

Morgan Stanley India Company
Private Limited+

Vinay Jaising

Vinay.Jaising@morganstanley.com
+91 22 2209 7780

Surabhi Chandna

Surabhi.Chandna@morganstanley.com
+91 22 2209 7149

Mayank Maheshwari

Mayank.Maheshwari@morganstanley.com
+91 22 2209 7821

July 3, 2009

Industry View
In-Line

India Telecommunications Tariff Wars Not as Fierce as Expected; Upgrade to In-Line

What's Changed

Industry View: India

Telecommunications

Cautious to In-Line

Upgrade sector to In-Line: We are raising our estimates of India's average revenue per minute (ARPM) by 5/7% for F2010/F2011 and becoming more constructive on the sector. We still expect drops of 15% pa in average revenue per unit (ARPU) and 9.9% in ARPM for the industry as a whole in that period.

3G is a F2010 phenomenon: We believe each operator will invest US\$1bn for a pan-India footprint; producing US\$5 billion income for the government. Higher industry capex is likely to lower return on capital employed. The bright side would be a wider spectrum.

F1Q10 results to be dampened by lower incoming interconnect, despite 9% growth in subscribers: However we expect margins to improve due to higher on-net calls and a balanced incoming to outgoing traffic.

Reiterate Overweight on Bharti: We increase both our EBITDA and net profit estimates by 1% for F2010 and 3% for F2011 and expect 17% CAGR for F2009-11E EPS; MTN overhang is major short-term risk.

Upgrade RCOM to Equal weight: RCOM has underperformed the market by 15% YTD, 40% in 12 months, and we believe most risks are now factored in. We lower our estimate of cost of capital and raise our target price to Rs305/share. RCOM is seeking approval from shareholders to issue equity shares to qualified institutional buyers, to fund part of its 3G capex.

Still Underweight Idea but raise EBITDA estimates by 6% for F2010 and 4% for F2011 on the back of higher margins. Also increase our target price to Rs63. Idea is the costliest Indian telco stock at 17.5x F2011e earnings; hence our Underweight call.

What's Changed

Company	PT Change	Rating Change	PT Change (%)	% from current levels
	Rs 896			
Bharti (BRTI.BO, Rs 804.1 OW)	To Rs1000	No Change	12	24%
	Rs 170			
RCOM (RLCM.BO, Rs 293.1 UW)	To Rs305	UW To EW	80	4%
Idea (IDEA.BO, Rs 74.3 UW)	Rs 48 To Rs63	No Change	30	-16%

Closing prices as at June 30, 2009

EPS Changes

	F2010E	F2011E
Bharti	1.2%	1.6%
RCOM	7.5%	-2.5%
Idea	13.4%	1.3%

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Investment Case

Key Points

- Milder-than-expected tariff wars, but ARPMs still likely to fall a further 9.9% by F2011 to Rs0.52 despite being among the lowest in the world.
- 3G is a F2010 phenomenon
- Upgrade RCOM to Equal-weight
- Maintain Overweight on Bharti, Underweight on Idea.
- Lower incoming interconnect likely to dampen F1Q10 results.

Summary & Conclusions

The Indian telecom sector has underperformed the market by 15% YTD on fears that the entry of new players attempting to garner market share will lower the return on capital employed (ROCE) of the entire industry, reducing earnings growth. However, the tariff wars have been less intense than we expected, and we thus upgrade our view on the Indian telecom industry to In-Line. The following are our key takeaways:

1. Following GSM (global system for mobile) launches by Aircel, Vodafone, RCOM and Idea in the first quarter of calendar 2009, net adds have stabilized at 11.5-12mn in the last two months, down from 15-16mn in the previous quarter. Initial launches, especially by RCOM, offered ARPM as low as Rs0.1/min for a three-month period. RCOM has discontinued this practice and has gradually inched up tariffs to Rs0.4-0.5/min (Exhibit 22). This compares with the average ARPM of Rs0.63 in F2009E. In response to introductory offers by new operators in the Mumbai circle, recently both Bharti and Vodafone have introduced tariffs that offer the user a cheaper tariff for higher usage. We believe such tariffs will reduce ARPMs by Rs0.05-0.06. However, since they provide an incentive for consumers to talk more, overall ARPU should remain stable. In our F2011 estimates, we assume such offers will be implemented on a pan-India basis in the next 12 months. We still anticipate launches by Tata, Unitech Telenor and Sistema Shyam but do not expect these operators to move down the tariff curve because of balance sheet problems. We have increased our estimates of India's average revenue per minute by 3% for F2010 to Rs0.56 and by 4% to Rs0.52 for F2011. However, we still expect per annum declines of 15% in ARPU and 9.9% in ARPM for the industry as a whole in F2009-11 (Exhibit 1).
2. The Indian government may complete the 3G auction process in F2010. We believe each operator will invest US\$1 bn for a pan-India footprint, producing US\$5 billion income for the government. However we estimate the payback will range from 10-15 years, assuming the 3G auction does not exceed US\$1bn. This compares with a payback of 4-5 years for current operations, as shown in Exhibit 6. In our eyes, although 3G will mitigate the spectrum constraint in highly congested areas due to its voice efficiency, it will lower the ROCE of existing operators and strain their balance sheets, as shown in Exhibit 3. The industry's capex to sales ratio should largely increase in F2010 because of 3G (Exhibit 4). In our estimates, in addition to the US\$1bn cost for 3G spectrum, we have included capex for upgrading from 2G to 3G of US\$500mn for Bharti, US\$250mn for RCOM and US\$400mn for Idea (Exhibit 5). In addition, we believe any ARPU enhancement from 3G will be largely negated by a reduction in EBITDA due to higher license fees.
3. We think the government will reassess the allocation of additional 2G spectrum and do not rule out a higher cost of US\$4-5 million per MHz for above-6.2 MHz of spectrum for existing operators. Exhibit 32 shows the overall spectrum held by existing GSM operators. We estimate Bharti will have a cumulative 36MHz in excess of 6.2Mhz / circle and that, based on entry fees for 2G, the company would have to pay US\$125-150 mn – i.e., Rs3-4 per share – as a one-time spectrum charge.
4. F1Q10 results are likely to be dampened by lower incoming interconnect, despite an estimated 10% growth in subscribers: However, we expect margins to widen thanks to higher on-net calls and balanced incoming to outgoing traffic.
5. We reiterate our Overweight rating on Bharti. We have increased our estimates of EBITDA and net profit estimates both by 1% for F2010 and 3% for F2011 and project a 17% CAGR for F2009-11 EPS (Exhibit 2). We have two main concerns about Bharti: i) The stock is over-owned; our estimate suggests Bharti is ~7% of FII

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portfolio despite having no weightage in MSCI ii) The proposed partnership with MTN announced on May 25, whereby Bharti would acquire 49% of MTN and MTN would acquire a 36% economic interest in Bharti, is an important short-term risk if Bharti overpays for the transaction. Bharti is our top pick in the Indian telecom space for the following reasons. a) We estimate the company will have healthy growth of 14.0% in EBITDA and 16.7% in net profit during F2009-11E; b) Bharti has 68 MHz of the 9c00 MHz band spectrum in GSM, which gives it an edge over competitors who have spectrum in the 1800 MHz band, especially when it comes to capex since 900 MHz band is more efficient than 1800MHz; c) The company has a 29% revenue market share compared with a 24% subscriber market share.(Exhibit 19); d) Bharti has the most under-leveraged balance sheet in the sector and, excluding 3G, is free cash flow (FCF) positive; and e) valuations are attractive. Bharti trades at 14.7x our F2010 EPS estimates and 12.8x our F2011 forecast.

- We have upgraded RCOM to Equal-weight, lowering our estimate of the cost of capital and raising our target price to Rs305. We have fine-tuned down our EBITDA forecast by 1% during F2010-11E but believe RCOM's quarter-on-quarter earnings disappointments are now behind us. However, we await a positive quarterly performance by RCOM before becoming more bullish. We expect the company to report QoQ growth of 5.5% in revenue and 6.8% in EBITDA in F1Q10E – the highest in the sector. RCOM's biggest problem is its high debt; the company is seeking shareholder approval to issue equity shares to qualified institutional buyers (QIB), to fund part of its 3G capex. Value unlocking in the Towerco remains a key trigger for the stock. RCOM has underperformed the market 15% YTD and now trades at 6.4x EV/EBITDA and 11.6x F2011e earnings, with an estimated EBITDA CAGR of 22% during F2010-11E (Exhibit 2).
- We raise our EBITDA estimates for Idea by 6% for F2010 and 4% for F2011, on the back of wider margins. We also increase our target price to Rs63/share. Idea is the costliest Indian telco stock, trading at 20x F2011 earnings – hence our Underweight call. The 3G auction process would increase Idea's debt threefold to Rs120 bn by F2011. Thus, the company's forecast EBITDA growth of 36% pa in the next two years would fall at the profit level to 24% due to the higher interest burden.

Exhibit 1

India Telecoms: Changes in Industry Assumptions

	F2009E	F2010E	F2011E
Industry Average ARPU (Rs)			
New	282	225	204
Old	282	227	203
Change	0.0%	-0.7%	0.4%
Industry Average ARPM (Rs)			
New	0.63	0.56	0.52
Old	0.63	0.54	0.49
Change	0.0%	3.2%	4.2%
Industry Average MOU (Mins)			
New	445	403	395
Old	445	419	410
Change	0.0%	-3.8%	-3.7%

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 2

India Telecoms: EBITDA and PAT Growth, F2009-11E

	F2009-11E CAGR
EBITDA Growth	
Bharti	14.0%
RCOM	21.7%
Idea	35.7%
PAT Growth	
Bharti	16.7%
RCOM	-7.0%
Idea	23.9%

E = Morgan Stanley Research estimates Source: Company data, Morgan Stanley Research

Exhibit 3

India Telecoms: Impact of 3G on Key Ratios

	F2008	F2009	F2010E	F2011E
Net Debt Equity Ratio				
Bharti	0.19	0.16	0.24	0.10
RCOM	0.48	0.65	0.75	0.65
Idea	1.70	0.28	0.79	0.81
ROCE				
Bharti	30%	29%	25%	22%
RCOM	12%	10%	9%	9%
Idea	15%	7%	8%	10%

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Exhibit 4

India Telecoms: 3G capex will inch up the capex-to-sales ratio

	F2007	F2008	F2009E	F2010E	F2011E
Bharti	50%	53%	39%	49%	21%
RCOM	59%	122%	79%	57%	26%
Idea	40%	82%	59%	92%	30%

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research Estimates
Note: Capex as % of net sales

Exhibit 5

India Telecoms: What's in our numbers for 3G

(USD mn)	Bharti	RCOM	Idea
One time 3G Spectrum Charges	1,000	1,000	1,000
Maintenance Capex	500	250	400

Source: Company data, Morgan Stanley Research Estimates

Exhibit 6

India Telecoms: 3G Business Case Scenarios

Business case

Current Wireless Sub base (mn)	400		
Current Post Paid subs as % of overall subs	12%		
Current post paid subs (mn)	48		
Average ARPU (F4Q09)	261		
Current Pre Paid ARPU Rs.	174		
Current Post Paid ARPU Rs	900		
US\$/Rs exchange rate	45		
Current Pre Paid ARPU US\$	4		
Current Post Paid ARPU US\$	20		
Addressable 3G Market (mn)	48		
Incremental ARPU from 3G Consumer US\$	4	5	6
Revenue model for Industry US\$ mn	2,304	2,880	3,456
EBITDA Margin	35%	35%	35%
EBITDA US\$ mn	806	1,008	1,210

	Min Case			Base Case			Max Case		
	\$4 ARPU	\$5 ARPU	\$6 ARPU	\$4 ARPU	\$5 ARPU	\$6 ARPU	\$4 ARPU	\$5 ARPU	\$6 ARPU
License fee (US\$ mn)	860	860	860	1,000	1,000	1,000	1,300	1,300	1,300
5 Players									
EBITDA % of Total Investment	12%	15%	18%	11%	14%	16%	9%	11%	14%
Pay back yrs	8.3	6.6	5.5	9.2	7.3	6.1	11.0	8.8	7.4
10 Players									
EBITDA % of Total Investment	7%	9%	11%	7%	8%	10%	5%	7%	8%
Pay back yrs	13.6	10.9	9.1	15.4	12.3	10.3	19.1	15.3	12.7

Source: Company data, Morgan Stanley Research Estimates

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F1Q10 Estimates

We expect strong growth in Indian telecom subscribers in F1Q10 (ending in June 2009) – 9% QoQ and 49% YoY, with overall wireless subscribers increasing to 427mn (37% penetration), as shown in Exhibit 7. This would produce record sequential net adds of 35.1 mn in F1Q10 versus 44.9mn in F4Q09 and 25.8 mn in F1Q09.

In the first fiscal quarter of 2010, the government lowered the termination rate for incoming calls by Rs0.10 to Rs0.20/min. We estimate this will reduce revenues by 5-7% for the sector as a whole. However, revenues of operators with higher on-net calls and a more balanced incoming-to-outgoing ratio should be less affected. The impact on the EBITDA margin should be positive.

Bharti

We believe Bharti registered its highest-ever net adds in F1Q10, at 8.4 mn, raising its overall subscriber base by 9%. We estimate the company's wireless market share at 24%, stable QoQ but down 21 bps YoY. ARPU, we believe, fell 7.9%, and minutes of usage (MOU) 1.5%, leading to a decline in ARPM of 6.5%.

Overall, we anticipate slower sequential growth of 1.5% in revenue and 3.4% in EBITDA. We expect the company's net profit to grow 6.3% sequentially.

RCOM

After its GSM launch in the previous quarter, we estimate RCOM's net adds tapered down to 7.8mn in F1Q10. We expect the company's overall wireless subscriber base to expand by 9.9% to 79.8mn and estimate drops of 7.4% in ARPU and 2.0% in MOU.

We forecast that RCOM will report QoQ revenue growth of 4.8%, the highest among Indian wireless operators, and 6.3% in EBITDA in F1Q10.

