

India Ahead of the Pack

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J.P. Morgan Daily Valuations

India

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HDFC Bank

Time to buy CASA and Quality

- Upgrading to Overweight:** Our expectation for rising lending rates in 2HFY10E is the key driver for our projection for HDFC Bank's book multiple rerating to its long-term average of 3.5x. It is on this basis that we increase our Mar-10 Gordon growth-based price target to Rs1,700, implying 25% upside from current levels, which we expect to occur over the next 10 months (see our normalized ROE table on page 6).
- Why now?** Increased likelihood of a 2H recovery with a rise in lending rates, as well as relatively fewer worries on asset quality, plus consistent underperformance – we believe this combination of factors provides an opportune entry point. An additional catalyst could be the announcement of a merger of its parent into the Bank as has been discussed in the press, given the well-rounded loan book profile, capital surplus of its parent and a step-up of HDBK's ROA well beyond 1.4%.
- Earnings trajectory improving:** Even without fully taking into account synergies from the Centurion Bank merger, we expect core operating profit growth to accelerate from the low-20s to the high-20s as loan volumes and margins pick up, directly benefiting from higher CASA mix and rising rates. A 50% bigger branch network by F2012E helps ease cost ratios to drive ROE to 17% by then, on a Tier 1 of 10% factoring in warrants due to be exercised by its parent this year.
- Rerating due:** We note a significant correlation between HDBK's book multiple and corporate yields, given which we believe that the stock is likely to re-rate from 2.7x currently to 3.5x as corporate yields rise in 2H.
- Key Risks:** No economic recovery in 2H with softer rates and worsening asset quality are key risks to our call.

▲ Overweight

Previous: Neutral

HDBK.BO, HDFCB IN

Price: Rs1,367.30

▲ Price Target: Rs1,700.00

Previous: Rs950.00

India Banks

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Price Performance

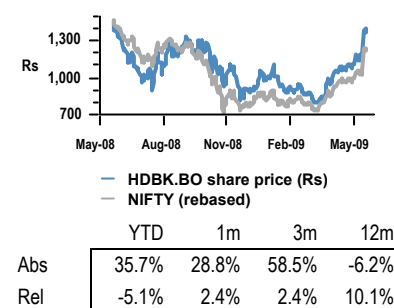


Table 1: Reuters: HDBK.BO, Bloomberg: HDFCB IN

Rs in millions, YE March

| | FY08* | FY09 | FY10E | FY11E | FY12E | | | | |
|----------------------|--------|--------|--------|--------|--------|------------------|--------------|------------------|----------------|
| Net profit (RsMM) | 17,320 | 22,450 | 28,261 | 35,965 | 44,394 | 52-week range | Rs1562–774 | Reuters | |
| Basic EPS (Rs) | 40.8 | 52.8 | 64.1 | 78.9 | 97.4 | Market cap | USD12.3 BN | Bloomberg | HDB US |
| Basic EPS growth (%) | 19.2 | 29.5 | 21.4 | 23.0 | 23.4 | Shares o/s | 425mn | 52-wk range | US\$111.3-44.9 |
| P/E (basic) (x) | 33.6 | 26.0 | 21.4 | 17.4 | 14.1 | Free float | 76% | Ratio | 3:1 |
| BVPS (Rs) | 318.9 | 353.9 | 460.9 | 528.2 | 614.1 | Avg daily value | Rs1,768MM | Avg daily volume | 0.63MM |
| P/BV (x) | 4.3 | 3.9 | 3.0 | 2.6 | 2.2 | Avg daily volume | 1.55MM | Current prem (%) | 2% |
| ROE (%) | 16.2 | 15.7 | 15.7 | 15.9 | 17.0 | NIFTY | 4323 | | |
| Tier 1 ratio (%) | 10.4 | 10.6 | 12.1 | 11.2 | 10.2 | Exchange rate | Rs47.6/US\$1 | | |
| DPS (Rs) | 9.1 | 10.1 | 11.5 | 11.5 | 11.5 | Avg daily value | US\$37.14MM | | |
| Div. yield (%) | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | | | | |

Source: Company reports, Bloomberg, and J.P. Morgan estimates. FY08* numbers are proforma for the merged entity (HDFC+CBOP)

See page 44 for analyst certification and important disclosures, including non-US analyst disclosures.

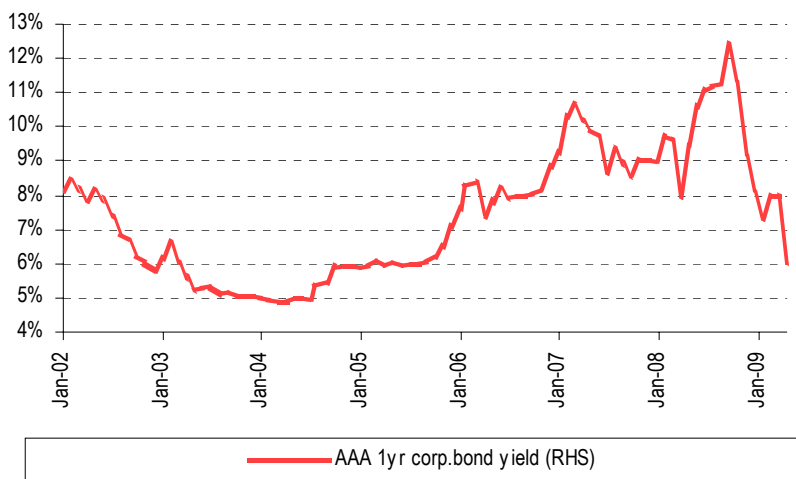
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Time to buy CASA and Quality

After having had a Neutral rating on HDFC Bank (HDBK) for over a year now, we have become more optimistic about stock outperformance prospects in the current environment because of 3 main factors:

1. High CASA is good: We believe the time has come to buy banking stocks enjoying relatively higher CASA deposits (i.e., low cost deposits) like HDBK as we see a rise in lending and deposit rates that should benefit CASA-dominated private banks more than others, especially SOE banks, as traditionally, due to government influence, SOE banks have capped their lending rates.

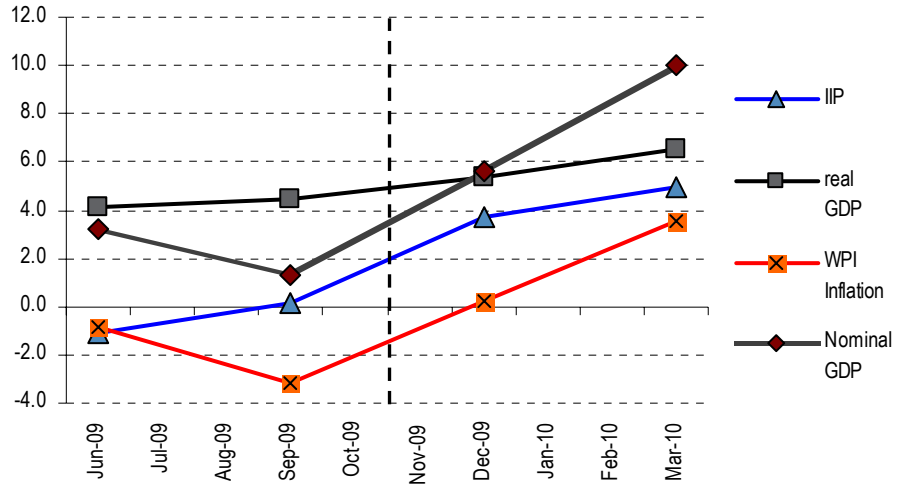
Figure 1: AAA 1 year corporate bond yields



Source: Bloomberg.

2. High growth is good: A 2H FY2010E recovery in GDP and industrial growth estimated by our economics team is likely to lead to a bottoming out of the credit cycle this year and a recovery next year onwards, in our view.

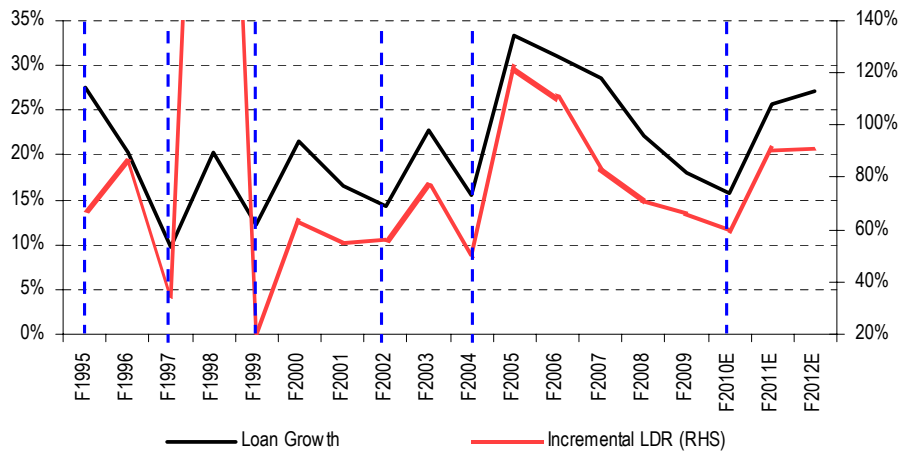
Figure 2: FY10E: Economic Recovery in 2H



Source: J.P. Morgan estimates.

The end of a 6-year long credit cycle is likely to bring its own problems of higher NPLs and provisioning. Hence, we would prefer Banks which can not only participate in this growth but do so without impacting asset quality significantly - such as HDBK. This would also help in leveraging up its ROE on the back of an improving ROA.

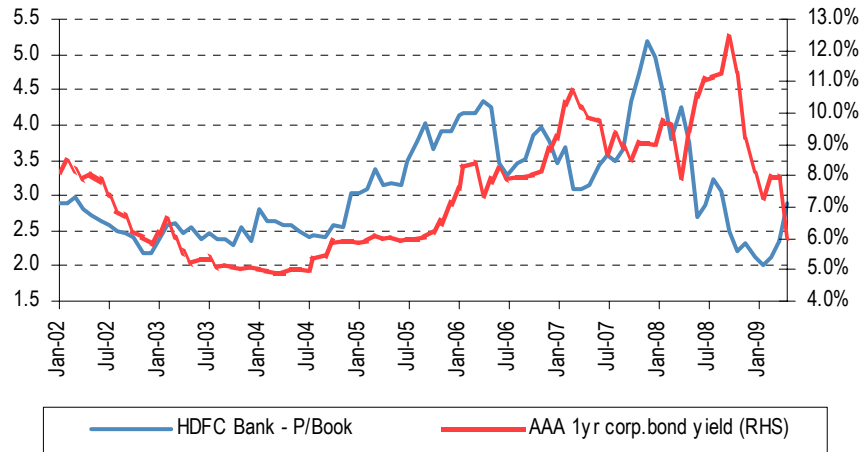
Figure 3: Indian Banking System: Credit Cycle



Source: RBI, J.P. Morgan

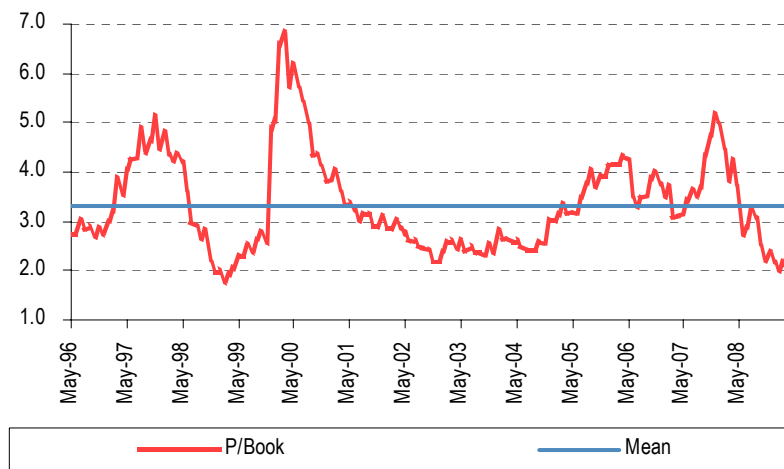
3. We believe this is an opportune entry point: HDBK's stock has underperformed its peers, especially those with a wholesale liability focus, given the fall in interest rates from peak levels in Oct-Nov last year. Given the significant correlation of its book multiple with interest rates, we see an opportune entry point in the stock after a significant derating to 2x book. HDBK's long-term average book multiple is closer to 3.5x.

Figure 4: HDFC Bank: P/Book vs. corporate AAA 1 year bond yields



Source: Bloomberg, Company Data, J.P. Morgan estimates

Figure 5: HDFC Bank: P/Book trends listing onwards



Source: Bloomberg, Company Data, J.P. Morgan estimates

With a likely imminent pickup in GDP growth and inflation, we see higher demand as well as increased risk appetite by banks to lend more to borrowers down the risk curve, impacting rates positively. However, we do not believe that the central bank would undertake a tightening stance any time soon.

As a result of better economic prospects, we are building in a loan growth recovery for HDBK leading to improving ROA and ROE. Our estimates are almost in line with I/B/E/S consensus estimates (source: Bloomberg). We note our view that even a 17% ROE in F2012E does not fully capture the potential that the Bank has to offer as it should continue to enjoy a significantly high Tier 1 of 10%-plus that year, leading to our normalized ROE estimate of 20% and thus a fair multiple of 3.5x book, leading to our Mar-2010 target price of Rs1,700, which implies 25% upside from current levels. We upgrade our rating to Overweight from Neutral.

An additional catalyst could potentially be any news flow or announcement of a merger of its parent – HDFC Ltd – into HDFC Bank. This would lead to a well-rounded loan book at the Bank, plus offer the excess capital comfort of its parent as well as ramping up its ROA and ROE profile. While there are many factors that would go into the decision making by managements at both the entities, we believe the process would be facilitated if the merged entity were to receive an approval from the RBI/Government of phasing out its SLR obligations, which has also been discussed in the press and has occurred previously, over a 5-year or similar period, thus easing the costs of merger. This would also alleviate any potential issues on the non-exercising of warrants by its parent. But we believe that this is less of an issue now given the narrowing of the discount to the conversion price to 10% currently.

Earnings Outlook

Table 2: HDFC Bank: Earnings Outlook (Yr/Yr change)

| | FY10E | FY11E | FY12E |
|---------------------------------|--------------|---------------|---------------|
| Profit & Loss | | | |
| Net Interest Income | 32% | 26% | 24% |
| Commission, Exchange, Brokerage | 12% | 15% | 15% |
| FX Income | 15% | 15% | 15% |
| Capital Gains | -35% | -20% | 0% |
| Non-Interest Income | 7% | 12% | 14% |
| Total Income | 24% | 23% | 22% |
| Operating Expenses | 24% | 20% | 19% |
| Pre-Provisioning Profit | 25% | 26% | 24% |
| Provisions | 22% | 24% | 24% |
| Pre-tax Profit | 26% | 27% | 23% |
| Net Profit | 26% | 27% | 23% |
| EPS | 21% | 23% | 23% |
| Core Operating Profit | 29% | 28% | 24% |
| Balance Sheet | | | |
| Loans | 23% | 27% | 27% |
| Assets | 22% | 24% | 24% |
| Book Value | 30% | 15% | 16% |
| Gross NPLs | 0.11% | 0.05% | -0.03% |
| Tier 1 Ratio | 1.53% | -0.98% | -0.92% |
| Ratios | | | |
| ROE | -0.03% | 0.28% | 1.10% |
| ROA | 0.08% | 0.05% | -0.01% |
| Net Interest Margin | 0.51% | 0.14% | -0.01% |
| Cost-Income Ratio | -0.13% | -1.29% | -0.90% |

Source: Company, J.P. Morgan estimates

Normalised ROE

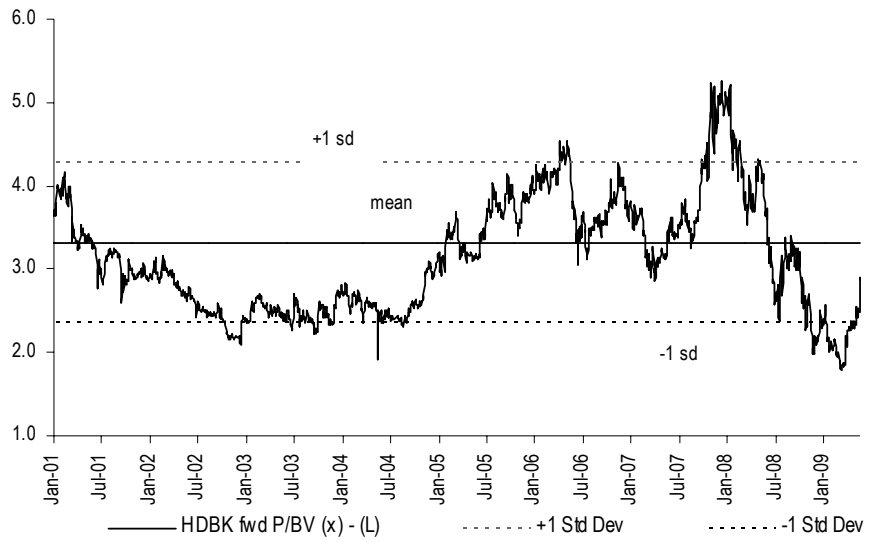
Table 3: HDFC Bank

| HDFC Bank | NORMALISED | 2008 | 2009E | 2010E | 2011E | 2012E |
|----------------------------------|------------|--------|--------|--------|--------|---|
| Net Margin (as % of avg. IEA) | 5.00% | 4.61% | 4.51% | 5.02% | 5.15% | 5.14% |
| NIM | 4.80% | 4.40% | 4.32% | 4.81% | 4.94% | 4.94% |
| Non-IR/Asset | 1.47% | 1.95% | 1.69% | 1.61% | 1.50% | 1.39% |
| Non-IR/Revenues | 23.5% | 30.8% | 28.2% | 25.0% | 23.3% | 22.0% |
| Fees/Revenues | 20.0% | 26.2% | 23.9% | 21.2% | 19.7% | 18.6% |
| Dealing/Revenues | 3.5% | 4.5% | 4.3% | 3.9% | 3.6% | 3.4% |
| Other Rev/Revenues | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Total Revenue | 6.27% | 6.36% | 6.02% | 6.41% | 6.44% | 6.33% |
| Cost/Income | 51.0% | 53.9% | 53.6% | 52.5% | 50.9% | 49.8% |
| Cost/Assets | 3.20% | 3.43% | 3.22% | 3.37% | 3.28% | 3.15% |
| Pre-Provision Profits | 3.07% | 2.93% | 2.79% | 3.05% | 3.17% | 3.17% |
| LLP/Loans | -1.87% | -2.11% | -1.92% | -1.89% | -1.87% | -1.84% |
| Loans/Assets | 55.00% | 51.5% | 52.4% | 54.5% | 55.4% | 56.7% |
| Prov/Writebacks on Sec. | 0.00% | 0.01% | 0.13% | 0.02% | -0.02% | -0.03% |
| Pre-Tax | 2.05% | 1.85% | 1.92% | 2.04% | 2.11% | 2.10% |
| Effective Tax Rate | 32.00% | 30.7% | 32.0% | 32.0% | 32.0% | 32.0% |
| Minorities and outside interests | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| ROAA | 1.39% | 1.28% | 1.31% | 1.39% | 1.43% | 1.43% |
| Equity / Assets | 6.87% | 7.4% | 8.3% | 8.9% | 9.0% | 8.4% |
| RoE | 20.25% | 17.3% | 15.7% | 15.7% | 15.9% | 17.0% |
| Adjusted NAV | 557.9 | 318.9 | 353.9 | 460.9 | 528.2 | 557.9 |
| PV of Adj NAV | 403.2 | 315.4 | 312.5 | 418.1 | 427.8 | 403.2 |
| COE | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% | 12.0% |
| RFR | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% |
| Equity Prem | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% | 6.0% |
| Beta | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 | 0.92 |
| Growth | 8.8% | 10.3% | 10.3% | 10.3% | 10.3% | 10.3% |
| Fair P/BV | 3.52x | | | | | |
| Terminal Value | 1418.3 | | | | | |
| Sum of PV of Dividends | 31.81 | | | | | |
| Fair Value | 1450.1 | | | | | |
| | | | | | | 10 months (Mar-10) Fair Value = Ra 1700 |

(*) represents proforma numbers for the merged (HDFC & CBOP) entity

Source: Company reports, J.P. Morgan estimates

Figure 6: HDFC Bank: One Yr fwd P/BV trend



Source: Company, J.P. Morgan estimates

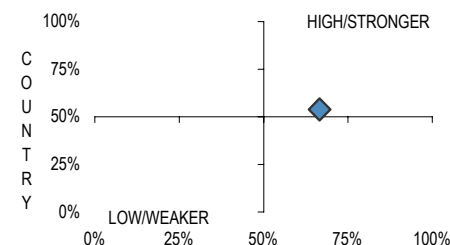
All Data As Of 21-May-09

Q-Snapshot: HDFC Bank Ltd.

