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Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

Pick the right apple for portfolio health

Sector underperformance in 2009 YTD may now reverse…

We remain selectively bullish on the Indian Telecoms sector, in line with the call of our Asia Strategist, Daniel McCormack, who believes that investors have a defensive and domestic growth bias to their portfolios with telecoms as a key overweight. The Indian Telecoms sector has underperformed massively CYTD, new GSM launches by the two most formidable challengers – RCOM and Tata Teleservices – are largely over, and key regulatory events or hurdles have already played out: (1) interconnect and termination rate cuts were implemented on 1 April 2009, (2) there is clear visibility on timing and pricing of 3G and WiMax spectrum auctions while (3) MNP is getting continuously pushed back and looks unlikely to be implemented before the first half of 2010. YTD 2009, the India Telecoms sector has underperformed the Indian market (BSE Sensex) by 48.5%, but has outperformed the MSCI Asia Pac ex Japan Telecoms Index by 2.6%.

As we examine all key concerns of investors threadbare…

We assess the key areas of concern that the market currently has on the sector: (1) Mobile Number Portability (2) greenfield operators, and (3) tariff wars and the likely impact on ARPUs. We believe there are significant moats that the three largest wireless carriers have built in their business models and there is significant upside to consensus estimates for Bharti and RCOM after we think a sharp downgrade cycle has played out. We present our thoughts on new growth opportunities like wireless broadband and highlight that Bharti and RCOM present solid EPS growth profiles even with declining capex intensity and improving cashflow profiles.

…we advocate cherry-picking strategy with focus on laggards; our picks: Bharti, RCOM in large cap, OnMobile in mid cap

We recommend that investors focus on laggards with an above-consensus growth outlook, and cash out of stocks that have already performed well. Accordingly, we believe investors should stay positioned in Bharti and RCOM while cashing out of Idea, Tata Communications and MTNL, all of which face cost-push led growth headwinds in the near term and their valuations are the most demanding in Asia. Bharti is among one of our top Overweight picks in Asia, and we remain bullish over the next 6–12 months; however, we do recognise that the outcome of the MTN deal will be the key driver of stock price in the near term. We pitch RCOM as a high beta play with a potential to surprise on the upside led by consensus upgrades, as it also remains a big underweight for large investors. We like OnMobile in mid caps as a high-quality, high-growth play premised on its 2-year CAGR of 42% in revenue and 53% in EBITDA. OnMobile will benefit from a 3G rollout in India and is a non-linear play as the preferred VAS provider in global emerging markets.

Snapshot of our recommendations in India telecoms

Bharti, RCOM, ONMB key overweights in Indian telecoms in MacqTel portfolio

Stocks under Coverage	Portfolio Weight	Index Weight	Relative Weight	Macq Rec	Target Price (Rs)	Up/(Down) (%)	FY11E PER (x)
Bharti Airtel	1.2%	0.0%	1.2%	OP	525	24%	12.2
Reliance Comm.	1.9%	1.4%	0.5%	OP	360	36%	7.4
Idea Cellular	0.0%	0.4%	-0.4%	UP	70	-12%	18.2
OnMobile Global	0.0%	0.0%	0.0%	OP	700	28%	30.4
MTNL	0.0%	0.0%	0.0%	UP	51	-46%	(21.2)
Tata Comm.	0.0%	0.0%	0.0%	UP	315	-36%	156.8

Source: Macquarie Research, September 2009

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Pick the right apple for portfolio health

Fig 1 Macquarie vs consensus: Above consensus on Bharti & RCOM on all count

(Amount in Rs m)	Revenue	EBITDA	EPS
Bharti			
FY10E			
Macquarie Estimate	427,309	179,437	29.5
Consensus	427,350	175,286	26.2
Macquarie above/(below) consensus	0.0%	2.4%	12.2%
FY11E			
Macquarie Estimate	495,802	213,510	34.5
Consensus	488,763	198,379	29.3
Macquarie above/(below) consensus	1.4%	7.6%	17.5%
RCOM			
FY10E			
Macquarie Estimate	273,131	107,110	30.4
Consensus	265,291	105,834	23.1
Macquarie above/(below) consensus	3.0%	1.2%	31.5%
FY11E			
Macquarie Estimate	336,255	133,489	35.4
Consensus	309,379	123,312	25.2
Macquarie above/(below) consensus	8.7%	8.3%	40.4%
Idea			
FY10E			
Macquarie Estimate	128,411	38,763	3.9
Consensus	133,608	36,332	3.4
Macquarie above/(below) consensus	-3.9%	6.7%	13.5%
FY11E			
Macquarie Estimate	152,438	50,959	4.4
Consensus	162,377	44,692	4.1
Macquarie above/(below) consensus	-6.1%	14.0%	7.2%
OnMobile			
FY10E			
Macquarie Estimate	5,476	1,432	10.2
Consensus	5,506	1,765	16.8
Macquarie above/(below) consensus	-0.5%	-18.9%	-39.5%
FY11E			
Macquarie Estimate	8,027	2,293	18.0
Consensus	7,766	2,608	25.3
Macquarie above/(below) consensus	3.4%	-12.1%	-29.1%

Source: Bloomberg, Macquarie Research, September 2009

Fig 2 Valuation multiples at our target price – Bharti, RCOM, Idea; at our target prices, Idea pegged at 1% and 5% premium to Bharti on PER while RCOM is pegged at 34% and 33% discounts on FY10E and FY11E