We believe rupee appreciation produced a notional forex gain of Rs8bn in F1Q10. Historically, RCOM, in compliance with Schedule VI of the Indian Companies Act of 1956, has adjusted foreign currency exchange differences on amounts borrowed for acquisition of fixed assets to the carrying cost of fixed assets. Last quarter, however, it changed its accounting

norms to AS11, accounting for forex gains/losses in the income statement.

We estimate this will boost QoQ reported profit growth to 21% to Rs17.7 bn.

Idea

We believe Idea added 3.9mn subs, including the two Spice Communications' circles, in F1Q10, increasing its overall subscriber base by 9% to 46.9mn. The company now has a wireless market share of 11.1%, by our estimate, up 152 bps YoY and stable QoQ. We expect Idea's ARPU declined by 7.9% and MOU by 1.5% in the quarter.

We expect the company to report sequential growth of 2.5% in revenues and 6.3% in EBITDA for F1Q10. Higher depreciation and tax rate caused profit to decline 1.2% QoQ, by our estimate.

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Exhibit 7

India Telecoms: Quarterly Operational and Financial Comparisons

(period ending)	F1Q08	F2Q08	F3Q08	F4Q08	F1Q09	F2Q09	F3Q09	F4Q09	F1Q10E	QoQ Change	YoY change
Wireless Subscribers (mn)											
Bharti	42,704	48,876	55,163	61,985	69,384	77,479	85,651	93,923	102,365	9.0%	47.5%
RCOM	31,879	36,324	40,964	45,794	50,788	56,046	61,345	72,666	79,826	9.9%	57.2%
Idea including Spice	16,126	18,672	21,054	24,002	27,194	30,380	34,211	43,023	46,935	9.1%	72.6%
All India	184,932	209,089	233,624	261,079	286,868	315,312	346,894	391,761	426,871	9.0%	48.8%
Wireless Net Adds ('000)											
Bharti	5,563	6,172	6,287	6,822	7,399	8,095	8,172	8,273	8,442	2.0%	14.1%
RCOM	3,871	4,445	4,640	4,829	4,994	5,258	5,299	11,321	7,160	-36.8%	43.4%
Idea including Spice	2,116	2,545	2,382	2,948	3,193	3,186	3,831	8,812	3,912	-55.6%	22.5%
Total Wireless Net Adds	20,418	24,158	24,535	27,455	25,789	28,444	31,582	44,867	35,110	-21.7%	36.1%
% Wireless Net Adds											
Bharti	27.2%	25.5%	25.6%	24.8%	28.7%	28.5%	25.9%	18.4%	24.0%	561 bps	-465 bps
RCOM	19.0%	18.4%	18.9%	17.6%	19.4%	18.5%	16.8%	25.2%	20.4%	-484 bps	103 bps
Idea including Spice	10.4%	10.5%	9.7%	10.7%	12.4%	11.2%	12.1%	19.6%	11.1%	-850 bps	-124 bps
% Wireless Subs											
Bharti	23.1%	23.4%	23.6%	23.7%	24.2%	24.6%	24.7%	24.0%	24.0%	1 bps	-21 bps
RCOM	17.2%	17.4%	17.5%	17.5%	17.7%	17.8%	17.7%	18.5%	18.7%	15 bps	100 bps
Idea including Spice	8.7%	8.9%	9.0%	9.2%	9.5%	9.6%	9.9%	11.0%	11.0%	1 bps	152 bps
ARPU (Rs.)											
Bharti	390	366	358	357	350	331	324	305	281	-7.9%	-19.7%
RCOM	375	361	339	317	282	271	251	224	207	-7.4%	-26.4%
Idea	320	288	279	287	278	261	266	254	234	-7.9%	-15.9%
Average	362	338	325	320	303	288	280	261	241	-7.8%	-20.6%
ARPM (Rs)											
Bharti	0.82	0.78	0.76	0.70	0.66	0.63	0.64	0.63	0.59	-6.5%	-10.3%
RCOM	0.74	0.74	0.75	0.74	0.66	0.64	0.61	0.60	0.57	-5.5%	-13.8%
Idea	0.84	0.80	0.74	0.70	0.65	0.62	0.65	0.63	0.59	-6.5%	-9.1%
Average	0.80	0.77	0.75	0.71	0.66	0.63	0.63	0.62	0.58	-6.2%	-11.1%
MOU(Mins/sub/month)											
Bharti	478	469	474	507	534	526	505	485	478	-1.5%	-10.5%
RCOM	510	490	449	430	424	423	410	372	365	-2.0%	-14.0%
Idea	381	360	377	411	428	417	410	402	396	-1.5%	-7.5%
Average	456	440	433	449	462	455	442	420	413	-1.6%	-10.7%
Consolidated EBITDA Margins (Gross)											
Bharti	37.2%	37.8%	37.7%	34.2%	32.6%	31.9%	32.0%	33.2%	33.7%	51 bps	110 bps
RCOM	35.2%	35.1%	35.7%	37.0%	35.4%	33.5%	33.3%	32.2%	32.6%	45 bps	-280 bps
Idea	34.7%	32.7%	33.2%	33.5%	32.9%	26.2%	25.5%	27.3%	26.1%	-117 bps	-681 bps
Consolidated EBITDA Margins (net)											
Bharti	41.4%	42.8%	42.6%	41.6%	41.5%	41.0%	41.0%	40.7%	41.5%	74 bps	-5 bps
RCOM	42.2%	42.8%	43.2%	43.6%	42.3%	40.8%	40.2%	38.9%	39.5%	56 bps	-280 bps
Idea	34.7%	32.7%	33.2%	33.5%	32.9%	26.2%	25.5%	27.3%	28.6%	125 bps	-439 bps
Wireless EBITDA Margin(%)											
Bharti	40.6%	41.0%	40.8%	35.5%	30.7%	30.2%	31.4%	31.5%	32.2%	75 bps	152 bps
RCOM	39.7%	39.9%	40.0%	40.3%	40.4%	38.9%	37.7%	36.9%	26.8%	-1014 bps	-1356 bps
Idea	34.7%	32.7%	33.2%	33.5%	32.9%	26.3%	25.9%	25.6%	25.4%	-17 bps	-754 bps
QoQ Revenue Growth											
Bharti	9.5%	7.3%	9.9%	12.3%	8.5%	6.3%	6.8%	2.0%	1.5%	-46 bps	-697 bps
RCOM	9.3%	6.4%	6.5%	9.0%	0.2%	6.1%	3.6%	4.7%	4.8%	10 bps	457 bps
Idea	12.9%	5.7%	9.3%	15.5%	10.2%	5.8%	18.8%	7.1%	2.5%	-456 bps	-767 bps
QoQ EBITDA Growth											
Bharti	9.2%	10.8%	9.4%	9.7%	8.3%	5.0%	6.6%	1.4%	3.4%	195 bps	-493 bps
RCOM	10.9%	8.1%	7.4%	10.0%	-2.9%	2.3%	2.2%	1.3%	6.3%	497 bps	913 bps
Idea	17.3%	-0.4%	11.1%	16.4%	8.4%	-15.9%	15.7%	14.5%	7.2%	-732 bps	-116 bps
QoQ PAT Growth											
Bharti	11.7%	6.8%	6.7%	7.6%	9.3%	1.1%	5.5%	3.7%	9.9%	624 bps	66 bps
RCOM	19.1%	6.9%	5.2%	9.5%	0.6%	1.2%	-7.9%	3.1%	20.8%	1771 bps	2023 bps
Idea	60.4%	-28.6%	7.6%	16.7%	-4.8%	-45.3%	52.3%	25.0%	-1.2%	-2619 bps	360 bps

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Exhibit 8

Bharti: Estimated F1Q10 Results

<i>(Rs mn)</i>	<i>F1Q10E</i>	<i>F1Q09</i>	<i>% Chg</i>	<i>F4Q09</i>	<i>% Chg</i>
<i>(period ending)</i>	<i>30-Jun-09</i>	<i>30-Jun-08</i>	<i>YoY</i>	<i>31-Mar-09</i>	<i>QoQ</i>
Gross Revenues	122,808	108,099	13.6%	120,615	1.8%
Eliminations	23,061	23,266	-0.9%	22,370	3.1%
Net Revenues	99,747	84,833	17.6%	98,245	1.5%
Operating Expenses	58,379	49,612	17.7%	58,231	0%
Pre-License Fee Operating Profit	49,996	43,753	14.3%	50,622	-1%
License Fee	8,628	8,532	1.1%	10,608	-19%
EBITDA	41,368	35,221	17.5%	40,014	3.4%
Net Finance Costs	1,407	1,832	-23.2%	2,136	-34.1%
Depreciation & Amortization	13,885	10,045	38.2%	13,285	4.5%
Non Operating Income	658	584	12.6%	425	54.8%
Loss of JVs / Associates / Donations	(816)	114	-816.2%	112	-829.0%
PBT	27,550	23,814	15.7%	24,906	10.6%
Tax	3,581	3,282	9.1%	2,022	77.1%
Minority Interest	598	282	112.0%	491	21.8%
Share in Associates	(816)	-	-	-	-
PAT After Minority Interest/Associates	22,554	20,250	11.4%	22,393	0.7%
Extraordinary Items	1,250	-	-	-	-
Reported PAT	23,804	20,250	17.6%	22,393	6.3%
Tax % of PBT	13.0%	13.8%	(78 bps)	8.1%	488 bps
Overall EBITDA Margins (Gross)	33.7%	32.6%	110 bps	33.2%	51 bps
Overall EBITDA Margins (Net)	41.5%	41.5%	(5 bps)	40.7%	74 bps
Operational Parameters					
Wireless Subs ('000)	102,365	69,384	47.5%	93,923	9.0%
Wireless Net Adds('000)	8,442	7,399	14.1%	8,273	2.0%
Wireless ARPUs (Rs/Month)	281	350	-19.7%	305	-7.9%
Wireless MoUs (Per Month)	478	534	-10.5%	485	-1.5%
Wireless ARPM	0.59	0.66	-10.3%	0.63	-6.5%

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Exhibit 9

RCOM: F1Q10 Estimated Results

<i>Rs mn</i>	<i>F1Q10E</i>	<i>F1Q09</i>	<i>YoY Change</i>	<i>F4Q09</i>	<i>QoQ Change</i>
<i>(period ending)</i>	<i>30-Jun-09</i>	<i>30-Jun-08</i>	<i>%</i>	<i>31-Mar-09</i>	<i>%</i>
Gross Revenues	77,589	63,487	22.2%	74,025	4.8%
Eliminations	13,427	10,265	30.8%	12,788	5.0%
Net Revenues	64,162	53,222	20.6%	61,237	4.8%
License Fee and Access & IUC	10,604	9,159	15.8%	9,506	11.6%
Network Operations	12,832	8,128	57.9%	13,582	-5.5%
Employees	4,491	3,517	27.7%	4,213	6.6%
SG&A	10,907	9,916	10.0%	10,104	8.0%
Total Operating Expenses	38,835	30,720	26.4%	37,405	3.8%
EBITDA	25,326	22,502	12.6%	23,832	6.3%
Net Interest	2,849	(2,340)	-221.8%	(1,678)	-269.8%
Depreciation and Amortization	12,366	8,638	43.2%	9,856	25.5%
PBT	10,111	16,204	-37.6%	15,654	-35.4%
Tax	251	(194)	-229.3%	485	-48.3%
PAT	9,861	16,398	-39.9%	15,169	-35.0%
Extra-Ordinary	8,000	(640)	-1350.0%	-	NM
Normalized PAT	17,861	15,758	13.3%	15,169	17.7%
Share of Minority /Associates	286	635	-54.9%	625	-54.2%
PAT after Minority/Associates	17,574	15,123	16.2%	14,544	20.8%
Revenue Breakup					
Wireless	47,427	41,187	15.2%	45,015	5.4%
Global	19,303	15,260	26.5%	18,803	2.7%
Broadband	7,570	5,603	35.1%	7,075	7.0%
Others	3,289	1,437	128.9%	3,132	5.0%
Interdivision revenues	13,427	10,265	30.8%	12,788	5.0%
Total Net revenues	64,162	53,222	20.6%	61,237	4.8%
EBITDA Breakup					
Wireless	12,711	16,623	-23.5%	16,629	-23.6%
Global	4,788	3,222	48.6%	5,025	-4.7%
Broadband	3,358	2,714	23.7%	3,160	6.3%
Others	(320)	-	NM	(977)	-67.2%
Elimination	(79)	(59)	33.5%	(5)	1475.0%
Total EBITDA	25,326	22,500	12.6%	23,832	6.3%
EBITDA Margins					
Wireless	26.8%	40.4%	(1,356 bps)	36.9%	(1,014 bps)
Global	24.8%	21.1%	369 bps	26.7%	(192 bps)
Broadband	44.4%	48.4%	(407 bps)	44.7%	(30 bps)
Overall EBITDA Margins (Net)	39.5%	42.3%	(281 bps)	38.9%	56 bps
Overall EBITDA Margins (Gross)	32.6%	35.4%	(280 bps)	32.2%	45 bps
Operational Parameters					
Wireless Subscribers ('000)	79,826	50,788	57.2%	72,666	9.9%
Wireless Net Adds ('000)	7,160	4,994	43.4%	11,321	-36.8%
Wireless ARPU(Rs/sub)	207	282	-26.4%	224	-7.4%
Wireless MOU per customer/month	365	424	-14.0%	372	-2.0%
Wireless ARPM (Rs/minute)	0.57	0.66	-13.8%	0.60	-5.5%