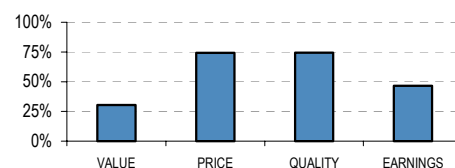
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

| Score 0% (worst) to 100% (best) | vs Country | vs Industry | Raw Value |
|--|------------|-------------|-----------|
| Value | | | |
| P/E Vs Market (12mth fwd EPS) | 23% | 21% | 1.3x |
| P/E Vs Sector (12mth fwd EPS) | 12% | 12% | 1.5x |
| EPS Growth (forecast) | 79% | 81% | 24.0% |
| Value Score | 30% | 34% | |
| Price Momentum | | | |
| 12 Month Price Momentum | 75% | 85% | -6.2% |
| 1 Month Price Reversion | 55% | 24% | 28.8% |
| Momentum Score | 74% | 80% | |
| Quality | | | |
| Return On Equity (forecast) | 46% | 85% | 17.4% |
| Earnings Risk (Variation in Consensus) | 97% | 97% | 0.05 |
| Quality Score | 74% | 92% | |
| Earnings & Sentiment | | | |
| Earnings Momentum 3mth (risk adjusted) | 41% | 61% | -20.5 |
| 1 Mth Change in Avg Recom. | 25% | 16% | -0.19 |
| Net Revisions FY2 EPS | 65% | 68% | 33% |
| Earnings & Sentiment Score | 47% | 48% | |
| COMPOSITE Q-SCORE* (0% To 100%) | 54% | 67% | |

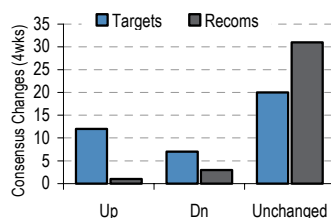
J.P. Morgan Composite Q-Score



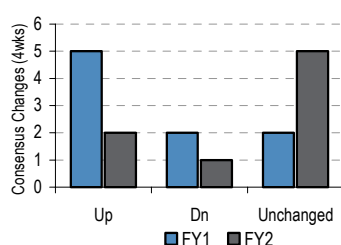
INDUSTRY
Quant Return Drivers Summary (vs Country)



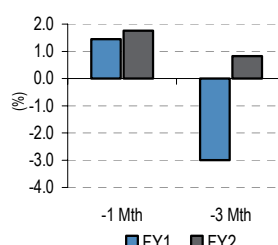
Targets & Recommendations**



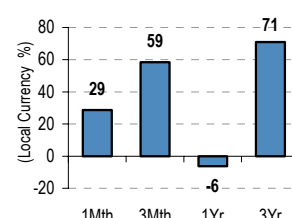
EPS Revisions**



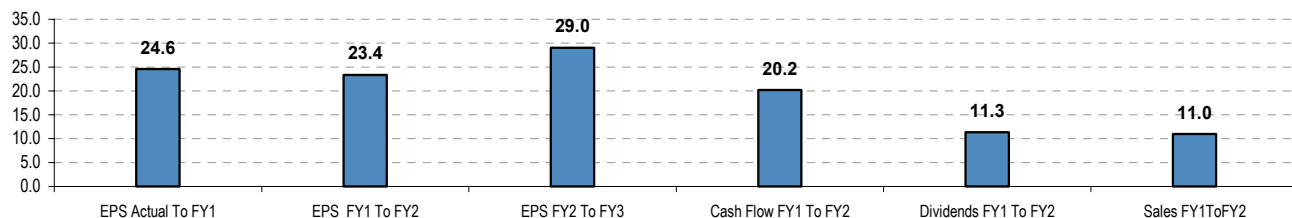
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

| Code | Name | Industry | USD MCAP | ADV | PE FY1 | Q-Score* |
|------------------|--------------------------------|---------------------------------|---------------|-------------|-------------|------------|
| 500113-IN | Steel Authority of India Ltd. | Steel | 13,899 | 4.89 | 12.5 | 26% |
| 532540-IN | Tata Consultancy Services Ltd. | Information Technology Services | 13,735 | 3.02 | 12.8 | 34% |
| 532868-IN | DLF Ltd. | Real Estate Development | 13,634 | 29.60 | 30.4 | 12% |
| 532712-IN | Reliance Communications Ltd. | Major Telecommunications | 13,606 | 12.64 | 13.4 | 28% |
| 532743-IN | Reliance Petroleum Ltd. | Oil Refining/Marketing | 13,005 | 5.39 | 10.3 | 31% |
| 500180-IN | HDFC Bank Ltd. | Regional Banks | 12,503 | 8.70 | 20.9 | 54% |
| 507685-IN | Wipro Ltd. | Information Technology Services | 11,805 | 1.56 | 15.6 | 50% |
| 530965-IN | Indian Oil Corp. Ltd. | Oil Refining/Marketing | 11,085 | 0.37 | 12.1 | 64% |
| 532898-IN | Power Grid Corp. of India Ltd. | Electric Utilities | 10,484 | 2.17 | 31.0 | 66% |
| 500696-IN | Hindustan Unilever Ltd. | Household/Personal Care | 10,431 | 2.11 | 22.6 | 71% |
| 532792-IN | Cairn India Ltd. | Oil & Gas Production | 8,634 | 3.58 | 50.0 | 43% |

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

HDFC Bank: Summary of Financials

| Income statement - Rs mn | | | | | | Balance Sheet Gearing | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2008 | 2009E | 2010E | 2011E | 2012E | | 2008 | 2009E | 2010E | 2011E | 2012E |
| Margins (% of Earning Assets) | 4.61% | 4.51% | 5.02% | 5.15% | 5.14% | Loan/Deposit | 64% | 68% | 68% | 69% | 69% |
| Earning Assets/Assets | 95% | 96% | 96% | 96% | 96% | Investment/Assets | 35% | 32% | 32% | 31% | 31% |
| NIM (as % of avg. Assets) | 4.40% | 4.32% | 4.81% | 4.94% | 4.94% | Loan/Assets | 49% | 53% | 53% | 55% | 56% |
| | | | | | | Customer deposits/Liab. | 84% | 85% | 86% | 87% | 88% |
| Net Interest Income | 59,354 | 74,212 | 97,961 | 123,887 | 153,513 | | | | | | |
| Total Non-Interest Revenues | 26,361 | 29,081 | 32,701 | 37,600 | 43,234 | Asset Quality/Capital | | | | | |
| Fee income | 22,489 | 24,676 | 27,635 | 31,775 | 36,535 | Loan loss reserves/Loans | 1.8% | 2.0% | 2.1% | 2.2% | 2.2% |
| FX/Trading gains | 3,872 | 4,405 | 5,066 | 5,826 | 6,699 | NPLs/loans | 1.9% | 2.0% | 2.1% | 2.2% | 2.1% |
| Other operating income | 0 | 0 | 0 | 0 | 0 | Loan loss reserves/NPLs | 95.7% | 101.4% | 100.8% | 101.3% | 101.8% |
| Total operating revenues | 85,715 | 103,293 | 130,662 | 161,488 | 196,747 | Growth in NPLs | 55.0% | 31.5% | 30.0% | 30.0% | 25.0% |
| Operating costs | (46,220) | (55,328) | (68,606) | (82,126) | (98,044) | Tier 1 Ratio | 10.4% | 10.6% | 12.1% | 11.2% | 10.2% |
| Operating profit | 39,495 | 47,965 | 62,055 | 79,362 | 98,703 | Total CAR | 13.5% | 15.7% | 17.9% | 17.7% | 17.4% |
| Loan Loss Provisions | (14,636) | (17,261) | (20,995) | (25,972) | (32,417) | | | | | | |
| Other provisions | 129 | 2,289 | 500 | (500) | (1,000) | Per Share Data | | | | | |
| Exceptionals | 0 | 0 | 0 | 0 | 0 | EPS (Rs) | 40.8 | 52.8 | 62.0 | 78.9 | 97.4 |
| Disposals/ Other income | 0 | 0 | 0 | 0 | 0 | Dividend (Rs) | 10.2 | 11.3 | 12.9 | 12.9 | 12.9 |
| Pre-tax profit | 24,988 | 32,993 | 41,560 | 52,890 | 65,286 | Payout ratio | 25% | 21% | 21% | 16% | 13% |
| Tax [rate] | (7,668) | (10,543) | (13,299) | (16,925) | (20,891) | NAV | 318.88 | 353.87 | 460.86 | 528.24 | 614.10 |
| Minorities/preference dividends | 0 | 0 | 0 | 0 | 0 | Avg. Shares issued (mn) | 424.6 | 425.4 | 456.0 | 456.0 | 456.0 |
| Attributable net income | 17,320 | 22,450 | 28,261 | 35,965 | 44,394 | | | | | | |
| Key balance sheet - Rs mn | | | | | | Du-Pont Analysis | | | | | |
| | 2008 | 2009E | 2010E | 2011E | 2012E | | 2008 | 2009E | 2010E | 2011E | 2012E |
| Net Customer Loans | 788,339 | 974,992 | 1,198,101 | 1,520,497 | 1,931,308 | NIR/Avg. Assets | 4.4% | 4.3% | 4.8% | 4.9% | 4.9% |
| Gross Loans | 802,816 | 995,157 | 1,224,170 | 1,554,538 | 1,974,066 | Non IR/Total Rev | 30.8% | 28.2% | 25.0% | 23.3% | 22.0% |
| Investments | 564,939 | 588,175 | 717,663 | 864,142 | 1,069,575 | Total Rev/Avg. Assets | 6.4% | 6.0% | 6.4% | 6.4% | 6.3% |
| Other Earning Assets | 165,836 | 172,066 | 206,988 | 242,344 | 268,526 | Cost/Income | 53.9% | 53.6% | 52.5% | 50.9% | 49.8% |
| Average Earning Assets = (A) | 1,286,963 | 1,644,495 | 1,952,110 | 2,404,923 | 2,986,596 | Cost/Assets | 3.4% | 3.2% | 3.4% | 3.3% | 3.2% |
| Total assets | 1,599,862 | 1,832,708 | 2,241,479 | 2,772,589 | 3,447,448 | Operating ROAA | 2.9% | 2.8% | 3.0% | 3.2% | 3.2% |
| | | | | | | LLP/Loans | -2.1% | -1.9% | -1.9% | -1.9% | -1.8% |
| Customer deposits | 1,229,283 | 1,428,116 | 1,756,582 | 2,195,728 | 2,788,575 | Loan/Assets | 51.5% | 52.4% | 54.5% | 55.4% | 56.7% |
| Other Interest Bearing Liabilities | 88,360 | 26,858 | 28,201 | 31,021 | 34,124 | Other inc: provs | 0.0% | 0.1% | 0.0% | 0.0% | 0.0% |
| Average Interest Bearing Liab. = (B) | 1,109,774 | 1,386,309 | 1,619,879 | 2,005,767 | 2,524,724 | Tax | 30.7% | 32.0% | 32.0% | 32.0% | 32.0% |
| Average Assets | 1,348,523 | 1,716,285 | 2,037,093 | 2,507,034 | 3,110,018 | MI | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Shareholders' equity | 135,391 | 150,527 | 210,133 | 240,854 | 280,005 | ROAA | 1.3% | 1.3% | 1.4% | 1.4% | 1.4% |
| Risk Weighted Assets | 1,261,515 | 1,379,094 | 1,696,286 | 2,120,358 | 2,692,854 | RoRWA | 1.6% | 1.7% | 1.8% | 1.9% | 1.8% |
| Average Risk Weighted Assets | 1,070,666 | 1,320,305 | 1,537,690 | 1,908,322 | 2,406,606 | Equity/Assets | 7.4% | 8.3% | 8.9% | 9.0% | 8.4% |
| | | | | | | ROE | 17.3% | 15.7% | 15.7% | 15.9% | 17.0% |

Source: Company, J.P. Morgan estimates

India Telecom

Mixed 4QFY09: Increasing estimates to reflect near-term margin resilience, but remain fundamentally cautious on sector

- Mixed 4QFY09:** India Telecom sector had a muted revenue performance in 4QFY09, with 4% Q/Q growth largely driven by fall in ARPUs and MOUs. However, margin performance surprised on the upside as all operators controlled costs better than expected, leading to EPS in line/ahead of consensus. While subscriber growth remains strong, ARPU continued to decline at a rapid pace (down 8% Q/Q and 20% Y/Y in 4QFY09), driven by MOUs. All companies indicated that peak capex was behind them, a positive for the sector.
- Outlook:** Subscriber addition is expected to maintain a healthy trend, but revenue growth should continue to trend down given high base. Further, ARPU decline should continue due to increasing competition, though we could see some stability in 1QFY10 as most new launches are slated for 2H2009. However, strong cost control could allow telecom players to maintain margins for the next 1-2 quarters especially as ARPMs appear to be holding up in 1QFY10. As a result, we expect companies to meet consensus in 1QFY10 with weakness in 2Q/3QFY10.
- Adjusting estimates:** We have adjusted our models for the following:- 1) Indus IRU accounting and assumed complete de-merger from 1QFY11, 2) Spice 100% consolidation in Idea from 1QFY11, 3) Lower MOUs due to decline seen, 4) Increased long-term margins due to resilience seen on margins, 5) Rolled over target prices from Dec-09 to Jun-10. Overall, our Bharti FY10E/FY11E EPS increases by 9%/8%, RCOM by 4%/6% and Idea by 4%/-2%.
- Investment view:** Rollover of our PT time frame to Jun-10 and higher-than-expected margin resilience leads to a sharp increase of ~35% in our target prices. However, medium-term fundamentals for the sector remain negative with increasing competition, continued pressure on tariffs, and regulatory uncertainty. As such our sector view remains cautious and we believe that the recent run-up in share prices more than captures the near-term stability. Bharti remains our relative top pick in the sector.

India

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Change in Price Targets

| | Old PT Dec-09 | New PT Jun-10 | Change |
|--------|------------------|------------------|--------|
| Bharti | 600 | 800 | 33.3% |
| Idea | 180 | 265 | 47.2% |
| RCOM | 40 | 55 | 37.5% |

Source: J. P. Morgan.

Table 2: India Telecom: Valuation Summary

| | JPM Rating | Last Price 21-May-09 | PT Jun-10 | PT Implied EV Rs Mn | PT Implied P/E | | | PT Implied EV/EBITDA | | |
|---------------|---------------|-------------------------|--------------|------------------------|----------------|-------|-------|----------------------|-------|-------|
| | | | | | FY09 | FY10E | FY11E | FY09 | FY10E | FY11E |
| Bharti Airtel | N | 852 | 800 | 1,560,000 | 17.9 | 14.8 | 12.8 | 10.3 | 8.8 | 8.3 |
| RCOM | N | 324 | 265 | 728,310 | 9.7 | 10.6 | 10.2 | 7.8 | 6.7 | 6.1 |
| Idea Cellular | UW | 69 | 55 | 223,300 | 18.2 | 18.1 | 15.1 | 7.9 | 6.2 | 5.1 |

Source: J.P. Morgan estimates, Company data and DataStream.

See page 44 for analyst certification and important disclosures, including non-US analyst disclosures.

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Investment Thesis

The Indian Telecom stocks have seen a good run-up in the last month and half with Bharti/RCOM/Idea up 36%/86%/37% since 1 April 2009. Relative to the Sensex, the stocks have outperformed/underperformed by -3%/46%/-2%. The share price move can be attributed to 1) good margin resilience in 4QFY09 results leading to EPS from companies meeting/beating consensus despite revenues being on the softer side, 2) sharp move up post the elections as investors seemed to be expecting a more pro-incumbent telecom policy and more reforms for the sector.

We agree that 4QFY09 margin resilience does highlight ability of Telecom players to control costs and sustain margins despite tariff declines. Further, slowing capital expenditure would benefit players as existing infrastructure is utilized more. As such, we have increased margin estimates for all players though our revenue estimates have been trimmed down marginally due to weaker than expected MOUs. Overall, our EPS estimates have increased - for FY10E, our EPS for Bharti/RCOM/Idea is up by 9%/4%/4% and for FY11E by 8%/6%/-2%.

The increase in estimates and long-term margin assumption combined with rollover of target prices to Jun-10 (from Dec-09) leads to sharp increase in our target prices (details below). However, this is already more than reflected in the recent upward share price moves of all players. Further, we believe that the market is being overly optimistic regarding policy changes/moves for the Telecom sector, and we do not foresee any significant positive changes for the incumbents near term. Competitive intensity remains high and our fundamental concerns on increasing competition driving down ROICs in the medium term remains. As such, we maintain our cautious view on the sector with Neutral on Bharti and RCOM, and Underweight on Idea.

Stock specific recommendation

On a relative basis, Bharti remains our top pick with higher ability to manage margins than peers. P/E multiples remain in line with Sensex, which is reasonable in our view given a declining growth profile though Bharti's excellent execution track record should mean that the stock could continue to trade ahead of Sensex multiples in the near term. Further, any development on Indus/Bharti Infratel listing would be positive for Bharti share price.

RCOM continues to report mixed results, and concerns remain on RCOM's ability to gain substantial market share from GSM launch as well as profitability of GSM subscribers. However, valuations remain cheap despite the recent move up, leading to our Neutral rating.

Idea has done commendably in 4QFY09 in terms of managing margins, in our opinion. However, management expects new launches to depress margins in the next couple of quarters. Further, Spice consolidation would be a negative for Idea given continued losses in Spice. Valuations look expensive at a premium to Bharti. As such we remain negative on Idea with an Underweight rating.

Table 3: Changes in DCF value and with impact from key variables

| | Contribution to DCF change | | Contribution to DCF change | | Contribution to DCF change |
|-----------------------------|----------------------------|----------------------|----------------------------|--------------------------------------|----------------------------|
| BHARTI | | RCOM | | Idea Consolidated | |
| Old Dec-09 DCF price | 511 | Old Dec-09 DCF price | 174 | Old Dec-09 DCF price | 40 |
| Roll-over to Jun-10 | 32 | Roll-over to Jun-10 | 71 | Roll-over to Jun-10 | 8 |
| Increase in margin | 61 | Increase in margin | 20 | Increase in margin | 4 |
| New Jun-10 DCF price | 604 | New Jun-10 DCF price | 265 | Higher than expected losses in Spice | -5 |
| Bharti's Indus stake | | | | Change in Indus value | 8 |
| Old Dec-09 DCF price | 89 | | | New Jun-10 DCF price | 55 |
| Roll-over to Jun-10 | 18 | | | | |
| Increase in margin | 19 | | | | |
| New Jun-10 DCF price | 126 | | | | |

Source: J.P. Morgan estimates.

4QFY09 wireless business performance – Revenue growth slows, but margins holding up

All telecom players saw deceleration in revenue growth in 4QFY09, with RCOM being the lowest at 2% Q/Q and Idea the highest at 7% Q/Q growth due to new circle launches. On a Y/Y basis, sector wireless revenue growth (sector includes the 3 players) was at 25% Y/Y, the lowest in several years.

EBITDA margins held up pretty well despite slowing revenue growth as all companies focused on cost cutting. Sales and marketing costs reduced and we believe companies also benefited from reducing fuel costs.

Table 4: India Telecom: Wireless Revenues and EBITDA Trend

| Rs mn, year-end March | 1QFY07 | 2QFY07 | 3QFY07 | 4QFY07 | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 |
|-------------------------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| Wireless Revenues | | | | | | | | | | | | |
| Bharti | 28,411 | 33,022 | 37,579 | 42,431 | 46,976 | 50,579 | 56,105 | 64,201 | 69,150 | 72,843 | 79,392 | 82,216 |
| RCOM | 24,320 | 25,744 | 27,520 | 29,692 | 33,730 | 37,230 | 39,567 | 41,608 | 41,187 | 43,356 | 44,119 | 45,015 |
| Idea | 9,002 | 10,096 | 11,482 | 13,084 | 14,773 | 15,622 | 17,081 | 19,724 | 21,781 | 23,034 | 27,310 | 29,356 |
| Sector Wireless Revenues | 61,733 | 68,862 | 76,581 | 85,207 | 95,479 | 103,431 | 112,753 | 125,533 | 132,118 | 139,233 | 150,821 | 156,587 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | NM | 16% | 14% | 13% | 11% | 8% | 11% | 14% | 8% | 5% | 9% | 4% |
| RCOM | NM | 6% | 7% | 8% | 14% | 10% | 6% | 5% | -1% | 5% | 2% | 2% |
| Idea | NM | 12% | 14% | 14% | 13% | 6% | 9% | 15% | 10% | 6% | 19% | 7% |
| Sector Wireless Revenues | NM | 12% | 11% | 11% | 12% | 8% | 9% | 11% | 5% | 5% | 8% | 4% |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | NM | NM | NM | NM | 65% | 53% | 49% | 51% | 47% | 44% | 42% | 28% |
| RCOM | NM | NM | NM | NM | 39% | 45% | 44% | 40% | 22% | 16% | 12% | 8% |
| Idea | NM | NM | NM | NM | 64% | 55% | 49% | 51% | 47% | 47% | 60% | 49% |
| Sector Wireless Revenues | NM | NM | NM | NM | 55% | 50% | 47% | 47% | 38% | 35% | 34% | 25% |
| Wireless EBITDA | | | | | | | | | | | | |
| Bharti | 10,341 | 12,179 | 14,129 | 16,604 | 19,087 | 20,728 | 22,887 | 22,779 | 21,218 | 22,009 | 24,963 | 25,860 |
| RCOM | 8,746 | 9,294 | 10,293 | 11,511 | 13,392 | 14,873 | 15,819 | 16,763 | 16,623 | 16,859 | 16,616 | 16,629 |
| Idea | 3,020 | 3,548 | 3,713 | 4,363 | 5,128 | 5,106 | 5,672 | 6,606 | 7,203 | 6,065 | 6,969 | 8,108 |
| Sector Wireless EBITDA | 22,107 | 25,021 | 28,135 | 32,478 | 37,607 | 40,707 | 44,378 | 46,148 | 45,044 | 44,933 | 48,548 | 50,597 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | NM | 18% | 16% | 18% | 15% | 9% | 10% | 0% | -7% | 4% | 13% | 4% |
| RCOM | NM | 6% | 11% | 12% | 16% | 11% | 6% | 6% | -1% | 1% | -1% | 0% |
| Idea | NM | 17% | 5% | 18% | 18% | 0% | 11% | 16% | 9% | -16% | 15% | 16% |
| Sector Wireless EBITDA | NM | 13% | 12% | 15% | 16% | 8% | 9% | 4% | -2% | 0% | 8% | 4% |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | NM | NM | NM | NM | 85% | 70% | 62% | 37% | 11% | 6% | 9% | 14% |
| RCOM | NM | NM | NM | NM | 53% | 60% | 54% | 46% | 24% | 13% | 5% | -1% |
| Idea | NM | NM | NM | NM | 70% | 44% | 53% | 51% | 40% | 19% | 23% | 23% |
| Sector Wireless EBITDA | NM | NM | NM | NM | 70% | 63% | 58% | 42% | 20% | 10% | 9% | 10% |
| Wireless EBITDA Margin | | | | | | | | | | | | |
| Bharti | 36.4% | 36.9% | 37.6% | 39.1% | 40.6% | 41.0% | 40.8% | 35.5% | 30.7% | 30.2% | 31.4% | 31.5% |
| RCOM | 36.0% | 36.1% | 37.4% | 38.8% | 39.7% | 39.9% | 40.0% | 40.3% | 40.4% | 38.9% | 37.7% | 36.9% |
| Idea | 33.5% | 35.1% | 32.3% | 33.3% | 34.7% | 32.7% | 33.2% | 33.5% | 33.1% | 26.3% | 25.5% | 27.6% |

Source: Company reports.

Wireless metrics – mixed trends

MOU decline a negative surprise – looks like MOU has peaked

ARPU for the sector continue to fall but were surprisingly driven down by MOUs and not by APRMs this time around. While Bharti attributed MOU fall partly to lower number of days in the Mar-09 quarter and partly to competition offering free minutes, RCOM MoU decline was driven by free minutes offering for GSM launch. Interestingly enough, MOUs have now declined for 3 quarters in a row. On the conference call, Bharti management did accept that increasing proportion of rural subscribers was bound to push MOUs down, at least in the near term.

As a result, we have reduced our MOU estimates and we now expect MOUs to keep declining in FY10, with stability beyond FY10.

