INDIAN TELECOM SERVICES

Initiating coverage: Advantage incumbents

Four years post the grant of new mobile licenses in India, the wheel has turned full circle. Hobbled by the tough credit market, new players continue to lose value and relevance with the stilted regulatory framework in India limiting any corporate restructurings or new investments. This should allow incumbents to further expand their lead in the market. Our expectations of strong operating profit growth for incumbent players leads us to initiate with an 1-Overweight ratings on Bharti Airtel and Reliance Communication while we initiate with a 2-Equal Weight on Idea Cellular. We also highlight SingTel (1-OW, S$3.60PT) as benefiting from its Bharti exposure and add Bharti as one of our top picks in our Asian telecom coverage universe.

Regulatory stand still favours incumbents: The murky regulatory regime limits fresh investments in the sector and, hence, is a positive for the incumbents. The new players that have launched services are being distracted by investigations of possible impropriety in license/spectrum allocations. We agree that there remains a regulatory cloud of a) spectrum re-farming, b) return of excess spectrum and c) license renewal/extension charges on incumbent GSM players, but we believe that the final impact could be lesser than feared. Given weakening competitive intensity, we believe that Bharti should be able to grow its India mobile revenue by a 17% CAGR over FY2012-14 with EBITDA margins expanding by 440 bps for the same period.

Bharti's Africa acquisition appears a master stroke: Instead of looking through the lens of revenue, EBITDA or even operating cash flow, we believe that cheap financing could be key to the success for Bharti's African acquisition. Indeed, although we expect Bharti to miss its target FY2013 EBITDA of US$2bn from Africa (our estimate is US$1.54bn), the extended period of low interest rates should make the financing of this acquisition (at Libor + 195bps) very attractive. We initiate coverage of Bharti with a 1-Overweight rating and a price target of Rs500 for 26% potential upside.

Idea remains a highly leveraged play on India: Given its pure play India mobile model, we believe that Idea could deliver a CAGR of 19% for EBITDA in 2012-14. However, its late entry into India's mobile market implies that returns will always remain below Bharti's. At an EV/EBITDA of 7.2x FY2013, Idea looks expensive, and hence, we initiate with a 2-Equal Weight rating and a price target of Rs100 for 2% potential upside.

RCOM carries higher risks but could now be supported by asset valuations: While both Bharti and Idea are plays on operating performance, RCOM is a play on corporate restructuring/asset valuations. While we do not expect a quick turnaround in operations, RCOM's stock could be supported by a) possible disposal of international cable or DTH operations and b) increased utilisation of domestic fibre and tower assets. We also believe that market is undervaluing RCOM's 800MHz CDMA spectrum. Thus, we initiate with a 1-Overweight rating and a price target of Rs130 for 56% potential upside.

INITIATING COVERAGE

Asia ex-Japan Telecom Services
2-NEUTRAL
Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

Asia ex-Japan Telecom Services
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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price	Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	04-Nov-11	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg
Asia ex-Japan Telecom Services	2-Neu	2-Neu										
Bharti Airtel Ltd. (BHARTI IN / BRTI.NS)	N/A	**1-OW**	397.95	N/A	**500.00**	-	N/A	**14.18**	-	N/A	**26.48**	-
Idea Cellular Ltd, (IDEA IN / IDEA.NS)	N/A	**2-EW**	97.80	N/A	**100.00**	-	N/A	**2.42**	-	N/A	**4.46**	-
Reliance Communications Ltd. (RCOM IN / RLCM.NS)	N/A	**1-OW**	83.20	N/A	**130.00**	-	N/A	**4.32**	-	N/A	**6.97**	-

Source: Barclays Capital Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.
FY1(E): Current fiscal year estimates by Barclays Capital. FY2(E): Next fiscal year estimates by Barclays Capital.
Stock Rating: 1-OW: 1-Overweight 2-EW: 2-Equal Weight 3-UW: 3-Underweight RS: RS-Rating Suspended
Sector View: 1-Pos: 1-Positive 2-Neu: 2-Neutral 3-Neg: 3-Negative

INVESTMENT SUMMARY

Bharti Airtel
1-Overweight
Price Target: **Rs500**
Potential Upside: **+26%**

Reliance Communication
1-Overweight
Price Target: **Rs130**
Potential Upside: **+56%**

Idea Cellular
2-Equal Weight
Price Target: **Rs100**
Potential Upside: **+2%**

We initiate coverage on Indian Telecom Services subsector within our Asia ex-Japan Telecom Services sector with 1-Overweight ratings on Bharti Airtel (price target of Rs500 for potential upside of 26%) and Reliance Communication (price target of Rs130 for potential upside of 56%) and a 2-Equal Weight rating on Idea Cellular (price target of Rs100 for potential upside of 2%). We believe that competitive intensity within the sector has come down, which should lead to pricing power and margin improvements for the key players in the sector. We forecast EBITDA CAGRs of 25% for Bharti, 16% for RCOM and 19% for Idea over FY2012-14E. While regulatory uncertainty is still a concern, we believe that the end result could be better than the current fears in the market. Thus, we initiate with a positive view on the Indian sub-sector although we maintain our 3-Neutral view for the Asia ex-Japan Telecom Services sector overall.

Stock price drivers

We see three primary stock price drivers for the next 12 months for three companies under our coverage in the Indian Telecom subsector:

- **Regulatory overhang** – More clarity around the Indian regulations and specifically around spectrum allocation and M&A rules in the sector. While a continuation of current uncertainty could be somewhat beneficial for Bharti and Idea, RCOM could benefit with a quicker resolution of the regulatory issues.

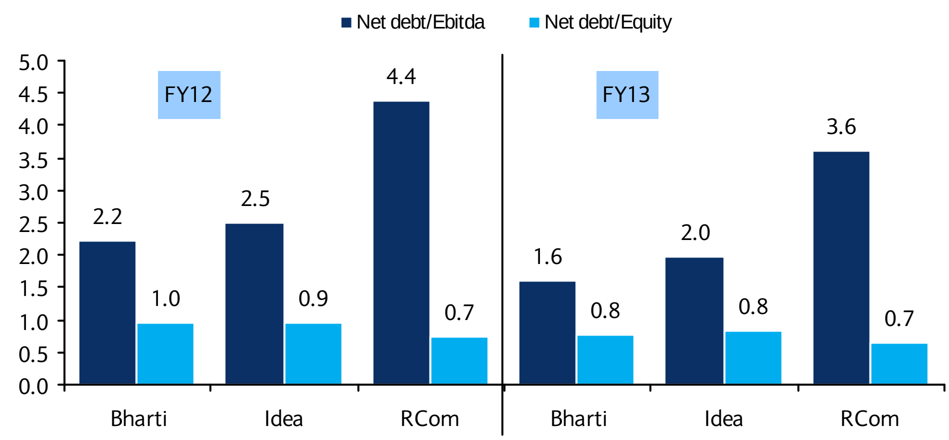
Figure 1: Indian Telecom Services – key regulatory issues

Issue	Comments
Spectrum pricing	■ Limited availability of spectrum for mobile players had made spectrum expensive in India as visible in recent auctions for 3G and BWA ■ This could also make license renewal expensive as renewal price is proposed to be linked to spectrums market price ■ Government is indicating that it could make available 300-500MHz of spectrum across various bands in next 10 years ■ Increased spectrum availability should lead to lower capex (or higher revenues) and also reduce spectrum cost
Spectrum allocation	■ Current policy is a mix of subsidized allocation (as in first-come-first-served policy in 2G) and market determined auctions (as in 3G and BWA) ■ Government has indicated that all further allocations would be done on the basis of auctions ■ However, there is still a lack of clarity for further allocation of 2G spectrum (900 and 1800 MHz)
Spectrum re-farming	■ Regulator has proposed that 900MHz spectrum should be taken away at the time of license renewal and instead substituted by 1800MHz spectrum ■ Government has still not accepted this proposal
M&A policy	■ Current policy restricts consolidation in the industry ■ Further, the current flux in the telecom policy is limiting investments by new players ■ Government is planning to come up with a comprehensive framework of exit policy soon

Source: India's Department of Telecommunications, Telecom Regulatory Authority of India, Barclays Capital

- **Credit issues** – Similarly, tough credit conditions are impacting competition negatively to the benefit of Bharti and Idea. RCOM with its high debt levels could benefit if credit conditions improve.

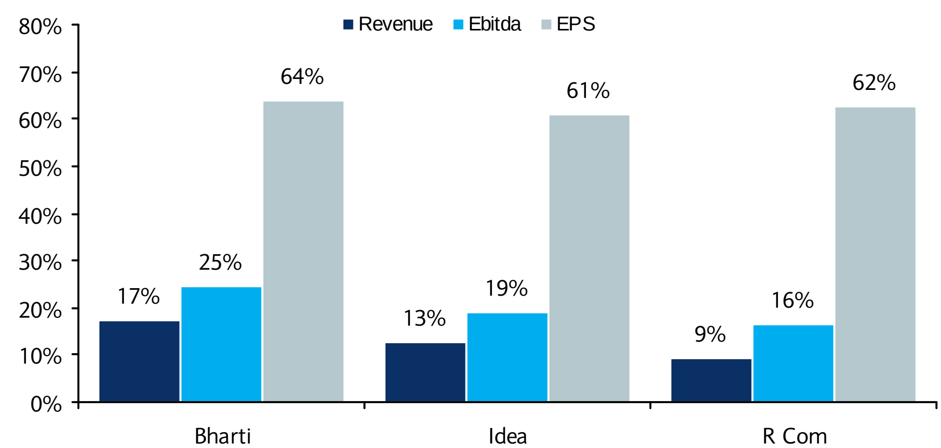
Figure 2: Indian Telecom Services – debt/equity and debt/EBITDA levels, FY12 & FY13



Source: Barclays Capital

- **Strong growth expected** – Although growth has come off in India, we believe that the Indian Telecom Services subsector remains one of the few growth spots in telecom industry globally. We forecast a CAGRs for revenue of 15% and EBITDA of 22% over 2012-14 for the industry in India and believe that this growth could allow the shares of Bharti, Idea and RCOM to trade at a premium to those of the rest of the industry.

Figure 3: Indian Telecom Services – CAGRS for revenue, EBITDA and EPS (FY12-14)



Source: Barclays Capital

Figure 4: Indian Telecom Services – our projections vs. consensus estimates

	Barclays Capital estimates			Consensus forecasts			Percentage differences		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Bharti									
Revenue (Rs m)	705,617	831,741	973,921	717,392	826,766	910,868	-2%	1%	7%
EBITDA (Rs m)	246,886	310,140	383,664	248,847	303,714	348,850	-1%	2%	10%
EPS (Rs)	14.18	26.48	38.16	17.59	26.97	34.04	-19%	-2%	12%
Idea									
Revenue (Rs m)	186,855	214,228	237,267	192,520	229,534	260,071	-3%	-7%	-9%
EBITDA (Rs m)	49,922	61,449	70,833	50,564	63,686	76,345	-1%	-4%	-7%
EPS (Rs)	2.42	4.46	6.26	2.26	4.31	6.81	7%	3%	-8%
RCOM									
Revenue (Rs m)	212,697	231,993	253,821	219,578	241,901	261,824	-3%	-4%	-3%
EBITDA (Rs m)	69,214	80,742	93,795	71,047	80,063	88,501	-3%	1%	6%
EPS (Rs)	4.32	6.97	11.41	4.67	7.01	9.47	-7%	-1%	21%

Source: Barclays Capital estimates, Bloomberg consensus forecasts

Initiating coverage

Bharti Airtel (1-OW; PT Rs500)

We initiate coverage of Bharti with a 1-Overweight rating and a price target of Rs500, implying 26% potential upside. We believe that reducing competitive intensity in Indian wireless should lead to strong EBITDA growth for Bharti's India business. Furthermore, the low interest rate environment should lead to better-than-expected cash flows from its Africa business. Thus, we forecast CAGRs of 24% for EBITDA for FY2011-14E and 35% for EPS. Given our good growth assumptions, we find Bharti's valuations reasonable at an EV/EBITDA of 6.5x FY2013 on our estimates and initiate with a 1-Overweight rating. We also note that Bharti is to be included in MSCI India from November, which could act as a catalyst for stock outperformance.

Reliance Communication (1-OW; PT Rs130)

We initiate coverage of RCOM with a 1-Overweight rating and a price target of Rs130, implying 56% potential upside. We agree that RCOM would continue to face three issues going forward: a) weak execution, b) poor cash flows and high debt burden, and c) regulatory uncertainties. However, we believe that an increasing possibility of corporate restructuring could lead to the stock being supported by asset valuations. Specifically, management has mentioned possibility of disposal of a) the international long distance cable and b) the DTH business, which we find credible. Furthermore, we also believe that there remains a likelihood of improving utilisation of company's domestic fibre and telecom tower assets. We also believe that the current market value (P/B of 0.4x) could be significantly undervaluing RCOM's 800MHz CDMA spectrum.

Idea Cellular (1-EW; PT Rs100)

We initiate coverage of Idea with a 2-Equal Weight rating and a price target of Rs100 compared with the current price of Rs98. Given its pure play Indian wireless exposure, we believe that Idea could be best leveraged to the improvement in Indian mobile industry. Thus, we forecast a CAGR of 23% for EBITDA for FY2011-14 and 32% for EPS. However, we find valuations are not cheap at an EV/EBITDA multiple of 7.2x FY3/13, and thus, we initiate with a 2-EW rating. We note that both Bharti and Idea are a play on improving operating performance. Between the two, we prefer Bharti due to its stronger growth and cheaper valuations. We agree that there could be an M&A premium to Idea but believe that it is unlikely to be realised short term.

Valuations and risks

We use discounted cash flows as our primary valuation method for Indian Telecom Services vendors. We believe DCF is the most appropriate valuation methodology because it correctly captures the long-term effects of the investment cycle and the consequent profitability for the companies in the sector.

We also sanity check our numbers with EV/EBITDA multiples and the future growth prospects of the companies. We also focus on P/E and ROE values of the companies as another check point for our price targets.

Our DCF assumptions for the three companies are provided in the respective company sections of this report.

With in the sub-sector, Bharti is our top pick due to its leading industry position, geographical diversification and superior return profile. We also like Reliance Communications due to its inexpensive asset valuations (0.4x FY13 book). We note that our call on Bharti and Idea is largely based on operating performance while our call on RCOM is based on corporate restructuring/asset valuations.

We believe that the regulatory environment in India could be a wild card. A quick resolution of regulatory imbroglio could be positive while a further deterioration could negatively impact the stocks. Bharti and Idea also benefit from the tough credit situation, which is negatively affecting their competition. On the other hand, RCOM with its high debt levels could benefit if credit conditions ease.

VALUATION MATRIX

Figure 5: Asia ex- Japan Telecom Services – top picks

	Stock Price	Mkt Cap (US$bn)	Rating	PT (LCY)	TSR (%)	P/E (x) '11/FY12	P/E (x) '12/FY13	EV/EBITDA (x) '11/FY12	EV/EBITDA (x) '12/FY13	Price/ Book (x) '11/FY12	Price/ Book (x) '12/FY13	Dividend Yield (%) '11/FY12	Dividend Yield (%) '12/FY13	EPS Growth (%) '11/FY12	EPS Growth (%) '12/FY13	EBITDA Growth (%) '11/FY12	EBITDA Growth (%) '12/FY13
Bharti Airtel	Rs 397.3	30.7	1-OW	Rs500	26.4%	28.0	15.0	8.3	6.5	2.7	2.3	0.3%	0.5%	-8.7%	86.7%	23.7%	25.6%
China Unicom	HK$16.56	50.2	1-OW	HK$21	27.4%	53.7	27.7	6.2	5.4	1.5	1.5	0.6%	1.4%	54.1%	93.8%	10.2%	15.4%
HTHKH	HK$3.09	1.9	1-OW	HK$3.5	18.3%	14.8	13.4	7.8	7.1	1.4	1.3	5.0%	5.6%	33.0%	10.7%	14.1%	8.2%
SingTel	S$$3.15	39.7	1-OW	S$3.5	16.6%	12.7	11.5	6.0	5.5	2.1	1.9	5.5%	6.1%	3.4%	10.7%	8.3%	5.8%
Far EasTone	NT$53.7	5.8	1-OW	NT$54	4.8%	20.6	17.9	7.7	7.0	2.4	2.4	4.3%	5.0%	-3.8%	15.2%	-0.1%	7.5%

Note: Stock Rating: 1-OW: 1-Overweight, 2-EW: 2-Equal Weight, 3-UW: 3-Underweight. Share prices are as of the close of trading on 7 November 2011 in local currency.
Source: Barclays Capital estimates

Figure 6: Asia ex-Japan Telecom Services – valuation comparisons of integrated operators

