

# UBS Investment Research

## India Mobile Sector

India

Wireless Communications

Sector Comment

### The truth about subscriber numbers

#### ■ TRAI active subscriber stats reveal interesting insights

TRAI has recently published active subscriber data as of Sep 30, 2010. The active wireless subs base in India (477m) is 70% of the actual reported subs base (682m). The percentage of active subs is highest for Bharti (89%) followed by Idea (incl. Spice, 88%), Vodafone (75%), RCom (67%), BSNL (59%), & Aircel (59%). For new operators, the active subs percentage is much lower than the national average of 70%. Sistema's active sub percentage is 46% while the same for Etisalat, Videocon, Unitech and S-Tel are 44%, 39%, 31% and 24% respectively. Tata Tele's active sub percentage is 45%. The company has clarified that its active subs data is not comparable. (TTSL uses 7 days of data vs. 30 days by its rivals)

#### ■ Key conclusion – New operators are really struggling

1. Reported mobile subscriber data is irrelevant if we don't know what percentage of subscribers are active. 2. India's real mobile penetration is 40% (vs. reported 58%). 3. New operators are struggling, as evidenced by very few active subs. 4. Bharti & Idea managements are conservative in accounting for their subscribers.

#### ■ Regulatory progress likely in 6-9 months; Bharti is our top pick

We expect that the change in telecom minister is likely to result in speedy resolution of outstanding regulatory issues such as 2G spectrum pricing, M&A guidelines, and future of new entrants who have got spectrum but have not rolled out services. Regulatory changes should be positive for incumbents. We reiterate our Buy ratings on Bharti and RCom, and our Sell rating on Idea. Bharti is our top pick as we expect: 1) Bharti to benefit the most from potential sector consolidation and emergence of pricing power; 2) Zain Africa to be positive in medium term.

Table 1: Valuation comparison

		Market	Price	%	Market cap	Net debt	P/E		EPS growth		EV/EBITDA		EBITDA growth	
	Rating	price	Target *	upside	(m, USD)	(m, USD)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Bharti	Buy	348.9	415	19%	29,595	(13,849)	21.5	19.5	-31%	10%	7.1	6.0	18%	20%
Idea	Sell	70.3	75	7%	5,177	(3,256)	39.5	45.2	-36%	-13%	9.8	7.9	29%	26%
RCOM	Buy	134.2	270	101%	6,186	(7,652)	21.4	10.5	-73%	104%	8.0	6.1	-25%	38%

Note: Prices on close of 7 December 2010; Net Debt is for FY11; \*Our PTs are SoTP derived; Source: UBS estimates

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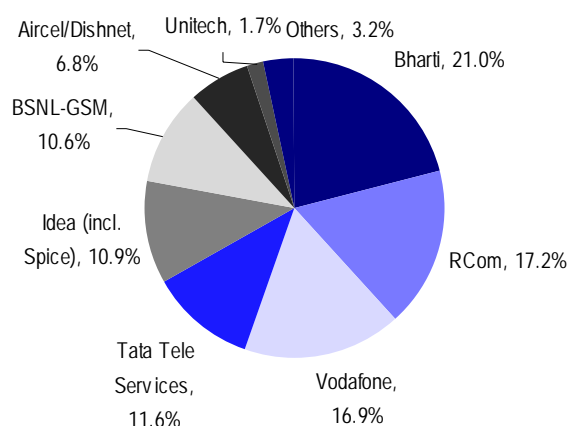
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Table 2: India Wireless Active subs data – September 2010

Service Provider	Wireless Subs (Sep'10)	VLR Subs (Sep'10)	Proportion of VLR Subs (active subs)	Reported subs market share (%)	Active subs market share (%)
Bharti	143.29	127.96	89.3%	21.0%	26.8%
Idea (incl. Spice)	74.21	65.36	88.1%	10.9%	13.7%
Vodafone	115.55	86.65	75.0%	16.9%	18.2%
RCom-CDMA	55.29	37.74	68.3%	8.1%	7.9%
RCom-GSM	41.21	27.34	66.4%	6.0%	5.7%
Reliance Telecom	20.84	13.43	64.5%	3.1%	2.8%
RCom	117.34	78.51	66.9%	17.2%	16.5%
BSNL-GSM	72.54	42.96	59.2%	10.6%	9.0%
Aircel/Dishnet	46.52	27.49	59.1%	6.8%	5.8%
HFCL-GSM	0.73	0.38	52.6%	0.1%	0.1%
Loop	2.98	1.44	48.2%	0.4%	0.3%
Sistema	6.64	3.07	46.2%	1.0%	0.6%
Tata GSM	38.16	17.62	46.2%	5.6%	3.7%
Tata CDMA	40.92	18.01	44.0%	6.0%	3.8%
Tata Tele Services	79.07	35.63	45.1%	11.6%	7.5%
Etisalat	0.06	0.02	43.5%	0.0%	0.0%
HFCL-CDMA	0.30	0.12	39.1%	0.0%	0.0%
Videocon	4.48	1.74	38.9%	0.7%	0.4%
MTNL	5.31	1.90	35.9%	0.8%	0.4%
Unitech	11.27	3.48	30.9%	1.7%	0.7%
S-Tel	1.64	0.40	24.3%	0.2%	0.1%
<b>All India</b>	<b>681.93</b>	<b>477.11</b>	<b>70.0%</b>	<b>100.0%</b>	<b>100.0%</b>

