

## SO WHAT? THE BNP PARIBAS ANGLE

- We have consolidated the passive infrastructure business and eliminated the separate tower company valuation for Bharti, resulting in a 3% higher EPS in FY09.
- Our Idea financials currently do not include cash infusion of USD640m from Providence and transactions related to merger with Spice.

### Stock Picks

Company	BBG code	Rec	Share price (INR)	Target price (INR)	Upside (%)	Mkt cap (USD m)	Rec P/E		
							2008 (x)	2009E (x)	2010E (x)
Bharti Airtel	BHARTI IN	BUY	840.85	1,075.00	27.8	38,418	23.8	18.2	14.4
Reliance	RCOM IN	BUY	439.00	718.00	63.6	21,397	17.6	14.9	12.3
Idea Cellular	IDEA IN	BUY	90.00	125.00	38.9	6,938	22.8	19.7	14.7

Source: BNP Paribas estimates

**Regulator approves entry of MVNOs, whose track record across the world is poor. No compulsion on incumbents to share networks and financial arrangements based on market forces is a positive. Brand or content franchising with incumbents works better than with an MVNO. Threat to incumbents muted. Reiterate BUY on Bharti and Idea.**

## Is the MVNO threat for real?

### No compulsion to share networks a positive for incumbents

The Indian telecom regulator has left the discretion to partner with mobile virtual network operators (MVNOs) up to incumbent operators. Financial arrangements between incumbents and MVNOs will also be determined by market forces, which, in our opinion, is a positive for incumbents. Incumbents can now choose to partner with MVNOs if the incumbent's network is underutilised or to leverage a brand or content to target new consumer segments. Partnering with an MVNO will put money in mobile network operators' (MNOs') pockets. MNOs such as Idea, RCOM-GSM and Airtel, which are launching operations in new circles, could consider partnering with MVNOs to improve utilisation of their networks.

### MVNO track record across the world is poor

Virgin Mobile, a leading global MVNO, has managed to garner only 10m subscribers across five countries over a period of nine years. In 2007, Amp'd Mobile, an MVNO operating in the US, filed for bankruptcy. Premium- and luxury-consumer-segment-focused MVNO Helio, which used to target subscribers with high average revenue per user (ARPU), found its operations to be unsustainable and announced plans to merge with Virgin Mobile. Virgin Mobile's operations in India under a franchising agreement with Tata Teleservices have not resulted in any significant gain in market share.

### Brand franchising or content sharing would work better

MVNOs typically cater to niche segments and never really gain the scale to threaten incumbents. Most MVNOs are price leaders, and MVNOs in India could find it difficult to replicate this strategy by undercutting incumbents on pricing because of economies of scale and low telecom tariffs in India. In spite of having lower entry costs and capital expenditure, MVNOs have higher operating expenses than incumbents. MVNOs generally build their businesses around lean sales and distribution channels such as the Internet to counter higher operating expenditures. Due to the low penetration of the Internet in India, this channel poses a challenge. Brand-franchising or content-sharing arrangements with incumbents would work better than an MVNO as the brand/content owner and the MNO can focus on their core competencies. The Disney MVNO in the US resorted to this strategy after faltering in launching its own MVNO.

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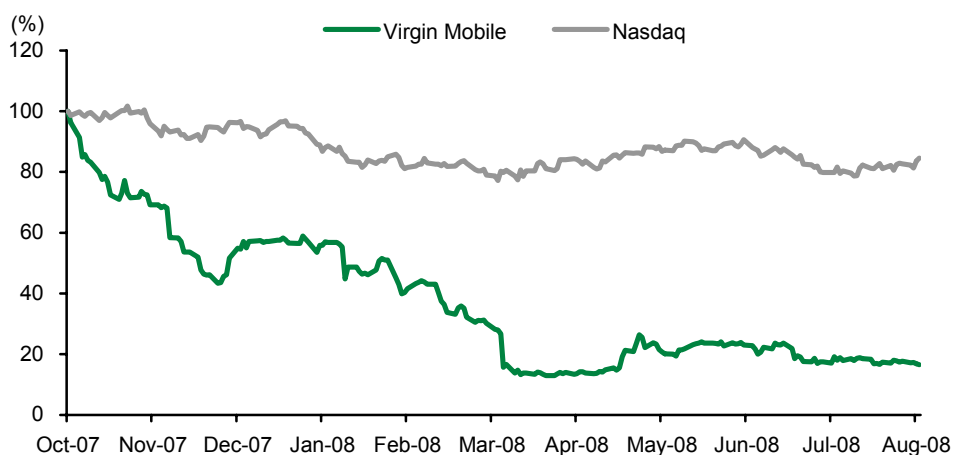
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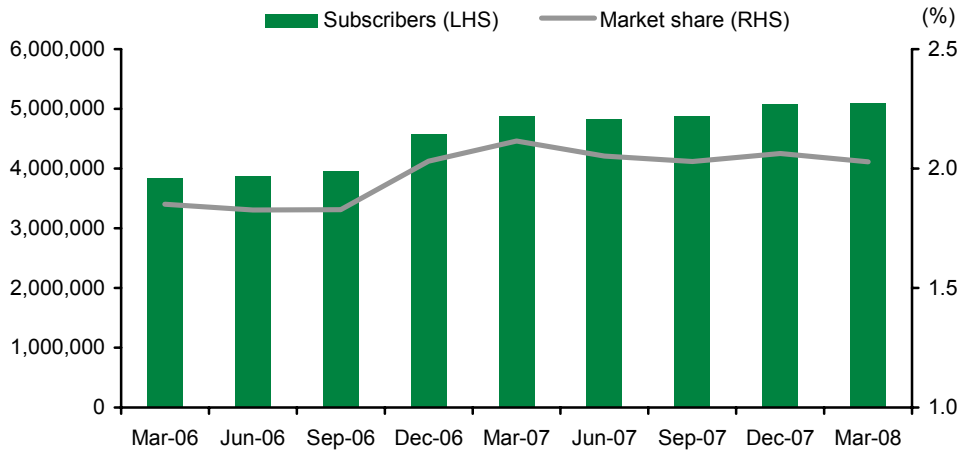
**Exhibit 1: Cost Structure Comparison For A Wireless Operator (MNO) And Virtual Operator (MVNO)**