Table 5: India Telecom: MOU Trend

| Min/month | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| MOU | | | | | | | | | | | | |
| Bharti | 478 | 469 | 474 | 507 | 534 | 536 | 505 | 485 | 513 | 490 | 485 | 485 |
| RCOM | 510 | 490 | 449 | 430 | 424 | 423 | 410 | 372 | 405 | 372 | 368 | 368 |
| Idea | 381 | 360 | 377 | 411 | 428 | 417 | 410 | 402 | 413 | 409 | 410 | 410 |
| Sector MOU | 472 | 457 | 448 | 463 | 477 | 475 | 455 | 429 | | | | |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 1% | -2% | 1% | 7% | 5% | 0% | -6% | -4% | | | | |
| RCOM | -6% | -4% | -8% | -4% | -1% | 0% | -3% | -9% | | | | |
| Idea | -2% | -6% | 5% | 9% | 4% | -3% | -2% | -2% | | | | |
| Sector MOU | -2% | -3% | -2% | 3% | 3% | 0% | -4% | -6% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 8% | 4% | 1% | 7% | 12% | 14% | 7% | -4% | 6% | -5% | -1% | 0% |
| RCOM | 4% | 6% | -1% | -21% | -17% | -14% | -9% | -13% | -13% | -8% | -1% | 0% |
| Idea | 11% | 5% | 2% | 6% | 12% | 16% | 9% | -2% | 8% | -1% | 0% | 0% |
| Sector MOU | 6% | 4% | 1% | -4% | 1% | 4% | 2% | -7% | | | | |

Source: Company reports and J.P. Morgan estimates.

ARPMs stable, but we continue to expect weakness in 2H2009

While MOU decline was a surprise, ARPMs have held up better than expectations. Further, we continue to hear of incremental stability in the marketplace on tariffs, at least near term, from the incumbents. This would mean that ARPMs could remain stable over the next quarter or so. However, increasing competition is a reality and we continue to see aggressive discounting from new players like Aircel and Shyam. We expect this to hurt ARPMs for incumbents in 2H2009, hence we build an 11% decline into FY10E.

Table 6: India Telecom: ARPM Trend

| Rs, year-end March | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| ARPM | | | | | | | | | | | | |
| Bharti | 0.82 | 0.78 | 0.76 | 0.70 | 0.66 | 0.62 | 0.64 | 0.63 | 0.64 | 0.57 | 0.51 | 0.47 |
| RCOM | 0.74 | 0.73 | 0.75 | 0.74 | 0.66 | 0.64 | 0.61 | 0.60 | 0.64 | 0.54 | 0.48 | 0.45 |
| Idea | 0.84 | 0.80 | 0.74 | 0.70 | 0.65 | 0.62 | 0.65 | 0.63 | 0.64 | 0.57 | 0.50 | 0.47 |
| Sector ARPM | 0.79 | 0.77 | 0.75 | 0.72 | 0.66 | 0.63 | 0.63 | 0.62 | | | | |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | -5% | -4% | -3% | -7% | -7% | -6% | 4% | -2% | | | | |
| RCOM | 5% | 0% | 3% | -2% | -10% | -4% | -5% | -1% | | | | |
| Idea | 3% | -5% | -7% | -6% | -7% | -5% | 5% | -3% | | | | |
| Sector ARPM | 0% | -3% | -2% | -5% | -8% | -5% | 1% | -2% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | -18% | -20% | -17% | -18% | -20% | -21% | -15% | -11% | -16% | -11% | -10% | -7% |
| RCOM | -5% | -4% | 4% | 5% | -10% | -13% | -19% | -18% | -15% | -16% | -10% | -7% |
| Idea | -21% | -18% | -15% | -15% | -23% | -23% | -12% | -10% | -16% | -10% | -13% | -7% |
| Sector ARPM | -13% | -13% | -9% | -9% | -16% | -19% | -16% | -13% | -16% | -11% | -10% | -7% |

Source: Company reports and J.P. Morgan estimates.

ARPU trend remains negative

ARPU, the key metric in our view, continue to fall. In fact, ARPUs fell 8% Q/Q in 4QFY09 -- the highest in over 8 quarters. On a Y/Y basis, ARPUs fell 20% Y/Y. We expect ARPU decline to continue in FY10E/FY11E, though driven more by ARPMs and less by MOUs.

Table 7: India Telecom: ARPU Trend

| Rs, year-end March | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|--------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| ARPU | | | | | | | | | | | | |
| Bharti | 390 | 366 | 358 | 357 | 350 | 331 | 324 | 305 | 328 | 277 | 246 | 230 |
| RCOM | 375 | 364 | 341 | 320 | 284 | 271 | 251 | 224 | 257 | 199 | 177 | 165 |
| Idea | 320 | 288 | 279 | 287 | 278 | 261 | 266 | 254 | 264 | 234 | 205 | 192 |
| Sector ARPU | 372 | 351 | 338 | 331 | 314 | 297 | 289 | 267 | | | | |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | -4% | -6% | -2% | 0% | -2% | -5% | -2% | -6% | | | | |
| RCOM | -1% | -3% | -6% | -6% | -11% | -5% | -7% | -11% | | | | |
| Idea | 1% | -10% | -3% | 3% | -3% | -6% | 2% | -5% | | | | |
| Sector ARPU | -2% | -6% | -4% | -2% | -5% | -5% | -3% | -8% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | -12% | -16% | -16% | -12% | -10% | -10% | -9% | -15% | -11% | -16% | -11% | -7% |
| RCOM | -1% | 3% | 4% | -15% | -24% | -26% | -26% | -30% | -26% | -23% | -11% | -7% |
| Idea | -12% | -14% | -13% | -9% | -13% | -9% | -5% | -11% | -9% | -11% | -12% | -7% |
| Sector ARPU | -8% | -9% | -9% | -13% | -16% | -15% | -15% | -20% | | | | |

Source: Company reports and J.P. Morgan estimates

Subscriber growth remains on track

Strong subscriber growth has been the key positive metric for the sector, and subscriber addition remained solid in 4QFY09 at 14% Q/Q and ~56% Y/Y. While we expect absolute subscriber additions to remain strong, percentage growth rates should start to come down gradually, in our view.

Table 8: India Telecom: Subscriber Trend

| ('000) year-end March | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Subscribers ('000) | | | | | | | | | | | | |
| Bharti | 42,704 | 48,876 | 55,163 | 61,985 | 69,384 | 77,479 | 85,651 | 93,923 | 93,923 | 126,466 | 155,440 | 181,615 |
| RCOM | 31,879 | 36,324 | 40,964 | 45,794 | 50,773 | 56,046 | 61,345 | 72,666 | 72,666 | 102,280 | 129,090 | 153,308 |
| Idea | 16,126 | 18,672 | 21,054 | 24,002 | 27,194 | 30,380 | 34,200 | 38,900 | 38,900 | 54,152 | 67,617 | 79,735 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 15% | 14% | 13% | 12% | 12% | 12% | 11% | 10% | | | | |
| RCOM | 14% | 14% | 13% | 12% | 11% | 10% | 9% | 18% | | | | |
| Idea | 15% | 16% | 13% | 14% | 13% | 12% | 13% | 14% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 85% | 81% | 73% | 67% | 62% | 59% | 55% | 52% | 52% | 35% | 23% | 17% |
| RCOM | 42% | 40% | 37% | 64% | 59% | 54% | 50% | 59% | 59% | 41% | 26% | 19% |
| Idea | 89% | 80% | 69% | 71% | 69% | 63% | 62% | 62% | 62% | 39% | 25% | 18% |

Source: Company reports and J.P. Morgan estimates.

Current net debt comfortable for Bharti/Idea

Table 9: India Telecom: Net debt trends

| Rs mn | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|------------------------------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|----------|----------|
| Net Debt | | | | | | | | | | | | |
| Bharti | 33,319 | 39,391 | 44,885 | 42,057 | 41,562 | 50,732 | 64,938 | 69,635 | 69,646 | 15,058 | (26,451) | (87,312) |
| RCOM | 22,845 | 33,723 | 67,170 | 99,700 | 129,888 | 152,257 | 185,975 | 170,157 | 170,157 | 170,157 | 87,757 | 20,414 |
| Idea | 25,851 | 33,644 | 40,230 | 54,619 | 88,270 | 31,920 | 26,168 | 37,849 | 37,849 | 67,741 | 81,140 | 74,356 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | -22% | 18% | 14% | -6% | -1% | 22% | 28% | 7% | | | | |
| RCOM | 25% | 48% | 99% | 48% | 30% | 17% | 22% | -9% | | | | |
| Idea | 1% | 30% | 20% | 36% | 62% | -64% | -18% | 45% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | -22% | -13% | 8% | -2% | 25% | 29% | 45% | 66% | | | | |
| RCOM | -6% | 64% | 354% | 447% | 469% | 351% | 177% | 71% | | | | |
| Idea | NM | NM | NM | 114% | 241% | -5% | -35% | -31% | | | | |
| Net Debt / Equity (%) | | | | | | | | | | | | |
| Bharti | 22 | 24 | 24 | 19 | 17 | 20 | 23 | 23 | 23 | 4 | -5 | -14 |
| RCOM | 11 | 16 | 28 | 39 | 49 | 54 | 64 | 56 | 56 | 47 | 21 | 4 |
| Idea | 65 | 111 | 123 | 154 | 232 | 28 | 19 | 26 | 26 | 44 | 49 | 41 |

Source: Company reports and J.P. Morgan estimates.

Capex coming off as expected

All players saw a sharp decline in capex with FY10 guidance also being lower than expectations. All companies have indicated that peak capex is behind them. We see this as a positive for the sector.

Table 10: India Telecom: Capex trends

| Rs mn | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------|
| Wireless Capex | | | | | | | | | | | | |
| Bharti | 32,806 | 28,661 | 27,538 | 17,995 | 16,900 | 15,834 | 20,936 | 11,232 | 64,902 | 72,942 | 70,693 | 65,055 |
| RCOM | 14,973 | 49,685 | 60,605 | 46,442 | 56,926 | 33,260 | 32,508 | 17,084 | 139,778 | 67,067 | 61,387 | 56,026 |
| Idea | 11,079 | 12,333 | 12,232 | 12,504 | 19,600 | 29,333 | 29,600 | 18,089 | 96,622 | 63,285 | 48,631 | 36,716 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 206% | -13% | -4% | -35% | -6% | -6% | 32% | -46% | | | | |
| RCOM | 52% | 232% | 22% | -23% | 23% | -42% | -2% | -47% | | | | |
| Idea | NM | 11% | -1% | 2% | 57% | 50% | 1% | -39% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 82% | 4% | 77% | 68% | -48% | -45% | -24% | -38% | -39% | 12% | -3% | -8% |
| RCOM | 76% | 231% | 401% | 371% | 280% | -33% | -46% | -63% | -19% | -52% | -8% | -9% |
| Idea | NM | NM | NM | NM | 77% | 138% | 142% | 45% | 101% | -35% | -23% | -25% |
| Wireless Capex / Sales | | | | | | | | | | | | |
| Bharti | 70% | 57% | 49% | 28% | 24% | 22% | 26% | 14% | 21% | 20% | 17% | 14% |
| RCOM | 44% | 133% | 153% | 112% | 138% | 77% | 74% | 38% | 80% | 32% | 25% | 20% |
| Idea | 75% | 79% | 72% | 63% | 90% | 127% | 108% | 62% | 97% | 47% | 30% | 20% |
| Total Capex | | | | | | | | | | | | |
| Bharti | 37,173 | 39,795 | 33,294 | 28,206 | 40,671 | 31,867 | 38,775 | 28,858 | 140,171 | 114,838 | 111,164 | 101,453 |
| RCOM | 17,926 | 53,179 | 88,179 | 52,756 | 69,686 | 47,731 | 43,607 | 33,142 | 194,166 | 101,063 | 85,380 | 78,599 |
| Idea | 11,079 | 12,333 | 12,232 | 12,504 | 19,600 | 29,333 | 29,600 | 18,089 | 96,622 | 63,285 | 48,631 | 36,716 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 135% | 7% | -16% | -15% | 44% | -22% | 22% | -26% | | | | |
| RCOM | 12% | 197% | 66% | -40% | 32% | -32% | -9% | -24% | | | | |
| Idea | NM | 11% | -1% | 2% | 57% | 50% | 1% | -39% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 51% | 17% | 61% | 79% | 9% | -20% | 16% | 2% | 1% | -18% | -3% | -9% |
| RCOM | 13% | 173% | 457% | 231% | 289% | -10% | -51% | -37% | -8% | -48% | -16% | -8% |
| Idea | NM | NM | NM | NM | 77% | 138% | 142% | 45% | 101% | -35% | -23% | -25% |

Source: Company reports and J.P. Morgan estimates.

Overall performance modest at best

On an overall basis, revenue/EBITDA growth for players continues to decline, with the sector seeing just 25%/16% Y/Y growth in 4QFY09. We expect pressure on growth to continue with 21%/18%/8% revenue/EBITDA/EPS growth for the sector in FY10E. Bharti continues to be the sector leader.

Table 11: India Telecom: Total Revenues and EBITDA Trend

| Rs mn, year-end March | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY09 | 2QFY09 | 3QFY09 | 4QFY09 | FY2009 | FY2010E | FY2011E | FY2012E |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| Total Revenues | | | | | | | | | | | | |
| Bharti | 59,046 | 63,374 | 69,639 | 78,191 | 84,833 | 90,203 | 96,334 | 98,245 | 369,615 | 436,536 | 497,637 | 555,860 |
| RCOM | 43,037 | 45,785 | 48,742 | 53,114 | 53,222 | 56,450 | 58,502 | 61,237 | 229,411 | 278,607 | 323,722 | 364,652 |
| Idea | 14,773 | 15,622 | 17,081 | 19,724 | 21,781 | 23,034 | 27,305 | 29,365 | 101,484 | 134,021 | 162,801 | 183,581 |
| Total Revenues | 116,856 | 124,781 | 135,462 | 151,029 | 159,836 | 169,687 | 182,141 | 188,847 | 700,510 | 849,164 | 984,161 | 1,104,093 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 9% | 7% | 10% | 12% | 8% | 6% | 7% | 2% | | | | |
| RCOM | 9% | 6% | 6% | 9% | 0% | 6% | 4% | 5% | | | | |
| Idea | 13% | 6% | 9% | 15% | 10% | 6% | 19% | 8% | | | | |
| Total Revenues | 10% | 7% | 9% | 11% | 6% | 6% | 7% | 4% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 53% | 45% | 42% | 45% | 44% | 42% | 38% | 26% | 37% | 18% | 14% | 12% |
| RCOM | 32% | 30% | 30% | 35% | 24% | 23% | 20% | 15% | 20% | 21% | 16% | 13% |
| Idea | 64% | 55% | 49% | 51% | 47% | 47% | 60% | 49% | 51% | 32% | 21% | 13% |
| Total Revenues | 46% | 40% | 38% | 42% | 37% | 36% | 34% | 25% | 33% | 21% | 16% | 12% |
| Group EBITDA | | | | | | | | | | | | |
| Bharti | 24,466 | 27,097 | 29,634 | 32,518 | 35,221 | 36,993 | 39,450 | 40,014 | 151,678 | 176,732 | 187,129 | 205,446 |
| RCOM | 18,142 | 19,618 | 21,064 | 23,164 | 22,502 | 23,016 | 23,525 | 23,832 | 92,875 | 109,483 | 119,113 | 128,317 |
| Idea | 5,128 | 5,106 | 5,672 | 6,606 | 7,203 | 6,065 | 6,969 | 8,108 | 28,345 | 36,254 | 43,433 | 51,881 |
| Total EBITDA | 47,736 | 51,822 | 56,370 | 62,288 | 64,926 | 66,074 | 69,944 | 71,954 | 272,898 | 322,469 | 349,675 | 385,645 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 9% | 11% | 9% | 10% | 8% | 5% | 7% | 1% | | | | |
| RCOM | 11% | 8% | 7% | 10% | -3% | 2% | 2% | 1% | | | | |
| Idea | 18% | 0% | 11% | 16% | 9% | -16% | 15% | 16% | | | | |
| Total EBITDA | 11% | 9% | 9% | 10% | 4% | 2% | 6% | 3% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 63% | 59% | 48% | 45% | 44% | 37% | 33% | 23% | 33% | 17% | 6% | 10% |
| RCOM | 50% | 45% | 38% | 42% | 24% | 17% | 12% | 3% | 13% | 18% | 9% | 8% |
| Idea | 70% | 44% | 53% | 51% | 40% | 19% | 23% | 23% | 26% | 28% | 20% | 19% |
| Total EBITDA | 59% | 52% | 44% | 44% | 36% | 28% | 24% | 16% | 25% | 18% | 8% | 10% |
| Group EBITDA Margin | | | | | | | | | | | | |
| Bharti | 41.4% | 42.8% | 42.6% | 41.6% | 41.5% | 41.0% | 41.0% | 40.7% | 41.0% | 40.5% | 37.6% | 37.0% |
| RCOM | 42.2% | 42.8% | 43.2% | 43.6% | 42.3% | 40.8% | 40.2% | 38.9% | 40.5% | 39.3% | 36.8% | 35.2% |
| Idea | 34.7% | 32.7% | 33.2% | 33.5% | 33.1% | 26.3% | 25.5% | 27.6% | 27.9% | 27.1% | 26.7% | 28.3% |
| Total EBITDA | 41% | 42% | 42% | 41% | 41% | 39% | 38% | 38% | 39.0% | 38.0% | 35.5% | 34.9% |
| Net Profit | | | | | | | | | | | | |
| Bharti | 15,116 | 16,139 | 17,224 | 18,529 | 20,250 | 20,463 | 21,593 | 22,393 | 84,699 | 102,193 | 118,727 | 132,567 |
| RCOM | 12,204 | 13,046 | 13,728 | 15,032 | 15,123 | 15,308 | 14,102 | 14,544 | 59,077 | 53,761 | 56,251 | 59,753 |
| Idea | 3,085 | 2,203 | 2,368 | 2,767 | 2,631 | 1,441 | 2,195 | 2,743 | 9,009 | 9,395 | 11,994 | 16,349 |
| Total Net Profit | 30,405 | 31,389 | 33,320 | 36,328 | 38,004 | 37,212 | 37,890 | 39,680 | 152,785 | 165,349 | 186,972 | 208,669 |
| Q/Q Growth | | | | | | | | | | | | |
| Bharti | 12% | 7% | 7% | 8% | 9% | 1% | 6% | 4% | | | | |
| RCOM | 19% | 7% | 5% | 9% | 1% | 1% | -8% | 3% | | | | |
| Idea | 60% | -29% | 7% | 17% | -5% | -45% | 52% | 25% | | | | |
| Total Net Profit | 18% | 3% | 6% | 9% | 5% | -2% | 2% | 5% | | | | |
| Y/Y Growth | | | | | | | | | | | | |
| Bharti | 100% | 73% | 42% | 37% | 34% | 27% | 25% | 21% | 26% | 21% | 16% | 12% |
| RCOM | 138% | 86% | 49% | 47% | 24% | 17% | 3% | -3% | 9% | -9% | 5% | 6% |
| Idea | 259% | 100% | 108% | 43% | -15% | -35% | -7% | -1% | -14% | 4% | 28% | 36% |
| Total Net Profit | 125% | 80% | 48% | 41% | 25% | 19% | 14% | 9% | 16% | 8% | 13% | 12% |

Source: Company reports and J.P. Morgan estimates.

Estimates Adjustments – building in lower revenues but higher margins

Bharti – Margin defense leads to 9% increase in EPS estimates

We have cut our revenue estimates due to weaker ARPUs, though strong subscriber addition offsets part of the decline. Our revenue estimates for FY10E/FY11E/FY12E go down by -1%/-2%/-1%. However Bharti continues to demonstrate margin resilience ahead of our expectations and hence we have increased our margin assumptions. As a result, our EBITDA estimates go up by 14%/9%/8% and EPS by 9%/8%/9% for FY10E/FY11E/FY12E.

Table 12: Bharti: Estimate Changes

| Rs mn, year-end March | FY10 | Old | % Change | FY11 | Old | % Change | FY12 | Old | % Change |
|------------------------------|----------------|----------------|------------|----------------|----------------|------------|----------------|----------------|------------|
| Revenues | | | | | | | | | |
| Mobile (Wireless) | 364,708 | 372,088 | -2% | 415,841 | 424,705 | -2% | 464,676 | 472,161 | -2% |
| Telemedia (fixed line) | 35,912 | 37,678 | -5% | 38,648 | 41,778 | -7% | 41,168 | 44,832 | -8% |
| Enterprise carriers | 82,530 | 87,626 | -6% | 99,535 | 102,243 | -3% | 112,315 | 111,766 | 0% |
| Enterprise corporates | 20,270 | 22,329 | -9% | 24,629 | 27,217 | -10% | 28,816 | 31,844 | -10% |
| Passive infrastructure | 31,161 | 24,704 | 26% | 33,671 | 31,428 | 7% | 39,524 | 36,948 | 7% |
| Others | 4,277 | 4,415 | -3% | 5,198 | 5,366 | -3% | 6,016 | 6,210 | -3% |
| Eliminations | -102,322 | -106,713 | -4% | -119,886 | -126,988 | -6% | -136,656 | -141,278 | -3% |
| Total Revenues | 436,536 | 442,126 | -1% | 497,637 | 505,749 | -2% | 555,860 | 562,482 | -1% |
| EBITDA | | | | | | | | | |
| Mobile (Wireless) | 115,889 | 100,219 | 16% | 120,949 | 107,761 | 12% | 130,768 | 118,693 | 10% |
| Telemedia (fixed line) | 14,484 | 14,955 | -3% | 15,304 | 16,650 | -8% | 16,403 | 18,044 | -9% |
| Enterprise carriers | 36,149 | 36,877 | -2% | 43,583 | 42,975 | 1% | 49,158 | 46,894 | 5% |
| Enterprise corporates | 8,984 | 8,463 | 6% | 11,007 | 10,167 | 8% | 13,018 | 12,040 | 8% |
| Passive infrastructure | 11,250 | 7,166 | 57% | 9,612 | 8,882 | 8% | 11,209 | 10,408 | 8% |
| Others | -5,885 | -9,772 | -40% | -6,732 | -10,609 | -37% | -7,594 | -11,501 | -34% |
| Eliminations | -4,140 | -3,201 | 29% | -6,594 | -3,810 | 73% | -7,516 | -4,238 | 77% |
| Total EBITDA | 176,732 | 154,707 | 14% | 187,129 | 172,016 | 9% | 205,446 | 190,338 | 8% |
| EBITDA Margins | | | | | | | | | |
| Mobile (Wireless) | 31.8% | 26.9% | | 29.1% | 25.4% | | 28.1% | 25.1% | |
| Telemedia (fixed line) | 40.3% | 39.7% | | 39.6% | 39.9% | | 39.8% | 40.2% | |
| Enterprise carriers | 43.8% | 42.1% | | 43.8% | 42.0% | | 43.8% | 42.0% | |
| Enterprise corporates | 44.3% | 37.9% | | 44.7% | 37.4% | | 45.2% | 37.8% | |
| Passive infrastructure | 36.1% | 29.0% | | 28.5% | 28.3% | | 28.4% | 28.2% | |
| Others | -137.6% | -221.4% | | -129.5% | -197.7% | | -126.2% | -185.2% | |
| Eliminations | 4.0% | 3.0% | | 5.5% | 3.0% | | 5.5% | 3.0% | |
| Total EBITDA | 40.5% | 35.0% | | 37.6% | 34.0% | | 37.0% | 33.8% | |
| EBIT | 117,229 | 98,852 | 19% | 126,516 | 112,232 | 13% | 136,489 | 122,731 | 11% |
| EBIT Margin (%) | 26.9% | 22.4% | | 25.4% | 22.2% | | 24.6% | 21.8% | |
| PBT | 120,187 | 110,248 | 9% | 142,996 | 132,467 | 8% | 167,746 | 154,369 | 9% |
| Net Profit | 102,193 | 93,784 | 9% | 118,727 | 110,035 | 8% | 132,567 | 122,053 | 9% |
| EPS | 53.9 | 49.4 | 9% | 62.6 | 58.0 | 8% | 69.9 | 64.3 | 9% |
| ARPU (Rs) | 277 | 291 | -5% | 246 | 268 | -8% | 230 | 257 | -11% |
| MoU per user per month (min) | 490 | 532 | -8% | 485 | 543 | -11% | 485 | 553 | -12% |
| ARPM (Rs/min) | 0.57 | 0.55 | 3% | 0.51 | 0.49 | 3% | 0.47 | 0.46 | 2% |

Source: Company reports and J.P. Morgan estimates.

