (mn)-Total Jul-11	Subscribers (mn)- Bharti Airtel Jul-11	Subscriber market share - Bharti Airtel	No. of operators / circle Jul-11
Metro & 'A' Circle				
Delhi	40.53	8.36	20.62%	9
Mumbai	37.00	3.64	9.84%	12
Kolkata	23.69	3.72	15.68%	10
Tamil Nadu	73.30	12.94	17.65%	11
Andhra Pradesh	63.42	17.35	27.37%	11
Karnataka	51.65	14.97	28.98%	11
Maharashtra	65.56	8.95	13.65%	11
Gujarat	49.26	6.76	13.72%	11
	404.40	**76.68**	**18.96%**	
B' Circle				
Punjab	30.52	6.71	21.99%	10
Uttar Pradesh (East)	67.32	13.10	19.45%	11
Uttar Pradesh (West)	49.98	6.43	12.87%	11
Haryana	21.27	2.22	10.41%	9
Madhya Pradesh	48.28	9.56	19.81%	11
Kerala	33.10	3.47	10.48%	11
Himachal Pradesh	7.49	1.71	22.85%	
Rajasthan	45.05	12.70	28.20%	11
West Bengal	42.45	8.83	20.81%	11
	345.46	**64.73**	**18.74%**	
C' Circle				
Assam	13.02	3.39	26.07%	8
Bihar	57.56	16.22	28.18%	12
Jammu & Kashmir	5.98	1.92	32.16%	10
North East	7.89	2.12	26.86%	7
Orissa	24.06	5.63	23.42%	11
	108.50	**29.29**	**27.00%**	
Total	**858.37**	**170.70**	**19.89%**	

Source: TRAI, FQ Research

High operating cost structure in Africa will continue to drag the overall margins for some more quarters

High operating cost structure in Africa will continue to put downward pressure on Bharti Airtel's overall operating margins as the selling and distribution expenses over there is very high compared to that of India. During Q1FY12, the operating expenses of the India operation was just 63% of total revenue while for the Africa operation, it was 75% of the total revenue. Since the acquisition in Africa, Bharti Africa has been consciously trying to lower its operating expenditure in Africa and bring it down to that of the levels in India operation. We believe that the operating cost in the African operation is set to fall as the company adopts the low cost model in Africa besides outsourcing several key functions to its technology partners. Bharti has initiated efforts to improve the EBIDTA margins of its operations in Africa by outsourcing business processes to IBM Corp, Tech Mahindra and Spanco. Bharti has also selected IBM to build and manage IT systems across the 16 countries.

MVNO launch could lead to a resumption of competition and tariff war

The Launch of Mobile Virtual Network Operations (MVNO) could result in a fight for market share and re-emergence of the tariff war. MVNO will enable newer players to enter the Indian Telecom space without owning any spectrum infrastructure or perhaps with minimum network infrastructure.

Regulatory risks pertaining to one time excess spectrum charges

The new 2G spectrum price list announced by TRAI is significantly high, perhaps even higher than 3G price for 2G spectrum in excess of 6.2 MHz. This same price list will be applicable for payment of one time excess spectrum charge and also for 2G license renewal. The company can either pay the price or selectively surrender the excess spectrum. Both the options will prove detrimental, as the former will impact its profitability in the near term, while the latter will restrict expansion.

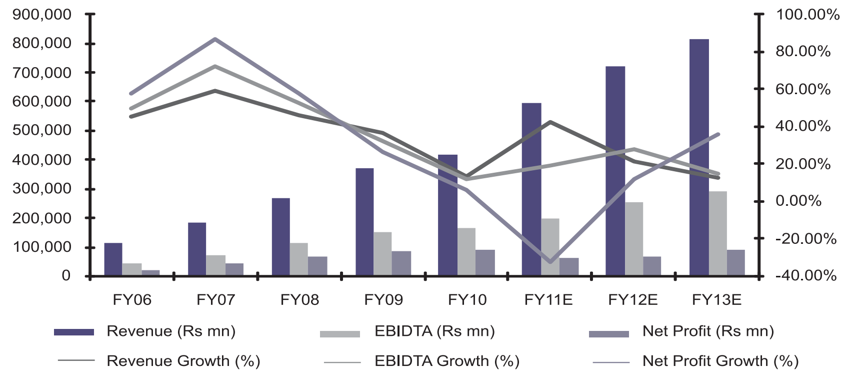
Other regulatory concerns with respect 900 MHz spectrum re-farming and scrapping of Interconnect usage charges (IUC) are also detrimental for the company.

Financial Highlights

Revenue and profitability growth trend

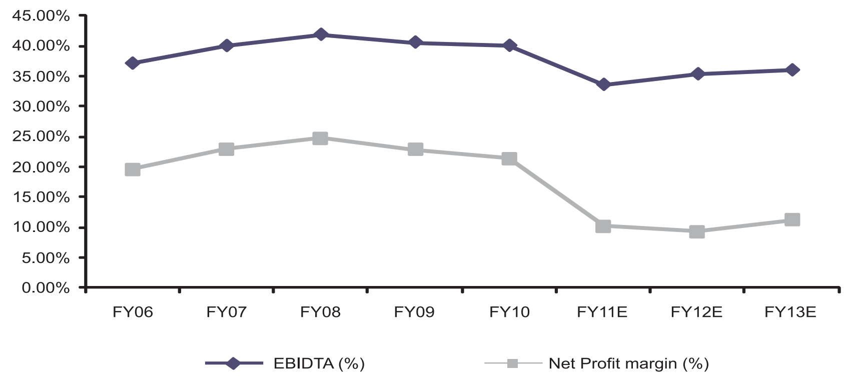
Bharti witnessed excellent growth in top-line during the period FY06 to FY11 driven by substantial subscriber growth. The revenue for the company grew at a compounded annual growth rate of 38.6% between FY06 and FY11 to Rs 594.67 bn at the end of FY11. As the competition intensified later, following the tariff war, the growth for Bharti Airtel came from innovative product offerings, Telemedia and enterprise business and passive infrastructure and later from the acquisition in Africa during the beginning of the previous fiscal. However in FY11, the revenue of the company's Indian mobile business, which contributed a major 61% of the total revenue, grew by just 9.5% to Rs.362.69 bn. During FY11, the company's mobile business in Africa contributed 22% to its total consolidated revenue. Underneath such superlative revenue growth figure was the story of high operating costs and lower tariffs that led to sharp fall in operating margins for the company. The EBIDTA margin fell from a high of 40% in FY07 to 33.6% in FY11. The net profit margin fell from 23% in FY07 to just 10.2% in FY11. We believe, the company revenue growth will continue to impress in FY12 and FY13 due to higher subscribers on the company's network and improved tariffs besides ramp-up of 3G services. Bharti Airtel is expected to record a growth of 21.8% in consolidated net sales to Rs.724.39 bn in FY12. Following tariff hike and reducing operational costs in India and Africa, we expect the EBIDTA margin to rise 240 bps to 36% in FY12. However higher finance charges due to amortization of 3G acquisition cost and interest on the loans raised for the same will result in lower return ratios during the year although the absolute net profit is expected to post 19.3% growth to Rs 72.12 bn in FY12. We see a strong case for revenue and margin improvement following the tariff hike and turnaround of the Africa operations from the second half of the current fiscal.

