

Indian Telecom Sector

Lowest subscriber additions in the past nine months

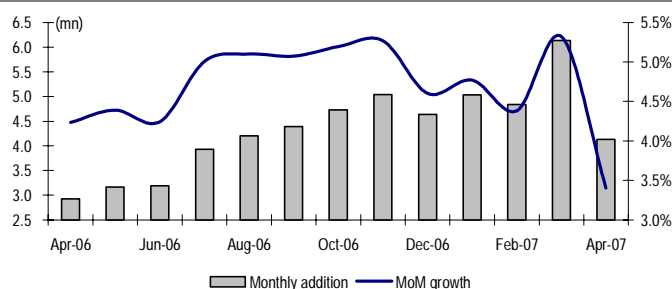
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- Net GSM subscriber addition for April 2007 was 4.1 mn, lowest since July 06. MoM growth faltered to 3.4% from 5.3% in March 2007.
- Weak addition by BSNL/MTNL was the key reason behind lower net adds. Surprisingly, Reliance data indicate no addition of GSM subs in April 07. This could be either due to lack of latest data or continuation of cleanup in sub numbers.
- While Bharti continues to gain market share (4.7% MoM growth), data also indicate increased aggressiveness on the part of Hutch (4.8% MoM growth) and Idea (3.9% MoM growth).
- Weak growth in metros (1% MoM) raises the issue of saturation in these circles. As such, it could be difficult for new entrants in these circles to gain a competitive edge.
- With the land grab race on between operators, we remain positive on monthly net adds and expect them to average 7 mn per month for FY3/08. However, this could lead to ARPU declines surprising on negative side, leading to pressure on EPS. We thus retain our cautious stance on Indian Telecom sector.

Cellular Operators Association of India (COAI) released April 2007 GSM subscriber addition numbers on Friday. Net additions declined to 4.13 mn, the lowest in past nine months. Month-on-month increase in subscriber base was 3.4%, the lowest in past two years.

Figure 1: GSM monthly net adds and subscriber growth



Source: COAI, Credit Suisse estimates.

Negative for BSNL and Reliance

BSNL subscriber additions could be seasonal with the month of March always exhibiting a peak followed by weak April. Excluding BSNL, net adds were broadly in the same range as those of past six months.

Surprising weakness was in Reliance, where management has indicated an increased focus in GSM business. COAI reported no change in Reliance subscriber numbers. This could be either due to (1) lack of latest data or (2) continued cleanup in subscriber numbers. This could point to weak competitive position of the company while it grapples with its GSM versus CDMA strategy.

Bharti continues to increase its market share (up 39 bps MoM). Market share of Hutch (up 29 bps), and Idea (up 6 bps) also indicates increased aggressiveness on their part.

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Figure 2: Month end GSM subscribers

2006/07 (mn)	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Bharti Airtel	25.6	27.1	28.6	30.3	32.0	33.7	35.4	37.1	38.9
BSNL/MTNL	22.3	23.2	24.4	25.4	26.0	26.9	28.0	30.2	30.2
Hutchison	19.4	20.4	21.3	22.3	23.3	24.4	25.3	26.4	27.7
IDEA	9.7	10.4	11.0	11.8	12.4	13.1	13.6	14.0	14.6
Reliance	2.7	3.0	3.2	3.4	3.6	3.9	4.1	4.3	4.3
Others	6.8	7.0	7.3	7.6	8.0	8.4	8.7	9.3	9.8
Total	86.6	91.0	95.7	100.8	105.4	110.5	115.3	121.4	125.6

Source: COAI, Credit Suisse estimates.

Figure 3: Market share of month-end subs

2006/07 (%)	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Bharti Airtel	29.6	29.7	29.9	30.0	30.3	30.5	30.74	30.59	30.97
BSNL/MTNL	25.8	25.5	25.5	25.2	24.7	24.4	24.31	24.85	24.08
Hutchison	22.4	22.4	22.2	22.1	22.1	22.1	21.98	21.78	22.06
IDEA	11.2	11.4	11.5	11.7	11.8	11.8	11.83	11.54	11.60
Reliance	3.2	3.3	3.3	3.4	3.5	3.5	3.57	3.58	3.46
Others	7.8	7.7	7.6	7.6	7.6	7.6	7.58	7.67	7.82

Source: COAI, Credit Suisse estimates.

