HSBC Global Research

Indian telecoms

Are the new players a threat?

- **New players at a structural disadvantage – their spectrum is less efficient**
- **Rising competition may cause near-term price disruption; Tata-DoCoMo's per-second plan is most revenue-destructive**
- **Bharti remains our top pick and MTNL our top sell**

We analyse the new players and their strategies, and we look at the trends in 1Q FY10 results. We find the following:

- As the price war intensifies, investors should focus on revenue market share and revenue growth, not subscriber market share.
- The Tata-DoCoMo plan to charge per second (rather than per minute) is the most disruptive; if all the telcos followed suit – one already has – we estimate it would lower the sector's revenue c10-15%.
- Newcomers are operating on the less efficient 1,800 MHz spectrum, which requires more base stations (major telcos use 900 MHz).
- Aircel's access to funding is negative for the established players; Etisalat's strong balance sheet is a concern, but its launch is still 12-18 months away.
- Incumbents' better-than-expected results over the past few quarters have been driven by margin improvements. However, this trend may not be sustainable given the increasing competition. Margin pressure may impact capex spending; incumbents could lower capex guidance.
- We remain cautious on the sector given the rising competitive intensity. Bharti Airtel remains our top pick. We remain Neutral (V) on Idea Cellular and Underweight (V) on RCOM, MTNL, and TTML.

Snapshot of companies under coverage

Parameters	Bharti	RCOM	Idea	TTML	MTNL
Bloomberg ticker	BHARTI IN	RCOM IN	IDEA IN	TTLS IN	MTNL IN
Market cap (USDm)	30,498	10,997	4,821	1,319	1,248
HSBC rating	OW(V)	UW(V)	N(V)	UW(V)	UW(V)
Target price (INR)	488.5	250.0	85.0	20.0	52.0
Current market price (INR)	405.5	256.4	75.6	33.2	96.7
Forward PE (x)	16.2	9.2	20.8	na	183.4
Forward EV/EBITDA (x)	9.2	6.9	8.5	19.0	3.0

Source: Bloomberg, HSBC estimates

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Relative regional valuations

Company	Rating	Target price (local currency)	Market cap (USDbn)	PER (x)		EPS CAGR	EV/EBITDA		ROIC
				FY10e	FY11e	FY09-11e	FY10e	FY11e	FY09
Bharti Airtel	Overweight (V)	488.5	31.8	16.2x	14.0x	9.0%	9.2x	7.1x	20%
China Mobile LTD	Neutral (V)	79.0	227.2	13.4x	13.2x	2.0%	5.6x	5.4x	40%
China Unicom	Underweight (V)	8.3	34.0	20.3x	16.3x	9.8%	4.5x	4.1x	5%
CITIC 1616 Holding Ltd	Overweight (V)	2.2	0.5	9.5x	8.9x	5.9%	4.7x	4.1x	57%
eAccess Ltd	Underweight (V)	62,000.0	1.1	42.7x	50.7x	22.4%	2.4x	2.5x	51%
Far EasTone	Neutral	8.3	3.7	11.4x	10.5x	6.9%	4.3x	4.0x	17%
Idea Cellular Ltd	Neutral (V)	85.0	4.8	20.8x	19.5x	6.4%	8.5x	6.2x	8%
KDDI Corp	Overweight (V)	730,000.0	24.8	8.4x	8.0x	6.2%	3.1x	2.9x	12%
NTT	Overweight	5,600.0	67.2	12.1x	11.6x	3.4%	3.3x	2.7x	6%
NTT DoCoMo Inc.	Neutral	148,000.0	63.9	12.5x	13.2x	-5.3%	3.5x	3.5x	14%
Reliance Communications	Underweight (V)	250.0	10.9	9.2x	10.5x	-6.5%	6.9x	5.9x	8%
Singapore Telecom	Neutral (V)	2.9	35.1	12.8x	12.2x	6.0%	6.9x	6.5x	13%
SK Telecom	Overweight	213,700.0	11.4	7.8x	7.1x	11.6%	3.5x	3.3x	24%
SoftBank Corp.	Underweight (V)	840.0	23.2	12.9x	13.1x	1.8%	6.3x	6.1x	11%
Taiwan Mobile Co.	Underweight	46.0	5.8	10.1x	9.9x	1.7%	6.6x	6.5x	28%
Tata Communications	Underweight (V)	426.0	2.7	-	-	-18.3%	8.3x	7.3x	0%
Tata Teleservices	Underweight (V)	20.0	1.3	-	-	35.2%	18.4x	17.7x	3%
Telstra Corp	Underweight	3.0	37.7	12.3x	12.5x	-0.9%	5.7x	5.8x	14%
Cellcom Israel Ltd	Overweight	127.0	2.7	10.2x	9.5x	8.5%	6.0x	5.6x	30%
Comstar United Telesystem	Overweight (V)	6.2	2.0	9.4x	8.6x	16.6%	3.5x	3.1x	16%
Etisalat	Overweight	12.6	20.0	7.9x	7.8x	0.6%	2.4x	2.3x	69%
Magyar Telekom	Neutral	640.0	3.7	9.4x	9.2x	-3.8%	4.1x	4.0x	10%
Maroc Telecom	Neutral	156.0	15.6	13.4x	13.0x	2.8%	6.8x	6.7x	56%
Millicom	Neutral (V)	69.0	7.6	10.9x	9.9x	12.3%	5.2x	4.6x	20%
Mobile Telesystems	Overweight (V)	56.0	17.3	9.0x	7.7x	16.2%	4.7x	4.1x	29%
MTN	Overweight (V)	148.0	29.7	9.6x	8.2x	21.2%	4.2x	3.4x	24%
Oman Telecommunication Co	Overweight	1.8	2.7	7.9x	8.3x	-3.6%	4.8x	4.9x	48%
Rostelecom	Underweight (V)	28.0	3.7	16.7x	14.5x	14.4%	4.7x	3.9x	17%
Safaricom Ltd	Underweight (V)	2.1	2.0	14.8x	13.4x	7.8%	5.0x	4.5x	19%
Sistema Group	Overweight (V)	18.0	7.1	4.9x	4.5x	17.1%	3.1x	2.6x	18%
Telefonica O2 CZ	Overweight	550.0	8.5	13.4x	12.2x	15.3%	5.8x	5.7x	9%
Telecom Egypt	Overweight (V)	23.0	5.5	8.6x	7.9x	7.8%	3.1x	2.8x	12%
TPSA	Neutral	17.0	7.7	12.5x	11.3x	12.3%	4.1x	4.0x	5%
Turk Telekom	Neutral (V)	4.9	10.7	7.5x	6.0x	26.0%	3.9x	3.6x	14%
Turkcell	Neutral (V)	15.7	14.1	10.5x	9.0x	4.0%	5.5x	4.5x	20%
Vimpelcom	Overweight (V)	14.0	14.1	5.9x	5.4x	12.1%	3.9x	3.3x	23%
Wataniya Telecom	Neutral (V)	1.8	2.9	10.9x	10.3x	7.6%	4.7x	4.1x	21%
Zain Group	Underweight (V)	1.1	19.1	11.1x	9.8x	12.2%	6.7x	6.0x	16%

Source: Company data (priced as of 12 August 2009), HSBC estimates

Competitive intensity

- All new players suffer from a structural disadvantage – 1,800 MHz spectrum is less efficient, so they need more base stations
- The Tata-DoCoMo per-second pricing plan could lower the sector's revenue c10-15% if everyone follows suit
- Firming of Aircel funding is negative for incumbents; Etisalat's strong balance sheet a concern but launch delayed

Competitive landscape

Increased competition from new telecom players has triggered a price war. While we believe this will cause some short-term disruption for the established operators, the newcomers face structural disadvantages which will be hard to overcome.

The new players are using different price plans to achieve a critical mass of subscribers. The most radical plan comes from Tata-DoCoMo, the latest player to launch new services. It charges subscribers on a per-second basis rather than per minute. Our analysis suggests that if competitors – incumbents and newcomers alike – switched to a similar plan the sector could see a revenue loss of c10-15%.

If the per-second pricing plan attracts a higher share of new subscribers other new players may follow suit (Sistema Shyam has already done so). If it works, we view a move to per-second pricing as the biggest risk to the incumbents and the overall sector.

The problem for the newcomers is that they are operating on the less efficient 1,800 MHz spectrum which requires 1.5-2.0x the number of base stations to cover the same area. The established operators use a higher proportion of lower frequency spectrum (900 MHz) which covers greater areas and requires fewer base stations. This also leaves them with a big advantage in rural areas. Our analysis suggests that operators with access to lower frequencies enjoy about 20% higher EBITDA margins than those using 1,800MHz.

Despite these disadvantages, it is the new players that have initiated the price competition. In our view, the two obvious strategies of new players would be to focus on urban centres (given their limited rural capabilities) and leveraging their empty network as a subscriber acquisition tool.

In our view, the newcomers are building their networks too gradually. We do not think this strategy will work, given that the established operators have invested heavily in building robust networks and large subscriber bases. At the same time, the absence of mobile number portability will limit the ability of new players to churn high-end subscribers from competitors.

We think that, while newcomers are perhaps not a serious threat to the incumbents, they pose a threat to each other, especially as new entrants initially target subscribers looking for the best deal.

We maintain our view that many newcomers will struggle to build viable businesses in such a competitive environment. At the same time, it is likely that the established players will face some short-term disruption. The awarding of new licences has given the sector an unlicensed feel, with sales growth being the key to success.

From an execution perspective, some of the newcomers are better placed than others:

- Aircel is an experienced operator and its ability to borrow money will help expand its network.
- Etisalat-DB has a strong balance sheet but the delay in launching its services has taken the pressure off incumbents. We do not rule out an aggressive pricing strategy when the service starts.
- We view the Tata-DoCoMo per-second pricing plan as the most disruptive. A move to follow suit across the industry could mean a c10-15% decline in sector revenue.

The section below looks at the new players' pricing and rollout plans.

Aircel (not rated)

Overview

Aircel is a joint venture between Malaysia's Maxis Communication Berhad and Apollo Hospital Enterprise Ltd of India. Maxis Communications holds the majority stake (74%). Aircel originally started services in 1999 and as of December 2008 was operating in nine services areas with 16m subscribers and a market share of c4%.

This year, as a "new player" with additional licences, it has launched in another eight service areas and now has c23m subscribers (market share 5.2% and revenue market share of 3.4%). Note that Aircel is now a player in the more lucrative urban A and B circles (it previously focused on C circles).

Funding plans

As per news reports (*Economic Times,* 5 August 2009) Aircel has raised USD3bn to expand operations in India. Reports also suggest that Aircel's parent, Maxis, is planning to relist in Malaysia later this year. Industry estimates and news reports suggest that the company needs to raise a total of USD5bn to fund its 2G services. 3G services would be funded by selling its c13,500 towers. It has been reported that there are four possible buyers – US-based American Tower, Crown Castle, Bharti Infratel and Tata-Quipo.

The most recent transaction multiple (American Tower's purchase of 1,660 towers at INR4.5m per tower) suggest Aircel could raise USD1.2bn. A premium cannot be ruled, out as Aircel has some anchor tenants and access to backhaul.

Tariff plans and strategy

Aircel's immediate priority is to achieve a critical mass of subscribers and drive maximum utilisation of its network capacity.

It has adopted a two-tier approach. First, offering value added services to attract subscribers via mobile internet; second, tariff plans that encourage subscribers to talk more (the rate falls the longer the call).

Aircel pocket internet plan

Items	Rate (INR)
SMS sent for activation will be charged at	INR3 per
Browsing charges	10ps/10KB
Astro	5
Wall Papers	15
Polyphonic ring tone	15
True tones	20
Mp3 tones	20
Animation	15
Videos	30
Themes	50
Movie themes	30
Games	50/99/150

Source: Company data, HSBC

Our view is that its limited quantity (4.4 MHz) of 1,800 MHz spectrum means that Aircel is not in a strong position to aggressively market value added services. Also, if it wants to promote data services it going to have to offer 3G services in the future.

Another weakness is its network. The company has c13,500 towers and plans to take that number to c38,000 by year end (50% leased) We believe it will need 60,000 towers for adequate pan-Indian coverage, especially as it only has one circle using 900 MHz.

Unlike other players, Aircel has so far not pursued any destructive pricing plan. Overall, we view its recent fund-raising as positive for the company and negative for incumbents. With competition so intense, the ability to raise funds will be a critical factor.

Shyam-Sistema (not rated)

Overview

The company, a joint venture between Sistema of Russia and India's Shyam Group, operates in six circles – Tamil Nadu, Kerala, Rajasthan, West Bengal, Bihar and Kolkata. The company plans to have pan-India operations by next year.

Sistema acquired a 10% stake in Shyam Telelink for USD11.4m in September 2007. Shyam Telelink at the time of acquisition had a licence to operate in Rajasthan and was awarded licences for 21 more circles in January 2008. After the acquisition of the initial stake, Sistema signed an agreement to buy an additional 41% which was completed in early 2008, making the overall deal worth USD58m. It has an option to raise its stake to 74%.

CDMA is the big disadvantage

The management has suggested that it plans to invest cUSD4-5bn over the next three years. However, Shyam is different from other new players in that it is a CDMA operator at a time when CDMA players have already announced their move to GSM.

The data for existing CDMA operators shows that a large part of their subscriber net additions are on the GSM platform. We believe that going forward CDMA will face an issue of scale as c80-90% of overall subscriber net additions will be on GSM.

Product strategy

Sistema Shyam has just replicated the one-second pricing plan offered by Tata-DoCoMo. Its anchor plan has been aiming to use cheap on net calls bundled with free minutes to attract subscribers. The company is also leveraging its parent's operations in Russia by pricing India-Russia calls at INR4.99 per minute, about 80% lower than the prevailing rates.

