

MONTHLY UPDATE ✓

## Volatility in BSNL continues...

GSM net adds for August 2009 (ex-Reliance Communication) stood at 9.1 million, lower from 9.3 million in July 2009. Total subscriber net adds (including Reliance Communications) for July 2009 stood at 9.9 million. The MoM decline was largely due to lower net adds by Bharat Sanchar Nigam (BSNL) at 1.4 million against 1.6 million in July 2009 and a slight decrease for Vodafone. However, Bharti Airtel maintained its pace in net adds at 2.8 million and remained the leader for August 2009. While Aircel continued its strong performance, adding 1.3 million subscribers in August 2009, Idea's net adds improved to 1.5 million from 1.4 million in July 2009.

### ▪ Airtel still going strong

Airtel continued to maintain its leadership position for MoM subscriber net additions. The company reported 2.8 million subscriber net adds and 30.3% net adds share, which improved from 29.6% in July 2009. The total subscriber base of the company at the end of August 2009 stood at 108 million. We believe the Special 5 scheme launched in July 2009, with tariffs as low as Rs 0.2/min on local calls and Rs 0.5/min on STD calls, for five Airtel mobile numbers has helped the company to maintain its net adds during August 2009.

### ▪ Idea shows improvement

Idea's net adds improved to 1.54 million from 1.4 million for August 2009 while net adds share increased to 16.6% from 15.1% in July 2009. Superior performance in legacy circles drove the growth. Rajasthan and UP (W) contributed ~13% each to total net adds, where it added ~199700 and 197622 new subscribers, respectively.

### ▪ Steady performance by Aircel

Aircel maintained its MoM subscriber net adds at 1.3 million for August 2009. The growth came in largely from two circles (Tamil Nadu and Bihar), where it added ~308573 subscribers and ~195000 subscribers, respectively. Furthermore, Metros and A circles were the second major net add contributors. Share in net adds for August 2009 improved to 14.1% from 13.7%. For August 2009, Aircel recorded highest MoM growth of 6%, surpassing the industry growth of 3%.

### ▪ Others

BSNL reported net adds of 1.36 million subscribers in August 2009, down from 1.63 million in the previous month. MTNL added only 20000 new subscribers, lowest in recent times. BPL added ~ 0.7 million subscribers in August 2009 as compared to 0.5 million in the last month.

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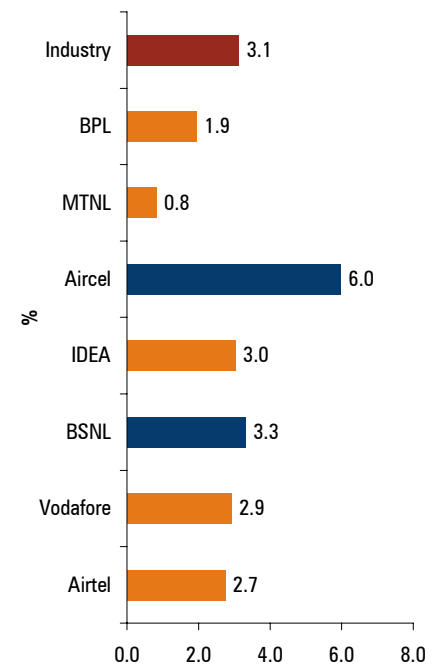
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### Price performance...

	1M	3M	6M	12M
Bharti Airtel	11.5	-0.1	42.0	2.8
RCOM	20.1	-13.4	129.1	-24.9
Idea	6.7	-5.0	75.4	-8.2