	Stock Price	Mkt Cap (US$bn)	Rating	PT (LCY)	TSR (%)	P/E (x) '11/FY12	P/E (x) '12/FY13	EV/EBITDA (x) '11/FY12	EV/EBITDA (x) '12/FY13	Price/ Book (x) '11/FY12	Price/ Book (x) '12/FY13	Dividend Yield (%) '11/FY12	Dividend Yield (%) '12/FY13	EPS Growth (%) '11/FY12	EPS Growth (%) '12/FY13	EBITDA Growth (%) '11/FY12	EBITDA Growth (%) '12/FY13
China Telecom	HK$4.76	49.6	1-OW	HK$5.4	15.3%	18.0	15.4	4.4	3.9	1.3	1.2	1.9%	1.9%	10.1%	16.8%	3.5%	6.1%
Telstra	A$ 3.13	40.3	NR	NA	NA	10.8	10.4	4.9	4.8	3.2	3.2	8.9%	8.9%	11.1%	3.4%	2.8%	0.3%
Chunghwa Telecom	NT$99.8	25.8	3-UW	NT$92	-2.3%	16.3	15.9	8.3	7.9	2.4	2.3	5.6%	5.7%	25.2%	2.4%	-5.2%	3.3%
PT Telkom	IDR7600	17.1	NR	NA	NA	12.6	11.7	4.2	3.9	3.1	2.7	4.3%	4.7%	3.2%	7.7%	-1.9%	7.3%
PLDT	PHP 2360	10.3	NR	NA	NA	11.3	11.2	6.2	6.0	4.6	4.4	8.7%	8.6%	-1.6%	0.7%	-3.5%	3.0%
KT	KRW 37100	8.7	NR	NA	NA	6.6	7.0	1.9	1.9	0.8	0.8	6.6%	6.8%	16.2%	-5.0%	1.7%	0.4%
Telekom Malaysia	RM 4.19	4.8	NR	NA	NA	26.2	22.1	6.0	5.7	2.1	2.1	6.4%	5.3%	6.0%	18.8%	2.2%	7.3%
Telecom New Zealand	NZ$ 2.63	4.0	NR	NA	NA	11.0	10.5	4.0	3.8	2.2	2.0	7.6%	8.0%	19.4%	4.2%	0.2%	0.1%
StarHub	S$2.87	3.9	3-UW	S$2.75	2.8%	15.8	15.0	8.4	8.1	215.1	671.9	7.0%	7.0%	18.5%	5.0%	9.5%	2.8%
LG Uplus	KRW 6830	3.2	NR	NA	NA	16.0	12.8	2.4	2.2	0.9	0.8	4.4%	4.4%	-66.7%	25.0%	-23.3%	11.5%
PCCW	HK$3.13	2.9	NR	NA	NA	11.6	9.8	6.1	5.7	NM	NM	5.1%	6.1%	-2.9%	18.5%	-7.9%	1.4%
True Corp	THB 2.9	1.4	NR	NA	NA	- 32.2	96.7	5.4	5.4	2.2	2.1	0.0%	0.0%	-148.9%	-133.3%	-7.1%	1.8%
Average						**14.1**	**12.8**	**5.4**	**5.1**	**2.4**	**2.3**	**5.8%**	**5.9%**	**-6.5%**	**-2.4%**	**-0.8%**	**4.1%**
Median						**12.7**	**12.8**	**6.0**	**5.4**	**2.1**	**2.1**	**5.5%**	**5.7%**	**10.1%**	**7.7%**	**1.7%**	**3.3%**

Stock ratings: 1-OW: 1-Overweight, 2-EW: 2-Equal Weight, 3-UW: 3-Underweight. For full disclosures on each rated company, including details of company-specific valuation methodology and risks, please refer to: http://publicresearch.barcap.com. Share prices are as of the close of trading on 7 November 2011 in local trading currency. For not-rated (NR) companies, estimates are IBES consensus estimates from Datastream.
Source: Thomson Reuters Datastream, Barclays Capital estimates

Figure 7: Asia ex-Japan Telecom Services – valuation comparisons of wireless operators

	Stock	Mkt Cap		PT	TSR	P/E (x)		EV/EBITDA (x)		Price/ Book (x)		Dividend Yield (%)		EPS Growth (%)		EBITDA Growth (%)	
	Price	(US$bn)	Rating	(LCY)	(%)	'11/FY12	'12/FY13	'11/FY12	'12/FY13	'11/FY12	'12/FY13	'11/FY12	'12/FY13	'11/FY12	'12/FY13	'11/FY12	'12/FY13
China Mobile	HK$ 75.25	196.9	2-EW	HK$ 78	8.0%	9.9	9.6	3.8	3.5	1.9	1.7	4.3%	4.5%	5.0%	4.0%	6.3%	4.0%
Bharti Airtel	Rs 397.3	30.7	1-OW	Rs500	25.8%	28.0	15.0	8.3	6.5	2.7	2.3	0.4%	0.6%	-8.7%	86.7%	23.7%	25.6%
Advanced Info	THB 135	13.1	NR	NA	NA	16.4	14.5	7.4	7.1	9.9	9.6	6.4%	6.7%	19.0%	12.5%	9.6%	4.2%
Axiata	RM 4.79	13.0	NR	NA	NA	14.5	13.3	5.8	5.2	2.0	1.8	2.5%	3.5%	6.8%	9.1%	2.6%	6.3%
Maxis Berhad	RM 3.11	12.7	NR	NA	NA	17.0	16.4	9.7	9.5	4.8	5.0	7.0%	6.8%	1.3%	3.2%	3.6%	2.6%
SK Telecom	KRW146500	10.7	NR	NA	NA	6.4	6.2	2.6	2.5	0.9	0.9	6.4%	6.5%	18.5%	3.3%	6.8%	3.3%
Taiwan Mobile	NT$91.7	9.8	2-EW	NT$92	5.3%	17.7	15.7	9.6	8.9	5.0	4.7	5.0%	5.7%	3.0%	12.8%	-0.7%	6.0%
Idea Cellular	Rs 97.9	6.6	2-EW	Rs100	2.1%	40.5	22.0	9.0	7.2	2.5	2.2	0.0%	0.0%	-11.2%	84.4%	31.7%	23.1%
DTAC	THB 74.5	5.8	NR	NA	NA	15.3	16.1	6.2	6.3	2.6	2.7	9.4%	6.4%	5.9%	-5.1%	4.7%	-3.2%
XL Axiata	IDR5300	5.0	NR	NA	NA	13.3	11.8	4.6	4.3	3.2	2.7	2.4%	3.3%	17.0%	12.7%	13.7%	6.7%
Reliance Comm	Rs 83.3	3.5	1-OW	Rs130	56.0%	19.3	11.9	6.9	5.7	0.4	0.4	1.3%	1.7%	-33.7%	61.3%	-23.8%	16.7%
PT Indosat	IDR5250	3.2	NR	NA	NA	24.8	16.5	2.9	2.6	1.5	1.4	1.8%	2.8%	77.9%	49.7%	7.9%	10.2%
Globe	PHP 920	2.8	NR	NA	NA	12.0	11.5	4.8	4.6	2.5	2.4	7.2%	7.5%	4.9%	4.5%	3.8%	3.2%
SmarTone	HK$14.48	1.9	2-EW	NT$16	16.9%	15.6	13.7	4.9	4.4	5.0	4.9	6.4%	7.3%	27.4%	13.9%	34.5%	11.9%
Mobile One	S$2.47	1.8	2-EW	S$2.7	15.4%	13.0	12.4	7.9	7.5	6.9	6.3	6.1%	6.5%	8.6%	5.3%	2.3%	4.1%
Average						18.1	14.5	6.6	6.0	3.4	3.2	4.4%	4.7%	7.9%	22.4%	8.2%	8.2%
Median						16.4	14.5	6.9	6.3	2.6	2.4	5.0%	5.0%	5.0%	12.5%	6.3%	6.3%

Stock ratings: 1-OW: 1-Overweight, 2-EW: 2-Equal Weight, 3-UW: 3-Underweight. For full disclosures on each rated company, including details of company-specific valuation methodology and risks, please refer to: http://publicresearch.barcap.com. Share prices are as of the close of trading on 7 November 2011 in local trading currency. For not-rated (NR) companies estimates are IBES consensus estimates from Datastream.
Source: Thomson Reuters Datastream, Barclays Capital estimates

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REGULATORY UNCERTAINTY BENEFITING INCUMBENTS

We agree with the need for a significant overhaul of India's telecom regulations. The current uncertainty on a) spectrum allocation, b) spectrum pricing and c) exit policy is clearly hampering further investments in this industry. This uncertainty has also led to a significant volatility in the business of incumbent operator for whom the allotment of four to eight new subsidised 2G licenses across circles in 2007 could have come as a shock. Since then, ensuing controversy around the 2G license issuance in 2007 has forced government to focus on a more transparent policy. Recent pronouncements of the telecom minister suggest that the government is cognizant of various issues impacting the sector and could significantly alter the spectrum and exit policy to suit the current business environment.

Spectrum availability and pricing

The spectrum crunch in India was clearly visible in the recent auction of 3G and BWA spectrum by the government. Contrary to initial expectations of a US$1.5-2.0bn value of a pan-India 3G spectrum, the value climbed to US$3.7bn with no operator winning spectrum auction across 22 circles.

Figure 8: Indian Telecom Services – 3G auction prices

	Amount payable (Rs bn)	Total number of circles
Total	677	
Pan India	**168**	**22**
Aircel	65	13
Bharti	123	13
Idea	58	11
Reliance	86	13
S Tel	3	3
Tata Tele	59	9
Vodafone	116	9
BSNL	102	20
MTNL	66	2

Source: India's Department of Telecommunications (DoT)

Figure 9: Indian Telecom Services – BWA auction prices

	Amount payable (Rs bn)	Total number of circles
Total	385	
Pan India	**128**	**22**
Aircel	34	8
Augere	1	1
Bharti	33	4
Infotel	128	22
Qualcomm	49	4
Tikona	11	5
BSNL	83	20
MTNL	45	2

Source: India's Department of Telecommunications (DoT)

We agree that the auction was designed well. The government also ensured that it got the auction price within 30 days of the auction conclusion, preventing a repeat of spectrum auction in mid-1990s in which most operators defaulted on the high headline auction prices. However, we believe that the key reason behind high auction prices could have been the limited availability of spectrum to the incumbent players.

Figure 10: Indian Telecom Services – 2G spectrum availability with various players (MHz)

Service Area	Category	Bharti	Vodafone	Idea	Reliance Comm	Aircel	BSNL	Spice	MTNL	Datacom	TTSL	Uninor	Loop
Andhra Pradesh	A	9.2	6.2	8.0	4.4	4.4	10.0	4.4		4.4	4.4	4.4	4.4
Assam	C	6.2	4.4		6.2	6.2	10.0						
Bihar	C	8.0	4.4	4.4	8.0	4.4	10.0						
Chennai	Metro	9.2	8.0	4.4	4.4	8.6	10.0				4.4	4.4	4.4
Delhi	Metro	10.0	10.0	8.0	4.4	4.4			12.4				
Gujarat	A	6.2	9.8	6.2	4.4	4.4	7.4						
Haryana	B	6.2	6.2	6.2	4.4	4.4	10.0						
Himachal Pradesh	C	6.2	4.4	4.4	6.2	4.4	10.0						
J&K	C	6.2	4.4		4.4	4.4	8.0						
Karnataka	A	9.8	8.0	4.4	4.4	4.4	10.0	6.2		4.4	4.4	4.4	4.4
Kerela	B	6.2	6.2	8.0	4.4	4.4	10.0			4.4	4.4	4.4	4.4
Kolkata	Metro	8.0	9.8		6.2	4.4	10.0						
Madhya Pradesh	B	6.2	4.4	8.0	6.2	4.4	10.0						
Maharashtra	A	6.2	6.2	9.8	4.4	4.4	10.0						
Mumbai	Metro	9.2	10.0	4.4	4.4	4.4			12.4				10.0
North East	C	4.4	4.4		6.2	4.4	10.0						
Orissa	C	8.0	4.4	4.4	6.2	4.4	10.0			4.4	4.4	4.4	4.4
Punjab	B	7.8	6.2		4.4	4.4	6.2	7.8		4.4			
Rajasthan	B	6.2	6.2	6.2	4.4	4.4	8.0						
Tamil Nadu	A	9.2	7.2	4.4	4.4	9.8	10.0				4.4	4.4	4.4
Uttar Pradesh (East)	B	6.2	8.0	6.2	4.4	4.4	10.0						
Uttar Pradesh (West)	B	6.2	6.2	8.0	4.4	4.4	10.0						
West Bengal	B	6.2	6.2		6.2	4.4	8.0						

Source: Telecom Regulatory Authority of India (TRAI)

We believe that the spectrum allocation in India is artificially constrained by government policy. For example, with 5-11 players in each circle, India could have the most fragmented telecom market in the world. Fragmentation of spectrum also leads to loss of efficiency and a higher capex for operators. It is possible that Indian telecom regulators fear spectrum hoarding by a few players; however, as India's mobile market has developed over the past few years, the spectrum allocation rules have failed to keep up.

Exit policy

The Indian telecom M&A policy was formulated with a view to prevent monopolisation or cartelisation of the Indian telecom sector in early parts of the century. Since then, though TRAI has made a number of recommendations, the policy has essentially remained unchanged for the past decade. With one operator, Loop Telecom already having expressed its desire to surrender its license, clarity on this front could see other operators such Aircel and Uninor, which have indicated that their balance sheets are stretched and have been unable to turn profitable, could follow suit for specific circles. Recent pronouncements indicate that TRAI could have come up with some suggestions for an exit policy in 2012 followed by more detailed rules by department of telecom (DoT).

Figure 11: Indian Telecom Services – Current wireless regulations vs TRAI recommendations

	Current regulation per DoT (April 2008)	TRAI recommendations (May 2010)
Cap on number of operators	M&A to result in no fewer than four operators per circle	M&A to result in no fewer than five operators per circle
Market share	Share of new entity not greater than 40% in terms of subscribers or adjusted gross revenue (AGR)	Share of new entity not greater than 30% in terms of subscribers or Adjusted gross revenue (AGRs). Recent (2011 Nov) paper indicated that TRAI could be comfortable with market share up to 60% on case to case basis.
Exit policy	3-year lock in for owner's equity in new licenses; no lock in if fresh equity	Minimum 3-year period from date of license for M&A to be done away with unless government has provided subsidies
Spectrum cap	15MHz for metros and A circles and 12.4MHz for B and C circles	14.4MHz for GSM, 10MHz for CDMA, excess spectrum to be returned
Spectrum price	–	Entitlement for merged entity to 6.2 MHz/5 MHz for the entry fee paid and either party in merger to pay spectrum price. In addition, 5% spectrum transfer charge for the difference between transaction price and current price
Equity holding	No entity to hold equity of 10% or more in more than one licensee company	–

Source: India's Department of Telecommunications, Telecom Regulatory Authority of India

From a government and regulator perspective, this solves two major purposes:

- To weed out operators who would not be able to roll out adequate services due to stretched financials. Indeed, the DoT has been looking to clamp down on operators who have failed to meet rollout obligations in certain circles.
- To clear out the overcrowded mobile market post the 2008 allocation.

However, we believe that the key problem with the policy is its lack of clarity on spectrum consolidation. Furthermore, due to issues around 2G spectrum/license allocation in 2007, the government and regulator have dropped clear hints of their disapproval to any spectrum consolidation.

What could be some possible outcomes?

We believe that the recent pronouncements of India's telecom minister on the new National Telecom Policy 2011 (NTP 2011) could give us some hints towards the possible resolution of the regulatory issues. We have highlighted the key issues in Figure 11.

Increased spectrum allocation

The NTP 2011 aims to make more spectrum available immediately as well as incremental 300 MHz of spectrum by 2017 and another 200MHz by 2020.

An increase in spectrum allocation should resolve the spectrum crunch in the sector. This should lead to lower prices of the spectrum in future auctions. Given that government has indicated that license renewal would be linked to the market price of the spectrum, it could also reduce the cost of license renewal for incumbents.

Figure 12: Indian Telecom Services – key point of the new National Telecom Policy 2011 (NTP 2011)

Key issue	NTP comments	Our view
Increased spectrum allocation	The NTP 2011 aims to make more spectrum available and incremental 300MHz of spectrum by 2017 and another 200MHz by 2020	Positive for the industry, reduce spectrum crunch and spectrum pricing
Roaming charges	Remove the roaming charges across the country	Negative for the incumbents with wide network coverage
One Nation – One License	Single license would allow operators to provide all kinds of services	Lack of clarity on whether it would also include voice services under the broadband license
National Long Distance (NLD)	Aiming at convergence of access network, carriage network and broadcast network	Operators would be able to provide national roaming on their own networks
Separation of unified licenses	New unified licenses are envisaged to be two separate categories – Network Service Operators (NSO) and Service Delivery Operators (SDO)	Requires more clarity in the future on whether the tower operators would now need a separate NSO license

Source: India's Department of Telecommunications

Spectrum Sharing

The NTP 2011 also proposes the sharing of networks and delinking the licensing of networks from the delivery of service to the end users to facilitate faster roll out of services.

Looking from a different perspective, a proper framework of spectrum sharing could allow new entrants to get some value out of their spectrum holdings by sharing this spectrum with other operators who are facing spectrum crunch. While not an exit policy that many could be hoping for, this could act as an interim solution while the government tries to resolve the entire issue.

POSITIVE TRENDS IN INDIAN WIRELESS MARKET

In the past two years, India's wireless market could have moved from hyper competition to a more stable phase, in our view. While the flux in Indian telecom regulations could be the main factor that has restricted investments in the sector, we believe that a deterioration in credit market have also significantly hobbled new players and CDMA players. This could be the key reason behind the reduced competitive intensity.

From price competition to price increases

India's wireless market faced significant price competition in 2H09 when Tata Teleservices came out with its innovative per second plans and RCOM reduced its tariff to Rs0.50 per minute (compared with the Rs0.65-0.75 effective tariff of Bharti at that time).

The situation has now changed with the first tariff increase done by Bharti Airtel in July 2011, which was matched up by the other operators. Smaller operators such as Uninor, while not having explicitly announced price increases have either readjusted the price of the starter packs or reduced the airtime available per recharge pack. We view this as the first sign that the price war might be coming to an end. Though it could have a negative impact on the volume growth in short term, it could be more than compensated by a positive impact of pricing on margins.

Figure 13: Indian Telecom Services – details of price increases across wireless operators since July 2011

Company	Details
Bharti	20% increase in tariffs across its 6 strongest circles, for pre-paid and net access
Idea	20% increase in call rates across 6 circles
Vodafone	Increase in call rates across 12 circles
Reliance Comm	20% increase across most circles in line with larger peers
Tata DoCoMo	Increase of SMS rates to Re1, no free SMS, call rates hiked in Tamil Nadu and Karnataka

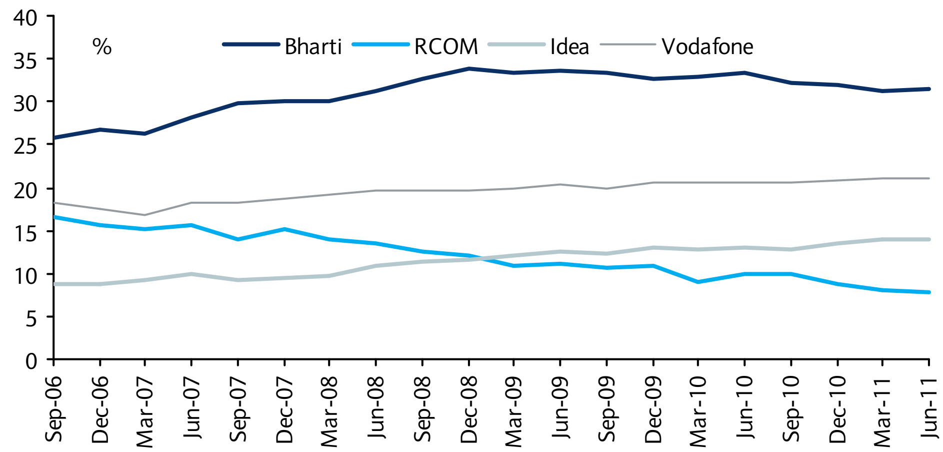
Source: Media and industry sources

Limited market share gains despite price competition

Large incumbents like Bharti, Vodafone and Idea were largely able to maintain their revenue market share despite significant competition from new entrants from 2H09 to end 2010. Instead, we saw continued loss in market share by the government owned players (BSNL and MTNL) and RCOM.