While Sistema Shyam is the first to follow Tata-DoCoMo's lead on one second pricing, others could follow. We believe cheap on-net calling will only allow it to attract low-end, tariff sensitive subscribers. Also, while the deal on India-Russia calls can take traffic away from existing operators it is unlikely to be a strong subscriber acquisition tool. Overall, we believe offering CDMA in a GSM dominated market is a distinct disadvantage.

Tata-DoCoMo (not rated)

Overview

Following the same strategy as RCOM, Tata Teleservices has also rolled out its GSM services over and above its existing CDMA operations. The company has GSM spectrum for 18 circles and is awaiting allocations in Assam, West Bengal and Delhi. Prior to the launch of its GSM operations the group had c30m CDMA subscribers (9.1% subscriber market share and 7.9% revenue share). The company aims to have 100m subscribers by 2014.

After the recent launch of GSM services in Mumbai and Maharashtra, Tata-DoCoMo now has GSM operations in seven service areas (the others are Tamil Nadu, Kerala, Orissa, Karnataka and Andhra Pradesh). The seven circles account for 52% of total mobile revenue.

Product strategy

Tata-DoCoMo, the latest player to launch new services, has adopted a very different kind of pricing plan. It charges subscribers on a per-second basis for all voice calls, including international, rather than per minute. Our analysis suggests that if competitors – incumbents and newcomers alike – switched to a similar plan the sector could see a revenue loss of c10-15%.

While no official numbers are available yet on subscriber additions, our channel checks suggest that the company is likely to fare better than industry estimates. If the per-second pricing plan attracts a higher share of new subscribers other new players may follow suit (Sistema Shyam has already done so). We view a move to per-second pricing as the biggest risk to the incumbents and the overall sector.

We expect the company to use its existing CDMA platforms for data products (e.g. Photon plus data cards) and, with NTT DoCoMo as a strategic partner, will take part in the 3G spectrum auctions.

Strategy check

We believe the per-second pricing plan is likely to appeal to mid- to high-end users. In our view if the company ends up acquiring moderate usage subscribers, incumbents may be forced to re-think their tariff strategy.

We believe the company may roll back the plan if it ends up attracting low-usage marginal subscribers. The big concern is its network. To accelerate the GSM launch and leverage existing infrastructure, both RCOM and Tata-DoCoMo have used their CDMA towers for GSM services. This may save on capex but quality could suffer because they use different bands of spectrum – 800 MHz for CDMA and 1,800 MHz for GSM. We believe retaining high-end subscribers without good network coverage will be unsustainable in the medium to longer term.

Although it merged its tower assets with those of Wireless-TT info services, the problem is that, on current estimates, it will not have more than 50,000 towers until FY11. To support pan-India GSM operations, we believe at least 50,000 towers will be needed by the end of this calendar year.

So, while the company may offer a great deal on price, it may not be able to deliver on network quality. Another key issue is funding. Its ability to ramp up the GSM network quickly could be hurt by funding constraints.

Unitech Wireless (not rated)

Overview

Norway-based operator Telenor has a c49% stake in Unitech Wireless and is awaiting approval from India's Foreign Investment Promotion Board (FIPB) to take an additional c18%. Telenor would like to raise its stake to 74% but the FIPB has reservations, given the company's presence in Bangladesh and Pakistan. In the meantime, the launch of its services has been delayed until 3Q09.

It aims to start with operations in eight circles (four in the south, two in the north, plus Orissa and Bihar). The company has a licence for 22 circles with spectrum already granted in 21. The spectrum (c4.4Mhz per circle) is all 1,800 MHz.

The company has signed a tower sharing agreement with the Wireless-TT Info Service Limited (WTTIL) covering c40,000 towers by mid 2010, which may not be enough to provide an attractive service. The agreements have 20-year terms with a 5-year extension options.

Funding plans

In an attempt to keep its investments low, the company has opted for a tower-sharing model. News reports suggest the company is in the process of raising USD1.5-2.0bn over the next six months. It is aiming for a medium term market share of c8%.

The company is likely to stay away from 3G and focus on 2G services. It is targeting EBITDA breakeven in the third year of operation. Our understanding is that it will vary its strategy in different circles depending on market share, but will look to use value added services to attract subscribers.

Overall, we think Unitech Wireless will find it tough to ramp up its services quickly enough to attract the required subscriber base.

Etisalat DB (not rated)

Overview

In September 2008, Swan, now controlled by the Dynamix Balwas Group, sold 45% of its equity for USD900m to Etisalat of the UAE by issuing fresh shares. This took the total value of the company to USD2bn. Since then, the company has changed its name to Etisalat DB. The company has entered a USD2bn deal with RCOM for RCOM under to roll out and manage the network.

Under investigation

As per news reports (Business Line, 30 July 2009) the Department of Telecom is investigating some of its officers for allegedly showing favours when giving a telecom licence to Swan Telecom, now called Etisalat DB.

According to DoT rules, a company cannot have more than a 10% stake in two different telecom entities offering services in the same areas. Since RCOM already has a pan-India unified access licence, it should not have an equity stake of more than 10% in other telecom companies. According to the application submitted by Swan to the DoT in March 2007, Tigers Traders Pvt Ltd held a 90.1% stake and Reliance Telecom owned 9.8%. Later, Swan told the DoT that Reliance Telecom had divested its entire stake.

Tower sharing with RCOM

RCOM recently announced that it would be leasing c30, 000 towers to Etisalat DB. As the revenue stream will only start after 18 months, this suggests that the launch over services is still some way off and Etisalat will be the last of the new players to launch. If 3G spectrum auctions take place over the next six months, Etisalat may find itself launching 2G services at the same time as the bigger players are offering 3G packages. Etisalat is going to have to attract a lot of high end subscribers from rivals if it is to gain traction, in our view.

Incumbents' likely strategy

We expect a three-layered approach on the par of incumbents. We believe the incumbents, with their large, robust networks, will focus on retaining their high-end subscribers and leverage their coverage advantages. Another area of importance would be keeping subscribers who have signed up in the last 9-12 months given the competitive environment and driving of usage in this segment.

Furthermore a small increase in usage levels of recently acquired marginal subscribers will allow incumbents to record revenue growth despite tariff pressures. For some incumbents, the rural areas and smaller towns will remain a focus area not only from a subscriber growth perspective but also from a revenue perspective.

We expect the incumbents to refrain from matching the cut-price offerings of the new players, as this would mean sacrificing revenue generated from their existing subscriber bases. However, the possibility of incumbents matching free minutes or bundling free minutes on a promotional basis in some markets cannot be ruled out.

Incumbents such as Bharti and Vodafone are likely to focus increasingly on profitability and revenue growth rather than subscriber market share in commercial business districts. Subscriber market share will likely be the focus in semi-urban and rural centres.

900 MHz is more efficient than 1800 MHz

Circles	Bharti			RCOM			Idea			Vodafone		
	Spectrum (MHz)	RMS	CMS	Spectrum (MHz)	RMS	CMS	Spectrum (MHz)	RMS	CMS	Spectrum (MHz)	RMS	CMS
Andhra Pradesh	900	40%	31%	1,800	10%	18%	900	18%	17%	1,800	14%	13%
Gujarat	1,800	21%	17%	1,800	9%	18%	900	18%	16%	900	41%	34%
Karnataka	900	54%	42%	1,800	9%	18%	900	6%	7%	1,800	16%	16%
Maharashtra	1,800	23%	18%	1,800	9%	16%	900	29%	24%	900	19%	16%
Tamil Nadu	1,800	34%	23%	1,800	8%	14%				900	21%	19%
Haryana	1,800	20%	12%	1,800	9%	19%	900	20%	15%	900	25%	23%
Kerala	1,800	21%	15%	1,800	11%	16%	900	28%	27%	900	20%	20%
Madhya Pradesh	1,800	32%	24%	900	19%	30%	900	29%	26%	1,800	3%	3%
Punjab	900	32%	25%	1,800	5%	12%	900	15%	17%	1,800	13%	15%
Rajasthan	900	44%	32%	1,800	7%	15%	1,800	6%	5%	900	22%	22%
U.P. (East)	900	29%	22%	1,800	12%	19%	1,800	8%	8%	900	32%	25%
U.P. (West)	1,800	18%	12%	1,800	12%	21%	900	27%	21%	900	25%	23%
West Bengal	900	29%	23%	900	14%	20%				900	36%	31%
Assam	900	36%	28%	900	20%	23%				1,800	3%	0%
Bihar	900	50%	36%	900	21%	26%	1,800	5%	6%	1,800	4%	6%
Himachal Pradesh	900	47%	29%	900	20%	30%	1,800	6%	5%	1,800	3%	2%
J&K	900	68%	46%	1,800	1%	4%				1,800	2%	3%
North East	900	39%	28%	900	8%	0%				1,800	4%	7%
Orissa	900	46%	35%	900	19%	23%	1,800	1%	2%	1,800	4%	6%
Delhi	900	38%	22%	1,800	12%	19%	1,800	10%	10%	900	23%	18%
Kolkata	900	32%	21%	900	18%	24%				900	32%	25%
Mumbai	1,800	21%	14%	1,800	16%	23%	1,800	4%	5%	900	31%	23%

Source: Company data, TRAI, HSBC

Comparison of pre-paid plans (with lifetime validity) of various operators in new markets

Pre-paid plans Parameters	Aircel (Mumbai circle)	MTS (Rainbow) (Rajasthan circle)	RCOM (Bihar circle)	TATA DoCoMo	Idea (Tamil Nadu circle)	Vodafone (Bihar circle)	Bharti – (Bihar circle)
Plan	INR99	INR249	INR199	INR49	INR85	INR399 (Red box price with sim card worth INR199)	INR349
Talk time and free Minutes	INR10	INR10	INR10	INR5	INR75 plus 5 Local Idea mins/day (for 60 days)	INR40, two wrist watches plus bonus card for call rate reduction (local calls – 50 paise, STD calls – INR1), 1 additional card (1 Lifelong Prepaid welcome kit with INR10 talktime)	INR200
Operator network to operator network calls	INR1 for 1st min, 50 paise for 2nd min, 30 paise for 3rd min	10 paise	INR1	1 paise	Night (11pm to 7am) 10 paise, day – 30 paise (for first six months), after six months – INR1	INR1 (10 paise between primary and additional card)	INR1
Operator network to other fixed and mobile networks	INR1 for 1st min, 50 paise for 2nd min, 30 paise for 3rd min	50 paise	INR1	1 paise	Other mobile – 60 paise, landline – 90 paise (for first six months), after six months – INR1	INR1	INR1
STD calls	INR1 for 1st min, 75 paise for 2nd min, 75 paise for 3rd min to Aircel, INR1.5 for 1st min, INR1 for 2nd min, 75 paise for 3rd min to other fixed and mobile networks	INR1	INR1.5	2 paise	1 (for first six months, after six months – 1.5	INR1.5	INR1.5
Bonus SMS	150 (validity 30 days)						
Local SMS	INR1	35 paise (MTS to MTS), 70 paise to others	INR1	60 paise	Every day – 1st 2 SMS @50p/SMS, next 50 SMS free, thereafter SMS @50p	INR1	INR1
National SMS	INR1.5	INR1.4	INR2	INR1.2	INR1.5	INR1.5	INR1.5
International	INR5	INR5	INR5	INR5	INR5	INR5	INR5
Validity	Lifetime with minimum recharge of INR200 required every 180 days	Lifetime with minimum recharge of INR200 required every 180 days	Lifetime with minimum recharge of INR200 required every 180 days	Lifetime	Lifetime	Lifetime	Lifetime with minimum recharge of INR200 required every 180 days
Pulse rate	60 sec	60 sec	60 sec	1 sec	60 sec	60 Sec	60 Sec

Source: Company data, HSBC

HSBC

Comparison of post-paid plans of Bharti, RCOM and TATA DoCoMo in Mumbai

Parameters	RCOM	Bharti	TATA DoCoMo
Rental	INR 300	INR 350	INR 299
Free minutes	INR150 local	500 minutes	
Operator network to operator network calls	15 paise	50 paise	1 paise
Operator network to other fixed and mobile networks	INR1	50 paise	1 paise
STD calls	INR1.5	INR1	60 paise
Bonus SMS	500 local		
Local SMS	INR1	25 paise	1 paise
National SMS	INR2	50 paise	INR1.2
International	INR5	INR5	INR5
Pulse rate	60 sec	60 sec	1 sec

Source: Company data, HSBC

Comparison of broadband plans of RCOM and TTML

TATA Photon				RCOM – Netconnect Broadband+			
Plan Name	Monthly rental (INR)	Bundled usage (GB)	Extra usage charge	Plan Name	Monthly rental (INR)	Bundled usage (GB)	Extra usage charge
Photon+ Lite	500	0.5 GB	INR2/MB	Broadband+ 512 MB	499	512MB	INR2/MB
Photon+ 2GB	750	2.0 GB	INR2/MB	Broadband+ 2 GB	750	2GB	INR2/MB
Photon+ Surf @ Nite	950	2 (Day) + 10 (Night)	INR2/MB	Broadband+ 2 GB day, 10 GB Night	949	2 (anytime/Day) + 10 (Night)	INR2/MB
Photon+ Power Surf	1,100	10GB	INR2/MB	Broadband+ 10 GB City	1099	10GB	INR2/MB
Photon+Super Surf	1,500	15GB	INR2/MB	Broadband+ 10 GB	1,500 (effective rental after money back offer – INR1300)	10GB	INR2/MB
Photon+ Use n Pay	250	0 Min	INR1/Min	Broadband+ Pay as you go	299	NIL	INR2/MB
Photon+ Daily 60	500	1800 Min	INR1/Min	Broadband+ 10GB @ Night	499	10GB night usage	INR0.5 per min
Photon+Daily 120	750	3600 Min	INR1/Min	Broadband+ 1 GB	650	1GB	INR2/MB
Photon+ Mega 5GB	950	5GB	INR2/MB	Broadband+ 1 GB day, 10 GB Night	849	1GB (anytime/day usage), 10GB (night usage)	INR2/MB

Source: Company data, HSBC

Monsoon and rural India

- Rural subscribers account for c28% of the total subscriber base
- With competition rising in urban centres, rural areas provide opportunities for growth
- Poor monsoon may hurt rural incomes, but government spending may limit the downside

The monsoon factor

There is little historical correlation between Indian telecoms and the monsoon. Rural India accounts for c28% of the country's subscriber base and c15-20% of sector revenue.