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Exhibit 10

Idea: F1Q10 Estimated Results

<i>Rs.Mn</i>	<i>F1Q10E</i>	<i>F1Q09</i>	<i>YoY change</i>	<i>F4Q09</i>	<i>QoQ change</i>
<i>(Period Ending)</i>	<i>30-Jun-09</i>	<i>30-Jun-08</i>	<i>%</i>	<i>31-Mar-09</i>	<i>%</i>
Consolidated Financials					
Total Revenues	29,978	21,735	37.9%	29,240	2.5%
EBITDA	8,560	7,160	19.5%	7,983	7.2%
Net Finance Costs	1,416	1,526	-7.2%	1,047	35.3%
Depreciation and Amortization	4,640	2,749	68.8%	4,321	7.4%
Other Income	556	46	1108.9%	125	344.5%
PBT	3,060	2,931	4.4%	2,740	11.7%
Tax	267	297	-10.1%	(2)	-11711.9%
PAT	2,793	2,634	6.0%	2,743	1.8%
Minority Interest	(84)	--	NM	--	NM
Consolidated PAT After Minority Interest/Associates	2,709	2,634	2.9%	2,743	-1.2%
Ratios (as % of Income)					
<i>OPM</i>	28.6%	32.9%	-439 bps	27.3%	125 bps
<i>Tax % of PBT</i>	8.7%	10.1%	-141 bps	-0.1%	881 bps
Operational Parameters					
Wireless Subs ('000)	46,935	27,194	73%	43,023	9%
Wireless Net Adds ('000)	3,912	27,194	-86%	5,010	-22%
Wireless ARPU (Rs/Sub/Month)	234	278	-15.9%	254	-7.9%
Average Revenue Per Minute (Rs)	0.59	0.65	-9.1%	0.63	-6.5%
Minutes of Use (Min/Sub/month)	396	428	-7.5%	402	-1.5%
EBITDA Margins					
Existing 8 Circles	32.6%	36.0%	-344 bps	32.6%	-2 bps
New 3 Circles	-3.0%	-10.7%	770 bps	-9.3%	631 bps
New Rest Of India Circles	-60.0%	NA	NM	-66.4%	640 bps
Spice circles	25.1%	NA	NM	25.1%	0 bps
Passive	36.2%	NA	NM	19.0%	1723 bps
Consol EBITDA Margin	28.6%	32.9%	-439 bps	27.3%	125 bps
Standalone EBITDA Margin	25.4%	32.9%	-754 bps	25.6%	-17 bps

E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Why is Idea Still a Sell? Growth Comes at a Cost

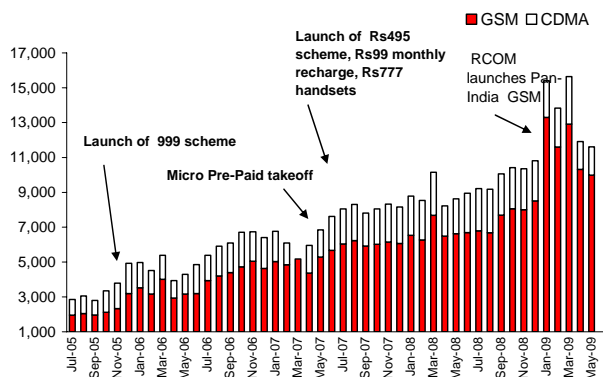
Idea is most sensitive to tariff margins, as shown in Exhibit 16. Our estimate of 36% EBITDA CAGR for Idea is the highest amongst India telcos. However, given our expectation that all the telco operators will spend US\$1 bn to acquire a 3G licence in F2010, we estimate that the increase in net profit will be a lower 24%.

The company's net debt is likely to increase from Rs38 bn currently to a peak of Rs128 bn by F2011. Idea's equity has expanded by 24%, or 631mn shares, since F2008. Thus its P/Es of 19.8x for F2010e and 16.8x for F2011e are expensive at premiums of 34% and 32%, respectively, to Bharti's multiples.

After the company acquires a 3G license, we estimate its net debt to EBITDA ratio will spiral to 2.8x from 1.3x currently, the highest in the industry.

Exhibit 11

India Telecoms: Strong Momentum in Net Adds



Source: Company data, Morgan Stanley Research

Exhibit 12

Bharti & RCOM: Strong Growth in Non-wireless Business Expected in F2008-11

	CAGR F08-11E
Bharti	
Wireless EBITDA	12.2%
Non-Wireless EBITDA	41.6%
RCOM	
Wireless EBITDA	3.2%
Non-Wireless EBITDA	52.8%

E = Morgan Stanley Research Estimates

Exhibit 13

Bharti-MTN: Key Facts

(mn unless specified)	Bharti	MTN	Combined
Revenues	8,928	15,000	23,928
EBITDA	3,717	6,290	10,007
Net profit (US\$m)	1,898	1,905	3,804
Wireless Subscribers	97	98	195
Subscriber Growth (F09-F11E)	25.6%	22.3%	23.9%
USD ARPU	6.61	13.60	10.13
USD ARPM	0.01	0.17	0.09
Penetration in Region	35.9%	40.4%	38.2%
Population Coverage (bn)	1.2	0.5	1.7

Source: Company data, Morgan Stanley Research

Note: Subscriber Growth, ARPU, ARPM, Penetration are subscriber-weighted averages

Exhibit 14

Bharti-MTN: Scope for Reduction in Capex, Debt

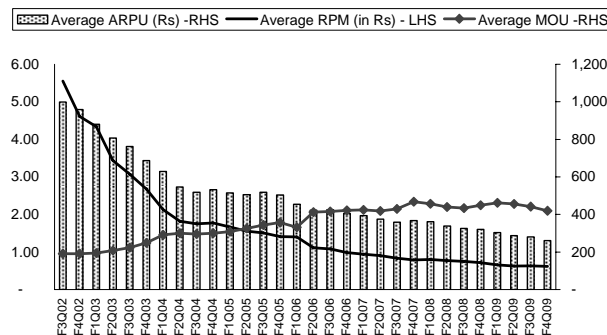
F2010-1E1 in US\$m	Bharti	MTN	Combined	Possible Reduction (%)	Savings
Capex	5,554	7,579	13,134	5	657
Debt	5,895	10,476	16,371	2	210

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research estimates

Exhibit 15

India Telcos: Historical Movements in MOU, ARPU and ARPM



Source: Company data, Morgan Stanley Research

Exhibit 16

India Telecoms: EPS Sensitivity to Lower ARPMs

	F2009E	F2010E	F2011E
5% lower ARPMs			
RCOM		-5.4%	-5.9%
Bharti		-4.9%	-5.0%
Idea		-15.4%	-16.6%
10% lower ARPMs			
RCOM		-10.7%	-12.0%
Bharti		-9.7%	-10.0%
Idea		-31.0%	-31.1%

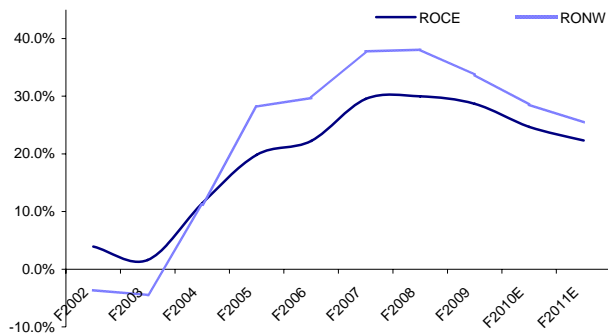
E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

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Exhibit 17

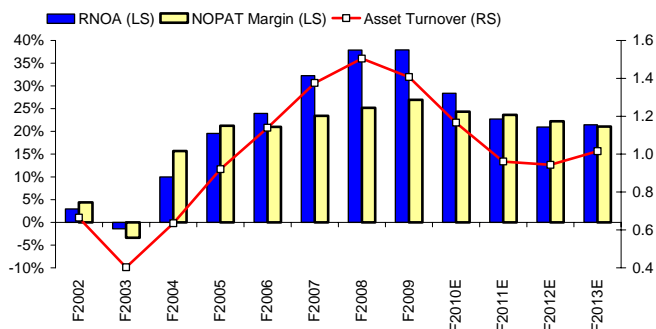
Bharti: Expected to Generate Higher Returns than Industry



E = Morgan Stanley Research Estimates Source: Company data; Morgan Stanley Research

Exhibit 18

Bharti: Past peak returns but still relatively high



E = Morgan Stanley Research Estimates Source: Company data, Morgan Stanley Research

Exhibit 19

Bharti: Focus on Revenues

	Wireless Subs	Wireless Market Share	Wireless Revenue	Revenue Market Share	Gap between Rev MS and Subs MS		
					MS	QoQ change in Subs MS	QoQ change in Rev MS
Bharti	93,923	24.0%	80,375	29.1%	5.1%	-0.72%	-0.56%
RCOM	72,666	18.5%	45,015	16.3%	-2.2%	0.86%	-0.39%
BSNL	52,144	13.3%	29,301	10.6%	-2.7%	-0.02%	0.49%
Vodafone	68,769	17.6%	55,008	19.9%	2.4%	-0.01%	0.17%
Idea	43,023	11.0%	31,834	11.5%	0.5%	0.02%	0.22%
Tata	35,122	9.0%	20,625	7.5%	-1.5%	-0.19%	-0.26%
Aircel	18,478	4.7%	8,946	3.2%	-1.5%	0.08%	0.13%
MTNL	4,483	1.1%	2,220	0.8%	-0.3%	-0.06%	0.02%
BPL	2,164	0.6%	1,734	0.6%	0.1%	-0.01%	-0.04%
HFCL	388	0.1%	279	0.1%	0.0%	-0.01%	-0.01%
Shyam	600	0.2%	252	0.1%	-0.1%	0.05%	0.02%
Swan	-	0.0%	521	0.2%	0.2%	0.00%	0.19%
Unitech	-	0.0%	28	0.0%	0.0%	0.00%	0.01%
Total	391,761	100.0%	276,137	100.0%			

Source: Cellular Operators Association of India (COAI), Association of Unified Service Providers of India (AUSPI), Telecom Regulatory Authority of India (TRAI), Company data, Morgan Stanley Research
Note: Data as of March 31, 2009

Exhibit 20

India Telcos: With recent launches, operators gain wireless market share but not necessarily revenue market share

Operator	Circle	Month Of Launch	Months Since Launch	Wireless Market Share	Market Share as at end of Mar09	Gap Between Revenue and Subs Market Share
Idea	Rajasthan	Oct-06	32	5.4%	4.9%	-0.5%
Idea	HP	Sep-06	33	4.2%	3.9%	-0.3%
Idea	UP (E)	Nov-06	31	7.4%	7.5%	0.2%
Aircel	Kolkata	May-08	13	4.4%	1.4%	-3.0%
Idea	Mumbai	Aug-08	10	3.9%	2.3%	-1.6%
Vodafone	Orissa	Aug-08	10	4.4%	3.9%	-0.5%
Vodafone	Assam	Sep-08	9	2.8%	1.5%	-1.3%
Vodafone	North East	Sep-08	9	4.9%	1.8%	-3.1%
Vodafone	Bihar	Oct-08	8	3.7%	2.2%	-1.5%
Idea	Bihar	Oct-08	8	4.1%	2.5%	-1.6%
Vodafone	MP	Oct-08	8	1.7%	0.7%	-1.1%
Vodafone	HP	Dec-08	6	1.3%	0.9%	-0.5%
Aircel	Karnataka	Feb-09	4	0.2%	0.0%	-0.2%
Aircel	Kerala	Feb-09	4	0.3%	0.0%	-0.3%
Aircel	Delhi	Mar-09	3	0.1%	0.0%	-0.1%
Aircel	Andhra Pradesh	Mar-09	3	0.1%	0.0%	-0.1%
Aircel	UP (E)	Mar-09	3	0.0%	0.0%	0.0%
Aircel	UP (W)	Mar-09	3	0.0%	0.0%	0.0%
Vodafone	J&K	Mar-09	3	0.0%	0.0%	0.0%

Source: COAI, AUSPI, TRAI, Company data, Morgan Stanley Research

Exhibit 21

India Telecoms: Weighted Average Cost of Capital Assumptions

	Bharti	RCOM	Idea
Risk Free Return (Rf)	6.0%	6.0%	6.0%
Market Premium (Rm)	6.0%	6.0%	6.0%
Assumed Beta	0.90	1.40	1.08
Cost of Equity (Re)	11.4%	14.4%	12.5%
Equity (%)	95.0%	70.0%	85.0%
Cost of Debt (Rd)	11.00%	11.0%	12.0%
Tax rate	22.5%	22.5%	22.5%
After-tax cost of debt (Rd [1-t])	8.5%	8.5%	9.3%
Debt (%)	5.0%	30.0%	15.0%
WACC	11.3%	12.6%	12.0%

Source: Company data, Morgan Stanley Research

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Exhibit 22

India Telecoms: Under most introductory offers, net retention per minute moving up