Cost structure comparison	Operator (MNO)	Virtual operator (MVNO)	Comments
Network operating costs			
– Network maintenance costs	Yes	No	Operators (MNOs) spend heavily on network infrastructure and they need to maintain steady network operations expenditure. MVNOs buy wholesale capacity from MNOs to offer service. For MVNOs, this will be the biggest expenditure and will determine the viability of the business.
– Variable per minute payout to MNO	No	High	
Spectrum and license charges	Yes	Yes	MVNOs' subscriber base will be considered for computation of MNOs' spectrum and license charges.
Roaming and interconnect charges	Moderate	High	MVNOs will pay interconnect and roaming charges to MNOs.
Employee expenditure	High	Low	MVNOs employ a skeletal staff for their corporate sales and distribution function.
Selling expenditure	Moderate	High	For MVNOs, branding is a key expenditure.
General and administration expenditure	High	Low	MVNOs must be cost light for them to expect any success in a low ARPM market like India.
EBITDA margin	High	Low	Operator's margins will be much higher due to higher economies of scale. MVNOs will have very high variable cost payout and hence lower margins.
Depreciation	High	Low	MVNOs have low depreciation as they do not own network infrastructure.
Interest expenditure	High	Low	MVNOs will typically have lower interest expense; however, this is dependent on the capital structure of the company.
Taxes	Low	High	80IA income tax benefit available to telecom operators for setting up Greenfield networks. No similar benefit available to MVNOs.
Capex			
– License fees	INR16.10b	INR0.75b	MVNOs' setup costs will be negligible compared with MNOs but MNOs will benefit from economies of scale as they increase the minutes carried on their networks.
– Fiber infrastructure	Yes	No	
– GSM equipment	Yes	No	
– Tower infrastructure	Yes	No	
– Call center, billing solutions	Yes	Yes	

Source: BNP Paribas

**Exhibit 2: Virgin Mobile Stock Performance Since Its IPO**

Sources: Thomson; BNP Paribas

**Exhibit 3: Virgin Mobile Subscriber Base And Market Share In US**

Sources: Telegeography; BNP Paribas

**Exhibit 4: Summary of Recommendations By TRAI**

1. MVNOs to be introduced as a distinct service provider with its own licensing and regulatory framework
2. MVNOs free to choose their business model (full or intermediate or thin)
3. Arrangement/ agreement between MNOs and MVNOs to be driven by market forces
4. MVNOs to be issued a license under Indian Telegraph Act
5. The license service area of MVNOs to be same as that of parent MNO
6. Any Indian company with net worth -10% of that of MNO for the service area and paid up capital - 10% of prescribed net worth and fulfilling other licence conditions is eligible for MVNO licence.
7. Agreement with MNO to be submitted before issue of license to MVNO
8. No limit on number of MVNOs attached to an MNO
9. MNO to pay the spectrum charges for utilisation of spectrum by MVNO
10. Entry fees for MVNOs – 10% of MNOs subject to a maximum of INR50m/30m/10m for category A/B/C areas
11. Annual licence fees same as that of MNO of the service area
12. Allocation of numbers, number portability, interconnection with other service providers and roaming to be provided by parent MNO
13. Subscribers to be protected on failure of agreement between MNO and MVNO or MVNO quitting service
14. No rollout obligations for MVNO
15. FDI limit 74% (same as MNO)
16. Bank guarantee: FBG – equivalent to two quarters license fees; PBG – 5% of MNO
17. Restrictions on mergers and acquisition on similar lines as MNOs