However, we believe early signs of a poor monsoon may postpone telecom capex in small rural towns of less than 5,000 people, a potential growth area. The poor monsoon could also hurt rural incomes through reduced food output, which may indirectly also have a knock on effect on rural subscriber growth and telecom spending in general as people tighten their belts. With competition growing in the cities where penetration has reached c70%, telecom operators see the rural population as a growth driver.

We are not making any changes to our estimates and growth assumptions. The monsoon may not be as bad as first thought, and the various fiscal stimulus measures targeted at the rural sector will help to limit the downside, in our view.

Social schemes such as the National Rural Employment Guarantee Scheme (NREGS) have accelerated in the last few years, boosting demand. Government spending under NREGS has increased threefold, from INR91bn in FY07 to INR272bn in FY09. The government has spent INR91bn so far in FY10 as we believe accelerated spending under the scheme will continue to provide support to rural demand.

Indian operators: Urban and rural subscriber mix

Operators	Subscribers at end-March 2009 (m)	Rural subscribers (m)	% of rural subscribers	Market share of rural subscribers
Bharti	93.92	29.53	31.4%	26.9%
RCOM	72.67	15.13	20.8%	13.8%
Vodafone	68.77	20.41	29.7%	18.6%
BSNL	52.14	19.09	36.6%	17.4%
Idea	38.89	15.83	40.7%	14.4%
Tata Tele.	35.12	2.66	7.6%	2.4%
Aircel	18.48	5.63	30.5%	5.1%
Spice	4.13	1.41	34.2%	1.3%
HFCL Info.	0.6	0.004	0.6%	0.0%
Shyam Tel.	0.39	0.001	0.4%	0.0%
Total	**391.76**	**109.71**	**28.0%**	**100%**

Source: Company data, HSBC

1Q FY10 trend analysis

- 1Q FY10 results ahead of our estimates on better-than-expected margin improvements; Bharti had the highest EBITDA growth
- Reduction in mobile termination charges affected revenue for all telcos; traffic growth was better than our estimates
- Quarter characterised by lower capex spent across all telcos; continued pressure on top line may affect capex spend

Sales, operating profit

Sales growth was sluggish in 1Q FY10 compared to the previous quarter and negative for TTML and MTNL. Mobile termination charges were lowered from 30 to 20 paise per minute on incoming calls. As a result, revenue and operating costs of telecom operators contracted.

The operating results for this quarter are not comparable to earlier quarters without adjusting for this change. ARPU was down by INR12 for Bharti and by INR11 for both RCOM and Idea. Revenue per minute (RPM) fell q-o-q for Bharti, RCOM, and Idea, by c8%, c5%, and c8%, respectively. If there had been no change in mobile termination charges, RPM would have declined q-o-q by c4%, c1% and c4% for Bharti, RCOM, and Idea, respectively.

Revenue market share

As per the financial data of the Telecom Regulatory Authority of India (TRAI) for the quarter ended June 2009, 18 circles saw a negative q-o-q revenue growth, resulting in a c2% decline in pan-India revenue. We attribute the lower growth to the decline in termination charges. However, despite that, service areas like Tamil Nadu, Bihar, Uttar Pradesh – East, and Madhya Pradesh posted positive revenue growth.

Pan-India operator-wise revenue market share

Operator	Ticker	Current price	Rating	Sep-08	Dec-08	Mar-09	Jun-09
Bharti Airtel	BHARTI IN	405.5	OW (V)	32.5%	33.1%	33.0%	33.8%
RCOM (CDMA+GSM)	RCOM IN	253.5	UW (V)	13.9%	12.6%	11.6%	11.5%
BSNL (incl. MTNL)	NA	NA	NR	11.1%	11.0%	11.4%	10.2%
Tata Teleservices Ltd.	NA	NA	NR	8.2%	8.1%	7.9%	7.1%
Idea Cellular Ltd.	IDEA IN	74.8	N (V)	10.7%	11.4%	11.8%	12.1%
Vodafone (India Operations)	NA	NA	NR	19.5%	19.9%	19.8%	20.7%
Shyam Telelink	NA	NA	NR	0.1%	0.1%	0.1%	0.1%
Aircel	NA	NA	NR	3.1%	3.1%	3.3%	3.4%
HFCL Infotel	NA	NA	NR	0.2%	0.2%	0.1%	0.1%
Loop Mobile	NA	NA	NR	0.7%	0.7%	0.6%	0.7%
Others	NA	NA	NR	-	-	0.2%	0.2%

Note: We have used gross revenue for our analysis. 'Others' includes new players
Source: TRAI, HSBC

In 1Q FY10, Bharti's revenue market share increased q-o-q by c80bp to c34%, while Idea's (including Spice) improved c30bp. The highlight of Bharti's performance was its gain in revenue market share in C circles, reflecting its focus on rural areas.

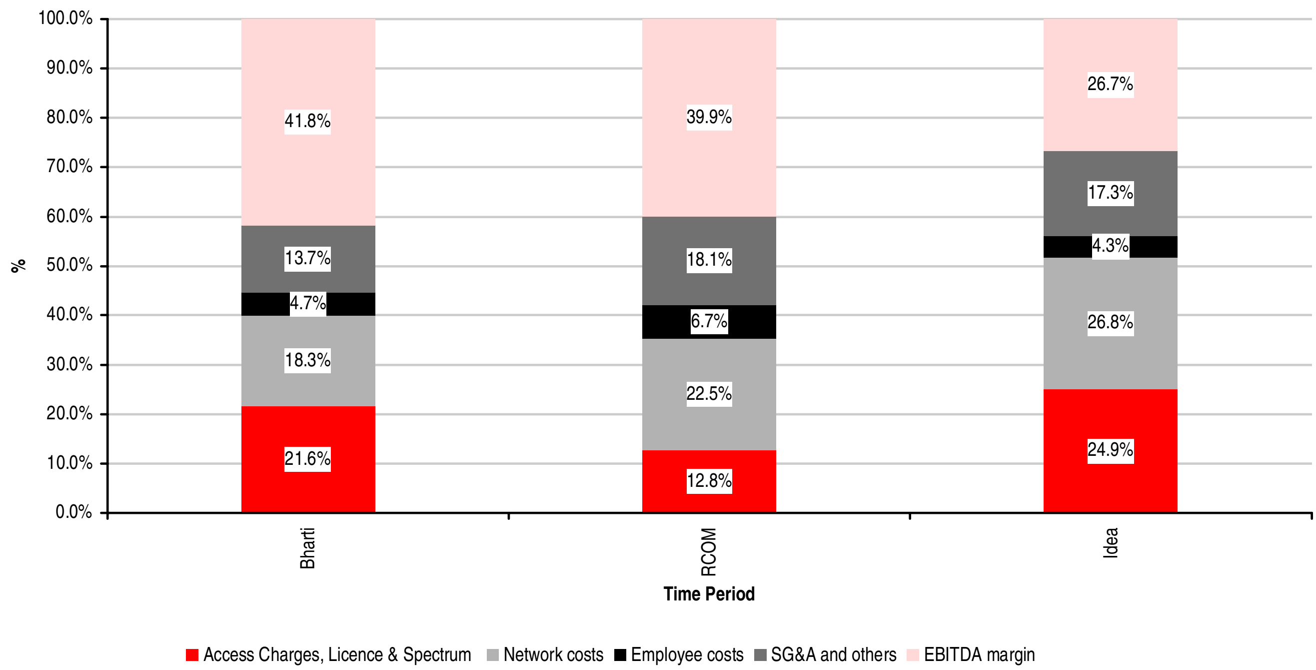
Reliance Communications saw a marginal 10bp decline in revenue market share to c12% despite a c10bp increase in subscriber market share (c19%) this quarter. BSNL lost revenue market share across the country, with the major declines taking place in the B and C circles. Vodafone emerged as the biggest gainer as its revenue market share jumped by c90bp q-o-q.

With the Indian wireless space passing through a peculiar phase (mobile termination charges declined), we believe investors should focus on revenue market share and revenue generating subscribers than subscriber additions and subscriber market share. We define revenue earning customers as subscribers that are active and contribute to revenue. The Indian regulator has no standard for reporting subscribers, allowing each operator to form its own definition for subscriber churn and reporting subscriber numbers. We believe increasing competitive intensity and the lack of subscriber reporting norms are leading to a double counting of subscribers, so investors need to focus on revenue generating customers and revenue market share.

Cost control

Of every rupee earned by private players in telecom sector, nearly 60 paise is spent on operating activities. Any cost control measures assume special importance in margin expansion, especially when there is little scope to boost margins from revenue as any increase in traffic or accounts gets offset by a decrease in tariffs. This quarter saw a fall in operating expenditure of all major telcos by c100bp.

Lower access charges boost margins



Source: Company data, HSBC

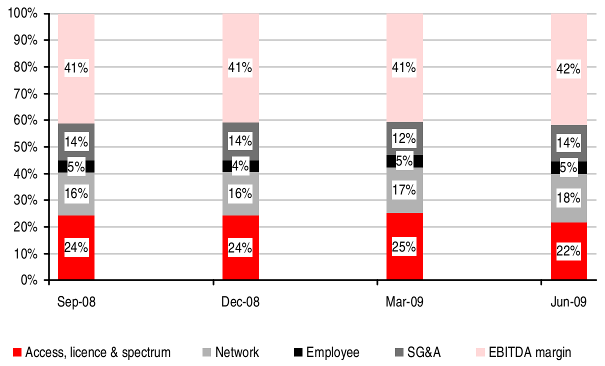
During the quarter, a large part of margin expansion was driven by the lower termination charges. For Bharti, access charges as a percentage of sales declined by c290bp, licence and spectrum fees by 60bp, while network costs increased by c100bp, selling and marketing expenses by c150bp. Employee costs also increased marginally q-o-q.

For RCOM, access charges, licence and spectrum fees as a percentage of sales declined by c280bp, network costs increased by c40bp and selling and marketing expenses increased by c160bp q-o-q.

For Idea, access charges as a percentage of sales declined by c340bp q-o-q, licence and spectrum fees increased by 30bp, network costs increased by c230bp and selling and marketing expenses decreased by c90bp. For TTML, access charges, licence and spectrum fees as a percentage of sales declined by c540bp q-o-q, network costs rose c300bp and selling and marketing expenses decreased by c400bp.

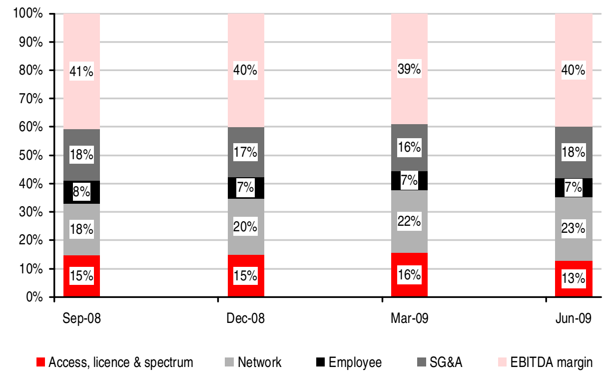
As a result of the decline in operating expenditure, margins of the operators improved in the quarter but operating metrics were under pressure. Bharti's consolidated margins improved by c100bp to 42%. RCOM also witnessed a similar increase in overall margins. RCOM's wireless margin increased 160bp; however, its global business margin declined 270bp q-o-q. Idea's consolidated EBITDA margin was up 130bp q-o-

Bharti: operating expenditure



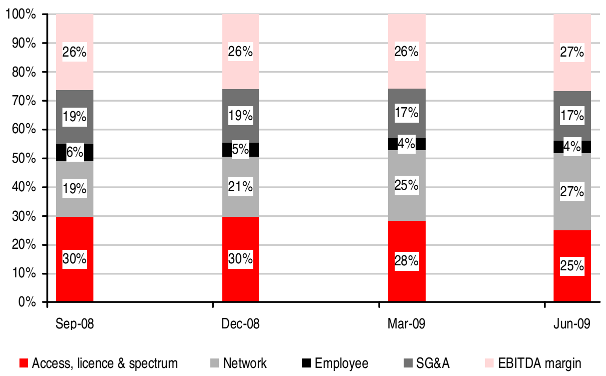
Source: Company data, HSBC

RCOM: operating expenditure



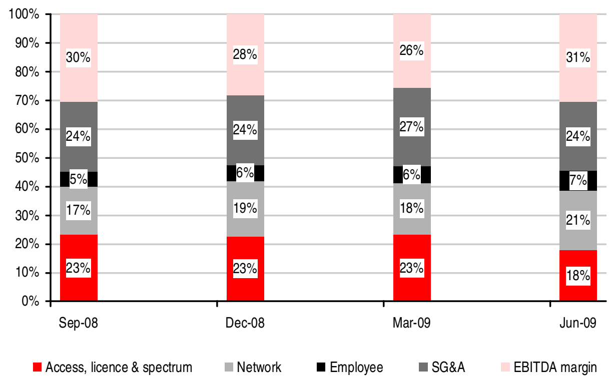
Source: Company data, HSBC

Idea: operating expenditure



Source: Company data, HSBC

TTML: operating expenditure



Source: Company data, HSBC

q, at c29%, driven by lower access charges, selling and distribution costs and Indus's margin improvement. TTML's margin improved c500bp q-o-q to c31%, mainly on lower marketing and business promotion expense. In the case of MTNL, margin was negative (c-2%) on higher labour costs (57% of sales).

