

Indian Telecoms Sector----- Maintain UNDERWEIGHT
Rural coverage heats up, but at what price?

Bhuvnesh Singh / Research Analyst / 65 6212 3006 / bhuvnesh.singh@credit-suisse.com

Sunil Tirumalai / Research Analyst / 91 22 6777 3714 / sunil.tirumalai@credit-suisse.com

- India's Dept. of Telecom released final results of bidding for subsidies for rural mobile infrastructure developers and mobile service providers on Friday.
- The final results indicate that telecom operators asked for less than 9% of the total subsidy offered by DOT to run a rural network. Infrastructure providers also asked for only 29% of the total subsidy offered to provide passive infrastructure.
- Strong competition clearly indicates the importance of rural subscribers to wireless operators. Reliance (38% of sites) and BSNL (24% of sites) are clearly the most aggressive in this race.
- On the other hand, the infrastructure part of the tender was dominated by BSNL and pure infrastructure companies. Clearly, the value of the business is in access rather than infrastructure.
- While strong competition should drive penetration, it could negatively impact returns. We maintain our cautious stance on the sector.

India's Department of Telecom (DoT) recently released the results of bidding for rural coverage subsidy tenders. We present below an analysis of the same.

Part-A bids – Infrastructure providers

In the part A of the bidding process, which relates to building passive infrastructure, the total subsidy to be finally disbursed to the winners stands at Rs949mn, 71% less than the initial benchmark of Rs3.2bn. The part-A winners have sought a subsidy of Rs120,583 per cell site on an average.

Figure 1: Final results for infrastructure providers' bid

Company	No of clusters	No of sites	% of sites	Total subsidy (Rs mn)	% of subsidy	Subsidy per site (Rs)
BSNL	63	6,175	78.5%	635	66.9%	102,836
GTL	4	421	5.3%	76	8.0%	179,600
NITL	4	331	4.2%	64	6.8%	390,154
Hutch-Essar	4	384	4.9%	85	9.0%	221,872
Quipo	1	88	1.1%	9	0.9%	100,000
Reliance	5	472	6.0%	80	8.4%	169,729
Total	81	7,871	100.0%	949	100.0%	120,583
Benchmark	81	7,871		3,230		410,417

Source: DoT

BSNL gets a 79% share of cell sites awarded, and a 67% share of total subsidy.

Part-B – Mobile service providers

Compared to the process for part-A, the round of bidding for part-B is much more competitive. Operators have settled for less than 9% of the subsidy earmarked at the beginning of the bid. Reliance has won 38% of cell sites and 33% of subsidy. Bharti has won 13 sites, at the cost of paying Rs20,000 per cell site.

Figure 2: Final results for service providers' bid (consolidated)

Company	No of clusters (x3)	No of sites (x3)	% of sites	Total subsidy (Rs mn)	% of subsidy	Subsidy per site (Rs)
Reliance	93	8,982	38.0	45.6	33.1	5,075
Idea	27	2,731	11.6	-0.03	0.0	-12
Hutch-Essar	32	3,080	13.0	-14.1	-10.3	-4,582
Aircel	19	1,808	7.7	73.8	53.7	40,810
Bharti	13	1,257	5.3	-25.2	-18.3	-20,045
BSNL	59	5,755	24.4	57.5	41.8	9,991
Total	243	23,613	100.0	137.5	100.0	5,824
Benchmark	243	23,613		1,564		66,246

Note: Each cell site will be shared by three service providers; Source: DoT

In as many as 65 of the 81 clusters, operators have opted for a negative subsidy, while in 9 circles, they have chosen no subsidy.

Figure 3: Positive and negative subsidies opted for

	No of clusters	No. of cell sites (x3)	Total subsidy (Rs mn)	Subsidy/cell site (Rs)
+ve subsidy	7	1,692	226.6	133,953
0 subsidy	9	2,490	-	-
-ve subsidy	65	19,431	-89.1	-4,587
Total	81	23,613	137.5	5,824

Note: Each cell site will be shared by three service providers; Source: DoT

We also note that Reliance has bid through both its GSM and CDMA subsidiaries. Out of 81 clusters, in 17 clusters Reliance has won two slots thereby crowding out the competition.

Key takeaways

This tender clearly indicates the importance of rural coverage to various wireless operators. The final bids came at a significantly lower price (9% of the offered subsidy amount) clearly indicate that competition for rural subscribers remain high.