	Sistema Shyam (Rajasthan Plan)	Idea (Mumbai Jun2009)	Bharti (Mumbai) June09	Vodafone (Mumbai) June09	Bharti - May09	Vodafone	Aircel Delhi Intro Plan	Aircel Mumbai Intro Plan	RCOM GSM Intro Scheme Dec'08 Mumbai	RCOM GSM - Mid Jan Mumbai	RCOM - 3rd Feb Mumbai	RCOM - 26th Feb Mumbai	RCOM - 26th Feb Mumbai	RCOM - 26th Feb Mumbai
SIM Card Charge (Rs.)	99	25	50		99		99	99	25	49	49	49	49	49
Entry into Lifetime scheme (Rs)	-	-	99	99	99	99	10	10	-	-	-	-	-	-
Months of amortization	18	18	18	18	18	18	18	18	18	18	18	18	18	18
Monthly ARPU contribution (Rs.)	-	-	6	6	6	6	0.6	0.6	-	-	-	-	-	-
Coupon value	99	100	99	99	100	100	100	100	-	50	60	27	57	107
Less: Service Charge	9	9	9	9	9	9	9	9	-	5	5	2	5	10
ARPU from Consumer	90	91	90	90	91	91	91	91	-	45	55	25	52	97
Plus: Termination revenue	22	22	22	22	22	22	22	22	30	22	22	22	22	22
ARPU including incoming termination revenue	112	113	117	117	118	118	114	114	30	67	77	47	74	119
Admin Charge (% of Card Denomination)	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%	2.2%		0.0%	0.0%	0.0%	0.0%	0.0%
Admin Charges	(0)	2	2	2	2	2	-	2	-	-	-	-	-	-
Available Air Time	128	148	127	127	89	89	169	215	-	45	55	49	104	195
Tariff (Rs/Local call)	0.70	0.60	0.69	0.69	1.00	1.00	0.54	0.43	1.00	1.00	1.00	0.50	0.50	0.50
Tariff (Rs/STD call)	1.40	1.00	1.00	1.00	1.50	1.50	0.50	1.50	1.50	1.50	1.50	1.00	1.00	1.00
Termination Rs/minute	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Costs Per subscriber														
Commission	10	10	10	10	10	10	10	10	5.0	5	6	9	10	11
Interconnect	31	36	30	30	21	21	40	52	72.0	83	42	12	25	47
License fee	10	9	10	10	12	12	9	7	(5.0)	(2)	4	4	6	9
Network Cost	7	7	7	7	7	7	7	7	1.8	4	5	3	4	7
Salary	9	9	9	9	9	9	9	9	2.4	5	6	4	6	10
Other costs	8	8	8	8	8	8	8	8	2.1	5	5	3	5	8
Total Costs	74	79	75	75	68	68	83	93	78.3	100	68	35	56	91
EBITDA per subscriber	38	34	42	42	51	51	31	21	(48.3)	(33)	8	12	18	28
EBITDA margin	34%	30%	36%	36%	43%	43%	27%	18%	-161%	-49%	11%	25%	24%	23%
Free outgoing minutes Per month									300	300	120			
Outgoing minutes	128	148	127	127	89	89	169	215	300	345	175	49	104	195
Incoming minutes	110	110	110	110	110	110	110	110	150	110	110	110	110	110
Incoming/Outgoing Ratio	0.9	0.7	0.9	0.9	1.2	1.2	0.7	0.5	0.5	0.3	0.6	2.2	1.1	0.6
Total Minutes	238	258	237	237	199	199	279	325	450	455	285	159	214	305
NR per minute (+O) (Rs)	0.47	0.44	0.50	0.50	0.60	0.60	0.41	0.35	0.07	0.15	0.27	0.29	0.35	0.39
NR per outgoing minute (Rs)	0.70	0.61	0.75	0.75	1.08	1.08	0.55	0.43	0.00	0.13	0.31	0.50	0.50	0.50
NR per minute (+O) (Cents)	1.0	0.9	1.0	1.0	1.2	1.2	0.9	0.7	0.1	0.3	0.6	0.6	0.7	0.8
NR per outgoing minute (Cents)	1.5	1.3	1.6	1.6	2.3	2.3	1.1	0.9	0.0	0.3	0.7	1.0	1.0	1.0
Capex US\$	120	120	121	74	75	75	76	76	120	120	120	120	120	120
ROCE	8%	7%	8%	14%	16%	16%	10%	7%	-10%	-7%	2%	2%	4%	6%

Source: Company data, Morgan Stanley Research

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Exhibit 23

India Telecoms: New players will find the going tough

	Active With Passive Leased	Active With Own Passive	Active With Passive Leased	Active With Own Passive	Active With Passive Leased	Active With Own Passive	Active With Passive Leased	Active With Own Passive
APRU US\$	4	4	5	5	6	6	7	7
Yearly ARPU US\$	48	48	60	60	72	72	84	84
EBITDA Margin								
Stage one - 3 years	-20%	-25%	-18%	-23%	-16%	-21%	-14%	-19%
Stage two -future	25%	35%	25%	35%	25%	35%	25%	35%
EBITDA per sub								
Stage one - 3 years	(9.6)	(12.0)	(10.8)	(13.8)	(11.5)	(15.1)	(11.8)	(16.0)
Stage two -future	12.0	16.8	15.0	21.0	18.0	25.2	21.0	29.4
EBITDA								
Stage one - 3 years	(48)	(60)	(54)	(69)	(58)	(76)	(59)	(80)
Stage two -future	234	328	293	410	351	491	410	573
Interest rate	10%	10%	10%	10%	10%	10%	10%	10%
Interest cost	111	201	111	201	111	201	111	201
Depreciation	111	201	111	201	111	201	111	201
PAT								
Stage one - 3 years	(270)	(462)	(276)	(471)	(280)	(478)	(281)	(482)
Stage two -future	12	(74)	71	8	129	89	188	171
Net cash flow								
Stage one - 3 years	(159)	(261)	(165)	(270)	(169)	(277)	(170)	(281)
Stage two -future	123	127	182	209	240	290	299	372
ROCE	11%	8%	13%	10%	16%	12%	18%	14%
RONW	1%	-2%	3%	0%	6%	2%	8%	4%
Cumulative Operating Cash flows								
Stage one - 3 years	(144)	(180)	(162)	(207)	(173)	(227)	(176)	(239)
Stage two -future	702	983	878	1,229	1,053	1,474	1,229	1,720
Net Operating Cash flow	558	803	716	1,022	880	1,247	1,052	1,481
% of total capex	25%	20%	32%	25%	40%	31%	47%	37%
Cumulative Cash flows								
Stage one - 3 years	(477)	(783)	(495)	(810)	(506)	(830)	(509)	(842)
Stage two -future	369	380	545	626	720	871	896	1,117
Net Cumulative cash flow	(108)	(403)	50	(185)	214	41	386	275
% of total capex	-5%	-10%	2%	-5%	10%	1%	17%	7%

Source: Company data, Morgan Stanley Research

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Exhibit 24

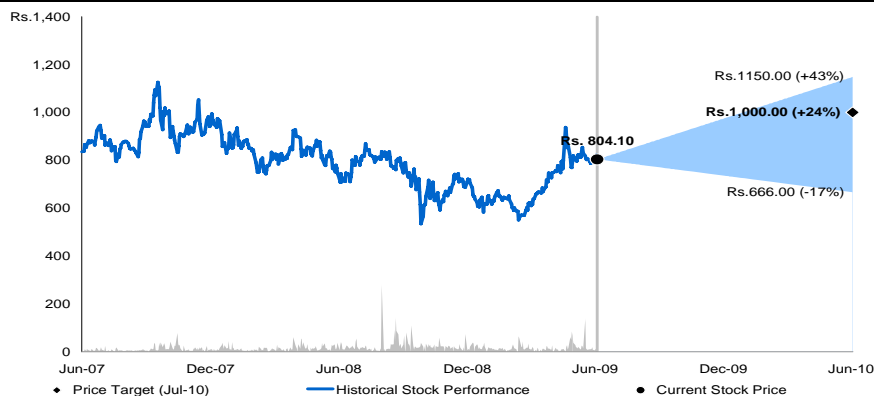
Bharti: Operational Performance Since New Launches, August 2008-May2009

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Average during Aug to May-09
Kolkata											
<i>Wireless Market Share</i>											
Bharti	21.8%	21.8%	21.8%	21.6%	22.1%	22.4%	22.0%	21.3%	21.0%	20.8%	21.7%
Aircel	2.1%	2.7%	3.2%	3.6%	3.8%	4.2%	4.3%	4.4%	4.6%	4.6%	3.7%
<i>Wireless Net Adds Market Share</i>											
Bharti	23.5%	22.1%	20.8%	15.5%	42.1%	32.7%	11.4%	6.2%	7.6%	9.9%	20.2%
Aircel	16.6%	16.6%	17.4%	16.8%	10.1%	15.3%	6.6%	9.0%	10.6%	2.1%	13.2%
Mumbai											
<i>Wireless Market Share</i>											
Bharti	16.7%	16.5%	16.5%	16.3%	16.0%	15.1%	14.9%	14.6%	14.3%	14.1%	15.7%
Idea	0.1%	0.6%	1.1%	1.4%	1.9%	3.3%	3.7%	3.9%	4.2%	4.3%	2.3%
RCOM	20.8%	20.6%	20.5%	20.5%	20.6%	23.2%	22.9%	22.9%	22.7%	22.5%	21.6%
<i>Wireless Net Adds Market Share</i>											
Bharti	5.9%	12.1%	16.1%	5.2%	4.4%	2.1%	7.5%	2.1%	2.4%	2.4%	6.4%
Idea	4.1%	16.3%	14.8%	17.7%	21.4%	22.0%	22.1%	12.4%	19.9%	7.5%	16.7%
RCOM	19.7%	16.8%	16.0%	19.0%	24.3%	58.5%	12.3%	22.1%	10.4%	15.3%	22.1%
Overall India											
<i>Wireless Market Share</i>											
Bharti	24.5%	24.6%	24.6%	24.7%	24.7%	24.4%	24.2%	24.0%	24.0%	24.0%	24.4%
<i>Wireless Net Adds Market Share</i>											
RCOM	29.4%	26.9%	26.1%	26.3%	25.2%	17.7%	19.8%	18.0%	23.6%	24.2%	23.7%
<i>Wireless Market Share</i>											
Bharti	17.8%	17.8%	17.7%	17.7%	17.7%	18.3%	18.5%	18.5%	18.5%	18.6%	18.1%
<i>Wireless Net Adds Market Share</i>											
Bharti	19.1%	17.5%	16.9%	17.1%	16.4%	32.1%	24.2%	19.3%	18.2%	20.6%	20.1%

Source: COAI, AUSPI, TRAI, Company data, Morgan Stanley Research

Risk-Reward Snapshot: Bharti (BRTI.BO, Rs804.1, OW, PT Rs1,000)

Favorable Risk-Reward: Well-positioned for growth



Investment Thesis

- India is the world's fastest growing telecom market.
- Bharti is India's leading wireless operator and has strong wireless revenue market share.
- Integrated strategy to benefit company in a deteriorating wireless environment.
- Continued acceleration in net adds leading to strong quarterly performance.

Key Value Drivers

- Improvement in EBITDA margins, driven by economies of scale and improvement in wireless business margins.
- Strong revenue market share.

Potential Catalysts

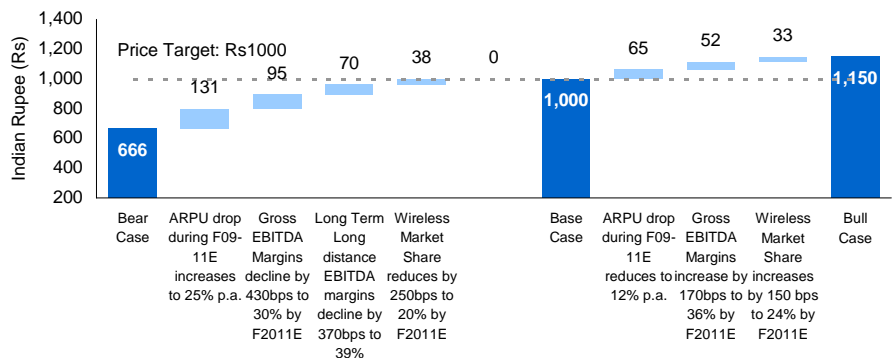
- Unlocking value in the tower business through listing, strategic sale.

Risks

- Higher-than-expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- Regulatory uncertainty regarding spectrum and Bharti's need to pay additional spectrum charges
- Overbidding by Bharti to acquire MTN

Price Target Rs1000	Derived from Base-Case scenario.	
Bull Case Rs1150	At par to bull case SOTP	Less intense competition: 1) 12% pa decline in ARPU for F2009-11; 2) long-term increase in gross EBITDA margins by 170bps to 36% by F2011 and 3) wireless market share increases by 150bps to 24% by F2011.
Base Case Rs1000	At par to base case SOTP	Strong operational performance: Annual decline of 16% in ARPU for F2009-11 as company expands in rural India; overall gross EBITDA margins stabilize at 34.3% by F2011; WACC of 11.3%.
Bear Case Rs666	At par to bear case SOTP	Intensifying competition affects operations: Increasing competition leads to a 25% annual decline in ARPU during F09-11; gross EBITDA margins decline by 430bps to 30% by F2011; wireless market share falls by 250bps to 20% by F2011. We have modeled scenarios based on what we consider the key drivers of the stock's value over the next 12 months. There is, however, potential for a decline in the stock price due to other factors that we consider relatively unlikely.