Figure 4: Monthly net adds

2006/07 (mn)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Bharti Airtel	1.1	1.2	1.2	1.3	1.3	1.4	1.6	1.7	1.7	1.8
BSNL/MTNL	0.5	0.5	0.4	0.8	1.1	0.9	1.2	1.0	0.7	0.9
Hutchison	0.7	0.7	0.8	0.9	1.0	1.0	0.9	1.0	1.0	1.1
IDEA	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.9	0.6	0.6
Reliance	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Others	0.2	0.2	0.2	0.2	0.0	0.3	0.3	0.3	0.4	0.4

Source: COAI, Credit Suisse estimates.

A and C circles drive growth

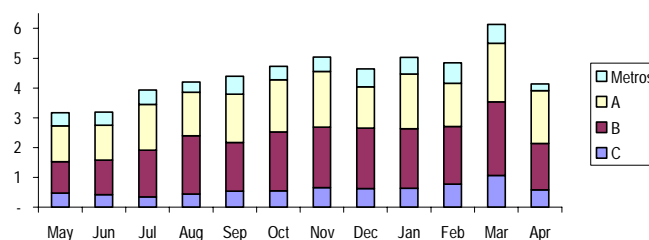
Though growth came down for all circles, it declined significantly for Metros (1% MoM, from 3% in March). A and C circles returned 4% plus MoM growth while B circles grew 3.6% MoM.

Figure 5: Circle-wise month-end GSM subs

2006/07 (mn)	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Metros	17.6	17.9	18.5	19.0	19.5	20.1	20.6	21.3	22.0	22.2
A	29.4	30.8	32.4	34.2	36.1	37.4	39.3	40.7	42.7	44.5
B	27.5	29.5	31.1	33.1	35.1	37.1	39.1	41.1	43.5	45.1
C	8.0	8.4	8.9	9.5	10.2	10.8	11.4	12.2	13.2	13.8

Source: COAI

Figure 6: GSM monthly net additions (2006/07)



Source: COAI, Credit Suisse estimates.

Companies Mentioned (Price as of 11 May 07)

Bharti Airtel Ltd (BRTI.BO, Rs813.9, UNDERPERFORM, TP Rs630.00, MARKET WEIGHT)
 Reliance Communication Ltd (RLCM.BO, Rs478.05, UNDERPERFORM, TP Rs385.00, MARKET WEIGHT)
 Hutchison Telecommunications International Ltd (2332.HK, HK\$15.94, NEUTRAL, TP HK\$16.22)
 Idea Cellular Ltd (IDEA.BO, Rs113.5)