While it will be difficult for operators to control network costs as they expand their operations, the only component of cost that can be checked is the selling and marketing expenses. However, to survive the tough competition, operators will find it difficult to operate without spending extra on marketing and advertising. However, the empirical evidence suggests that there are no major cut backs on media spends, leaving little room for cost control.

Capex

This quarter saw a different capex trend. Reflecting a reduction in capex spend across all the major Indian telcos compared to previous quarters, capex as a percentage of sales was the lowest over the last 6-8 quarters. Bharti, RCOM and Idea had a total capex of USD504m, USD203m and USD225m, respectively, compared to USD601m, USD1778m and USD376m in 4Q FY09. Wireless capex as a proportion of sales also followed suit, down c300bp for Bharti, c1,800bp for RCOM and c2,600bp for Idea q-o-q.

While we had expected a decline in RCOM's capex, as a large part of the GSM launch capex had been spent, the decline was sharper than our expectation and c10% of the company's total capex guidance for the full year. We believe the lower capex by RCOM had more to do with their funding constraints.

We believe early signs of a poor monsoon may postpone rural capex in small towns of less than 5,000 people.

1Q FY10 results summary

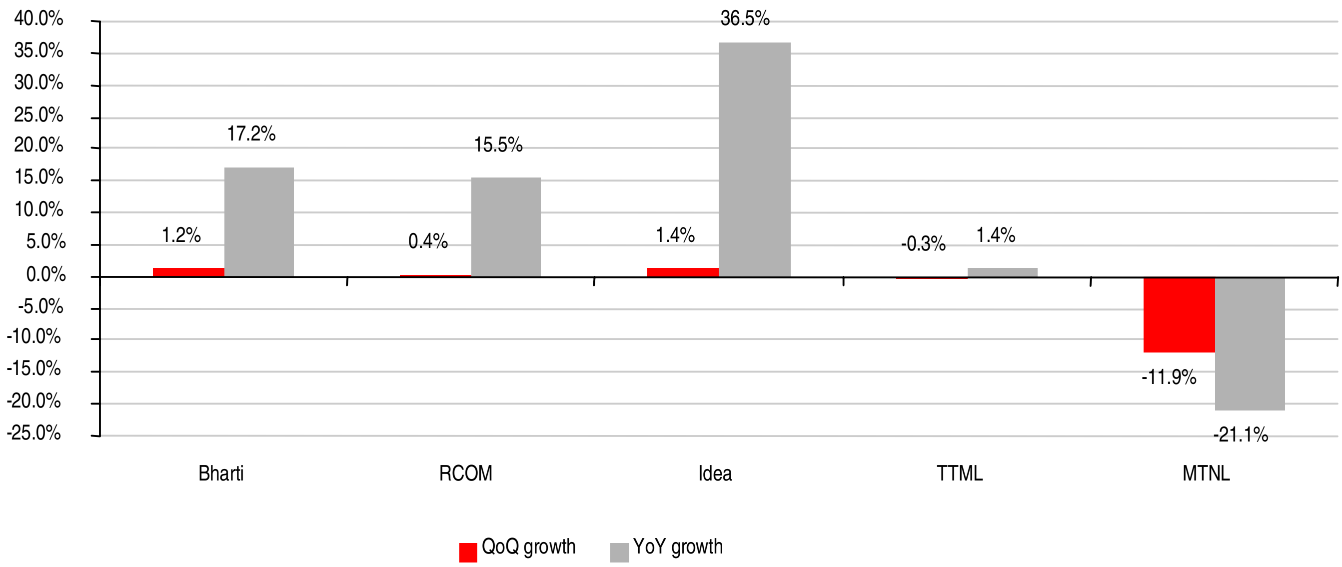
Overall, 1Q FY10 turned out to be a good quarter, with the results beating expectations. 1Q is usually lacklustre, mainly because of lower usage because of summer vacations in schools and colleges (there is also no major festival in the quarter). The better-than-normal performance can be attributed to India's elections which boost traffic growth.

Capex spend coming down

Parameters	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Capex as a % of sales					
Bharti	48%	35%	40%	29%	24%
RCOM	131%	85%	75%	139%	16%
Idea	91%	44%	50%	62%	36%
Wireless capex as a % of wireless revenue					
Bharti	24%	22%	26%	14%	11%
RCOM	138%	77%	74%	38%	20%
Idea	91%	44%	50%	62%	36%

Source: Company data, HSBC

Indian telcos: q-o-q sales growth in 1Q FY10 vs 4Q FY09 and 1Q FY09 (y-o-y growth)



Source: Company data, HSBC

Bharti Airtel

The 1Q FY10 results beat our expectations on all-round margin improvement. Sequential quarter traffic growth stood at c8%. Net income at INR25bn was c9% above our estimates, due to overall EBITDA margin improvement, forex gains and deferred taxes. However, the operating metrics were weak, with ARPU and minutes of usage (MOUs) down c9% and c1%, q-o-q. The sharp decline in ARPU was largely because of the lower interconnection charges. On an adjusted basis, wireless ARPU was down 5%, revenue per minute was down 2%, and wireless margins were up 50bp (all q-o-q).

Bharti signed up more than 8.4m subscribers in the quarter and had consolidated revenue of INR99bn, a growth of c1.2% q-o-q. Revenue from mobile services was up marginally by c8bp, and the contribution of mobile services to total revenue declined from c83.6% to c82.7%. Revenue from the telemedia segment fell c40bp and the enterprises segment by c130bp q-o-q. Revenue from other businesses rose c900bp.

Reliance Communications

The 1Q FY10 results were ahead of our expectations, driven by finance income, which was up 270% q-o-q. Other positives were the c11% q-o-q jump in wireless mobile traffic and a 160bp q-o-q improvement in the wireless margin. Global business revenue was flat and margin fell 270bp q-o-q; we expect the margin pressure to persist. Capex in the quarter was negative, reflecting funding constraints. Consolidated revenue stood at INR61bn, up c40bp q-o-q. Revenue grew c650bp for the wireless segment revenue and c20bp for the global business. The non-wireless segments disappointed; broadband business revenue declined by c330bp and other businesses by c320bp.

Idea Cellular

The quarter results beat our estimates. Net income of INR2.9bn was 13% above our estimates and 11% above consensus. Adjusting for mobile termination charges (MTC), pro-forma revenue rose 5.6% q-o-q, while ARPU declined 4% (MTC had a negative impact of INR11 on ARPU).

Growth analysis – Bharti, Idea and RCOM (1Q FY10 vs 4Q FY09)

Items	Bharti	RCOM	Idea
Revenue growth (%)	1.2%	0.4%	1.4%
Wireless revenue growth	0.1%	6.5%	-0.7%
EBITDA growth (%)	3.8%	2.9%	6.0%
EBITDA margin (%)	41.8%	39.9%	28.9%
EBITDA margin change (%)	1.0%	1.0%	1.3%
Operating Profit margin (%)	27.3%	17.5%	13.6%
Operating Profit change (%)	0.1%	0.7%	0.7%
ARPU (INR)	278	210	232
Adjusted ARPU (INR, after negating MTC reduction)	290	221	243
MOU (min)	478	365	399
RPM (min)	0.58	0.58	0.58
Adjusted RPM (min, after negating MTC reduction)	0.61	0.61	0.61
ARPU growth (%)	-8.9%	-6.3%	-8.7%
Adjusted ARPU growth (%)	-4.9%	-1.3%	-4.3%
MOU growth (%)	-1.4%	-1.9%	-0.7%
RPM growth (%)	-7.5%	-4.5%	-8.0%
Adjusted RPM growth (%)	-3.5%	0.6%	-3.6%
Net income growth (%)	12.4%	12.5%	8.2%

Source: Company data, HSBC

The consolidated EBITDA margin was up 130bp q-o-q, at 28.9%, driven by lower access charges, selling and distribution costs and Indus's margin improvement. FY10e capex guidance was lowered by 8% – there are no changes to Idea's 2G rollout plans.

Idea's consolidated revenue was INR30bn, up c140bp q-o-q. Revenue for Spice and Indus (its tower joint venture) improved by c150bp and c640bp q-o-q. Taking away the impact of change in MTC, consolidated revenue was cINR31bn, implying a growth of c620bp q-o-q.

Tata Teleservices (Maharashtra) Ltd

Tata Teleservices (Maharashtra) Limited (TTML) posted a net loss of INR343m in 1Q FY10, 20% lower than the previous quarter. Net sales declined by c30bp, although EBITDA margin improved by c500bp (both q-o-q), due to a decline in marketing and business promotion expenses. ARPU in the wireless segment fell c13% q-o-q to INR154, while ARPU in the wireline segment improved by c2% to INR1,071. The company guided to capex of INR11bn for FY10 on GSM network rollout.

TTML's top line fell c30bp q-o-q, to INR5.19bn. Income from telecommunication services was down c330bp while revenue from other sources was up c5,300bp.

Mahanagar Telephone Nigam Limited

Mahanagar Telephone Nigam (MTNL) reported a lacklustre Q1, posting a net loss of INR468m with revenue declining c12% q-o-q. ARPU was down c4% q-o-q while EBITDA margin remained in negative territory on higher labour costs (57% of sales). In our view, most investors are focused on the merger with sister company Bharat Sanchar Nigam Ltd (not rated) rather than on earnings. The potential merger of MTNL with sister company BSNL is dependent on the listing of BSNL and is at least 12 months away, in our view. We believe the disagreement with labour unions is a key obstacle to BSNL's listing. MTNL's total revenue in this quarter was INR9.6bn, down c1,100bp q-o-q. All the business segments saw a revenue decline in the quarter.

Public sector operators vs private

	BSNL			MTNL			Bharti			RCOM			Idea		
	FY07	FY08	FY09	FY07	FY08	FY09	FY07	FY08	FY09	FY07	FY08	FY09	FY07	FY08	FY09
Net sales (INRm)	397,151	380,534	333,590	49,075	47,672	45,765	185,196	270,250	369,615	144,683	190,678	229,411	43,873	67,374	101,505
Net sales growth (%)	-1%	-4%	-12%	-12%	-3%	-4%	59%	46%	37%	34%	32%	20%	48%	54%	51%
Net profit (INRm)	78,059	30,094	5,749	6,817	5,665	2,149	42,571	67,008	84,699	31,638	54,238	59,078	5,021	10,420	9,033
Net profit growth (%)	-13%	-61%	-81%	19%	-17%	-62%	89%	57%	26%	613%	71%	9%	150%	108%	-13%

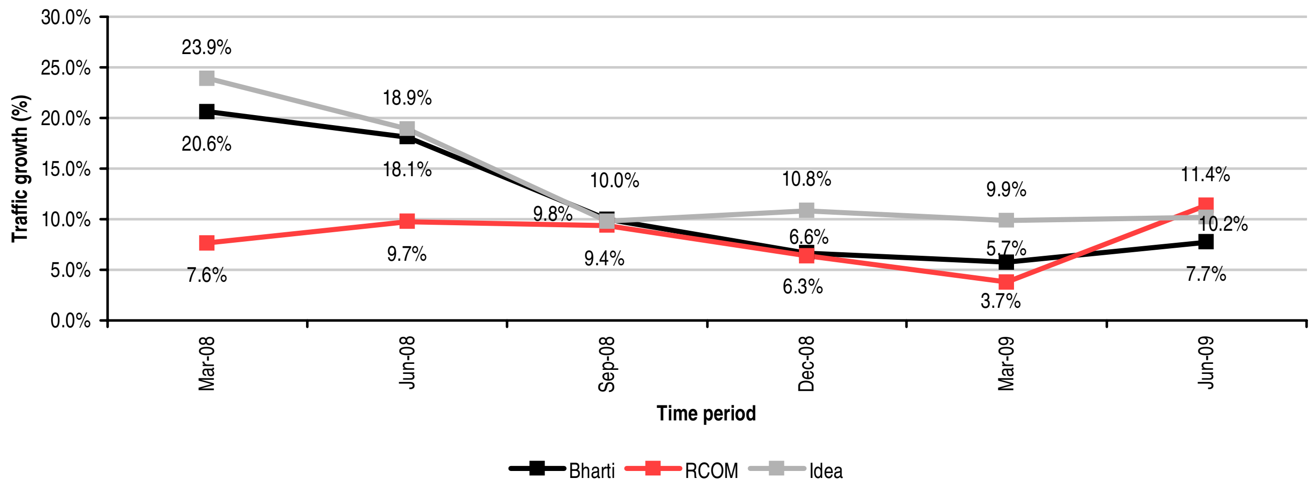
Note: BSNL and MTNL are public sector operators, with majority holdings by the Government of India
Source: Company data, HSBC