Bear to Bull: ARPU/EBITDA Margins/Wireless Market Share Are Key



Source: Morgan Stanley, FactSet

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Bharti: Financial Summary

Income Statement

Rs mn (Year ending March 31)	F2008	F2009	F2010E	F2011E
Wireline	28,484	33,517	38,547	42,771
Wireless	217,861	303,601	349,556	377,185
Long distance - Domestic	31,723	51,580	58,376	64,013
Long distance - International	11,447	16,406	15,927	19,045
Data	13,217	16,746	22,978	32,567
Passive	6,023	42,489	27,976	43,326
Others	2,431	3,611	5,417	7,041
Eliminations	(40,936)	(98,520)	(98,132)	(110,666)
Net Revenues	270,250	369,430	420,644	475,284
EBITDA	113,694	154,562	175,143	200,725
Depreciation	35,754	46,075	54,469	67,740
Amortization	1,506	1,506	1,506	1,506
Non Operating Income	2,423	1,302	3,289	3,691
Interest Expenses	2,341	11,613	6,396	4,373
Profit before Tax	76,516	95,957	116,060	130,798
Income Tax	8,378	6,615	16,252	19,122
Profit after Tax	68,138	89,342	99,808	111,675
Minority Interest	1,151	1,759	2,990	4,577
Share in Associates	-	-	6,804	12,222
Consolidated Net Profit	66,987	87,583	103,622	119,321

Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009	F2010E	F2011E
SOURCES				
Share Capital	18,981	18,981	18,981	18,981
Share Premium	77,745	77,745	77,745	77,745
Reserves & Surplus	125,968	210,869	295,060	388,752
Shareholders' Funds	222,587	307,595	391,786	485,478
Deferred Tax Liability	2,531	31	2,387	5,553
Loan Funds	97,063	104,084	151,832	125,921
Minority Interest	3,013	4,772	7,762	12,338
Other Non-Current Liabilities	9,894	13,913	19,638	21,345
TOTAL LIABILITIES	335,088	430,395	573,405	650,636
APPLICATIONS				
Net Block	275,951	379,975	485,137	526,847
Capital Work in Progress	37,456	31,349	31,523	23,966
Net Fixed Assets	313,407	411,324	516,660	550,813
Goodwill	27,043	27,043	27,043	27,043
License Fee	7,197	6,577	5,957	5,337
Other Intangibles,				
Non-Current Assets	11,048	5,121	51,235	50,349
Investments	108	108	108	108
Current Assets	111,070	127,688	137,454	158,037
Cash & Marketable Securities	55,006	55,698	56,874	75,415
Current Liabilities	134,787	147,466	165,052	141,051
	(23,717)			
Net Current Assets) (19,778)	(27,598)	16,987	16,987
TOTAL ASSETS	335,086	430,395	573,405	650,636

Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009	F2010E	F2011E
Operating Activities				
Profit/(Loss) before tax	76,516	95,957	116,060	130,798
Depreciation	35,754	46,075	54,469	67,740
Amortization	1,506	1,506	1,506	1,506
Direct Taxes Paid	(8,414)	(10,400)	(13,897)	(15,955)
Changes in Working Capital	20,949	(3,247)	8,996	(26,043)
Operating Cash Flows	131,356	142,791	173,531	162,417
Investing Activities				
Purchase/(Sale) of Fixed Assets	138,557	143,992	159,805	101,892
Investing Cash Flows	(147,478)	(138,951)	(206,805)	(101,892)
Financing Activities				
Repayment of Long Term Debt	44,602	7,021	47,748	(25,911)
Change in Shareholders Equity	21,127	1,866	2,990	4,577
Change in Other Non-Current Liabilities	(2,456)	4,019	5,725	1,707
Dividends Paid	-	(3,796)	(13,348)	(15,371)
Dividend Tax	-	(645)	(2,269)	(2,612)
Financing Cash Flows	60,954	(3,148)	34,450	(41,983)
Cash & Marketable Securities				
Beginning Cash balance	10,155	55,006	55,698	56,874
Ending Cash Balance	55,006	55,698	56,874	75,415

Ratio Analysis

	F2008	F2009	F2010E	F2011E
Valuation				
ModelWare EPS	35.3	46.1	54.6	62.9
Adjusted EPS	35.3	46.1	54.6	62.9
Book Value	117.3	162.1	206.4	255.8
Dividend Per Share	-	2.0	7.0	8.1
P/E	22.8	17.4	14.7	12.8
P/BV	6.9	5.0	3.9	3.1
Dividend Yield	0.0%	0.2%	0.9%	1.0%
EV/EBITDA	13.8	10.2	9.3	7.9
P/CE	14.7	11.6	9.7	8.4
Profitability				
EBITDA Margin (Net Revenues)	42.1%	41.8%	41.6%	42.2%
EBITDA Margin (Gross Revenues)	36.5%	33.0%	33.8%	34.3%
Net Margin	21.5%	18.7%	20.0%	20.4%
RONW (%)	38.1%	33.7%	28.5%	25.5%
ROCE (%)	30.0%	28.7%	24.7%	22.3%
Gearing				
Debt/Equity	0.44	0.34	0.39	0.26
Net Debt / Equity	0.19	0.16	0.24	0.10

E = Morgan Stanley Research estimates
Source: Company data; Morgan Stanley Research

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Bharti (BRTI.BO, Rs804.1, OW, PT Rs1000)

Investment Thesis: Why We Are Overweight

- Strong wireless revenue market share
- Focus on an integrated strategy
- An edge in spectrum and footprint, with highest RNOA

Exhibit 25

Bharti: What's Changed

	F2008	F2009E	F2010E	F2011E
Net adds(Thousands/month)				
New	2,070	2,662	2,649	1,864
Old	2,070	2,662	2,504	1,857
Change	0.0%	0.0%	5.8%	0.3%
Weighted Average ARPU				
New	368	325	263	228
Old	368	325	259	222
Change	0.0%	0.0%	1.6%	2.9%
Wireless ARPM				
New	0.73	0.63	0.57	0.53
Old	0.73	0.63	0.55	0.50
Change	0.0%	0.0%	3.4%	5.3%
Consol Net Revenues				
New	270,250	369,430	420,644	475,284
Old	270,250	369,425	414,714	462,520
Change	0.0%	0.0%	1.4%	2.8%
EBITDA (Rs million)				
New	113,694	154,562	175,143	200,725
Old	113,694	154,543	172,624	195,256
Change	0.0%	0.0%	1.5%	2.8%
PBT				
New	76,516	95,957	116,060	130,798
Old	76,516	95,938	114,538	129,255
Change	0.0%	0.0%	1.3%	1.2%
Net profit				
New	66,987	87,583	103,622	119,321
Old	66,987	87,564	102,403	117,466
Change	0.0%	0.0%	1.2%	1.6%

Source: Company data, Morgan Stanley Research E = Morgan Stanley Research estimates

Exhibit 26

Bharti: Sum-of-the-Parts Valuation

Core Enterprise Value (EV) DCF	886
Net Debt	50
Core Equity Value DCF	836
Total Tower value per Share (EV Based)	164
Towerco Contribution to Bharti's share price	164
Bharti's Target Price = Core EV + Tower	1,000

Source: Company data, Morgan Stanley Research Estimates

Valuation Methodology

We value Bharti based on sum-of-the-parts, adding our discounted cash flow (DCF) value for Bharti's core business to the value derived from its tower business.

Our value for Bharti's core business remains at the mid-point of the value derived from our DCF calculation on a one-year forward basis, assuming a terminal growth rate of 3% and cost of capital of 11.3% (down slightly from 11.8% earlier), as shown in Exhibit 21. Based on our revised profit estimates and a one-quarter forward rollover, we arrive at our new core business enterprise value of Rs836/share.

We base our valuation of Bharti's tower business on our DCF of the company's seven circles as well as its ownership in Indus to arrive at a value of US\$112k per usable tower.

Earlier, we had used RCOM's transaction with private equity investors in July 2007, in which it sold 5% of its tower business at a current equity value of US\$6.7bn and a March 2008 EV of US\$9bn to arrive at enterprise-based value of US\$265,000 per usable tower.

We value Bharti's tower business at Rs164/based on our DCF model and add this to our core business equity value and arrive at our new target price of Rs1,000/share (Exhibit 26).

Downside risks to our price target include:

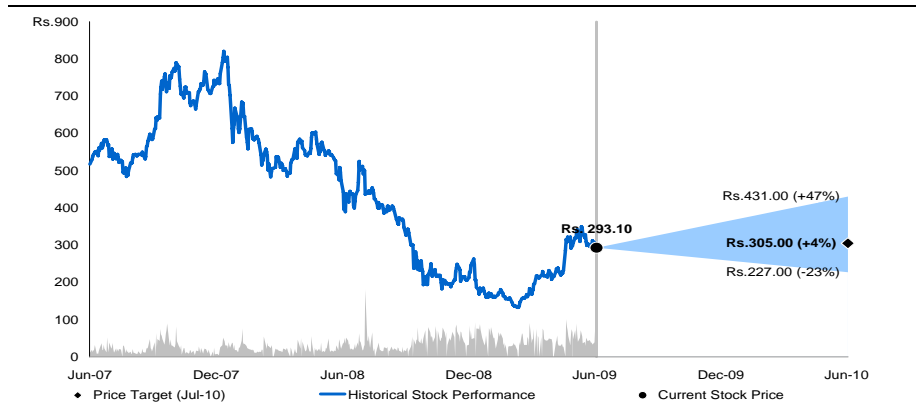
- Higher-than-expected drop in tariffs due to aggressive pricing by new operators to gain subscribers.
- Regulatory uncertainty regarding spectrum and Bharti's need to pay additional spectrum charges. Based on entry fees for 2G, we estimate the company would have to pay US\$125-150 mn – i.e., Rs3-4 per share, as a one-time spectrum charge. Even at a 100% premium to this amount, we believe the outgo would not be significant.
- Overbidding by Bharti to acquire MTN

Upside risks to our price target include

- Unlocking value in the tower business through listing, strategic sale.

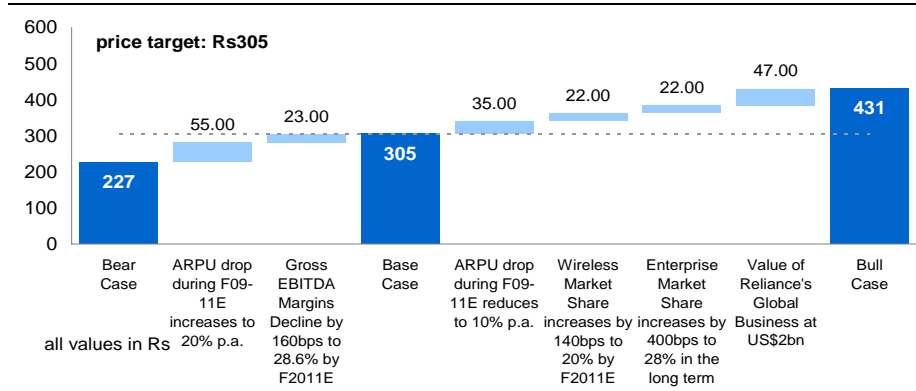
Risk-Reward Snapshot: Reliance Communications (RLCM.BO, Rs293.1, EW, PT Rs305.00)

Favorable Risk-Reward, but Pressures on Business



Price Target Rs305	Derived from Base-Case scenario.	
Bull Case Rs431	At par to bull case SOTP	Slower ARPU decline: Annual ARPU decrease of 10%. Wireless market share increases 143bps to 20% by F2011E. Increases enterprise market share to 28% in the long term. RCOM's wholly owned subsidiary, Reliance Globalcom, is listed.
Base Case Rs305	At par to base case SOTP	Improving margin, strong market share: Annual ARPU decline of 15.7% for F2009-11E. Gross EBITDA margin to stabilize at 30.4% by F2011. Market shares of 35% for international long distance, 25% for national long-distance, and 23% for domestic enterprise business in the long term.
Bear Case Rs227	At par to bear case SOTP	Increasing competition: RCOM gets 25% benefit through external leasing of towers, rest being internal consumption; ARPU decline is faster at 20% p.a. during F2009-11E; Gross EBITDA margins decline by 184bps to 28.6% by F2011E, due to higher than expected rollout and sales costs

Bear to Bull: ARPU and Market Share Are Key



Source: Morgan Stanley, FactSet

Investment Thesis

- Net adds for RCOM remain at highest level ever but should peak in F2010.
- Near-term execution risk due to GSM launch/aggressive pricing.
- Huge interest and depreciation burden.

Key Value Drivers

- Improvement in EBITDA margins by F2011, driven by economies of scale and stability of operations in newly launched areas.
- Strong net adds through pan-India presence in both CDMA and GSM.
- Potential to unlock value in the tower business and Reliance Globalcom
- Market share in long-distance and enterprise businesses.

Potential Catalysts

- Unlocking value in tower business by way of stake sale and/or signing deals with new operators.
- Higher network and rollout costs squeeze EBITDA margin

Risks

Downside

- Increased competition.
- High debt and hence high interest costs affecting balance sheet.
- High capex increasing depreciation costs.

Upside

- Less-than-expected increase in network costs producing positive surprise on EBITDA margins.

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RCOM: Financial Summary

Income Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Wireless	150,170	173,677	208,527	249,925
Global	54,750	67,761	79,631	87,928
Broadband	17,868	25,243	34,325	47,695
Infratel	-	-	54,299	66,434
Gross Revenues	227,093	276,779	376,781	451,982
Interdivision revenues	38,381	47,334	77,251	84,324
Net Revenues	188,712	229,445	299,530	367,659
Total Operating Costs	108,687	136,580	186,297	230,063
EBITDA	80,025	92,865	113,233	137,596
Depreciation	28,053	38,101	54,959	65,101
Non Operating Income	5,962	7,867	8,147	2,985
Interest Expenses	-	-	11,397	15,841
Profit before Tax	57,935	62,631	55,025	59,639
Income Tax	2,836	(123)	1,365	5,522
Profit after Tax	55,099	62,754	53,660	54,117
Minority Interest	(1,088)	(2,399)	(1,432)	(1,934)
Consolidated PAT	54,011	60,355	52,228	52,183
Extraordinary Items	12,828	(1,287)	-	-
Reported PAT	66,839	59,068	52,228	52,183

Ratio Analysis

	F2008	F2009E	F2010E	F2011E
Valuation				
ModelWare EPS	26.2	29.2	25.3	25.3
Adj. EPS	32.4	28.6	25.3	25.3
Book Value	140.6	166.7	187.7	207.6
DPS(Rs)	0.7	3.7	4.3	5.4
P/E	11.2	10.0	11.6	11.6
P/BV	2.1	1.8	1.6	1.4
Yield	0%	1%	1%	2%
EV/EBITDA	9.3	8.9	7.9	6.4
Profitability				
EBITDA Margin (Net Rev)	42.4%	40.5%	37.8%	37.4%
Net Margin	23.8%	21.8%	13.9%	11.5%
RONW (%)	25.7%	18.6%	14.3%	12.8%
ROCE (%)	11.9%	10.2%	9.1%	9.3%
Gearing				
Debt/Equity	0.89	0.83	0.98	0.87
Net Debt / Equity	0.48	0.65	0.75	0.65
Gross Debt / EBITDA	3.23	3.09	3.37	2.72
Net Debt / EBITDA	1.74	2.41	2.57	2.04
Debt Service Ratio	0.00	-2.18	-0.80	3.34
Capex % of Net Sales	1.17	0.83	0.41	0.26

Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
SOURCES				
Share Capital	10,320	10,320	10,320	10,320
Reserves & Surplus	279,943	333,837	377,051	418,123
Shareholders' Funds	290,263	344,157	387,371	428,443
Loan Funds	258,217	286,916	381,100	374,340
Minority Interest	24,309	26,708	28,140	30,074
TOTAL LIABILITIES	573,817	658,809	797,639	833,885
APPLICATIONS				
Net Block	373,826	603,235	698,893	738,869
Capital Work in Progress	149,299	72,740	46,022	34,972
Net Fixed Assets	523,126	675,976	744,915	773,841
Investments	109,996	30,000	30,000	30,000
Current Assets	97,035	85,667	88,486	106,980
Cash	8,782	33,170	60,160	64,275
Current Liabilities	200,776	192,591	199,510	214,798
Net Current Assets	(94,959)	(73,754)	(50,864)	(43,543)
TOTAL ASSETS	573,817	658,809	797,639	833,885

Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Operating Activities				
Profit/(Loss) before tax	57,935	62,631	55,025	59,639
Depreciation	28,053	38,101	54,959	65,101
Direct Taxes Paid	(2,836)	123	(1,365)	(5,522)
Changes in Working Capital	1,383	3,183	4,100	(3,206)
Prior period adjustments	-	-	11,397	15,841
Operating Cash Flows	100,567	104,038	124,116	131,853
Investing Activities				
(Purchase)/Sale of Fixed Assets	(220,756)	(190,951)	(123,898)	(94,026)
Inc/(Dec) in Goodwill + Intangibles	(9,067)	9,067	(47,000)	-
(Purchase)/ Sale of Investments	(32,882)	79,996	-	-
Investing Cash Flows	(262,705)	(101,888)	(170,898)	(94,026)
Operating + Investing Cash Flows	(162,138)	2,150	(46,782)	37,827
Financing Activities				
Issue of Share Capital	97	-	-	-
Repayment of Long Term Debt	83,834	28,699	94,184	(6,760)
Change in Shareholders Equity	16,793	2,399	1,432	1,934
Interest on Long Term Loans	-	-	(11,397)	(15,841)
Dividends Paid	(1,548)	(7,573)	(8,928)	(11,151)
Dividend Tax	(263)	(1,287)	(1,517)	(1,895)
Financing Cash Flows	98,913	22,238	73,773	(33,712)
Net change in Cash & Cash Eqv	(63,225)	24,388	26,991	4,115
Cash & Marketable Securities				
Beginning balance	72,006	8,782	33,170	60,160
Ending Balance	8,782	33,170	60,160	64,275

E = Morgan Stanley Research Estimates

Source: Company data, Morgan Stanley Research

Reliance Communications (RLCM.BO, Rs293.1, EW, PT Rs305)

Investment Thesis: Why We Are Equal weight

- Disappointing quarterly results – pressures in wireless and global businesses.
- Balance sheet risk due to high debt and hence high interest costs.

Exhibit 27

RCOM: What's Changed

	F2009E	F2010E	F2011E
Revenues			
Old	229,411	303,081	370,986
New	229,445	299,530	367,659
Change	0.0%	-1.2%	-0.9%
Total Consol EBITDA (Rs mn)			
Old	92,867	115,087	138,711
New	92,865	113,233	137,596
Change	0.0%	-1.6%	-0.8%
Other Income			
Old	7,867	1,151	2,814
New	7,867	8,147	2,985
Change	0.0%	608.1%	6.1%
Consolidated Net Profit			
Old	60,357	48,571	53,544
New	60,355	52,228	52,183
Change	0.0%	7.5%	-2.5%
Wireless Monthly ARPU (Rs)			
Old	257	205	188
New	257	196	183
Change	0.0%	-4.7%	-2.9%
Wireless Monthly MOU			
Old	407	390	390
New	407	350	350
Change	0.0%	-10.3%	-10.3%
Wireless ARPM			
Old	0.63	0.53	0.48
New	0.63	0.56	0.52
Change	0.0%	6.2%	8.2%
Wireless EBITDA Margins			
Old	38.4%	29.8%	28.8%
New	38.4%	26.8%	26.3%
Change	0.0%	-3.0%	-2.5%
Infratel EBITDA Margins			
Old	0.0%	34.3%	35.6%
New	0.0%	44.8%	45.1%
Change	0.0%	10.5%	9.5%

Source: Morgan Stanley Research

Valuation Methodology

We use a sum-of-parts valuation to arrive at our price target for RCOM, adding its core business valuation to the tower business valuation (since RCOM has spun off its tower businesses into separate companies with the objective of sharing the towers with the industry).

Our core business value for RCOM remains the mid-point of the value derived from our DCF calculation on a one-year forward basis, assuming a terminal growth rate of 3% and cost of capital of 12.6%(15.2% earlier), as shown in Exhibit 21. Based on our revised estimates, we arrive at our new core business enterprise value of Rs231/share. The company has one of the highest net debt levels in the industry, which equates to Rs123/share; therefore, the equity value equates to Rs108/share.

We use a DCF to arrive at a value of US100k per usable tower for RCOM. Earlier, we had used the company's transaction with private equity investors, in which it sold 5% of its tower business at a current equity value of US\$6.7bn and March 2008 EV of US\$9bn to arrive at enterprise-based value of US\$265,000 per usable tower.

We now value RCOM's tower business at Rs102/share and add this to our core business equity value to arrive at our new target price of Rs305/share (Exhibit 28).

Downside risks to our price target include:

- Greater competition increases the risk of a price war with new operators over market share.
- High debt and hence high interest costs increase balance sheet risk – the company has high gross debt and given its aggressive capex plans, it could need additional debt over the next few years assuming capex requirements exceed operating cash flows. In such a scenario, the company's cost of debt and interest costs could increase further.

Upside risks include:

- Unlocking the value of its tower business by way of stake sale and/or signing deals with new operators
- A successful GSM all India launch and garnering over 25% market share.

Exhibit 28

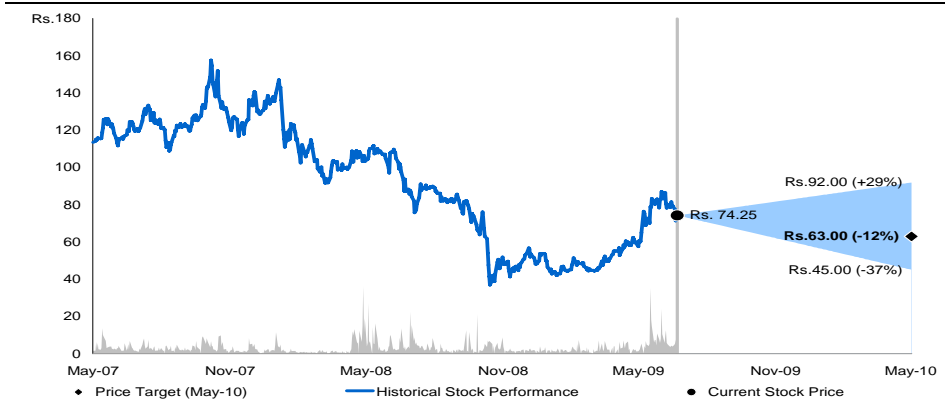
RCOM: Sum-of-the-Parts (SOTP) Valuation

Core Enterprise Value (EV) DCF	344
Net Debt	141
Core Equity Value DCF	203
Tower value per Share (EV Based)	102
Contribution to RCOM's share price	102
RCOM's Target Price = Core EV + Tower	305

Source: Company data, Morgan Stanley Research Estimate

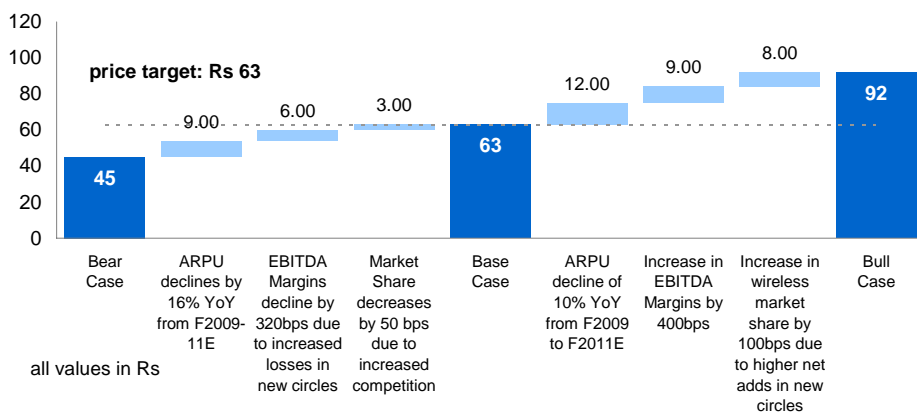
Risk-Reward Snapshot: Idea Cellular (IDEA.BO, Rs74.25, UW, PT Rs63)

Risk-Reward View: As a pure wireless player, is hurt the most



Price Target Rs63		Sum-Of-Parts-Valuation
Bull Case Rs92	At par to bull case SOTP	Fully fledged operations: Idea launches operations in nine remaining circles and becomes a pan-India operator; ARPUs decline by 10% p.a. during F2009-11; gross EBITDA margin improves 400bps to 34%
Base Case Rs63	At par to base case SOTP	Near-term pain from new launches: Has 11.9% wireless market share by F2011 with 78.5mn subs including two Spice circles; launches operations in nine new circles during F10; ARPU declines 13.1% p.a. during F09-11E; net EBITDA margin of 30% in F2011 and 34.1% long term.
Bear Case Rs48	At par to bear case SOTP	Competitive pressures surface: ARPU declines by 16% p.a. during F2009-11; increase in costs lead to narrowing in gross EBITDA margins by 320bps; long-term market share declines by 50bps.

Bear to Bull: New Launch Performance Could Be Critical



Source: Morgan Stanley, FactSet

Investment Thesis

- India is the fastest growing telecom market.
- Idea, as a pure wireless player, suffers the most in a deteriorating wireless landscape.
- New circle launches could squeeze margins in the next 12 months.

Key Value Drivers

- Improvement in wireless EBITDA margins driven by economies of scale.
- Increased outsourcing of towers reducing capex and hence FCF in three years.

Potential Catalysts

- Unlocking value of the tower subsidiary.
- New circle rollout may increase costs and hence pressure on EBITDA margins.

Downside risks to our price target include:

- Greater-than-expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and Idea's need to pay additional spectrum charges.

Upside risks to our price target include:

- Lower-than-expected losses in new circles could improve EBITDA margins.

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Idea Cellular: Financial Summary

Income Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Wireless-Existing	63,533	88,881	107,331	123,638
Wireless-New	3,667	7,690	11,524	16,008
Total Gross Revenues	67,200	102,645	155,721	193,557
Interdivision revenues	-	1,393	17,363	21,217
Total Net Revenues	67,200	101,252	138,357	172,339
Total Operating Costs	44,682	73,131	97,900	120,579
EBITDA	22,518	28,121	40,458	51,760
Depreciation	7,569	12,840	19,242	22,265
Amortization	1,199	1,199	501	3,160
Non Operating Income	175	232	2,098	2,194
Interest Expenses	2,776	4,943	9,440	12,002
Profit before Tax	11,148	9,371	13,373	16,528
Income Tax	725	362	1,167	1,947
Profit after Tax	10,423	9,009	12,206	14,581
Minority Interest	--	--	(418)	(751)
Consolidated Net Profit	10,423	9,009	11,788	13,829
Carried Forward P&L Balance	(24,502)	(14,079)	(5,070)	-
P&L Bal. Carried to Balance Sheet	(14,079)	(5,070)	6,717	13,829

* Our calculations do not include Other Income as a part of Total Revenues.

Ratio Analysis

	F2008	F2009E	F2010E	F2011E
Valuation				
ModelWare EPS	3.96	2.76	3.61	4.23
Book Value(Rs/Share)	13.5	40.9	44.7	48.7
DPS(Rs)	-	-	-	0.4
P/E	18.8	26.9	20.6	17.5
P/BV	5.5	1.8	1.7	1.5
Yield	0%	0%	0%	0%
EV/EBITDA	11.4	10.0	8.8	7.2
Profitability				
EBITDA Margin (% of Net Revenues)	33.5%	27.8%	29.2%	30.0%
Net Margin	15.5%	8.9%	8.5%	8.0%
RONW	29.4%	6.7%	8.1%	8.7%
ROCE	15.0%	6.8%	8.2%	10.1%
RONW*	21.0%	6.5%	8.1%	8.7%
Gearing				
Debt/Equity	1.8	0.7	0.9	1.0
Net Debt / Equity	1.7	0.3	0.8	0.8
Interest Coverage Ratio(X)	5.0	2.9	2.4	2.4

* Calculation of RONW does not include carried forward losses.