### MoM Subscriber growth trend (GSM)



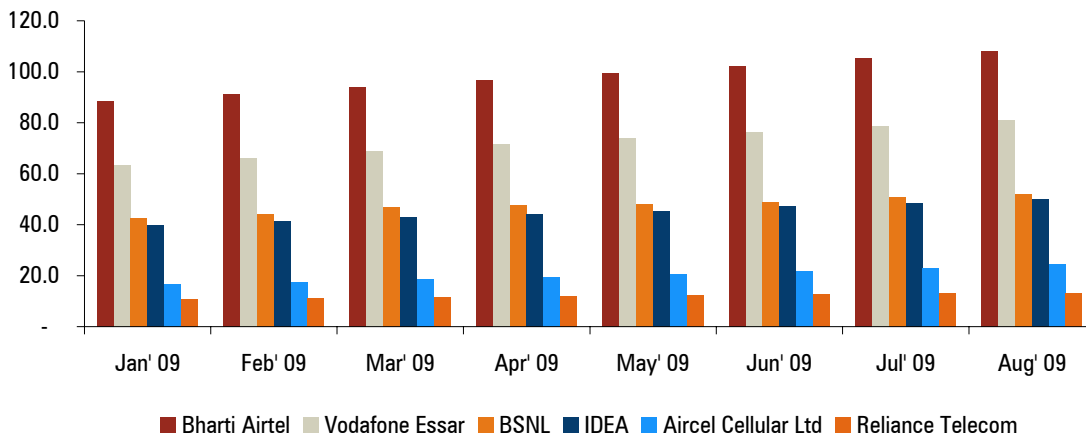
Source: COAI, ICICIdirect.com Research  
\* Ex-Reliance Telecom

### Exhibit 1: Valuation Summary

	CMP	TP	M Cap Rs Cr.	EPS (Rs)			P/E (x)			EV/EBITDA (x)		
				FY09	FY10	FY11	FY09	FY10E	FY11E	FY09	FY10E	FY11E
Bharti Airtel	422	458	160,136	44.6	26.0	30.9	9.5	16.2	13.7	5.9	9.5	7.7
RCOM	297	279	61,353	28.6	25.6	25.6	10.4	11.6	11.6	10.0	9.5	7.8
Idea	77	71	25,403	2.9	3.8	4.3	26.5	20.2	17.9	9.1	8.2	6.9

Source: Company, ICICIdirect.com Research

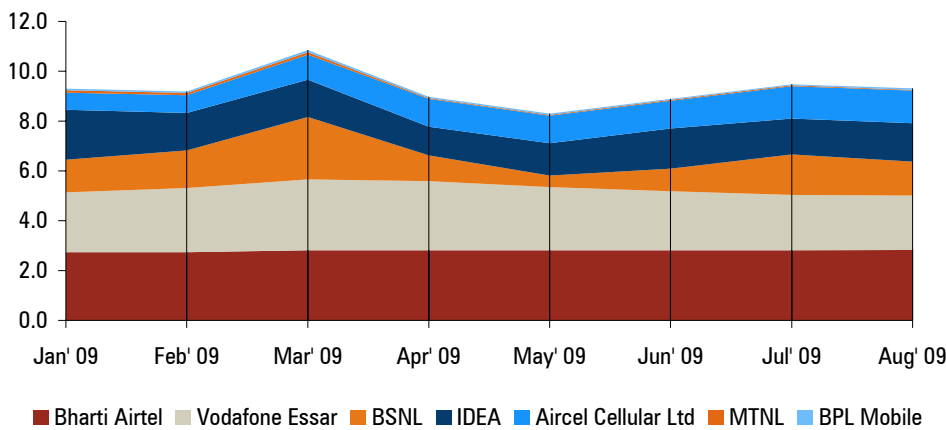
### Exhibit 1: Total GSM subscribers



Total GSM net adds for August 2009 stood at 9.3 million taking the total number of GSM subscribers to 335.5 million

Source: COAI, ICICIdirect.com Research

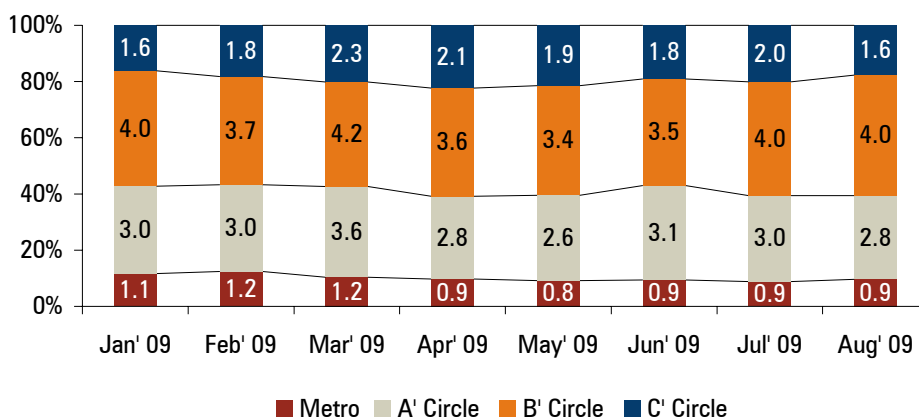
### Exhibit 2: Subscriber net adds (Ex-RCom)