Reliance Communications – Marginal adjustments for lower capex

We are marginally adjusting our estimates for RCOM with total Revenues for FY10E/FY11E/FY12E changed by 0%/-1%/0% and EBITDA by 3%/1%/3%. However, lower than expected capex for FY09 (at Rs190B) and low guidance for FY10 (Rs100B), we have lowered our depreciation and interest costs, leading to EPS increase in FY10E/FY11E/FY12E by 4%/6%/19%.

Table 13: Reliance Communications: Estimate Changes

| Rs mn, year-end March | FY10 | Old | % Change | FY11 | Old | % Change | FY12 | Old | % Change |
|----------------------------------|----------------|----------------|-----------|----------------|----------------|------------|----------------|----------------|------------|
| Revenues | | | | | | | | | |
| Wireless | 208,216 | 216,994 | -4% | 245,549 | 259,256 | -5% | 280,129 | 291,111 | -4% |
| Global | 84,805 | 72,163 | 18% | 98,992 | 79,795 | 24% | 107,887 | 85,756 | 26% |
| Broadband | 30,362 | 29,612 | 3% | 32,806 | 32,980 | -1% | 35,511 | 36,439 | -3% |
| Others | 12,900 | 13,300 | -3% | 13,700 | 14,100 | -3% | 14,500 | 14,900 | -3% |
| Inter/intra segment eliminations | -57,676 | -52,134 | 11% | -67,325 | -57,648 | 17% | -73,374 | -61,955 | 18% |
| Total Revenues | 278,607 | 279,934 | 0% | 323,722 | 328,482 | -1% | 364,652 | 366,250 | 0% |
| EBITDA | | | | | | | | | |
| Wireless | 75,906 | 73,965 | 3% | 78,428 | 82,391 | -5% | 83,376 | 86,030 | -3% |
| Global | 23,067 | 19,484 | 18% | 25,936 | 21,545 | 20% | 28,266 | 23,154 | 22% |
| Broadband | 13,588 | 13,043 | 4% | 14,763 | 14,395 | 3% | 15,980 | 15,759 | 1% |
| Others | -3,055 | 399 | -866% | 13 | 846 | | 725 | 894 | |
| Inter/intra segment eliminations | -23 | -560 | -96% | -26 | -657 | -96% | -30 | -733 | -96% |
| Total EBITDA | 109,483 | 106,332 | 3% | 119,113 | 118,519 | 1% | 128,317 | 125,104 | 3% |
| EBITDA Margin (%) | | | | | | | | | |
| Wireless | 36.5% | 34.1% | | 31.9% | 31.8% | | 29.8% | 29.6% | |
| Global | 27.2% | 27.0% | | 26.2% | 27.0% | | 26.2% | 27.0% | |
| Broadband | 44.8% | 44.0% | | 45.0% | 43.6% | | 45.0% | 43.2% | |
| Others | -23.7% | 3.0% | | 0.1% | 6.0% | | 5.0% | 6.0% | |
| Total EBITDA | 39.3% | 38.0% | | 36.8% | 36.1% | | 35.2% | 34.2% | |
| EBIT | 59,392 | 56,973 | 4% | 63,535 | 59,474 | 7% | 67,695 | 58,506 | 16% |
| EBIT Margin (%) | 21.3% | 20.4% | | 19.6% | 18.1% | | 18.6% | 16.0% | |
| PBT | 58,431 | 55,839 | 5% | 63,199 | 58,830 | 7% | 70,291 | 58,319 | 21% |
| Net Profit | 53,761 | 51,930 | 4% | 56,251 | 52,947 | 6% | 59,753 | 50,154 | 19% |
| EPS | 24.9 | 24.1 | 4% | 26.1 | 24.5 | 6% | 27.7 | 23.2 | 19% |
| ARPU (Rs) | 199 | 235 | -15% | 177 | 216 | -18% | 165 | 203 | -18% |
| MoU per user per month (minutes) | 372 | 432 | -14% | 368 | 445 | -17% | 368 | 454 | -19% |
| ARPM (Rs/min) | 0.54 | 0.54 | -1% | 0.48 | 0.48 | -1% | 0.45 | 0.45 | 0% |

Source: Company reports and J.P. Morgan estimates.

Idea Cellular – Indus and Spice changes accounted for in model, limited EPS impact

We are adjusting Idea cellular estimates to incorporate proportional consolidation of Spice and Indus. For Spice, we assume 42% consolidation in FY10E and 100% consolidation in FY11E. For Indus, we continue to assume the current IRU arrangement in FY10E with complete de-merger in FY11E. As per the current agreement, Idea receives IRU rental income from Indus and needs to charge depreciation on towers on its books – this will change in FY11E.

Our revenue estimates reduced by 9%/5%/5% for FY10E/FY11E/FY12E largely due to lower MOUs and ARPUs. For FY10E the impact is higher as we are no longer consolidating 100% of Spice in FY10E as we were doing earlier. On margins, Idea has surprised on the upside in 4QFY09 with lower losses in new circles and good cost control. As such, we have increased EBITDA margins to 27%/27%/28% in FY10E/FY11E/FY12E from 23%/23%/23% earlier. This is partially also impacted by Indus line-by-line consolidation as we had earlier done proportionate equity accounting for Indus.

Overall, our EPS estimates for FY10E/FY11E/FY12E change by 4%/-2%/-3%.

Table 14: Idea Cellular: Estimate Changes

| In Rs Mn | FY10E New | FY10E Old | % Change | FY11E New | FY11E Old | % Change | FY12E New | FY12E Old | % Change |
|----------------------------------|--------------|--------------|----------|--------------|--------------|----------|--------------|--------------|----------|
| Revenues | 134,021 | 147,328 | -9.0% | 162,801 | 171,493 | -5.1% | 183,581 | 193,074 | -4.9% |
| EBITDA | 36,254 | 33,096 | 10% | 43,433 | 38,513 | 13% | 51,881 | 44,286 | 17% |
| EBITDA margin (%) | 27.1% | 22.5% | | 26.7% | 22.5% | | 28.3% | 22.9% | |
| EBIT | 16,421 | 14,593 | 13% | 19,635 | 16,447 | 19% | 24,983 | 19,364 | 29% |
| EBIT margin (%) | 12.3% | 9.9% | | 12.1% | 9.6% | | 13.6% | 10.0% | |
| Pretax profits | 10,439 | 10,696 | -2% | 13,946 | 14,207 | -2% | 18,792 | 19,452 | -3% |
| Adjusted net profit | 9,395 | 9,627 | -2% | 11,994 | 12,218 | -2% | 16,349 | 16,923 | -3% |
| EPS (Rs) | 3.0 | 2.9 | 4% | 3.6 | 3.7 | -2% | 5.0 | 5.1 | -3% |
| MoU per user per month (minutes) | 409 | 437 | -6% | 410 | 454 | -10% | 410 | 468 | -12% |
| ARPU (Rs) | 234 | 258 | -9% | 205 | 228 | -10% | 192 | 220 | -13% |
| ARPM (Rs/min) | 0.57 | 0.59 | -3% | 0.50 | 0.50 | -1% | 0.47 | 0.47 | -1% |

Source: Company reports and J.P. Morgan estimates.

Valuations – Raising target prices due to roll-over and better margin defense

Bharti – Increasing price target to Rs 800/share but remain Neutral

We are rolling over our PT to a Jun-10 PT of Rs800/share (Dec-09 PT of Rs600 earlier) based on a combination of DCF and P/E multiples (including Rs126/share for Indus stake). While our DCF fair value for Bharti is Rs730/share (including Indus), our target price is at a 10% premium to DCF price as we believe Bharti's industry leadership, continued margin defense and strong balance sheet should lead the stock to trade ahead of DCF fair values.

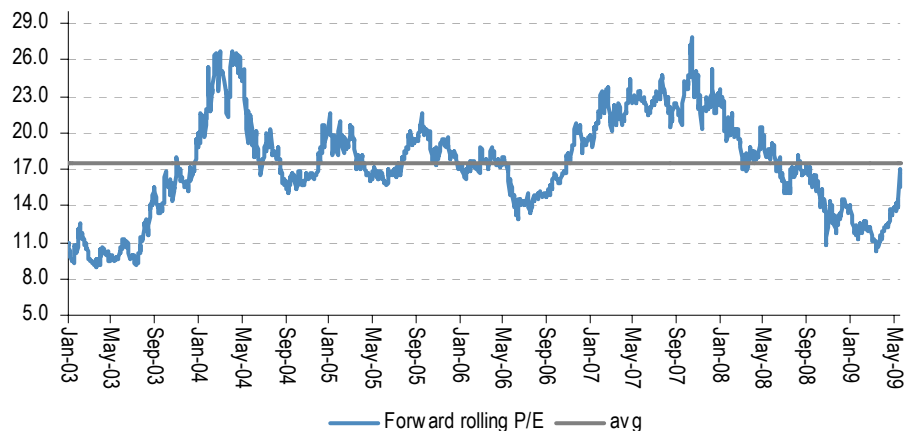
Our PT implies a one-year forward P/E / EV/EBITDA of 12x/8x, well below the historical average. However, this is justified in our view given a slowing growth rate.

Key upside risks are higher than expected subscribers due to faster-than-expected subscriber growth and lower-than-expected ramp-up from new operators. **Key downside risks** are sharper fall in ARPMs due to competition, 3G bids rising irrationally, and regulatory policies (faster rollout of MNP etc).

DCF valuation (not including Indus)

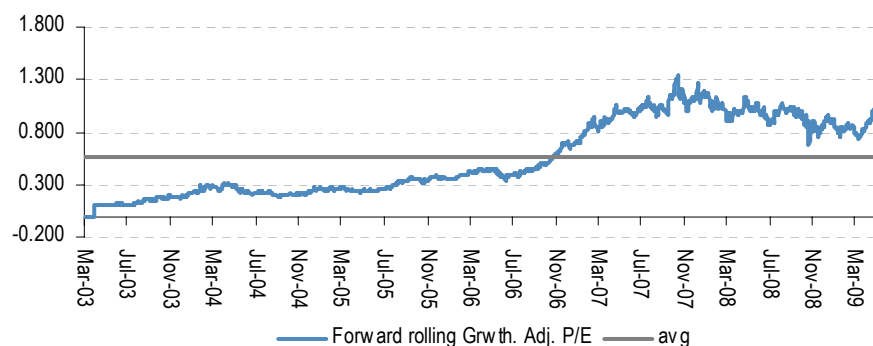
Our Jun-10 DCF fair value estimate is Rs603/share. The DCF estimate assumes 10-year revenue CAGR (2010-2020E) of 7%, long-term EBITDA margin of 37% (previously 34%), and terminal growth of 4%. We assume a beta of 0.85, risk-free rate of 6.5%, market risk premium of 8%, and cost of debt of 6.1% to arrive at a WACC of 12.8% (unchanged from previous WACC assumption). We believe that our revenue growth estimates are fair given the stable subscriber growth momentum in spite of increasing competition.

Figure 7: Bharti: 1 year forward rolling P/E chart



Source: Company reports and J.P. Morgan estimates.

Figure 8: Bharti: 1 year forward rolling growth adj. P/E chart



Source: Company reports and J.P. Morgan estimates.

Reliance Communications

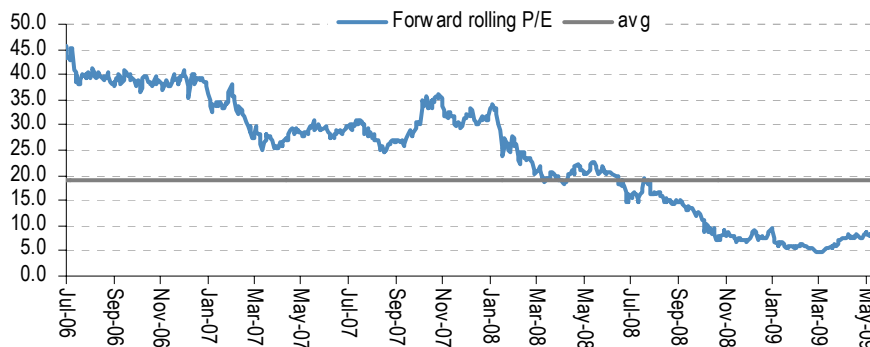
Our Jun-10 DCF based price target (PT) is Rs265/share (previously Dec-09 target of Rs180/share) and includes Rs60/share from Reliance Infratel. Our PT implies a one-year forward P/E of 10x and EV/EBITDA of 6x, below historical averages due to EPS decline over FY09-11E and a stretched balance sheet.

Key upside risks to our PT are subscriber growth and low capital expenditure. **Key downside risks** are lower-than-expected market share gain from the GSM launch, 3G bids getting irrationally higher and regulatory policies.

DCF valuation

Our Jun-10 DCF fair value estimate is Rs265/share. The DCF estimate assumes a 10-year revenue CAGR (2010-2020E) of 7%, long-term EBITDA margin of 35% and a terminal growth of 4%. We assume a beta of 1.15, risk-free rate of 6.5%, market risk premium of 8.0%, and cost of debt of 6.6% to arrive at a WACC of 12.9%.

Figure 9: RCOM: 1 year forward rolling P/E chart



Source: Company reports and J.P. Morgan estimates.

Idea Cellular – Setting Jun-10 price target to Rs 55/share

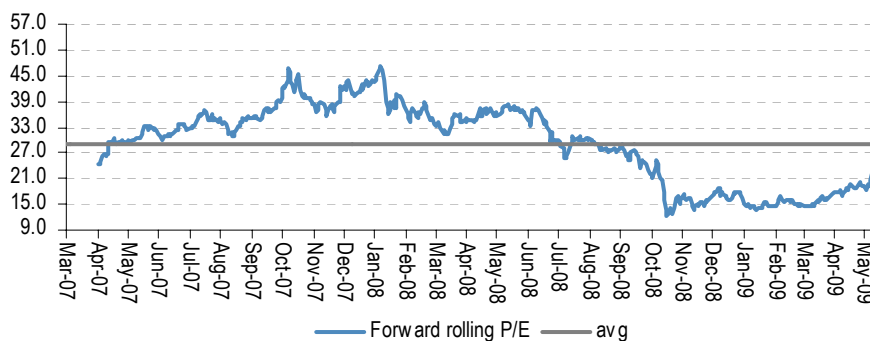
We are setting DCF-based Jun-10 PT of Rs 55/share after accounting for Spice consolidation and Indus (earlier at Rs40/share). Our new PT includes Rs 28/share coming from the 16% stake in Indus, implying core business value of Rs 27/share. Our price target implies one-year forward P/E of 14x and EV/EBITDA of 5x. We are using a discount to Bharti and RCOM on EV/EBITDA in terms of our target price. The P/E used for Idea is slightly higher given Idea’s increasing margin trajectory.

Key upside risks to our price target are larger than expected market share gains due to new launches and better cost control as was the case in 4QFY09.

DCF

Our Jun-10 DCF fair value estimate is Rs55/share – Indus valuation is now built in along with the core business. Our DCF estimate assumes 10- year revenue CAGR (2010-2020E) of 8%, long-term EBITDA margin of 27% and a terminal growth of 4%. We assume a beta of 1.10, risk-free rate of 6.5%, market risk premium of 8.0%, and cost of debt of 9.0% to arrive at a WACC of 13%. While our long-term EBITDA margin discount to Bharti continues, we have increased our assumptions by ~200bp to factor in better margin resilience despite new circle launches.

Figure 10: Idea: 1 year forward rolling P/E chart



Source: Company reports and J.P. Morgan estimates.

Indus – Model reworked based on 4QFY09 disclosure

We have reworked our Indus model based on disclosures on Indus P&L by Idea. Further, our discussions with industry experts indicate that Indus could achieve a long-term EBITDA margin of ~45% higher than our earlier assumptions but lower than US-based tower companies (~60-70% margins). As such, we have increased our equity value of Indus from US\$9B to US\$12B. Our estimates imply EV/tower of Rs5.4m, well in line with some of the recent deals that have occurred in the sector.

Our key DCF assumptions are: 10-year revenue growth rate of 12% (same as before), long-term EBITDA margin of 45% (35% earlier), WACC of 10.3% (earlier 11.6%). Based on these we believe that the fair equity value for Indus is \$12B.

Table 15: India telecoms—Indus estimates

| Rs MM, YE March | FY10E | FY11E | FY12E | FY13E | FY14E | FY15E | FY16E | FY17E | FY18E | FY19E | FY20E |
|---------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| No. of towers | 352,520 | 438,093 | 515,110 | 576,723 | 626,013 | 665,446 | 696,992 | 722,228 | 742,418 | 762,607 | 782,796 |
| Indus Towers | 123,248 | 144,404 | 159,488 | 167,030 | 168,785 | 166,108 | 173,983 | 180,282 | 185,322 | 190,361 | 195,401 |
| Net additions | 28,094 | 21,156 | 15,084 | 7,542 | 1,755 | -2,677 | 7,874 | 6,300 | 5,040 | 5,040 | 5,040 |
| Share | 35.0% | 33.0% | 31.0% | 29.0% | 27.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| Average sites | 109,201 | 133,826 | 151,946 | 163,259 | 167,908 | 167,447 | 170,045 | 177,132 | 182,802 | 187,842 | 192,881 |
| Average tenants/tower(x) | 1.65 | 2.01 | 2.23 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| Site rental per month (Rs) | 30,226 | 31,222 | 32,489 | 33,302 | 34,134 | 34,987 | 35,862 | 36,759 | 37,678 | 38,620 | 39,585 |
| Q/Q growth | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM | NM |
| Y/Y growth | 0.9% | 3.3% | 4.1% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Other pass-through charges (Rs) | 18,000 | 18,000 | 18,000 | 18,360 | 18,727 | 19,102 | 19,484 | 19,873 | 20,271 | 20,676 | 21,090 |
| Total rental (Rs) | 48,226 | 49,222 | 50,489 | 51,662 | 52,861 | 54,089 | 55,346 | 56,632 | 57,949 | 59,296 | 60,675 |
| Total revenues | 104,832 | 159,423 | 205,054 | 231,973 | 248,568 | 252,782 | 261,789 | 278,113 | 292,728 | 306,800 | 321,332 |
| EBITDA | 19,894 | 51,215 | 78,555 | 93,723 | 104,959 | 108,135 | 113,428 | 122,024 | 130,032 | 136,705 | 143,628 |
| EBITDA margins | 19.0% | 32.1% | 38.3% | 40.4% | 42.2% | 42.8% | 43.3% | 43.9% | 44.4% | 44.6% | 44.7% |
| Depreciation | (5,899) | (7,221) | (8,125) | (8,831) | (8,882) | (8,960) | (8,841) | (9,191) | (9,471) | (9,694) | (9,918) |
| EBIT | 13,995 | 43,994 | 70,431 | 84,892 | 96,077 | 99,175 | 104,587 | 112,833 | 120,561 | 127,011 | 133,709 |
| Interest and Fin. Costs | (10,340) | (13,160) | (13,160) | (15,190) | (16,490) | (17,209) | (19,319) | (21,261) | (23,068) | (24,903) | (26,764) |
| Profit before tax | 3,655 | 30,834 | 57,271 | 69,702 | 79,587 | 81,966 | 85,268 | 91,573 | 97,493 | 102,108 | 106,945 |
| Tax | (431) | (3,083) | (5,727) | (13,940) | (15,917) | (16,393) | (17,054) | (18,315) | (19,499) | (20,422) | (21,389) |
| Net income | 3,224 | 27,750 | 51,544 | 55,761 | 63,669 | 65,573 | 68,215 | 73,258 | 77,994 | 81,686 | 85,556 |
| Capex | 86,605 | 66,403 | 50,420 | 33,839 | 21,661 | 11,977 | 35,165 | 32,368 | 30,130 | 30,577 | 31,025 |
| Capex / Sales % | 83% | 42% | 25% | 15% | 9% | 5% | 13% | 12% | 10% | 10% | 10% |
| Capex per tower (RsMM) | 2.66 | 2.46 | 2.27 | 2.22 | 2.22 | 2.22 | 2.22 | 2.22 | 2.22 | 2.22 | 2.22 |

Source: Company reports and J.P. Morgan estimates.

