

## Indian Telecom

### Regulatory clarity the last mile; operational dynamics improve

Indian telecom sector has seen improving operational performance over the past few quarters – evident in improved operating metrics and healthy gross revenue growth. However we believe that stocks are likely to remain in a narrow trading range in the near term till the new telecom policies come through – expected by April. Based on the current recommendations from TRAI (excess spectrum charge+ renewal) we estimate the total impact to be Rs57/Rs44 for Bharti/Idea respectively which we believe is getting discounted in the share price to an extent. In our view, the steep spectrum renewal prices will face resistance from operators as they could impact the sector return ratios given that the 2G voice market is likely to mature over the next 3-4 years. Overall the operational dynamics continue to improve and regulatory clarity remains the key trigger for the stocks. We adjust our estimates marginally to factor in varied 3G launch schedules and maintain our Buy ratings on Bharti/Idea with December '11 target prices of Rs 400/Rs 95. Bharti remains our preferred pick in the Indian telecom space.

**Regulatory clarity the last mile:** While the sector's operational performance has improved, the regulatory imbroglio remains the key issue. We estimate the total regulatory impact based on the latest recommendations (excess spectrum + renewal) to be Rs57/Rs44 for Bharti/Idea respectively. We believe the stocks are to an extent already discounting these impacts. In our view license renewal and re-farming will be a protracted affair (little impact likely before FY14) and 2G spectrum pricing would also be impacted by possible consolidation in the space and maturing of voice market over the next 3-4 years. We note that the ROEs in the Indian sector have already come down to developed market levels; thus incremental investments in matured 2G voice (2G spectrum renewal/re-farming) will dent the return profile.

**Operational performance improving across incumbents:** ARPMs for the large players in the sector have remained flat at c.44p over the past three quarters and while MOUs (blended) did fall by 2% this quarter, strong subscriber additions helped offset the weakness. As such, traffic growth remains strong and stable ARPMs should enable the industry to sustain the growth. This is also evident in the AGR growth of 12–14% YoY on a blended basis across the A, B and C circles in the last quarter. Further, weak incumbents continue to lose revenue market share to stronger challengers. We also note that Bharti saw a healthy 4% QoQ revenue growth in Africa, driven mainly by subscriber growth as tariff reduction of 5% was offset by higher MOUs.

**Limited impact of MNP so far:** According to DoT, only ~2mn subscribers have ported their operators in the past one month, implying a monthly churn of ~0.3%. Incumbents have been the clear beneficiaries, largely at the expense of CDMA operators and BSNL. Among the bigger gainers are Vodafone, Idea and Bharti in that order, with net port-ins of 190k, 150k and 148k respectively. Further, our on-the-ground checks in circles such as Mumbai indicate limited traction and one-time upfront costs (in some cases refundable) of ~Rs 200 per port-in. We continue to maintain that MNP is unlikely to be a game changer for the sector and incumbents are likely to gain at the margin.

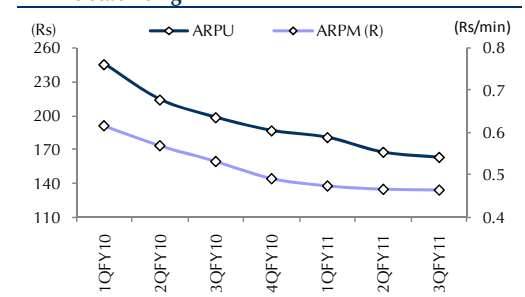
#### Possible regulatory impacts on leading telcos

(per share)	Impact on Idea	Impact on Bharti
One-time fees	4	9
Licence renewal	40	48
Increased spectrum charges	5	12
Fee on tower and ISP revenues	3	23
Gain from reduction in license fees	-9	-16
<b>Total Impact possible</b>	<b>43</b>	<b>76</b>

#### AGR growth (YoY)

(%)	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Metros	-7.8	-2.7	-2.6	-2.4	5.5
A circle	-3.1	1.6	4.3	4.6	13.9
B circle	0.2	-1.6	5.3	5.9	12.6
C circle	9.2	8.6	12.5	9.0	12.6
<b>Total</b>	<b>-1.7</b>	<b>0.5</b>	<b>4.3</b>	<b>4.2</b>	<b>11.8</b>

#### ARPMs stabilising



#### ROEs already in line with global peers

(%)	CY06	CY07	CY08	CY09	CY10
AT&T	9	10	12	12	19
Vodafone	-22	-7	9	4	11
SingTel	20	18	19	17	18
France telecom	14	19	13	10	16
SK Telecom	17	16	11	11	12
NTT Docomo	15	11	11	11	11
China Mobile	22	25	28	24	22
Telekomsel	34	33	26	24	27
<b>Bharti</b>	<b>37</b>	<b>38</b>	<b>33</b>	<b>25</b>	<b>18</b>

#### Telco valuations

	Price	EV/EBITDA		P/E	
	8 Mar-11	FY11E	FY12E	FY11E	FY12E
Bharti	Rs 335	9.4x	6.9x	20.0x	15.2x
Idea	Rs 62	8.6x	6.3x	23.7x	21.8x
RCOM	Rs 91	6.4x	4.6x	12.3x	8.2x





## Regulatory clarity the last hurdle

Given the lack of clarity on the regulatory framework going forward and the actual policy actions that may be taken, we do not factor in any downside from regulations in our price target. Should all the proposals come through as per the latest recommendations, we estimate a maximum negative impact on Bharti and Idea of Rs 76 and Rs 43 per share respectively (incl. fee on towers). In our view, the biggest dent is likely to arise from license renewal charges, which if implemented could mount further pressure on return ratios of the older incumbent players.

**Fig 1 - Regulatory impact**

(per share)	Impact on Idea	Impact on Bharti	Proposals
One-time fees	4	9	One-time fee on spectrum allocation above 6.2MHz
Licence renewal	40	48	Licence renewal based on new spectrum pricing
Increased spectrum charges	5	12	Revised spectrum charges could lead to 2% hit on EBITDA
Fee on tower and ISP revenues	3	23	Levy of a 6% licence fee on tower business
Gain from reduction in license fees	-9	-16	PV of benefits from downward revisions in licence fees
<b>Total Impact possible</b>	<b>43</b>	<b>76</b>	

Source: TRAI, RCML Research

## Bharti's India ROE already in line with global peers

In the past, Bharti has enjoyed ROEs as high as 37–38%, which have now come down to the high-teens largely due to the stiff tariff wars. Although telecom ROEs in India could recover slightly given peaking competitive intensity and lower capex requirements (on the lines of Indonesia), they could be severely impacted in case of steep licence renewal costs, especially given the maturing voice market.