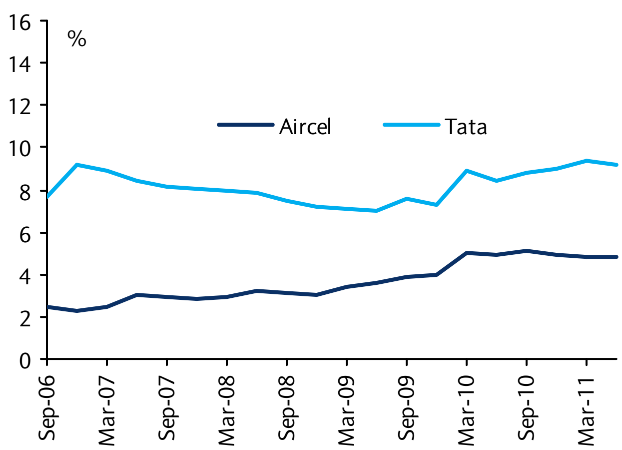
Only RCOM amongst the large incumbents has lost share

Figure 14: Indian Telecom Services – Mobile market share by revenue



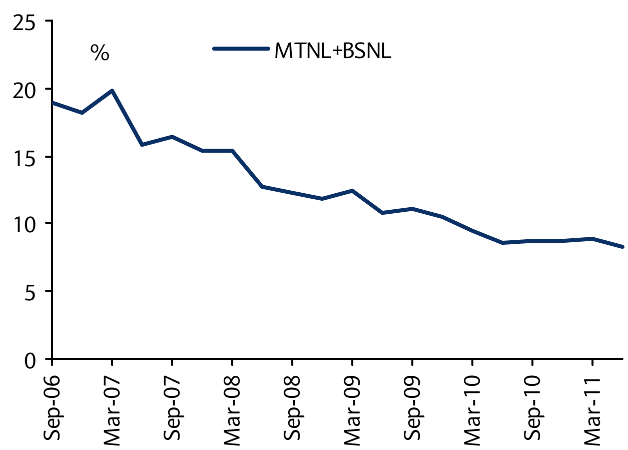
Source: Cellular Operators Association of India (COAI)

Figure 15: Indian Telecom Services – New entrants Aircel and Tata have struggled



Source: COAI

Figure 16: Indian Telecom Services – State run players have continued to bleed on service issues



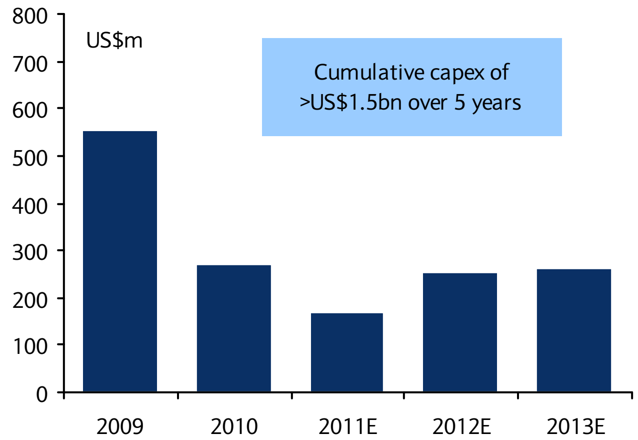
Source: COAI

New mobile operators are struggling

While most of the license winners of 2007 have not even launched, many of players who managed to launch have not been able to perform well. In the figures below, we present Uninor as a case study. Uninor is a 67:33 joint venture between Telenor and Unitech that was formed in 2009.

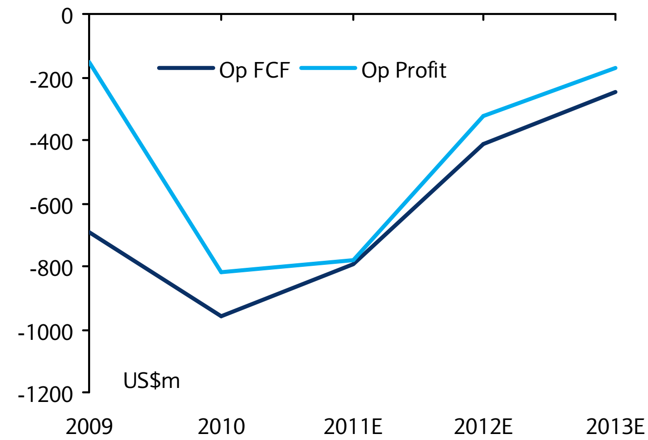
When the JV began, Telenor injected US$1.2bn of equity, valuing the joint venture at c.US$1.8bn. Telenor recently announced its intention to raise US$1.8bn of fresh equity, which Unitech has disputed. According to Telenor, it now values the total JV at a mere US$120m, which Unitech has disputed vociferously.

Figure 17: Uninor – capex



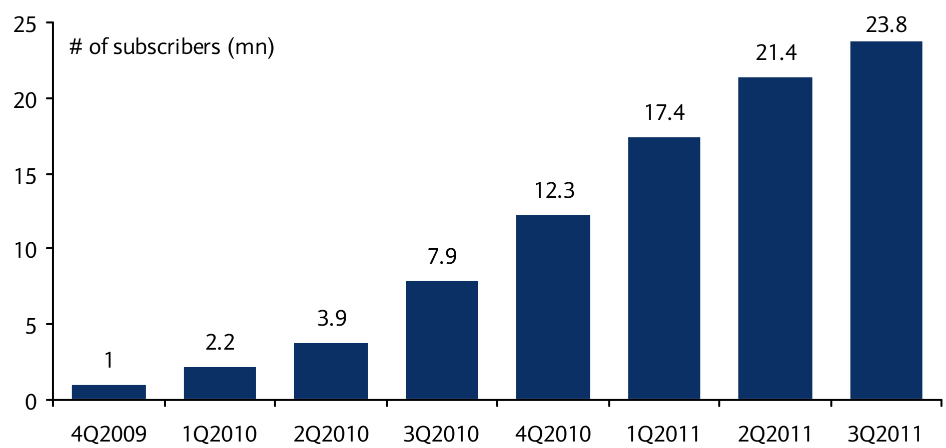
Source: Company data, Barclays Capital estimates

Figure 18: Uninor – free cash flow and operating profit



Source: Company data, Barclays Capital estimates

Figure 19: Uninor – subscriber base in India



Source: Telenor reports

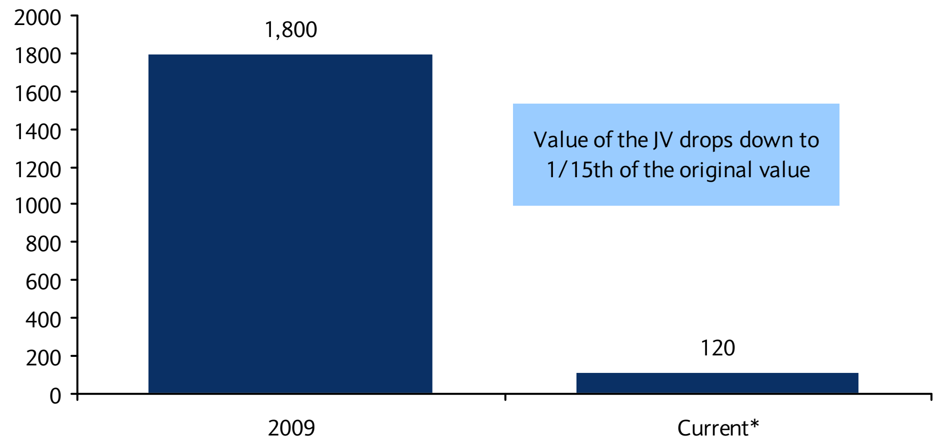
Figure 20: Uninor – Telenor's initial targets in 2009 (during the setting up of the Uninor JV) vs current situation

Target	Current situation	Situation vs initial plans
Nearer term		
EBITDA breakeven 3 years post launch	Barclays Capital Research forecasts EBITDA breakeven in four years	X
OCF breakeven 5 years after launch	In line per Barclays Capital Research forecasts	II
Initial capex plan of US$1.2bn for 2009 and US$600mn for 2010	Actual capex of c.US$630mn in 2009 and US$270mn in 2010. Low levels of control on the front, problems with tower sharing, downward capex revisions and high 3G license fee means that the company will likely fall short of expectations going forward	X
Peak funding lower than Rs155bn (c.US$3.2bn)	Invested US$1.2bn in 2009, debt of US$1bn on balance sheet. Planning to raise US$1.8bn of fresh equity	X
Longer term		
8% pan-India market share	c.2.6% market share	?
30% EBITDA margin	Barclays Capital Research forecasts at 19.5% in 2020	X
10% capex/sales ratio	Even after subsequent rounds of capex cuts, ratio reached only in 2015	II

Source: Telenor reports, Barclays Capital estimates

JV has c.US$1bn in debt, equity valuations and growth prospects erode book value by US$1.7bn

Figure 21: Uninor – equity valuation in 2009 (formation of JV) vs now (US$mn)



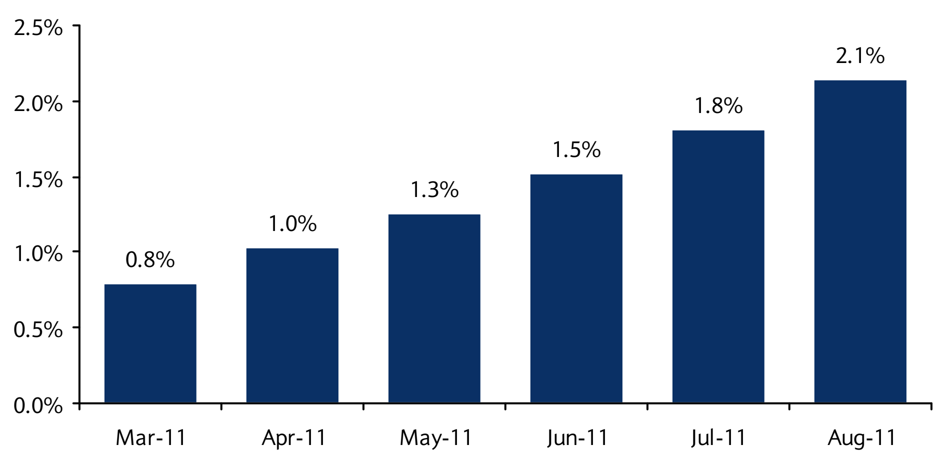
Source: Telenor presentations, Barclays Capital estimates

MNP also favours incumbent GSM operators

The rollout of mobile number portability (MNP) in India in January 2011 was expected to start off another round of price wars especially in the post-paid segment between the operators clamouring to take market share. In reality, the impact of MNP has been quite muted with just over 2% of the total subscriber base opting for number porting as of the end of August-2010.

While this percentage number has risen steadily, this has been driven by subscriber base maturity, which has now started to focus on coverage and network quality rather than just cheapest tariffs. We believe this is why the larger incumbents with good coverage and better services such as Bharti, Vodafone and Idea are getting net port ins while companies such as MTNL, BSNL, Tata and Reliance are net losers.

Figure 22: Indian Telecom Services – Mobile number porting requests as a percentage of total subscribers



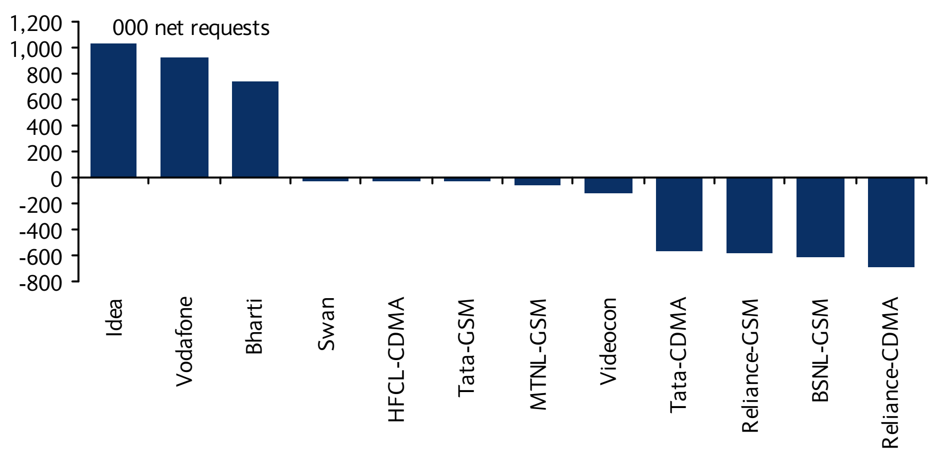
Source: Telecom Regulatory Authority of India, Barclays Capital

Figure 23: Indian Telecom Services – Mobile number porting requests by area ('000)

	Jul-11	Aug-11	% of total mobile subs
Zone 1			
Delhi	839	1,010	2.5%
Gujarat	1,551	1,763	3.6%
Himachal Pradesh	65	74	1.0%
Haryana	867	972	4.2%
Jammu & Kashmir	3	4	0.1%
Maharashtra	1,262	1,477	2.2%
Mumbai	574	673	1.9%
Punjab	701	792	2.6%
Rajasthan	1,109	1,292	3.0%
Uttar Pradesh - East	739	855	1.7%
Uttar Pradesh - West	915	1,062	1.6%
Zone 2			
Andhra Pradesh	1,166	1,394	2.0%
Assam	42	48	0.4%
Bihar	363	418	0.7%
Karnataka	1,194	1,401	2.8%
Kerala	732	886	2.7%
Kolkata	387	441	1.9%
Madhya Pradesh	1,002	1,159	2.4%
North East	11	13	0.2%
Orissa	356	426	1.8%
Tamil Nadu	1,075	1,236	2.1%
West Bengal	591	664	1.50%
Total	**15,548**	**18,059**	**2.1%**

Source: Telecom Regulatory Authority of India

Figure 24: Indian Telecom Services – net additions from mobile number porting as of Aug-11

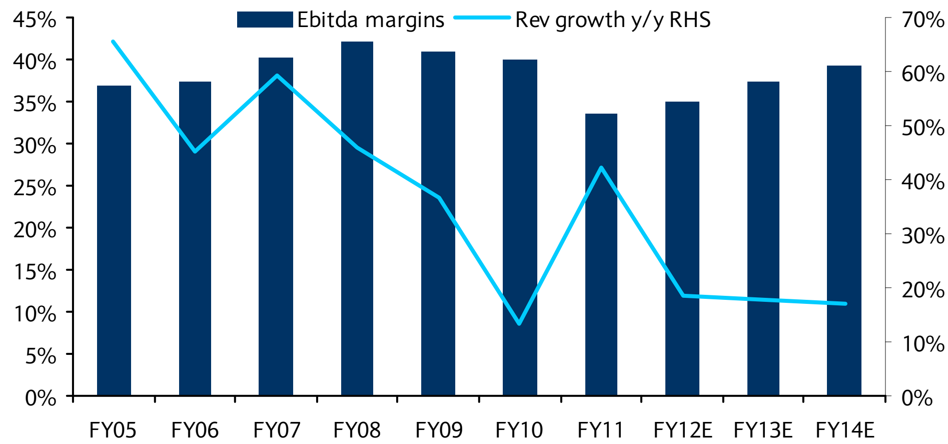


Source: COAI

Lower competitive intensity is better for the health of the larger players

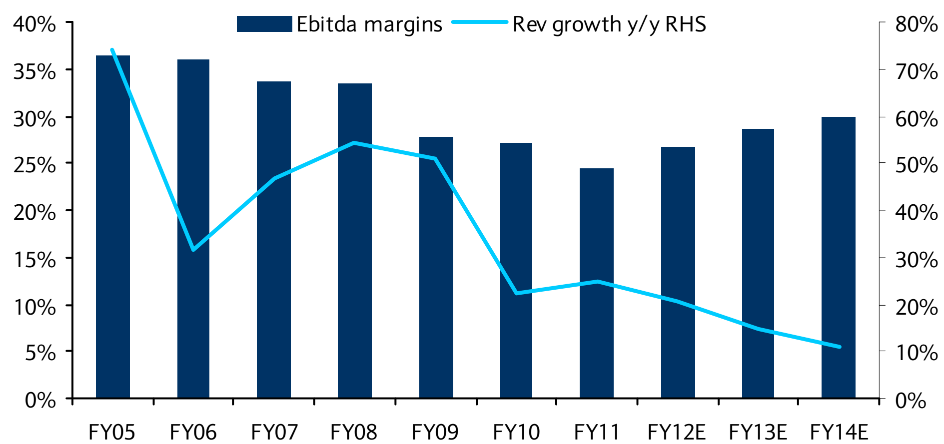
We agree that revenue growth for Indian wireless players could come down. Indeed, our revenue growth estimates build in top-line growth trending to below the nominal GDP growth rates of the country. However, reduced competitive intensity in India should lead to a positive impact on margins of the companies, thereby impacting ROIC positively.

