

Idea gains traction in revenue mkt share

■ Gross revenue grew 4.9% QoQ in 3QFY11 vs. 1.1% in 2QFY11

Based on TRAI's quarterly revenue report, industry gross revenue grew 4.9% in 3QFY11 vs. 1.1% in 2QFY11 given the seasonally strong quarter. Among the operators, Idea and Uninor gained the highest (+50bps revenue share), followed by Videocon (+30bps) and Tata Tele (+15bps) while RCom (-85bps), Bharti (-35bps), BSNL (-25bps), and Aircel (-20bps) lost share during the quarter.

■ Idea gained revenue share across service areas; RCom lost share

Bharti continues to lead the market with revenue share of 31.2%. Its revenue share increased in metros (+30bps) while it lost rev. share in service areas 'A' (-80bps), 'B' (-20bps) and 'C' (-45bps). Idea and Uninor gained revenue share in all service areas while RCom's revenue share declined. Vodafone's revenue share increased by 15bps/40bps in service areas 'A' and 'C' while in other areas its revenue share remained stable.

■ Reaffirm positive view on Indian mobile sector; Idea is our top-pick

We believe revenue market share, revenue growth and EBITDA margins are the key metrics to focus and incumbents continue to do well on these parameters. We believe Indian mobile sector can outperform in 2011 on the back of improving regulatory climate coupled with better pricing power. We expect regulatory issues to get resolved in the next 12 months which can then lead to stabilization in prices (and potentially improvement) as rational regulation stimulates potential consolidation in the sector. We maintain our Buy ratings on Bharti, Idea and RCom with SoTP-based price targets of Rs500, Rs105 and Rs195, respectively. Idea is our top-pick as it offers pure play exposure to the Indian mobile sector.

23 February 2011

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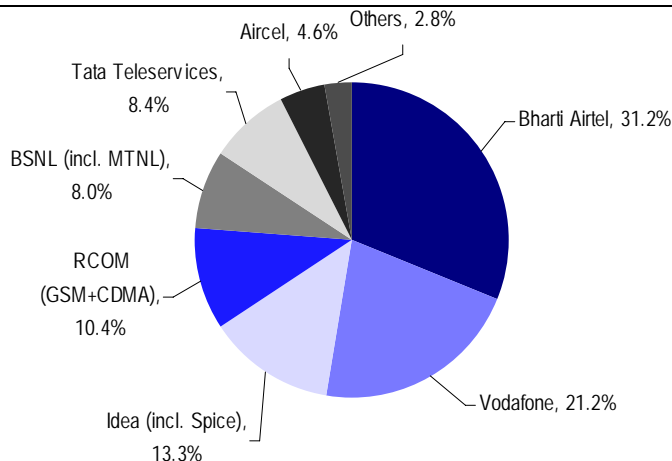
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Chart 1: India mobile operators gross revenue market share – 3QFY11 (Dec 2010)



Source: TRAI

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Table 1: Gross revenue based on TRAI reported data

Revenue (Rs m)	Jul-Sep'08	Oct-Dec'08	Jan-Mar'09	Apr-Jun'09	Jul-Sep'09	Oct-Dec'09	Jan-Mar'10	Apr-Jun'10	Jul-Sep'10	Oct-Dec'10
Bharti Airtel	80,093	86,871	88,960	89,128	87,754	85,798	87,428	93,196	91,649	95,078
Vodafone	48,047	52,220	55,008	54,705	53,809	55,216	58,379	61,332	61,611	64,628
Idea (incl. Spice)	26,384	29,880	31,834	32,018	31,804	33,708	35,011	37,404	37,173	40,556
RCOM (GSM+CDMA)	34,181	32,984	31,323	30,492	31,634	32,179	31,919	32,184	32,537	31,557
BSNL (incl. MTNL)	27,714	28,814	31,521	26,810	26,934	25,602	25,311	22,646	24,015	24,394
Tata Teleservices	20,299	21,188	21,359	18,680	19,601	19,589	24,009	23,241	24,024	25,595
Aircel	7,661	8,213	8,946	8,975	9,556	10,555	12,262	13,323	13,951	14,064
Others	2,413	2,429	2,984	3,053	2,676	2,999	3,525	3,835	5,228	8,497
Market - Total	246,793	262,600	271,935	263,860	263,766	265,645	277,844	287,161	290,186	304,370