**Fig 2 - ROEs across telecom companies**

Sector ROEs to be severely impacted in case of steep license renewal costs	(%)	CY05	CY06	CY07	CY08	CY09	CY10
AT&T	10	9	10	12	12	19	
Vodafone	6	-22	-7	9	4	11	
SingTel	17	20	18	19	17	18	
France telecom	24	14	19	13	10	16	
SK Telecom	24	17	16	11	11	12	
NTT Docomo	19	15	11	11	11	11	
Telefonica	31	34	41	37	35	35	
China Mobile	21	22	25	28	24	22	
Telekomsel	30	34	33	26	24	27	
<b>Bharti*</b>	<b>30</b>	<b>37</b>	<b>38</b>	<b>33</b>	<b>25</b>	<b>18</b>	

Source: Bloomberg, RCML Research. \*For Bharti year end is March. Bharti ROE are for the India business only.



## Operational performance improving...

Fig 3 - ARPM trend

(Rs/min)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	0.66	0.62	0.64	0.63	0.58	0.56	0.52	0.47	0.45	0.44	0.44
RCOM	0.66	0.64	0.61	0.60	0.58	0.47	0.45	0.44	0.44	0.44	0.44
Idea	0.65	0.62	0.64	0.63	0.58	0.56	0.51	0.47	0.44	0.42	0.42
Vodafone*	0.89	0.84	0.84	0.82	0.75	0.70	0.66	0.60	0.58	0.57	0.57
Telenor								0.53	0.44	0.39	0.39
<b>Sector ARPM</b>	<b>0.71</b>	<b>0.67</b>	<b>0.68</b>	<b>0.66</b>	<b>0.62</b>	<b>0.57</b>	<b>0.53</b>	<b>0.49</b>	<b>0.47</b>	<b>0.47</b>	<b>0.47</b>
<b>Q/Q % Growth</b>											
Bharti	-9	-6	4	-2	-7	-4	-8	-9	-5	-1	-1
RCOM	-10	-4	-5	-2	-3	-19	-4	-2	0	0	0
Idea	-7	-4	3	-2	-8	-4	-8	-9	-6	-3	-1
Vodafone	-6	-6	0	-2	-8	-7	-6	-8	-4	-3	1
Telenor									-18	-11	2
<b>Sector ARPM</b>	<b>-8</b>	<b>-5</b>	<b>1</b>	<b>-2</b>	<b>-7</b>	<b>-8</b>	<b>-6</b>	<b>-8</b>	<b>-3</b>	<b>-2</b>	<b>0</b>

Source: Company and RCML research. Note:\* calculated

Fig 4 - MOU trend

(mins)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	534	536	505	485	478	450	446	468	480	454	449
RCOM	424	423	410	372	365	340	330	318	295	276	251
Idea	431	421	416	402	399	375	389	398	415	394	401
Vodafone*	374	364	355	336	330	319	318	325	328	311	308
Telenor								148	209	254	252
<b>Sector MOU</b>	<b>451</b>	<b>448</b>	<b>431</b>	<b>406</b>	<b>399</b>	<b>377</b>	<b>373</b>	<b>380</b>	<b>381</b>	<b>359</b>	<b>351</b>
<b>Q/Q % Growth</b>											
Bharti	5	0	-6	-4	-1	-6	-1	5	3	-6	-1
RCOM	-1	0	-3	-9	-2	-7	-3	-4	-7	-6	-9
Idea	5	-2	-1	-3	-1	-6	4	2	4	-5	2
Vodafone	1	-3	-2	-6	-2	-3	0	2	1	-5	-1
Telenor									41	22	-1
<b>Sector MOU</b>	<b>3</b>	<b>-1</b>	<b>-4</b>	<b>-6</b>	<b>-2</b>	<b>-6</b>	<b>-1</b>	<b>2</b>	<b>0</b>	<b>-6</b>	<b>-2</b>

Source: Company and RCML research. Note:\* calculated

Fig 5 - ARPU trend

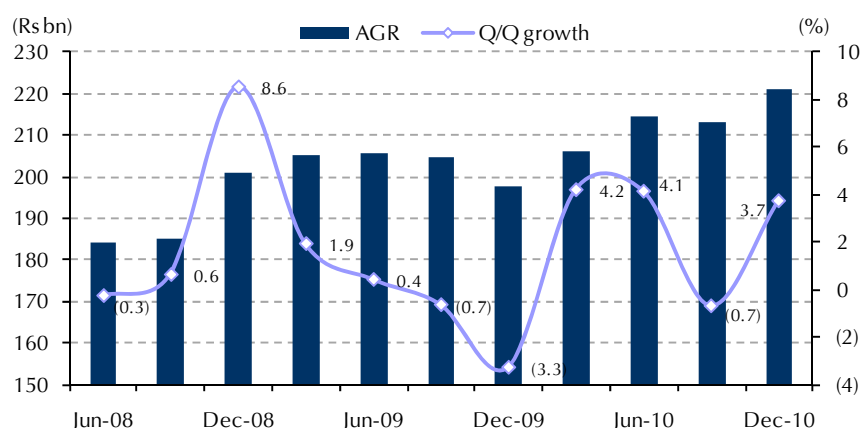
(Rs)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	350	331	324	305	278	252	230	220	215	202	198
RCOM	284	271	251	224	210	161	149	139	130	122	111
Idea	280	263	268	255	232	209	200	185	182	167	168
Vodafone	332	305	297	274	247	222	209	197	191	177	176
Telenor								78	91	98	99
<b>Sector ARPU</b>	<b>319</b>	<b>300</b>	<b>291</b>	<b>269</b>	<b>246</b>	<b>214</b>	<b>198</b>	<b>187</b>	<b>181</b>	<b>168</b>	<b>163</b>
<b>Q/Q % Growth</b>											
Bharti	-2	-5	-2	-6	-9	-9	-9	-5	-2	-6	-2
RCOM	-11	-5	-7	-11	-6	-23	-7	-7	-6	-6	-9
Idea	-2	-6	2	-5	-9	-10	-4	-7	-2	-8	1
Vodafone	-5	-8	-3	-8	-10	-10	-6	-6	-3	-7	-1
Telenor									16	8	1
<b>Sector ARPU</b>	<b>-5</b>	<b>-6</b>	<b>-3</b>	<b>-8</b>	<b>-9</b>	<b>-13</b>	<b>-7</b>	<b>-6</b>	<b>-3</b>	<b>-7</b>	<b>-3</b>

Source: Company



## ...also seen in the improvement in AGR

Fig 6 - India wireless AGR trend



Source: TRAI. Note AGR is Adjusted Gross Revenues.