Source: TRAI

## FINANCIAL STATEMENTS

## Bharti Airtel

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	185,196	270,250	376,429	460,505	528,368
Cost of sales ex depreciation	(82,124)	(116,443)	(166,088)	(199,531)	(227,578)
<b>Gross profit ex depreciation</b>	<b>103,072</b>	<b>153,808</b>	<b>210,341</b>	<b>260,974</b>	<b>300,790</b>
Other operating income	-	-	-	-	-
Operating costs	(28,181)	(40,093)	(57,560)	(72,760)	(83,482)
<b>Operating EBITDA</b>	<b>74,891</b>	<b>113,715</b>	<b>152,781</b>	<b>188,214</b>	<b>217,308</b>
Depreciation	(25,208)	(37,261)	(46,145)	(54,839)	(57,606)
Goodwill amortisation	(384)	-	-	-	-
<b>Operating EBIT</b>	<b>49,299</b>	<b>76,454</b>	<b>106,636</b>	<b>133,375</b>	<b>159,702</b>
Net financing costs	(1,439)	(2,341)	(4,280)	(1,281)	3,859
Associates	(3)	(1)	-	-	-
Recurring non operating income	1,010	2,423	2,360	2,373	2,391
Non recurring items	(9)	-	-	-	-
<b>Profit before tax</b>	<b>48,858</b>	<b>76,535</b>	<b>104,715</b>	<b>134,467</b>	<b>165,952</b>
Tax	(5,822)	(8,378)	(13,613)	(18,825)	(24,893)
<b>Profit after tax</b>	<b>43,036</b>	<b>68,157</b>	<b>91,102</b>	<b>115,642</b>	<b>141,059</b>
Minority interests	(467)	(1,150)	(3,427)	(4,613)	(5,865)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>42,569</b>	<b>67,007</b>	<b>87,675</b>	<b>111,029</b>	<b>135,194</b>
Non recurring items & goodwill (net)	393	(0)	(0)	(0)	(0)
<b>Recurring net profit</b>	<b>42,962</b>	<b>67,007</b>	<b>87,674</b>	<b>111,029</b>	<b>135,194</b>
<b>Per share (INR)</b>					
Recurring EPS *	22.64	35.30	46.19	58.50	71.23
Reported EPS	22.54	35.30	46.19	58.50	71.23
DPS	-	-	-	-	-
<b>Growth</b>					
Revenue (%)	58.8	45.9	39.3	22.3	14.7
Operating EBITDA (%)	73.3	51.8	34.4	23.2	15.5
Operating EBIT (%)	77.5	55.1	39.5	25.1	19.7
Recurring EPS (%)	90.0	55.9	30.8	26.6	21.8
Reported EPS (%)	86.5	56.6	30.8	26.6	21.8
<b>Operating performance</b>					
Gross margin inc depreciation (%)	42.0	43.1	43.6	44.8	46.0
Operating EBITDA margin (%)	40.4	42.1	40.6	40.9	41.1
Operating EBIT margin (%)	26.6	28.3	28.3	29.0	30.2
Net margin (%)	23.2	24.8	23.3	24.1	25.6
Effective tax rate (%)	11.9	10.9	13.0	14.0	15.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	35.2	33.7	25.5	106.0	na
Inventory days	2.9	3.2	2.5	2.1	1.8
Debtor days	21.9	18.6	15.9	15.1	15.7
Creditor days	69.3	55.8	55.1	61.9	61.3
Operating ROIC (%)	32.8	33.3	33.7	36.3	40.9
Operating ROIC - WACC (%)	16.5	17.1	17.4	20.1	24.6
ROIC (%)	26.2	28.9	30.1	32.9	37.2
ROIC - WACC (%)	9.9	12.6	13.8	16.6	20.9
ROE (%)	37.8	37.4	32.9	30.4	27.7
ROA (%)	17.5	18.4	18.1	18.7	19.0

Revenue estimates now include passive infrastructure revenue

EBITDA margin decline in FY09 due to increase in licence fees and higher SG&A

MOU estimate raised to incorporate strong MOU growth in 4QFY08

\* Pre exceptional, pre-goodwill and fully diluted

Key Assumptions (INR m)					
	2007A	2008A	2009E	2010E	2011E
Wireless Subscribers - Mn	37.14	61.98	87.52	105.2	118.6
ARPU	415.6	366.3	335.5	316.5	306.7
MOU	448.3	478.2	488.9	483.4	476.8
ARPM	0.93	0.77	0.69	0.65	0.64
Wireless Network Minutes of use - Bn	152.6	284.4	438.6	559	640
<b>Revenue By Division (INR m)</b>					
	2007A	2008A	2009E	2010E	2011E
Mobile	141,443	217,861	300,948	365,923	411,836
Broadband & Telephone Services	22,454	28,484	33,536	38,395	43,395
Enterprise Services - Carrier Long Distan	34,888	43,170	55,496	63,346	69,681
Enterprise Services - Corporate	9,050	13,217	17,080	19,767	21,744
Passive Infrastructure	-	6,023	56,157	75,574	96,086
Others	804	2,431	3,728	4,374	5,030
Eliminations	(23,443)	(40,936)	(90,516)	(106,874)	(119,405)