Impact of mobile termination charges on Indian telecom companies

Parameters	(INR)							Q-o-q growth					
	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	June – 09 (rep)	June – 09 (adj)	Jun-08	Sep-08	Dec-08	Mar-09	June – 09 (rep)	June – 09 (adj)
ARPU													
Bharti	357	350	335	324	305	278	290	-2.0%	-4.3%	-3.3%	-5.9%	-8.9%	-4.9%
RCOM	317	282	271	251	224	210	221	-11.0%	-3.9%	-7.4%	-10.8%	-6.3%	-1.3%
Idea	287	278	261	266	254	232	243	-3.1%	-6.1%	1.9%	-4.5%	-8.7%	-4.3%
MoU (minutes)													
Bharti	507	534	526	505	485	478	478	5.3%	-1.5%	-4.0%	-4.0%	-1.4%	-1.4%
RCOM	430	424	423	410	372	365	365	-1.4%	-0.2%	-3.1%	-9.3%	-1.9%	-1.9%
Idea	411	431	421	416	402	399	399	4.9%	-2.3%	-1.2%	-3.4%	-0.7%	-0.7%
RPM													
Bharti	0.70	0.66	0.64	0.64	0.63	0.58	0.61	-6.9%	-2.8%	0.7%	-2.0%	-7.5%	-3.5%
RCOM	0.74	0.67	0.64	0.61	0.60	0.58	0.61	-9.8%	-3.7%	-4.4%	-1.6%	-4.5%	0.6%
Idea	0.70	0.65	0.62	0.64	0.63	0.58	0.61	-7.6%	-3.9%	3.1%	-1.2%	-8.0%	-3.6%

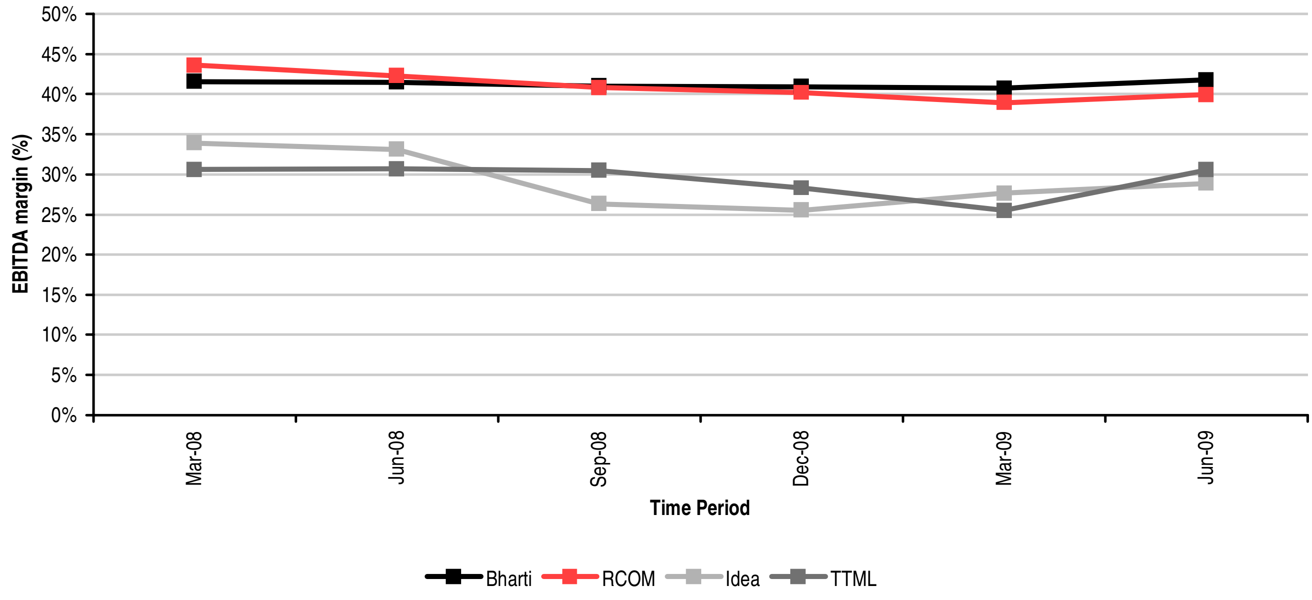
Source: Company data, HSBC

Traffic growth trend



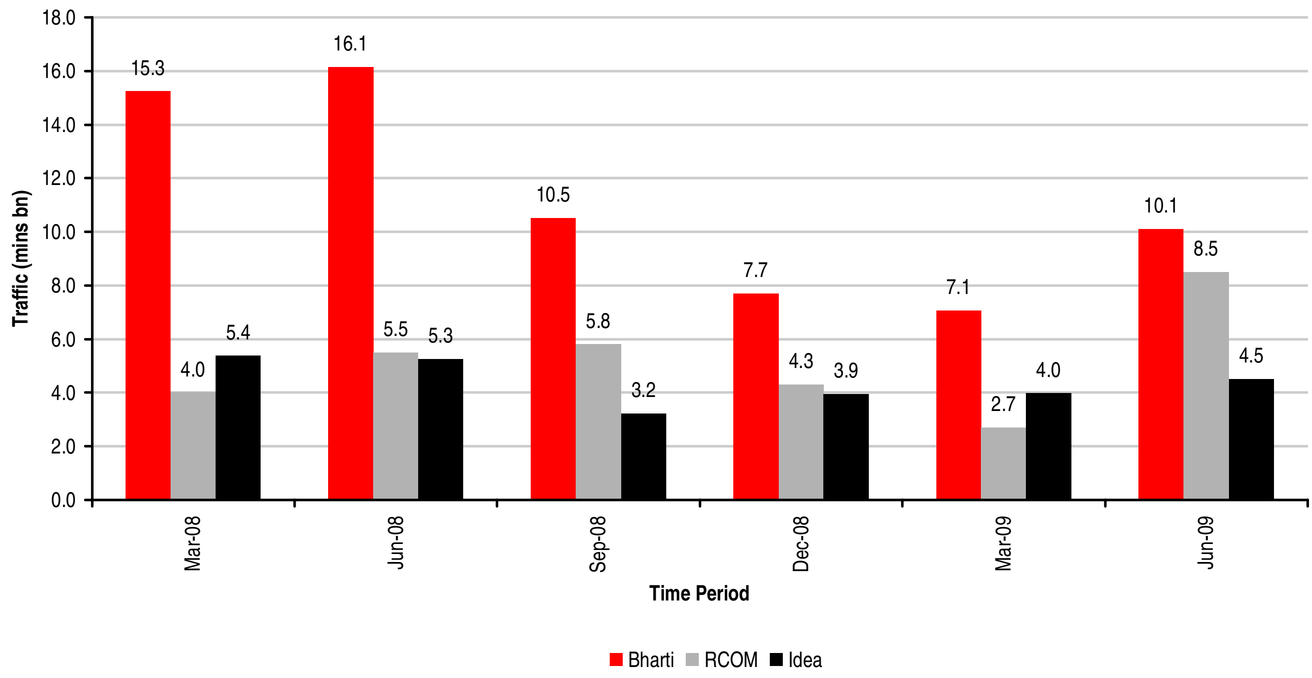
Source: Company data, HSBC

Indian telcos: EBITDA margins (last six quarters)



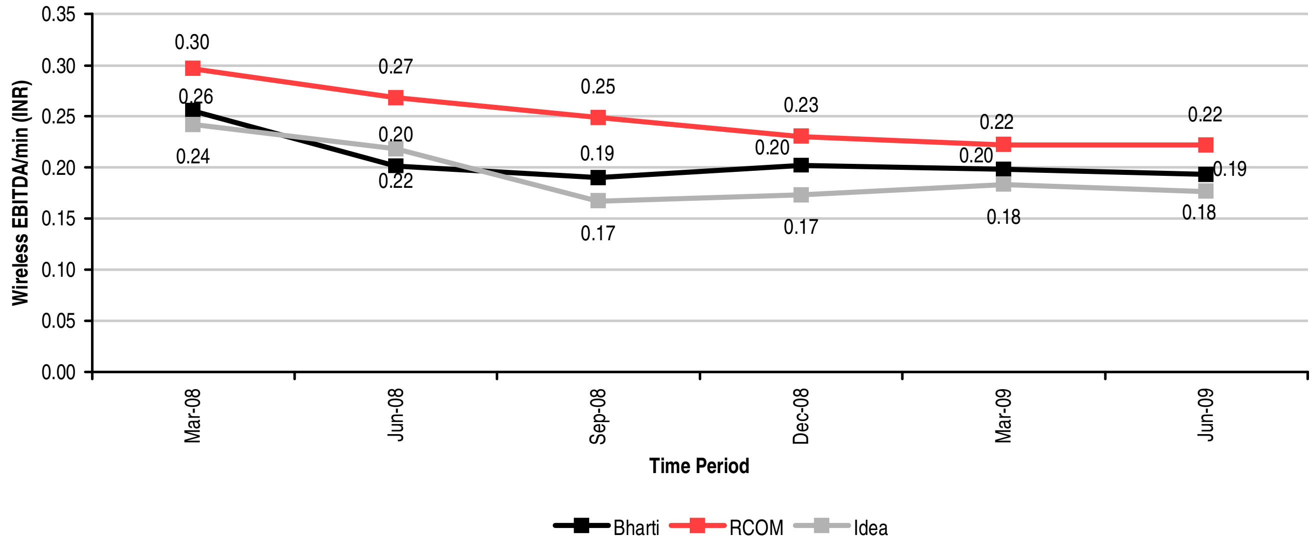
Source: Company data, HSBC

Incremental wireless telecom traffic trend



Source: Company data, HSBC

EBITDA per min



Source: Company data, HSBC

Valuation and risks

- Investor focus to switch to sales growth, hopes high for 3Q FY10
- Remain cautious on the sector; Bharti our only OW and MTNL our top sell
- Poor monsoon may be a drag on rural revenue; government spending may provide respite

Bharti Airtel

We value Bharti's core business using a mix of PE and DCF, attaching equal weightings to each. For our DCF, we assume a Cost of Equity of 11% (our strategy team has computed a COE of 10.5%, we assume a rate 50bp higher on rising competitive intensity), and a cost of debt of c13%: a target debt-to-equity ratio of 25%; our assessment of weighted average cost of capital (WACC) is 11% and terminal growth rate is c1%. Our DCF based fair value for the core business is at INR422 per share. For our PE methodology, we use a PE of c15x on 12-month forward earnings to arrive at a fair value of the core business at INR408 per share.

We value the Bharti tower business (Bharti Infratel and 42% stake in Indus Tower JV) at cINR73.5 using DCF (assuming a sliding WACC of 11% and terminal growth of 4%); implying FY11e EV/tower at INR5m, which is a c30% discount to recent transaction multiples.

Using our blended approach we arrive at a fair value of INR488.5 per share (unchanged). We reiterate our Overweight (V) rating on Bharti stock.

Downside risks include an early implementation of MNP, rollout of flat-rate plans, higher decline in usage and wireless margins on incremental rural penetration and higher spectrum charges than we estimate. Easing of funding/credit

Bharti: Computation of fair value for the core business

Core business	Assumptions	Value (INR)
PE methodology	We assume a 12-month forward PE of 13.3x	408
DCF methodology	WACC of 11%, terminal growth rate c1.25%, terminal component driving 45% of value	422
Fair value of core business	Providing equal weighting to both PE and DCF	415

Source: HSBC estimates

Bharti: Target price computation

(INR per share)	Assumptions	Value
Core business	Providing equal weighting to both PE and DCF	415
Tower business	DCF	73.5
Target price		488.5

Source: HSBC

availability may be negative for Bharti and for other telecom incumbents as this will allow the new entrants to expand aggressively. We retain our cautious view on the sector on increased competitive intensity concerns and declining usage patterns.

Reliance Communications

We value RCOM's core business with a blend of PE and DCF approach, assigning equal weights to each. We value the core business at INR250 per share.

For our DCF, we assume a COE 12% (our strategy team has computed a COE of 10.5%, we assume a rate 150bp higher on stretched balance sheet and poor disclosures), and assume a cost of debt of c13%. Our target debt-to-equity ratio is 25%; our assessment of weighted average cost of capital (WACC) is 12% and terminal growth rate is c3%. Our DCF analysis values the core business at INR175 per share.

We assume a PE of 12x on FY11e earnings to arrive at PE-based fair value of the core business at INR254 per share. We have taken 20% premium to the last 12-month average multiple of c10x. Our target multiple c12x implies c40% discount to the current Sensex multiple. In our view, RCOM should trade at a discount to Sensex on poor disclosures, accounting issues, declining earnings growth and balance sheet concerns. Over and above the value of core business, we have INR36 per share from the tower sharing arrangement with Etisalat DB.

Using our blended approach, we arrive at a fair value of INR250 per share (unchanged). We reiterate our Underweight (V) rating. Upside risks include early implementation of MNP and the company's ability to unlock value in tower and fibre assets. We view the possibility of scaling back India business plans by Etisalat as a key downside risk.

Idea Cellular

We value Idea's core business using a mix of PE and DCF, attaching equal weightings to each. For our DCF we assume Cost of Equity of 11% (our strategy team has computed a COE of 10.5%, we assume a rate 50bp higher on rising competitive intensity), a cost of debt of 13%, target debt-to-equity ratio of 25%, weighted average cost of capital (WACC) of 11% and terminal growth rate of c4%. Our DCF values the core business at INR70 per share.

For our PE methodology, we use a PE of c16x on 12-month forward core earnings (excluding Indus) to arrive at a fair value of the core business at INR37 per share. We apply a c20% discount to the last six months' average PE of 20x to arrive at our multiple of 16x. Our new multiple implies a 5% discount to the Sensex multiple compared to the last six months average premium of 53%.

RCOM: target price computation (INR)

Core business	Assumptions	Value (INR)
PE methodology	Assume a 12-month forward PE of c12x	254
DCF methodology	Assume WACC of 12%, terminal growth rate c3%; terminal component drives 63% of value	175
Fair value of core business	Assign equal weights to PE and DCF	214
Incremental value from tower sharing deal with Etisalat		36
Target price (INR)		250

Source: HSBC estimates

HSBC

Idea: computation of fair value for the core business

Core business	Assumptions	Value (INR)
PE methodology	We assume a 12-month forward PE of 16x	37
DCF methodology	WACC of 11%, terminal growth rate c4%, terminal component driving 85% of value	70
Fair value of core business	Providing equal weighting to both PE and DCF	54

Source: HSBC estimates

Idea: target price computation

(INR per share)	Assumptions	Value
Core business	Providing equal weighting to both PE and DCF	54
Tower business	Stake in Indus tower JV and owned towers	31
Target price		85

Source: HSBC

We value Idea's investments in the Indus tower business at cINR21 using DCF (assuming a sliding WACC of 11%, terminal growth of 4%); implying FY11e EV/tower of cINR5m which is c30% discount to recent transaction multiples.