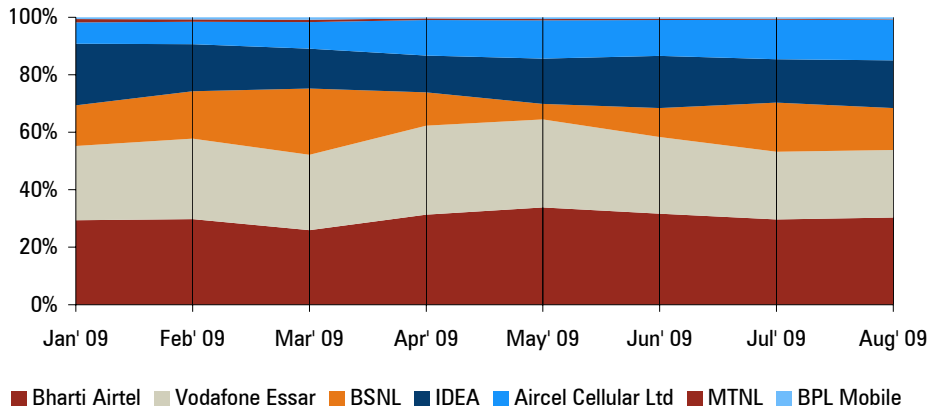
Subscriber net adds have increased for Idea from 1.4 million in the last month to 1.5 million, while that for BSNL has shrunk to 1.4 million in August 2009 from 1.6 million in July 2009

Source: COAI, ICICIdirect.com Research

### Exhibit 3: Circle-wise share in net adds



Source: COAI, ICICIdirect.com Research

**Exhibit 4: Operator-wise share in net adds**


Percentage share in net adds for Bharti, Idea and Aircel have increased, while for BSNL it has decreased

Source: Company, ICICIdirect.com Research

**Exhibit 5: Total GSM net adds (Ex-Rcom)**

Subscribers-net adds	Jan' 09	Feb' 09	Mar' 09	Apr' 09	May' 09	Jun' 09	Jul' 09	Aug' 09
Bharti Airtel	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Vodafone Essar	2.4	2.6	2.8	2.8	2.5	2.4	2.2	2.2
BSNL	1.3	1.5	2.5	1.0	0.5	0.9	1.6	1.4
IDEA	2.0	1.5	1.5	1.2	1.3	1.6	1.4	1.5
Aircel Cellular Ltd	0.7	0.7	1.0	1.1	1.1	1.1	1.3	1.3
Reliance Telecom	0.4	0.4	0.4	0.4	0.4	0.4	0.4	-
MTNL	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
BPL Mobile	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.1
<b>Total</b>	<b>9.7</b>	<b>9.6</b>	<b>11.3</b>	<b>9.4</b>	<b>8.7</b>	<b>9.3</b>	<b>9.9</b>	<b>9.3</b>

Source: COAI, ICICIdirect.com Research

**Exhibit 6: Subscriber market share (GSM)**

Share in net adds (GSM)	Jan' 09	Feb' 09	Mar' 09	Apr' 09	May' 09	Jun' 09	Jul' 09	Aug' 09
Bharti Airtel	33.0	32.8	32.5	32.4	32.4	32.4	32.2	32.2
Vodafone Essar	23.6	23.8	23.8	24.0	24.1	24.2	24.1	24.1
BSNL	15.9	15.9	16.2	16.0	15.7	15.5	15.5	15.5
IDEA	14.9	15.0	14.9	14.8	14.8	14.9	14.9	14.9
Aircel Cellular Ltd	6.3	6.3	6.4	6.6	6.7	6.9	7.1	7.3
Reliance Telecom	4.0	4.0	4.0	4.0	4.0	4.1	4.1	4.0
Others*	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: COAI, ICICIdirect.com Research