Sources: Bharti Airtel; BNP Paribas estimates

## Bharti Airtel

<b>Cash Flow (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	42,962	67,007	87,674	111,029	135,194
Depreciation	25,208	37,261	46,145	54,839	57,606
Associates & minorities	470	1,151	3,427	4,613	5,865
Other non-cash items	5,404	7,057	-	-	-
<b>Recurring cash flow</b>	<b>74,044</b>	<b>112,476</b>	<b>137,247</b>	<b>170,481</b>	<b>198,665</b>
Change in working capital	13,302	2,058	19,817	(3,346)	(4,100)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(89,271)	(138,468)	(140,000)	(78,286)	(73,972)
<b>Free cash flow to equity</b>	<b>(1,925)</b>	<b>(23,934)</b>	<b>17,065</b>	<b>88,849</b>	<b>120,593</b>
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(160)	2,655	(333)	-	-
<b>Net cash flow</b>	<b>(2,085)</b>	<b>(21,280)</b>	<b>16,732</b>	<b>88,849</b>	<b>120,593</b>
Equity finance	1,648	21,236	-	(4)	-
Debt finance	4,717	45,437	-	(30,000)	(30,000)
<b>Movement in cash</b>	<b>4,280</b>	<b>45,393</b>	<b>16,732</b>	<b>58,845</b>	<b>90,593</b>

We expect Bharti to turn FCF positive in FY09

<b>Per share (INR)</b>					
Recurring cash flow per share	39.21	59.26	72.31	89.82	104.67
FCF to equity per share	(1.02)	(12.61)	8.99	46.81	63.54

<b>Balance Sheet (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	34,197	56,149	56,936	61,403	64,276
Working capital liabilities	(65,818)	(89,828)	(110,432)	(111,553)	(110,326)
<b>Net working capital</b>	<b>(31,621)</b>	<b>(33,679)</b>	<b>(53,496)</b>	<b>(50,150)</b>	<b>(46,050)</b>
Tangible fixed assets	210,604	313,407	407,262	430,708	447,074
<b>Operating invested capital</b>	<b>178,983</b>	<b>279,728</b>	<b>353,765</b>	<b>380,558</b>	<b>401,024</b>
Goodwill	23,684	27,043	27,043	27,043	27,043
Other intangible assets	14,116	13,204	13,204	13,204	13,204
Investments	736	166	166	166	166
Other assets	3,887	5,041	5,041	5,041	5,041
<b>Invested capital</b>	<b>221,406</b>	<b>325,182</b>	<b>399,219</b>	<b>426,012</b>	<b>446,478</b>
Cash & equivalents	(9,468)	(54,861)	(71,593)	(130,438)	(221,030)
Short term debt	10,925	19,348	19,348	19,348	19,348
Long term debt *	41,536	77,715	77,715	47,715	17,715
<b>Net debt</b>	<b>42,993</b>	<b>42,202</b>	<b>25,470</b>	<b>(63,375)</b>	<b>(183,967)</b>
Deferred tax	2,432	2,531	2,531	2,531	2,531
Other liabilities	38,627	54,853	54,517	54,517	54,517
Total equity	135,553	222,583	310,261	421,286	556,480
Minority interests	1,801	3,013	6,440	11,053	16,918
<b>Invested capital</b>	<b>221,406</b>	<b>325,182</b>	<b>399,219</b>	<b>426,012</b>	<b>446,478</b>

\* Includes convertibles and preferred stock which is being treated as debt

<b>Per share (INR)</b>					
Book value per share	71.53	117.27	163.47	221.96	293.19
Tangible book value per share	51.58	96.07	142.26	200.76	271.99

<b>Financial strength</b>					
Net debt/equity (%)	31.3	18.7	8.0	(14.7)	(32.1)
Net debt/total assets (%)	14.5	9.0	4.4	(9.5)	(23.7)
Current ratio (x)	0.6	1.0	1.0	1.5	2.2
CF interest cover (x)	61.7	49.9	37.7	131.5	na