Over and above the valuations in Indus tower co., we have assigned a value to the c8,000 owned towers by Idea with a tenancy of 1.5x. We value them at INR10 per share, at EV/tower of INR4m.

Using our blended approach we arrive at a fair value of INR85 per share. We retain our Neutral (V) rating on the Idea stock. Downside risks include a higher-than-estimated decline in margins on the back of new rollouts and higher spectrum charges. Upside risks would be lower license fees and Idea's potential to disrupt Bharti in the Karnataka service area using its operations in the 900 MHz spectrum.

Tata Teleservices (Maharashtra)

We value TTML's core business using DCF. We assume cost of equity of 12% (our strategy team has computed a COE of 10.5%, we assume a rate 150bp higher on stretched balance sheet late foray in GSM), cost of debt of 13%, target debt-to-equity ratio of 25%, weighted average cost of capital (WACC) of 12% and terminal growth rate of c1%. Our DCF approach values the core business at INR16 per share.

We do not build 3G capex into our numbers. We value TTML's investment in 21st Century Infra Tele Ltd at cINR4 per share. TTML has c1,800 towers with a tenancy of c1.4x; we assign them a value of INR4m/tower. We arrive at a fair value of INR20 per share (unchanged). We reiterate our Underweight (V) rating.

Downside risks stem from competitive intensity and early 3G auctions while upside risks include monetisation of tower assets and ramp-up in tenancy of 21st Century Infra Tele Ltd.

TTML: Target price computation

(INR per share)	Assumptions	Value (INR)
Core business	Using DCF	16
Tower business	Stake in Indus tower JV and owned towers	4
Target price		20

Source: HSBC

Mahanagar Telephone Nigam

Given the company's lack of earnings catalysts and its history of poor execution, we value MTNL at its FY10e cash balance at INR77 per share. Given that we expect 3G spectrum auctions in the early part of FY11e, we have deducted INR25 per share to factor in the potential impact of 3G

MTNL: Impact of 3G on share price

Circle	Base price, as per DoT (INRm)	Base price, as per news report* (INRm)	Number of slots	HSBC estimate of auction value (INRm)	Potential impact on MTNL share price (INR)
Delhi	1,600	3,200	3	9,600	15.2
Mumbai	1,600	3,200	5	6,400	10.2
Total potential share price impact					**c25**

**Economic Times*, 19 June 2009
Source: DoT, HSBC

spectrum auctions. We reiterate our Underweight (V) rating and target price of INR52. MTNL has little choice, as one slot of 3G spectrum has been reserved for it, which it is bound to take up. We believe, however, that it will not able to do justice to the high capacity 3G spectrum and private operators will be better placed to drive value.

Our cautious view on the operational side is also driven by the company's bloated employee cost structure and the rising competitive intensity on the wireless business. With the launch of GSM services by RCOM, Idea Cellular and Aircel over the past few months in Mumbai, there are concerns about MTNL's ability to continue with subscriber additions, even at the low end. Moreover, the recent launch by Tata Teleservices will make it even more difficult for MTNL to attract subscribers, in our view.

MTNL has got some very attractive fixed line assets and quality 900 MHz spectrum in the top two metros of Delhi and Mumbai, but its PSU status prevents it from unlocking value in these assets. We would view the ability of the company to monetise these assets as an upside risk to our valuation, but believe the possibilities are limited. We believe that MTNL, in its current form, cannot benefit from scale and a potential merger with its sister company BSNL, may allow it to benefit from scale.

EPS estimates – HSBC vs consensus

Operators	FY10e			FY11e		
	HSBC	Consensus	Variance	HSBC	Consensus	Variance
Bharti	25.0	26.4	-5.2%	27.6	29.6	-6.4%
RCOM	27.6	24.5	12.5%	21.1	26.4	-19.9%
Idea	3.6	3.4	4.9%	3.6	4.0	-8.9%
TTML	-1.1	-0.8	33.5%	-1.6	-1.0	69.5%
MTNL	0.5	3.5	-85.2%	1.2	3.1	-62.0%

Source: Datastream, HSBC estimates

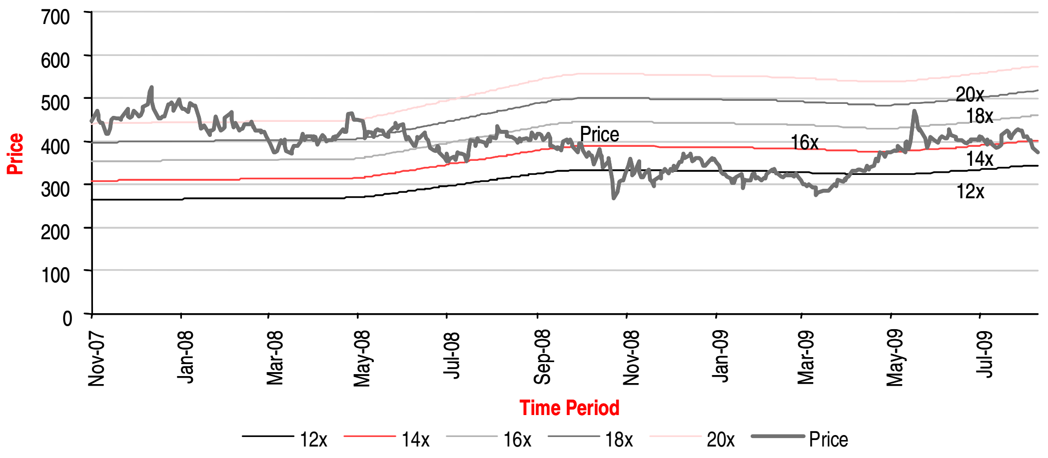
HSBC

June 2009 (all figures in INRm unless otherwise specified)

Income statement snapshot	Bharti	RCOM	Idea	TTML	MTNL
Net sales	99,416	61,452	29,759	5,119	9,555
Opex	57,898	36,927	21,160	3,555	9,763
Opex as a % of sales	58%	60%	71%	69%	102%
EBITDA	41,518	24,525	8,599	1,564	-208
EBITDA margin (%)	42%	40%	29%	31%	-2%
Depreciation and amortization	14330	11144	4555	1188	1812
Depreciation and amortization as a % of sales	14%	18%	15%	23%	19%
EBIT	27,188	13,381	4,044	376	-2,020
EBIT margin (%)	27%	22%	14%	7%	-21%
Interest income/(expense)	2,605	6,205	-869	-729	-6
Other income	295	-111	0	15	1299
PBT	30,088	19,475	3,175	-338	-727
PBT margin (%)	30%	32%	11%	-7%	-8%
Tax	4442	2267	204	4	-258
Effective tax rate (%)	15%	12%	6%	-1%	36%
Minorities	479	842	0	0	0
Reported net profit	25,167	16,366	2,971	-342	-469
Net profit margin (%)	25%	27%	10%	-7%	-5%
Reported basic EPS (INR)	13.27	-7.98	0.96	-0.18	-0.74
Reported diluted EPS (INR)	13.27	-7.98	0.96	-0.18	-0.74

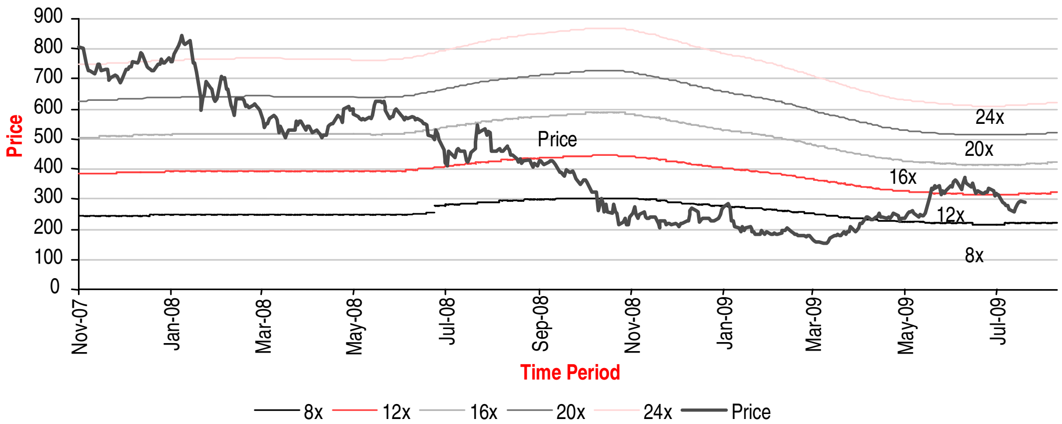
Source: Company data, HSBC

Source: Bharti: PE band 2 year forward



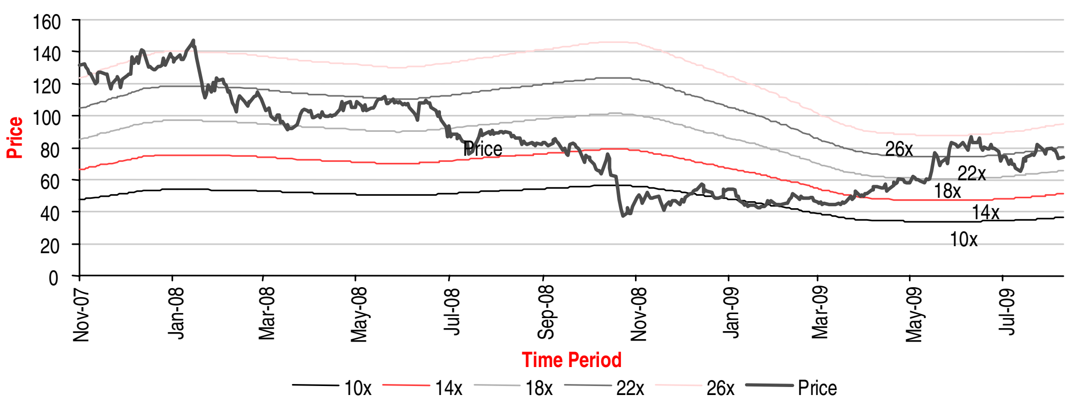
Source: Company data, HSBC

RCOM: PE band 2-year forward



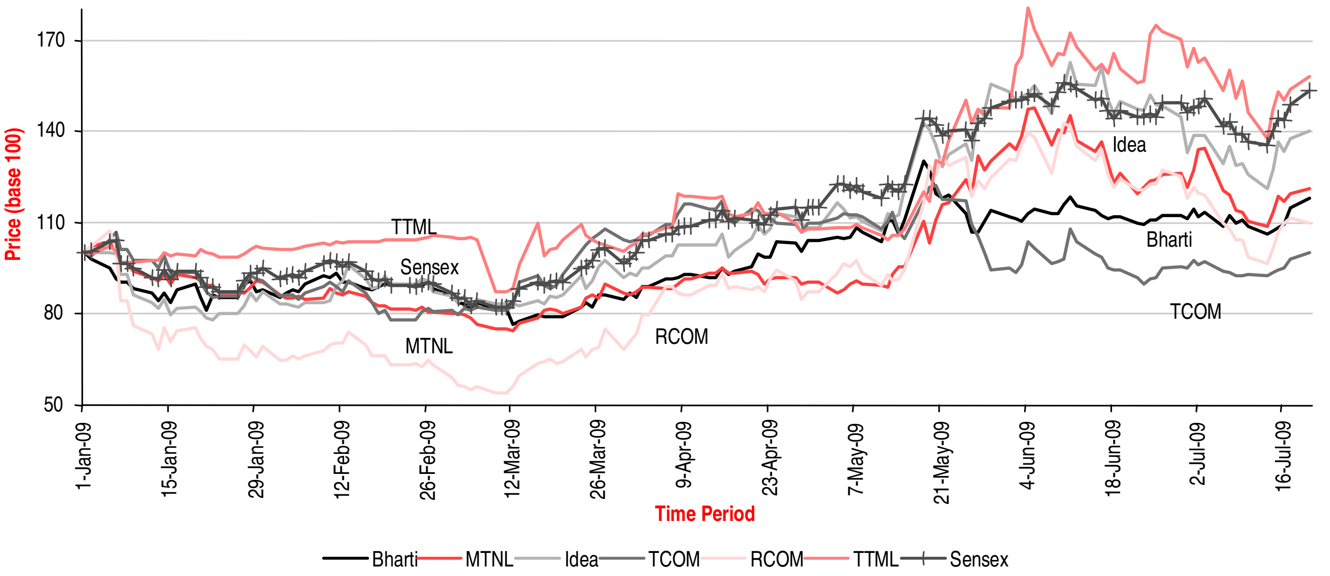
Source: Company data, HSBC

Idea: PE band 2-year forward



Source: Company data, HSBC

Indian telcos: relative performance (from 1 January 2009 till date)