Revenue & Profit Growth



Source: Company Reports, FQ Research

Profit margin trend



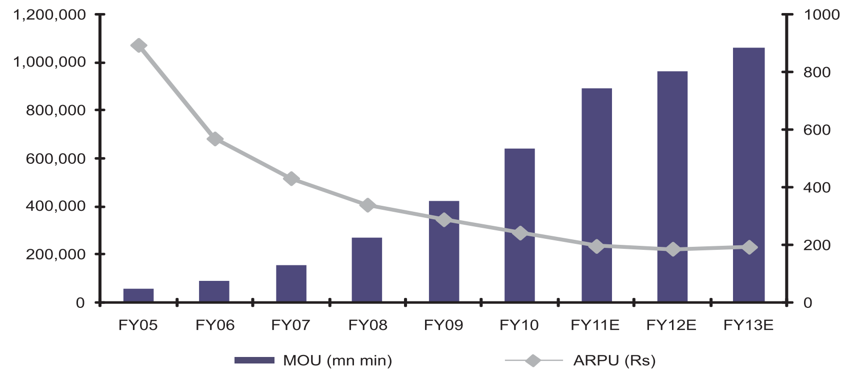
Source: Company Reports, FQ Research

Voice revenue to improve going ahead…

Following the recent tariff increase, we believe that the voice revenue of the company will improve going ahead. Although Bharti's AMoU per user is expected to fall to 443 min in FY12E, as against 511.9 min in FY11, the fall in usage would be more than compensated by the recent increase in tariffs and the premium 3G businesses. We expect the company to ramp-up its subscriber addition both in India and Africa significantly going ahead, in turn significantly enabling the voice segment of the company to post impressive growth. The Africa operation is also expected to witness significant addition of subscribers going ahead.

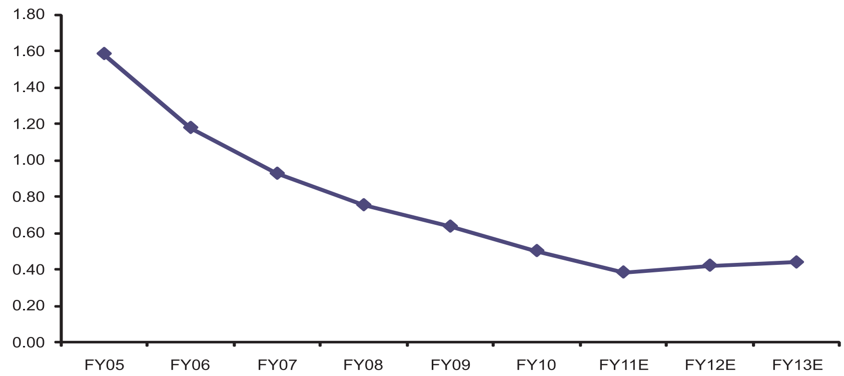
ARPUs & MoUs growth trend

Minute of usage (MoU) (mn min) & Average Revenue per User (ARPU) (Rs)



Source: FQ Research, Company Reports

Revenue per Minute (RPM) (Rs)



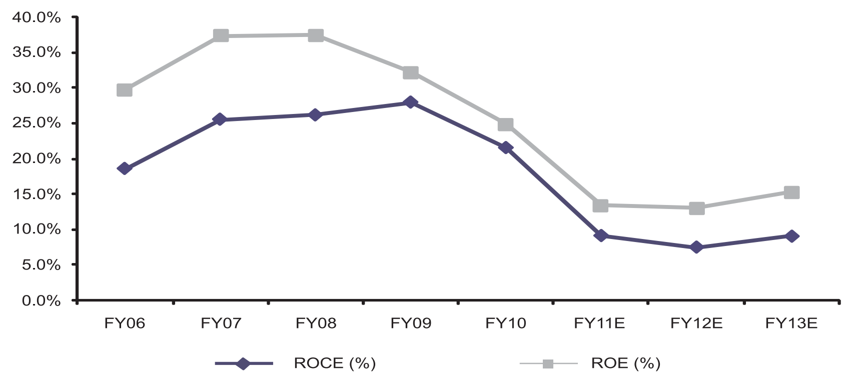
Source: FQ Research, Company Reports

In Africa we estimate the company's subscriber base to increase to 70 mn by the end of FY13. However we do not believe that the region will witness usage elasticity as the tariff falls. Telemedia and broadband businesses too are expected to witness healthy traction as the company increases its subscriber base. We estimate the revenue from the Telemedia segment to increase to Rs.44.11 bn in FY13E, as against Rs.36.3 bn in FY11. The Passive Infrastructure tower business is expected to record revenue of Rs.100.55 bn in FY13E, as against Rs.85.6 bn in FY11.

Return ratios to dip in FY12E before improving sharply in FY13E...

Return ratios have continued to slow down since FY07, due to price competition and rising operating costs. During the current fiscal as well the return ratios will remain under pressure due to higher depreciation and amortization expenses and finance charges, however we estimate the company's RoE and RoCE to improve in FY13E. We expect the RoE and RoCE to rise sharply to 15.5% and 9.2% respectively in FY13E as compared to 13.8% and 7.9% in FY12E.

RoE & RoCE trend (%)



Source: Company, FQ Research

Profit & loss projection snapshot -country-wise

Profit & Loss snapshot (India operation*)

	FY10	FY11	FY12E	FY13
Total Revenue (Rs mn)	**418,472**	**463,838**	**531,910**	**583,826**
Revenue Growth Y-o-Y (%)	*13.2%*	*10.8%*	*14.7%*	*9.8%*
EBIDTA (Rs mn)	**167,632**	**170,894**	**208,302**	**229,750**
EBIDTA Growth Y-o-Y (%)	*11.7%*	*1.9%*	*21.9%*	*10.3%*

** India operation includes the mobile operation in India, Sri Lanka & Bangladesh, Telemedia & Enterprise business and Passive Infrastructure business in India*

Source: Company, FQ Research

Profit & Loss snapshot (Africa operation)

	FY11	FY12E	FY13
Total Revenue (Rs mn)	**130,834**	**192,480**	**220,518**
Revenue Growth Y-o-Y (%)	*NA*	*47%*	*15%*
EBIDTA (Rs mn)	**28,770**	**52,263**	**64,684**
EBIDTA Growth Y-o-Y (%)	*NA*	*82%*	*24%*

Source: Company, FQ Research

NA - Not Applicable

Free Cash Flow analysis- To turn positive in FY12E…

The company had a huge negative free cash flow in FY11 due to huge capital expenditure for the Africa acquisition and the acquisition of 3G and BWA spectrum. However lower capital expenditure in the current fiscal will help the company to post positive free cash flow in FY12 and FY13.

Free Cash Flow

YE March (Rs. mn)	FY10	FY11	FY12E	FY13E
EBITA	**104,801**	**97,598**	**126,717**	**149,914**
Less: Adjusted Taxes	13,416	22,596	32,569	35,133
Plus: Change in Deferred Tax Liabilities/(Assets)	(8,855)	17,316	1,416	1,535
NOPLAT	**82,530**	**92,318**	**95,564**	**116,315**
Plus: Depreciation	62,832	102,066	133,848	144,519
Gross Cash Flow	**145,362**	**194,384**	**229,412**	**260,835**
Less: Inc/(Dec) in working capital	(2,081)	(106,761)	(30,437)	2,737
Operating Cash Flow	**147,443**	**301,145**	**259,849**	**258,098**
Less: CAPEX	97,504	309,684	187,797	198,269
Less: Inc/(Dec) other assets, net of other liabilities	(15,978)	18,607	11,749	3,538
FCF from Operations	**65,917**	**(27,146)**	**60,303**	**56,291**
Less: Inc/(Dec) in Investments	325	9,463	1,126	1,220
FCF after Investments	**65,592**	**(36,609)**	**59,177**	**55,070**
Less: Investment in Goodwill & Other Intangibles	12,311	584,642	4,316	(31,629)
FCF after Goodwill & Investments	**53,280**	**(621,251)**	**54,861**	**86,699**