Fig 7 - Wireless gross revenues

(Rs mn)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Bharti	89,128	87,754	85,798	87,428	93,196	91,649	95,078
VOD-Essar	54,705	53,809	55,216	58,379	61,332	61,611	64,628
Idea	32,018	30,804	33,708	35,011	37,404	37,173	40,556
BSNL+MTNL	26,810	26,934	25,602	25,311	22,646	24,015	24,394
Reliance	30,492	31,634	32,179	31,919	32,184	32,537	31,557
Tata Tele	18,680	19,601	19,589	24,009	23,241	24,024	25,595
Aircel	8,975	9,556	10,555	12,262	13,323	13,951	14,380
Uninor	0	129	93	502	641	1,481	3,011
Others	2,415	2,547	2,906	3,024	3,195	3,744	5,480
<b>Total GR</b>	<b>263,223</b>	<b>262,766</b>	<b>265,645</b>	<b>277,844</b>	<b>287,161</b>	<b>290,184</b>	<b>304,679</b>
<b>Y/Y Growth (%)</b>							
Bharti	16.5	9.6	(1.2)	(1.7)	4.6	4.4	10.8
VOD-Essar	15.9	12.0	5.7	6.1	12.1	14.5	17.0
Idea	27.0	16.8	12.8	10.0	16.8	20.7	20.3
BSNL+MTNL	(0.2)	(2.8)	(11.1)	(19.7)	(15.5)	(10.8)	(4.7)
Reliance	(3.5)	(7.5)	(2.4)	1.9	5.5	2.9	(1.9)
Tata Tele	(8.6)	(3.4)	(7.5)	12.4	24.4	22.6	30.7
Aircel	20.0	24.7	28.5	37.2	48.4	46.0	36.2
Uninor						NM	NM
Others	2.4	5.5	19.6	24.2	32.3	47.0	88.5
<b>Total GR</b>	<b>10.8</b>	<b>6.5</b>	<b>1.2</b>	<b>2.4</b>	<b>9.1</b>	<b>10.4</b>	<b>14.7</b>
<b>Q/Q Growth</b>							
Bharti	0.2	(1.5)	(2.2)	1.9	6.6	(1.7)	3.7
VOD-Essar	(0.6)	(1.6)	2.6	5.7	5.1	0.5	4.9
Idea	0.6	(3.8)	9.4	3.9	6.8	(0.6)	9.1
BSNL+MTNL	(14.9)	0.5	(4.9)	(1.1)	(10.5)	6.0	1.6
Reliance	(2.7)	3.7	1.7	(0.8)	0.8	1.1	(3.0)
Tata Tele	(12.5)	4.9	(0.1)	22.6	(3.2)	3.4	6.5
Aircel	0.4	6.5	10.5	16.2	8.7	4.7	3.1
Uninor			(28.3)	441.8	27.7	131.1	103.3
Total GR	(3.0)	(0.2)	1.1	4.6	3.4	1.1	5.0

Source: TRAI

Incumbents have seen strong gross revenue growth of 10–20% YoY in the past quarter, and most market share gains have largely been at the expense of RCOM and BSNL

Idea saw industry leading growth in the last quarter, at 9% QoQ, ahead of the industry average of 5%



Incumbents including Bharti, Vodafone and Idea have shown strong resilience in maintaining market share

Amongst the losers are CDMA and state-owned players

**Fig 8 - AGR market share trend**

(%)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Bharti	33.7	33.3	32.7	32.9	33.3	32.2	32.0
VOD-Essar	20.5	19.9	20.7	20.7	20.5	20.6	20.8
Idea	12.5	12.3	13.1	12.8	13.0	12.9	13.4
BSNL / MTNL	10.8	11.1	10.3	9.6	8.6	8.7	8.7
RCOM	11.1	10.8	10.8	9.1	9.9	10.0	8.8
TTSL	7.0	7.6	7.3	9.0	8.4	8.8	9.0
Aircel	3.6	3.9	3.9	4.7	4.9	5.1	4.9
Others	0.8	1.0	1.1	1.3	1.2	1.7	2.5

Source: TRAI

AGR growth has recovered throughout the current fiscal year after remaining sluggish in FY10

On a blended basis A, B and C circles saw a healthy 12.5–14% YoY growth; even the metros grew by 5.5% YoY

**Fig 9 - Circle-wise AGR trend**

(Rs mn)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Metros	37,763	37,741	37,965	35,812	36,746	36,750	37,060	37,787
A circle	76,993	77,739	77,533	74,389	78,208	81,080	81,081	84,714
B circle	67,261	67,861	66,024	64,993	66,179	71,468	69,946	73,202
C circle	23,016	22,543	23,019	22,599	24,987	25,370	25,080	25,442
<b>Total</b>	<b>205,033</b>	<b>205,883</b>	<b>204,541</b>	<b>197,793</b>	<b>206,119</b>	<b>214,668</b>	<b>213,167</b>	<b>221,144</b>
<b>Y/Y Growth (%)</b>								
Metros	-3.1	1.1	2.4	-7.8	-2.7	-2.6	-2.4	5.5
A circle	9.7	10.2	9.5	-3.1	1.6	4.3	4.6	13.9
B circle	18.9	15.8	12.1	0.2	-1.6	5.3	5.9	12.6
C circle	21.5	27.5	24.3	9.2	8.6	12.5	9.0	12.6
<b>Total</b>	<b>11.0</b>	<b>11.8</b>	<b>10.4</b>	<b>-1.7</b>	<b>0.5</b>	<b>4.3</b>	<b>4.2</b>	<b>11.8</b>

Source: TRAI

## Valuations

We are adjusting our estimates and rolling over our price targets to December '11. Our December '11 target price for Bharti is based on SOTP where we value the Indian operations at Rs 400 using DCF with a WACC of 10.4% and assign no value for the Africa operations. Our target price for Idea is Rs 95 based on DCF with a WACC of 11%.

**Fig 10 - Bharti India DCF table**

Key Assumptions		WACC Assumptions	
10 year Revenue CAGR (FY10-20E)	6%	Cost of equity =	12.2%
10 year EBITDA CAGR (FY10-20E)	6%	Risk free rate =	7.9%
10 year NOPAT CAGR (FY10-20E)	2%	Beta =	0.86
EBITDA margin (FY10; FY20)	40%, 37%	Equity risk premium =	5.0%
NOPAT margin (FY10; FY20)	22%, 14%	Cost of debt =	7.8%
Average ROIC (FY10; FY20)	27%	Tax =	34.0%
<b>Terminal assumptions</b>		Debt/capital =	25.0%
Terminal Revenue growth Rate %	3%	Equity/capital =	75.0%
Terminal EBITDA Margin	37%	<b>WACC =</b>	<b>10.4%</b>
Terminal NOPAT Margin	14%	DCF output (US\$ mn)	
Long Term Capex / Sales	13%	Current EV	1,579,066
Terminal value as % of EV	51%	Net debt	59,929
Implied 2021E exit FCF multiple (x)	13.5	Current Equity value	1,519,138
Implied Exit EBITDA multiple (X)	6.7	Dec-11 equity value/share	<b>400</b>