**Exhibit 7: Circle-wise subscribers**

Circle	Jan' 09	Feb' 09	Mar' 09	Apr' 09	May' 09	Jun' 09	Jul' 09	Aug' 09
Metro	38.8	39.9	41.1	42.0	42.8	43.7	44.6	45.5
A' Circle	95.2	98.2	101.8	104.6	107.2	110.3	113.4	116.1
B' Circle	99.9	103.6	107.8	111.4	114.8	118.3	122.3	126.3
C' Circle	34.1	35.8	38.1	40.2	42.1	43.9	45.9	47.5
<b>Total</b>	<b>267.9</b>	<b>277.5</b>	<b>288.8</b>	<b>298.2</b>	<b>306.9</b>	<b>316.2</b>	<b>326.1</b>	<b>335.5</b>

Source: COAI, ICICIdirect.com Research

## Recent events

### **Idea gets approval for infrastructure demerger**

Idea Cellular has received the approval from the Gujarat High Court for demerging its passive infrastructure to its wholly-owned subsidiary Idea Cellular Towers Infrastructure. The court has also sanctioned the financial restructuring to adjust the amount of non-compete fee amounting to Rs 543.97 crore paid to the promoters of Spice Communications.

### **BSNL may shelve disinvestment plans**

Fearing opposition from employee unions, the government is considering listing telecom major BSNL on the bourses by issuing nominal fresh shares and may shelve plans of directly divesting its equity for the time being. Repeated attempts by the government and also the management of the PSU have failed to bring the different associations to a consensus on divesting government stake. This is even as the employees have been lured with employee stock options at attractive terms.

### **Yet another attempt by ATC to buy tower co in India**

American Tower (ATC) has restarted negotiations to buy a majority stake in Essar Telecom Infrastructure (ETIPL). ATC signed a non-binding term sheet for due diligence last week and has valued ETIPL's 4,000 towers at \$450 million.

### **3G spectrum usage charge**

Mobile phone firms, which will provide only 3G services, must share 3% of their revenues with the government as spectrum usage fee while incumbent operators entering the 3G space will have to share an additional 1% of their revenue for using these airwaves. Telcos such as Bharti Airtel, Vodafone Essar and Idea Cellular, which currently pay 2-6% of their annual revenues as spectrum user charge depending on the amount of radio frequencies they hold and the area of operation, will have to share an additional 1% of their revenues, if they win 3G frequencies.

### **Another tower deal comes in for Reliance Communications**

S Tel and Reliance Infratel signed an end-to-end telecom infrastructure agreement for telecom towers, transmission for BTS sites and fibre backbone for intercity connectivity. Reliance Communications will execute this agreement through its tower subsidiary Reliance Infratel. S Tel's agreement with Reliance Communications covers six circles — Orissa, Bihar, Himachal Pradesh, North East, Assam and J&K where the telecom operator plans to roll-out its GSM services soon.

## ICICIdirect.com Coverage Universe

### Exhibit 8: Peer valuation

<b>Bharti Airtel</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	BHATE	<b>CMP</b>	421.8	<b>FY09</b>	36961.5	44.6	9.5	5.9	27.9	24.6
		<b>Target</b>	457.9	<b>FY10E</b>	41599.1	26.0	16.2	9.5	24.7	23.1
<b>MCap (Rs Cr)</b>	160,135.5	<b>% Upside</b>	8.5%	<b>FY11E</b>	47751.7	30.9	13.7	7.7	22.9	23.4

<b>RCOM</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	RELCOM	<b>CMP</b>	297.3	<b>FY09</b>	22234.6	28.6	10.4	10.0	16.9	6.7
		<b>Target</b>	279.1	<b>FY10E</b>	25720.6	25.6	11.6	9.5	13.1	6.1
<b>MCap (Rs Cr)</b>	61,353.0	<b>% Upside</b>	-6.1%	<b>FY11E</b>	30227.9	25.6	11.6	7.8	11.6	7.2

<b>Idea</b>					<b>Sales (Rs Cr)</b>	<b>EPS (Rs)</b>	<b>PE (x)</b>	<b>EV/EBITDA (x)</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	IDECEL	<b>CMP</b>	77.0	<b>FY09</b>	10143.8	2.9	26.5	9.1	6.4	6.2
		<b>Target</b>	71.2	<b>FY10E</b>	13429.4	3.8	20.2	8.2	8.1	7.7
<b>MCap (Rs Cr)</b>	25,402.5	<b>% Upside</b>	-7.4%	<b>FY11E</b>	16007.6	4.3	17.9	6.9	8.4	8.2

Source: Company, ICICIdirect.com Research

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**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (U):** -10% or more;

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