Table 16: India telecoms—Indus DCF valuation

| Rs MM, YE March | FY10E | FY11E | FY12E | FY13E | FY14E | FY15E | FY16E | FY17E | FY18E | FY19E | FY20E |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| EBIT * (1-t) | 12,344 | 39,594 | 63,388 | 67,914 | 76,861 | 79,340 | 83,670 | 90,267 | 96,449 | 101,609 | 106,968 |
| Depreciation | 5,899 | 7,221 | 8,125 | 8,831 | 8,882 | 8,960 | 8,841 | 9,191 | 9,471 | 9,694 | 9,918 |
| Change in WC | (568) | (1,365) | (1,141) | (673) | (415) | (105) | (225) | (408) | (365) | (352) | (363) |
| Capex | (86,605) | (66,403) | (50,420) | (33,839) | (21,661) | (11,977) | (35,165) | (32,368) | (30,130) | (30,577) | (31,025) |
| Free cash flow | (68,930) | (20,953) | 19,951 | 42,232 | 63,668 | 76,218 | 57,121 | 66,682 | 75,424 | 80,374 | 85,498 |
| NPV of cash flows (RsMM) | 274,135 | | | | | | | | | | |
| Terminal growth | 4.0% | | | | | | | | | | |
| Implied exit FCF multiple (x) | 15.9 | | | | | | | | | | |
| PV of terminal value (RsMM) | 424,943 | | | | | | | | | | |
| Net debt (RsMM) | 131,600 | | | | | | | | | | |
| EV (RsMM) | 699,078 | | | | | | | | | | |
| WACC | 11.3% | | | | | | | | | | |
| Equity Value (US\$MM) | \$12,074 | | | | | | | | | | |
| Equity value (RsMM) | 567,478 | | | | | | | | | | |

Source: Company reports and J.P. Morgan estimates.

DCF models

Table 17: Bharti: DCF Summary

| Rs in millions, year-end March | 2009 | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|-----------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Assumptions (%) | | | | | | | | | | | | |
| Revenue growth | 36.8 | 18.1 | 14.0 | 11.7 | 8.3 | 5.4 | 6.8 | 5.3 | 4.3 | 4.3 | 4.0 | 3.9 |
| EBITDA margin | 41.0 | 40.5 | 37.6 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 | 37.0 |
| FCF margin | (7.2) | 16.0 | 11.0 | 12.9 | 16.6 | 17.0 | 18.2 | 18.7 | 19.1 | 19.1 | 19.0 | 19.0 |
| FCF growth | NM | NM | (21.1) | 30.3 | 39.7 | 7.7 | 14.2 | 8.6 | 6.4 | 4.3 | 3.7 | 3.8 |
| Capex / sales | 37.9 | 26.3 | 22.3 | 18.3 | 16.8 | 15.6 | 14.4 | 13.4 | 12.9 | 12.9 | 12.9 | 12.9 |
| Debt / capital | 37.5 | 31.8 | 23.7 | 19.3 | 14.8 | 13.7 | 12.7 | 11.9 | 11.2 | 10.5 | 9.9 | 6.9 |
| ROCE | 31.0 | 26.5 | 24.9 | 22.6 | 21.9 | 21.7 | 22.1 | 22.2 | 22.1 | 22.0 | 21.8 | 21.5 |
| Change in Working Capital / FCF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT * (1-tax rate) | 96,698 | 101,989 | 107,539 | 110,556 | 117,655 | 125,353 | 136,127 | 144,837 | 151,940 | 159,607 | 166,895 | 174,416 |
| Depreciation & Amortization | 47,581 | 59,503 | 60,613 | 68,956 | 69,956 | 71,956 | 73,956 | 75,956 | 77,956 | 79,956 | 81,956 | 83,956 |
| Change in net working capital | (30,632) | 23,054 | (2,006) | (6,425) | 8,651 | 4,933 | 6,592 | 5,479 | 4,612 | 4,917 | 4,712 | 4,838 |
| Capital expenditure | (140,171) | (114,838) | (111,164) | (101,453) | (96,175) | (94,451) | (93,532) | (92,571) | (92,312) | (96,121) | (99,782) | (103,543) |
| Free cash flows | (26,523) | 69,708 | 54,981 | 71,635 | 100,088 | 107,792 | 123,143 | 133,701 | 142,197 | 148,360 | 153,781 | 159,667 |
| One-year forward DCF calculation Jun-10 | | | | | | | | | | | | |
| NPV of cash flows (2011E-2020E) | 608,148 | | | | | | | | | | | |
| Terminal growth (%) | 4% | | | | | | | | | | | |
| Implied 2020E terminal FCF exit multiple (x) | 11.3 | | | | | | | | | | | |
| Implied FY2020E exit EBITDA multiple (x) | 5.8 | | | | | | | | | | | |
| PV of terminal value | 578,387 | | | | | | | | | | | |
| Enterprise Value (EV) | 1,186,535 | | | | | | | | | | | |
| Terminal value as % of EV | 49% | | | | | | | | | | | |
| FY10E net debt/(cash) | 42,352 | | | | | | | | | | | |
| Equity value (Rs mn) | 1,144,183 | | | | | | | | | | | |
| Equity value (US\$ mn) | 24,344 | | | | | | | | | | | |
| Number of shares (mn) | 1,897 | | | | | | | | | | | |
| Equity value (Rs/share) | 603 | | | | | | | | | | | |
| WACC Assumptions | | | | | | | | | | | | |
| Cost of equity = | 13.3% | | | | | | | | | | | |
| Cost of debt = | 6.1% | | | | | | | | | | | |
| Tax = | 34.0% | | | | | | | | | | | |
| Risk free rate = | 6.5% | | | | | | | | | | | |
| Beta = | 0.85 | | | | | | | | | | | |
| Equity risk premium = | 8.0% | | | | | | | | | | | |
| Required equity market return = | 14.5% | | | | | | | | | | | |
| Debt/capital = | 5.0% | | | | | | | | | | | |
| Equity/capital = | 95.0% | | | | | | | | | | | |
| WACC = | 12.8% | | | | | | | | | | | |

Source: Company reports and J.P. Morgan estimates.

Table 18: Reliance Communications: DCF Summary

| Rs in millions, year-end March | 2009 | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|--|-----------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Assumptions (%) | | | | | | | | | | | | |
| Revenue growth | 20% | 21% | 16% | 13% | 7% | 9% | 7% | 5% | 5% | 4% | 4% | 4% |
| EBITDA margin | 40% | 39% | 37% | 35% | 34% | 34% | 34% | 34% | 34% | 34% | 34% | 34% |
| FCF margin | -19% | 10% | 17% | 18% | -2% | 15% | 15% | 14% | 14% | 12% | 17% | 17% |
| FCF growth | NM | NM | 97.8% | 17.1% | NM | NM | 8.8% | -0.9% | 1.3% | -4.9% | 42.6% | 4.0% |
| Capex / sales | 54% | 36% | 26% | 22% | 18% | 15% | 14% | 14% | 14% | 14% | 14% | 14% |
| Debt / capital | 53% | 50% | 50% | 48% | 34% | 26% | 17% | 8% | 4% | 1% | 1% | 1% |
| ROCE | 3% | 12% | 12% | 12% | 10% | 11% | 12% | 13% | 14% | 14% | 15% | 16% |
| Change in Working Capital / FCF | (1.2) | 78.5 | 47.3 | 35.0 | 706.0 | 1.0 | (5.9) | (12.7) | (17.1) | (29.2) | 5.4 | 5.0 |
| EBIT * (1-tax rate) | 53,669 | 57,017 | 59,088 | 60,249 | 53,053 | 59,839 | 65,269 | 69,533 | 73,339 | 75,710 | 77,682 | 79,658 |
| Depreciation & amortization | 39,313 | 50,091 | 55,578 | 60,622 | 64,791 | 68,351 | 71,438 | 74,260 | 77,680 | 81,985 | 86,462 | 91,105 |
| Change in working capital | 543 | 22,040 | 26,266 | 22,762 | (54,276) | 621 | (4,020) | (8,616) | (11,805) | (19,090) | 5,001 | 4,856 |
| Capital expenditure | (137,772) | (101,063) | (85,380) | (78,599) | (71,256) | (65,736) | (64,050) | (67,192) | (70,337) | (73,131) | (75,798) | (78,527) |
| Free cash flows | (44,247) | 28,085 | 55,551 | 65,033 | (7,688) | 63,076 | 68,636 | 67,985 | 68,877 | 65,475 | 93,347 | 97,092 |
| One-year forward DCF calculation Jun-10 | | | | | | | | | | | | |
| NPV of cash flows (2011E-2020E) | 337,001 | | | | | | | | | | | |
| Terminal growth rate (%) | 4.0 | | | | | | | | | | | |
| Implied 2020E terminal FCF exit multiple (x) | 12.1 | | | | | | | | | | | |
| Implied 2020E exit EBITDA multiple (x) | 6.1 | | | | | | | | | | | |
| PV of terminal value | 393,180 | | | | | | | | | | | |
| Enterprise Value (EV) | 730,181 | | | | | | | | | | | |
| Terminal value as % of EV | 54% | | | | | | | | | | | |
| FY10E net debt/(cash) | 156,576 | | | | | | | | | | | |
| Equity value (Rs mn) | 573,605 | | | | | | | | | | | |
| Number of shares (mn) | 2,157 | | | | | | | | | | | |
| DCF based equity value (Rs/share) | 266 | | | | | | | | | | | |
| WACC Assumptions | | | | | | | | | | | | |
| Cost of equity = | 15.7% | | | | | | | | | | | |
| Cost of debt = | 6.6% | | | | | | | | | | | |
| Tax = | 34.0% | | | | | | | | | | | |
| Risk free rate = | 6.5% | | | | | | | | | | | |
| Beta = | 1.15 | | | | | | | | | | | |
| Equity risk premium = | 8.0% | | | | | | | | | | | |
| Required equity market return = | 14.5% | | | | | | | | | | | |
| Debt/capital = | 30.0% | | | | | | | | | | | |
| Equity/capital = | 70.0% | | | | | | | | | | | |
| WACC = | 12.3% | | | | | | | | | | | |

Source: Company reports and J.P. Morgan estimates.

Table 19: Idea Cellular: DCF Summary

| Rs in millions, year-end March | 2009 | 2010E | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|---|-----------------|-----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Assumptions (%) | | | | | | | | | | | | |
| Revenue growth | 51% | 32% | 21% | 13% | 8% | 7% | 7% | 6% | 5% | 4% | 4% | 4% |
| EBITDA margin | 28% | 27% | 27% | 28% | 27% | 27% | 27% | 27% | 27% | 27% | 27% | 27% |
| FCF margin | -66% | -19% | -6% | 6% | 11% | 11% | 11% | 13% | 12% | 11% | 12% | 11% |
| FCF growth | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Capex / sales | 95% | 47% | 30% | 20% | 13% | 13% | 13% | 13% | 13% | 13% | 13% | 13% |
| Debt / capital | 38% | 37% | 37% | 32% | 24% | 11% | 0% | 0% | 0% | 0% | 0% | 0% |
| ROCE | 10% | 8% | 8% | 9% | 8% | 9% | 10% | 11% | 12% | 12% | 13% | 13% |
| Change in Working Capital / FCF | NM | NM | NM | -1% | -6% | -1% | -1% | 12% | 1% | 1% | 1% | 1% |
| <hr/> | | | | | | | | | | | | |
| EBIT * (1-tax rate) | 13,753 | 14,779 | 16,886 | 21,736 | 20,634 | 22,978 | 24,697 | 26,080 | 27,460 | 28,420 | 29,740 | 30,859 |
| Depreciation & Amortization | 14,039 | 19,834 | 23,797 | 26,898 | 28,856 | 29,832 | 32,063 | 33,858 | 35,651 | 37,183 | 38,610 | 40,063 |
| Change in net working capital | 1,652 | 3,791 | (1,117) | (123) | (1,287) | (264) | (337) | 3,863 | 297 | 225 | 331 | 289 |
| Capital expenditure | (96,622) | (63,285) | (48,631) | (36,716) | (26,667) | (28,553) | (30,689) | (32,407) | (34,123) | (35,589) | (36,956) | (38,346) |
| Free cash flows | (67,178) | (24,882) | (9,064) | 11,794 | 21,537 | 23,993 | 25,734 | 31,393 | 29,285 | 30,239 | 31,726 | 32,865 |
| <hr/> | | | | | | | | | | | | |
| DCF calculation for Jun-10 | Jun-10 | | | | | | | | | | | |
| NPV of cash flows (2011E-2020E) | 106,980 | | | | | | | | | | | |
| Terminal growth (%) | 4.0 | | | | | | | | | | | |
| Implied 2020E terminal FCF exit multiple (x) | 11.1 | | | | | | | | | | | |
| Implied 2020E EBITDA exit multiple (x) | 4.9 | | | | | | | | | | | |
| PV of terminal value | 114,639 | | | | | | | | | | | |
| Enterprise Value (EV) | 221,619 | | | | | | | | | | | |
| Terminal value as % of EV | 51.7 | | | | | | | | | | | |
| FY10E net debt/cash | 52,795 | | | | | | | | | | | |
| Equity value (Rs mn) | 168,824 | | | | | | | | | | | |
| Equity value (US\$ mn) | 3,592 | | | | | | | | | | | |
| Number of shares (mn) | 3,042 | | | | | | | | | | | |
| Equity value (Rs/share) | 55 | | | | | | | | | | | |
| WACC Assumptions | | | | | | | | | | | | |
| Cost of equity = | | | | | | | 14.8% | | | | | |
| Cost of debt = | | | | | | | 9.0% | | | | | |
| Tax = | | | | | | | 34.0% | | | | | |
| Risk free rate = | | | | | | | 6.5% | | | | | |
| Beta = | | | | | | | 1.10 | | | | | |
| Equity risk premium = | | | | | | | 7.5% | | | | | |
| Required equity market return = | | | | | | | 14.0% | | | | | |
| Debt/capital = | | | | | | | 20.0% | | | | | |
| Equity/capital = | | | | | | | 80.0% | | | | | |
| WACC = | | | | | | | 13.03% | | | | | |

Source: Company reports and J.P. Morgan estimates.

Financial Tables

Table 20: Bharti: P&L Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Mobile (Wireless) | 141,443 | 217,861 | 303,601 | 364,708 | 415,841 | 464,676 |
| Telemedia (fixed line) | 22,454 | 28,484 | 33,517 | 35,912 | 38,648 | 41,168 |
| Enterprise carriers | 34,888 | 43,170 | 67,937 | 82,530 | 99,535 | 112,315 |
| Enterprise corporates | 9,050 | 13,217 | 16,945 | 20,270 | 24,629 | 28,816 |
| Passive infrastructure | 0 | 6,023 | 42,489 | 31,161 | 33,671 | 39,524 |
| Others | 803 | 2,431 | 3,611 | 4,277 | 5,198 | 6,016 |
| Eliminations | (23,441) | (40,935) | (98,485) | (102,322) | (119,886) | (136,656) |
| Total revenues | 185,197 | 270,250 | 369,615 | 436,536 | 497,637 | 555,860 |
| Interconnection | (31,379) | (41,110) | (52,903) | (50,326) | (58,709) | (64,132) |
| License fee & spectrum charges | (16,953) | (26,900) | (38,266) | (49,643) | (56,745) | (63,410) |
| Network operating costs | (21,100) | (33,002) | (59,355) | (80,188) | (100,472) | (117,484) |
| SG&A | (28,769) | (40,755) | (50,419) | (59,715) | (71,567) | (80,302) |
| Employee Costs | (12,488) | (14,768) | (16,992) | (19,932) | (23,015) | (25,087) |
| Pre-operative expenses | (9) | 0 | 0 | 0 | 0 | 0 |
| Total costs | (110,698) | (156,535) | (217,935) | (259,804) | (310,507) | (350,414) |
| EBITDA | 74,498 | 113,716 | 151,678 | 176,732 | 187,129 | 205,446 |
| EBITDA margin (%) | 40.2% | 42.1% | 41.0% | 40.5% | 37.6% | 37.0% |
| Depreciation | (24,353) | (36,266) | (46,048) | (57,787) | (58,897) | (67,240) |
| Amortization | (855) | (995) | (1,533) | (1,716) | (1,716) | (1,716) |
| EBIT | 49,290 | 76,455 | 104,097 | 117,229 | 126,516 | 136,489 |
| Interest income | 1,008 | 2,422 | 681 | 200 | 200 | 200 |
| Finance costs | (1,438) | (2,341) | (11,613) | 1,223 | 3,329 | 7,003 |
| Associates | | | (92) | 1,535 | 12,950 | 24,054 |
| Profit before tax | 48,860 | 76,536 | 93,073 | 120,187 | 142,996 | 167,746 |
| Tax | (5,822) | (8,378) | (6,615) | (15,624) | (21,449) | (31,872) |
| Tax Rate (%) | 12% | 11% | 7% | 13% | 15% | 19% |
| Minority interest | (467) | (1,150) | (1,759) | (2,369) | (2,819) | (3,307) |
| Net income | 42,571 | 67,008 | 84,699 | 102,193 | 118,727 | 132,567 |
| EPS (Rs) | 22.43 | 35.30 | 44.65 | 53.89 | 62.61 | 69.90 |

Source: Company reports and J.P. Morgan estimates.

Table 21: Bharti: Balance Sheet Summary

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Cash & cash equivalents | 7,464 | 6,777 | 11,145 | 46,352 | 81,628 | 129,794 |
| Accounts receivable | 11,597 | 15,986 | 18,262 | 21,291 | 24,100 | 26,637 |
| Unbilled receivables | 6,385 | 12,076 | 10,266 | 12,553 | 14,209 | 15,705 |
| Inventories | 912 | 1,142 | 963 | 1,255 | 1,421 | 1,570 |
| Short term investments | 2,004 | 48,086 | 37,925 | 34,925 | 34,925 | 34,925 |
| Deferred taxes on income | 1,178 | 2,770 | 8,810 | 8,810 | 8,810 | 8,810 |
| Derivative financial instruments | 729 | 2,992 | 11,545 | 11,545 | 11,545 | 11,545 |
| Restricted cash | 134 | 85 | 84 | 84 | 84 | 84 |
| Prepaid expenses and other current assets | 13,711 | 23,522 | 29,957 | 32,637 | 36,943 | 40,832 |
| Due from related parties | 729 | 346 | 15,122 | 10,000 | 10,000 | 10,000 |
| Total Current Assets | 44,843 | 113,782 | 144,079 | 179,453 | 223,666 | 279,903 |
| Property and equipment, net | 210,604 | 313,407 | 409,136 | 464,471 | 515,022 | 547,518 |
| Acquired intangible assets, net | 14,116 | 13,204 | 13,310 | 13,310 | 13,310 | 13,310 |
| Goodwill | 23,684 | 27,043 | 27,054 | 27,054 | 27,054 | 27,054 |
| Investment in associates and joint ventures | 182 | 108 | 128 | 1,448 | 12,326 | 31,569 |
| Investments | 500 | 0 | 0 | 0 | 0 | 0 |
| Restricted cash, non-current | 54 | 58 | 12 | 12 | 12 | 12 |
| Deferred taxes on income | 20 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 3,887 | 5,041 | 10,230 | 10,293 | 11,367 | 12,564 |
| Total Assets | 297,890 | 472,643 | 603,948 | 696,040 | 802,757 | 911,930 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Short-term debt | 10,925 | 19,348 | 64,808 | 54,808 | 54,808 | 54,808 |
| Trade payables | 16,878 | 18,749 | 18,771 | 24,478 | 24,865 | 24,342 |
| Equipment supply payables | 42,633 | 61,069 | 62,359 | 74,061 | 78,148 | 80,094 |
| Accrued expenses | 12,523 | 19,543 | 31,358 | 35,933 | 37,832 | 38,673 |
| Unearned income | 17,035 | 25,080 | 30,912 | 35,412 | 37,242 | 38,022 |
| Unearned inc. Indefeasible right to use sales | 336 | 336 | 292 | 292 | 292 | 292 |
| Derivative financial instruments | 1,981 | 3,184 | 499 | 499 | 499 | 499 |
| Due to related parties | 30 | 0 | 40 | 40 | 40 | 40 |
| Other current liabilities | 4,295 | 6,826 | 8,148 | 8,148 | 8,148 | 8,148 |
| Deferred taxes on income | 14 | 0 | 0 | 0 | 0 | 0 |
| Total current liabilities | 106,650 | 154,135 | 217,185 | 233,669 | 241,874 | 244,917 |
| Long-term debt, net of current portion | 41,536 | 77,715 | 53,993 | 41,612 | 35,379 | 22,684 |
| Deferred taxes on income | 3,616 | 5,301 | 7,556 | 6,354 | 4,924 | 3,247 |
| Unearned inc.- Indefeasible right to use sales | 3,800 | 3,464 | 3,330 | 3,130 | 2,930 | 2,730 |
| Other liabilities | 4,933 | 6,430 | 7,234 | 7,234 | 7,234 | 7,234 |
| Total liabilities | 160,535 | 247,045 | 289,298 | 292,000 | 292,341 | 280,812 |
| Minority interest | 1,801 | 8,556 | 10,704 | 13,074 | 15,893 | 19,199 |
| Stockholders' equity | | | | | | |
| Common stock, par value Rs.10 per share | 18,959 | 18,979 | 18,982 | 18,982 | 18,982 | 18,982 |
| Advances against equity | 0 | 12 | 3 | 3 | 3 | 3 |
| Additional paid in capital | 56,645 | 72,202 | 74,103 | 74,103 | 74,103 | 74,103 |
| Treasury stock | 0 | (119) | (107) | (107) | (107) | (107) |
| Retained earnings / (deficit) | (134) | 125,964 | 210,664 | 297,686 | 401,242 | 518,637 |
| Accumulated other comprehensive income | 60,083 | 4 | 301 | 301 | 301 | 301 |
| Total stockholders' equity | 135,553 | 217,042 | 303,945 | 390,967 | 494,523 | 611,919 |

Source: Company reports and J.P. Morgan estimates.

Table 22: Bharti: Cash Flow Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|--|-----------------|------------------|------------------|------------------|------------------|------------------|
| Net Income | 42,572 | 67,008 | 84,699 | 102,193 | 118,727 | 132,567 |
| Depreciation | 25,209 | 37,261 | 47,581 | 59,503 | 60,613 | 68,956 |
| Changes in working capital | 21,923 | 15,471 | (18,500) | 23,318 | (732) | (5,028) |
| Taxes paid | 5,822 | 8,378 | 6,615 | 15,624 | 21,449 | 31,872 |
| Others | (8,392) | (11,545) | 104 | (17,089) | (24,153) | (34,946) |
| Cash flow from operations | 87,134 | 116,573 | 120,499 | 183,549 | 175,904 | 193,421 |
| Capex | (89,271) | (138,468) | (140,171) | (114,838) | (111,164) | (101,453) |
| Interest income | | | | | | |
| Dividend income | | | | | | |
| Others | 8 | 74 | (20) | (1,320) | (10,878) | (19,243) |
| Cash flow from other investing activities | (89,263) | (138,394) | (140,191) | (116,158) | (122,043) | (120,696) |
| Cash from new shares issued | 1,647 | 21,236 | 4,352 | 2,369 | 2,819 | 3,307 |
| Increase/(decrease) in debt/bonds | 4,716 | 45,437 | 9,500 | (22,381) | (6,233) | (12,695) |
| Interest expense | | | | | | |
| Dividend paid | | | | | | |
| Others | | | | | | |
| Cash flow from financing activities | 6,363 | 66,673 | 13,852 | (20,012) | (3,414) | (9,388) |
| Change in cash | 4,234 | 44,852 | (5,839) | 47,379 | 50,448 | 63,337 |

Source: Company reports and J.P. Morgan estimates.