Balance Sheet

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
SOURCES				
Share Capital	26,354	32,664	32,664	32,664
Carried Forward Losses	(14,079)	(5,070)	-	-
Reserves & Surplus	23,172	91,469	98,186	110,633
Shareholders' Funds	35,446	119,063	130,850	143,297
Loan Funds	65,154	94,281	136,986	154,337
Total Liabilities	100,600	213,344	267,836	297,634
APPLICATIONS				
Net Block	78,899	123,288	179,462	212,506
Capital Work in Progress	10,372	12,412	17,344	13,880
Net Fixed Assets	89,270	135,701	196,806	226,385
Goodwill	61	61	61	61
Intangible Assets	17,892	16,693	63,192	60,033
Investments	5,560	-	-	-
Losses Carried From P&L Account	14,079	5,070	-	-
Current Assets	10,525	56,053	56,747	53,016
Cash & Marketable Securities	4,975	56,362	22,277	25,763
Current Liabilities	27,022	36,223	55,527	51,152
Net Current Assets	(11,523)	76,192	23,497	27,627
Total Assets	101,261	228,647	283,558	314,107

Cash Flow Statement

Rs mn (Year ending March 31)	F2008	F2009E	F2010E	F2011E
Operating Activities				
Profit/(Loss) before tax	11,148	9,371	13,373	16,528
Depreciation and Amortization	8,768	14,039	19,743	25,425
Amortization	1,199	1,199	501	3,160
Direct Taxes Paid	(75)	(362)	(1,167)	(1,947)
Interest	2,776	4,943	9,440	12,002
Changes in Working Capital	1,438	(36,327)	18,610	(644)
Change in Other Non-Current Assets	(0)	0	(6,717)	-
Operating Cash Flows	23,383	(6,225)	53,281	51,363
Investing Activities				
Purchase/(Sale) of Fixed Assets	(47,603)	(59,270)	(80,348)	(51,844)
(Inc)/Dec in Goodwill + Intangibles	(7,228)	(0)	(47,000)	0
(Inc)/Dec of Non-Current Assets	5,548	(5,560)	-	-
Investing Cash Flows	(49,283)	(64,830)	(127,348)	(51,844)
Financing Activities				
Proceeds from Issue of Share Capital	425	6,311	-	-
Repayment of Long Term Borrowings	22,649	29,127	42,705	17,351
Change in Shareholders Equity	(7,623)	91,948	6,717	-
Interest on Long Term Loans	(2,776)	(4,943)	(9,440)	(12,002)
Dividends Paid	-	-	-	(1,210)
Dividend Tax	-	-	-	(173)
Financing Cash Flows	12,675	122,443	39,982	3,967
Net change in Cash and Cash Eqv	(13,225)	51,387	(34,085)	3,485
Cash & Marketable Securities				
Beginning Cash balance	18,199	4,975	56,362	22,277
Ending Cash Balance	4,975	56,362	22,277	25,763

E = Morgan Stanley Research estimates

Source: Company data; Morgan Stanley Research

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Idea Cellular (IDEA.BO, Rs74.25, UW, PT Rs63)

Investment Thesis: Why We Are Underweight

- As a pure wireless player, Idea is hurt the most during tariff wars.
- 3G will add to the company's debt burden, increasing interest costs
- New circle launches could squeeze margins in the next 12 months.

Exhibit 29

Idea Cellular: What's Changed

	F2009E	F2010E	F2011E
Wireless Net Adds/month			
Old	1,585	1,798	1,404
New	1,585	1,613	1,342
Change	0.0%	-10.3%	-4.4%
Wireless ARPU			
Old	265	216	199
New	265	217	200
Change	0.0%	0.3%	0.6%
Wireless MOU			
Old	414	400	400
New	414	380	370
Change	0.0%	-5.0%	-7.5%
Wireless ARPM			
Old	0.64	0.54	0.50
New	0.64	0.57	0.54
Change	0.0%	5.5%	8.8%
Revenues			
Old Revenues	101,252	140,953	176,315
New Revenues	101,252	138,357	172,339
Change	0.0%	-1.8%	-2.3%
EBITDA			
Old EBITDA	28,121	38,147	49,766
New EBITDA	28,121	40,458	51,760
Change	0.0%	6.1%	4.0%
EBITDA Margins			
Old EBITDA Margins	27.8%	27.1%	28.2%
New EBITDA Margins	27.8%	29.2%	30.0%
Change	0.0%	2.2%	1.8%
PAT			
Old	9,009	10,395	13,654
New	9,009	11,788	13,829
Change	0.0%	13.4%	1.3%

Source: Morgan Stanley Research

Valuation Methodology

Our new 12-month target price of Rs63/share for Idea is based on our revised DCF model and the value we attribute to the company's towers.

We value Idea's tower business at Rs19/share based on DCF and add this to our core business equity value to arrive at our new target price of Rs63/share (Exhibit 30).

We assume a terminal growth rate of 3% and cost of capital of 12% (13% earlier).

Our Sum-Of-the-Parts valuation is shown in Exhibit 30.

Exhibit 30

Idea Cellular: Sum-of-the-Parts Valuation

(Rs/share)	
Core Business Equity Value	43
Tower Valuation	19
Target Price	63

Source: Company data, Morgan Stanley Research

Downside risks to our price target include:

- Greater-than-expected fall in tariffs due to aggressive pricing from new operators to gain subscribers.
- Intensified competition from regional operators, leading some to exit the business or consolidate.
- CDMA operators resume major handset subsidies.
- Regulatory uncertainty regarding spectrum and Idea's need to pay additional spectrum charges

Upside Risks Include:

- Potential listing of tower subsidiary
- New circles turn EBITDA break-even sooner than our estimate of 24 months

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Exhibit 31

India Telecoms: Subscribers and Market Shares by Operator

(in mn)	F2007	F2008	F2009E	F2010E	F2011E	CAGR 2008-2011	
						11E	11E
India							
Wireless Subscribers	164.5	261.1	391.8	542.6	659.3	36%	30%
GSM	120.5	192.7	296.0	433.8	545.8	41%	36%
CDMA	44.0	68.4	95.7	108.8	113.5	18%	9%
Wireless Net Adds	65.9	96.6	130.7	150.9	116.7	7%	-5%
GSM	51.3	72.2	103.3	137.8	112.0	16%	4%
CDMA	14.6	24.3	27.3	13.1	4.8	-42%	-58%
Total Wireless Subscribers							
Bharti	37.1	62.0	93.9	125.7	148.1	34%	26%
BPL	1.1	0.8	2.2	1.9	0.0	-100%	-100%
BSNL	30.4	40.3	52.1	64.1	76.1	24%	21%
CDMA	3.0	4.6	5.5	5.5	5.5	6%	0%
GSM	27.4	35.7	46.7	58.7	70.7	26%	23%
Vodafone Essar	26.3	44.1	68.8	97.4	117.5	39%	31%
Idea Cellular	14.0	24.0	43.0	62.4	78.5	48%	35%
MTNL	2.9	3.5	4.5	5.6	5.9	18%	14%
CDMA	0.1	0.3	0.3	0.3	0.3	1%	-2%
GSM	2.7	3.2	4.2	5.2	5.6	20%	16%
Reliance Communications	28.0	45.8	72.7	103.6	122.5	39%	30%
CDMA	24.6	38.8	53.8	59.1	59.1	15%	5%
GSM	3.4	7.0	18.8	44.5	63.4	108%	84%
Tata Teleservices	16.0	24.3	35.1	45.9	53.1	30%	23%
CDMA	16.0	24.3	35.1	41.1	41.1	19%	8%
GSM	NA	NA	NA	4.8	12.0		
Others	8.6	16.2	19.5	36.0	57.7	53%	72%
GSM	8.4	15.8	18.5	33.2	50.1	47%	65%
Aircel	NA	NA	NA	30.5	38.9		
Unitech	NA	NA	NA	2.6	9.8		
Videocon	NA	NA	NA	0.0	0.0		
Swan	NA	NA	NA	0.1	1.4		
CDMA	0.2	0.4	1.0	2.8	7.6	166%	177%
HFCL	0.1	0.3	0.4	1.0	2.2	94%	138%
Sistema Shyam	0.1	0.1	0.6	1.8	5.4	269%	200%
Wireless Market Share							
Bharti	22.6%	23.7%	24.0%	23.2%	22.5%	-2%	-3%
BPL	0.7%	0.3%	0.6%	0.4%	0.0%	-100%	-100%
BSNL	18.5%	15.4%	13.3%	11.8%	11.5%	-9%	-7%
CDMA	1.8%	1.8%	1.4%	1.0%	0.8%	-22%	-23%
GSM	16.7%	13.7%	11.9%	10.8%	10.7%	-8%	-5%
Vodafone Essar	16.0%	16.9%	17.6%	17.9%	17.8%	2%	1%
Idea Cellular	8.5%	9.2%	11.0%	11.5%	11.9%	9%	4%
MTNL	1.7%	1.4%	1.1%	1.0%	0.9%	-13%	-12%
CDMA	0.1%	0.1%	0.1%	0.1%	0.0%	-26%	-24%
GSM	1.7%	1.2%	1.1%	1.0%	0.8%	-12%	-11%
Reliance Communications	17.0%	17.5%	18.5%	19.1%	18.6%	2%	0%
CDMA	15.0%	14.9%	13.7%	10.9%	9.0%	-16%	-19%
GSM	2.1%	2.7%	4.8%	8.2%	9.6%	53%	41%
Tata Teleservices	9.7%	9.3%	9.0%	8.5%	8.1%	-5%	-5%
CDMA	9.7%	9.3%	9.0%	7.6%	6.2%	-13%	-17%
GSM	NA	NA	NA	0.9%	1.8%		
Others	5.2%	6.2%	5.0%	6.6%	8.8%	12%	33%
GSM	5.1%	6.1%	4.7%	6.1%	7.6%	8%	27%
Aircel	NA	NA	NA	5.6%	5.9%		
Unitech	NA	NA	NA	0.5%	1.5%		
Videocon	NA	NA	NA	0.0%	0.0%		
Swan	NA	NA	NA	0.0%	0.2%		
CDMA	0.1%	0.2%	0.3%	0.5%	1.2%	95%	114%
HFCL	0.1%	0.1%	0.1%	0.2%	0.3%	43%	83%
Sistema Shyam	0.1%	0.0%	0.2%	0.3%	0.8%	171%	131%
Total Wireless Net Adds per month							
Bharti (GSM)	1.46	2.07	2.66	2.65	1.86	-3%	-16%
BPL (GSM)	(0.02)	(0.02)	0.11	(0.02)	(0.16)	97%	
BSNL	0.91	0.82	0.99	1.00	1.00	7%	1%
CDMA	0.05	0.13	0.07	-	-	-100%	-100%
GSM	0.86	0.69	0.92	1.00	1.00	13%	5%
Vodafone-Essar (GSM)	0.99	1.48	2.05	2.38	1.68	4%	-10%
Idea Cellular (GSM)	0.55	0.83	1.59	1.61	1.34	17%	-8%
MTNL	0.07	0.06	0.08	0.09	0.02	-25%	-46%
CDMA	0.00	0.01	0.00	0.00	(0.00)	-166%	
GSM	0.07	0.04	0.08	0.09	0.03	-13%	-41%
Reliance	0.65	1.48	2.24	2.58	1.57	2%	-16%
CDMA	0.53	1.18	1.26	0.44	-	-100%	-100%
GSM	0.12	0.30	0.98	2.14	1.57	73%	26%
Tata Teleservices	0.63	0.69	0.90	0.90	0.60	-5%	-18%
CDMA	0.63	0.69	0.90	0.50	-	-100%	-100%
GSM	NA	NA	NA	0.40	0.60		
Others	0.24	0.64	0.27	1.38	1.81	42%	158%
Aircel	NA	NA	NA	1.00	0.70		
Unitech	NA	NA	NA	0.22	0.60		
Swan	NA	NA	NA	0.01	0.11		
HFCL	NA	NA	NA	0.05	0.10		
Sistema Shyam	NA	NA	NA	0.10	0.30		

Source: Company data, E = Morgan Stanley Research Estimates

Exhibit 32

India Telecoms: Current Spectrum Allocation

Circle	900 MHz							1800 MHz										
	Bharti	RCOM	Vodafone	BSNL	Idea	MTNL	Aircel	Bharti	RCOM	Vodafone	Idea	Aircel	Tata	Datacom	Unitech	Swan	BPL	STel
			Essar	including	Spice					Essar	including						and	Loop
Delhi (NCR)	10.0		10.0			10.0		4.4			8.0	4.4						
Mumbai			10.0			10.0		4.4	4.4		4.4	4.4	4.4	4.4	4.4		10.0	4.4
Kolkata	8.0	6.2	9.8	10.0							4.4	4.4	4.4	4.4	4.4		4.4	4.4
Chennai	8.6			10.0			8.6	4.4	8.0		4.4		4.4	4.4	4.4		4.4	4.4
Andhra Pradesh	8.8			10.0	8.0			4.4	6.2			4.4	4.4	4.4	4.4		4.4	4.4
Gujarat			9.8	10.0	6.2		7.2	4.4				4.4	4.4	4.4	4.4		4.4	4.4
Karnataka	10.0			10.0	6.2			4.4	8.0			4.4	4.4	4.4	4.4		4.4	4.4
Maharashtra				10.0	10.0			8.0	4.4	6.2		4.4	4.4	4.4	4.4		4.4	4.4
Tamil Nadu				10.0			10.0	8.2	4.4	6.2	4.4		4.4	4.4	4.4		4.4	4.4
Haryana			6.2	10.0	6.2			7.2	4.4			4.4	4.4	4.4	4.4		4.4	4.4
Kerala				10.0	8.0			6.2	4.4	6.2		4.4	4.4	4.4	4.4		4.4	4.4
Madhya Pradesh		6.2		10.0	8.0			6.2		4.4		4.4						
Punjab	8.0			10.0	8.0			4.4	6.2			4.4	4.4	4.4	4.4		4.4	4.4
Rajasthan	8.0		6.2	10.0				4.4			6.2	4.4	4.4	4.4	4.4		4.4	4.4
Uttar Pradesh (East)			8.0	10.0				6.2	4.4		6.2	4.4	4.4	4.4	4.4		4.4	4.4
Uttar Pradesh (West)				10.0	8.0			7.2	4.4	6.2		4.4	4.4	4.4	4.4		4.4	4.4
West Bengal (incl. A&N Islands)		6.2		10.0				5.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Assam		6.2		10.0				7.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Bihar		8.0		10.0				10.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Himachal Pradesh	6.2	6.2		10.0					4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Jammu and Kashmir				10.0				6.2	0.0	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
North-east				10.0				6.2	4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Orissa		6.2		10.0				10.0	4.4	4.4	4.4	4.4	4.4	4.4	4.4		4.4	4.4
Total Spectrum	67.6	45.2	60.0	210.0	68.6	20.0	18.6	110.6	66.0	88.4	68.8	92.4	92.4	92.4	92.4	92.4	98.0	92.4