** All figures are on consolidated basis*

Source: Company Reports, FQ Research

Du-pont analysis

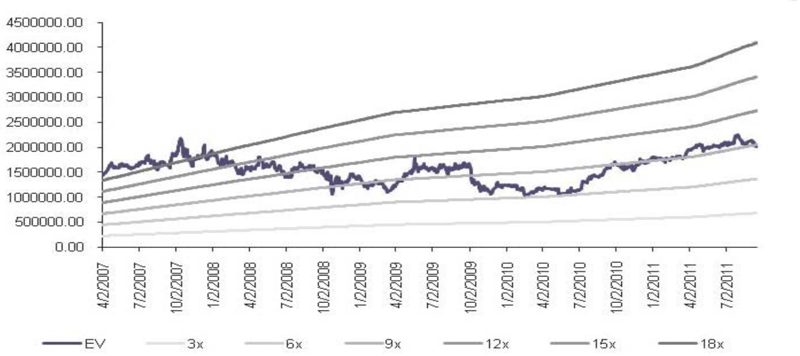
YE March	FY10	FY11	FY12E	FY13E
EBIDTA/Sales (%)	40.1%	33.6%	36.0%	36.6%
Sales/Operating assets (x)	1.14x	1.37x	1.46x	1.50x
EBIDTA/Operating Assets (%)	**45.8%**	**46.1%**	**52.6%**	**55.0%**
Operating Assets/Net Assets (x)	0.76x	0.51x	0.41x	0.41x
Net Earnings/EBIDTA (%)	53.6%	30.3%	27.7%	31.9%
Net Assets/Net Worth (x)	1.34x	1.88x	2.32x	2.14x
RoE (%)	**24.9%**	**13.4%**	**13.8%**	**15.5%**

Source: Company Reports, FQ Research

Valuation

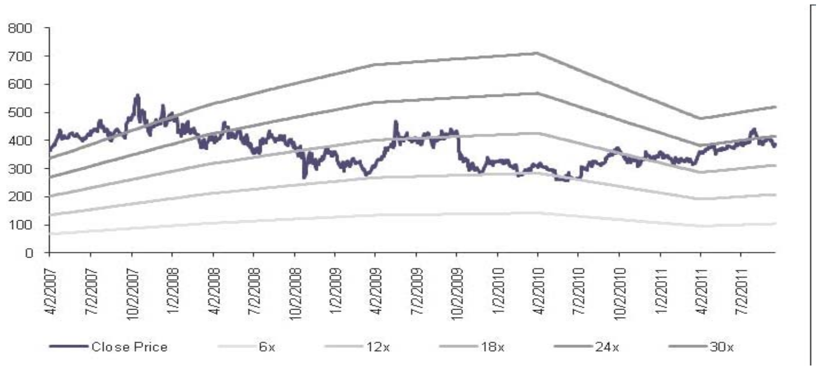
Considering the emergence of new business opportunities through 3G and BWA for the leading telecom operators in India and the general improvement in the operating environment of the mobile operators we believe that the sector deserves a renewed look, especially leading operators like Bharti Airtel. The company's stock is currently trading at a PE of 20.4x FY12 estimated EPS of Rs. 19 and at a PE of 15.6x FY13 estimated EPS of Rs 24.8. The forward EV/EBIDTA for FY12E and FY13E are 7.8x and 6.6x. The operating margins and return ratios have fallen sharply during the past few years following the price competition and higher operating costs. ***However we believe that the price pressure is the thing of the past and the industry wide tariffs are set to move up. 3G will help in improved blended ARPU, while the operating costs are expected to fall in the form of lower license fee and network operating and expansion cost.*** Besides there could be positives for the sector in the NTP-2011, that would be introduced soon. Although the company's return ratios are significantly lower than the FY09 levels, the most operational performance indicators are expected to improve going ahead. The overall operational macro is seen improving and as the 3G business picks up we expect the operating margins and the return ratios to improve significantly from the current levels. The company EBIDTA margin is set to improve by 240 bps in FY12E to 36% while it is further expected to improve by 60 bps to 36.6% in FY13E. Higher finance charges and amortization expenses will lower the return ratios marginally in FY12, although the same is expected to sharply improve in FY13. Both the ROE and ROCE are expected to come in at 15.5% and 9.2% respectively in FY13. Considering its leadership position & expansion out of India and its implementation success across various business verticals, and the improved operational environment for the voice business in India, the expected revival of the Africa operation and the new business opportunity emerging out of 3G and BWA, we believe that the company should trade at a premium multiple than what it command now. We believe that most of the negatives are already priced in the stock and there could be potential upside in top-line in the near term if the company manages to hike its tariffs across the circles, which is perhaps not reflected in the price. Even our estimates do not fully incorporate the tariff rise across the circle and scheme as it has still not happened. Considering revenue increase probability from tariff increase, improved Africa operation and 3G with improved profitability margins, we assign a PE multiple of 20x (in-line with long term average) FY13E EPS of Rs 24.8, which would take our target price for the stock to Rs 495 (Potential upside of 28% from the CMP).

EV/EBIDTA



Source: Company, FQ Research

PE



Source: Company, FQ Research

Consolidated Financials

Profit and Loss Statement

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
Net Sales	**418,472**	**594,672**	**724,390**	**804,344**
% chg	*13.2%*	*42.1%*	*21.8%*	*11.0%*
Cost of Services	**194,740**	**287,205**	**344,537**	**378,233**
Gross Profit	**223,732**	**307,467**	**379,852**	**426,111**
(% of Net Sales)	*53.5%*	*51.7%*	*52.4%*	*53.0%*
SG&A Expenses	**56,099**	**107,803**	**119,287**	**131,677**
EBIDTA	**167,633**	**199,664**	**260,565**	**294,434**
(% of Net Sales)	*40.1%*	*33.6%*	*36.0%*	*36.6%*
Depreciation	**62,832**	**102,066**	**133,848**	**144,519**
Operating Profit	**104,801**	**97,598**	**126,717**	**149,914**
(% of Net Sales)	**25.0%**	**16.4%**	**17.5%**	**18.6%**
Non-operating Income	**17,849**	**1,054**	**(179)**	**3,377**
Interest & Financing Charges	**17,559**	**21,813**	**31,326**	**32,869**
PBT	**105,091**	**76,839**	**95,212**	**120,423**
(% of Net Sales)	*25.1%*	*12.9%*	*13.1%*	*15.0%*
Tax	**13,453**	**17,790**	**24,472**	**28,222**
Minority Interest	**1,870**	**(1,418)**	**(1,376)**	**(1,832)**
Net Inc. from continuing operations	**89,768**	**60,467**	**72,117**	**94,032**
Net Income	**89,768**	**60,467**	**72,117**	**94,032**

Ratios

Particulars	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)				
P/E	16.4	24.3	20.4	15.6
P/BV	3.5	3.0	2.6	2.2
EV / Sales	3.5	3.5	2.8	2.4
EV / EBIDTA	8.7	10.4	7.8	6.6
M Cap /Sales	3.5x	2.5x	2.0x	1.8x
Leverage Ratio				
Debt-Equity	0.16x	1.26x	1.10x	0.95x
Interest Coverage	5.97x	4.47x	4.05x	4.56x
Per Share Data (Rs)				
Diluted EPS	23.7	15.9	19.0	24.8
Diluted Cash EPS	40.2	42.8	54.2	62.8
Book Value	109.0	128.4	147.4	172.2
Returns (%)				
ROE	24.9%	13.4%	13.8%	15.5%
ROCE	21.5%	9.1%	7.9%	9.2%
Dividend Payout	4.9%	0.0%	0.0%	0.0%
Du-Pont Analysis				
EBIDTA/Sales (%)	40.1%	33.6%	36.0%	36.6%
Sales/Operating assets (x)	114.3%	137.4%	146.3%	150.3%
EBIDTA/Operating Assets (%)	45.8%	46.1%	52.6%	55.0%
Operating Assets/Net Assets (x)	75.7%	51.1%	40.8%	41.2%
Net Earnings/EBIDTA (%)	53.6%	30.3%	27.7%	31.9%
Net Assets/Net Worth (x)	133.9%	188.1%	231.7%	214.0%
RoE (%)	24.9%	13.4%	13.8%	15.5%
Margins (%)				
EBIDTA margin	40.1%	33.6%	36.0%	36.6%
PBT margin	25.1%	12.9%	13.1%	15.0%
PAT margin	21.5%	10.2%	10.0%	11.7%
Growth Ratios (%)				
Net Sales	13.2%	42.1%	21.8%	11.0%
EBIDTA	11.7%	19.1%	30.5%	13.0%
EBIT	0.7%	(6.9%)	29.8%	18.3%
PAT	6.0%	(32.6%)	19.3%	30.4%
APAT	6.0%	(32.6%)	19.3%	30.4%
Operating Cycle				
Debtors Days	24	25	28	27
Inventory Days	1	2	2	2
Creditors Days	163	218	286	282