Table 23: Reliance Communications: P & L Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|----------------------------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| Wireless | 107,276 | 152,135 | 173,677 | 208,216 | 245,549 | 280,129 |
| Global | 51,771 | 54,750 | 67,761 | 84,805 | 98,992 | 107,887 |
| Broadband | 11,441 | 17,868 | 25,243 | 30,362 | 32,806 | 35,511 |
| Others | 3,872 | 4,304 | 10,098 | 12,900 | 13,700 | 14,500 |
| Inter/intra segment eliminations | (29,677) | (38,379) | (47,368) | (57,676) | (67,325) | (73,374) |
| Total revenues | 144,683 | 190,678 | 229,411 | 278,607 | 323,722 | 364,652 |
| Operating costs | | | | | | |
| Interconnection charges | (26,191) | (24,003) | (23,687) | (22,691) | (26,378) | (30,678) |
| License Fee | (10,535) | (12,386) | (11,995) | (14,582) | (17,020) | (19,170) |
| Network costs | (16,736) | (22,007) | (43,642) | (67,677) | (87,742) | (105,761) |
| Employee costs | (9,079) | (12,037) | (16,702) | (19,279) | (22,337) | (25,161) |
| SG&A (incl. equipment subsidies) | (23,834) | (34,062) | (40,510) | (44,894) | (51,133) | (55,564) |
| Total Operating costs | (86,375) | (104,496) | (136,536) | (169,124) | (204,610) | (236,334) |
| EBITDA | 58,308 | 86,182 | 92,875 | 109,483 | 119,113 | 128,317 |
| EBITDA margin (%) | 40.3% | 45.2% | 40.5% | 39.3% | 36.8% | 35.2% |
| Depreciation & amortization | (24,653) | (28,053) | (39,313) | (50,091) | (55,578) | (60,622) |
| EBIT | 33,655 | 58,129 | 53,562 | 59,392 | 63,535 | 67,695 |
| Finance charges | (6) | 3,998 | 7,867 | (961) | (336) | 2,596 |
| Exceptional items | (302) | 12,829 | (75) | 0 | 0 | 0 |
| PBT | 33,346 | 74,956 | 61,354 | 58,431 | 63,199 | 70,291 |
| Income tax expense | (611) | (2,836) | 123 | (2,337) | (4,424) | (7,732) |
| Deferred tax (liability)/asset | 0 | 0 | 0 | 0 | 0 | 0 |
| Minority interest | 0 | (13,915) | (2,399) | (2,333) | (2,523) | (2,806) |
| Reported net income | 32,735 | 58,204 | 59,077 | 53,761 | 56,251 | 59,753 |
| EPS (Rs) | 14.7 | 25.0 | 27.4 | 24.9 | 26.1 | 27.7 |

Source: Company reports and J.P. Morgan estimates.

Table 24: Reliance Communications: Balance Sheet Summary

| Rs mn, year-end March | FY2007 | FY2008 | FY2009E | FY2010E | FY2011E | FY2012E |
|---|----------------|----------------|----------------|----------------|------------------|------------------|
| ASSETS : | | | | | | |
| Current Assets | | | | | | |
| Cash & cash equivalents | 137,200 | 115,981 | 80,578 | 107,740 | 162,978 | 216,221 |
| Inventories | 4,821 | 4,059 | 4,698 | 5,679 | 6,525 | 7,255 |
| Debtors | 18,316 | 27,224 | 43,621 | 32,451 | 37,286 | 41,455 |
| Other current assets | 3,264 | 23,058 | 33,507 | 40,560 | 46,855 | 52,305 |
| Loans and advances | 32,662 | 42,834 | 59,870 | 72,473 | 83,721 | 93,459 |
| Total Current Assets | 196,263 | 213,156 | 222,273 | 258,903 | 337,365 | 410,695 |
| Fixed Assets | | | | | | |
| Gross block | 349,456 | 463,640 | 611,948 | 706,592 | 787,703 | 862,373 |
| Less: Depreciation | 55,940 | 89,814 | 140,060 | 190,151 | 245,729 | 306,351 |
| Net block | 293,516 | 373,826 | 471,888 | 516,442 | 541,975 | 556,022 |
| Capital work in progress | 36,907 | 148,327 | 194,916 | 201,334 | 205,603 | 209,533 |
| Goodwill | 0 | 0 | 0 | 0 | 0 | 0 |
| Investments | 11,925 | 2,797 | 2,818 | 2,818 | 2,818 | 2,818 |
| Total Assets | 538,611 | 738,106 | 891,895 | 979,497 | 1,087,761 | 1,179,069 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Stockholders equity | | | | | | |
| Share capital | 10,220 | 10,320 | 10,320 | 10,320 | 10,320 | 10,320 |
| Reserves & surplus (net of goodwill) | 193,708 | 246,107 | 294,873 | 348,634 | 404,885 | 464,638 |
| Total equity | 203,928 | 256,427 | 305,193 | 358,954 | 415,205 | 474,958 |
| Current liabilities & provisions | | | | | | |
| Current liabilities | 136,013 | 199,267 | 287,374 | 318,882 | 368,371 | 411,220 |
| Provisions | 43,173 | 42,420 | 36,954 | 36,954 | 36,954 | 36,954 |
| Total current liabilities | 179,186 | 241,687 | 324,328 | 355,836 | 405,325 | 448,174 |
| Debt | | | | | | |
| Secured loans | | | | | | |
| Foreign currency notes | 20,049 | 0 | 0 | 0 | 0 | 0 |
| Rupee loans | 31,755 | 9,500 | 0 | 0 | 0 | 0 |
| Unsecured loans | | | | | | |
| Foreign currency notes | 88,039 | 131,631 | 167,068 | 167,068 | 167,068 | 152,968 |
| Rupee loans | 15,595 | 74,550 | 83,667 | 83,667 | 83,667 | 83,667 |
| Total debt | 155,438 | 215,681 | 250,735 | 250,735 | 250,735 | 236,635 |
| Minority interest | 59 | 24,311 | 11,639 | 13,972 | 16,495 | 19,302 |
| Total liabilities and stockholders' equity | 538,611 | 738,106 | 891,895 | 979,497 | 1,087,761 | 1,179,069 |

Source: Company reports and J.P. Morgan estimates.

Table 25: Reliance Communications: Cash Flow Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009E | FY2010E | FY2011E | FY2012E |
|--|----------------|-----------------|-----------------|-----------------|----------------|----------------|
| Net profit/(loss) before tax | 32252 | 70762 | 61353 | 58431 | 63199 | 70291 |
| Depreciation and Amortization | 24653 | 28054 | 39313 | 50091 | 55578 | 60622 |
| Changes in working capital | 14916 | -31386 | 543 | 22040 | 26266 | 22762 |
| Taxes paid | -713 | -1904 | -3084 | -2337 | -4424 | -7732 |
| Others | 763 | -11917 | -3570 | 0 | 0 | 0 |
| Cash flow from operations | 71871 | 53609 | 94555 | 128225 | 140618 | 145943 |
| Capex | (53569) | (176413) | (137772) | (101063) | (85380) | (78599) |
| (Purchase)/sale of investments | (10806) | 9230 | (3596) | 0 | 0 | 0 |
| Interest income/(expense) net | 3463 | (3476) | (4524) | 0 | 0 | 0 |
| Others | | | | | | |
| Cash flow from other investing activities | (60912) | (170659) | (145892) | (101063) | (85380) | (78599) |
| Increase/(decrease) in borrowings | 66203 | 95832 | 15934 | 0 | 0 | -14100 |
| Increase/(decrease) in Stockholders Equity | 0 | 0 | 0 | 0 | 0 | 0 |
| Others | | | | | | |
| Cash flow from financing activities | 66203 | 95832 | 15934 | 0 | 0 | -14100 |
| Change in cash | 77162 | -21218 | -35403 | 27162 | 55238 | 53243 |

Source: Company reports and J.P. Morgan estimates.

Table 26: Idea Cellular: P & L Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| Revenues | 43,664 | 67,200 | 101,484 | 134,021 | 162,801 | 183,581 |
| Interconnection & access cost | (7,321) | (11,334) | (18,473) | (21,494) | (26,387) | (28,921) |
| License fee & spectrum charges | (4,487) | (6,851) | (11,239) | (14,742) | (18,234) | (20,561) |
| Network operating costs | (5,336) | (10,470) | (20,987) | (31,587) | (38,430) | (41,544) |
| Sales & marketing costs | (7,701) | (9,649) | (12,873) | (18,119) | (22,176) | (25,055) |
| G&A costs | (1,558) | (2,914) | (4,244) | (5,361) | (6,512) | (7,343) |
| Employee Costs | (2,609) | (3,464) | (5,323) | (6,463) | (7,630) | (8,275) |
| Total costs | (29,011) | (44,682) | (73,139) | (97,766) | (119,369) | (131,700) |
| EBITDA | 14,653 | 22,518 | 28,345 | 36,254 | 43,433 | 51,881 |
| EBITDA margin (%) | 33.6% | 33.5% | 27.9% | 27.1% | 26.7% | 28.3% |
| Depreciation | (5,637) | (7,648) | (13,479) | (19,834) | (23,797) | (26,898) |
| Amortization | (1,081) | (1,120) | (560) | 0 | 0 | 0 |
| Operating profits | 7,934 | 13,750 | 14,306 | 16,421 | 19,635 | 24,983 |
| Non-operating income | | | | | | |
| EBIT | 7,934 | 13,750 | 14,306 | 16,421 | 19,635 | 24,983 |
| Interest income | 242 | 1,816 | 1,160 | 0 | 0 | 0 |
| Finance costs | (3,294) | (4,592) | (6,103) | (5,982) | (5,689) | (6,191) |
| Other income | 209 | 175 | 9 | 0 | 0 | 0 |
| Profit before tax | 5,093 | 11,148 | 9,371 | 10,439 | 13,946 | 18,792 |
| Tax | (70) | (725) | (362) | (1,044) | (1,952) | (2,443) |
| Tax Rate (%) | 1% | 7% | 4% | 10% | 14% | 13% |
| Minority interest | | | | | | |
| Net income | 5,022 | 10,423 | 9,009 | 9,395 | 11,994 | 16,349 |
| EPS (Rs) | 2.20 | 3.96 | 3.02 | 3.03 | 3.63 | 4.95 |

Source: Company reports and J.P. Morgan estimates.

Table 27: Idea Cellular: Balance Sheet Summary

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|---|---------------|----------------|----------------|----------------|----------------|----------------|
| Cash and bank balances | 18,197 | 4,971 | 51,316 | 21,424 | 15,525 | 12,309 |
| Inventories | 179 | 276 | 417 | 551 | 669 | 754 |
| Sundry debtors | 1,525 | 1,986 | 3,058 | 4,039 | 4,906 | 5,533 |
| Other current assets | 757 | 521 | (148) | 0 | 0 | 0 |
| Loans & advances | 4,041 | 7,987 | 7,987 | 7,987 | 7,987 | 7,987 |
| Total Current Assets | 24,699 | 15,740 | 62,630 | 34,001 | 29,087 | 26,582 |
| Net fixed assets | 44,161 | 78,882 | 151,489 | 195,940 | 221,774 | 232,593 |
| CWIP | 5,065 | 9,411 | 14,952 | 13,952 | 12,952 | 11,952 |
| Investments | 138 | 5,699 | 0 | 0 | 0 | 0 |
| Intangible assets (net) | 11,764 | 17,792 | 10,510 | 10,510 | 10,510 | 10,510 |
| Total Assets | 85,827 | 127,525 | 239,581 | 254,403 | 274,324 | 281,637 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Current Liabilities and Provisions | 21,520 | 26,255 | 28,600 | 33,505 | 33,374 | 33,962 |
| Total Debt | 42,505 | 65,148 | 89,165 | 89,165 | 96,665 | 86,665 |
| Deferred tax liability | 11 | 662 | 917 | 1,439 | 1,997 | 2,373 |
| Total liabilities | 64,035 | 92,064 | 118,682 | 124,109 | 132,036 | 123,000 |
| Minority interest | | | | | | |
| Stockholders' equity | | | | | | |
| Share Capital | 25,929 | 26,354 | 31,020 | 31,020 | 31,020 | 31,020 |
| Outstanding Employee Stock Options | 0 | 38 | 182 | 182 | 182 | 182 |
| Reserves and Surplus | (4,137) | 9,069 | 112,154 | 121,549 | 133,542 | 149,892 |
| Total stockholders' equity | 21,792 | 35,460 | 143,356 | 152,751 | 164,744 | 181,094 |

Source: Company reports and J.P. Morgan estimates.

Table 28: Idea Cellular: Cash Flow Statement

| Rs mn, year-end March | FY2007 | FY2008 | FY2009 | FY2010E | FY2011E | FY2012E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Income | 5,021 | 10,444 | 9,009 | 9,395 | 11,994 | 16,349 |
| Depreciation | 6,718 | 8,768 | 0 | 9,834 | 23,797 | 26,898 |
| Changes in working capital | 1,196 | 1,998 | 1,801 | 3,643 | (1,117) | (123) |
| Taxes paid | (97) | (428) | 0 | (522) | (1,395) | (2,067) |
| Others | 175 | (276) | 0 | 1,044 | 1,952 | 2,443 |
| Cash flow from operations | 13,012 | 20,505 | 10,809 | 23,393 | 35,232 | 43,500 |
| Capex | (22,815) | (55,506) | (70,866) | (53,285) | (48,631) | (36,716) |
| Interest & dividend income | 64 | 923 | 0 | 0 | 0 | 0 |
| Others | 0 | (4,978) | (16,503) | 0 | 0 | 0 |
| Cash flow from other investing activities | (22,751) | (59,562) | (87,368) | (53,285) | (48,631) | (36,716) |
| Net proceeds from equity shares | 24,380 | 3,188 | 98,887 | 0 | 0 | 0 |
| Net proceeds from preference shares | (7,563) | 0 | 0 | 0 | 0 | 0 |
| Net proceeds from borrowings | 9,623 | 22,643 | 24,017 | 0 | 7,500 | (10,000) |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash flow from financing activities | 26,440 | 25,830 | 122,904 | 0 | 7,500 | (10,000) |
| Change in cash | 16,701 | (13,227) | 46,345 | (29,892) | (5,899) | (3,216) |
| Closing cash | 18,198 | 4,971 | 51,316 | 21,424 | 15,525 | 12,309 |

Source: Company reports and J.P. Morgan estimates.

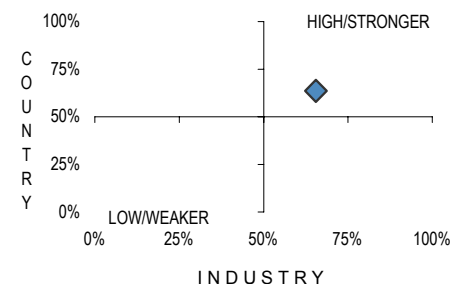
All Data As Of 21-May-09

Q-Snapshot: Bharti Airtel Ltd.

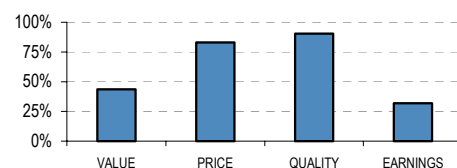
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

| Score 0% (worst) to 100% (best) | vs Country | vs Industry | Raw Value |
|--|------------|-------------|-----------|
| Value | | | |
| P/E Vs Market (12mth fwd EPS) | 33% | 45% | 1.1x |
| P/E Vs Sector (12mth fwd EPS) | 54% | 73% | 0.9x |
| EPS Growth (forecast) | 63% | 65% | 14.0% |
| Value Score | 44% | 63% | |
| Price Momentum | | | |
| 12 Month Price Momentum | 84% | 90% | 3.7% |
| 1 Month Price Reversion | 63% | 8% | 24.7% |
| Momentum Score | 83% | 75% | |
| Quality | | | |
| Return On Equity (forecast) | 79% | 74% | 26.4% |
| Earnings Risk (Variation in Consensus) | 98% | 88% | 0.05 |
| Quality Score | 91% | 82% | |
| Earnings & Sentiment | | | |
| Earnings Momentum 3mth (risk adjusted) | 21% | 40% | -56.7 |
| 1 Mth Change in Avg Recom. | 56% | 24% | -0.07 |
| Net Revisions FY2 EPS | 32% | 58% | -14% |
| Earnings & Sentiment Score | 32% | 39% | |
| COMPOSITE Q-SCORE* (0% To 100%) | 64% | 66% | |

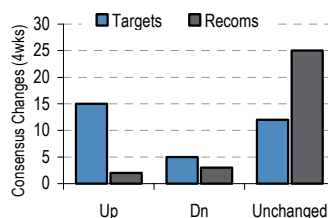
J.P. Morgan Composite Q-Score



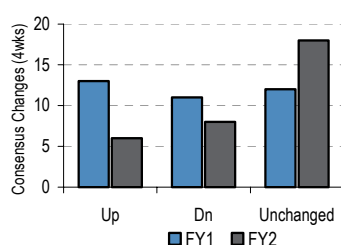
INDUSTRY Quant Return Drivers Summary (vs Country)



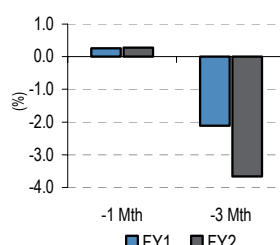
Targets & Recommendations**



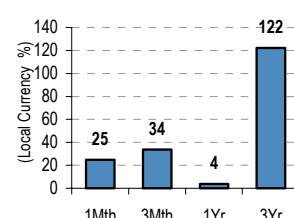
EPS Revisions**



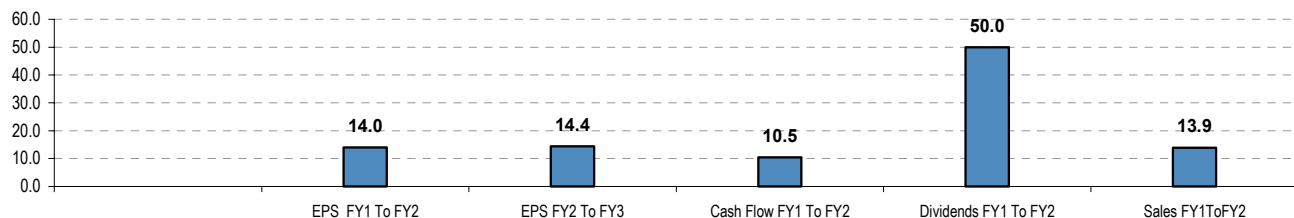
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

| Code | Name | Industry | USD MCAP | ADV | PE FY1 | Q-Score* |
|------------------|--|------------------------------------|---------------|-------------|-------------|------------|
| 500325-IN | Reliance Industries Ltd. | Oil Refining/Marketing | 73,461 | 42.75 | 16.9 | 36% |
| 500312-IN | Oil & Natural Gas Corp. Ltd. | Oil & Gas Production | 44,379 | 5.13 | 10.2 | 50% |
| 532454-IN | Bharti Airtel Ltd. | Wireless Telecommunications | 36,254 | 6.80 | 16.5 | 64% |
| 532555-IN | NTPC Ltd. | Electric Utilities | 35,425 | 4.56 | 21.8 | 41% |
| 500112-IN | State Bank of India | Regional Banks | 23,259 | 20.35 | 12.4 | 49% |
| 500103-IN | Bharat Heavy Electricals Ltd. | Electrical Products | 22,129 | 8.11 | 30.8 | 69% |
| 500209-IN | Infosys Technologies Ltd. | Information Technology Services | 18,705 | 5.64 | 15.3 | 39% |
| 532174-IN | ICICI Bank Ltd. | Regional Banks | 16,611 | 30.30 | 20.0 | 27% |
| 500510-IN | Larsen & Toubro Ltd. | Trucks/Construction/Farm Machinery | 16,455 | 13.80 | 28.5 | 46% |
| 500875-IN | ITC Ltd. | Tobacco | 14,989 | 1.92 | 21.1 | 54% |
| 500010-IN | Housing Development Finance Corp. Ltd. | Finance/Rental/Leasing | 13,925 | 9.95 | 24.5 | 44% |

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
 Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
 Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.
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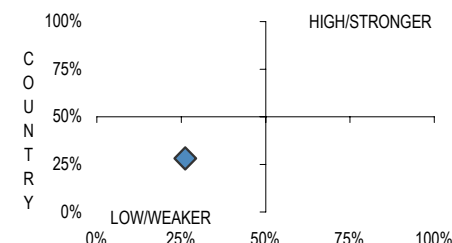
All Data As Of 21-May-09

Q-Snapshot: Reliance Communications Ltd.