On the other hand, a closer look also indicates that Reliance and BSNL could be the two most competitive vendors in this space. BSNL, being a government entity, has more social motives and hence its strong bid was expected. Reliance on the other hand could be leveraging its lower cost network.

Further, low interest from most large telecom operators for the infrastructure part clearly indicates lower value of this business. This also implies that current consensus assumptions behind the tower business of telecom operators could prove to be optimistic.

Bharti Airtel Ltd (BRTI.BO, Rs781.10, UNDERPERFORM, TP Rs610.00, MW)
 Reliance Communication (RLCM.BO, Rs421.50, UNDERPERFORM, TP Rs385.00, MW)
 Hutchison Telecommunications International (2332.HK, HK\$15.58, NEUTRAL, TP HK\$16.22)

IMPORTANT DISCLOSURES AND ANALYST CERTIFICATIONS ARE IN THE DISCLOSURE APPENDIX. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Credit Suisse in the United States can receive independent, third party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.credit-suisse.com/ir or call 1 877 291 2683 or email equity.research@credit-suisse.com to request a copy of this research.

Companies Mentioned (Price as of 13 Apr 07)

Bharti Airtel Ltd (BRTI.BO, Rs781.10, UNDERPERFORM, TP Rs610.00, MARKET WEIGHT)

Reliance Communication Ltd (RLCM.BO, Rs421.50, UNDERPERFORM, TP Rs385.00, MARKET WEIGHT)

Hutchison Telecommunications International Ltd (2332.HK, HK\$15.58, NEUTRAL, TP HK\$16.22)

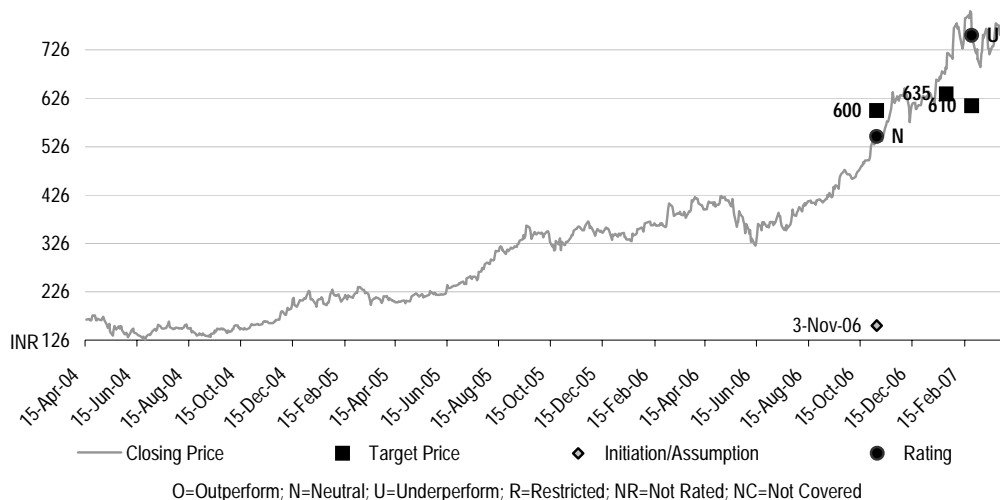
Disclosure Appendix

Important Global Disclosures

Bhuvnesh Singh & Sunil Tirumalai each certify, with respect to the companies or securities that he or she analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

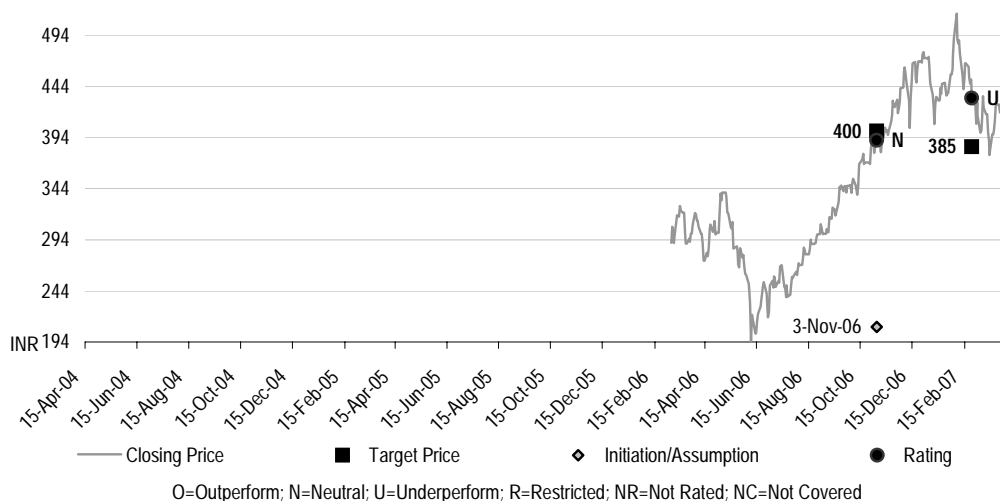
See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