Source: TRAI

Table 2: Gross revenue market share based on TRAI reported data

Revenue market share (%)	Jul-Sep'08	Oct-Dec'08	Jan-Mar'09	Apr-Jun'09	Jul-Sep'09	Oct-Dec'09	Jan-Mar'10	Apr-Jun'10	Jul-Sep'10	Oct-Dec'10
Bharti Airtel	32.5%	33.1%	32.7%	33.8%	33.3%	32.3%	31.5%	32.5%	31.6%	31.2%
Vodafone	19.5%	19.9%	20.2%	20.7%	20.4%	20.8%	21.0%	21.4%	21.2%	21.2%
Idea (incl. Spice)	10.7%	11.4%	11.7%	12.1%	12.1%	12.7%	12.6%	13.0%	12.8%	13.3%
RCOM (GSM+CDMA)	13.9%	12.6%	11.5%	11.6%	12.0%	12.1%	11.5%	11.2%	11.2%	10.4%
BSNL (incl. MTNL)	11.2%	11.0%	11.6%	10.2%	10.2%	9.6%	9.1%	7.9%	8.3%	8.0%
Tata Teleservices	8.2%	8.1%	7.9%	7.1%	7.4%	7.4%	8.6%	8.1%	8.3%	8.4%
Aircel	3.1%	3.1%	3.3%	3.4%	3.6%	4.0%	4.4%	4.6%	4.8%	4.6%
Others	1.0%	0.9%	1.1%	1.2%	1.0%	1.1%	1.3%	1.3%	1.8%	2.8%
Market - Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRAI

Table 3: Market share of top three operators in metro service areas

Metro	Dec'07	Mar'08	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Revenue market share %													
Vodafone	27.8%	28.4%	28.5%	28.2%	28.7%	28.3%	28.4%	28.6%	29.1%	29.8%	29.5%	29.6%	29.6%
Bharti Airtel	27.4%	27.3%	28.1%	28.2%	28.6%	28.2%	28.1%	27.8%	27.7%	26.4%	27.7%	26.7%	27.0%
RCOM	14.5%	14.1%	13.4%	14.4%	13.4%	12.8%	13.5%	14.2%	14.5%	13.7%	14.0%	14.2%	13.2%
Subscriber market share (%)													
Vodafone	22.2%	22.1%	22.0%	21.8%	21.6%	20.8%	20.6%	19.9%	19.2%	18.9%	18.4%	18.0%	17.6%
Bharti Airtel	22.3%	22.1%	21.6%	21.0%	20.7%	19.9%	19.5%	18.9%	18.2%	17.5%	17.2%	16.9%	16.4%
RCOM	17.6%	17.7%	18.5%	18.6%	18.8%	20.2%	20.5%	20.6%	20.4%	20.0%	20.0%	19.7%	19.3%

Source: TRAI, COAI and AUSPI

Table 4: Market share of top three operators in 'A' category service areas

Circle A	Dec'07	Mar'08	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Revenue market share (%)													
Bharti Airtel	32.8%	32.3%	34.8%	35.2%	35.7%	35.3%	36.5%	36.0%	35.3%	34.3%	34.9%	33.9%	33.1%
Vodafone	18.1%	18.4%	19.1%	18.7%	19.2%	19.6%	20.2%	19.4%	19.7%	19.6%	19.9%	19.6%	19.7%
Idea	11.7%	11.9%	12.8%	12.7%	13.4%	13.7%	14.0%	13.5%	14.4%	14.0%	14.2%	13.8%	14.3%
Subscriber market share (%)													
Bharti Airtel	25.6%	25.7%	26.2%	26.5%	26.8%	26.2%	25.9%	24.9%	24.1%	23.1%	22.5%	21.6%	20.8%
Vodafone	18.4%	18.7%	19.1%	19.1%	19.1%	18.9%	19.2%	18.6%	18.3%	18.2%	18.1%	17.9%	17.8%
Idea	13.1%	13.4%	13.8%	13.5%	13.6%	13.4%	13.3%	12.8%	12.7%	12.3%	12.2%	12.1%	12.3%

Source: TRAI, COAI and AUSPI

Table 5: Market share of top three operators in 'B' category service areas

Circle B	Dec'07	Mar'08	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Revenue market share (%)													
Bharti Airtel	25.0%	25.2%	28.2%	28.2%	29.1%	28.8%	29.9%	29.6%	28.9%	28.7%	29.3%	28.7%	28.4%
Vodafone	18.5%	19.0%	20.3%	19.9%	20.7%	21.6%	22.0%	21.6%	21.8%	22.4%	22.8%	22.4%	22.3%
Idea	14.4%	14.8%	15.5%	15.7%	16.3%	16.6%	17.1%	17.3%	17.6%	17.9%	18.4%	18.2%	18.6%
Subscriber market share (%)													
Bharti Airtel	20.4%	20.6%	21.2%	21.9%	22.0%	21.3%	21.5%	21.4%	21.0%	20.4%	20.2%	19.8%	19.6%
Vodafone	18.7%	18.4%	18.8%	19.4%	20.0%	20.0%	20.2%	20.0%	19.8%	19.6%	19.4%	18.9%	18.2%
Idea	14.5%	14.9%	15.2%	14.6%	14.6%	14.4%	14.2%	14.2%	14.1%	13.8%	13.7%	13.5%	13.5%