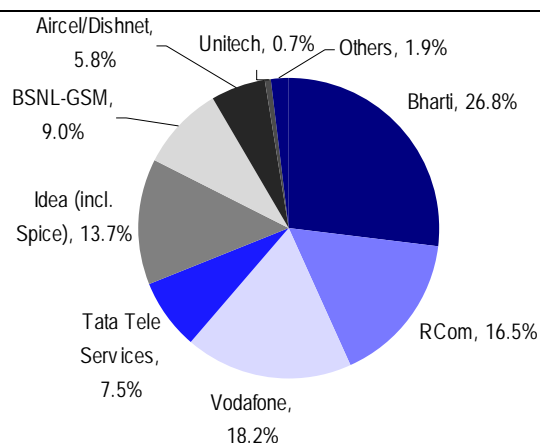
Note: BSNL-CDMA data is not included as BSNL-CDMA visitor local register (VLR) data is not available; Source: TRAI, UBS

Chart 1: Reported wireless subs market share – Sept. 2010



Source: TRAI, UBS

Chart 2: Active wireless subs market share – Sept. 2010



Source: TRAI, UBS

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#### ■ Statement of Risk

Changes in the competitive and regulatory landscape and technology advances could have an impact on our estimates and valuations for the operators. We believe irrational competition among existing operators presents the biggest risk to our forecasts, ratings, and price targets.

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	51%	37%
Neutral	Hold/Neutral	40%	33%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	less than 1%	20%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2010.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**Equity Price Targets** have an investment horizon of 12 months.

**EXCEPTIONS AND SPECIAL CASES**

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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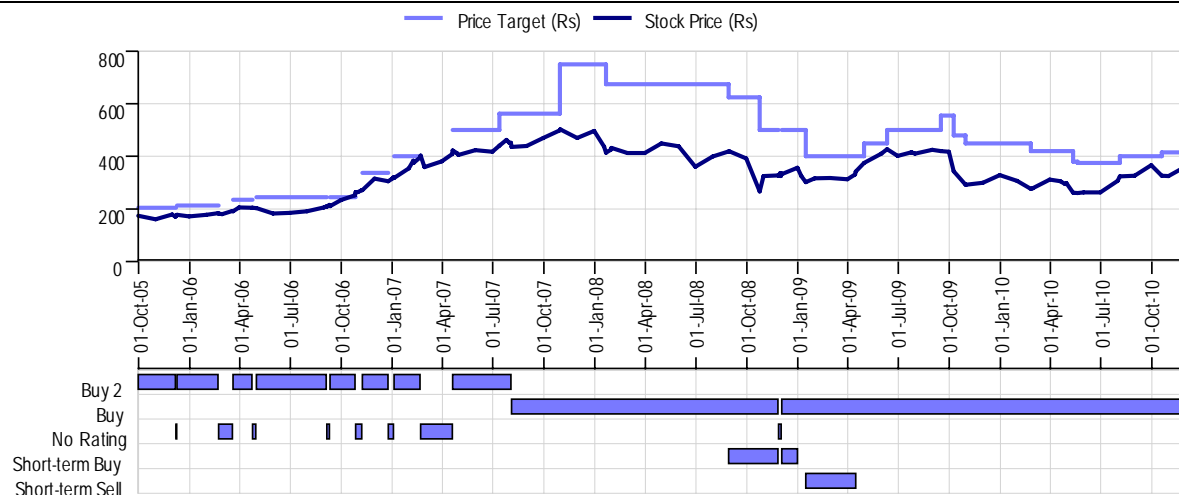
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
<b>Bharti Airtel Ltd.</b>	BRTI.BO	Buy	N/A	Rs345.15	06 Dec 2010
<b>Idea Cellular</b>	IDEA.BO	Sell	N/A	Rs70.20	06 Dec 2010
<b>Reliance Communication Limited</b>	RLCM.BO	Buy	N/A	Rs135.65	06 Dec 2010