<b>Valuation</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	37.1	23.8	18.2	14.4	11.8
Recurring P/E @ target price (x) *	47.5	30.5	23.3	18.4	15.1
Reported P/E (x)	37.3	23.8	18.2	14.4	11.8
Dividend yield (%)	-	-	-	-	-
P/CF (x)	21.4	14.2	11.6	9.4	8.0
P/FCF (x)	neg	neg	93.5	18.0	13.2
Price/book (x)	11.8	7.2	5.1	3.8	2.9
Price/tangible book (x)	16.3	8.8	5.9	4.2	3.1
EV/EBITDA (x) **	21.5	14.1	10.5	8.3	6.8
EV/EBITDA @ target price (x) **	27.3	17.9	13.4	10.7	8.8
EV/invested capital (x)	7.4	5.0	4.1	3.6	3.2

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Bharti Airtel; BNP Paribas estimates

## Reliance Communications

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	144,683	190,678	256,228	321,221	383,703
Cost of sales ex depreciation	(63,641)	(74,628)	(100,569)	(126,722)	(150,603)
<b>Gross profit ex depreciation</b>	<b>81,042</b>	<b>116,050</b>	<b>155,658</b>	<b>194,500</b>	<b>233,100</b>
Other operating income	-	-	-	-	-
Operating costs	(23,834)	(34,061)	(44,840)	(56,214)	(67,148)
<b>Operating EBITDA</b>	<b>57,208</b>	<b>81,989</b>	<b>110,818</b>	<b>138,286</b>	<b>165,952</b>
Depreciation	(24,653)	(28,054)	(33,170)	(42,402)	(46,905)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>32,555</b>	<b>53,935</b>	<b>77,649</b>	<b>95,884</b>	<b>119,046</b>
Net financing costs	(4)	3,998	(7,751)	(9,464)	(7,871)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	(303)	158	-	-	-
<b>Profit before tax</b>	<b>32,248</b>	<b>58,091</b>	<b>69,898</b>	<b>86,420</b>	<b>111,175</b>
Tax	(611)	(2,836)	(6,291)	(9,506)	(14,453)
<b>Profit after tax</b>	<b>31,637</b>	<b>55,255</b>	<b>63,607</b>	<b>76,913</b>	<b>96,722</b>
Minority interests	-	(1,244)	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>31,637</b>	<b>54,011</b>	<b>63,607</b>	<b>76,913</b>	<b>96,722</b>
Non recurring items & goodwill (net)	303	(158)	-	-	-
<b>Recurring net profit</b>	<b>31,940</b>	<b>53,853</b>	<b>63,607</b>	<b>76,913</b>	<b>96,722</b>
<b>Per share (INR)</b>					
Recurring EPS *	15.60	24.90	29.41	35.56	44.72
Reported EPS	15.74	26.32	31.00	37.48	47.14
DPS	-	-	-	-	-
<b>Growth</b>					
Revenue (%)	34.4	31.8	34.4	25.4	19.5
Operating EBITDA (%)	128.5	43.3	35.2	24.8	20.0
Operating EBIT (%)	304.8	65.7	44.0	23.5	24.2
Recurring EPS (%)	549.9	59.6	18.1	20.9	25.8
Reported EPS (%)	610.9	67.2	17.8	20.9	25.8
<b>Operating performance</b>					
Gross margin inc depreciation (%)	39.0	46.1	47.8	47.3	48.5
Operating EBITDA margin (%)	39.5	43.0	43.3	43.1	43.3
Operating EBIT margin (%)	22.5	28.3	30.3	29.8	31.0
Net margin (%)	22.1	28.2	24.8	23.9	25.2
Effective tax rate (%)	1.9	4.9	9.0	11.0	13.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	8138.8	na	10.0	10.1	15.1
Inventory days	25.5	21.7	14.7	11.7	9.8
Debtor days	44.3	43.6	46.6	53.8	58.2
Creditor days	na	na	na	na	na
Operating ROIC (%)	15.4	16.0	15.6	16.3	19.9
Operating ROIC - WACC (%)	(1.6)	(0.9)	(1.3)	(0.7)	2.9
ROIC (%)	15.4	16.0	15.6	16.3	19.9
ROIC - WACC (%)	(1.6)	(0.9)	(1.3)	(0.7)	2.9
ROE (%)	19.9	23.4	22.1	21.5	21.7
ROA (%)	7.4	8.0	9.3	10.4	11.9

Expected EPS CAGR of 21% in FY08-11, lower than revenue growth due to higher interest and depreciation costs

\* Pre exceptional, pre-goodwill and fully diluted

<b>Key Assumptions (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Wireless Subscribers - Mn	29.12	45.79	64.16	85.41	103.9
Towers	13,849	36,849	61,849	70,445	72,445
ARPU	370.8	343.6	300.8	279.8	270.4
MOU	503	462.9	418.9	400.5	399.9
ARPM	0.74	0.74	0.72	0.70	0.68

