

Industry Flash

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Indian Wireless

Indus Towerco – As Big As It Gets

- Bharti, Vodafone, Idea to pool their towers** — With 70k "sites" and ownership ensuring high tenancy, this a winning combo. While not unexpected per se, timing is swift. The new JV (Indus) will be owned in proportion to towers contributed in 16 circles - Bharti and Vodafone 42% each and Idea 16%. This development, while not so significant for the extent of Bharti's value accretion, is a significant boost to visibility on the same.
- What happens to Bharti Infratel** — Infratel retains 20k tower sites in the remaining 7 non-overlapping circles (except MP with Idea). Infratel will arguably have higher tenancy potential (due to little overlap with Vodafone/Idea existing towers) and Vodafone's (and possibly Idea's) impending rollout in those circles. Logically, Infratel should be merged with Indus at some stage, increasing Bharti's stake.
- Boosts visibility for Bharti's value accretion, Idea's gains are material** — Based on our projections for Indus and Infratel and eventual merger, Bharti's gains go up slightly to US\$8.4bn (Rs180/share up from Rs160/share currently). Idea could gain Rs25/share (US\$1.7bn). We stick to capex recovery of 7.5-8% per tenant for both towercos, lower than RCOM's towerco.
- Will provide huge strategic edge too** — This will help the 3 incumbents to roll out even faster in the next 12 months ahead of RCOM's launch in 2HFY09. Idea could also benefit if it decides to go beyond 13 circles. On the flip side, in the event of one more player getting GSM spectrum, it makes the rollout task easier.

Rahul Singh¹

+91-22-6631-9863
rahul.r.singh@citi.com

Gaurav Malhotra¹

gaurav.a.malhotra@citi.com

Anand Ramachandran, CFA²

+852-2501-2448
anand.ramachandran@citi.com

Figure 1. Statistical Abstract

Company name	Rating	M Cap	Price	P/E (x)		EV/EBITDA (x)	
		US\$M	12/7/2007	FY08E	FY09E	FY08E	FY09E
Bharti	1L	46,319	960	26.5	20.5	16.2	11.9
RCOM	2L	38,495	734	27.8	22.1	18.7	13.5
Idea	2L	8,780	133	32.3	26.7	17.1	12.8

Source: Citi Investment Research

See Appendix A-1 for Analyst Certification and important disclosures.

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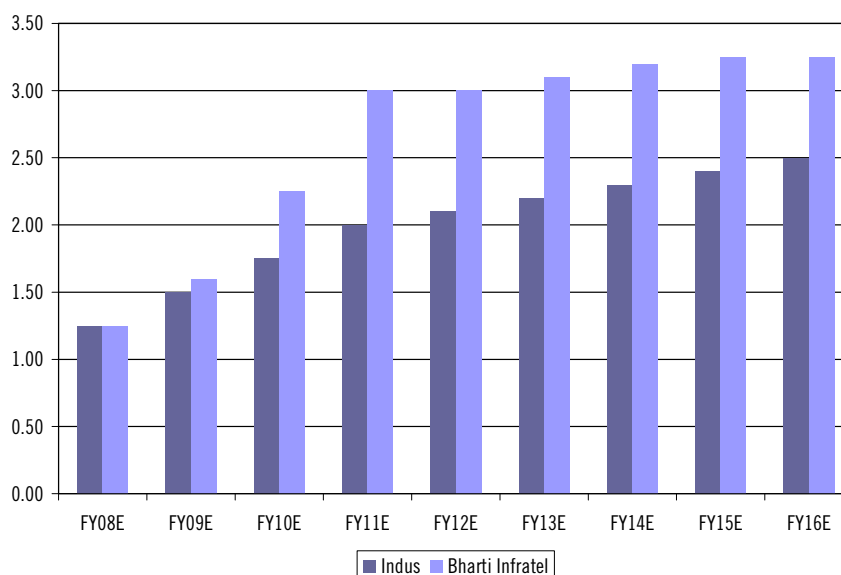
¹Citigroup Global Markets India Private Limited; ²Citigroup Global Markets Asia