Source: RCML Research



Fig 11 - Bharti Africa DCF table

Key Assumptions		WACC Assumptions	
10 year Revenue CAGR (FY11-21E)	13.0%	Cost of equity =	18.3%
10 year EBITDA CAGR (FY11-21E)	18.2%	Risk free rate =	8.0%
10 year NOPAT CAGR (FY11-21E)	NM	Beta =	0.86
EBITDA margin (FY11; FY21)	23%, 35%	Equity risk premium =	12.0%
NOPAT margin (FY21)	14.0%	Cost of debt =	8.0%
		Tax =	34.0%
		Debt/capital =	35.0%
		Equity/capital =	65.0%
		<b>WACC =</b>	<b>13.8%</b>
<b>Terminal assumptions</b>		DCF output (US\$ mn)	
Terminal Revenue growth Rate %	3%	Current EV	410,062
Terminal EBITDA Margin	35%	Net debt	450,886
Terminal NOPAT Margin	15%	Current Equity value	-40,824
Long Term Capex / Sales	13%	<b>Dec-11 equity value/share</b>	<b>0</b>
Terminal value as % of EV	44%		
Implied 2021E exit FCF multiple (x)	9.3		
Implied Exit EBITDA multiple (X)	4.5		

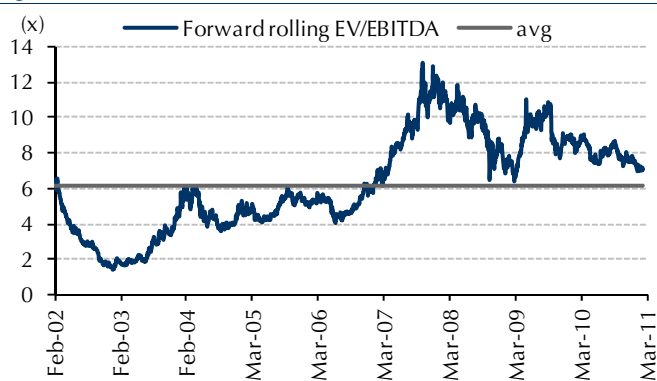
Source: RCML Research

Fig 12 - Idea DCF

Key Assumptions		WACC Assumptions	
10 year Revenue CAGR (FY10-20E)	10%	Cost of equity =	12.8%
10 year EBITDA CAGR (FY10-20E)	12%	Risk free rate =	7.9%
10 year NOPAT CAGR (FY10-20E)	11%	Beta =	0.97
EBITDA margin (FY10; FY20)	27%, 31%	Equity risk premium =	5.0%
NOPAT margin (FY10; FY20)	10%, 11%	Cost of debt =	9.0%
ROIC (FY10; FY20)	6%, 17%	Tax =	34.0%
		Debt/capital =	25.0%
		Equity/capital =	75.0%
		<b>WACC =</b>	<b>11.0%</b>
<b>Terminal assumptions</b>		DCF output (Rs mn)	
Terminal Revenue growth Rate %	3%	Current EV	347,006
Terminal EBITDA Margin	31%	Net debt	106,764
Terminal NOPAT Margin	11%	Current Equity value	240,242
Terminal ROIC	19%	Current equity value/share	76
Long Term Capex / Sales	12%	<b>Dec-11 equity value/share</b>	<b>95</b>
Terminal value as % of EV	48%		
Implied 2021E exit FCF multiple (x)	12.1		
Implied 2021E exit EBITDA multiple (x)	5.7		

Source: RCML Research

Fig 13 - Bharti EV/EBITDA



Source: Bloomberg, RCML Research

Fig 14 - Idea EV/ EBITDA



Source: Bloomberg, RCML Research



Fig 15 - Asia valuation

	Currency	Share Price In LC	Market cap (US\$MM)	EV/EBITDA		P/E	
				2011	2012	2011	2012
<b>Developed Wireless</b>							
<b>Hong Kong</b>							
SmarTone Telecommunications Holding Ltd	HKD	25.85	\$1,698	7.0 x	5.8 x	22.3 x	17.9 x
<b>Korea</b>							
LG Uplus Corp	KRW	5850	\$2,692	3.1 x	2.8 x	9.0 x	7.2 x
SK Telecom Co Ltd	KRW	163500	\$11,799	3.5 x	3.4 x	8.8 x	8.5 x
<b>Singapore</b>							
StarHub Ltd	SGD	2.62	\$3,545	7.6 x	7.2 x	14.6 x	13.6 x
<b>Taiwan</b>							
Far EasTone Telecommunications Co Ltd	TWD	43	\$4,743	6.3 x	6.1 x	15.2 x	14.4 x
Taiwan Mobile Co Ltd	TWD	68	\$8,841	10.2 x	10.0 x	14.6 x	13.9 x
<b>Developed Wireless Average</b>			<b>\$5,553</b>	<b>6.3 x</b>	<b>5.9 x</b>	<b>14.1 x</b>	<b>12.6 x</b>
<b>Emerging Wireless</b>							
<b>China</b>							
China Unicom Hong Kong Ltd	HKD	13	\$40,413	5.4 x	4.9 x	61.9 x	39.8 x
China Mobile Ltd	HKD	75	\$194,235	4.1 x	4.0 x	10.8 x	10.4 x
<b>India</b>							
Bharti Airtel Ltd	INR	335	\$28,212	9.4x	6.9x	20.0x	15.2x
Idea Cellular Ltd	INR	62	\$4,535	8.9x	6.3x	23.7x	21.8x
<b>Indonesia</b>							
Indosat Tbk PT	IDR	5000	\$3,092	4.5 x	4.2 x	18.6 x	13.4 x
XL Axiata Tbk PT	IDR	5700	\$5,519	5.7 x	5.2 x	12.5 x	10.6 x
<b>Malaysia</b>							
DiGi.Com Bhd	MYR	28	\$7,093	8.6 x	8.2 x	17.1 x	16.1 x
<b>Philippines</b>							
Globe Telecom Inc	PHP	660	\$2,009	3.9 x	3.8 x	9.2 x	9.1 x
<b>Thailand</b>							
Advanced Info Service PCL	THB	83	\$8,120	5.1 x	5.0 x	11.3 x	10.7 x
Total Access Communication PCL	THB	41	\$3,217	3.8 x	3.9 x	10.1 x	10.6 x

Source: Bloomberg, RCML Research



## Estimate changes

We are adjusting our estimates post the quarterly results. As such, there are no major changes to our numbers except for adjustments for 3G amortization. For Idea, we have raised FY11 EPS largely due to the absence of 3G amortization in this quarter due to a delay in 3G rollouts which we now expect to come in from Q1FY12.