Source: Company data, HSBC

Financials & valuation: Bharti Airtel

Overweight (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	270,250	369,615	414,876	496,510
EBITDA	113,715	151,678	172,662	200,410
Depreciation & amortisation	-37,260	-47,581	-68,415	-76,851
Operating profit/EBIT	76,455	104,097	104,248	123,559
Net interest	-2,341	-11,613	6,228	-1,890
PBT	76,536	93,073	112,881	128,134
HSBC PBT	76,536	93,073	112,881	128,134
Taxation	-8,378	-6,615	-16,398	-21,197
Net profit	67,008	84,699	94,803	104,826
HSBC net profit	67,008	84,699	94,803	104,826
Cash flow summary (INRm)				
Cash flow from operations	122,079	125,393	163,873	220,018
Capex	-138,467	-140,171	-119,438	-167,594
Cash flow from investment	-138,467	-140,171	-119,438	-167,594
Dividends	0	-7,584	-14,030	-18,190
Change in net debt	-744	27,531	-14,084	-29,179
FCF equity	-20,001	-25,221	51,192	46,394
Balance sheet summary (INRm)				
Intangible fixed assets	40,247	40,364	39,336	38,115
Tangible fixed assets	313,407	409,136	613,570	705,535
Current assets	113,782	144,079	160,671	195,605
Cash & others	54,948	49,154	80,452	110,149
Total assets	472,643	603,947	826,233	952,527
Operating liabilities	149,982	170,498	161,033	203,876
Gross debt	97,063	118,801	136,014	136,532
Net debt	42,115	69,646	55,562	26,383
Shareholders funds	222,585	303,945	518,003	600,870
Invested capital	262,506	373,926	572,093	625,230

Ratio, growth and per-share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	45.9	36.8	12.2	19.7
EBITDA	52.6	33.4	13.8	16.1
Operating profit	55.1	36.2	0.1	18.5
PBT	56.6	21.6	21.3	13.5
HSBC EPS	57.4	26.3	11.9	10.6
Ratios (%)				
Revenue/IC (x)	1.2	1.2	0.9	0.8
ROIC	29.6	27.3	18.2	16.8
ROE	37.4	32.2	23.1	18.7
ROA	18.9	18.6	13.6	13.1
EBITDA margin	42.1	41.0	41.6	40.4
Operating profit margin	28.3	28.2	25.1	24.9
EBITDA/net interest (x)	48.6	13.1		106.0
Net debt/equity	18.7	22.1	10.5	4.3
Net debt/EBITDA (x)	0.4	0.5	0.3	0.1
CF from operations/net debt	289.9	180.0	294.9	833.9
Per share data (INR)				
EPS Rep (diluted)	17.68	22.34	25.00	27.64
HSBC EPS (diluted)	17.68	22.34	25.00	27.64
DPS	0.00	2.00	3.70	4.80
Book value	58.74	80.15	136.60	158.46

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	5.8	4.3	3.8	3.1
EV/EBITDA	13.9	10.6	9.2	7.8
EV/IC	6.0	4.3	2.8	2.5
PE*	22.9	18.2	16.2	14.7
P/Book value	6.9	5.1	3.0	2.6
FCF yield (%)	-1.3	-1.6	3.3	3.0
Dividend yield (%)	0.0	0.5	0.9	1.2

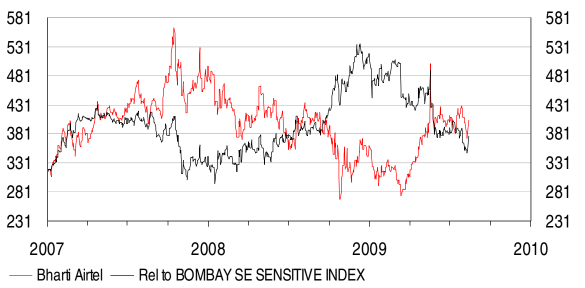
Note: * = Based on HSBC EPS (diluted)

Issuer information

Share price (INR) 405.50 Target price (INR) 488.50 Potent'l tot rtn (%) 21.4

Reuters (Equity)	BRTI.BO	Bloomberg (Equity)	BHARTI IN
Market cap (USDm)	31,833	Market cap (INRm)	1,539,620
Free float (%)		Enterprise value (INRm)	1606568
Country	India	Sector	Wireless Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 12 August 2009

HSBC

Financials & valuation: Idea Cellular Ltd

Neutral (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	67,374	101,505	133,292	164,274
EBITDA	22,685	28,377	37,095	49,497
Depreciation & amortisation	-8,768	-14,039	-19,872	-27,989
Operating profit/EBIT	13,917	14,338	17,223	21,508
Net interest	-2,771	-4,944	-4,599	-7,743
PBT	11,146	9,394	12,623	13,765
HSBC PBT	11,146	9,394	12,623	13,765
Taxation	-726	-362	-1,496	-2,528
Net profit	10,420	9,033	11,127	11,237
HSBC net profit	10,420	9,033	11,127	11,237
Cash flow summary (INRm)				
Cash flow from operations	19,920	27,478	47,642	35,785
Capex	-55,726	-55,000	-55,340	-105,110
Cash flow from investment	-59,768	-55,000	-79,285	-105,110
Dividends	0	0	0	0
Change in net debt	30,326	-16,770	44,769	69,325
FCF equity	-35,100	-31,140	-20,422	-69,325
Balance sheet summary (INRm)				
Intangible fixed assets	17,953	22,457	44,918	44,918
Tangible fixed assets	89,271	166,441	203,396	280,518
Current assets	21,060	63,018	49,006	40,991
Cash & others	10,535	51,316	33,778	25,000
Total assets	128,284	251,916	297,321	366,427
Operating liabilities	27,022	28,988	36,433	33,755
Gross debt	65,154	89,165	116,396	176,943
Net debt	54,619	37,849	82,618	151,943
Shareholders funds	35,447	132,846	143,521	154,758
Invested capital	90,727	171,612	227,110	307,672

Ratio, growth and per-share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	53.6	50.7	31.3	23.2
EBITDA	52.7	25.1	30.7	33.4
Operating profit	70.9	3.0	20.1	24.9
PBT	118.9	-15.7	34.4	9.0
HSBC EPS	94.7	-26.5	23.2	1.0
Ratios (%)				
Revenue/IC (x)	1.0	0.8	0.7	0.6
ROIC	24.3	10.5	7.6	7.0
ROE	36.4	10.7	8.1	7.5
ROA	12.2	7.3	5.5	5.3
EBITDA margin	33.7	28.0	27.8	30.1
Operating profit margin	20.7	14.1	12.9	13.1
EBITDA/net interest (x)	8.2	5.7	8.1	6.4
Net debt/equity	154.1	28.5	57.6	98.2
Net debt/EBITDA (x)	2.4	1.3	2.2	3.1
CF from operations/net debt	36.5	72.6	57.7	23.6
Per share data (INR)				
EPS Rep (diluted)	3.96	2.91	3.59	3.62
HSBC EPS (diluted)	3.96	2.91	3.59	3.62
DPS	0.00	0.00	0.00	0.00
Book value	13.48	42.84	46.30	49.92

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	4.3	2.7	2.4	2.3
EV/EBITDA	12.6	9.5	8.5	7.8
EV/IC	3.2	1.6	1.4	1.2
PE*	18.9	25.7	20.8	20.6
P/Book value	5.5	1.7	1.6	1.5
FCF yield (%)	-15.1	-13.4	-8.8	-29.9
Dividend yield (%)	0.0	0.0	0.0	0.0

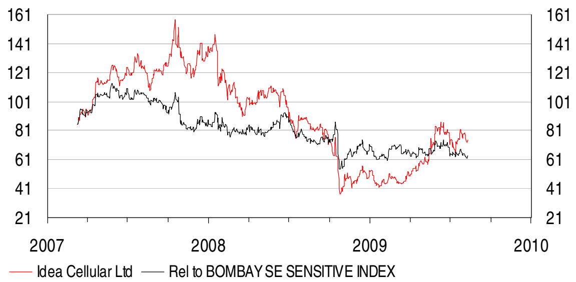
Note: * = Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	75.55	Target price (INR)	85.00	Potent'l tot rtn (%)	12.5

Reuters (Equity)	IDEA.BO	Bloomberg (Equity)	IDEA IN
Market cap (USDm)	4,831	Market cap (INRm)	231,732
Free float (%)	100	Enterprise value (INRm)	269581
Country	India	Sector	Wireless Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 12 August 2009

Financials & valuation: Reliance Communications

Underweight (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	190,678	229,411	262,130	297,352
EBITDA	81,989	92,875	105,279	119,207
Depreciation & amortisation	-28,054	-39,313	-50,572	-71,126
Operating profit/EBIT	53,935	53,562	54,708	48,081
Net interest	3,997	7,867	12,311	5,592
PBT	70,761	61,354	66,908	53,673
HSBC PBT	57,933	61,429	67,019	53,673
Taxation	-2,836	123	-9,259	-7,514
Net profit	54,237	59,078	56,564	43,372
HSBC net profit	41,409	59,153	56,675	43,372
Cash flow summary (INRm)				
Cash flow from operations	45,058	60,447	88,161	92,103
Capex	-211,974	-147,054	-80,036	-148,139
Cash flow from investment	-202,744	-150,730	-80,036	-148,139
Dividends	0	0	0	0
Change in net debt	121,201	86,504	-17,169	56,036
FCF equity	-160,210	-61,713	29,050	-56,036
Balance sheet summary (INRm)				
Intangible fixed assets	35,654	0	0	0
Tangible fixed assets	523,126	729,476	746,947	823,961
Current assets	215,813	246,560	219,845	218,274
Cash & others	118,778	109,577	65,000	65,000
Total assets	774,593	978,893	968,110	1,043,553
Operating liabilities	156,213	225,980	230,418	203,666
Gross debt	258,217	335,520	273,774	329,810
Net debt	139,439	225,943	208,774	264,810
Shareholders funds	290,263	370,003	417,363	460,735
Invested capital	499,603	640,479	671,374	773,569

Ratio, growth and per-share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	31.8	20.3	14.3	13.4
EBITDA	43.3	13.3	13.4	13.2
Operating profit	67.2	-0.7	2.1	-12.1
PBT	119.4	-13.3	9.1	-19.8
HSBC EPS	32.8	42.9	-4.2	-23.5
Ratios (%)				
Revenue/IC (x)	0.5	0.4	0.4	0.4
ROIC	13.6	9.4	7.2	5.7
ROE	16.8	17.9	14.4	9.9
ROA	11.9	8.1	7.7	7.2
EBITDA margin	43.0	40.5	40.2	40.1
Operating profit margin	28.3	23.3	20.9	16.2
EBITDA/net interest (x)				
Net debt/equity	44.3	59.7	49.2	56.3
Net debt/EBITDA (x)	1.7	2.4	2.0	2.2
CF from operations/net debt	32.3	26.8	42.2	34.8
Per share data (INR)				
EPS Rep (diluted)	26.43	28.79	27.56	21.13
HSBC EPS (diluted)	20.18	28.82	27.62	21.13
DPS	0.00	0.00	0.00	0.00
Book value	141.44	180.30	203.37	224.51

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	3.5	3.3	2.8	2.6
EV/EBITDA	8.1	8.0	6.9	6.6
EV/IC	1.3	1.2	1.1	1.0
PE*	12.6	8.8	9.2	12.0
P/Book value	1.8	1.4	1.2	1.1
FCF yield (%)	-30.7	-11.8	5.6	-10.7
Dividend yield (%)	0.0	0.0	0.0	0.0

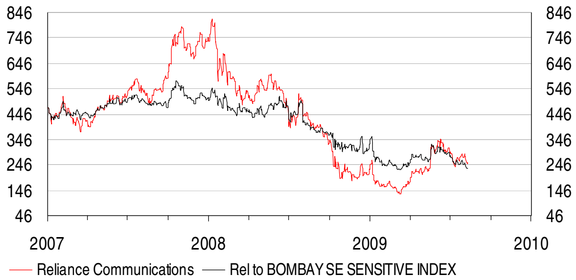
Note: * = Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	256.35	Target price (INR)	250.00	Potent'l tot rtn (%)	-2.5

Reuters (Equity)	RLCM.NS	Bloomberg (Equity)	RCOM IN
Market cap (USDm)	10,906	Market cap (INRm)	523,128
Free float (%)		Enterprise value (INRm)	747369
Country	India	Sector	Diversified Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 12 August 2009

HSBC

Financials & valuation: Tata Teleservices

Underweight (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	17,896	20,460	20,967	22,741
EBITDA	4,879	5,880	5,479	6,014
Depreciation & amortisation	-4,394	-4,631	-4,625	-5,623
Operating profit/EBIT	486	1,249	854	391
Net interest	-1,710	-3,057	-2,931	-3,358
PBT	-1,225	-1,687	-2,062	-2,967
HSBC PBT	-1,225	-1,808	-2,077	-2,967
Taxation	0	-12	-65	-121
Net profit	-1,225	-1,699	-2,127	-3,088
HSBC net profit	-1,225	-1,820	-2,142	-3,088
Cash flow summary (INRm)				
Cash flow from operations	3,164	2,203	2,571	3,095
Capex	-1,208	-5,290	-11,000	-7,959
Cash flow from investment	-1,205	-5,290	-11,000	-7,959
Dividends	0	0	0	0
Change in net debt	6,472	7,244	8,406	4,864
FCF equity	1,956	-3,447	-8,521	-4,864
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	29,861	34,256	40,630	42,967
Current assets	4,552	5,909	6,038	6,226
Cash & others	345	275	400	400
Total assets	34,413	40,265	46,669	49,192
Operating liabilities	9,819	10,241	10,241	10,988
Gross debt	26,269	33,443	41,974	46,838
Net debt	25,924	33,168	41,574	46,438
Shareholders funds	-2,006	-3,787	-5,913	-9,001
Invested capital	24,249	29,648	36,028	37,804