Figure 25: Bharti – revenue growth stabilizes, margins trend up



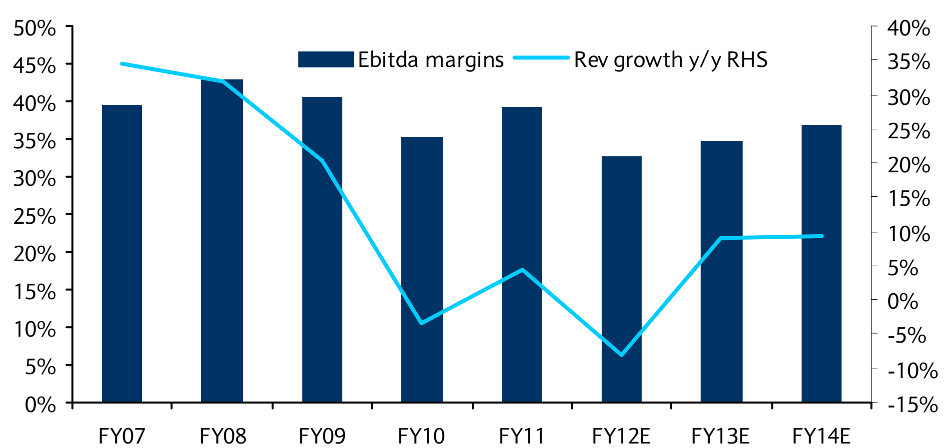
Source: Barclays Capital estimates

Figure 26: Idea – losing steam on revenue growth, margins improve



Source: Barclays Capital estimates

Figure 27: RCOM – rebounding to positive revenue growth, margins improve



Source: Barclays Capital estimates

VALUATIONS AND FORECASTS

In Figures 28-45, we display key historical valuation measures for the three Indian telecom companies.

Bharti

The stock is trading below its 5-year average valuations on both 12-month forward earnings and book value. Even as the revenue and EBITDA forecasts for FY12 and FY13 have seen upgrades on account of better competitive environment in India and improvements in Africa, forex losses have taken a toll on the EPS that has gone through a round of downgrades.

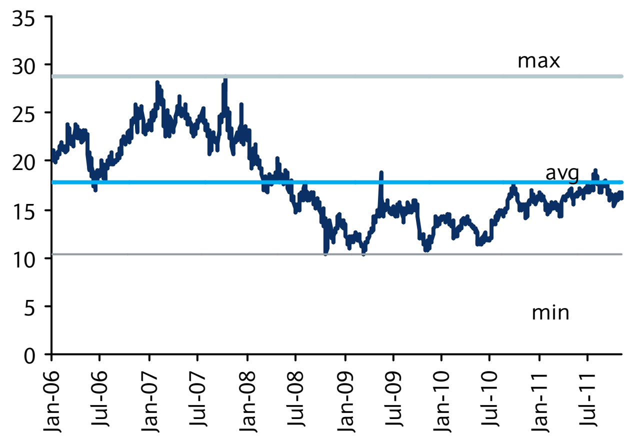
Idea

The stock trades around its 5-year average on a 12 month forward earnings basis and below average on a book value basis. While the company has seen on marginal increase in revenue forecasts, earnings have seen an upgrade on account of improving operating metrics. The stocks trades on very similar levels on a price to book as Bharti despite having an inferior return profile.

RCOM

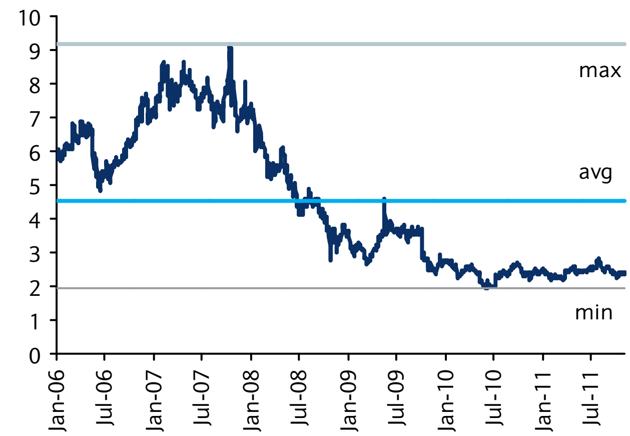
The company has gone through a round of revenue and earnings downgrades but what stands out is the stock's valuation on a book value basis (0.4x 12-month forward book).

Figure 28: Bharti –12-month forward P/E (x)



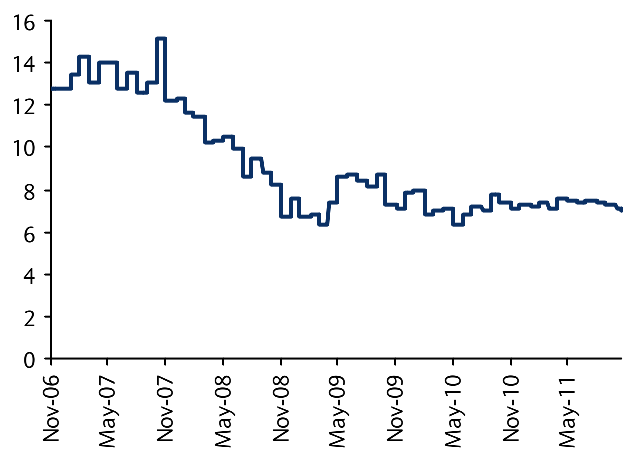
Source: Datastream

Figure 29: Bharti – 12-month forward P/B (x)



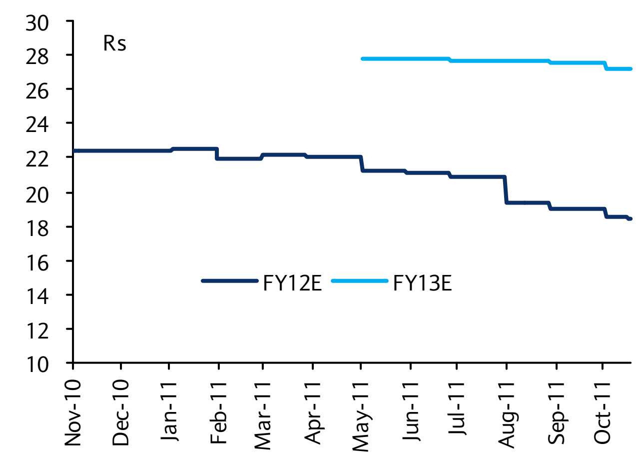
Source: Datastream

Figure 30: Bharti – 12-month forward EV/EBITDA



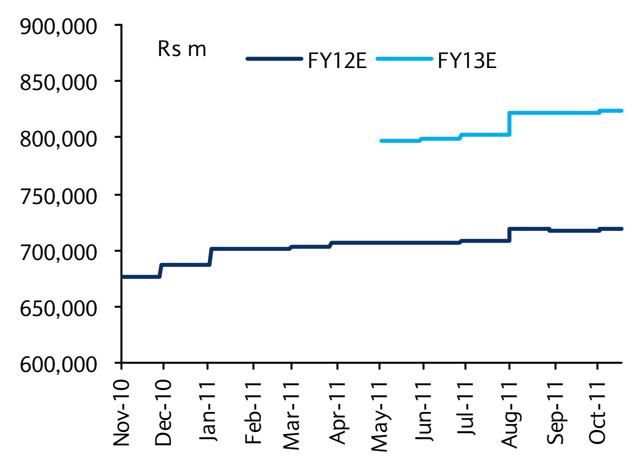
Source: Datastream

Figure 31: Bharti – changes in EPS forecasts



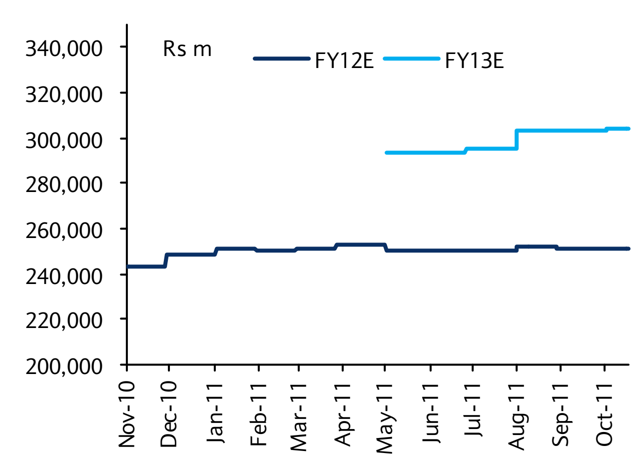
Source: Datastream (IBES consensus forecasts)

Figure 32: Bharti – changes to revenue forecasts



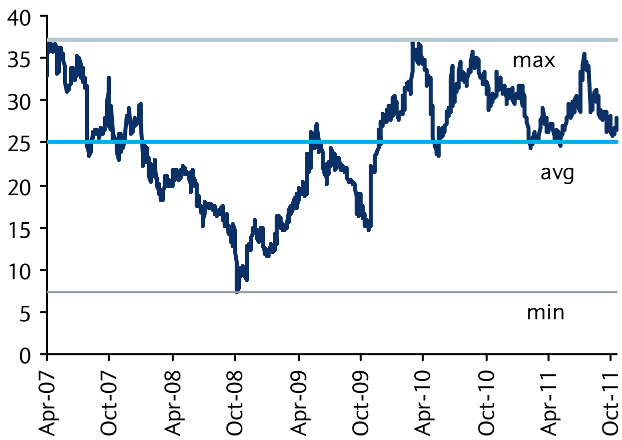
Source: Datastream (IBES consensus estimates)

Figure 33: Bharti – changes in EBITDA forecasts



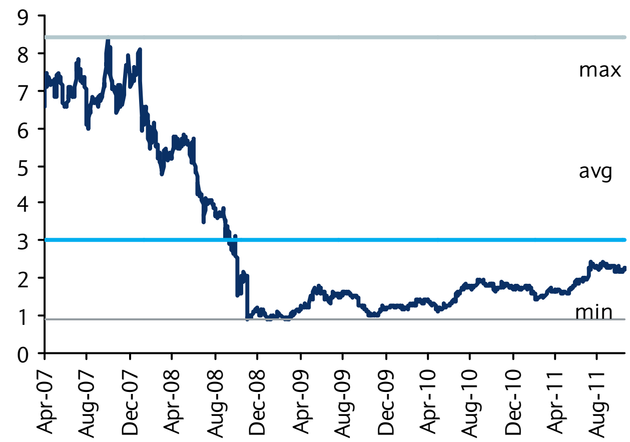
Source: Datastream (IBES consensus estimates)

Figure 34: Idea – 12-month forward P/E (x)



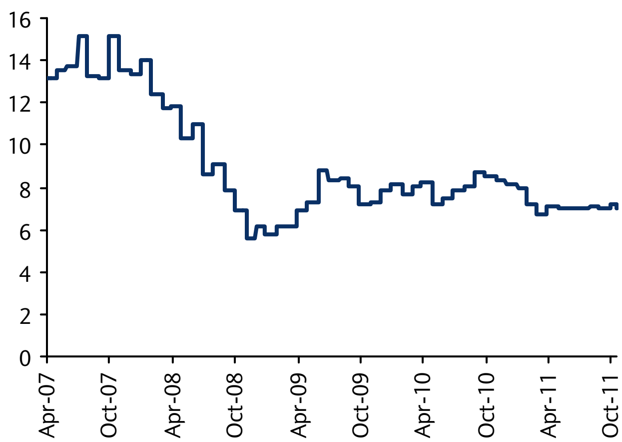
Source: Datastream

Figure 35: Idea – 12-month forward P/B (x)



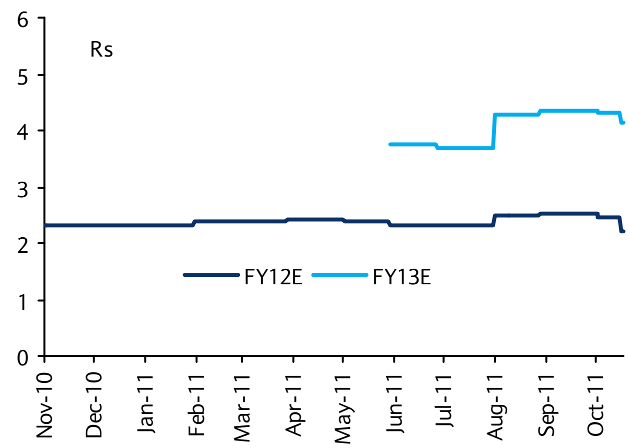
Source: Datastream

Figure 36: Idea – 12-month forward EV/EBITDA



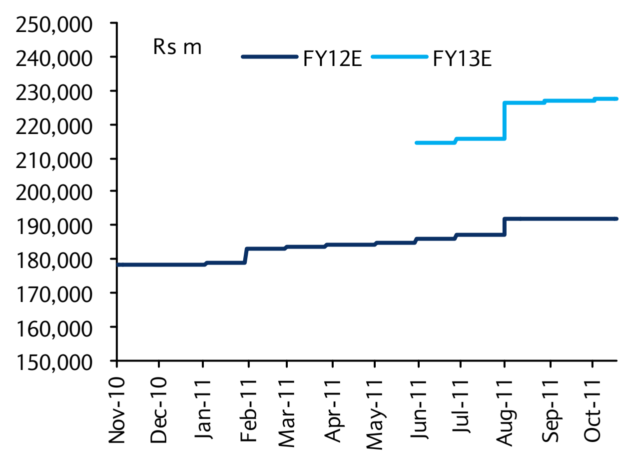
Source: Datastream

Figure 37: Idea – changes in EPS forecasts



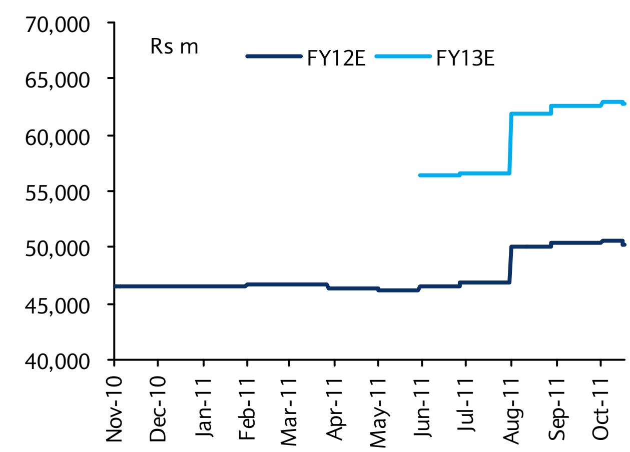
Source: Datastream (IBES consensus estimates)

Figure 38: Idea – changes in revenue forecasts



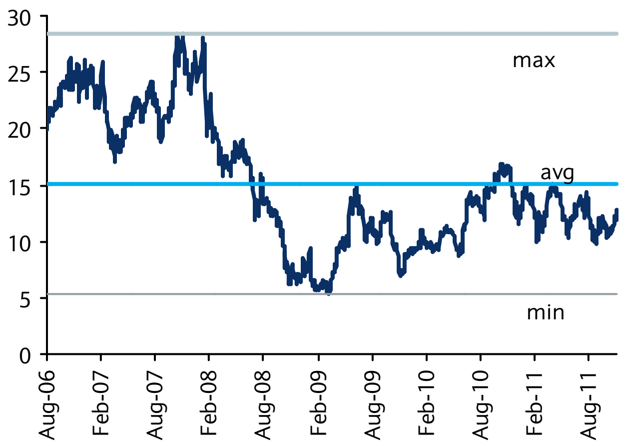
Source: Datastream (IBES consensus estimates)

Figure 39: Idea – changes in EBITDA forecasts



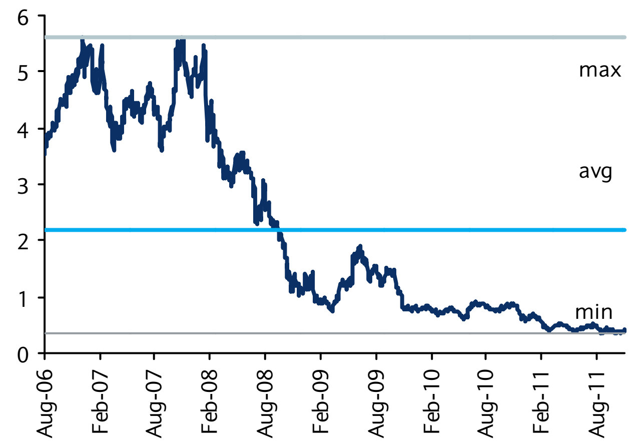
Source: Datastream (IBES consensus estimates)

Figure 40: RCOM – 12-month forward P/E (x)



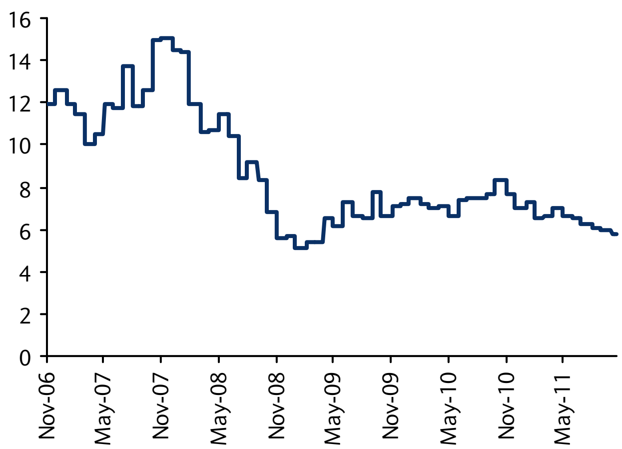
Source: Datastream

Figure 41: RCOM – 12-month forward P/B (x)