Balance Sheet

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Equity Capital	18,988	18,988	18,988	18,988
Reserves and Surplus	394,792	468,948	541,065	635,098
Treasury stocks	(80)	(268)	(268)	(268)
Net Worth	**413,700**	**487,668**	**559,785**	**653,818**
Deferred Income Taxes	12	12,487	13,903	15,437
Minority Interests	28,489	28,563	28,563	28,563
Other Non-current Liabilities	8,642	34,163	28,573	31,710
Short term debt	17,166	84,370	70,951	71,306
Long term Debt	47,453	532,338	545,780	548,509
Total Liabilities	**515,462**	**1,179,589**	**1,247,555**	**1,349,343**
APPLICATION OF FUNDS				
Gross Block	647,315	956,999	1,144,796	1,343,065
Less: Depreciation	203,507	305,573	439,420	583,940
Net Block	**443,808**	**651,426**	**705,376**	**759,126**
Goodwill & Intangibles	**52,675**	**637,317**	**641,633**	**610,004**
Long Term Investments	**465**	**9,928**	**11,054**	**12,274**
Other Non-current Assets	**10,114**	**54,316**	**60,475**	**67,150**
Current Assets	139,347	112,077	157,378	240,692
Current Liabilities & Provisions	130,947	285,475	328,360	339,903
Net Current Assets	**8,400**	**(173,398)**	**(170,982)**	**(99,211)**
Capital Applied	**515,462**	**1,179,589**	**1,247,555**	**1,349,343**

Cash Flow Statement

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
Cash Inflows From Operations				
Profit Before Tax	105,091	76,839	95,212	120,423
Depreciation	62,832	102,066	133,848	144,519
Less:				
Dividend payout	4,442	0	0	0
Tax paid	13,453	17,790	24,472	28,222
Operating Cashflows	150,028	161,115	204,589	236,720
Changes in Capital Structure				
Increase in capital	6	0	0	0
Increase in Share premium	23,638	(41,242)	0	0
Increase in Other Reserves	(1,112)	56,349	1,376	1,832
Increase in Others	10,241	12,549	1,416	1,535
Inc/(Dec) in Loans	(8,462)	510,406	7,852	5,866
Treasury Stocks	27	(188)	0	0
Inc/(Dec) in Equity/Loans	(23,304)	605,078	(2,774)	9,587
Total Inflows	126,724	766,193	201,814	246,307
Cash Outflows				
Working Capital changes				
Inc/(Dec) in Current Liabilities	(21,430)	154,528	42,885	11,543
Less:				
Inc/(Dec) in Inventory	(479)	1,655	205	217
Inc in Debtors	(1,726)	28,127	2,298	6,316
Inc/(Dec) in Cash	2,443	8,810	6,486	3,998
Inc/(Dec) in Others	(22,439)	4,334	3,459	3,749
Inc/(Dec) in Working Capital	(770)	(111,602)	(30,437)	2,737
Capex/Investments				
Inc/(Dec) in Investment + Intangibles	12,637	594,105	5,442	(30,408)
Addition to Gross Block	97,504	309,684	187,797	198,269
Inc/(Dec) in Other Non-current Assets	(116)	44,202	6,159	6,675
Inc/(Dec) in Fixed Assets/ Investments	110,025	947,991	199,398	174,536
Inc/(Dec) in Excess Cash	17,469	(70,196)	32,854	69,034
Total Outflows	126,724	766,193	201,814	246,307

FINQUEST YOUR FINANCIAL GOAL. OUR QUEST

Initiating Coverage

CMP : INR 97
Rating : Buy
Target : INR 133

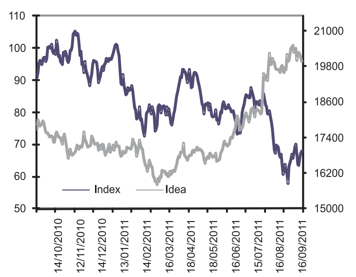
Idea Cellular Ltd.

KEY DATA	
Market Cap (INR bn)	320.6
Market Cap (USD mn)	6821.1
52 WK High / Low	103 / 55
Avg Daily Volume (BSE)	750801
Face Value (INR)	10

BSE Sensex	16745
Nifty	5032
BSE Code	532822
NSE Code	IDEA
Reuters Code	IDEA.BO
Bloomberg Code	IDEA IN

Shareholding %	3Q	4Q	1Q
Promoters	47.0	46.0	46.0
MF/Banks/Indian FIs	7.0	8.0	8.0
FII/ NRIs/ OCBs	43.0	43.0	43.0
Indian Public	3.0	3.0	3.0

Performance Chart



PRICE PERFORMANCE (%)

	3 M	6 M	12 M
Absolute	(5.8)	(7.8)	(12.8)
Relative	(33.8)	(67.1)	(40.9)

Banking on 3G services and the breakeven in the newly launched service areas…

We like Idea Cellular at this level, as we believe that the company would manage to increase the 2G tariff across its operating circles thereby improving its ARPM, but at the same time turnaround the operations in its newer circles much faster than earlier anticipated. So this is on top of the up-tick in ARPM from 3G services. Besides we believe the company passive assets will also provide incremental revenue stream going ahead. The operating margins are forecasted to record improvement, while the return ratios too would improve in FY12 and FY13. ***We expect lower capital expenditure by the company going ahead after significant capital expenditure in 3G during the previous year. As a result we expect the company to turn free cash flow positive by the end of FY13.***

Consolidated Financial Snapshot

Consolidated Financials (Mn. Rs.)	FY10	FY11	FY12E	FY13E
Net Sales	**123,979**	**154,384**	**192,854**	**245,668**
Sales Growth (%)	*22.4*	*24.5*	*24.9*	*27.4*
EBIDTA	**33,580**	**37,258**	**52,417**	**69,016**
EBIDTA Growth (%)	*19.4*	*11.0*	*40.7*	*31.7*
EPS	**3.1**	**2.7**	**2.7**	**5.5**
EPA Growth (%)	*1.8*	*(11.2)*	*(1.4)*	*106.5*
PE (x)	**31.6**	**35.6**	**36.1**	**17.5**

Source: Company, FQ Research

Idea Cellular is the 4th largest operator in terms of subscribers, while it is the 3rd largest in terms of revenue market share

Idea Cellular, which entered the business as a regional player, is now the third-largest wireless operator in the country in terms of revenue market share, and has a subscriber base of 96.11 mn (at the end of July 2011). The company has managed to significantly increase its subscriber market share to more than 11% while it increased its revenue market share to around 15% as at the end of June 2011. Aggressive promotion and advertising campaign during the recent past has enabled the company to ramp-up its 2G and 3G business expansion post the nationwide launch of Mobile number portability (MNP) in November 2010. The company has successfully managed to attract high-usage subscribers from competitor's network during the recent past despite the fact that the company does not possess a licence to offer Broadband Wireless Access (BWA), which places it at a significant disadvantage. We estimate the company's subscriber base to increase to 121.3 mn by the end of FY13, thus increasing its subscriber market share to more than 12% by then. Similarly revenue market share is also estimated to increase, while the ARPU is expected to increase to Rs 176 per user per month by the end of FY13 from the current levels of Rs 160 per user per month as the realized blended ARPM is set to thread higher following the 2G tariff increase and 3G launch.