Ratio, growth and per-share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	25.9	14.3	2.5	8.5
EBITDA	61.2	20.5	-6.8	9.8
Operating profit		157.1	-31.6	-54.2
PBT				
HSBC EPS				
Ratios (%)				
Revenue/IC (x)	0.9	0.8	0.6	0.6
ROIC	2.4	4.7	2.7	1.1
ROE	46.9	62.8	44.2	41.4
ROA	1.5	3.7	2.1	0.8
EBITDA margin	27.3	28.7	26.1	26.4
Operating profit margin	2.7	6.1	4.1	1.7
EBITDA/net interest (x)	2.9	1.9	1.9	1.8
Net debt/equity	0.0	0.0	0.0	0.0
Net debt/EBITDA (x)	5.3	5.6	7.6	7.7
CF from operations/net debt	12.2	6.6	6.2	6.7
Per share data (INR)				
EPS Rep (diluted)	-0.65	-0.90	-1.12	-1.63
HSBC EPS (diluted)	-0.65	-0.96	-1.13	-1.63
DPS	0.00	0.00	0.00	0.00
Book value	-1.06	-2.00	-3.12	-4.74

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	5.0	4.7	5.0	4.8
EV/EBITDA	18.2	16.3	19.0	18.2
EV/IC	3.7	3.2	2.9	2.9
PE*				
P/Book value				
FCF yield (%)	3.1	-5.5	-13.6	-7.7
Dividend yield (%)	0.0	0.0	0.0	0.0

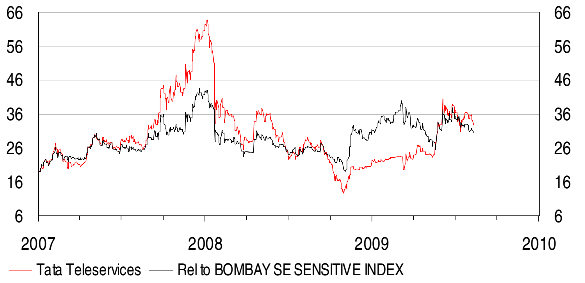
Note: * = Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	33.15	Target price (INR)	20.00	Potent'l tot rtn (%)	-39.7

Reuters (Equity)	TTML.BO	Bloomberg (Equity)	TTLS IN
Market cap (USDm)	1,309	Market cap (INRm)	62,797
Free float (%)		Enterprise value (INRm)	95965
Country	India	Sector	Wireless Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 12 August 2009

HSBC

Financials & valuation: MTNL

Underweight (V)

Financial statements

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Profit & loss summary (INRm)				
Revenue	47,672	45,765	44,841	44,739
EBITDA	7,218	3,095	1,015	1,632
Depreciation & amortisation	-7,132	-7,237	-8,038	-8,250
Operating profit/EBIT	86	-4,142	-7,023	-6,617
Net interest	2,591	7,269	7,493	7,700
PBT	7,926	3,097	470	1,083
HSBC PBT	2,677	3,127	470	1,083
Taxation	-2,260	-949	-146	-336
Net profit	5,665	2,149	324	747
HSBC net profit	1,847	2,179	324	747
Cash flow summary (INRm)				
Cash flow from operations	39,265	25,833	9,030	9,649
Capex	-8,885	-7,517	-7,517	-29,073
Cash flow from investment	-8,812	-7,517	-7,517	-29,073
Dividends	-2,948	-860	-130	-299
Change in net debt	-15,009	-17,456	-1,383	19,723
FCF equity	13,646	2,958	1,513	-19,424
Balance sheet summary (INRm)				
Intangible fixed assets	0	0	0	0
Tangible fixed assets	73,629	73,910	73,389	94,213
Current assets	142,073	159,031	160,104	140,078
Cash & others	33,823	51,273	52,656	32,933
Total assets	221,852	239,090	239,643	240,441
Operating liabilities	43,404	43,971	44,329	44,678
Gross debt	106	100	100	100
Net debt	-33,717	-51,173	-52,556	-32,833
Shareholders funds	118,999	135,676	135,871	136,319
Invested capital	138,474	137,696	136,507	156,679

Ratio, growth and per-share analysis

Year to	03/2008a	03/2009e	03/2010e	03/2011e
Y-o-y % change				
Revenue	-2.9	-4.0	-2.0	-0.2
EBITDA	-10.3	-57.1	-67.2	60.8
Operating profit	-92.9	-4915.9		
PBT	-21.4	-60.9	-84.8	130.4
HSBC EPS	214.7	18.0	-85.1	130.4
Ratios (%)				
Revenue/IC (x)	0.3	0.3	0.3	0.3
ROIC	0.0	-2.1	-3.5	-3.1
ROE	1.6	1.7	0.2	0.5
ROA	2.6	1.2	0.2	0.4
EBITDA margin	15.1	6.8	2.3	3.6
Operating profit margin	0.2	-9.0	-15.7	-14.8
EBITDA/net interest (x)				
Net debt/equity	-28.3	-37.7	-38.7	-24.1
Net debt/EBITDA (x)	-4.7	-16.5	-51.8	-20.1
CF from operations/net debt				
Per share data (INR)				
EPS Rep (diluted)	8.99	3.41	0.52	1.19
HSBC EPS (diluted)	2.93	3.46	0.52	1.19
DPS	5.60	1.36	0.21	0.47
Book value	188.89	215.36	215.67	216.38

Valuation data

Year to	03/2008a	03/2009e	03/2010e	03/2011e
EV/sales	0.6	0.1	0.1	0.7
EV/EBITDA	4.0	1.4	3.0	20.3
EV/IC	0.2	0.0	0.0	0.2
PE*	32.2	27.3	183.4	79.6
P/Book value	0.5	0.4	0.4	0.4
FCF yield (%)	21.9	5.3	2.7	-29.4
Dividend yield (%)	5.9	1.4	0.2	0.5

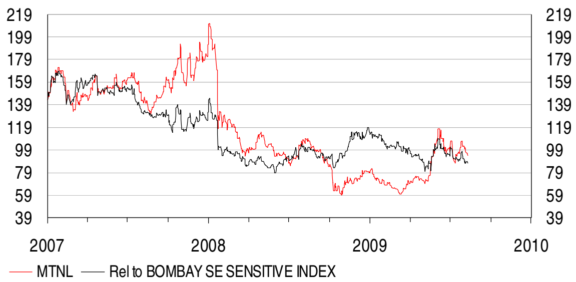
Note: * = Based on HSBC EPS (diluted)

Issuer information

Share price (INR)	96.65	Target price (INR)	52.00	Potent'l tot rtn (%)	-46.0

Reuters (Equity)	MTNL.NS	Bloomberg (Equity)	MTNL IN
Market cap (USDm)	1,241	Market cap (INRm)	59,504
Free float (%)		Enterprise value (INRm)	4203
Country	India	Sector	Diversified Telecoms
Analyst	Rajiv Sharma	Contact	9122 22681239

Price relative



Source: HSBC

Note: price at close of 12 August 2009

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This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at www.hsbcnet.com/research. Details of these short-term investment opportunities can be found under the Reports section of this website.

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Rating definitions for long-term investment opportunities

Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5ppt over the next 12 months (or 10ppt for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5ppt past the 40% benchmark in either direction for a stock's status to change.

Prior to this, from 7 June 2005 HSBC applied a ratings structure which ranked the stocks according to their notional target price vs current market price and then categorised (approximately) the top 40% as Overweight, the next 40% as Neutral and the last 20% as Underweight. The performance horizon is two years. The notional target price was defined as the mid-point of the analysts' valuation for a stock.

From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

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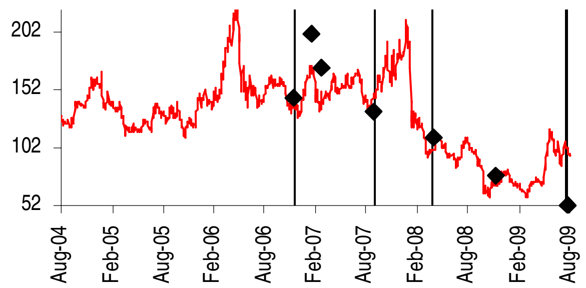
Rating distribution for long-term investment opportunities

As of 13 August 2009, the distribution of all ratings published is as follows:

Overweight (Buy)	35%	(34% of these provided with Investment Banking Services)
Neutral (Hold)	41%	(29% of these provided with Investment Banking Services)
Underweight (Sell)	24%	(29% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities

MTNL (MTNL.NS) share price performance INR vs HSBC rating history



Source: HSBC

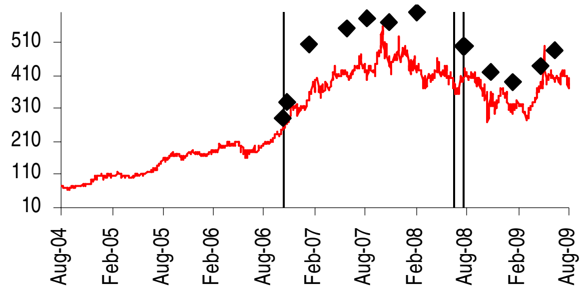
Recommendation & price target history

From	To	Date
N/R	Neutral (V)	24 November 2006
Neutral (V)	Underweight	12 September 2007
Underweight	Neutral (V)	08 April 2008
Neutral (V)	Underweight (V)	03 August 2009
Target Price	**Value**	**Date**
Price 1	145.00	24 November 2006
Price 2	200.00	26 January 2007
Price 3	171.00	08 March 2007
Price 4	133.00	12 September 2007
Price 5	111.00	08 April 2008
Price 6	77.00	20 November 2008
Price 7	52.00	03 August 2009

Source: HSBC

HSBC

Bharti Airtel (BRTI.BO) share price performance INR Vs HSBC rating history



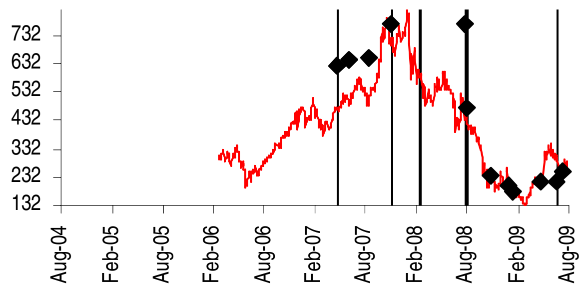
Source: HSBC

Recommendation & price target history

From	To	Date
Neutral	Overweight	23 October 2006
Overweight	Overweight	20 June 2008
Overweight	Overweight (V)	30 July 2008
Target Price	**Value**	**Date**
Price 1	280.00	23 October 2006
Price 2	330.00	02 November 2006
Price 3	505.50	24 January 2007
Price 4	555.00	04 June 2007
Price 5	585.00	21 August 2007
Price 6	570.00	07 November 2007
Price 7	603.00	17 February 2008
Price 8	501.50	30 July 2008
Price 9	501.00	04 August 2008
Price 10	421.50	03 November 2008
Price 11	393.00	21 January 2009
Price 12	438.00	04 May 2009
Price 13	488.50	22 June 2009

Source: HSBC

Reliance Communications (RLCM.NS) share price performance INR Vs HSBC rating history



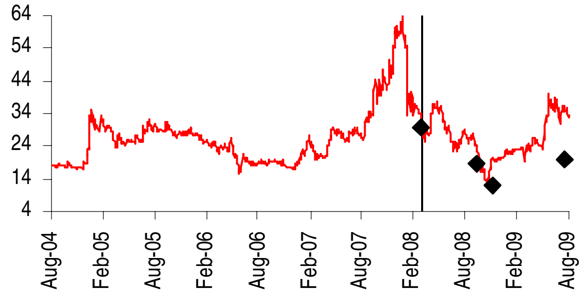
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	03 May 2007
Overweight (V)	Neutral	15 November 2007
Neutral	Restricted	22 February 2008
Restricted	Neutral	04 August 2008
Neutral	Neutral (V)	15 August 2008
Neutral (V)	Underweight (V)	29 June 2009
Target Price	**Value**	**Date**
Price 1	624.00	03 May 2007
Price 2	644.00	12 June 2007
Price 3	651.00	23 August 2007
Price 4	775.00	15 November 2007
Price 5	Restricted	22 February 2008
Price 6	775.00	04 August 2008
Price 7	475.00	15 August 2008
Price 8	235.00	05 November 2008
Price 9	202.00	13 January 2009
Price 10	180.00	27 January 2009
Price 11	218.00	05 May 2009
Price 12	214.00	29 June 2009
Price 13	250.00	23 July 2009

Source: HSBC

Tata Teleservices (TTML.BO) share price performance INR Vs HSBC rating history



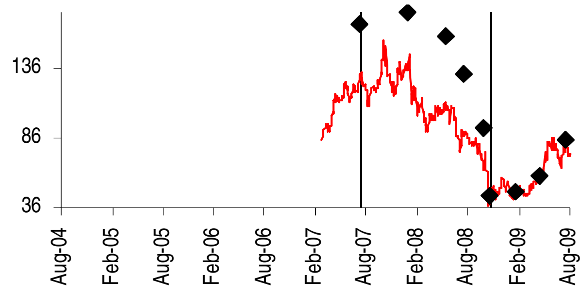
Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Underweight (V)	13 March 2008
Target Price	**Value**	**Date**
Price 1	30.00	13 March 2008
Price 2	19.00	26 September 2008
Price 3	12.00	21 November 2008
Price 4	20.00	30 July 2009

Source: HSBC

Idea Cellular Ltd (IDEA.BO) share price performance INR Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight (V)	20 July 2007
Overweight (V)	Neutral (V)	28 October 2008
Target Price	**Value**	**Date**
Price 1	168.00	20 July 2007
Price 2	177.00	11 January 2008
Price 3	160.00	26 May 2008
Price 4	133.00	31 July 2008
Price 5	93.00	10 October 2008
Price 6	44.00	28 October 2008
Price 7	48.00	29 January 2009
Price 8	59.00	27 April 2009
Price 9	85.00	27 July 2009

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
BHARTI AIRTEL	BRTI.NS	405.50	12-Aug-2009	6, 7
IDEA CELLULAR LTD	IDEA.BO	75.55	12-Aug-2009	4
RELIANCE COMMUNICATIONS	RLCM.NS	256.35	12-Aug-2009	1, 2, 5

Source: HSBC

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