Figure 2. Towers contribution to Indus Towerco

Company	Tower Contribution	Equity Stake
Bharti	30,000	42%
Vodafone	30,000	42%
Idea	10,000	16%

Source: Citi Investment Research

Figure 3. Tenancy Assumptions



Source: Citi Investment Research

Figure 4. Indus Towerco DCF Valuation

	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
Owned Towers (nos)	70,000	93,809	107,117	119,833	128,111	135,628	138,450	138,956	139,600
Rental per tenant per month (Rs)	50,000	43,000	42,000	39,000	37,000	36,000	35,000	34,000	33,000
Average tenancy on Bharti's towers	1.25	1.50	1.75	2.00	2.10	2.20	2.30	2.40	2.50
Tower rental revenues (Rs m)	52,500	72,608	94,478	112,164	119,451	128,901	133,743	136,066	138,204
EBITDA (Rs m)	19,740	29,831	46,917	60,396	65,644	71,937	75,594	77,704	79,572
EBITDA (%)	38%	41%	50%	54%	55%	56%	57%	57%	58%
Implied RoA	9.4%	10.6%	14.6%	16.8%	17.1%	17.7%	18.2%	18.6%	19.0%
Implied Payback (years)	10.6	9.4	6.8	6.0	5.9	5.7	5.5	5.4	5.3
Total capex (Rs m)	92,336	69,010	48,368	47,788	35,618	34,082	20,673	13,978	14,438
FCF (Rs m)	(74,575)	(41,963)	(5,515)	7,915	25,746	33,189	50,038	58,737	50,214
Terminal Value (Rs m)	743,914								
NPV (Rs m)	407,196								
NPV (US\$m)	10,309								

Source: Citi Investment Research

Figure 5. Bharti Infratel DCF Valuation

	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
Bharti owned towers (nos)	20,000	26,803	30,605	34,238	36,603	38,751	39,557	39,702	39,886
Rental per tenant per month (Rs)	50,000	42,000	36,000	30,000	30,000	30,000	30,000	30,000	30,000
Average tenancy on Bharti's towers	1.25	1.60	2.25	3.00	3.00	3.10	3.20	3.25	3.25
Tower rental revenues (Rs m)	15,000	21,614	29,748	36,977	39,531	43,246	45,570	46,451	46,667
EBITDA (Rs m)	5,640	9,392	16,159	22,186	24,158	26,971	28,956	29,776	29,914
EBITDA (%)	38%	43%	54%	60%	61%	62%	64%	64%	64%
Implied RoA	9.4%	11.7%	17.6%	21.6%	22.0%	23.2%	24.4%	25.0%	25.0%
Implied Payback (years)	10.6	8.6	5.7	4.6	4.5	4.3	4.1	4.0	4.0
Total capex (Rs m)	22,446	19,717	13,819	13,654	10,177	9,738	5,907	3,994	4,125
FCF (Rs m)	(17,654)	(11,490)	643	6,506	11,829	14,857	20,506	23,185	18,202
Terminal Value (Rs m)	269,665								
NPV (Rs m)	161,363								
NPV (US\$m)	4,085								

Source: Citi Investment Research

Figure 6. Indus & Bharti Infratel Combined value

	Indus stake (%)	Proportionate value in Indus (US\$m)	Bharti Infratel (US\$ m)	Consolidate Value (US\$m)	Consolidated Stake (%)
Bharti	42%	4,330	4,085	8,415	58.5%
Vodafone	42%	4,330	NM	4,330	30.1%
Idea	16%	1,649	NM	1,649	11.5%

Source: Citi Investment Research

Bharti Airtel

Valuation

Our 12-month forward target price of Rs1,200 is based on Sep-08 core DCF of Rs1,010 and a towerco option value of Rs170. The DCF is based on a WACC of 10.7%, a terminal growth rate of 4% and beta of 0.9. We prefer DCF as our primary valuation methodology because the wireless market will likely continue to see robust growth requiring upfront capex but should generate significant free cash beyond FY09-10E. Our target price (net of towerco value) represents a FY09E P/E of 21.5x, P/CEPS of 14.2x and EV/EBITDA of 12.5x.