Source: Company data, Morgan Stanley Research

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Exhibit 33

India Telecoms: Asia Valuation Comparables

All Data is Calendarized																										
Key Comparables	Price 2-Jul-09	Price to Earnings/P/E				EPS Growth %	P/E to 3yr EPS Growth	EV/EBITDA			EV/EBITDA to 3yr EBITDA Growth	EV/Sub (US\$)			ROA			RONW			FCF Yield			P/B		
		2007	2008E	2009E	2010E			2008-10E	2008-11E	2008E		2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E
Indian Telcos																										
Bharti Airtel	804.1	22.8	17.4	14.7	12.8	16.7	1.09	10.2	9.3	7.9	0.72	189	156	133	25%	22%	21%	29%	25%	22%	-2%	4%	7%	3.91	3.16	2.62
Reliance Communications	293.1	11.2	10.0	11.6	11.6	(7.0)	15.13	8.9	7.9	6.4	0.41	126	106	92	9%	9%	10%	14%	13%	14%	-8%	6%	11%	1.57	1.42	1.28
Idea Cellular	74.3	18.8	26.9	20.6	17.5	23.9	0.95	10.0	8.8	7.2	0.31	120	99	87	8%	10%	11%	8%	9%	9%	-31%	0%	7%	1.35	1.24	1.14
MTNL	106.9	11.9	17.7	15.9	12.9	17.1	1.16	2.9	2.8	2.1	0.17	120	100	76	5%	6%	6%	4%	4%	4%	1%	7%	10%	0.56	0.55	0.53
Average India	17.6	18.0	15.7	13.7	12.7	4.58	8.0	7.2	5.9	0.40	111	92	78	12%	12%	12%	14%	13%	12%	-10%	4%	9%	1.85	1.59	1.39	
Wireline/Integrated																										
China Telecom	3.8	12.4	15.5	21.2	18.7	(8.9)	6.00	4.5	4.7	4.2	NM	212	192	167	5%	6%	8%	6%	6%	8%	9%	11%	12%	1.22	1.17	1.10
MTNL	106.9	11.9	17.7	15.9	12.9	17.1	1.16	2.9	2.8	2.1	0.17	120	100	76	5%	6%	6%	4%	4%	4%	1%	7%	10%	0.56	0.55	0.53
Singapore Telecom	3.0	12.4	13.6	13.0	13.1	1.9	20.14	8.4	8.0	8.0	7.72	7,843	7,750	7,675	16%	15%	15%	16%	15%	14%	0%	-1%	-1%	2.07	1.97	1.90
Telekom Malaysia	2.9	22.8	14.1	24.0	24.6	(24.3)	NM	4.9	4.8	4.9	NM	985	995	1,010	4%	6%	6%	5%	7%	7%	45%	6%	5%	1.60	1.67	1.75
True	2.2	NM	49.4	11.5	6.1	184.2	0.13	4.8	4.0	3.6	1.66	133	121	107	8%	9%	9%	36%	40%	26%	50%	69%	70%	1.52	1.21	1.00
PT Telkom	8,200.0	12.0	13.1	13.9	12.3	3.1	2.53	5.2	4.9	4.5	0.84	208	191	176	26%	27%	29%	28%	28%	28%	4%	9%	11%	3.60	3.24	2.95
PLDT	2,410.0	13.6	11.2	10.1	9.6	8.2	1.28	5.6	5.3	4.9	1.24	252	231	215	31%	34%	36%	42%	40%	38%	9%	10%	11%	4.11	3.66	3.25
KT Corp.	37,600.0	6.8	10.5	6.4	6.1	31.4	0.36	3.5	3.0	2.7	0.72	735	714	673	8%	9%	9%	14%	14%	12%	19%	20%	20%	0.90	0.85	0.80
SK Broadband	5,230.0	37.4	NM	NM	26.8	NM	NM	5.5	5.4	4.0	0.47	647	602	522	0%	4%	6%	-6%	3%	8%	-5%	6%	14%	0.77	0.75	0.70
Dacom	18,600.0	10.9	12.6	8.5	7.0	34.6	0.37	4.8	4.2	3.6	0.51	11,067	9,195	7,837	22%	22%	19%	12%	13%	12%	4%	5%	6%	0.95	0.85	0.76
PCCW	2.0	9.0	10.7	15.3	14.8	(15.0)	NM	4.7	6.2	6.2	NM	1,388	1,335	1,290	3%	2%	2%	1%	1%	1%	16%	11%	12%	0.17	0.15	0.14
Chunghwa	65.5	13.1	13.8	14.7	14.6	(2.6)	NM	5.7	6.0	5.9	NM	803	801	796	14%	14%	15%	11%	11%	11%	7%	8%	8%	1.66	1.64	1.62
Telstra	3.4	12.8	11.3	11.0	9.9	6.8	1.86	5.4	5.0	4.6	1.19	2,405	2,436	2,366	17%	19%	20%	31%	33%	33%	9%	11%	13%	3.40	3.20	2.99
Average Asia Wireline	14.6	16.1	13.8	13.6	19.7	4.18	5.1	5.0	4.6	1.61	2,061	1,897	1,762	12%	13%	14%	15%	17%	16%	13%	13%	15%	1.73	1.61	1.50	
Wireless																										
China Mobile (HK)	76.2	16.3	11.9	12.6	12.5	(2.6)	NM	5.4	5.3	5.0	1.76	323	286	257	40%	34%	29%	23%	20%	18%	4%	5%	6%	2.71	2.43	2.20
China Unicom	9.9	14.1	14.5	18.2	29.0	(29.4)	NM	3.4	4.1	4.6	7.13	157	171	166	5%	3%	3%	5%	3%	3%	-15%	-14%	1%	0.97	0.95	0.93
Bharti Airtel	804.1	22.8	17.4	14.7	12.8	16.7	1.09	10.2	9.3	7.9	0.72	189	156	133	25%	22%	21%	29%	25%	22%	-2%	4%	7%	3.91	3.16	2.62
Reliance Communications	293.1	11.2	10.0	11.6	11.6	(7.0)	15.13	8.9	7.9	6.4	0.41	126	106	92	9%	9%	10%	14%	13%	14%	-8%	6%	11%	1.57	1.42	1.28
Idea Cellular	74.3	18.8	26.9	20.6	17.5	23.9	0.95	10.0	8.8	7.2	0.31	120	99	87	8%	10%	11%	8%	9%	9%	-31%	0%	7%	1.35	1.24	1.14
StarHub	2.1	11.5	11.7	11.7	11.3	1.7	13.13	6.9	6.8	6.5	3.79	1,624	1,557	1,498	29%	30%	30%	82%	77%	70%	9%	10%	10%	9.23	8.36	7.68
Mobile One Limited	1.5	8.3	9.3	10.2	10.6	(6.2)	NM	5.2	5.6	5.5	NM	667	632	607	30%	29%	31%	58%	50%	49%	9%	10%	10%	5.57	5.04	4.57
DiGi	22.0	15.5	14.8	15.3	16.1	(3.9)	NM	8.0	7.9	8.0	3.66	656	643	622	57%	53%	55%	66%	90%	122%	6%	6%	7%	11.58	19.32	19.10
Advanced Info Service	92.3	15.5	14.4	15.2	14.9	(1.8)	NM	6.4	6.2	5.9	4.59	283	265	248	18%	20%	23%	22%	23%	24%	10%	10%	9%	3.40	3.43	3.43
Total Access Comm.	33.0	12.8	10.1	11.8	11.7	(6.9)	NM	4.8	4.6	4.3	NM	138	125	116	10%	10%	6%	11%	10%	6%	12%	11%	9%	1.25	1.20	1.20
PT Indosat	5,200.0	12.5	11.0	13.6	11.2	(0.7)	2.89	4.7	4.7	4.6	0.89	108	106	97	9%	10%	10%	10%	12%	12%	5%	0%	15%	1.34	1.25	1.16
Bakrie Telecom	128.0	17.0	19.2	18.4	11.8	27.5	0.45	6.9	5.1	4.1	0.14	62	58	53	6%	7%	9%	4%	6%	9%	-45%	-13%	4%	0.69	0.65	0.60
Globe Telecom Ltd	970.0	10.3	9.4	9.1	9.2	0.9	3.63	4.2	4.2	4.2	4.07	121	113	111	18%	17%	19%	28%	28%	30%	8%	10%	10%	2.54	2.58	2.76
PitTel	8.4	11.8	8.8	8.5	7.8	6.2	1.34	5.6	5.8	5.2	1.19	67	61	57	70%	80%	87%	55%	61%	65%	12%	13%	13%	4.73	4.73	4.73
SK Telecom	178,500.0	7.8	9.7	8.3	7.2	15.6	0.63	4.7	4.0	3.6	0.81	807	807	807	18%	20%	20%	13%	14%	14%	12%	14%	15%	1.07	0.98	0.91
LG Telecom	8,600.0	8.7	8.4	7.3	6.4	14.2	0.65	4.1	3.4	2.7	0.40	277	237	210	13%	15%	16%	16%	16%	15%	8%	18%	14%	1.07	0.94	0.85
SmarTone	5.0	18.2	10.4	76.8	31.1	(42.3)	NM	1.1	1.6	1.4	NM	160	144	130	4%	7%	7%	1%	3%	3%	2%	5%	7%	1.06	1.04	1.04
Taiwan Mobile	57.0	14.1	13.4	14.8	14.9	(5.3)	NM	7.8	8.2	8.1	NM	1,099	1,059	1,022	24%	25%	25%	29%	29%	28%	7%	7%	7%	4.32	4.21	4.11
Far Eastone	38.9	12.5	12.1	12.7	12.3	(0.8)	18.55	4.7	4.7	4.5	NM	554	519	488	17%	19%	20%	14%	14%	14%	12%	11%	11%	1.76	1.73	1.70
Average Asia Wireless	13.7	12.8	16.4	13.7	0.0	5.75	4.9	5.7	5.3	2.13	397	376	358	22%	22%	23%	26%	26%	28%	1%	6%	9%	3.16	3.40	3.26	
Average Chinese Wireless	15.2	13.2	15.4	20.8	-16.0	NM	4.4	4.7	4.8	4.44	240	228	212	23%	18%	16%	14%	12%	11%	-6%	-4%	4%	1.84	1.69	1.57	
Average Chinese Wireline	12.4	15.5	21.2	18.7	-8.9	6.0	4.5	4.7	4.2	NM	212	192	167	5%	6%	8%	6%	6%	8%	9%	11%	12%	1.2	1.2	1.1	
Overall Chinese Average	13.8	14.4	18.3	19.7	-12.4	6.00	4.4	4.7	4.5	4.44	226	210	189	14%	12%	12%	10%	9%	9%	2%	3%	8%	1.53	1.43	1.34	

Source: Company data, Morgan Stanley Research Estimates

Note: Pricing Date- 13 May 2009

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	739	32%	235	38%	32%
Equal-weight/Hold	1022	45%	290	47%	28%
Not-Rated/Hold	31	1%	7	1%	23%
Underweight/Sell	485	21%	87	14%	18%
Total	2,277		619		

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Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country MSCI Index, on a risk-adjusted basis over the next 12-18 months.

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Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country MSCI Index on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)

Bharti Airtel Limited (BRTI.BO) - As of 7/2/09 in INR
Industry : India Telecommunications



Volatility shading indicates "more volatile" (U) flag. As of Nov-14-2008 the U flag has been discontinued.

Stock Rating History: 7/1/06 : O/I; 4/19/07 : O/A; 11/5/08 : O/I; 2/2/09 : O/C

Price Target History: 5/1/06 : 482; 10/19/06 : 558; 10/30/06 : 587; 1/10/07 : 752; 4/19/07 : 987; 4/30/07 : 1003; 7/2/07 : 1056; 7/27/07 : 1134; 9/25/07 : 1182; 11/1/07 : 1275; 7/4/08 : 993; 11/5/08 : 950; 2/2/09 : 758; 5/14/09 : 896

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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Idea Cellular Ltd. (IDEA.BO) - As of 7/2/09 in INR
Industry : India Telecommunications



Volatility shading indicates "more volatile" (V) flag. As of Nov-14-2008 the V flag has been discontinued.



Stock Rating History: 7/1/06 : NA/I; 4/19/07 : NA/A; 4/20/07 : O/A; 10/29/07 : E/A; 11/5/08 : E/I; 2/2/09 : U/C
Price Target History: 4/20/07 : 124; 4/26/07 : 135; 7/26/07 : 157; 10/29/07 : 147; 1/25/08 : 133; 7/4/08 : 103;
10/22/08 : 54; 2/2/09 : 37; 5/14/09 : 48

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Reliance Communications Ltd. (RLCM.BO) - As of 7/2/09 in INR
Industry : India Telecommunications



Volatility shading indicates "more volatile" (V) flag. As of Nov-14-2008 the V flag has been discontinued.



Stock Rating History: 7/1/06 : NA/I; 8/17/06 : O/I; 4/19/07 : O/A; 8/1/08 : E/A; 11/5/08 : E/I; 2/2/09 : U/C
Price Target History: 8/17/06 : 371; 10/19/06 : 421; 1/10/07 : 508; 4/19/07 : 566; 7/2/07 : 655; 8/1/07 : 697;
9/25/07 : 732; 11/2/07 : 891; 7/4/08 : 623; 8/1/08 : 509; 11/5/08 : 280; 11/26/08 : 218; 2/2/09 : 132;
5/14/09 : 170

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target --- No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) --- Stock Price (Covered by Current Analyst) ■
Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

July 3, 2009

India Telecommunications

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July 3, 2009

India Telecommunications

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The Americas

1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe

20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan

4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific

1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage: India Telecommunications

Company (Ticker)	Rating (as of)	Price (07/02/2009)
Vinay Jaising		
Bharti Airtel Limited (BRTI.BO)	O (04/11/2002)	Rs804.1
Idea Cellular Ltd. (IDEA.BO)	U (02/02/2009)	Rs74.25
Mahanagar Telephone Nigam (MTNL.BO)	E (01/20/2009)	Rs106.85
Reliance Communications Ltd. (RLCM.BO)	U (02/02/2009)	Rs293.1
Tata Communications Ltd (TATA.BO)	U (10/22/2002)	Rs479.75

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