Circle-wise total subscribers and Idea Cellular's subscriber & market share as at the end of July 2011

Circle	Subscribers (mn)-Total Jul-11	Subscribers (mn)- Idea Cellular Jul-11	Subscriber market share - Idea Cellular	No. of operators / circle Jul-11
Metro & 'A' Circle				
Delhi	40.53	4.07	10.05%	9
Mumbai	37.00	2.35	6.36%	12
Kolkata	23.69	0.77	3.27%	10
Tamil Nadu	73.30	1.57	2.14%	11
Andhra Pradesh	63.42	8.54	13.46%	11
Karnataka	51.65	4.43	8.58%	11
Maharashtra	65.56	13.50	20.60%	11
Gujarat	49.26	7.23	14.67%	11
	404.40	**42.47**	**10.50%**	
B' Circle				
Punjab	30.52	4.73	15.52%	10
Uttar Pradesh (East)	67.32	6.23	9.26%	11
Uttar Pradesh (West)	49.98	9.25	18.52%	11
Haryana	21.27	3.26	15.31%	9
Madhya Pradesh	48.28	11.89	24.64%	11
Kerala	33.10	7.16	21.64%	11
Himachal Pradesh	7.49	0.37	4.93%	
Rajasthan	45.05	3.11	6.91%	11
West Bengal	42.45	1.48	3.49%	11
	345.46	**47.50**	**13.75%**	
C' Circle				
Assam	13.02	0.29	2.23%	8
Bihar	57.56	4.85	8.43%	12
Jammu & Kashmir	5.98	0.14	2.32%	10
North East	7.89	0.22	2.75%	7
Orissa	24.06	0.65	2.68%	11
	108.50	**6.14**	**5.66%**	
Total	**858.37**	**96.11**	**11.20%**	

Source: TRAI, FQ Research

Aggressive tariff reduction during the past several quarters has resulted in a sustained plunge in Idea Cellular's Average Revenue per User (ARPU), which was down from Rs.194 per user per month at the end of FY10 to Rs.160 per user per month on Q1 FY12. During the same period, the realized Revenue per Minute (RPM) fell by nearly 20% to Rs. 0.41.

2G tariff hike will help in faster turnaround of the new circles, while ramp-up of 3G operation will improve blended ARPU

The company commenced commercial operations in the 8 circles of Mumbai, Bihar, Orissa, Tamil Nadu, Kolkata, West Bengal, Jammu & Kashmir and Assam after being allotted the license for the remaining 11 circles in January 2008. However these circles are still incurring operating loss. We believe that the company will invariably hike tariffs in these circles as well going ahead, which will help in faster turnaround of these circles. We estimate the newer circles to be in the black by mid FY13. Thus this would significantly improve the company's earnings per share (EPS) going ahead. Increased scale in the 3G business and its rollout across the country will help in improvement of blended ARPU for the company. Idea Cellular launched its 3G services in nine circles during the end of March 2011, and since then has managed to enrol 1 mn 3G subscribers. The company's 3G services now cover 400 towns in nine circles and has become the fastest growing 3G network in India. Unlike other incumbents who are aggressive in 3G in their metro and 'A' circles, Idea Cellular is aggressively tapping the rural and semi-urban base for 3G services… Idea Cellular plans to cover 750 towns by mid 2011 and 4000 towns by the end of FY12... Thus the company would have a first mover advantage in the rural areas as far as 3G services are concerned. However we may witness reduction in usage among the company's subscribers as most of the subscribers of the company are from the 'B' and 'C' circle and even the incremental subscribers that are being added month after month are from these price sensitive circles.

3G complaint network infrastructure will keep the network capital expenditure low…

Most of the network infrastructure of the company is 3G technology complaint unlike the legacy systems of Bharti Airtel and Vodafone. Thus, post the 3G service launch; incremental network expansion cost is likely to be limited. Idea Cellular is likely to use the 3G network for 'voice' services and try to switch high usage subscribers to the 3G frequency band. The move will help in lowering network operating costs and also ease the network congestion in 2G services, which in turn will help in accommodating more low-end subscribers.

Roaming arrangement with other operators will help in nation wide launch of 3G…

For a comprehensive, nationwide launch of 3G services Idea Cellular is in discussion with various other operators for roaming arrangement in circles where it does not have spectrum. Thus the roaming arrangement and cost besides the network quality will remain crucial for nationwide launch success.

Subscribers on the company's network to grow considerably, while revenue to increase due to improved tariffs-

We estimate the company to have 121.3 mn subscribers by the end of FY13, driven primarily by addition in its new circles. Thus this combined with improving tariffs and growing 3G subscribers will result in significant rise in service revenue for the company going ahead. We estimate the service revenue to grow by 25% in FY12E to Rs 192.85 bn, while it is further estimated to improve by 24% to Rs 245.67 bn in FY13.

Tower business contribution to total revenue to improve going ahead-

Further expansion of 2G and 3G networks by various operators will help Idea Cellular who can share its tower assets, thereby earning tenancy on the same. Idea Cellular owns 16% of Indus Tower, which is the largest tower company in India. Indus operates across 16 circles and owns more than 100,000 towers. Idea Cellular's equity participation in Indus not only brings in additional income from passive infrastructure but also helps in lowering capex and in faster roll-out in circles where Indus is present. During Q1 FY12, the tower revenue constituted 7.4% of the total operating revenue of the company. We estimate the tower revenue to increase to Rs 24.17 bn in FY13 constituting 10% of the total operating revenue.

EBIDTA margin to improve due to fall in license fee and network operating cost-

Lower license fee and network operating cost would help in EBIDTA margin improvement going ahead. Proposed 8.5% uniform license fee across the circle will help the company to reduce its license fee cost especially in metro and 'A' circles. Besides most of the company network infrastructure are 3G complaint thus needing little upgrading for 3G expansion, which would in turn will keep the network operating cost low.

Favorable regulatory regime to help the company-

Idea Cellular is under regulatory scrutiny for having paid less for spectrum in new service areas. The company may also have to pay an additional amount for spectrum in excess of 6.2 MHz in various circles, if the 2G pricing recommendations of the Telecom Regulatory Authority of India (TRAI) are accepted. Idea Cellular was also served a notice for the excess spectrum it holds in the Punjab Circle following the amalgamation of Spice Telecom in FY10. However we believe that most of the negative with regard to excess spectrum price and 2G license renewal charges are already priced in the stock currently. Perhaps enabling policy framework in the NTP-2011 may help the stock considerably. The proposal to lower license fee to a uniform 8.5% across circles from the current rate of 6%-10% will help the company newer circles to bring down their operating costs, going forward.

Operating through 900 MHz spectrum in 9 circles provides opex / capex advantage…

Idea Cellular operates in the 900 MHz spectrum in nine circles. The 900 MHz spectrum is more efficient in comparison to the 1800 MHz spectrum and hence, requires a lower capex and opex (lower number of cell sites needed to manage the same amount of traffic as that for 1800 MHz spectrum).

Idea will continue to be viewed as an acquisition play…

Currently the top 6 wireless operators together control more than 86% of subscriber market share. Even if some of the smaller operators surrender their licenses, or are acquired or merged with larger players, the competitive intensity in the wireless space is unlikely to ease. Idea Cellular will always be viewed as an acquisition play and is likely to command an appropriate premium as compared to the other incumbents.

Recommend 'Buy' with a target price of Rs. 133

Idea Cellular looks attractive following the tariff rise as it is perhaps the most successful incumbent when it comes to ramping up subscribers on its network post the launch of MNP and 3G. Aggressive branding besides fast penetration into the hinterlands of its leadership circles has enabled it to consolidate its position in these circles. We expect the company to post faster revenue and profitability growth going ahead, due to tariff hike exercised in some circles. ***The stock is trading at a PE of 36.1x FY12E EPS of Rs. 2.7 and at a PE of 17.5x FY13E EPS of Rs 5.5. The forward EV/EBIDTA for FY12 and FY13 are 9x and 6.4 respectively. Following the increase in tariffs, the company EBIDTA margin is set to improve by 310 bps in FY12E to 27.2% while it is further expected to improve by 90 bps to 28.1% in FY13E. The return ratios too are expected to improve in FY12 and FY13 as compared to FY11 due to the new circles of the company turning profitable. We estimate the RoE and RoCE to come in at 7% and 6.7% respectively in FY12E before improving sharply in FY13E to 12.2% and 9.5% respectively. Considering the improved operational environment for the telecom sector and the improved margins and return ratio for the company, we believe that the company should trade at a premium PE of 24x (in-line with long term average) FY13E EPS of Rs 5.5 that places our target price for the company at Rs.133 (Potential upside of 39%).***

Company Description

Idea Cellular Limited, an Aditya Birla group company is a pure GSM operator and provides GSM services in all the 22 telecom circles, including the two circles of Punjab and Karnataka, which it obtained via the acquisition of Spice Communication. Idea Cellular is also the country's fourth largest operator in terms of subscribers, with a total subscriber base of 96.11 mn at the end of July 2011. The company is the incumbent licensee in seven circles of operations and is the market leader in Maharashtra and Kerala. Idea Cellular bagged the 3G license auction conducted in May 2010 for introducing 3G services in 11 service areas at a total cost of Rs.57.7 bn.

www.ideacellular.com

Sector

Telecom Services

Key Management Personnel

Kumar Mangalam Birla
Chairman

Himanshu Kapania
Managing Director

Ambrish Jain
Deputy Managing Director

Valuation Thesis

Considering the improved operational environment for the telecom sector and the improved margins and return ratio for the company, we believe that the company should trade at a premium PE of 24x (in-line with long term average) FY13E EPS of Rs 5.5 that places our target price for the company at Rs.133 (Potential upside of 39%) .