Fig 16 - Bharti: Estimate changes

Rs mn, Year End March	New			Old			Changes (%)		
	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY13E
<b>Bharti</b>									
<b>Revenues</b>	<b>597,151</b>	<b>725,813</b>	<b>831,492</b>	<b>602,025</b>	<b>737,188</b>	<b>841,252</b>	(0.8)	(1.5)	(1.2)
India and SE Asia revenues	466,040	533,738	605,164	471,884	545,624	616,212	(1.2)	(2.2)	(1.8)
Africa revenues	131,362	192,075	226,327	130,208	191,565	225,040	0.9	0.3	0.6
<b>EBITDA</b>	<b>199,953</b>	<b>257,642</b>	<b>308,568</b>	<b>207,595</b>	<b>265,366</b>	<b>314,387</b>	(3.7)	(2.9)	(1.9)
EBIT	99,567	132,562	173,570	106,904	135,526	174,661	(6.9)	(2.2)	(0.6)
PBT	79,500	110,565	155,143	88,565	114,290	156,580	(10.2)	(3.3)	(0.9)
Net Income	63,283	83,489	110,873	67,974	86,553	113,218	(6.9)	(3.5)	(2.1)
<b>EPS</b>	<b>16.7</b>	<b>22.0</b>	<b>29.2</b>	<b>17.9</b>	<b>22.8</b>	<b>29.8</b>	(6.9)	(3.5)	(2.1)
EBITDA Margins (%)	33.5	35.5	37.1	34.5	36.0	37.4	(1.0)	(0.5)	(0.3)
India and SE Asia	37.0	37.9	39.0	37.6	38.1	38.8	(0.6)	(0.1)	0.2
Africa	23.5	31.0	34.3	24.7	31.0	34.2	(1.3)	0.0	0.1
<b>Key Metrics</b>									
Mobile Subs ('000)	159,995	187,015	208,269	158,684	187,015	208,269	0.8	0.0	0.0
Mobile ARPM (Rs)	0.44	0.43	0.43	0.44	0.42	0.42	0.9	2.6	2.3
Mobile ARPU (Rs)	203	196	198	207	202	203	(1.6)	(2.6)	(2.5)
Mobile Traffic (mn mins)	791,798	939,303	1,078,573	809,316	986,624	1,130,932	(2.2)	(4.8)	(4.6)

Source: RCML Research

Fig 17 - Idea: Estimate changes

Rs mn, Year End March	New			Old			Changes (%)		
	FY11	FY12	FY13	FY11	FY12	FY13	FY11	FY12	FY13
Revenues	154,747	186,630	217,437	153,571	187,508	221,020	0.8	(0.5)	(1.6)
EBITDA	37,387	49,659	61,810	37,403	50,648	63,234	(0.0)	(2.0)	(2.3)
EBITDA margins (%)	24.2	26.6	28.4	24.4	27.0	28.6	-20 bps	-40 bps	-18 bps
Pre Tax Profit	9,532	11,413	22,161	7,078	11,841	23,158	34.7	(3.6)	(4.3)
PAT	8,611	9,358	17,729	6,638	9,710	18,527	29.7	(3.6)	(4.3)
EPS	2.6	2.8	5.4	2.0	2.9	5.6	29.7	(3.6)	(4.3)
<b>Metrics</b>									
Subscribers ('000)	86,800	103,600	117,911	84,853	103,956	118,267	2.3	(0.3)	(0.3)
ARPU (Rs)	171	163	164	172	166	166	(0.4)	(1.3)	(1.3)
ARPM (Rs)	0.42	0.41	0.41	0.42	0.40	0.41	0.4	1.4	1.4
MOU (mins)	402	401	397	406	412	408	(0.9)	(2.6)	(2.6)

Source: RCML Research





Fig 18 - India Telecom: Overall performance

Rs mn, Year End March	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	84,833	90,203	96,334	98,245	99,416	98,455	97,722	100,557	112,725	113,312	117,213
RCOM	53,222	56,450	58,502	61,237	61,452	57,026	53,098	50,927	51,092	51,183	50,041
Idea	21,735	22,992	27,305	29,240	29,748	29,739	31,495	33,478	36,537	36,592	39,556
Total Revenues	159,790	169,645	182,141	188,722	190,616	185,220	182,315	184,962	200,354	201,087	206,810
<b>Q/Q % Growth</b>											
Bharti	8	6	7	2	1	-1	-1	3	12	1	3
RCOM	0	6	4	5	0	-7	-7	-4	0	0	-2
Idea	10	6	19	7	2	0	6	6	9	0	8
Total Revenues	6	6	7	4	1	-3	-2	1	8	0	3
<b>Y/Y % Growth</b>											
Bharti	44	42	38	26	17	9	1	2	13	15	20
RCOM	24	23	20	15	15	1	-9	-17	-17	-10	-6
Idea	47	47	60	48	37	29	15	14	23	23	26
Total Revenues	37	36	34	25	19	9	0	-2	5	9	13
<b>Group EBITDA</b>											
Bharti	35,221	36,993	39,450	40,014	42,974	43,007	40,823	41,805	42,424	42,222	42,089
RCOM	22,502	23,016	23,525	23,832	24,525	20,199	18,126	16,019	16,320	16,595	16,680
Idea	7,157	6,024	6,969	8,054	8,588	8,095	8,141	9,235	8,884	8,788	9,483
Total EBITDA	64,880	66,033	69,944	71,900	76,087	71,301	67,090	67,060	67,628	67,605	68,252
<b>Q/Q % Growth</b>											
Bharti	8	5	7	1	7	0	-5	2	1	0	0
RCOM	-3	2	2	1	3	-18	-10	-12	2	2	1
Idea	8	-16	16	16	7	-6	1	13	-4	-1	8
Total EBITDA	4	2	6	3	6	-6	-6	0	1	0	1
<b>Y/Y % Growth</b>											
Bharti	44	37	33	23	22	16	3	4	-1	-2	3
RCOM	24	17	12	3	9	-12	-23	-33	-33	-18	-8
Idea	40	18	23	22	20	34	17	15	3	9	16
Total EBITDA	36	27	24	15	17	8	-4	-7	-11	-5	2
<b>Group EBITDA Margin %</b>											
Bharti	41.5	41.0	41.0	40.7	43.2	43.7	41.8	41.6	37.6	37.3	35.9
RCOM	42.3	40.8	40.2	38.9	39.9	35.4	34.1	31.5	31.9	32.4	33.3
Idea	32.9	26.2	25.5	27.5	28.9	27.2	25.9	27.6	24.3	24.0	24.0
Total EBITDA	40.6	38.9	38.4	38.1	39.9	38.5	36.8	36.3	33.8	33.6	33.0