Risks

Our quantitative risk-rating system, which tracks 260-day share price volatility, rates Bharti as Low Risk. We are comfortable attributing a Low Risk rating for the following reasons: 1) Bharti has a track record of profitability and execution; 2) the company's capex plans are fully funded; and 3) SingTel's strategic shareholding leaves us comfortable with execution issues and initiatives. Risks that could prevent the stock from reaching our target price include competition-led tariff pressures, un-remunerative capex, overall market downside, and slower-than-expected execution of the tower-sharing initiative.

Reliance Communications

Valuation

Our 12-month forward target price of Rs835 is based on a core business fair value of Rs650, a GSM option value of Rs115, a net towerco value of Rs50 and Flag's potential value unlocking at Rs20. We usually value Indian wireless plays on DCF given the back-ended nature of profits and cash flow. For RCOM, however, we use EV/EBITDA. Our 12-month core business value of Rs650 is based on 11.9x FY09E EV/EBITDA, a 5% discount to Bharti's implied target multiple (ex- towerco). Higher-than-average earnings growth (CAGR of 37% over FY07-10E) and the low sensitivity of wireless demand to interest rates should continue to support premium valuations for the sector, in our view.

Risks

Our risk-rating system, which tracks 260-day share price volatility, assigns a High Risk rating to RCOM, but we believe Low Risk is more appropriate. RCOM has been de-merged from Reliance Industries, and its shareholding at the time of listing mirrored the holding of RIL. The stock is therefore unlikely to have risks that are typical of newly listed companies. Besides, growth in the telecoms sector gives visibility to RCOM's prospects. Downside risks to our target price include smaller-than-expected market share, lower-than-anticipated operating leverage (especially in FY07) due to handset subsidies, cost-overruns in GSM overlay, regulatory and competition risks, un-remunerative capex and delays in the ongoing re-organization and more telecom-related paper.

IDEA Cellular

Valuation

We have set our 12-month target price at Rs140 based on Sep-08E DCF of Rs127 and an M&A premium of 10%. Though new spectrum norms dilute the M&A appeal, we believe that the substantial private-equity holding (30%) and spectrum/coverage will still appeal to new entrants as they may not get spectrum post the Government's approval for dual technology. We prefer DCF as our primary valuation methodology due to the back-ended nature of free cash flows given the new circle roll-outs. Our DCF assumes a WACC of 10.8% at a target debt to capital of 50.0% and terminal growth rate of 4.0% (similar to Bharti). Our DCF is based on explicit forecasts for FY07-16E with a terminal year EBITDA margin at 41.1% (~500bps below Bharti) and capex/sales of ~8% (in line with Bharti). The DCF value implies an EV/EBITDA of 12.3x, broadly in line with Bharti's target multiples (for the ex-towerco portion of Rs1,010), which is supported by Idea's higher growth rates notwithstanding Idea's smaller size and relatively less established track record.

Risks

Our quantitative risk-rating system assigns a default Speculative Risk rating to Idea due its trading history of less than 12 months. We see a Low Risk rating as more appropriate due to the higher visibility of Indian wireless growth, Idea's reasonably competitive position, strong parentage and lower financial leverage post-IPO. Operationally, the risks facing Idea are slightly higher than its more

established peers given the roll-out in new circles. Project cost over-runs, delays in spectrum allocation and hence commercial launches could affect the value accretion opportunity in new circles. Upside risks to our estimates and valuation would include higher-than-expected industry trends in subscriber additions and MOUs. An acquisition bid for Idea from potential new entrants at a significant premium to existing valuations would also present upside risk to our valuations.