<b>Revenue By Division (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Wireless	107,276	152,135	198,457	251,101	307,089
Global	51,771	54,750	77,425	90,767	99,844
Broadband	11,441	17,868	25,167	33,566	42,187
Others	3,872	4,304	5,810	6,972	7,670
Eliminations	(29,677)	(38,379)	(50,632)	(61,185)	(73,086)

Sources: Reliance Communications; BNP Paribas estimates

## Reliance Communications

<b>Cash Flow (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring net profit	31,940	53,853	63,607	76,913	96,722
Depreciation	24,653	28,054	33,170	42,402	46,905
Associates & minorities	-	1,244	-	-	-
Other non-cash items	1,405	3,748	-	-	-
<b>Recurring cash flow</b>	<b>57,998</b>	<b>86,899</b>	<b>96,776</b>	<b>119,315</b>	<b>143,628</b>
Change in working capital	32,310	(33,290)	(18,989)	(17,210)	(5,149)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(53,569)	(176,413)	(168,416)	(54,517)	(32,370)
<b>Free cash flow to equity</b>	<b>36,739</b>	<b>(122,804)</b>	<b>(90,629)</b>	<b>47,588</b>	<b>106,109</b>
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(10,790)	(3,375)	-	-	-
<b>Net cash flow</b>	<b>25,949</b>	<b>(126,179)</b>	<b>(90,629)</b>	<b>47,588</b>	<b>106,109</b>
Equity finance	-	-	-	-	-
Debt finance	63,017	95,832	-	-	(75,000)
<b>Movement in cash</b>	<b>88,966</b>	<b>(30,347)</b>	<b>(90,629)</b>	<b>47,588</b>	<b>31,109</b>

Capex will peak in FY09; company has guided for capex of USD6b, our capex assumption is ex tower company capex of USD2b

<b>Per share (INR)</b>					
Recurring cash flow per share	28.85	42.35	47.16	58.15	69.99
FCF to equity per share	18.28	(59.85)	(44.17)	23.19	51.71

<b>Balance Sheet (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Working capital assets	59,063	97,175	108,213	122,049	131,620
Working capital liabilities	(136,013)	(199,267)	(191,316)	(187,942)	(192,364)
<b>Net working capital</b>	<b>(76,950)</b>	<b>(102,092)</b>	<b>(83,103)</b>	<b>(65,893)</b>	<b>(60,744)</b>
Tangible fixed assets	330,423	522,153	657,400	669,515	654,980
<b>Operating invested capital</b>	<b>253,473</b>	<b>420,061</b>	<b>574,297</b>	<b>603,623</b>	<b>594,236</b>
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
<b>Invested capital</b>	<b>253,473</b>	<b>420,061</b>	<b>574,297</b>	<b>603,623</b>	<b>594,236</b>
Cash & equivalents	(149,125)	(118,778)	(28,149)	(75,737)	(106,845)
Short term debt	51,804	9,500	9,500	9,500	9,500
Long term debt *	103,634	206,181	206,181	206,181	131,181
<b>Net debt</b>	<b>6,313</b>	<b>96,903</b>	<b>187,532</b>	<b>139,944</b>	<b>33,836</b>
Deferred tax	-	-	-	-	-
Other liabilities	43,173	42,420	42,420	42,420	42,420
Total equity	203,928	256,427	320,034	396,947	493,670
Minority interests	59	24,311	24,311	24,311	24,311
<b>Invested capital</b>	<b>253,473</b>	<b>420,061</b>	<b>574,297</b>	<b>603,623</b>	<b>594,236</b>

\* Includes convertibles and preferred stock which is being treated as debt

<b>Per share (INR)</b>					
Book value per share	101.45	124.96	155.96	193.44	240.58
Tangible book value per share	101.45	124.96	155.96	193.44	240.58

<b>Financial strength</b>					
Net debt/equity (%)	3.1	34.5	54.5	33.2	6.5
Net debt/total assets (%)	1.2	13.1	23.6	16.1	3.8
Current ratio (x)	1.1	1.0	0.7	1.0	1.2
CF interest cover (x)	22578.0	na	11.0	11.8	18.6

<b>Valuation</b>					
	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Recurring P/E (x) *	28.1	17.6	14.9	12.3	9.8
Recurring P/E @ target price (x) *	46.0	28.8	24.4	20.2	16.1
Reported P/E (x)	27.9	16.7	14.2	11.7	9.3
Dividend yield (%)	-	-	-	-	-
P/CF (x)	15.2	10.4	9.3	7.5	6.3
P/FCF (x)	24.0	neg	neg	18.9	8.5
Price/book (x)	4.3	3.5	2.8	2.3	1.8
Price/tangible book (x)	4.3	3.5	2.8	2.3	1.8
EV/EBITDA (x) **	15.8	11.7	9.6	7.9	6.1
EV/EBITDA @ target price (x) **	25.6	18.6	14.8	12.0	9.5
EV/invested capital (x)	3.5	2.4	1.9	1.8	1.6