BRTI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
03-Nov-06	546.65	600	NEUTRAL	X
24-Jan-07	686.9	635		
23-Feb-07	756.1	610	UNDERPERFORM	

3-Year Price, Target Price and Rating Change History Chart for RLCM.BO



RLCM.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
03-Nov-06	391	400	NEUTRAL	X
23-Feb-07	432.35	385	UNDERPERFORM	

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities.

Analysts' stock ratings are defined as follows*:**

Outperform: The stock's total return is expected to exceed the industry average* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral: The stock's total return is expected to be in line with the industry average* (range of $\pm 10\%$) over the next 12 months.

Underperform:** The stock's total return is expected to underperform the industry average* by 10-15% or more over the next 12 months.

*The industry average refers to the average total return of the analyst's industry coverage universe (except with respect to Asia/Pacific, Latin America and Emerging Markets, where stock ratings are relative to the relevant country index, and Credit Suisse Small and Mid-Cap Advisor stocks, where stock ratings are relative to the regional Credit Suisse Small and Mid-Cap Advisor investment universe.

**In an effort to achieve a more balanced distribution of stock ratings, the Firm has requested that analysts maintain at least 15% of their rated coverage universe as Underperform. This guideline is subject to change depending on several factors, including general market conditions.

***For Australian and New Zealand stocks a 7.5% threshold replaces the 10% level in all three rating definitions, with a required equity return overlay applied.

Restricted: In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward. All Credit Suisse Small and Mid-Cap Advisor stocks are automatically rated volatile. All IPO stocks are automatically rated volatile within the first 12 months of trading.

Analysts' coverage universe weightings* are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe versus the relevant broad market benchmark***:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

*Credit Suisse Small and Mid-Cap Advisor stocks do not have coverage universe weightings.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution		
Outperform/Buy*	40%	(62% banking clients)
Neutral/Hold*	41%	(57% banking clients)
Underperform/Sell*	15%	(49% banking clients)
Restricted	3%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

See the Companies Mentioned section for full company names.

Price Target: (12 months) for (BRTI.BO)

Method: Our 12-month target price of Rs610 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6.

Risks: Risks to our 12-month target price of Rs610 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

Price Target: (12 months) for (RLCM.BO)

Method: Our 12-month target price of Rs385 for Reliance is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6 and beta of 1.2. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 3% terminal growth

Risks: Key risk to our target price of Rs385 for Reliance includes 1) execution risk of the shift to GSM network from CDMA network, 2) stronger than expected margin performance and 3) continuous uptrend in overall market

Important Regional Disclosures

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (BRTI.BO, RLCM.BO) within the past 12 months.

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

For disclosure information on other companies mentioned in this report, please visit the website at www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683.

Disclaimers continue on next page.

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse, the Swiss bank, or its subsidiaries or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. CS does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

CS believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in the other sections of the report were obtained or derived from sources CS believes are reliable, but CS makes no representations as to their accuracy or completeness. Additional information is available upon request. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected total return over a 12-month period relative to the relevant coverage universe. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating. In addition, CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report. CS is involved in many businesses that relate to companies mentioned in this report. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment, in such circumstances you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States by Credit Suisse Securities (USA) LLC ; in Switzerland by Credit Suisse; in Canada by Credit Suisse Securities (Canada), Inc.; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited; elsewhere in Asia/Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn. Bhd., to whom they should direct any queries on +603 2723 2020.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this report was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Any Nielsen Media Research material contained in this report represents Nielsen Media Research's estimates and does not represent facts. NMR has neither reviewed nor approved this report and/or any of the statements made herein.

Copyright 2007 CREDIT SUISSE and/or its affiliates. All rights reserved.

ASIA/PACIFIC: +852 2101-6000

EUROPE: +44 (20) 7888-8888

UNITED STATES OF AMERICA: +1 (212) 325-2000