Source: Company



Fig 19 - Quarterly wireless performance

Rs mn, Year End March	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
<b>Wireless Revenues</b>											
Bharti	69,150	72,843	79,392	82,216	82,285	80,994	79,618	81,975	88,237	88,045	91,459
RCOM	41,187	43,356	44,119	45,015	47,931	40,100	40,225	40,900	41,528	41,613	40,644
Idea	21,735	22,992	27,305	29,240	29,748	29,739	31,495	33,478	36,537	36,592	39,556
Sector Wireless Revenues	132,072	139,191	150,816	156,471	159,964	150,833	151,338	156,353	166,302	166,250	171,659
<b>Q/Q % Growth</b>											
Bharti	8	5	9	4	0	-2	-2	3	8	0	4
RCOM	-1	5	2	2	6	-16	0	2	2	0	-2
Idea	10	6	19	7	2	0	6	6	9	0	8
Sector Wireless Revenues	5	5	8	4	2	-6	0	3	6	0	3
<b>Y/Y % Growth</b>											
Bharti	47	44	42	28	19	11	0	0	7	9	15
RCOM	22	16	12	8	16	-8	-9	-9	-13	4	1
Idea	47	47	60	48	37	29	15	14	23	23	26
Sector Wireless Revenues	38	35	34	25	21	8	0	0	4	10	13
<b>Wireless EBITDA</b>											
Bharti	21,218	22,009	24,963	25,860	34,106	33,310	30,400	30,237	31,710	30,964	31,689
RCOM	16,623	16,859	16,616	16,629	18,489	13,132	12,545	11,815	11,989	12,101	11,792
Idea	7,157	6,024	6,969	8,054	8,588	8,095	8,141	9,235	8,884	8,788	9,483
Sector Wireless EBITDA	44,998	44,892	48,548	50,543	61,183	54,537	51,086	51,287	52,583	51,853	52,964
<b>Q/Q % Growth</b>											
Bharti	-7	4	13	4	32	-2	-9	-1	5	-2	2
RCOM	-1	1	-1	0	11	-29	-4	-6	1	1	-3
Idea	8	-16	16	16	7	-6	1	13	-4	-1	8
Sector Wireless EBITDA	-2	0	8	4	21	-11	-6	0	3	-1	2
<b>Y/Y % Growth</b>											
Bharti	11	6	9	14	61	51	22	17	-7	-7	4
RCOM	24	13	5	-1	11	-22	-25	-29	-35	-8	-6
Idea	40	18	23	22	20	34	17	15	3	9	16
Sector Wireless EBITDA	20	10	9	10	36	21	5	1	-14	-5	4
<b>Wireless EBITDA Margin %</b>											
Bharti	30.7	30.2	31.4	31.5	41.4	41.1	38.2	36.9	35.9	35.2	34.6
RCOM	40.4	38.9	37.7	36.9	38.6	32.7	31.2	28.9	28.9	29.1	29.0
Idea	32.9	26.2	25.5	27.5	28.9	27.2	25.9	27.6	24.3	24.0	24.0

Source: Company

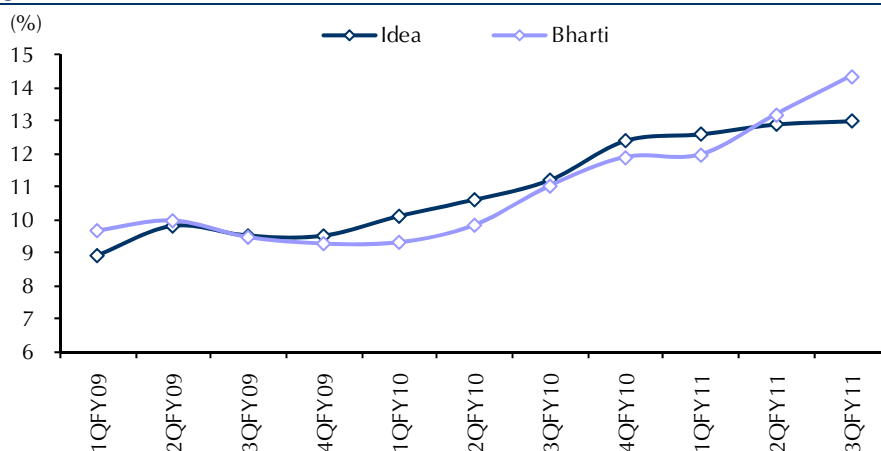


Fig 20 - Subscriber trend

Subscribers ('000)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	69,384	77,479	85,651	93,923	102,368	110,511	118,864	127,619	136,620	143,292	152,495
RCOM	50,773	56,046	61,345	72,666	79,616	86,118	93,796	102,422	110,806	117,337	125,652
Idea	27,194	30,380	34,200	38,900	42,800	46,800	52,300	63,800	68,900	74,200	81,800
Vodafone	49,195	54,625	60,933	68,769	76,450	82,846	91,402	100,858	109,061	115,553	124,255
Telenor							1,008	2,155	3,873	7,918	12,255
<b>Net Adds ('000)</b>											
Bharti	7,399	8,095	8,172	8,273	8,445	8,144	8,353	8,755	9,001	6,672	9,203
RCOM	4,979	5,273	5,299	11,321	6,950	6,501	7,678	8,627	8,384	6,531	8,315
Idea	3,193	3,186	3,820	4,700	3,900	4,000	5,500	11,500	5,100	5,300	7,600
Vodafone	5,069	5,430	6,308	7,836	7,681	6,396	8,556	9,456	8,203	6,492	8,702
Telenor							1,008	1,147	1,718	4,045	4,337
<b>Q/Q Growth</b>											
Bharti	12	12	11	10	9	8	8	7	7	5	6
RCOM	11	10	9	18	10	8	9	9	8	6	7
Idea	13	12	13	14	10	9	12	22	8	8	10
Vodafone	11	11	12	13	11	8	10	10	8	6	8
Telenor								114	80	104	55

Source: Company

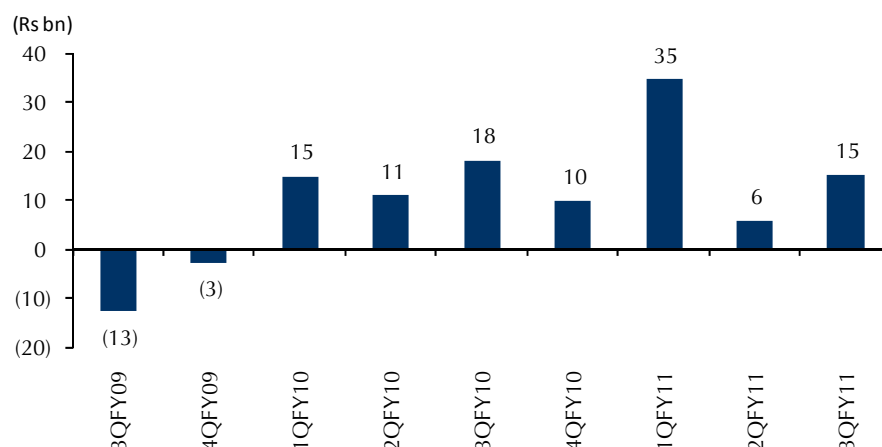
Fig 21 - VAS as % of revenue



Source: Company



Fig 22 - Bharti: Free cash flows



Source: Company. Excluded the 3G and BWA license payments in Q1FY11.