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Reliance Communications; BNP Paribas estimates

## Idea Cellular

<b>Profit and Loss (INR m)</b>					
<b>Year Ending March</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Revenue	43,873	67,376	100,339	141,878	168,952
Cost of sales ex depreciation	(19,752)	(32,085)	(50,914)	(75,063)	(87,877)
<b>Gross profit ex depreciation</b>	<b>24,121</b>	<b>35,290</b>	<b>49,425</b>	<b>66,815</b>	<b>81,075</b>
Other operating income	-	-	-	-	-
Operating costs	(9,207)	(12,603)	(16,893)	(21,650)	(25,756)
<b>Operating EBITDA</b>	<b>14,914</b>	<b>22,688</b>	<b>32,533</b>	<b>45,165</b>	<b>55,319</b>
Depreciation	(6,718)	(8,768)	(13,550)	(18,019)	(21,483)
Goodwill amortisation	-	-	-	-	-
<b>Operating EBIT</b>	<b>8,195</b>	<b>13,920</b>	<b>18,982</b>	<b>27,147</b>	<b>33,835</b>
Net financing costs	(3,051)	(2,771)	(4,870)	(4,196)	(4,652)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
<b>Profit before tax</b>	<b>5,144</b>	<b>11,149</b>	<b>14,112</b>	<b>22,951</b>	<b>29,183</b>
Tax	(70)	(725)	(1,373)	(2,984)	(4,378)
<b>Profit after tax</b>	<b>5,074</b>	<b>10,424</b>	<b>12,739</b>	<b>19,967</b>	<b>24,805</b>
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
<b>Reported net profit</b>	<b>5,074</b>	<b>10,424</b>	<b>12,739</b>	<b>19,967</b>	<b>24,805</b>
Non recurring items & goodwill (net)	-	-	-	-	-
<b>Recurring net profit</b>	<b>5,074</b>	<b>10,424</b>	<b>12,739</b>	<b>19,967</b>	<b>24,805</b>
<b>Per share (INR)</b>					
Recurring EPS *	2.23	3.96	4.56	6.11	7.60
Reported EPS	2.23	3.96	4.56	6.11	7.60
DPS	-	-	-	-	-
<b>Growth</b>					
Revenue (%)	46.7	53.6	48.9	41.4	19.1
Operating EBITDA (%)	35.7	52.1	43.4	38.8	22.5
Operating EBIT (%)	49.0	69.8	36.4	43.0	24.6
Recurring EPS (%)	79.8	77.4	15.3	34.0	24.2
Reported EPS (%)	186.4	77.4	15.3	34.0	24.2
<b>Operating performance</b>					
Gross margin inc depreciation (%)	39.7	39.4	35.8	34.4	35.3
Operating EBITDA margin (%)	34.0	33.7	32.4	31.8	32.7
Operating EBIT margin (%)	18.7	20.7	18.9	19.1	20.0
Net margin (%)	11.6	15.5	12.7	14.1	14.7
Effective tax rate (%)	1.4	6.5	9.7	13.0	15.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	2.7	5.0	3.9	6.5	7.3
Inventory days	2.7	2.0	1.3	0.9	0.7
Debtor days	na	na	na	na	na
Creditor days	278.8	207.8	118.6	99.1	96.3
Operating ROIC (%)	29.6	25.6	17.4	17.2	18.2
Operating ROIC - WACC (%)	13.1	9.1	0.9	0.7	1.7
ROIC (%)	18.5	20.1	12.4	11.9	13.2
ROIC - WACC (%)	2.0	3.6	(4.1)	(4.6)	(3.3)
ROE (%)	30.8	36.4	14.2	12.9	14.0
ROA (%)	11.4	13.1	9.9	9.5	10.4

26% revenue and 28% EBITDA CAGR in FY08-11

MOU on network expected to expand 5x in FY07-11; this will provide the economies of scale required to improve margins

\* Pre exceptional, pre-goodwill and fully diluted

<b>Key Assumptions (INR m)</b>	<b>2007A</b>	<b>2008A</b>	<b>2009E</b>	<b>2010E</b>	<b>2011E</b>
Wireless Subscribers - Mn	14.01	24.00	41.32	53.86	64.90
ARPU	332.0	293.5	266.6	246.4	235.6
MOU	364.0	378.0	400.8	395.1	397.6
ARPM	0.91	0.78	0.67	0.62	0.59
Wireless Minutes on Network (Bn)	45.93	86.21	145.2	198.4	248.3
<b>Revenue By Division (INR m)</b>					
Wireless	43,873	67,376	100,339	141,878	168,952