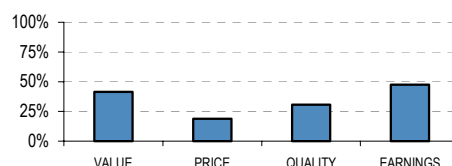
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

| Score 0% (worst) to 100% (best) | vs Country | vs Industry | Raw Value |
|--|------------|-------------|-----------|
| Value | | | |
| P/E Vs Market (12mth fwd EPS) | 47% | 59% | 0.9x |
| P/E Vs Sector (12mth fwd EPS) | 71% | 85% | 0.7x |
| EPS Growth (forecast) | 24% | 26% | -3.7% |
| Value Score | 42% | 64% | |
| Price Momentum | | | |
| 12 Month Price Momentum | 17% | 7% | -48.3% |
| 1 Month Price Reversion | 30% | 0% | 42.7% |
| Momentum Score | 19% | 1% | |
| Quality | | | |
| Return On Equity (forecast) | 29% | 45% | 13.8% |
| Earnings Risk (Variation in Consensus) | 36% | 37% | 0.15 |
| Quality Score | 31% | 40% | |
| Earnings & Sentiment | | | |
| Earnings Momentum 3mth (risk adjusted) | 47% | 77% | -12.8 |
| 1 Mth Change in Avg Recom. | 19% | 6% | -0.26 |
| Net Revisions FY2 EPS | 70% | 78% | 43% |
| Earnings & Sentiment Score | 48% | 46% | |
| COMPOSITE Q-SCORE* (0% To 100%) | 28% | 26% | |

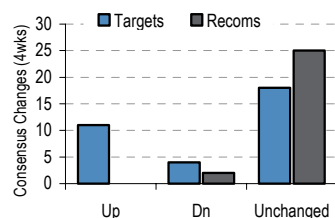
J.P. Morgan Composite Q-Score



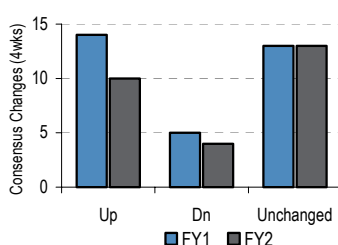
INDUSTRY
 Quant Return Drivers Summary (vs Country)



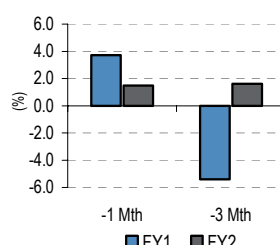
Targets & Recommendations**



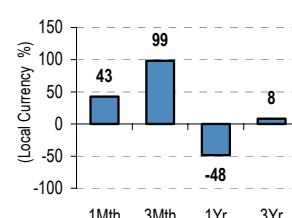
EPS Revisions**



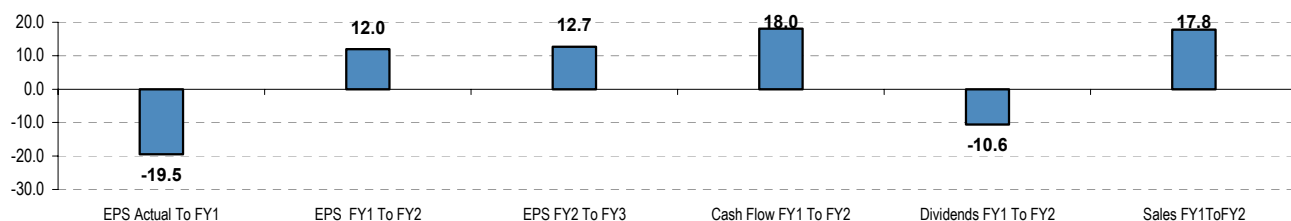
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

| Code | Name | Industry | USD MCAP | ADV | PE FY1 | Q-Score* |
|------------------|--|---------------------------------|---------------|--------------|-------------|------------|
| 500875-IN | ITC Ltd. | Tobacco | 14,989 | 1.92 | 21.1 | 54% |
| 500010-IN | Housing Development Finance Corp. Ltd. | Finance/Rental/Leasing | 13,925 | 9.95 | 24.5 | 44% |
| 500113-IN | Steel Authority of India Ltd. | Steel | 13,899 | 4.89 | 12.5 | 26% |
| 532540-IN | Tata Consultancy Services Ltd. | Information Technology Services | 13,735 | 3.02 | 12.8 | 34% |
| 532868-IN | DLF Ltd. | Real Estate Development | 13,634 | 29.60 | 30.4 | 12% |
| 532712-IN | Reliance Communications Ltd. | Major Telecommunications | 13,606 | 12.64 | 13.4 | 28% |
| 532743-IN | Reliance Petroleum Ltd. | Oil Refining/Marketing | 13,005 | 5.39 | 10.3 | 31% |
| 500180-IN | HDFC Bank Ltd. | Regional Banks | 12,503 | 8.70 | 20.9 | 54% |
| 507685-IN | Wipro Ltd. | Information Technology Services | 11,805 | 1.56 | 15.6 | 50% |
| 530965-IN | Indian Oil Corp. Ltd. | Oil Refining/Marketing | 11,085 | 0.37 | 12.1 | 64% |
| 532898-IN | Power Grid Corp. of India Ltd. | Electric Utilities | 10,484 | 2.17 | 31.0 | 66% |

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
 Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'
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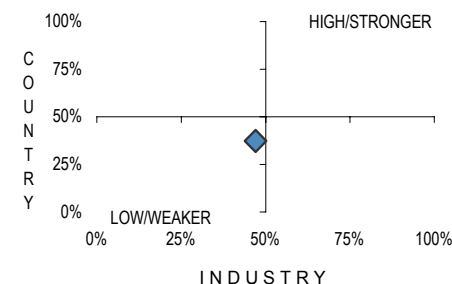
All Data As Of 21-May-09

Q-Snapshot: Idea Cellular Ltd.

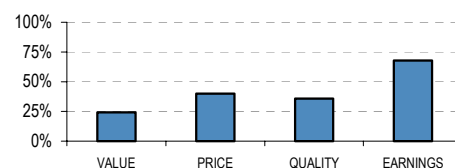
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

| Score 0% (worst) to 100% (best) | vs Country | vs Industry | Raw Value |
|--|------------|-------------|-----------|
| Value | | | |
| P/E Vs Market (12mth fwd EPS) | 19% | 25% | 1.5x |
| P/E Vs Sector (12mth fwd EPS) | 23% | 38% | 1.2x |
| EPS Growth (forecast) | 60% | 61% | 12.0% |
| Value Score | 24% | 34% | |
| Price Momentum | | | |
| 12 Month Price Momentum | 35% | 26% | -34.6% |
| 1 Month Price Reversion | 54% | 5% | 29.6% |
| Momentum Score | 40% | 10% | |
| Quality | | | |
| Return On Equity (forecast) | 45% | 54% | 17.1% |
| Earnings Risk (Variation in Consensus) | 31% | 35% | 0.16 |
| Quality Score | 36% | 45% | |
| Earnings & Sentiment | | | |
| Earnings Momentum 3mth (risk adjusted) | 68% | 88% | 14.9 |
| 1 Mth Change in Avg Recom. | 77% | 83% | 0.09 |
| Net Revisions FY2 EPS | 62% | 72% | 20% |
| Earnings & Sentiment Score | 68% | 87% | |
| COMPOSITE Q-SCORE* (0% To 100%) | 37% | 47% | |

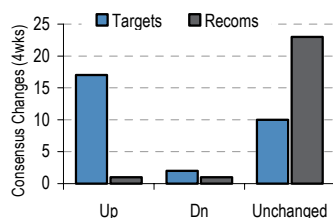
J.P. Morgan Composite Q-Score



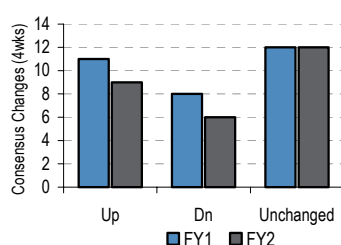
Quant Return Drivers Summary (vs Country)



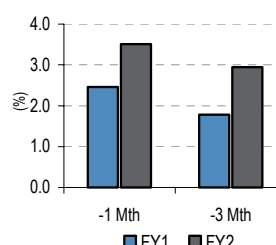
Targets & Recommendations**



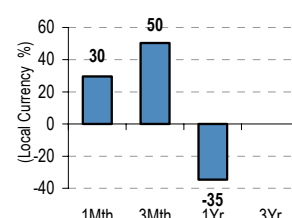
EPS Revisions**



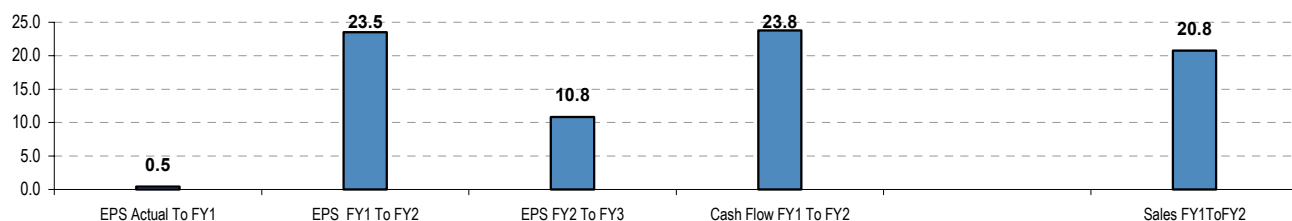
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

| Code | Name | Industry | USD MCAP | ADV | PE FY1 | Q-Score* |
|------------------|------------------------------|------------------------------------|--------------|-------------|-------------|------------|
| 532215-IN | Axis Bank Ltd. | Regional Banks | 5,748 | 8.62 | 12.5 | 81% |
| 500182-IN | Hero Honda Motors Ltd. | Motor Vehicles | 5,565 | 1.69 | 16.7 | 94% |
| 500188-IN | Hindustan Zinc Ltd. | Other Metals/Minerals | 5,147 | 0.50 | 10.5 | 66% |
| 500470-IN | Tata Steel Ltd. | Steel | 5,021 | 16.97 | 3.2 | 17% |
| 500390-IN | Reliance Infrastructure Ltd. | Electric Utilities | 5,009 | 24.90 | 20.2 | 42% |
| 532822-IN | Idea Cellular Ltd. | Wireless Telecommunications | 4,878 | 1.39 | 23.6 | 37% |
| 500400-IN | Tata Power Co. Ltd. | Electric Utilities | 4,861 | 1.81 | 16.5 | 49% |
| 500247-IN | Kotak Mahindra Bank Ltd. | Financial Conglomerates | 4,837 | 3.54 | 34.5 | 26% |
| 532234-IN | National Aluminium Co. Ltd. | Aluminum | 4,837 | 0.39 | 18.1 | 16% |
| 500111-IN | Reliance Capital Ltd. | Finance/Rental/Leasing | 4,668 | 27.32 | 26.7 | 13% |
| 532461-IN | Punjab National Bank | Regional Banks | 4,557 | 2.97 | 7.7 | 91% |

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>
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Mphasis Ltd

Strong performance continues led by HP/EDS business; upgrade to OW

- **We upgrade Mphasis from Neutral to Overweight** with a new P/E-based Dec-09 price target of Rs375 (up from Rs200). Mphasis has delivered very strongly over the past couple of quarters and backed it with another strong performance in 2Q FY09 (Apr-09 quarter). We believe that this is driven largely by HP-EDS's intent to move work offshore combined with the increased offshore plans of HP customers. We expect this trend to continue, helping Mphasis to deliver industry-leading growth over the next 12-24 months; hence our upgrade.
- **Another strong quarter in 2Q FY09:** Mphasis reported a strong 2Q FY09 with 7% Q/Q revenue growth following 17% Q/Q growth in 1QFY09. ITO business led with 18% Q/Q growth. EBITDA margins remained steady at 27% as the company controlled costs to offset Rupee/US\$ appreciation. Overall net profit grew 4% Q/Q.
- **HP EDS the main driving force:** HP-EDS now contributes ~45% of revenues, up from ~42% a couple of quarters ago. This has driven sharp ramp-up in ITO business (up 56% in the past two quarters) and we expect growth in this segment to continue. Management said it was getting business from 1) internal work of HP-EDS (13-15% of revenues), 2) customers of HP-EDS where Mphasis bills to HP-EDS (25-30%), 3) joint bid with HP-EDS on deals (15-20%). We believe that HP-EDS front-end would continue to help Mphasis to get business. While some part of the business would be directed towards HP-GDIC, Mphasis continues to win its fair share of business.
- **Raising estimates significantly:** We raise FY09E/FY10E EPS by 17%/50% due to an increase in both revenues and margin estimates. We expect Rs/US\$ appreciation to lead to some normalization of margins in the next couple of quarters with a sustainable 20%+ growth rate over the next couple of years. While its smaller size should warrant a discount to larger companies on P/E (we have used 13x-15x forward P/Es for our price targets for top-tier Indian IT players), we do highlight that we believe Mphasis has higher visibility of business due to HP-EDS.

Reuters: MBFL.BO, Bloomberg: MPHL IN

Rs in millions, year-end March

| | FY08-2 | FY09E | FY10E | FY11E | Rsmn | FY08-2 | FY09E | FY10E | FY11E | | |
|------------------|--------|--------|--------|--------|----------------|--------|-------|-------|-------|-------------------------------|---------------|
| Sales | 19,065 | 41,019 | 46,246 | 56,538 | Y/E BPS (Rs) | 68.7 | 103.8 | 133.1 | 167.8 | 52-Week range | Rs116-304 |
| Operating Profit | 2,879 | 7,797 | 8,103 | 9,758 | ROE (%) | 22.8 | 41.6 | 28.6 | 26.2 | Shares Outstg | 208MM |
| EBITDA | 3,818 | 9,821 | 10,358 | 12,335 | ROIC (%) | 21.6 | 42.3 | 32.7 | 34.1 | Data of price | 5/20/2009 |
| Pre Tax Profit | 3,097 | 8,096 | 8,415 | 10,275 | | | | | | Avg daily volume | 0.39MM |
| Net profit | 2,954 | 7,509 | 7,090 | 8,220 | | | | | | Avg daily value (US\$MM) | 1.55MM |
| EPS (Rs) | 13.6 | 35.9 | 33.9 | 39.3 | EPS (FY09) E | 10.4 | 10.8 | 7.7 | 7.1 | Index (Sensex) | 13,737 |
| P/E (x) | 21.0 | 7.9 | 8.4 | 7.3 | EPS (FY10) E | 8.3 | 8.7 | 8.3 | 8.7 | Free float | 38% |
| EV/EBITDA (x) | 15.4 | 6.0 | 5.7 | 4.8 | EPS (FY11) E | 8.9 | 9.4 | 10.1 | 10.9 | Dividend Yld (%) | 1.2% |
| P/BV (x) | 4.1 | 2.7 | 2.1 | 1.7 | Sh. Perf | 1M | 3M | 12M | 12M | Exchange rate | Rs47.3/US\$ |
| Cash | 546 | 5,637 | 10,513 | 16,477 | Abs. Perf. (%) | 35.3 | 90.3 | 19.7 | | Market Cap | 1.25B |
| | | | | | Rel. Perf. (%) | 9.2 | 34.9 | 40.0 | | Target Price (12/2009) | Rs 375 |

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: FY08-2 indicates the 7 month period from April '08-Oct '08.

See page 44 for analyst certification and important disclosures, including non-US analyst disclosures.

J.P. Morgan does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

▲ Overweight

Previous: Neutral

MBFL.BO, MPHL IN

Price: Rs285.40

▲ Price Target: Rs375.00

Previous: Rs200.00

India

eBusiness/IT Services

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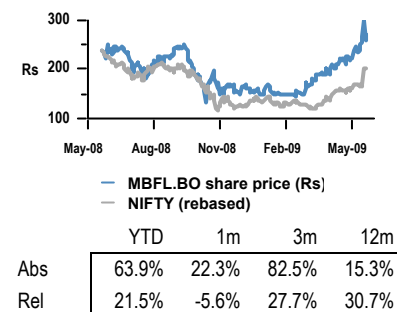
Nishit Jasani

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J.P. Morgan India Private Limited

Price Performance



2Q FY09 (Feb-Apr 09): Strong revenue and margin performance continues

Table 1: 2Q FY09 actual and estimates

Revenues grew 7.2% Q/Q and 58% Y/Y

EBIT margins remained steady at an all-time high of 21.7%. The company controlled costs to maintain margins despite lower utilization

Overall, net profit was up 4% Q/Q and a strong 240% Y/Y

Rs in millions, year-end March

| | Expected | Reported | Difference (%) |
|--------------------|----------|----------|----------------|
| Revenue | 9,948 | 10,485 | 5.4 |
| Gross Profit | 3,006 | 3,411 | 13.5 |
| EBIT | 1,895 | 2,274 | 20.0 |
| EBITDA | 2,399 | 2,792 | 16.4 |
| Pre Tax Profit | 1,950 | 2,427 | 24.5 |
| Net Profit | 1,833 | 2,253 | 22.9 |
| EPS (Rs) | 8.8 | 10.8 | 22.9 |
| Margins (%) | | | |
| Gross margin | 30.2 | 32.5 | |
| EBIT margin | 19.0 | 21.7 | |
| EBITDA margin | 24.1 | 26.6 | |
| Net margin | 18.4 | 21.5 | |

Source: Company data, J.P. Morgan estimates.

Table 2: Mphasis: 2Q FY09 performance

Rs in millions, year-end March

| | 1QFY08 | 2QFY08 | 3QFY08 | 4QFY08 | 1QFY08-2 | 2QFY08-2 | 1QFY09 (Jan-09) | 2QFY09 (Apr-09) |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
| Total revenues | 5,316 | 6,017 | 6,323 | 6,576 | 7,422 | 8,361 | 9,777 | 10,485 |
| IT Services | 3,475 | 4,003 | 4,170 | 4,163 | 4,709 | 5,378 | 6,414 | 6,691 |
| BPO | 1,244 | 1,314 | 1,369 | 1,512 | 1,637 | 1,728 | 1,770 | 1,832 |
| ITO | 597 | 699 | 783 | 900 | 1,076 | 1,254 | 1,668 | 1,961 |
| Q/Q growth (%) | | | | | | | | |
| IT Services | 7.6 | 15.2 | 4.2 | (0.2) | 13.1 | 14.2 | 11.4 | 4.3% |
| BPO | (0.2) | 5.6 | 4.2 | 10.4 | 8.3 | 5.5 | -1.6 | 3.5% |
| ITO | 5.9 | 17.1 | 12.0 | 15.0 | 19.5 | 16.6 | 20.0 | 17.6% |
| Gross profit | | | | | | | | |
| IT Services | 923 | 940 | 921 | 776 | 919 | 1,355 | 2,217 | 2,225 |
| BPO | 325 | 312 | 300 | 419 | 410 | 490 | 404 | 383 |
| ITO | 89 | 175 | 150 | 166 | 242 | 340 | 653 | 803 |
| Gross margin (%) | | | | | | | | |
| IT Services | 26.6 | 23.5 | 22.1 | 18.6 | 19.5 | 25.2 | 34.6 | 33.3 |
| BPO | 26.1 | 23.7 | 21.9 | 27.7 | 25.0 | 28.3 | 22.8 | 20.9 |
| ITO | 14.9 | 25.1 | 19.2 | 18.4 | 22.5 | 27.1 | 39.1 | 40.9 |
| EBIT | 672 | 739 | 730 | 651 | 835 | 1,324 | 2,182 | 2,274 |
| EBIT margin (%) | 12.7 | 12.3 | 11.5 | 9.9 | 11.2 | 15.8 | 22.3 | 21.7 |
| Net profit | 513 | 663 | 663 | 714 | 790 | 1,411 | 2,176 | 2,253 |
| Net margin (%) | 9.7 | 11.0 | 10.5 | 10.9 | 10.6 | 16.9 | 22.3 | 21.5 |

Source: Company data.

Table 3: Headcount additions

While Mphasis saw strong headcount addition in BPO. Headcount addition in IT services and ITO continued to be decent, in our view

| IT Services | 1Q FY08 | 2Q FY08 | 3Q FY08 | 4Q FY08 | 1Q FY08-2 | 2Q FY08-2 | 3Q FY08-2 | 1Q FY09 | 2Q FY09 |
|--------------|---------|---------|---------|---------|-----------|-----------|-----------|---------|---------|
| Manpower | 9,354 | 10,500 | 10,606 | 10,433 | 10,517 | 10,585 | 10,591 | 11,229 | 11,506 |
| Net addition | 908 | 1,146 | 106 | -163 | 74 | 68 | 6 | 638 | 277 |
| BPO | | | | | | | | | |
| Manpower | 9,977 | 10,708 | 12,322 | 12,929 | 13,820 | 14,025 | 13,972 | 13,956 | 17,383 |
| Net addition | 556 | 731 | 1614 | 607 | 891 | 205 | -53 | -16 | 3,427 |
| IPO | | | | | | | | | |
| Manpower | 2,739 | 2,870 | 3,308 | 3,675 | 3,916 | 4,230 | 4,232 | 4,779 | 4,897 |
| Net addition | 594 | 131 | 438 | 367 | 241 | 314 | 2 | 547 | 118 |

Source: Company data.

Strong outlook led by HP-EDS parentage

HP-EDS business has grown to ~45% of Mphasis's revenues from 42% two quarters ago, indicating that its HP-EDS business is growing fast. Moreover, Mphasis derives ~15-20% of its revenues from a joint go-to-market with HP-EDS. While the billing happens through HP-EDS, Mphasis does get significant exposure to parts of large deals that HP-EDS signs. Moreover, management clarified that the work distribution between HP GDIC (HP Global Development India Center) and Mphasis would be based on competencies of HP GDIC and Mphasis.

On margins, we expect margins for the company to dip going forward after the sharp spike in the past two quarters as utilization rationalizes over the next couple of quarters.

Earnings estimate changes

Table 4: Mphasis-BFL estimate changes

Rs in millions, year-end March

| | New | | | Old | | | Change (%) | | |
|----------------|--------|--------|--------|--------|--------|--------|------------|-------|-------|
| | FY09E | FY10E | FY11E | FY09E | FY10E | FY11E | FY09E | FY10E | FY11E |
| Revenue | 41,054 | 46,274 | 56,565 | 37,656 | 39,055 | 48,570 | 9.0 | 18.5 | 16.5 |
| Gross Profit | 12,476 | 13,503 | 16,317 | 10,591 | 9,045 | 11,117 | 17.8 | 49.3 | 46.8 |
| EBIT | 7,825 | 8,149 | 9,812 | 6,505 | 4,944 | 6,017 | 20.3 | 64.8 | 63.1 |
| EBITDA | 9,848 | 10,404 | 12,389 | 8,506 | 7,139 | 8,565 | 15.8 | 45.7 | 44.6 |
| Pre Tax Profit | 8,124 | 8,463 | 10,332 | 6,822 | 5,650 | 7,022 | 19.1 | 49.8 | 47.1 |
| Net Profit | 7,534 | 7,130 | 8,266 | 6,419 | 4,753 | 5,617 | 17.4 | 50.0 | 47.1 |
| EPS (Rs) | 36.1 | 34.1 | 39.6 | 30.7 | 22.7 | 26.9 | 17.4 | 50.0 | 47.1 |
| Margins (%) | | | | | | | | | |
| Gross margin | 30.4 | 29.2 | 28.8 | 28.1 | 23.2 | 22.9 | | | |
| EBIT margin | 19.1 | 17.6 | 17.3 | 17.3 | 12.7 | 12.4 | | | |
| EBITDA margin | 24.0 | 22.5 | 21.9 | 22.6 | 18.3 | 17.6 | | | |
| Net margin | 18.4 | 15.4 | 14.6 | 17.0 | 12.2 | 11.6 | | | |

Source: J.P. Morgan estimates.

We are increasing our FY09 estimates given the strong 1Q/2QFY09 performance. However, we believe that this margin performance is not sustainable and we expect margins to decrease in the next few quarters

Valuation: New Dec-09 price target of Rs375

We are increasing our Dec-09 PT to Rs375 from Rs200. This target is based on trailing/forward multiples of 11x/11x. We believe Mphasis should trade at a premium to MindTree (which has a PT forward multiple of 8x) given its higher visibility of revenues from HP-EDS and higher growth rate. We expect Mphasis to trade at a discount to top-tier companies (which have forward PT multiples of 13x-15x).

DCF valuation

Our DCF-based Dec-09 fair value estimate is Rs340 (up from Rs190 earlier). Our long-term assumptions include FY08-FY18 revenue growth of 15% (13% earlier), long-term EBIT margins of 16% (12.5% earlier), a long-term ROIC of 25% (20% previously), and a cost of capital of 14% (same as before). Our price target assumes a 10% premium to our DCF fair value estimate.