Fig 23 - Net debt

(Rs mn)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	41,618	50,786	64,938	69,646	47,804	42,122	19,328	24,213	602,591	601,718	599,872
RCOM	129,888	152,257	185,975	225,943	221,630	210,792	188,709	198,888	284,813	291,896	294,435
Idea	88,270	31,920	26,168	37,849	43,402	48,593	53,086	64,390	110,465	106,764	106,824
<b>Q/Q Growth</b>											
Bharti	-1	22	28	7	-31	-12	-54	25	2389	0	0
RCOM	30	17	22	21	-2	-5	-10	5	43	2	1
Idea	62	-64	-18	45	15	12	9	21	72	-3	0

Source: Company

Fig 24 - Capex

(Rs mn)	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11
Bharti	40,671	31,867	38,775	28,858	27,091	22,788	16,891	15,061	17,426	29,282	29,252
RCOM	69,686	47,731	43,607	33,142	9,753	9,823	13,259	8,785	7,940	9,287	19,140
Idea	19,600	29,333	29,600	18,100	9,100	9,600	9,000	5,300	3,608	4,824	9,471
<b>Q/Q Growth</b>											
Bharti	44	-22	22	-26	-6	-16	-26	-11	16	68	0
RCOM	32	-32	-9	-24	-71	1	35	-34	-10	17	106
Idea	57	50	1	-39	-50	5	-6	-41	-32	34	96
<b>Y/Y Growth</b>											
Bharti	9	-20	16	2	-33	-28	-56	-48	-36	28	73
RCOM	289	-10	-51	-37	-86	-79	-70	-73	-19	-5	44
Idea	77	138	142	45	-54	-67	-70	-71	-60	-50	5

Source: Company



## Consolidated financials - Bharti Airtel

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>418,472</b>	<b>597,151</b>	<b>725,813</b>	<b>831,492</b>
Growth (%)	-	42.7	21.5	14.6
<b>EBITDA</b>	<b>167,633</b>	<b>199,953</b>	<b>257,642</b>	<b>308,568</b>
Growth (%)	-	19.3	28.9	19.8
Depreciation & amortisation	62,832	100,386	125,080	134,998
EBIT	104,801	99,567	132,562	173,570
Growth (%)	-	(5.0)	33.1	30.9
Interest	(178)	(20,989)	(23,033)	(19,463)
Other income	468	922	1,036	1,036
EBT	105,091	79,500	110,565	155,143
Income taxes	13,453	16,841	27,011	43,745
Effective tax rate (%)	12.8	21.2	24.4	28.2
Extraordinary items	-	-	-	-
Min into / inc from associates	(1,870)	624	(64)	(525)
Reported net income	89,768	63,283	83,489	110,873
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>89,768</b>	<b>63,283</b>	<b>83,489</b>	<b>110,873</b>
Growth (%)	10.9	(29.5)	31.9	32.8
Shares outstanding (mn)	3,794	3,794	3,794	3,794
<b>FDEPS (Rs) (adj)</b>	<b>23.7</b>	<b>16.7</b>	<b>22.0</b>	<b>29.2</b>
Growth (%)	-	(29.5)	31.9	32.8
DPS (Rs)	1.0	1.0	2.0	5.0

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	167,923	179,885	235,644	290,141
Non-cash adjustments	6,503	(2,512)	(10,323)	(29,978)
Changes in working capital	(21,805)	10,942	24,425	18,090
Cash flow from operations	152,621	188,315	249,746	278,253
Capital expenditure	(81,831)	(278,192)	(131,731)	(132,371)
Change in investments	(44)	0	0	0
Other investing cash flow	0	(393,365)	(23,033)	(19,463)
Cash flow from investing	(81,875)	(671,557)	(154,765)	(151,834)
Issue of equity	-	-	-	-
Issue/repay debt	(53,725)	436,165	(28,695)	(80,000)
Dividends paid	0	(8,222)	(7,588)	(18,969)
Other financing cash flow	27,568	(121)	0	0
Change in cash & cash eq	17,021	(55,420)	58,698	27,449
Closing cash & cash eq	77,685	19,460	78,158	105,608

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	77,685	19,460	78,158	105,608
Accounts receivable	35,711	52,944	61,766	69,451
Inventories	484	2,101	2,452	2,757
Other current assets	23,805	47,019	54,395	60,822
Investments	3,394	2,052	2,052	2,052
Gross fixed assets	-	-	-	-
Net fixed assets	482,629	652,167	673,083	684,725
CWIP	-	-	-	-
Intangible assets	59,890	632,167	617,903	603,635
Deferred tax assets, net	12,489	41,421	41,421	41,421
Other assets	14,853	19,965	23,291	26,189
<b>Total assets</b>	<b>710,940</b>	<b>1,469,296</b>	<b>1,554,521</b>	<b>1,596,659</b>
Accounts payable	107,702	264,459	304,301	337,417
Other current liabilities	1,117	35,204	36,336	35,727
Provisions	-	-	-	-
Debt funds	101,898	619,023	590,328	510,328
Other liabilities	78,283	69,743	66,789	64,516
Equity capital	18,988	18,988	18,988	18,988
Reserves & surplus	402,952	461,878	537,779	629,683
Shareholder's funds	421,940	480,866	556,767	648,671
<b>Total liabilities</b>	<b>710,940</b>	<b>1,469,296</b>	<b>1,554,521</b>	<b>1,596,659</b>
BVPS (Rs)	111	127	147	171

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	40.1	33.5	35.5	37.1
EBIT margin	25.0	16.7	18.3	20.9
Net profit margin	21.5	10.6	11.5	13.3
ROE	24.7	14.0	16.1	18.4
ROCE	18.9	8.2	8.6	10.6
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	33	38	34	33
Inventory (days)	0	2	1	1
Payables (days)	100	190	168	158
Current ratio (x)	1.3	0.4	0.6	0.6
Quick ratio (x)	1.0	0.2	0.4	0.5
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	-	-	-	-
Total asset turnover	0.6	0.5	0.5	0.5
Interest coverage ratio	n.m	4.7	5.8	8.9
Adjusted debt/equity	0.2	1.3	1.1	0.8
<b>Valuation ratios (x)</b>				
EV/Sales	3.1	2.2	1.8	1.6
EV/EBITDA	7.7	9.4	6.9	5.4
P/E	14.2	20.0	15.2	11.5
P/BV	3.0	2.6	2.3	2.0