Company Background

Idea Cellular Limited, an Aditya Birla group company is a pure GSM operator and provides GSM services in all the 22 telecom circles, including the two circles of Punjab and Karnataka, which it obtained via the acquisition of Spice Communication. Idea Cellular is also the country's fourth largest operator in terms of subscribers, with a total subscriber base of 96.11 mn at the end of July 2011. The company is the incumbent licensee in seven circles of operations and is the market leader in Maharashtra and Kerala. Idea Cellular bagged the 3G license auction conducted in May 2010 for introducing 3G services in 11 service areas at a total cost of Rs.57.7 bn.

Indus Towers

Indus Towers is a JV formed by Vodafone Essar Ltd. (42%), Bharti Airtel (42%) and Idea Cellular (16%), to provide passive infrastructure services to mobile operators in 16 telecom service areas (Metros, 'A' and 'B' circles excluding M.P). Indus Towers is now the first tower company globally to have a portfolio of over 100,000 towers under its management. As per the arrangement, Idea Cellular transferred 11,094 cell sites on its towers to Indus. Idea Cellular is also in the process of de-merging its passive infrastructure business to its wholly owned subsidiary, ICTIL. These de-merged towers will be eventually transferred to Indus Towers.

Key Concerns

Introduction of mobile virtual network operators (MVNO) would increase competition…

TRAI is in favor of allowing Mobile Virtual Network Operators (MVNO), also known as switch-less resellers, to operate in India. The move could benefit new operators who are likely to have underutilized networks pending the launch of their services. Global players, who want to enter India, can use the MVNO route since it involves limited infrastructure investments. They will perhaps have to offer specialized VAS and other applications to attract subscribers.

MVNOs are likely to intensify competition in the telecom services sector further as they can quickly roll-out their services in a circle without going through the hassles of spectrum acquisition and setting up passive infrastructure. Such operators can buy capacity from mass marketers and use it to exploit opportunities in niche markets, thus creating a win-win situation for themselves and the network operator. Many of the new telecom licensees may partner with MVNO's to generate additional revenues and create sizeable capital value, especially in a sector where margins are razor-thin.

Idea Cellular do not have BWA (2300 MHz) spectrum…

Idea Cellular does not have a broadband wireless access (BWA) licence, which places it at a significant disadvantage compared to the other wireless operators like Bharti Airtel, Vodafone and Reliance Communication.

The company has still not received 3G spectrum in the lucrative Punjab circle…

Idea Cellular has still not received 3G spectrum for the lucrative Punjab circle, pending the TRAI investigation into the acquisition of Spice Communications in June 2008. The company will not be able to enjoy the early-mover advantage if there is any delay in launching 3G services in the Punjab circle, where it could potentially benefit from high average ARPUs.

Regulatory uncertainty with regard to 2G spectrum charges…

The prevailing uncertainty on 2G spectrum prices poses significant risks to Idea Cellular's profitability. ***TRAI's new price list for 2G spectrum in various circles envisages a one-time payment for spectrum held by operators in excess of 6.2 MHz. The price differential for spectrum up to 6.2 MHz and for spectrum above 6.2MHz is significant.*** Idea Cellular will either have to pay for the excess spectrum it holds in various circles or surrender the spectrum & risk a spectrum crunch later. The company could perhaps opt to selectively surrender the excess spectrum in circles where it has got 3G spectrum. Besides, based on the new price recommendations, Idea Cellular may also have to pay the differential for the 4.4 MHz start-up spectrum it acquired for the launch of services in the new circles in FY09.

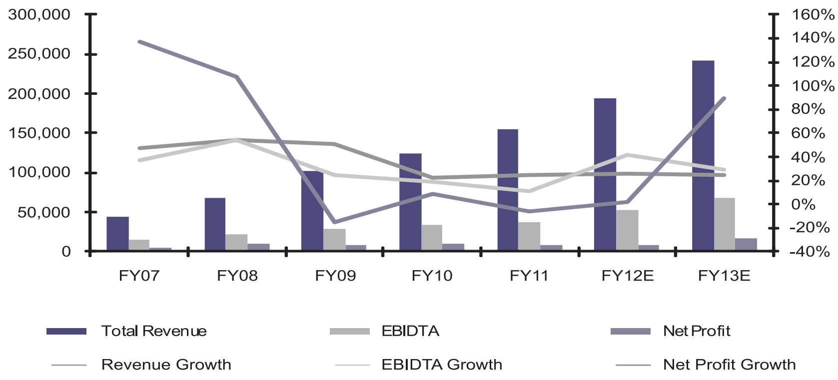
Financial Highlights

Revenue & profitability trend

Idea Cellular's revenue grew at a compounded annual growth rate of 32% during the period FY08-11, on the back of a significant growth in its subscriber base, due to the launch of services in new circles, while the company's aggressive branding exercise helped consolidate its position in its older circles of operations. The tower business also contributed significantly to the company's overall revenue in FY11, as against nil revenue contribution in FY08. The company's total revenue in FY11 increased 25% to Rs.154.38 bn as compared to FY10. Voice revenue grew 24% to Rs.152.76 bn, while National Long Distance (NLD) revenue increased 28% to Rs.16.3 bn in FY11. On the other hand, revenue of the passive infrastructure business grew by 26% to Rs.12.03 bn in FY11. We expect the company to post total revenue of Rs.192.85 bn in FY12E and Rs.245.67 bn in FY13E primarily driven by improvement in ARPU and turnaround of the newer circles and 3G businesses. Higher operating expenses in the form of increased network operating cost, coupled with a declining RPM, has resulted in the company's EBIDTA margin contracting continuously since FY08. As against 33.5% in FY08, the company's EBIDTA margin fell to 24.1% in FY10. We estimate the EBIDTA margin to improve from here on as increased tariff in 2G and high ARPU in 3G, besides lower operating expenses will help. We estimate EBIDTA margin to come in at 27.2% in FY12E and at 28.1% in FY13E.

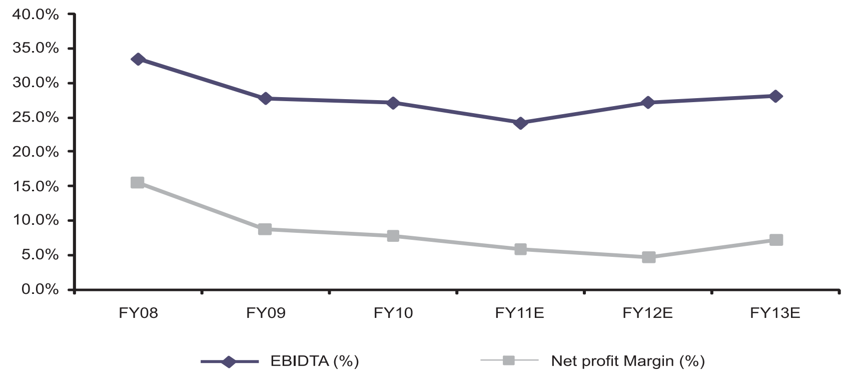
The amortization of 3G acquisition costs will make a significant dent in the company's profitability, while the 2G spectrum payment will also have its pressure on the net profit. Nevertheless we estimate the net profit in FY12E to fall marginally by 1.4% to Rs 8.86 bn before spurting 106% in FY13 to Rs 18.29 bn.