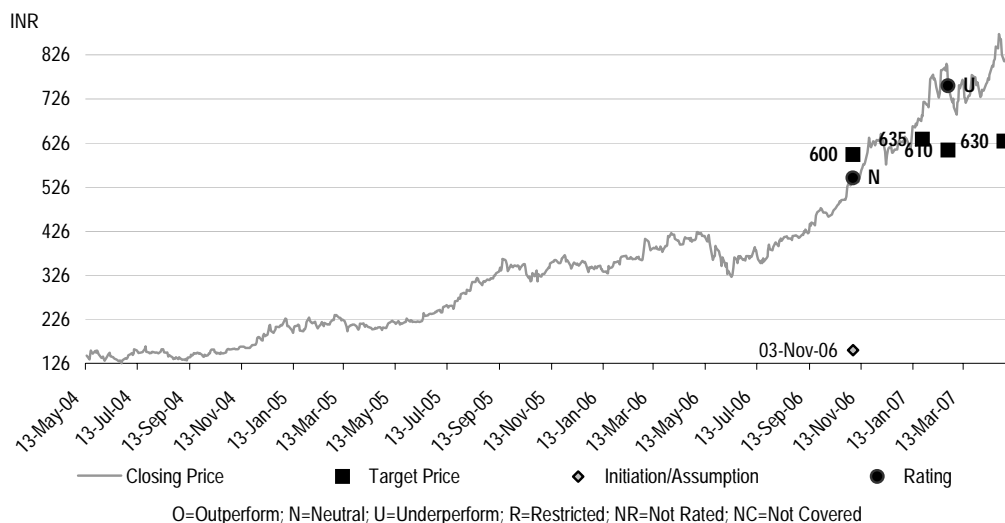
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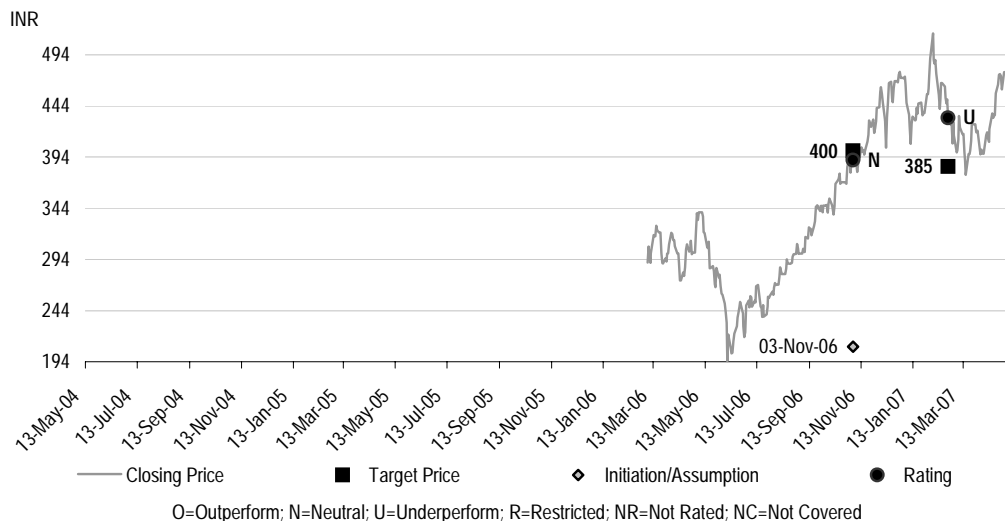
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3-Year Price, Target Price and Rating Change History Chart for BRTI.BO



BRTI.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/Assumption
3-Nov-06	546.65	600	NEUTRAL	X
24-Jan-07	686.9	635	UNDERPERFORM	
23-Feb-07	756.1	610		
30-Apr-07	812.05	630		

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



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

3-Year Price, Target Price and Rating Change History Chart for 2332.HK



2332.HK Date	Closing Price Price (HKD)	Target Price Price (HKD)	Rating	Initiation/ Assumption
3-Nov-06	16	14.5	UNDERPERFORM	X
12-Feb-07	19.2	16.9		
16-Mar-07	16.06	16.22	NEUTRAL	

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

Method: Our 12-month target price of Rs630 for Bharti Airtel Ltd is based on discounted cash flow (DCF) analysis. We assume a weighted average cost of capital (WACC) of 11.6 and beta of 1.2. Our DCF model builds in strong cashflow growth till FY3/15, a 5% medium term growth (FY3/15 - FY3/30) and 3% terminal growth

Risks: Risks to our 12-month target price of Rs630 for Bharti include stronger than expected margin improvement and continuous uptrend in Indian market

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

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

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

Price Target: (12 months) for (2332.HK)

Method: Our target price of HK\$16.22 for Hutchison Telecommunications International Limited (HTIL) is based on sum-of-the-parts discounted cashflow (SOTP) of each of the company's operations. We value the Partner Communications stake in Israel at HK\$1.71 per HTIL share, Hong Kong fixed line and mobile operation at HK\$0.07 per HTIL share, ASEAN operations in Indonesia, Thailand, and Vietnam at -HK\$0.93 per HTIL share, Other operations at 0.81 per HTIL share, and the cash received from the sale of Hutchison Essar (after deducted for HK\$3,495 acquisition cost of ITNL) in India at HK\$14.57 per share. At our target price, HTIL would be trading at a FY07 proportionally consolidated enterprise value to Earnings before net interest and tax expenses (EV/EBITDA) multiple of 20.3x.

Risks: Hutchison International Telecommunications Limited operates telecommunications business in various countries. The risks that may impede achievement of our HK\$16.22 target price are (1) either faster than expected, or slower than expected growth in any market the company has an operation in. (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions (3) that capex forecasts prove higher or lower than expected due to competitive pressures. (4) that competition leads to higher or lower attrition of revenue per user than expected, for example through a price war

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