Source: TRAI, COAI and AUSPI

Table 6: Market share of top three operators in 'C' category service areas

Circle C	Dec'07	Mar'08	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Revenue market share (%)													
Bharti Airtel	39.8%	38.8%	45.6%	46.0%	46.2%	44.7%	47.5%	45.7%	41.3%	39.1%	41.7%	41.0%	40.6%
RCOM	24.2%	21.1%	22.1%	21.0%	18.5%	17.1%	17.1%	16.5%	16.4%	14.7%	14.4%	14.3%	13.5%
BSNL	22.5%	26.5%	16.9%	18.3%	18.7%	19.6%	13.5%	14.1%	14.5%	16.0%	11.2%	11.1%	10.8%
Subscriber market share (%)													
Bharti Airtel	35.1%	35.0%	35.9%	36.3%	35.9%	34.7%	34.3%	33.2%	30.9%	29.2%	29.0%	28.4%	27.4%
RCOM	26.1%	26.3%	26.6%	26.5%	25.9%	24.0%	22.4%	21.2%	19.9%	18.0%	16.8%	16.3%	15.8%
BSNL	21.2%	20.7%	19.2%	17.7%	16.6%	16.2%	15.2%	14.4%	14.4%	14.1%	13.5%	13.5%	13.6%

Source: TRAI, COAI and AUSPI

Table 7: Valuation Comparison

	Market Rating	Target price	% upside	Market cap (m, USD)	Net debt (m, USD)	P/E FY12E	P/E FY13E	EPS growth FY12E	EPS growth FY13E	EV/EBITDA FY12E	EV/EBITDA FY13E	EBITDA growth FY12E	EBITDA growth FY13E
Bharti	Buy	328	53%	27,584	(13,629)	15.8	10.8	27%	46%	7.5	6.0	24%	21%
Idea	Buy	60	76%	4,356	(2,599)	32.5	15.3	-14%	112%	6.8	5.4	26%	25%
RCOM	Buy	97	102%	4,413	(7,701)	10.2	5.5	36%	85%	6.6	4.9	14%	27%

* Our Price Targets are SoTP based; Note: Prices as on 23 Feb'11; Net debt as of FY11E; Source: UBS estimates

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	49%	40%
Neutral	Hold/Neutral	42%	35%
Sell	Sell	8%	21%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	14%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

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Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

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Equity Price Targets have an investment horizon of 12 months.

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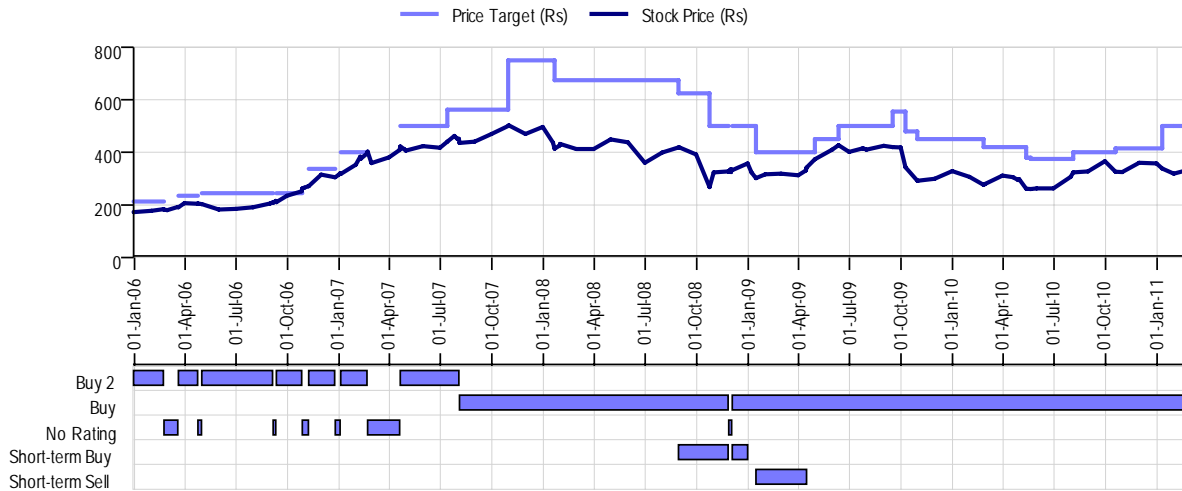
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Bharti Airtel Ltd.	BRTI.BO	Buy	N/A	Rs331.15	22 Feb 2011
Idea Cellular	IDEA.BO	Buy	N/A	Rs59.95	22 Feb 2011
Reliance Communication Limited	RLCM.BO	Buy	N/A	Rs95.10	22 Feb 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