Appendix A-1

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Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since April 28 2006)



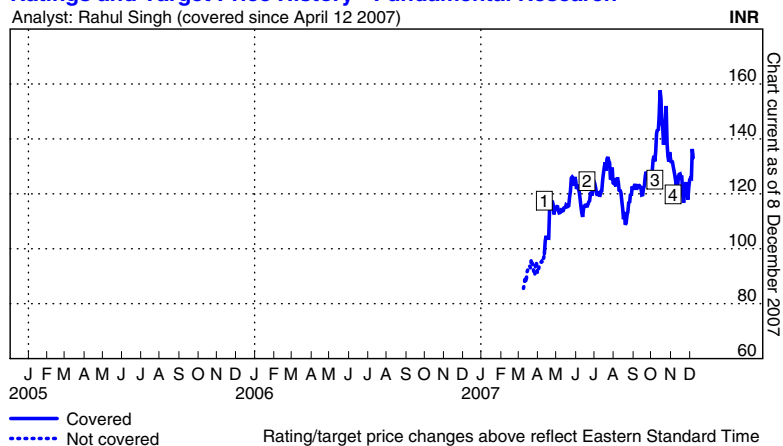
#	Date	Rating	Target Price	Closing Price
1:	14 Jan 05	*1M	*260.00	210.30
2:	22 Aug 05	1M	*400.00	306.10
3:	10 Jan 06	1M	*450.00	339.25
4:	13 Apr 06	1M	*500.00	395.95
5:	12 Oct 06	*1L	*600.00	475.65
6:	2 Jan 07	1L	*750.00	633.00
7:	23 Jan 07	1L	*800.00	689.15
8:	21 Feb 07	1L	*960.00	806.30
9:	20 Jun 07	1L	*1,050.00	824.65
10:	8 Oct 07	1L	*1,200.00	984.80

*Indicates change.

IDEA Cellular (IDEA.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since April 12 2007)

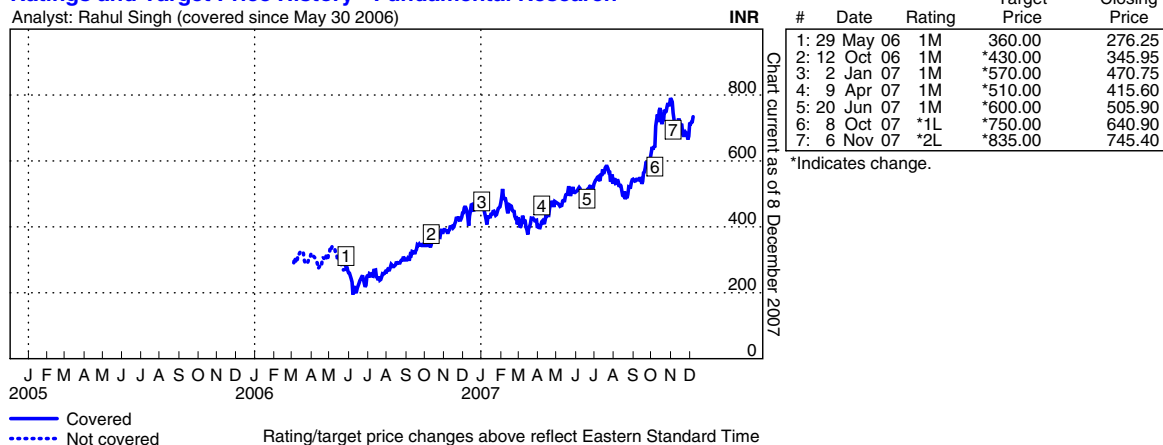


#	Date	Rating	Target Price	Closing Price
1:	12 Apr 07	1L	*112.00	98.15
2:	20 Jun 07	1L	*140.00	115.15
3:	8 Oct 07	1L	*155.00	131.80
4:	6 Nov 07	*2L	*140.00	130.10

*Indicates change.

Reliance Communications (RLCM.BO)
Ratings and Target Price History - Fundamental Research

Analyst: Rahul Singh (covered since May 30 2006)



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Data current as of 30 September 2007

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