Sources: Idea Cellular; BNP Paribas estimates



## Idea Cellular

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	5,074	10,424	12,739	19,967	24,805
Depreciation	6,718	8,768	13,550	18,019	21,483
Associates & minorities	-	-	-	-	-
Other non-cash items	-	-	-	-	-
<b>Recurring cash flow</b>	<b>11,792</b>	<b>19,192</b>	<b>26,289</b>	<b>37,985</b>	<b>46,289</b>
Change in working capital	8,954	(3,683)	3,043	4,640	953
Capex - maintenance	-	-	-	-	-
Capex - new investment	(28,104)	(44,590)	(68,000)	(52,000)	(48,996)
<b>Free cash flow to equity</b>	<b>(7,358)</b>	<b>(29,081)</b>	<b>(38,668)</b>	<b>(9,375)</b>	<b>(1,755)</b>
Net acquisitions & disposals	-	-	(32,639)	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(56)	(6,115)	-	-	-
<b>Net cash flow</b>	<b>(7,414)</b>	<b>(35,197)</b>	<b>(71,306)</b>	<b>(9,375)</b>	<b>(1,755)</b>
Equity finance	16,817	3,225	100,459	-	-
Debt finance	7,303	22,649	(30,154)	6,334	-
<b>Movement in cash</b>	<b>16,706</b>	<b>(9,324)</b>	<b>(1,001)</b>	<b>(3,041)</b>	<b>(1,755)</b>

High capex in FY09 and FY10 as company launches operation in new circles; Mumbai, Bihar and TN circles expected to be launched in FY09

Per share (INR)					
Recurring cash flow per share	5.18	7.28	9.41	11.63	14.17
FCF to equity per share	(3.23)	(11.04)	(13.84)	(2.87)	(0.54)

Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	6,555	179	179	179	179
Working capital liabilities	(21,520)	(15,018)	(18,061)	(22,701)	(23,653)
<b>Net working capital</b>	<b>(14,966)</b>	<b>(14,839)</b>	<b>(17,882)</b>	<b>(22,521)</b>	<b>(23,474)</b>
Tangible fixed assets	49,232	89,271	161,138	195,119	222,632
<b>Operating invested capital</b>	<b>34,266</b>	<b>74,432</b>	<b>143,256</b>	<b>172,598</b>	<b>199,157</b>
Goodwill	61	61	52,415	52,415	52,415
Other intangible assets	11,776	17,892	17,892	17,892	17,892
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
<b>Invested capital</b>	<b>46,104</b>	<b>92,385</b>	<b>213,563</b>	<b>242,905</b>	<b>269,465</b>
Cash & equivalents	(18,199)	(8,876)	(7,875)	(4,835)	(3,080)
Short term debt	7,107	-	13,666	20,000	20,000
Long term debt *	35,398	65,154	35,000	35,000	35,000
<b>Net debt</b>	<b>24,306</b>	<b>56,278</b>	<b>40,791</b>	<b>50,165</b>	<b>51,920</b>
Deferred tax	-	661	661	661	661
Other liabilities	-	-	-	-	-
Total equity	21,798	35,446	144,591	164,559	189,364
Minority interests	-	-	27,520	27,520	27,520
<b>Invested capital</b>	<b>46,104</b>	<b>92,385</b>	<b>213,563</b>	<b>242,905</b>	<b>269,465</b>

\* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	9.51	13.45	44.27	50.39	57.98
Tangible book value per share	4.35	6.64	22.75	28.86	36.46

Financial strength					
Net debt/equity (%)	111.5	158.8	23.7	26.1	23.9
Net debt/total assets (%)	28.3	48.4	17.0	18.5	17.5
Current ratio (x)	0.9	0.6	0.3	0.1	0.1
CF interest cover (x)	7.8	6.6	7.0	11.2	11.2

Valuation	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	40.4	22.8	19.7	14.7	11.8
Recurring P/E @ target price (x) *	56.1	31.6	27.4	20.4	16.5
Reported P/E (x)	40.4	22.8	19.7	14.7	11.8
Dividend yield (%)	-	-	-	-	-
P/CF (x)	17.4	12.4	9.6	7.7	6.3
P/FCF (x)	neg	neg	neg	neg	neg
Price/book (x)	9.5	6.7	2.0	1.8	1.6
Price/tangible book (x)	20.7	13.6	4.0	3.1	2.5
EV/EBITDA (x) **	15.6	11.5	10.1	8.1	6.7
EV/EBITDA @ target price (x) **	20.9	15.3	13.3	10.7	8.8
EV/invested capital (x)	5.0	3.2	1.7	1.5	1.4

\* Pre exceptional, pre-goodwill and fully diluted

\*\* EBITDA includes associate income and recurring non-operating income

Sources: Idea Cellular; BNP Paribas estimates

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Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

\*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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