## Consolidated financials- Idea Cellular

### Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
<b>Revenues</b>	<b>124,470</b>	<b>154,747</b>	<b>186,630</b>	<b>217,437</b>
Growth (%)	22.9	24.3	20.6	16.5
<b>EBITDA</b>	<b>34,073</b>	<b>37,387</b>	<b>49,659</b>	<b>61,810</b>
Growth (%)	20.5	9.7	32.8	24.5
Depreciation & amortisation	20,149	23,676	29,856	32,519
EBIT	13,923	13,710	19,804	29,292
Growth (%)	(2.2)	(1.5)	44.4	47.9
Interest	(4,005)	(4,179)	(8,391)	(7,130)
Other income	847	0	0	0
EBT	10,765	9,532	11,413	22,161
Income taxes	1,214	921	2,054	4,432
Effective tax rate (%)	11.3	9.7	18.0	20.0
Extraordinary items	0	0	0	0
Min into / inc from associates	-	-	-	-
Reported net income	9,551	8,611	9,358	17,729
Adjustments	-	-	-	-
<b>Adjusted net income</b>	<b>9,551</b>	<b>8,611</b>	<b>9,358</b>	<b>17,729</b>
Growth (%)	1.9	(9.8)	8.7	89.4
Shares outstanding (mn)	3,150	3,300	3,300	3,300
<b>FDEPS (Rs) (adj)</b>	<b>3.1</b>	<b>2.6</b>	<b>2.8</b>	<b>5.4</b>
Growth (%)	(0.3)	(14.7)	8.7	89.4
DPS (Rs)	-	-	-	-

### Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	29,688	32,287	39,214	50,248
Non-cash adjustments	5,017	4,179	8,391	7,130
Changes in working capital	(10,590)	1,980	4,536	632
Cash flow from operations	24,115	38,445	52,141	58,010
Capital expenditure	(40,620)	(86,219)	(33,593)	(30,441)
Change in investments	42,848	0	0	0
Other investing cash flow	(4,005)	(4,179)	(8,391)	(7,130)
Cash flow from investing	(1,778)	(90,397)	(41,985)	(37,572)
Issue of equity	-	-	-	-
Issue/repay debt	(10,529)	40,770	(10,000)	(20,000)
Dividends paid	0	0	0	0
Other financing cash flow	(28,469)	0	0	0
Change in cash & cash eq	(16,660)	(11,182)	156	438
Closing cash & cash eq	14,204	3,021	3,177	3,616

### Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	14,204	3,021	3,177	3,616
Accounts receivable	4,656	6,359	8,181	10,127
Inventories	536	848	1,023	1,787
Other current assets	28,538	28,538	28,538	28,538
Investments	0	0	0	0
Gross fixed assets	270,585	298,559	332,153	362,594
Net fixed assets	181,679	185,976	192,740	193,688
CWIP	5,465	5,465	5,465	5,465
Intangible assets	61	58,306	55,280	52,254
Deferred tax assets, net	-	-	-	-
Other assets	-	-	-	-
<b>Total assets</b>	<b>235,138</b>	<b>288,514</b>	<b>294,404</b>	<b>295,476</b>
Accounts payable	-	-	-	-
Other current liabilities	40,680	44,675	51,207	54,549
Provisions	-	-	-	-
Debt funds	78,593	119,363	109,363	89,363
Other liabilities	2,142	2,142	2,142	2,142
Equity capital	32,998	32,998	32,998	32,998
Reserves & surplus	80,725	89,336	98,694	116,423
Shareholder's funds	113,724	122,334	131,693	149,422
<b>Total liabilities</b>	<b>235,138</b>	<b>288,514</b>	<b>294,404</b>	<b>295,476</b>
BVPS (Rs)	36	37	40	45

### Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	27.4	24.2	26.6	28.4
EBIT margin	11.2	8.9	10.6	13.5
Net profit margin	7.7	5.6	5.0	8.2
ROE	7.8	7.3	7.4	12.6
ROCE	6.3	5.5	6.3	9.1
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	15	17	17	18
Inventory (days)	2	2	2	3
Payables (days)	0	0	0	0
Current ratio (x)	1.2	0.9	0.8	0.8
Quick ratio (x)	0.5	0.2	0.2	0.3
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	0.5	0.5	0.6	0.6
Total asset turnover	0.5	0.6	0.6	0.7
Interest coverage ratio	3.5	3.3	2.4	4.1
Adjusted debt/equity	0.7	1.0	0.8	0.6
<b>Valuation ratios (x)</b>				
EV/Sales	2.2	1.7	1.4	1.2
EV/EBITDA	7.6	8.6	6.3	4.7
P/E	20.2	23.7	21.8	11.5
P/BV	1.7	1.7	1.6	1.4



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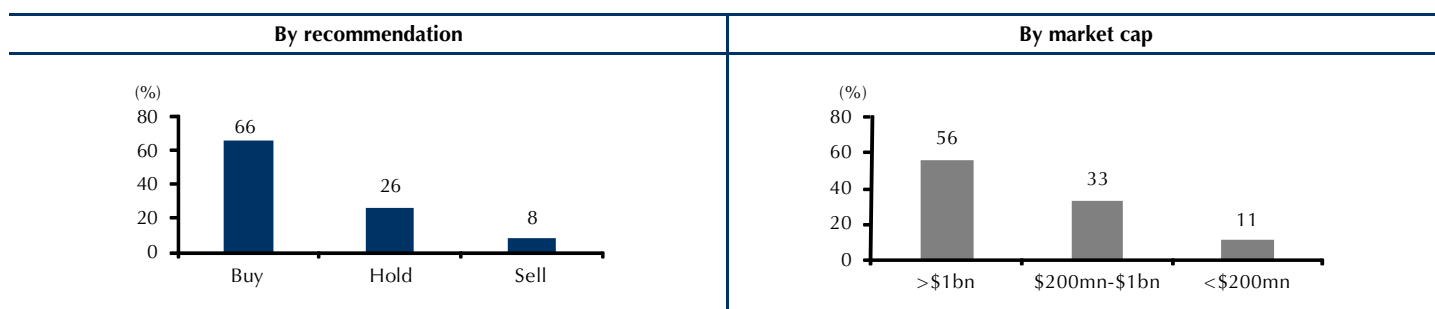
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Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

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