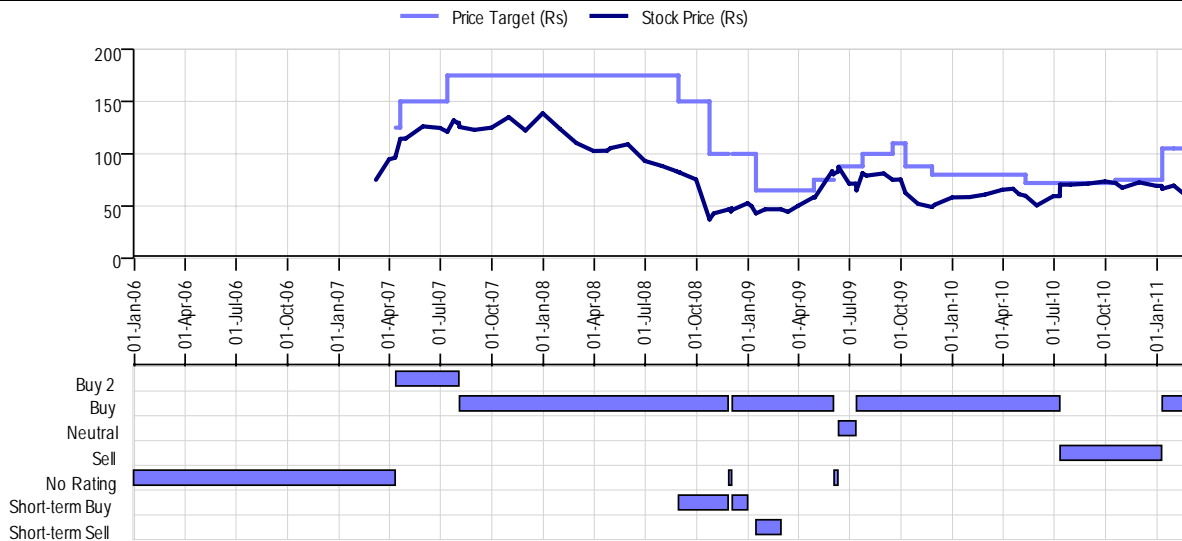
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Bharti Airtel Ltd. (Rs)



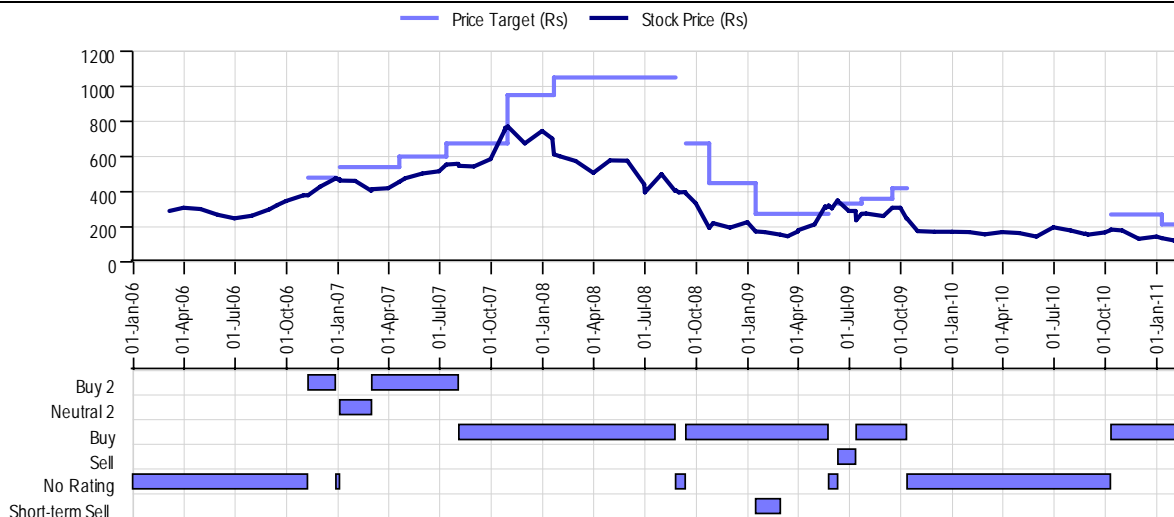
Source: UBS; as of 22 Feb 2011

Idea Cellular (Rs)



Source: UBS; as of 22 Feb 2011

Reliance Communication Limited (Rs)



Source: UBS; as of 22 Feb 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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