Our new Dec-09 price target is Rs375

Key downside risks to our price target: Lower-than-expected margins on EDS business, rupee appreciation.

Table 5: Mphasis: P&L

Rs in millions, year-end March

| | FY09E | | | | FY10E | | | | FY07 | FY08 | FY08-2* | FY09E | FY10E | FY11E |
|------------------------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 1Q | 2Q | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | | | | | | |
| Revenue | 9,777 | 10,485 | 10,367 | 10,426 | 10,810 | 11,300 | 11,818 | 12,347 | 17,606 | 24,231 | 19,065 | 41,054 | 46,274 | 56,565 |
| Gross Profit | 3,274 | 3,411 | 2,952 | 2,840 | 3,140 | 3,322 | 3,441 | 3,601 | 4,419 | 5,495 | 4,811 | 12,476 | 13,503 | 16,317 |
| EBIT | 2,182 | 2,274 | 1,760 | 1,609 | 1,875 | 2,011 | 2,082 | 2,181 | 2,043 | 2,792 | 2,879 | 7,825 | 8,149 | 9,812 |
| EBITDA | 2,643 | 2,792 | 2,275 | 2,138 | 2,402 | 2,563 | 2,658 | 2,781 | 2,950 | 4,047 | 3,818 | 9,848 | 10,404 | 12,389 |
| Net Other Income | 64 | 153 | 36 | 46 | 57 | 71 | 86 | 100 | -60 | -130 | 218 | 299 | 314 | 520 |
| Pre Tax Profit | 2,246 | 2,427 | 1,795 | 1,655 | 1,931 | 2,082 | 2,168 | 2,281 | 1,983 | 2,662 | 3,097 | 8,124 | 8,463 | 10,332 |
| Net Profit | 2,176 | 2,253 | 1,616 | 1,490 | 1,738 | 1,832 | 1,734 | 1,825 | 1,801 | 2,553 | 2,954 | 7,534 | 7,130 | 8,266 |
| EPS (Rs) | 10.4 | 10.8 | 7.7 | 7.1 | 8.3 | 8.8 | 8.3 | 8.7 | 8.7 | 12.2 | 13.6 | 36.1 | 34.1 | 39.6 |
| Margins (%) | | | | | | | | | | | | | | |
| Gross Margin | 33.5 | 32.5 | 28.5 | 27.2 | 29.0 | 29.4 | 29.1 | 29.2 | 25.1 | 22.7 | 25.2 | 30.4 | 29.2 | 28.8 |
| Operating Margin | 22.3 | 21.7 | 17.0 | 15.4 | 17.3 | 17.8 | 17.6 | 17.7 | 11.6 | 11.5 | 15.1 | 19.1 | 17.6 | 17.3 |
| EBITDA Margin | 27.0 | 26.6 | 21.9 | 20.5 | 22.2 | 22.7 | 22.5 | 22.5 | 16.8 | 16.7 | 20.0 | 24.0 | 22.5 | 21.9 |
| Net Margin | 22.3 | 21.5 | 15.6 | 14.3 | 16.1 | 16.2 | 14.7 | 14.8 | 10.2 | 10.5 | 15.5 | 18.4 | 15.4 | 14.6 |
| Sequential Growth (%) | | | | | | | | | | | | | | |
| Revenue | 16.9 | 7.2 | (1.1) | 0.6 | 3.7 | 4.5 | 4.6 | 4.5 | 87.3 | 37.6 | (21.3) | 115.3 | 12.7 | 22.2 |
| Gross Profit | 9.6 | 4.2 | (13.5) | (3.8) | 10.6 | 5.8 | 3.6 | 4.6 | 52.3 | 24.4 | (12.5) | 159.4 | 8.2 | 20.8 |
| EBIT | 5.0 | 4.2 | (22.6) | (8.5) | 16.5 | 7.3 | 3.5 | 4.8 | 41.7 | 36.6 | 3.1 | 171.8 | 4.1 | 20.4 |
| EBITDA | 49.8 | 5.6 | (18.5) | (6.1) | 12.4 | 6.7 | 3.7 | 4.6 | 56.4 | 37.2 | (5.7) | 157.9 | 5.6 | 19.1 |
| PBT | 26.7 | 8.0 | (26.0) | (7.8) | 16.7 | 7.8 | 4.1 | 5.2 | 29.1 | 34.2 | 16.4 | 162.3 | 4.2 | 22.1 |
| Net Profit | 64.9 | 3.5 | (28.3) | (7.8) | 16.7 | 5.4 | (5.3) | 5.2 | 20.2 | 41.8 | 15.7 | 155.0 | (5.4) | 15.9 |
| EPS | 51.5 | 3.5 | (28.3) | (7.8) | 16.7 | 5.4 | (5.3) | 5.2 | (7.1) | 40.6 | 10.9 | 166.0 | (5.4) | 15.9 |

Source: Company data, J.P. Morgan estimates. Note: FY08-2 indicates the 7 month period from April '08-Oct '08.

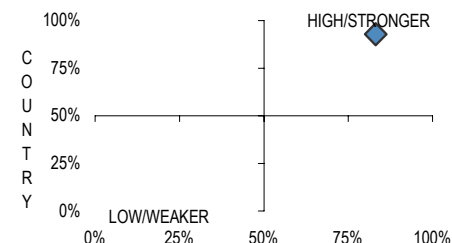
All Data As Of 21-May-09

Q-Snapshot: Mphasis Ltd.

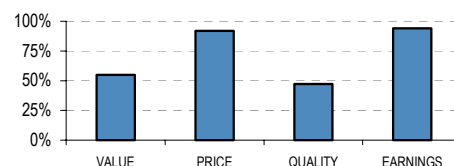
Quant Return Drivers (a Score >50% indicates company ranks 'above average')

| Score 0% (worst) to 100% (best) | vs Country | vs Industry | Raw Value |
|--|------------|-------------|-----------|
| Value | | | |
| P/E Vs Market (12mth fwd EPS) | 76% | 65% | 0.6x |
| P/E Vs Sector (12mth fwd EPS) | 72% | 44% | 0.7x |
| EPS Growth (forecast) | 16% | 8% | -9.3% |
| Value Score | 55% | 18% | |
| Price Momentum | | | |
| 12 Month Price Momentum | 92% | 91% | 18.9% |
| 1 Month Price Reversion | 68% | 26% | 22.3% |
| Momentum Score | 92% | 88% | |
| Quality | | | |
| Return On Equity (forecast) | 88% | 88% | 30.8% |
| Earnings Risk (Variation in Consensus) | 15% | 14% | 0.24 |
| Quality Score | 47% | 50% | |
| Earnings & Sentiment | | | |
| Earnings Momentum 3mth (risk adjusted) | 96% | 96% | 131.2 |
| 1 Mth Change in Avg Recom. | 57% | 31% | -0.06 |
| Net Revisions FY2 EPS | 85% | 80% | 100% |
| Earnings & Sentiment Score | 94% | 94% | |
| COMPOSITE Q-SCORE* (0% To 100%) | 93% | 83% | |

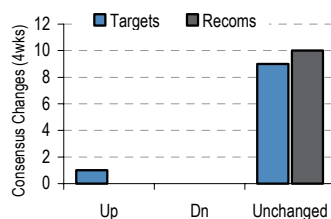
J.P. Morgan Composite Q-Score



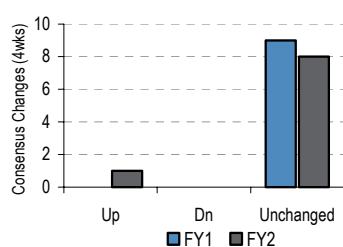
INDUSTRY Quant Return Drivers Summary (vs Country)



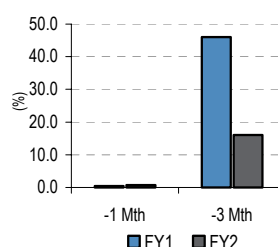
Targets & Recommendations**



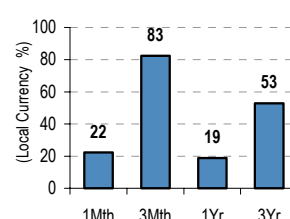
EPS Revisions**



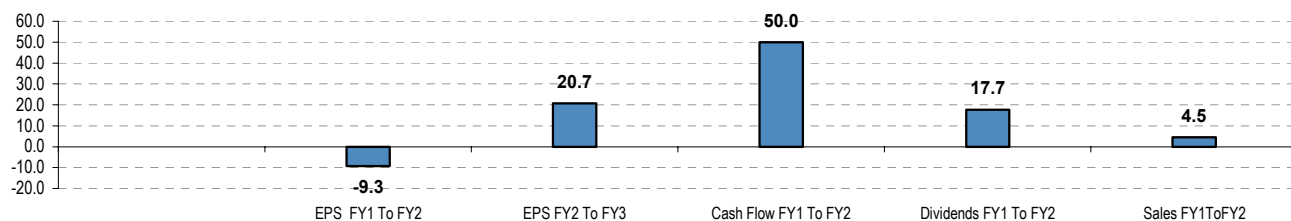
EPS Momentum (%)



Historical Total Return (%)



Consensus Growth Outlook (%)



Closest in Country by Size (Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

| Code | Name | Industry | USD MCAP | ADV | PE FY1 | Q-Score* |
|------------------|------------------------------------|--|--------------|-------------|------------|------------|
| 500830-IN | Colgate-Palmolive (India) Ltd. | Household/Personal Care | 1,329 | 0.39 | 22.5 | 96% |
| 500116-IN | IDBI Bank Ltd. | Regional Banks | 1,274 | 0.89 | 7.8 | 95% |
| 511218-IN | Shriram Transport Finance Co. Ltd. | Finance/Rental/Leasing | 1,231 | 0.31 | 10.6 | 93% |
| 500302-IN | Piramal Healthcare Ltd | Pharmaceuticals: Other | 1,134 | 0.56 | 11.5 | 85% |
| 532708-IN | GVK Power & Infrastructure Ltd. | Electric Utilities | 1,132 | 2.71 | 27.7 | 25% |
| 526299-IN | Mphasis Ltd. | Information Technology Services | 1,131 | 0.41 | 8.3 | 93% |
| 532832-IN | Indiabulls Real Estate Ltd. | Real Estate Development | 1,119 | 7.87 | 60.3 | 19% |
| 500108-IN | Mahanagar Telephone Nigam Ltd. | Major Telecommunications | 1,086 | 0.33 | 24.5 | 12% |
| 500480-IN | Cummins India Ltd. | Trucks/Construction/Farm Machinery | 1,064 | 0.20 | 13.9 | 55% |
| 532693-IN | Punj Lloyd Ltd. | Engineering & Construction | 1,022 | 5.09 | 13.7 | 28% |
| 500850-IN | Indian Hotels Co. Ltd. | Hotels/Resorts/Cruiselines | 992 | 0.28 | 17.9 | 7% |

Source: Factset, Thomson and J.P. Morgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobat.com/qsnapshot/>. Q-Snapshots are a product of J.P. Morgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the J.P. Morgan analysts' recommendation.

* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe. ** The number of up, down and unchanged target prices, recommendations or EPS forecasts that make up consensus.

Mphasis-BFL: Summary of financials

| Income statement | | | | | | Ratio Analysis | | | | | |
|-------------------------------|--------|---------|--------|--------|--------|---------------------------|-------|---------|-------|-------|-------|
| INR in millions, year-end Mar | FY08 | FY08-2* | FY09E | FY10E | FY11E | % year-end Mar | FY08 | FY08-2* | FY09E | FY10E | FY11E |
| Revenues | 24,231 | 19,065 | 41,054 | 46,274 | 56,565 | Gross Margin | 22.7 | 25.2 | 30.4 | 29.2 | 28.8 |
| Cost of Goods Sold | 18,736 | 14,255 | 28,577 | 32,771 | 40,248 | EBITDA margin | 21.9 | 25.0 | 28.9 | 27.4 | 26.5 |
| Gross Profit | 5,495 | 4,811 | 12,476 | 13,503 | 16,317 | Operating Margin | 16.7 | 20.0 | 24.0 | 22.5 | 21.9 |
| SG&A Expenses | 2,703 | 1,931 | 4,651 | 5,354 | 6,505 | Net Margin | 10.5 | 15.5 | 18.4 | 15.4 | 14.6 |
| Operating Profit (EBIT) | 4,047 | 3,818 | 9,848 | 10,404 | 12,389 | SG&A/Sales | 11.2 | 10.1 | 11.3 | 11.6 | 11.5 |
| EBITDA | 5303 | 4757 | 11872 | 12659 | 14966 | Sales growth | 37.6 | -21.3 | 115.3 | 12.7 | 22.2 |
| Interest Income | 84.9 | 45.4 | 108.3 | 313.6 | 520.2 | Operating Profit Growth | 36.6 | 3.1 | 171.8 | 4.1 | 20.4 |
| Investment Income (Exp.) | -219.1 | 163.9 | 154.5 | 0.0 | 0.0 | Net profit growth | 41.8 | 15.7 | 155.0 | -5.4 | 15.9 |
| Non-Opr Income (Exp.) | 4.0 | 8.5 | 36.2 | 0.0 | 0.0 | EPS (Reported) growth | 40.6 | 10.8 | 166.0 | -5.4 | 15.9 |
| Earnings before tax | 2,662 | 3,097 | 8,124 | 8,463 | 10,332 | Interest coverage (x) | n.m. | n.m. | n.m. | n.m. | n.m. |
| Tax | -109 | -143 | -590 | -1,333 | -2,066 | Net debt to total capital | n.m. | n.m. | n.m. | n.m. | n.m. |
| Net Income (Reported) | 2553 | 2954 | 7534 | 7130 | 8266 | Net debt to equity | n.m. | n.m. | n.m. | n.m. | n.m. |
| Net Income (Adjusted) | 2553 | 2954 | 7534 | 7130 | 8266 | Asset Turnover | 150.9 | 94.6 | 148.1 | 132.3 | 128.7 |
| INR | | | | | | ROE | 23.6 | 22.8 | 41.8 | 28.8 | 26.2 |
| EPS (Reported) | 12.2 | 13.6 | 36.1 | 34.1 | 39.6 | ROIC | 24.4 | 21.6 | 42.4 | 32.8 | 34.3 |
| BPS | 55.4 | 68.7 | 104.0 | 133.4 | 168.3 | ROCE | 24.3 | 21.6 | 40.6 | 27.9 | 25.1 |
| DPS | 3.3 | 0.0 | 0.0 | 4.0 | 4.0 | | | | | | |
| Shares Outstanding (bn) | 209 | 209 | 209 | 209 | 209 | | | | | | |

| Balance sheet | | | | | | Cash flow statement | | | | | |
|-------------------------------|--------|---------|--------|--------|--------|-----------------------------|--------|---------|--------|--------|--------|
| INR in millions, year-end Mar | FY08A | FY08-2* | FY09E | FY10E | FY11E | INR in millions, yr-end Mar | FY08A | FY08-2* | FY09E | FY10E | FY11E |
| Cash and cash equivalents | 953 | 546 | 5,660 | 10,575 | 16,584 | Net Income | 2,553 | 2,954 | 7,534 | 7,130 | 8,266 |
| Accounts receivable | 5,802 | 8,810 | 9,711 | 11,501 | 14,232 | Depr. & Amortisation | 1,256 | 939 | 2,024 | 2,255 | 2,577 |
| Loans and advances | 2,956 | 3,357 | 5,642 | 6,442 | 7,242 | Change in working capital | -1,517 | -2,100 | -2,965 | -1,492 | -1,856 |
| Others | 3 | 2 | 1 | 1 | 1 | Other | 0 | 0 | 0 | 0 | 0 |
| Current assets | 9,713 | 12,715 | 21,014 | 28,519 | 38,059 | Cash flow from operations | 2,292 | 1,793 | 6,592 | 7,893 | 8,987 |
| LT investments | 260 | 345 | 459 | 459 | 459 | Capex | -2,370 | -1,442 | -1,226 | -2,000 | -2,000 |
| Net fixed assets | 3,633 | 4,136 | 3,339 | 3,084 | 2,507 | Disposal/ (purchase) | 179 | -595 | -67 | 0 | 0 |
| Others | 2,449 | 2,959 | 2,911 | 2,911 | 2,911 | Cash flow from investing | -2,191 | -2,037 | -1,293 | -2,000 | -2,000 |
| Total assets | 16,054 | 20,155 | 27,723 | 34,973 | 43,936 | Free cash flow | -78 | 351 | 5,366 | 5,893 | 6,987 |
| Liabilities | | | | | | Equity raised/ (repaid) | -263 | -160 | -175 | 0 | 0 |
| ST loans | 0 | 0 | 0 | 0 | 0 | Debt raised/ (repaid) | 28 | -3 | -10 | 0 | 0 |
| Payables | 0 | 0 | 0 | 0 | 0 | Other | 0 | 0 | 0 | 0 | 0 |
| Others | 4,429 | 5,737 | 5,957 | 7,055 | 8,730 | Dividends paid | -806 | 0 | 0 | -978 | -978 |
| Total current liabilities | 4,429 | 5,737 | 5,957 | 7,055 | 8,730 | Cash flow from financing | -1,041 | -163 | -185 | -978 | -978 |
| Long term debt | 57 | 54 | 44 | 44 | 44 | Net change in cash | -940 | -407 | 5,114 | 4,915 | 6,010 |
| Other liabilities | 0 | 0 | 0 | 0 | 0 | Beginning cash | 1,893 | 953 | 546 | 5,660 | 10,575 |
| Total liabilities | 4,486 | 5,791 | 6,001 | 7,099 | 8,774 | Ending cash | 953 | 546 | 5,660 | 10,575 | 16,584 |
| Shareholders' equity | 11,569 | 14,363 | 21,722 | 27,874 | 35,162 | | | | | | |

Source: Company data, J.P. Morgan estimates. Note: FY08-2 indicates the 7 month period from April '08-Oct '08.

Reliance Power

Company bags 2.5GW (~US\$3.75B) hydro projects from AP Govt - ALERT

- **Pipeline gets longer.** *Business Standard* reported today that Reliance Power has bagged four hydroelectric power projects of 2520MW capacity worth Rs180B (~US\$3.75B) from the Arunachal Pradesh (AP) government through a competitive bidding process. The bidding parameters for these projects were the amount of free power that the developer would offer to the state as well as the upfront premium it was willing to pay (project-wise details not yet available). Bidders in the fray for the four projects of 1,200 Mw Kalai-II, 500 Mw Emni, 420 Mw Amulin and 400 Mw Mihudon included players such as Jaiprakash Hydro Power, L&T and Athena Energy.
- **Another lot of back-ended projects.** As per the news report, RPWR will implement these Run-off-River (RoR) projects during the 12th Plan period (FY12-17). These 4 projects are over and above the three announced hydro projects (2100MW– 1,000 Mw Siyom and 700 Mw Tato-II in Arunachal Pradesh and another 400 Mw Urting Sobla in Uttranachal). None of the projects announced earlier have achieved financial closure and we are not building in any value for these projects in our SOTP valuation. Management told us that these projects are at various stages of pending clearances—environmental (Urthing Sobla, Tato-II)/techno-economic clearance from CEA (Siyom). The detailed project report (DPR) is ready for all three projects.
- **Ambitious plans.** Reliance Power has bagged three UMPP projects (12000MW) out of the 4 bid out so far- Sasan, Krishnapatnam & Tilaiya. It has achieved financial closure on Sasan/Rosa-I & II and Butibori. The company expects to use excess coal from Sasan's captive mines and build another 4000MW project (MP Power). Out of the 32GW pipeline (now 34.5GW), financial closure has been achieved on 5.5GW projects. Rosa-I (600MW) & Butibori (300MW) are expected to be operational in FY11 and timely commissioning of these projects is vital to lend credence to the ambitious pipeline (see Table 1 for estimates on commissioning schedule for projects in pipeline). We believe favorable funding environment and a market ready to value back-ended cash flows would be catalysts for RWPR.

Underweight

RPOL.BO, RPWR IN

Price: Rs172.80

20 May 2009

Independent Power Producers

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See page 44 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 29: Estimated commissioning schedule of Reliance Power's project pipeline

In MW, year-end March

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Fuel |
|--------------------|-----------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Sasan UMPP | 0 | 55 | 1,650 | 3,795 | 3,960 | 3,960 | 3,960 | 3,960 | 3,960 | Domestic coal |
| Rosa-I | 74 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | Domestic coal |
| Rosa-II | 0 | 372 | 600 | 600 | 600 | 600 | 600 | 600 | 600 | Domestic coal |
| Shahpur-I | 0 | 0 | 0 | 0 | 0 | 600 | 1,200 | 1,200 | 1,200 | Imported coal |
| Butibori | 0 | 240 | 300 | 300 | 300 | 300 | 300 | 300 | 300 | Domestic coal |
| MP Power Co | 0 | 0 | 0 | 0 | 1,430 | 3,685 | 3,960 | 3,960 | 3,960 | Domestic coal |
| Krishnapatnam UMPP | 0 | 0 | 0 | 0 | 165 | 1,650 | 3,795 | 3,960 | 3,960 | Imported coal |
| Dadri | 0 | 0 | 0 | 1,750 | 3,850 | 5,950 | 7,480 | 7,480 | 7,480 | Gas |
| Shahpur-II | 0 | 0 | 0 | 175 | 1,750 | 2,800 | 2,800 | 2,800 | 2,800 | Gas |
| Urthing Sobla | 0 | 0 | 0 | 0 | 0 | 400 | 400 | 400 | 400 | Hydro |
| Tato-II | 0 | 0 | 0 | 0 | 0 | 700 | 700 | 700 | 700 | Hydro |
| Siyom | 0 | 0 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 1,000 | Hydro |
| Kalai | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,200 | 1,200 | Hydro |
| Tilaiya UMPP | 0 | 0 | 0 | 0 | 0 | 110 | 1,485 | 3,190 | 3,960 | Domestic coal |
| Grand Total | 74 | 1,267 | 3,150 | 7,220 | 12,655 | 21,355 | 28,280 | 31,350 | 32,120 | |

Source: J.P. Morgan estimates, Company data.

Analyst Certification:

The research analyst who is primarily responsible for this research and whose name is listed first on the front cover certifies (or in a case where multiple research analysts are primarily responsible for this research, the research analyst named first in each group on the front cover or named within the document individually certifies, with respect to each security or issuer that the research analyst covered in this research) that: (1) all of the views expressed in this research accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research.

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- An affiliate of JPMSI owns a significant stake in HDFC Securities Limited, a privately held subsidiary of HDFC.
- An affiliate of JPMSI owns a significant stake in HDFC Securities Limited, a privately held subsidiary of HDFC.

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