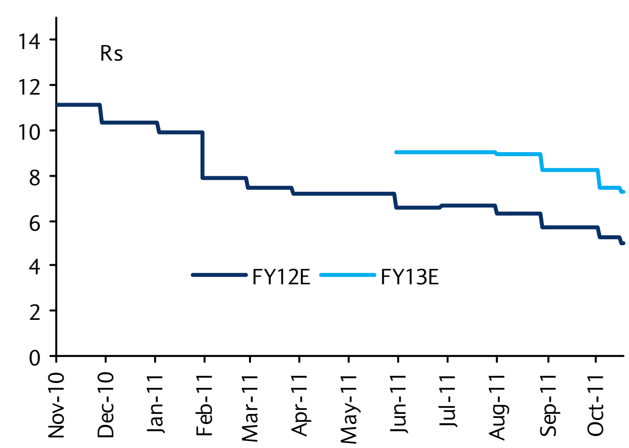
Source: Datastream

Figure 42: RCOM – 12-month forward EV/EBITDA



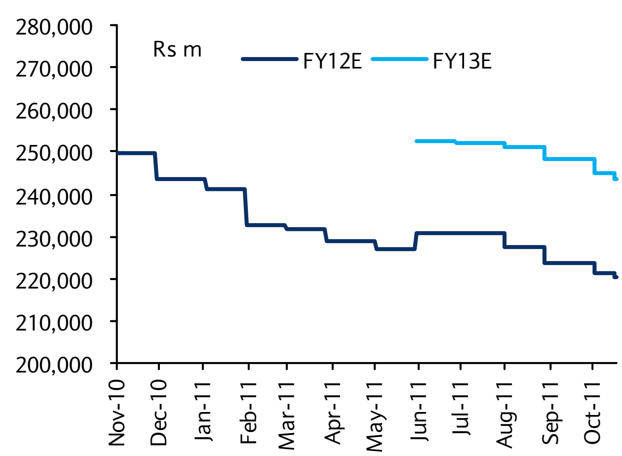
Source: Datastream

Figure 43: RCOM – changes in EPS forecasts



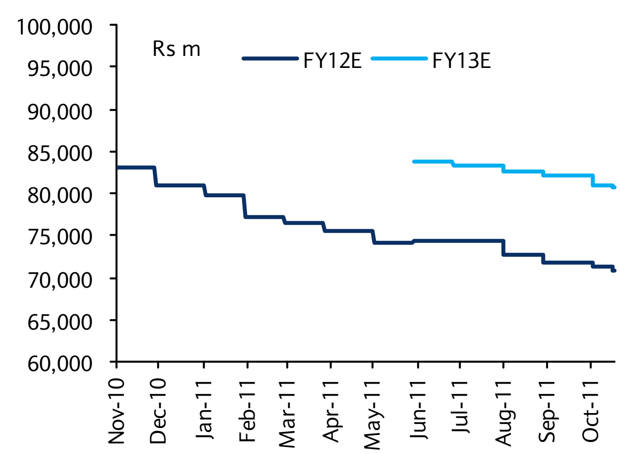
Source: Datastream (IBES consensus estimates)

Figure 44: RCOM – changes in revenue forecasts



Source: Datastream (IBES consensus estimates)

Figure 45: RCOM – changes in EBITDA forecasts



Source: Datastream (IBES consensus estimates)

BHARTI AIRTEL (1-OW; PT RS500; 26% POTENTIAL UPSIDE)

BHARTI IN / BRTI.NS

Stock Rating
1-OVERWEIGHT

Sector View
2-NEUTRAL

Price Target
INR 500.00

Price (04-Nov-2011)
INR 397.95

Potential Upside/Downside
+26%

The sector bellwether

We initiate coverage on Bharti with a 1-Overweight rating and a price target of Rs500, implying 26% potential upside. We believe that reducing competitive intensity in Indian wireless should lead to strong EBITDA growth for Bharti's India business. Furthermore, the low interest rate environment should lead to better-than-expected cash flows from its Africa business. Thus, we forecast CAGRs of 25% for EBITDA for FY2011-14E and 35% for EPS. Given our good growth assumptions, we find Bharti's valuations reasonable at an EV/EBITDA of 6.5x FY2013 on our estimates and initiate with a 1-Overweight rating. We also note that Bharti is to be included in MSCI India from November, which could act as a catalyst for stock outperformance.

Reducing competitive intensity in India business

We believe that the twin impact of tough credit conditions and regulatory uncertainty has hobbled the competition in Indian telecom market. This is visible in ability of Bharti to raise prices in this market. While this increase in pricing could impact volumes in short term, we believe it reflects a stronger margin/return profile over a medium term for the company

Bharti's Africa business has challenges but remains a good buy

We believe that Bharti could miss its target for EBITDA of US$2bn from its African business by FY3/13. However, market's expectations for the business appear lower, and hence, this miss should largely be already reflected in Bharti's current share price. Furthermore, the likelihood of a continuation of the current low interest rate environment should allow Bharti to fund this acquisition cheaply (6 month Libor + 195bps). This should help cash flows.

Reasonable valuations for the sector bellwether

Strong execution, visionary management and comprehensive suite of services make Bharti a bellwether for the Indian Telecom Services subsector, in our view. Valuations at EV/EBITDA of 6.5x and P/E of 15x FY3/13 are reasonable compared with our growth assumptions.

Induction in MSCI India should act as a catalyst

MSCI has recently indicated that it plans to include Bharti in MSCI India index from November 2011. This could be a catalyst for the share to outperform.

Figure 46: Bharti Airtel – statistical abstract

Year to 31-March	Net profit (Rs mn)	EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Div. yield (%)
2011A	58,992	15.53	-36%	25.6	2.9	12.2%	0.3%
2012E	53,848	14.18	-9%	28.0	2.7	10.0%	0.5%
2013E	100,544	26.48	87%	15.0	2.3	16.6%	1.0%
2014E	144,917	38.16	44%	10.4	2.0	20.4%	1.5%

Source: Company data, Barclays Capital estimates

COMPANY SNAPSHOT

Bharti Airtel — Asia ex-Japan Telecom Services

Income statement (Rs mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	594,672	705,617	831,741	973,921	17.9%
EBITDA	199,664	246,886	310,140	383,664	24.3%
EBIT	97,598	119,545	178,851	245,128	35.9%
Pre-tax income	76,839	79,775	148,954	214,692	40.8%
Net income	58,992	53,848	100,544	144,917	34.9%
EPS (R)	15.53	14.18	26.48	38.16	34.9%
Diluted shares (mn)	3,798	3,798	3,798	3,798	0.0%

Margin and return data (%)					Average
EBITDA margin	33.6	35.0	37.3	39.4	36.3
EBIT margin	16.4	16.9	21.5	25.2	20.0
Pre-tax margin	12.9	11.3	17.9	22.0	16.0
Net margin	9.9	7.6	12.1	14.9	11.1
ROIC	9.2	7.2	10.7	14.3	10.3
ROA	4.0	3.5	6.1	8.2	5.5
ROE	12.2	10.0	16.6	20.4	14.8

Balance sheet and cash flow (Rs mn)					CAGR
Fixed assets	931,873	1,059,674	1,235,556	1,414,129	14.9%
Cash and equivalents	15,799	71,050	71,334	95,753	82.3%
Total assets	1,465,064	1,559,060	1,646,389	1,757,753	6.3%
Current liabilities	369,845	408,885	450,966	479,045	9.0%
Long term liabilities	578,988	587,691	547,585	508,739	-4.2%
Total liabilities	948,833	996,576	998,551	987,784	1.4%
Net debt/(funds)	600,909	545,658	495,374	404,081	-12.4%
Shareholders' equity	516,231	562,484	647,838	769,970	14.3%
Change in working capital	121,277	21,078	21,662	21,934	-43.4%
Cash flow from operations	315,945	250,740	293,285	346,977	3.2%
Capital expenditure	303,357	127,801	175,882	178,573	-16.2%
Free cash flow	12,589	122,939	117,403	168,404	137.4%

Valuation and leverage metrics					Average
P/E (x)	25.6	28.0	15.0	10.4	19.8
EV/EBITDA (x)	10.6	8.3	6.5	5.0	7.6
FCF yield (%)	0.8	8.1	7.8	11.1	7.0
EV/sales (x)	3.5	2.9	2.4	2.0	2.7
Price/BV (x)	2.9	2.7	2.3	2.0	2.5
Dividend yield (%)	0.3	0.5	1.0	1.5	0.8
EV/IC (x)	1.9	1.9	1.8	1.6	1.8
Net debt/EBITDA (x)	3.0	2.2	1.6	1.1	2.0

Selected operating metrics				
Mobile traffic (mn mins)	792,132	932,781	1,118,461	1,295,116
Revenue per minute (Rs)	0.46	0.44	0.43	0.42
EBITDA per minute	0.16	0.16	0.16	0.17

Source: Company data, Barclays Capital estimates

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (07-Nov-2011)	Rs 398
Price Target	Rs 500
Ticker	BHARTI IN / BRTI.NS

Investment case

Why a 1-Overweight? Reducing competitiveness in the India and a stabilization in the Africa business should allow Bharti to return EBITDA/EPS CAGRs of 24/36% for FY11E-14E. Valuations at a P?E of 15x and EV?EBITDA of 6.5x for FY13E thus appear inexpensive. Based on our DCF model, we value the share at Rs500, implying upside of 26%.

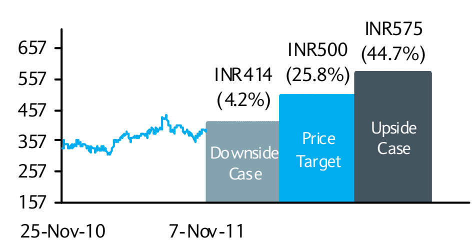
Upside case — Rs 575

Stronger-that-expected improvement in the India business or management meeting its guidance for Africa (compared with our expectation of a significant miss) coupled with a slight (5%) increase in our target EV?EBITDA multiple could lead to a share price of Rs575.

Downside case — Rs 414

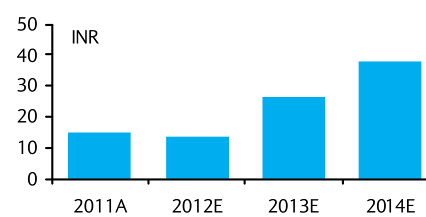
The possibility of deterioration in the India business (easing credit situation leading to stronger competition) could possibly impact the FY13E EBITDA number negatively by 7-8%. This coupled with a lower target EV?EBITDA multiple (~10%) could lead to a share price of Rs414.

Upside/downside scenarios



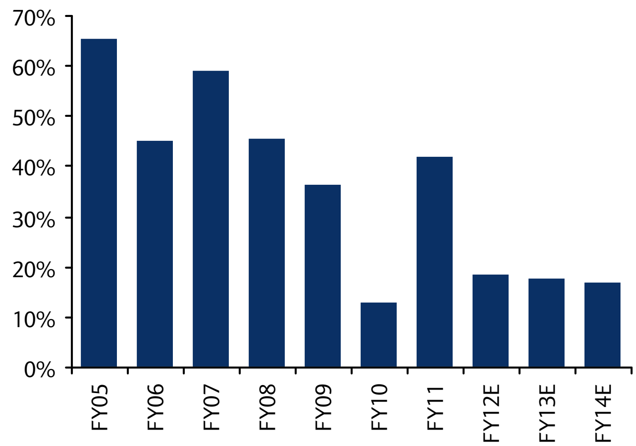
Source: Thomson Reuters Datastream, Barclays Capital est.

EPS projections



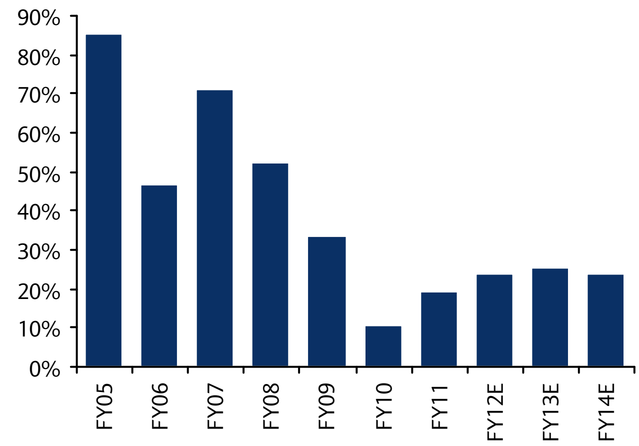
Note: FY end Mar

Figure 47: Bharti Airtel – revenue growth y/y



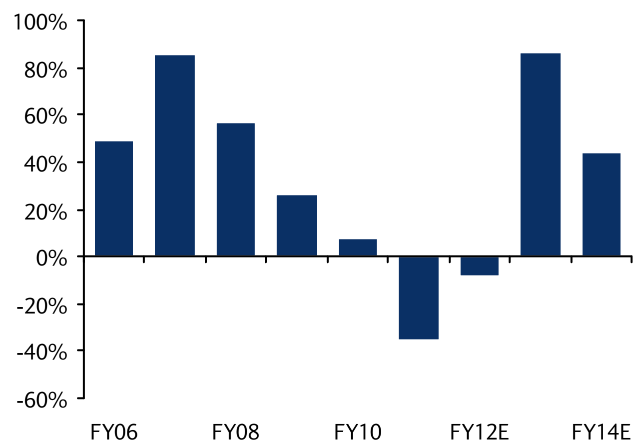
Source: Company data, Barclays Capital estimates

Figure 48: Bharti Airtel – EBITDA growth y/y



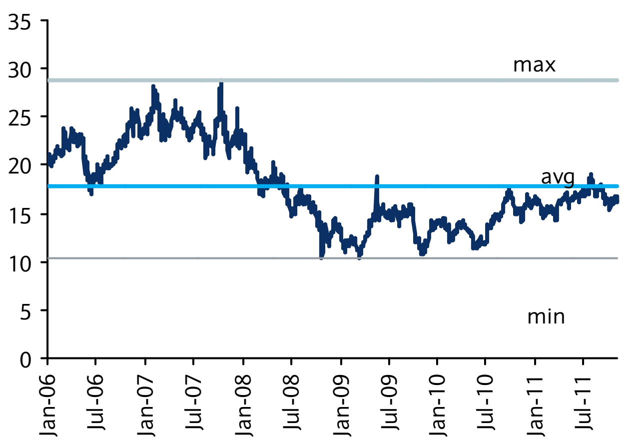
Source: Company data, Barclays Capital estimates

Figure 49: Bharti Airtel – EPS growth y/y



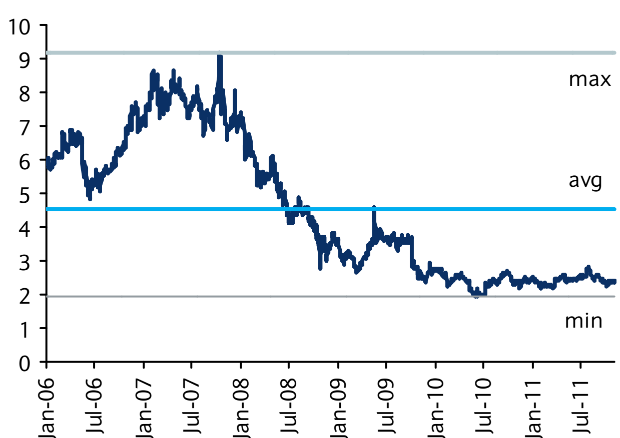
Source: Company data, Barclays Capital estimates

Figure 50: Bharti Airtel – 12 month forward P/E (x)



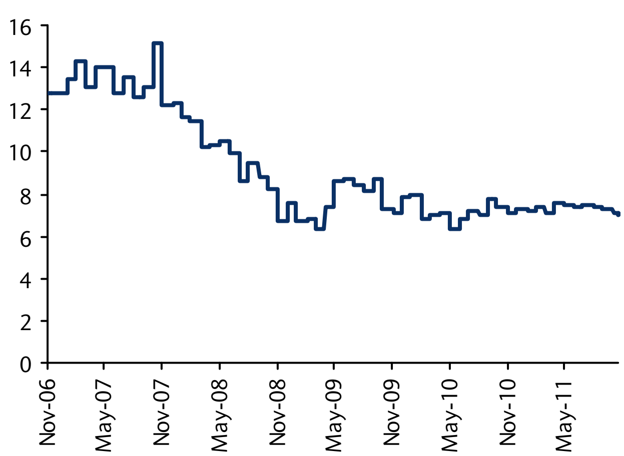
Source: Datastream

Figure 51: Bharti Airtel – 12-month forward P/B (x)



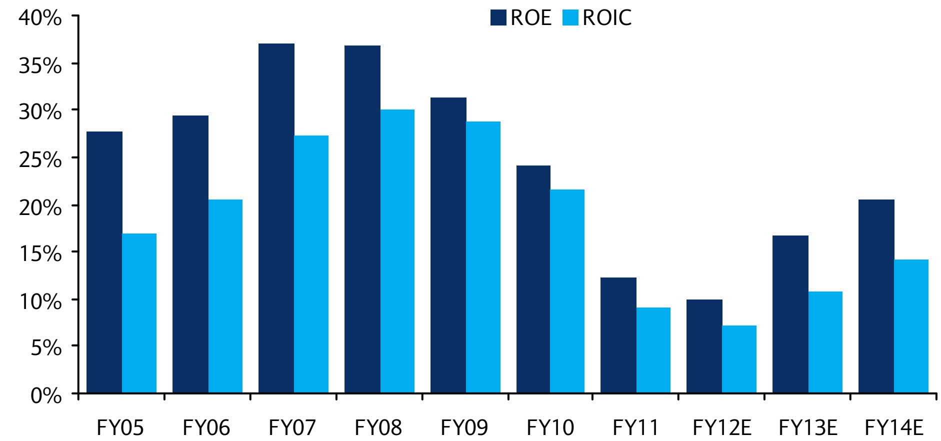
Source: Datastream

Figure 52: Bharti Airtel – 12-month forward EV/EBITDA



Source: Datastream

Figure 53: Bharti Airtel – return profile



Source: Barclays Capital estimates

Valuation

Our 12-month price target of Rs500 is based on our discounted cash flow analysis in which assumptions for which are given in Figure 54.

The stock is trading at 6.5x FY13 EV/EBITDA, which we believe is attractive given the 35% EPS CAGR we forecast for FY11-14 (one of the best in our coverage universe in Asia).

Given the valuations and our forecast of 26% upside, we rate the stock 1-OW.