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

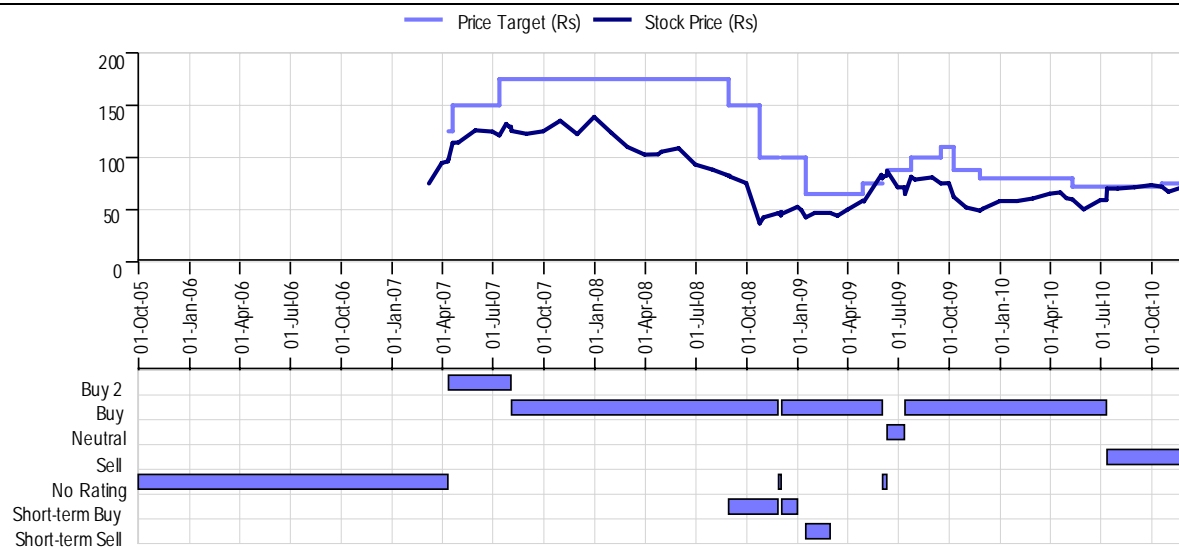
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

## Bharti Airtel Ltd. (Rs)



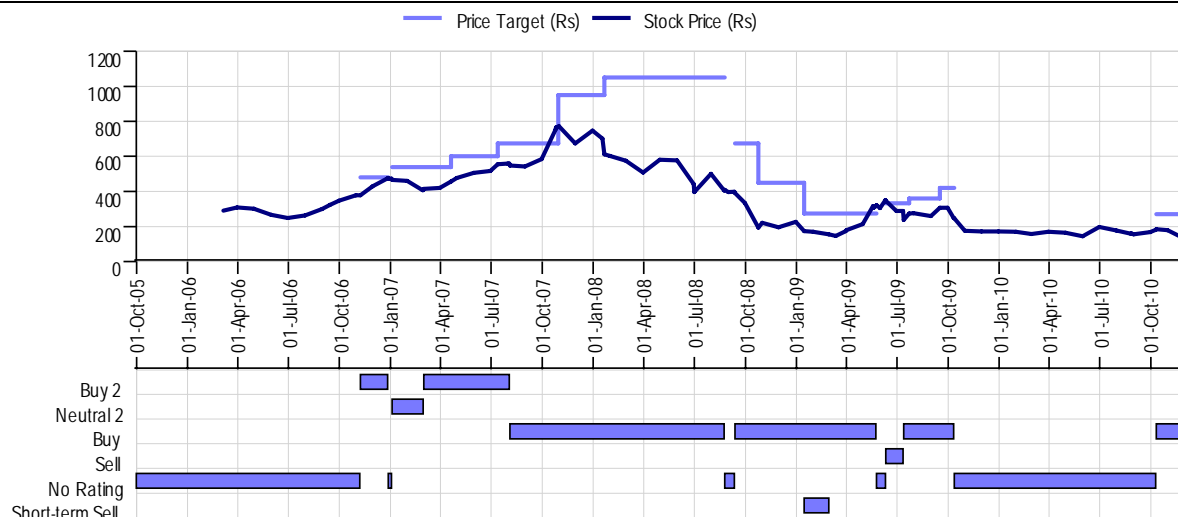
Source: UBS; as of 06 Dec 2010

## Idea Cellular (Rs)



Source: UBS; as of 06 Dec 2010

## Reliance Communication Limited (Rs)



Source: UBS; as of 06 Dec 2010

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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