Revenue & Profit Growth



Source: Company Reports, FQ Research

Profit margin trend

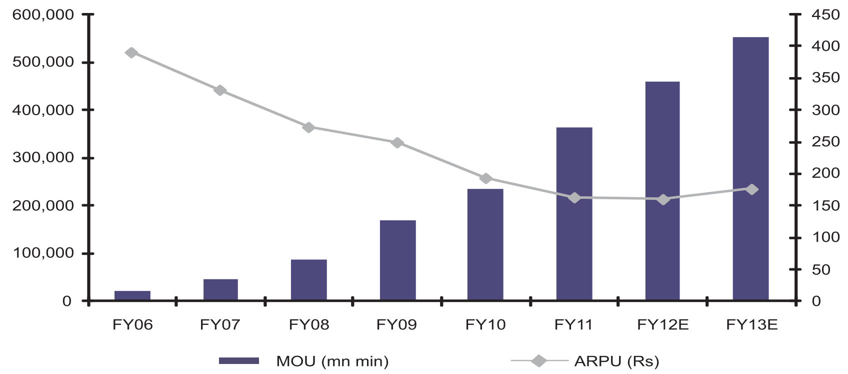


Source: Company Reports, FQ Research

Going forward, the company's license fee is expected to decline, while the network operating costs would also fall initially, as the 3G spectrum is used for 2G services. Besides, higher tariffs will help in improvement of EBIDTA margins in FY12. Turnaround in the newer circles and increasing scale of the 3G business will help in further margin expansion in FY13. Higher amortization charges and interest cost will however impact the net profit margin in FY12E.

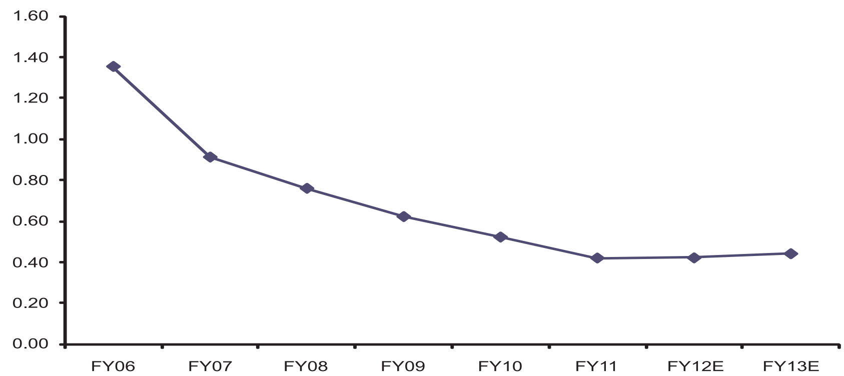
ARPUs & MoUs growth trend

Minute of usage (MoU) (mn min) & Average Revenue per User (ARPU) (Rs)



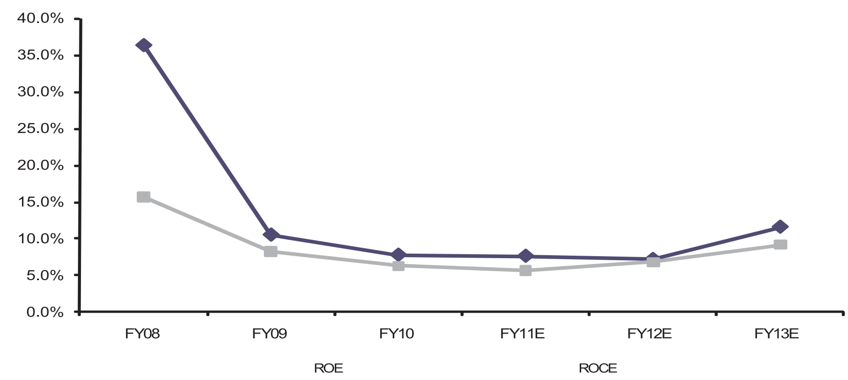
Source: FQ Research, Company Reports

Revenue per Minute (RPM) (Rs)



Source: FQ Research, Company Reports

Return ratios trend



Source: Company Reports, FQ Research

Free Cash Flow analysis

Idea Cellular has started incurring the amortization of 3G license acquisition costs since it has lunched its 3G services. Moreover, the increased 2G spectrum payment will also make a dent in the company's cash flow, going forward. We estimate the company's free cash flow to remain in negative territory in FY12E, before turning positive in FY13E.

YE March (Rs. mn)	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
EBITA	**7,934**	**13,750**	**14,106**	**13,747**	**13,285**	**20,131**	**32,537**
Less: Adjusted Taxes	110	894	864	1,552	1,308	3,023	3,254
NOPLAT	**7,825**	**12,855**	**13,241**	**12,195**	**11,977**	**17,108**	**29,283**
Plus: Depreciation	6,718	8,768	14,028	19,832	23,973	32,286	36,479
Gross Cash flow	**14,543**	**21,624**	**27,269**	**32,027**	**35,950**	**49,394**	**65,762**
Less: Increase in Working Capital	(6,336)	(1,032)	2,778	9,554	2,741	(4,662)	(9,117)
Operating Cash flow	**20,879**	**22,655**	**24,492**	**22,473**	**33,210**	**54,056**	**74,879**
Less: Net Capex	17,312	54,831	95,933	17,907	98,146	62,826	49,344
Less: Increase in Net Other Assets	(586)	(586)	(3,607)	477	(466)	0	0
FCF From Operation	**4,153**	**(31,590)**	**(67,835)**	**4,088**	**(64,470)**	**(8,770)**	**25,535**

** All figures are on consolidated basis*

Source: Company Reports, FQ Research

Du-pont analysis

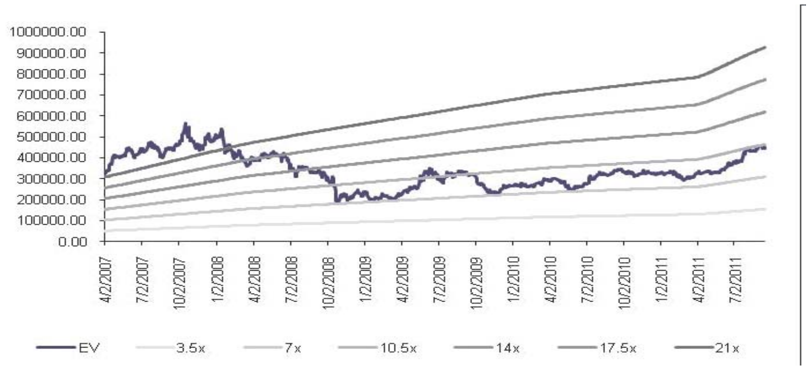
YE March	FY10	FY11E	FY12E	FY13E
EBIDTA/Sales (%)	27.1%	24.1%	27.2%	28.1%
Sales/Operating Assets (x)	0.7	0.7	0.7	0.8
EBIDTA/Operating Assets (%)	**19.7%**	**16.6%**	**19.0%**	**23.8%**
Operating Assets/ Net Assets(x)	0.8	1.0	1.0	0.9
Net Earnings/ EBIDTA (%)	28.4%	24.1%	16.9%	26.5%
Net Assets/ Equity (x)	1.7	1.9	2.1	2.1
Return on Equity (%)	**7.7%**	**7.6%**	**7.0%**	**12.2%**

Source: Company Reports, FQ Research

Valuation

Idea Cellular looks attractive following the tariff rise as it is perhaps the most successful incumbent when it comes to ramping up subscribers on its network post the launch of MNP and 3G. Aggressive branding besides fast penetration into the hinterlands of its leadership circles has enabled it to consolidate its position in these circles. We expect the company to post faster revenue and profitability growth going ahead, due to tariff hike exercised in some circles. Idea Cellular is trading at a PE of 36.1x FY12E EPS of Rs. 2.7 and at a PE of 17.5x FY13E EPS of Rs 5.5. The forward EV/EBIDTA for FY12 and FY13 are 9.0x and 6.4x respectively. The company's valuation is at a marginal premium to the earnings multiples of FY09, when its return ratios were impressive and leverage was also low. Idea Cellular's RoE and RoCE for FY11 came in at 7.2% and 5.6% respectively (as against 10.5% and 8.3% respectively in FY09) while for FY12E the ratios are likely to come in at 7% and 6.7% respectively. However we estimate sharp improvement of return ratios in FY13E due to improved tariffs and profitable operation of the newer circles. We estimate RoE and RoCE of 12.2% and 9.5% in FY13E, perhaps better than FY09. We see potential upside for the company's stock from the improved macro scenario. Considering the improved operational environment for the telecom sector and the improved margins and return ratios for the company, we believe that the company should trade at a PE of 24x *(in-line with long term average)* FY13E EPS of Rs 5.5 that places our target price for the company at Rs.133 ***(Potential upside of 39%)***.