Figure 54: Bharti – Barclays Capital's discounted cash flow assumptions

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Total Sales Growth %	42.10%	18.70%	17.90%	17.10%	13.30%	9.60%	7.10%	5.60%	4.30%	3.50%
NOPAT Margin	12.30%	11.40%	14.50%	17.00%	18.40%	19.40%	20.20%	20.70%	21.10%	21.60%
Year End NetWC turns	-3.14	-3.36	-3.59	-3.84	-4.11	-4.41	-4.73	-5.09	-5.48	-5.91
Year End Fixed asset turns	0.91	1.07	1.17	1.28	1.37	1.45	1.5	1.55	1.6	1.65
ROIC	9.20%	7.20%	10.70%	14.30%	17.10%	19.30%	20.90%	22.10%	23.10%	24.20%

Source: Barclays Capital estimates

Risks

The key risks that might keep our price target from being achieved, in our view, include the nature and timeline of new telecom regulations in India and the company's execution in Africa (revenue growth and margin expansion).

RELIANCE COMMUNICATION (1-OW; PT RS130; 56% POTENTIAL UPSIDE)

RCOM IN / RLCM.NS

Stock Rating
1-OVERWEIGHT

Sector View
2-NEUTRAL

Price Target
INR 130.00

Price (04-Nov-2011)
INR 83.20

Potential Upside/Downside
+56%

Undervalued asset play

We initiate coverage of RCOM with a 1-Overweight rating and a price target of Rs130, implying 56% potential upside. However, we believe that the three key issues with the company going forward are a) weak execution, b) poor cash flows and high debt burden, and c) regulatory uncertainties. Given the improving business environment, we believe that company's operating margins should improve going forward, which would help cash flows. Furthermore, we believe that some of the RCOM's assets, such as its 800MHz of CDMA spectrum and its long-distance business, could be undervalued its current share prices implying a P/B multiple of just 0.4x.

Business environment should reduce execution risk

Weak execution has been a bane of the company for the past few years, in our view. However, with our expectations of an improving environment for Indian wireless, we believe that RCOM should also benefit. Thus, we forecast a 440bps improvement in EBIDTA margins and 9% revenue CAGR from FY2012-14E.

Cash position constrained, but RCOM should be able to meet debt obligations

RCOM is highly leveraged with a net debt/EBITDA ratio of 4.4x FY12. Management is cognizant of this fact and has tried to conserve cash significantly over past two years. We expect company to have an operating cash flow of Rs75bn in the current year and expect it to be able to pay its upcoming FCCBs in February from internal accruals and current credit lines.

Possibility of business disposals

RCOM's management has clearly indicated that it is not averse to seeking strategic partners to some of the company's businesses. We believe that RCOM's long distance business and its digital TV business could be attractive targets. These business disposals could also help RCOM reduce its high debt burden.

Cheap relative to asset value:

RCOM is currently trading at P/B of 0.4x, which we view as inexpensive relative to the value of its underlying assets such as the long distance business and the CDMA spectrum.

Figure 55: RCOM – statistical abstract

Year to 31-March	Net profit (Rs mn)	EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Div. yield (%)
2011A	13,457	6.52	-71%	12.8	0.4	3.2%	1.2%
2012E	8,922	4.32	-34%	19.3	0.4	2.2%	1.3%
2013E	14,394	6.97	61%	11.9	0.4	3.4%	1.7%
2014E	23,559	11.41	64%	7.3	0.4	5.4%	2.8%

Source: Company data, Barclays Capital estimates

COMPANY SNAPSHOT

Reliance Communications — Asia ex-Japan Telecom Services

Income statement (Rs mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	231,076	212,697	231,993	253,821	3.2%
EBITDA	90,816	69,214	80,742	93,795	1.1%
EBIT	25,777	30,297	39,976	50,997	25.5%
Pre-tax income	15,055	10,116	16,882	28,619	23.9%
Net income	13,457	8,922	14,394	23,559	20.5%
EPS (R)	6.52	4.32	6.97	11.41	20.5%
Diluted shares (mn)	2,064	2,064	2,064	2,064	0.0%

Margin and return data (%)					Average
EBITDA margin	39.3	32.5	34.8	37.0	35.9
EBIT margin	11.2	14.2	17.2	20.1	15.7
Pre-tax margin	6.5	4.8	7.3	11.3	7.5
Net margin	5.8	4.2	6.2	9.3	6.4
ROIC	2.9	3.0	4.1	5.3	3.8
ROA	1.4	1.0	1.6	2.5	1.6
ROE	3.2	2.2	3.4	5.4	3.6

Balance sheet and cash flow (Rs mn)					CAGR
Fixed assets	1,050,287	1,066,488	1,114,548	1,163,535	3.5%
Cash and equivalents	54,361	40,990	52,926	49,725	-2.9%
Total assets	947,227	892,996	916,463	923,978	-0.8%
Current liabilities	139,608	128,504	140,162	153,350	3.2%
Long term liabilities	402,627	352,627	352,627	327,627	-6.6%
Total liabilities	542,235	481,131	492,789	480,976	-3.9%
Net debt/(funds)	340,021	303,392	291,456	269,657	-7.4%
Shareholders' equity	404,992	411,865	423,674	443,002	3.0%
Change in working capital	(50,340)	7,039	7,422	8,660	NA
Cash flow from operations	60,462	75,059	85,675	97,395	17.2%
Capital expenditure	97,102	16,201	48,059	48,988	-20.4%
Free cash flow	(36,640)	58,858	37,616	48,408	NA

Valuation and leverage metrics					Average
P/E (x)	12.8	19.3	11.9	7.3	12.8
EV/EBITDA (x)	5.6	6.9	5.7	4.7	5.7
FCF yield (%)	(21.4)	34.4	22.0	28.3	15.8
EV/sales (x)	2.2	2.2	2.0	1.7	2.0
Price/BV (x)	0.4	0.4	0.4	0.4	0.4
Dividend yield (%)	1.2	1.3	1.7	2.8	1.7
EV/IC (x)	0.7	0.7	0.6	0.6	0.6
Net debt/EBITDA (x)	3.7	4.4	3.6	2.9	3.7

Selected operating metrics				
Mobile traffic (mn mins)	374,900	432,962	481,439	545,855
Revenue per minute (Rs)	0.44	0.42	0.41	0.39
EBITDA per minute (Rs)	0.13	0.11	0.12	0.13

Source: Company data, Barclays Capital estimates

Stock Rating	1-OVERWEIGHT
Sector View	2-NEUTRAL
Price (05-Oct-2011)	Rs 83
Price Target	Rs 130
Ticker	RCOM IN / RLCM.NS

Investment case

Why a 1-Overweight? RCOM is a play on corporate restructuring or asset valuations. While operating performance could remain weak near term, the company's efforts on business disposals or increased asset sweating could lead to asset value support. Based on our DCF model, we value the share at Rs130, implying upside of 56%.

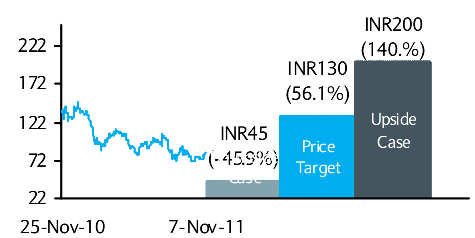
Upside case — Rs 200

A quick asset disposal or an agreement to lease its tower assets or domestic fibre business could be a big positive for the company. Assuming that the deal happens at close to the cost of equity, we believe that the share could trade up to 1x P/B for a share price of Rs200.

Downside case — Rs 45

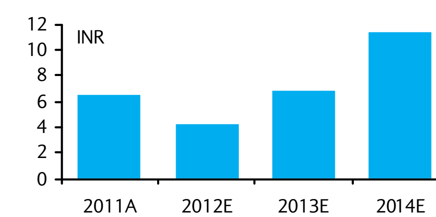
A deterioration of cash flows, either due to weak business environment or poor execution, would be a significant negative. A 5% decline in EBITDA could negatively impact EPS by close to 35%. Using a P/E multiple of 15x on the lower EPS, we come to a share price of Rs45.

Upside/downside scenarios



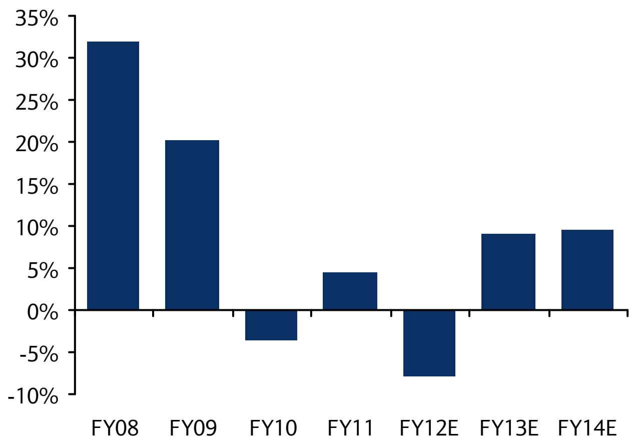
Source: Thomson Reuters Datastream, Barclays Capital est.

EPS projections



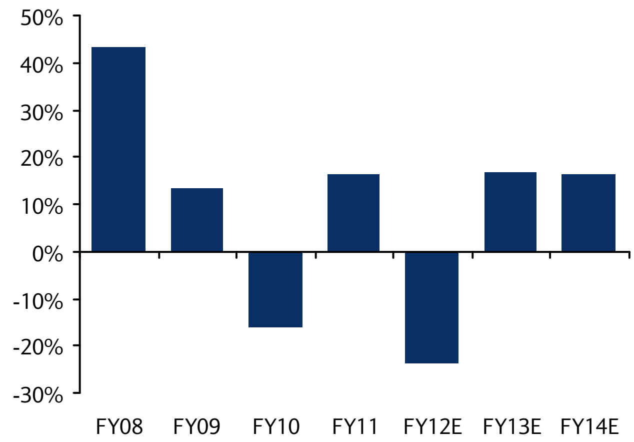
Note: FY end Mar

Figure 56: RCOM – revenue growth y/y



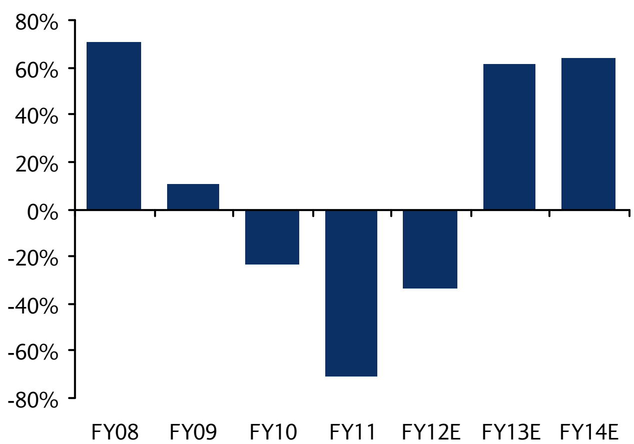
Source: Company data, Barclays Capital estimates

Figure 57: RCOM – EBITDA growth y/y



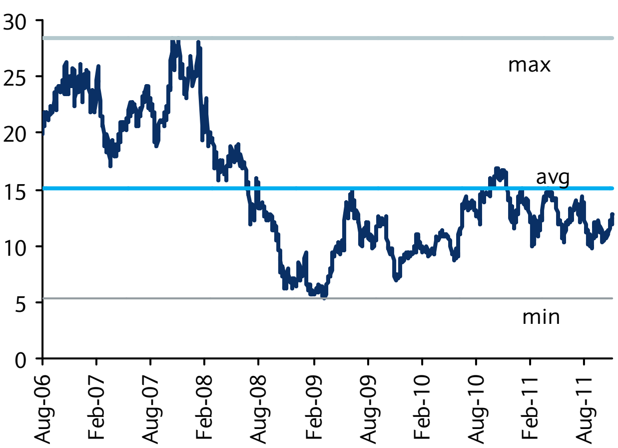
Source: Company data, Barclays Capital estimates

Figure 58: RCOM – EPS growth y/y



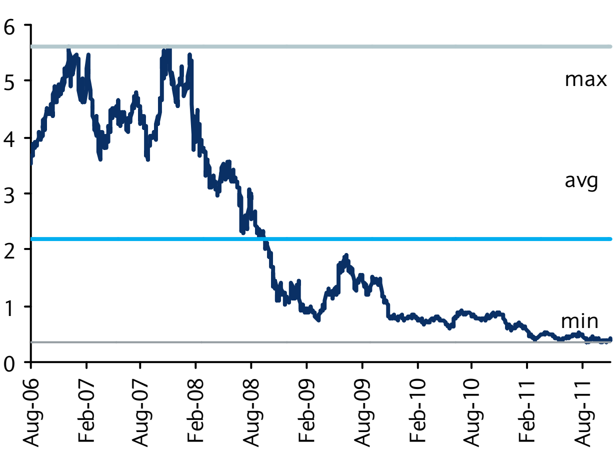
Source: Company data, Barclays Capital estimates

Figure 59: RCOM – 12-month forward P/E (x)



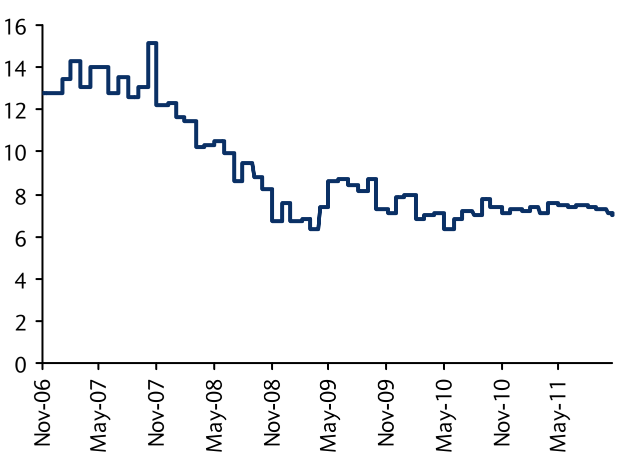
Source: Datastream

Figure 60: RCOM – 12-month forward P/B (x)



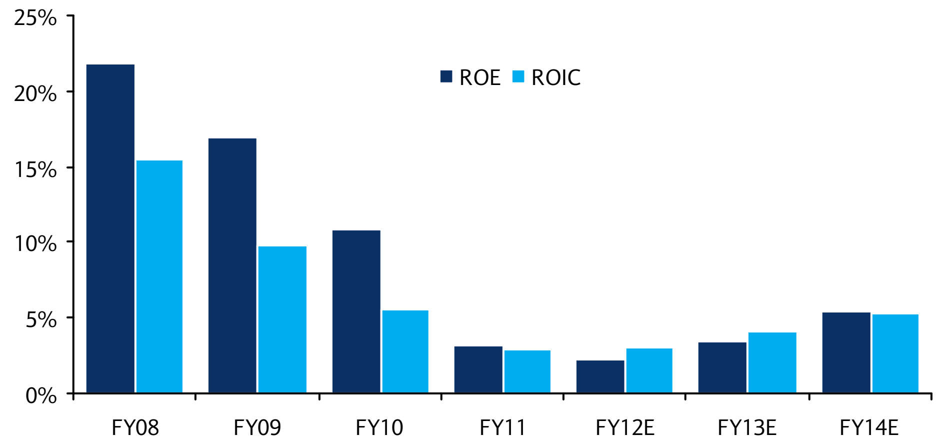
Source: Datastream

Figure 61: RCOM – –12-month forward EV/EBITDA



Source: Datastream

Figure 62: RCOM – return profile



Source: Barclays Capital estimates

Valuation

Our 12-month price target of Rs130 is based on our discounted cash flow analysis assumptions for which are given in Figure 63.

The stock is trading at 0.4x times forward book, which is a significant discount to its 5-year average valuation and which we believe significantly undervalues the underlying assets of the company.

Given the inexpensive valuations on a book value basis and our forecast of 56% upside, we rate the stock 1-OW.

Figure 63: RCOM – Barclays Capital's discounted cash flow assumptions

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Total Sales Growth %	4.4%	-8.0%	9.1%	9.4%	7.8%	6.4%	5.3%	4.5%	4.0%	3.8%
NOPAT Margin	8.9%	10.6%	12.9%	15.2%	16.4%	16.7%	16.8%	16.7%	16.6%	16.9%
Year End NetWC turns	-9.8	-6.9	-6.1	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
Year End Fixed asset turns	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
ROIC	2.9%	3.0%	4.1%	5.3%	6.2%	6.7%	7.2%	7.5%	7.8%	8.3%

Source: Barclays Capital estimates

Risks

The key risks that might keep our price target from being achieved, in our view, include interest rate movements due to the high net debt and execution risks both from a business perspective and restructuring and asset disposal perspective.

IDEA CELLULAR (2-EQUAL WEIGHT; PT RS100; 2% POTENTIAL UPSIDE)

IDEA IN / IDEA.NS

Stock Rating
2-EQUAL WEIGHT

Sector View
2-NEUTRAL

Price Target
INR 100.00

Price (04-Nov-2011)
INR 97.80

Potential Upside/Downside
+2%

The wireless pure play

We initiate coverage on Idea with a 2-Equal Weight rating and a price target of Rs100 compared with the current price of Rs98. Given its pure play Indian wireless exposure, we believe that Idea could be best leveraged to the improvement in Indian mobile industry. Thus, we forecast a CAGR of 23% for EBITDA for FY2011-14 and 32% for EPS. However, we find valuations are not cheap at an EV/EBITDA multiple of 7.2x FY3/13, and thus, we initiate with a 2-EW rating.

Expect growth to remain strong

Despite the turmoil in Indian mobile market, Idea management has executed well over the past few years, in our view. Going forward, we expect EBITDA margins to expand by 540bps over three years as competitive intensity comes off and profitability of new circles improve. This should lead to an EBITDA CAGR of 23% and EPS CAGR of 32% over FY3/11-3/14

Debt burden should reduce

Due to recent spending on 3G auctions, Idea's net debt to EBITDA increased to 3.1x (FY3/11 end). We believe that an improvement in EBITDA margins along with restrained capex spending over next three years should allow Idea to reduce this to a more sustainable 2.0x FY3/13 without resorting to asset sales or equity raising.

However, the stock is not inexpensive

Idea is trading at a P/B of 2.2x FY3/13 with an FY3/13 ROE of 10.6%. In contrast, Bharti also trades at a P/B of 2.3x FY3/13 but sports an ROE of 16.6%. We would thus prefer Bharti over Idea.