EV/EBIDTA



Source: Company, FQ Research

PE

Source: Company, FQ Research

Consolidated Financials

Profit and Loss Statement

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
Net Sales	**123,979**	**154,384**	**192,854**	**245,668**
% chg	22.4%	24.5%	24.9%	27.4%
Cost of Services	**74,582**	**97,383**	**116,603**	**144,578**
Gross Profit	**49,397**	**57,001**	**76,251**	**101,090**
(% of Net Sales)	39.8%	36.9%	39.5%	41.1%
SG&A Expenses	**15,818**	**19,743**	**23,834**	**32,074**
EBIDTA	**33,580**	**37,258**	**52,417**	**69,016**
Depreciation	**19,832**	**23,973**	**32,286**	**36,479**
Operating Profit	**13,747**	**13,285**	**20,131**	**32,537**
(% of Net Sales)	**11.1%**	**8.6%**	**10.4%**	**13.2%**
Non-operating Income	**1,011**	**648**	**837**	**1,053**
Interest & Financing Charges	**4,005**	**3,965**	**10,545**	**13,268**
PBT	**10,754**	**9,969**	**10,422**	**20,322**
(% of Net Sales)	*8.7%*	*6.5%*	*5.4%*	*8.3%*
Tax	**1,214**	**982**	**1,565**	**2,032**
Net Income from continuing operations	**9,539**	**8,987**	**8,857**	**18,290**
Net Income	**9,539**	**8,987**	**8,857**	**18,290**

Ratios

Particulars	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)				
P/E	31.6	35.6	36.1	17.5
P/BV	2.7	2.6	2.4	1.9
EV / Sales	3.1	2.8	2.5	1.8
EV / EBIDTA	11.2	11.4	9.0	6.4
MCap/Sales	2.4x	2.1x	1.7x	1.3x
Leverage Ratio				
Debt-Equity	0.7x	1.0x	1.1x	1.1x
Interest Coverage	8.4x	9.4x	5.0x	5.2x
Per Share Data (Rs)				
Diluted EPS	3.1	2.7	2.7	5.5
Diluted Cash EPS	9.4	10.0	12.5	16.6
Book Value	36.5	37.2	39.9	51.0
Returns (%)				
ROE	7.7%	7.6%	7.0%	12.2%
ROCE	6.3%	5.7%	6.7%	9.5%
Dividend Payout	0.0%	0.0%	0.0%	0.0%
Du-Pont Analysis				
EBIDTA/Sales (%)	27.1%	24.1%	27.2%	28.1%
Sales/Operating assets (x)	0.7	0.7	0.7	0.8
EBIDTA/Operating Assets (%)	19.7%	16.6%	19.0%	23.8%
Operating Assets/Net Assets (x)	0.8	1.0	1.0	0.9
Net Earnings/EBIDTA (%)	28.4%	24.1%	16.9%	26.5%
Net Assets/Net Worth (x)	1.7	1.9	2.1	2.1
RoE (%)	7.7%	7.6%	7.0%	12.2%
Margins (%)				
EBIDTA margin	27.1%	24.1%	27.2%	28.1%
PBT margin	9%	6%	5%	8%
PAT margin	7.7%	5.8%	4.6%	7.4%
Growth Ratios (%)				
Net Sales	22.4%	24.5%	24.9%	27.4%
EBIDTA	19.4%	11.0%	40.7%	31.7%
PAT	8.2%	(5.8%)	(1.4%)	106.5%
APAT	8.2%	(5.8%)	(1.4%)	106.5%
Operating Cycle				
Debtors Days	60	65	52	45
Inventory Days	2	2	3	2
Creditors Days	98	79	76	77

Balance Sheet

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS				
Equity Capital	33,462	33,530	33,530	33,530
Reserves and Surplus	80,261	89,469	98,326	134,906
Net Worth	**113,724**	**122,999**	**131,856**	**168,436**
Deferred Income Taxes	2,142	3,099	3,099	3,099
Total Loans	78,593	120,705	150,772	180,927
Total Liabilities	**194,459**	**246,803**	**285,728**	**352,462**
APPLICATION OF FUNDS				
Gross Block	270,585	336,977	397,839	441,628
Less: Depreciation	88,907	112,128	144,217	180,695
Net Block	**181,679**	**224,849**	**253,622**	**260,933**
Capital WIP	5,465	36,467	38,234	43,789
Goodwill & Intangibles	**61**	**61**	**61**	**61**
Long Term Investments	**11,304**	**14,777**	**5,731**	**7,049**
Current Assets	36,630	49,849	33,200	93,898
Current Liabilities & Provisions	40,680	39,398	45,119	53,268
Net Current Assets	**(4,050)**	**10,451**	**(11,920)**	**40,630**
Capital Applied	**194,459**	**286,605**	**285,728**	**352,462**

Cash Flow Statement

Particulars (INR mn)	FY10	FY11	FY12E	FY13E
Cash Inflows From Operations				
Profit Before Tax	10,754	9,969	10,422	20,322
Depreciation	19,832	23,973	32,286	36,479
Less:				
Tax Paid	1,214	982	1,565	2,032
Operating Cashflow	**29,372**	**32,961**	**41,143**	**54,769**
Changes in Capital Structure				
Increase in Equity Share capital	2,260	68	0	0
Increase in Other reserves	(30,728)	220	0	18,290
Increase in Others	1,012	957	0	0
Inc/(Dec) in Loans	(10,529)	42,112	30,067	30,154
Inc/(Dec) in Equity/Loans/MI	**(37,986)**	**43,357**	**30,067**	**48,444**
Adjustments				
Diff.in Depreciation	9,104	(752)	(197)	(0)
Total Inflows	**489**	**75,566**	**71,013**	**103,213**
Cash Outflows				
Working Capital Changes				
Inc/(Dec) in Provisions	508	842	2,031	556
Inc/(Dec) in Current Liabilities	(190)	(2,123)	3,691	7,593
Less:				
Inc/(Dec) in Inventory	15	239	189	18
Inc in Debtors	1,038	1,103	11	(2,135)
Inc/(Dec) in Loans & Advances	8,739	0	0	0
Inc/(Dec) in Other Current Assets	1,118	0	89	92
Inc/(Dec) in Working Capital	**10,590**	**2,623**	**(5,431)**	**(10,173)**
Capex/Investments				
Inc/(Dec) in Investments	(9,148)	3,473	(9,046)	1,319
Addition to Gross Block	42,955	66,391	60,862	43,789
Inc/(Dec) in Capital WIP	(15,944)	31,002	1,767	5,555
Inc/(Dec) in Fixed Assets/ Investments	**17,863**	**100,867**	**53,582**	**50,663**
Inc/(Dec) in Cash/Bank Balance	(27,964)	11,877	(16,939)	62,723
Total Outflows	**489**	**115,367**	**31,212**	**103,213**

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BUY	HOLD	SELL
More than 10% return	Between 5-10% return	Less than 5% return