Figure 64: Idea Cellular – statistical abstract

Year to	Net profit	EPS	EPS	P/E	P/B	ROE	Div. yield
31-March	(Rs mn)	(Rs)	growth (%)	(x)	(x)	(%)	(%)
2011A	8,987	2.72	-7%	35.9	2.6	7.6	0.0
2012E	7,976	2.42	-11%	40.5	2.5	6.3	0.0
2013E	14,707	4.46	84%	22.0	2.2	10.6	0.0
2014E	20,662	6.26	40%	15.6	2.0	13.4	1.2

Source: Company data, Barclays Capital estimates

COMPANY SNAPSHOT

Idea Cellular — Asia ex-Japan Telecom Services

Income statement (Rs mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	155,032	186,855	214,228	237,267	15.2%
EBITDA	37,907	49,922	61,449	70,833	23.2%
EBIT	13,933	21,846	32,800	41,278	43.6%
Pre-tax income	9,969	11,395	21,628	30,385	45.0%
Net income	8,987	7,976	14,707	20,662	32.0%
EPS (R)	2.72	2.42	4.46	6.26	32.0%
Diluted shares (mn)	3,300	3,300	3,300	3,300	0.0%

Margin and return data (%)					Average
EBITDA margin	24.5	26.7	28.7	29.9	27.4
EBIT margin	9.0	11.7	15.3	17.4	13.3
Pre-tax margin	6.4	6.1	10.1	12.8	8.9
Net margin	5.8	4.3	6.9	8.7	6.4
ROIC	5.5	6.0	8.1	10.0	7.4
ROA	3.0	2.4	3.9	5.3	3.6
ROE	7.6	6.3	10.6	13.4	9.5

Balance sheet and cash flow (Rs mn)					CAGR
Fixed assets	336,977	342,291	390,352	422,076	7.8%
Cash and equivalents	4,577	16,562	34,675	49,042	120.5%
Total assets	299,036	337,080	376,367	391,793	9.4%
Current liabilities	55,331	65,399	74,980	83,043	14.5%
Long term liabilities	120,705	140,705	155,705	145,705	6.5%
Total liabilities	176,036	206,104	230,685	228,748	9.1%
Net debt/(funds)	116,128	124,143	121,030	96,663	-5.9%
Shareholders' equity	122,999	130,976	145,682	163,044	9.9%
Change in working capital	22,401	(12,534)	7,819	9,174	-25.7%
Cash flow from operations	58,574	33,969	62,347	66,983	4.6%
Capital expenditure	95,332	31,533	48,061	31,724	-30.7%
Free cash flow	(36,758)	2,436	14,286	35,259	NA

Valuation and leverage metrics					Average
P/E (x)	35.9	40.5	22.0	15.6	28.5
EV/EBITDA (x)	11.6	9.0	7.2	5.9	8.4
FCF yield (%)	(13)	0.9	5.2	12.8	1.4
EV/sales (x)	2.8	2.4	2.1	1.8	2.3
Price/BV (x)	2.6	2.5	2.2	2.0	2.3
Dividend yield (%)	0.0	0.0	0.0	1.2	0.3
EV/IC (x)	1.9	1.7	1.6	1.5	1.7
Net debt/EBITDA (x)	3.1	2.5	2.0	1.4	2.2

Selected operating metrics				
Mobile traffic (mn mins)	362,565	450,150	530,268	605,842
Revenue per minute (Rs)	0.43	0.41	0.40	0.39
EBITDA per minute	0.07	0.09	0.09	0.09

Source: Company data, Barclays Capital estimates

Stock Rating	2-EQUAL WEIGHT
Sector View	2-NEUTRAL
Price (07-Nov-2011)	Rs 98
Price Target	Rs 100
Ticker	IDEA IN / IDEA.NS

Investment case

Why a 2-Equal Weight? We agree that business conditions in India should allow Idea to return EBITDA?EPSCAGRs of 23%?32%over FY11E-14E. However, with the stock at a P/E of 22x and EV?EBITDAof 7.2x for FY13E, we do not find the share inexpensive. Based on our DCF model, we value the share at Rs100, implying upside of 2%.

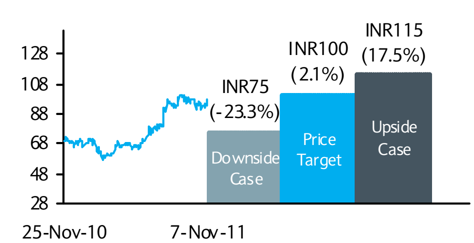
Upside case — **Rs 115**

Stronger-than-expected improvement in the India business could lead to EBITDA coming in about 10% above our estimate for FY13E. This coupled with a slight (5%) increase in our target EV?EBITDAmultiple could lead to a share price of Rs115.

Downside case — **Rs 75**

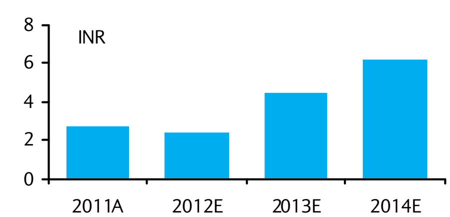
The possibility of deterioration in the India business (easing credit situation leading to stronger competition) could possibly impact FY13E EBITDA negatively by 12-15%. This coupled with a lower target EV?EBITDA multiple (~10$) could lead to a share price of Rs75.

Upside/downside scenarios



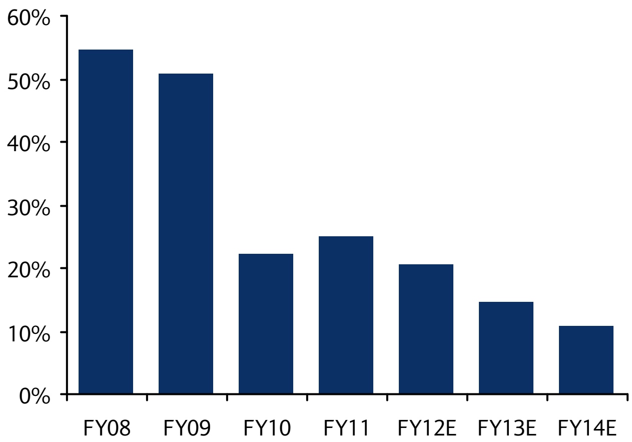
Source: Thomson Reuters Datastream, Barclays Capital est.

EPS projections



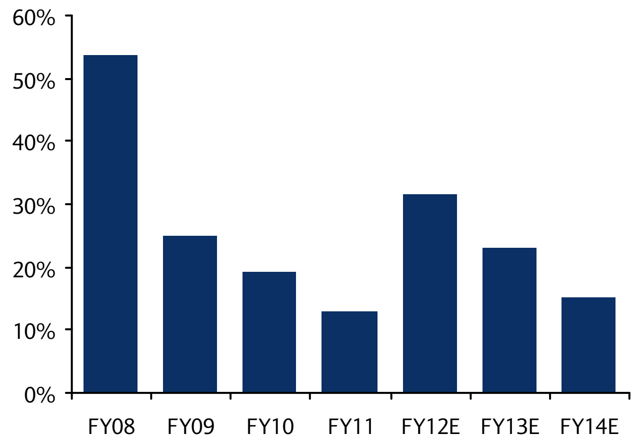
Note: FY end Mar

Figure 65: Idea Cellular – revenue growth y/y



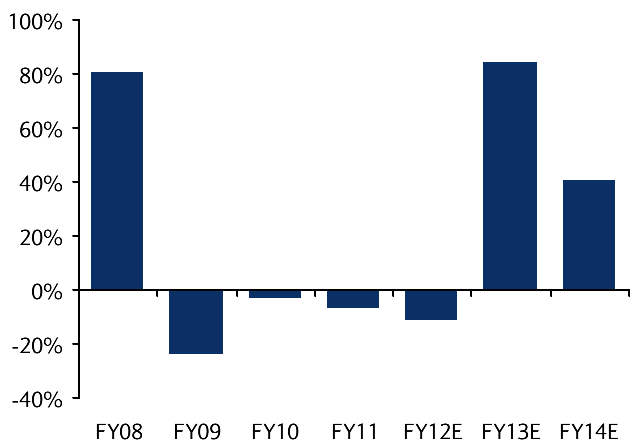
Source: Company data, Barclays Capital estimates

Figure 66: Idea Cellular – EBITDA growth y/y



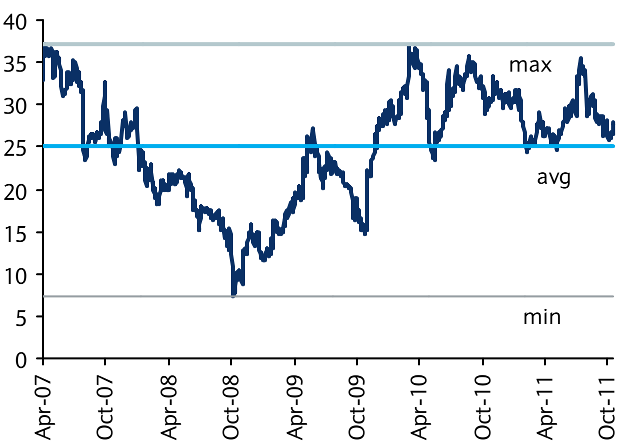
Source: Company data, Barclays Capital estimates

Figure 67: Idea Cellular – EPS growth y/y



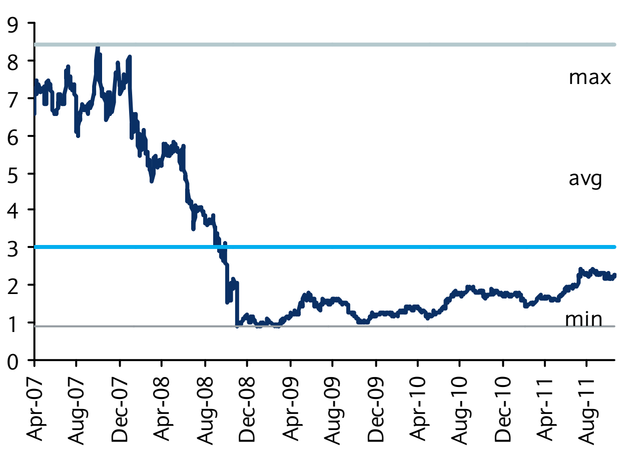
Source: Company data, Barclays Capital estimates

Figure 68: Idea Cellular – 12-month forward P/E (x)



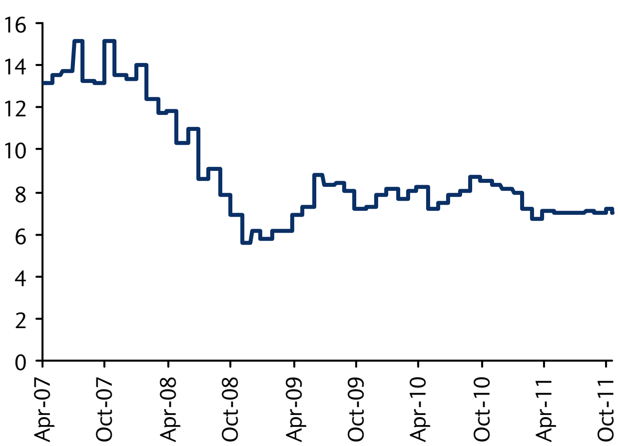
Source: Datastream

Figure 69: Idea Cellular – 12 month forward P/B (x)



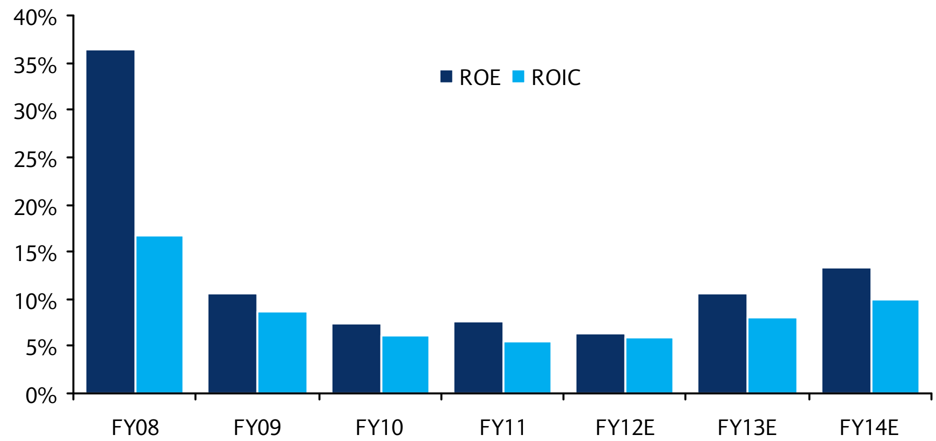
Source: Datastream

Figure 70: Idea Cellular – 12-month forward EV/EBITDA



Source: Datastream

Figure 71: Idea Cellular – return profile



Source: Barclays Capital estimates

Valuation

Our 12-month price target of Rs100 is based on our discounted cash flow analysis assumptions for which are as given in Figure 72.

The stock is trading at an EV/EBITDA of 7.2x FY13, which given its growth and return profile is unattractive and draws our preference towards Bharti.

Given the valuations and our forecast of 2% price target upside based on DCF, we rate the stock 2-EW.

Figure 72: Idea Cellular – Barclays Capital's discounted cash flow assumptions

	Mar-11	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20
Total Sales Growth %	25.0%	20.5%	14.6%	10.8%	7.8%	5.8%	6.1%	3.4%	2.7%	2.3%
NOPAT Margin	7.5%	8.0%	10.3%	11.8%	12.8%	13.6%	14.8%	15.2%	15.6%	15.9%
Year End NetWC turns	-6.3	-732.7	-66.7	-23.5	-10.8	-10.8	-10.8	-10.8	-10.8	-10.8
Year End Fixed asset turns	0.6	0.7	0.8	0.8	0.9	1.0	1.0	1.1	1.1	1.1
ROIC	5.5%	6.0%	8.1%	10.0%	12.2%	14.2%	16.4%	17.7%	18.8%	19.8%

Source: Barclays Capital estimates

Risks

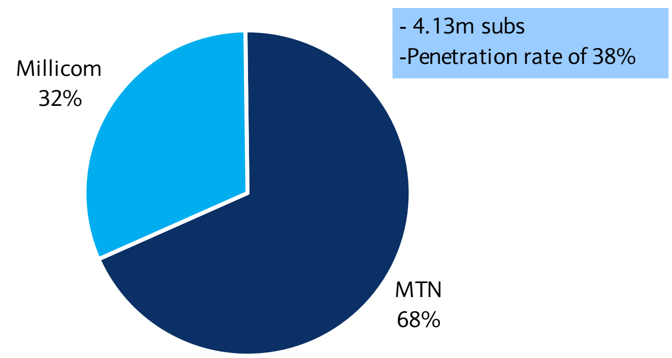
The key risks that might keep our price target from being achieved, in our view, include the regulatory changes on the mobile side, new licenses and emergence of competition and execution risks on 3G business.

APPENDIX: BHARTI AFRICA

Entry into Rwanda

Bharti has continued its strong progress in Africa, extending its reach to 17 countries. The latest addition is Rwanda where it recently secured 2G/3G licenses and where it intends to invest US$100mn over the next three years. While the company's growth intentions was made evident by the Bharti Africa CEO, entry into Rwanda could provide an opportunity to capture market share in a country that still has a fairly low penetration rate at 38% according to the Rwanda Utilities Regulatory Agency (RURA) with only two existing competitors, MTN and Millicom.

Figure 73: Rwanda – mobile telecom market shares



Source: Rwanda Utilities Regulatory Agency (RURA), Barclays Capital

Comments from Bharti and its Africa peers

Although comments from the company and most competitors is pointing towards healthy long-term growth for most of the peers across the African continent, MTN's comments regarding Nigeria, the largest African market for Bharti at one-third of total revenue globally and Uganda are the most pertinent, in our view. The two countries show sharp contrasts with Nigeria showing signs of excessive competition with price cuts causing market share volatility and Uganda showing the first signs of inflationary pressures where price increases by operators could provide an opportunity for Bharti to improve margins.

Figure 74: Bharti Airtel – recent commentary of its peers

	Recent comments
MTN	• MTN's price cuts in Nigeria in Aug-Sept resulted in it regaining share with net adds of 567K • Price increases in Uganda indicate inflationary pressures.
Millicom	• Further decline of ARPU in Africa (down 9.7% y/y) with declines in Ghana and Senegal • Promotional activity will cause a volatility in market share. • Overall market continues to grow well (+7.8% y/y in constant currency) with non-SMS VAS seeing good growth, up 1.1% q/q
Vodacom	• Service revenue is seeing a strengthening recovery driven by tariff stability in Tanzania and the DRC • Strong subscriber growth (+22% y/y)

Source: Company data, Barclays Capital

Figure 75: Bharti Airtel – key developments for Africa

Country	Key developments
Chad	Regulator conducted a survey in May 2011 in which Airtel was shown to be the operator providing the best quality network
Congo	3G license terms discussed, agreed and signed with regulator
Gabon	Signed a MoU with Gabon Telecom that will give Airtel access to the SAT-3 submarine cable
Ghana	MNP officially launched in July 2011
Kenya	Communication commission suspended the previously announced glide path for up to 12 months; new interconnect rate implementation delayed
Madagascar	Import of 3G equipments has been authorized by the regulator
Malawi	Airtel along with other operators formally objected to the regulator's intention for the monitoring and control of international incoming calls along with an increase of the termination rates charged into the country
Nigeria	Announcement of implementation of MNP with the anticipated timeline for rollout being March 2012
Tanzania	Draft industry regulations issued in June 2011 for co-location and site sharing, account separation, competition, tariff, frequency, licensing, quality of service, mobile number portability, consumer protection, broadcasting, equipment identification register, emergency response and numbering
Uganda	Regulator has informed that a frequency reallocation of the 900MHz band is to be implemented
Zambia	Regulator issued draft Quality of Service (QOS) guidelines in May 2011
Rwanda	Secures 2G/3G license, plans investment of US$100mn in Africa

Source: Company data

In addition, mandatory SIM registration in markets like Nigeria, Ghana and Kenya has caused a deceleration of the net subscriber addition rate towards the middle of the year. However, this is has again revived in the September 2011 quarter with monthly additions showing a significant increase in new subscriber additions.

Figure 76: Nigeria – wireless market subscriber additions

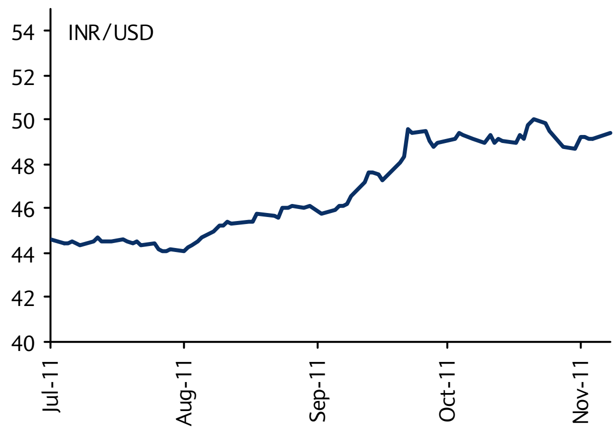
	Mar-11	Jun-11	Sep-11
GSM active subscribers	83,857,798	84,093,173	87,417,508
Monthly adds	887,371	78,458	1,108,112

Source: Nigerian Communications Commission, Barclays Capital

Currency volatility remains a risk

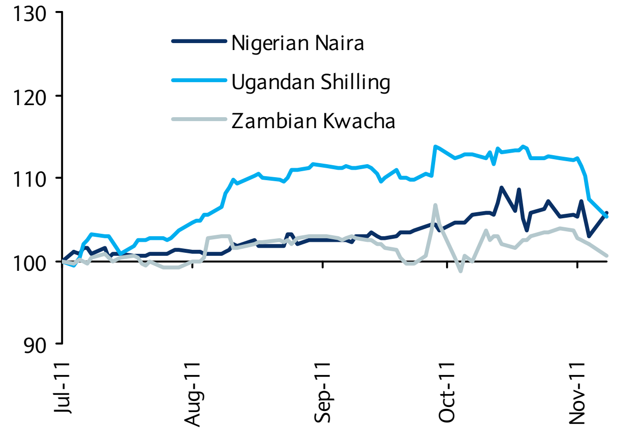
The impact of the Indian rupee's depreciation on Bharti's profitability is significant given the un-hedged US$9bn loan for the Zain asset acquisition and more than US$1bn of foreign currency loans. Bharti's disclosures in the FY11 annual reports suggest that a 1% change in the Rs/US$ has a negative 1.7% impact on EPS while a 1% change in Rs/JPY has a negative 0.3% impact. For FY2011, 20% of Bharti's revenues came from its Africa business. The recent depreciation of African currencies should provide some mitigation to the impact of the rupee's depreciation.

Figure 77: Rupee has depreciated 11% since 1 July 2011



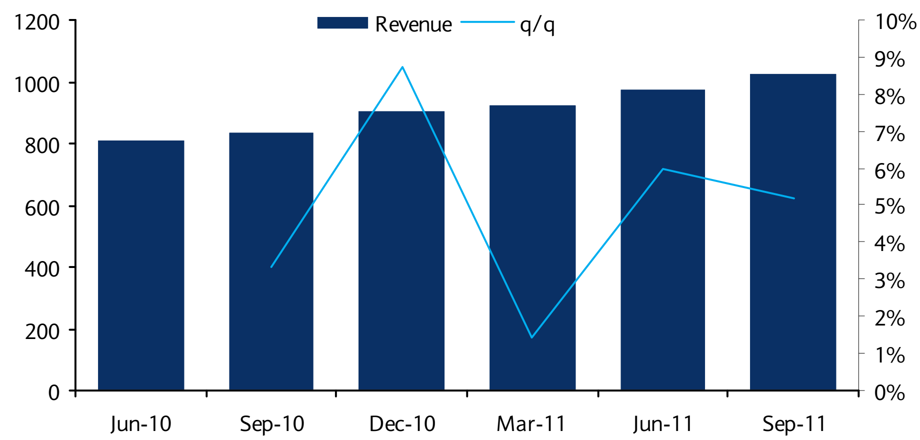
Source: Bloomberg

Figure 78: African currencies too have shown depreciation against the US$



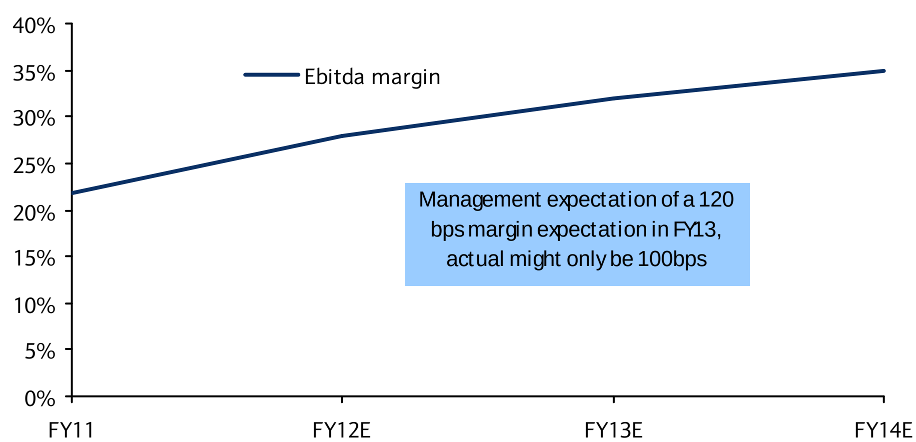
Source: Bloomberg

Figure 79: Bharti Airtel – quarterly revenue growth for Bharti Africa



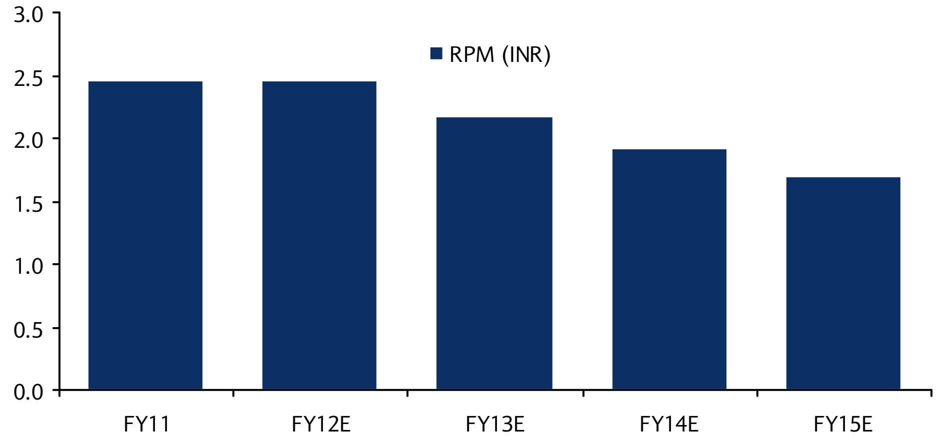
Source: Company data, Barclays Capital

Figure 80: Bharti Airtel – margins likely to expand but fall short of management expectations



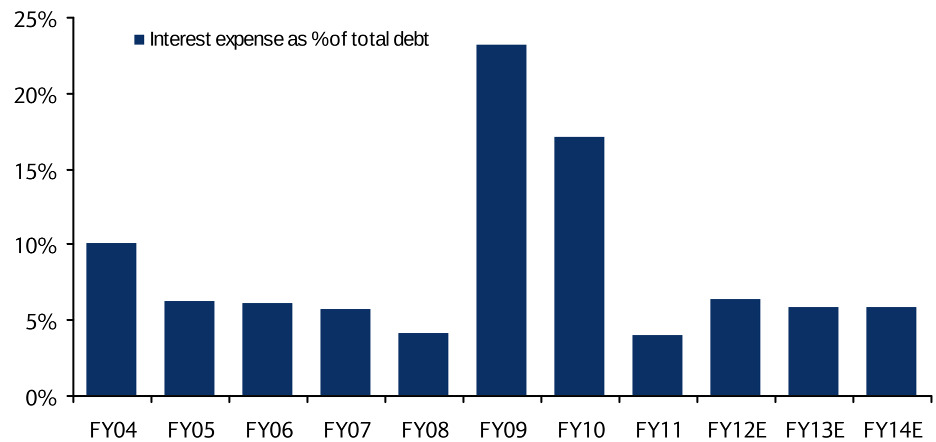
Source: Company data, Barclays Capital estimates

Figure 81: Bharti Airtel – drop in revenue per minute (RPM) is margin restrictive



Source: Company data, Barclays Capital estimates

Figure 82: Bharti Airtel – interest cost could remain subdued for long



Source: Company data, Barclays Capital estimates

Valuation Methodology and Risks

Asia ex-Japan Telecom Services

Bharti Airtel Ltd. (BHARTI IN / BRTI.NS)

Valuation Methodology: Our 12-month price target of Rs500 is based on our discounted cash flow analysis in which we assume a double-digit c.10% average reveue growth and margin expansion of almost 900bps through the decade, a 3% terminal growth rate and a WACC of 12%.

Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include the nature and timeline of new telecom regulations in India and the company's execution in Africa (revenue growth and margin expansion).

Idea Cellular Ltd, (IDEA IN / IDEA.NS)

Valuation Methodology: Our 12-month price target of Rs100 is based on our discounted cash flow analysis in which we assume a c.10% average reveue growth and margin expansion of almost 800bps through the decade, a 3% terminal growth rate and a WACC of 12%.

Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include the regulatory changes on the mobile side, new licenses and emergence of competition and execution risks on 3G business.

Reliance Communications Ltd. (RCOM IN / RLCM.NS)

Valuation Methodology: Our 12-month price target of Rs130 is based on our discounted cash flow analysis in which we assume 5% average reveue growth and margin expansion of almost 800bps through the decade, a 3% terminal growth rate and a WACC of 13%.

Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include interest rate movements due to the high net debt and execution risks both from a business perspective and restructuring and asset disposal perspective.

Source: Barclays Capital

ANALYST(S) CERTIFICATION(S)

I, Bhuvnesh Singh, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Bharti Airtel Ltd. (BRTI.NS, 04-Nov-2011, INR 397.95), 1-Overweight/2-Neutral

Idea Cellular Ltd, (IDEA.NS, 04-Nov-2011, INR 97.80), 2-Equal Weight/2-Neutral

Reliance Communications Ltd. (RLCM.NS, 04-Nov-2011, INR 83.20), 1-Overweight/2-Neutral

Materially Mentioned Stocks (Ticker, Date, Price)

China Unicom (0762.HK, 04-Nov-2011, HKD 16.56), 1-Overweight/2-Neutral

Far EasTone (4904.TW, 04-Nov-2011, TWD 53.70), 1-Overweight/2-Neutral

Hutchison Telecom Hong Kong Holdings (0215.HK, 04-Nov-2011, HKD 3.09), 1-Overweight/2-Neutral

Singapore Telecom (STEL.SI, 04-Nov-2011, SGD 3.15), 1-Overweight/2-Neutral

Guide to the Barclays Capital Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

Asia ex-Japan Telecom Services

Bharti Airtel Ltd. (BRTI.NS)	China Mobile (0941.HK)	China Telecom (0728.HK)

IMPORTANT DISCLOSURES CONTINUED

China Unicom (0762.HK)	Chunghwa Telecom (2412.TW)	Far EasTone (4904.TW)
Hutchison Telecom Hong Kong Holdings (0215.HK)	Idea Cellular Ltd, (IDEA.NS)	M1 (MONE.SI)
Reliance Communications Ltd. (RLCM.NS)	Singapore Telecom (STEL.SI)	SmarTone Telecommunications Holdings Ltd. (0315.HK)
StarHub Limited (STAR.SI)	Taiwan Mobile (3045.TW)	

Distribution of Ratings:

Barclays Capital Inc. Equity Research has 1942 companies under coverage.

43% have been assigned a 1-Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 57% of companies with this rating are investment banking clients of the Firm.

42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 50% of companies with this rating are investment banking clients of the Firm.

12% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 38% of companies with this rating are investment banking clients of the Firm.

Guide to the Barclays Capital Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

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Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

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Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

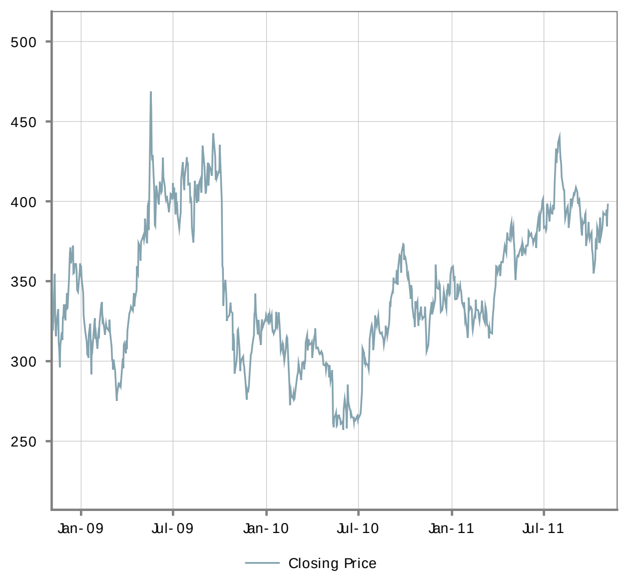
Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

Bharti Airtel Ltd. (BHARTI IN / BRTI.NS)

	Stock Rating	Sector View
INR 397.95 (04-Nov-2011)	**1-OVERWEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - INR (as of 04-Nov-2011)



Link to Barclays Capital Live for interactive charting

Currency=INR

Date	Closing Price	Rating	Price Target

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Valuation Methodology: Our 12-month price target of Rs500 is based on our discounted cash flow analysis in which we assume a double-digit c.10% average reveue growth and margin expansion of almost 900bps through the decade, a 3% terminal growth rate and a WACC of 12%.

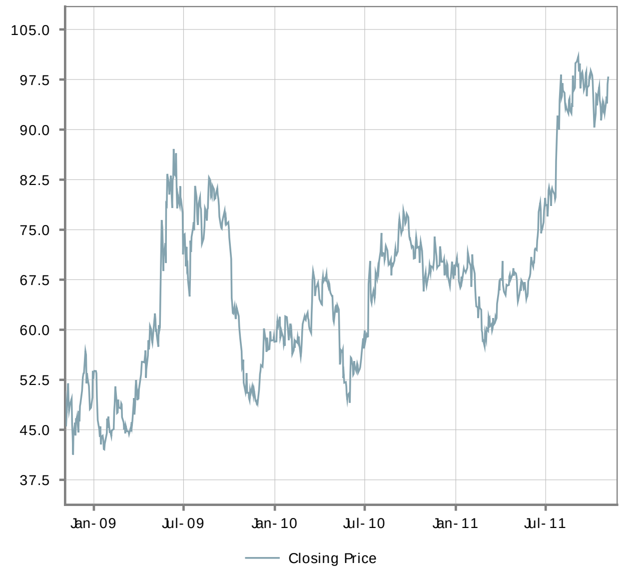
Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include the nature and timeline of new telecom regulations in India and the company's execution in Africa (revenue growth and margin expansion).

IMPORTANT DISCLOSURES CONTINUED

Idea Cellular Ltd, (IDEA IN / IDEA.NS)

	Stock Rating	Sector View
INR 97.80 (04-Nov-2011)	**2-EQUAL WEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - INR (as of 04-Nov-2011)



Link to Barclays Capital Live for interactive charting

Currency=INR

Date	Closing Price	Rating	Price Target

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Barclays Bank PLC and/or an affiliate trades regularly in the securities of Idea Cellular Ltd,.

Valuation Methodology: Our 12-month price target of Rs100 is based on our discounted cash flow analysis in which we assume a c.10% average reveue growth and margin expansion of almost 800bps through the decade, a 3% terminal growth rate and a WACC of 12%.

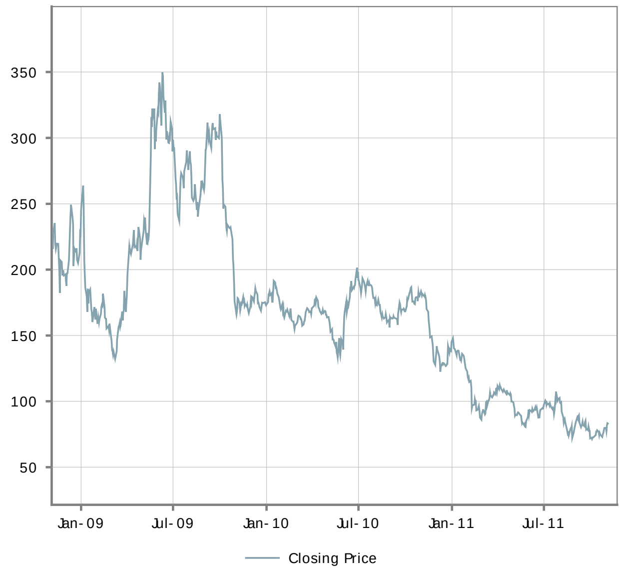
Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include the regulatory changes on the mobile side, new licenses and emergence of competition and execution risks on 3G business.

IMPORTANT DISCLOSURES CONTINUED

Reliance Communications Ltd. (RCOM IN / RLCM.NS)

	Stock Rating	Sector View
INR 83.20 (04-Nov-2011)	**1-OVERWEIGHT**	**2-NEUTRAL**

Rating and Price Target Chart - INR (as of 04-Nov-2011) **Currency=INR**



Date	Closing Price	Rating	Price Target

Link to Barclays Capital Live for interactive charting

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Barclays Bank PLC and/or an affiliate trades regularly in the securities of Reliance Communications Ltd..

Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Reliance Communications Ltd. within the past 12 months.

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Reliance Communications Ltd. is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our 12-month price target of Rs130 is based on our discounted cash flow analysis in which we assume 5% average reveue growth and margin expansion of almost 800bps through the decade, a 3% terminal growth rate and a WACC of 13%.

Risks which May Impede the Achievement of the Price Target: The key risks that might keep our price target from being achieved, in our view, include interest rate movements due to the high net debt and execution risks both from a business perspective and restructuring and asset disposal perspective.

DISCLAIMER:

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