	PER		EV/EBITDA	
	FY10E	**FY11E**	**FY10E**	**FY11E**
Bharti	17.8	15.2	11.1	9.1
RCOM	11.8	10.2	9.1	6.9
RCOM's valuation discount to Bharti	*-34%*	*-33%*	*-19%*	*-24%*
IDEA	18.1	16.1	7.3	5.8
Idea's valuation discount to Bharti	*1%*	*5%*	*-34%*	*-36%*

Source: Bloomberg, Macquarie Research, September 2009

Fig 3 Stock price performance: MSCI India Telecoms Index has underperformed MSCI India by 34% in the last 12 months

	1 month	3 month	6 month	12 month	CYTD
Total return % - US$					
MSCI India Telecoms	(3.4)	(13.5)	81.8	(35.0)	13.9
MSCI India	3.2	7.3	106.4	(1.2)	72.6
BSE Sensex	0.1	8.0	76.2	8.8	62.4
Total return % - Local Currency					
Bharti Airtel	2.6	6.3	41.5	4.2	21.9
Reliance Communications	(5.5)	(12.8)	83.1	(32.5)	17.3
Idea Cellular	7.3	(3.0)	76.8	(1.0)	55.0
Relative return (%) - US$ relative to MSCI Asia Pac-ex-Japan Telecom Index					
Bharti Airtel	4.9	(4.2)	18.7	3.6	10.7
Reliance Communications	(3.2)	(22.7)	63.2	(29.4)	6.0
Idea Cellular	9.5	(13.2)	56.5	(1.0)	43.8

Source: Bloomberg, Macquarie Research, August 2009

Advocate cherry picking strategy with a clear focus on laggards

We clearly advocate a cherry-picking strategy in the sector with a focus on companies with the following six characters: (1) massive underperformance to the broader market and to sector peers over last two years as well as CYTD; (2) pan-India wireless leaders with peak capex behind them and generating free cashflows already/shortly; (3) significant revenue streams emerging from non-voice, primarily broadband wireless access for enterprise and retail segments, which we believe is a secular high-growth story over the next three years in India; (4) Strong Revenue and EPS CAGR over the next two years (FY3/09–11E); (5) big EBITDA & EPS upgrades likely by street (Macquarie estimates significantly ahead of street); (6) attractive valuation on FY3/11E PER multiples vs the Indian market & Asia-Pac telcos.

Our top picks: Bharti and RCOM in large caps, OnMobile in mid caps

We recommend that investors focus on laggards with an above-consensus growth outlook, and cash out of stocks that have already performed well. Accordingly, we believe investors should stay positioned in Bharti and RCOM while cashing out of Idea, Tata Communications and MTNL, all of which face cost-push led growth headwinds in the near term and their valuations are the most demanding in Asia. Bharti is among one of our top Overweight picks in Asia Telecoms and we remain bullish for the next 6–12 months; however, we do recognise that the outcome of the MTN deal will be the key driver of Bharti's stock price in the near term. We recommend RCOM as a higher beta play in India with a potential to surprise on the upside, as it remains a big underweight for large investors in India and Asian Telecoms. We like OnMobile Global in the mid cap space as a high-quality, high-growth play premised on its 2-year CAGR of 42% in revenues and 53% in EBITDA. OnMobile will likely be a beneficiary of 3G deployments in India over the next 2–3 years and is a non-linear play as the preferred VAS provider in global emerging markets, on the back of marquee deals with Vodafone and Telefonica.

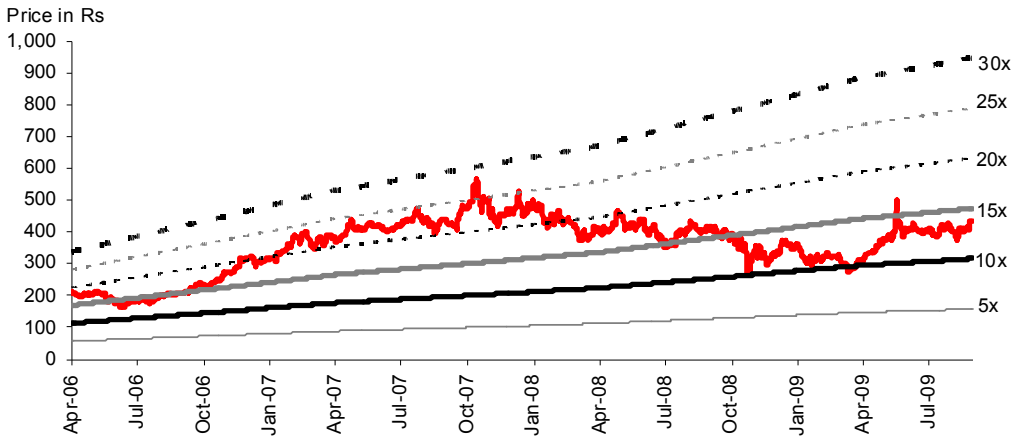
Bharti and RCOM trade at substantial discounts to the underlying India broader market, which we believe is clearly unjustified

Bharti is now trading at PER multiples of 14.3x on FY3/10E and 12.2x on FY3/11E, while RCOM is trading at 8.7x and 7.4x, respectively. These are significant discounts to the multiples where the Indian market is trading, 16.3x on FY3/10E and 13.8x on FY3/11E, and we believe these kinds of discounts are not justified given the superior growth profile of Bharti and RCOM compared to the broader Indian market. Bharti's 2-year EPS CAGR is 24.3%, while RCOM's is 14.2% (although RCOM's EBITDA CAGR is much stronger at 19.9%). These compare favourably with the 13.8% EPS CAGR the Indian market offers over FY3/09–11E.

One-year rolling forward PERs for Indian Telcos yet to bounce back from all time lows

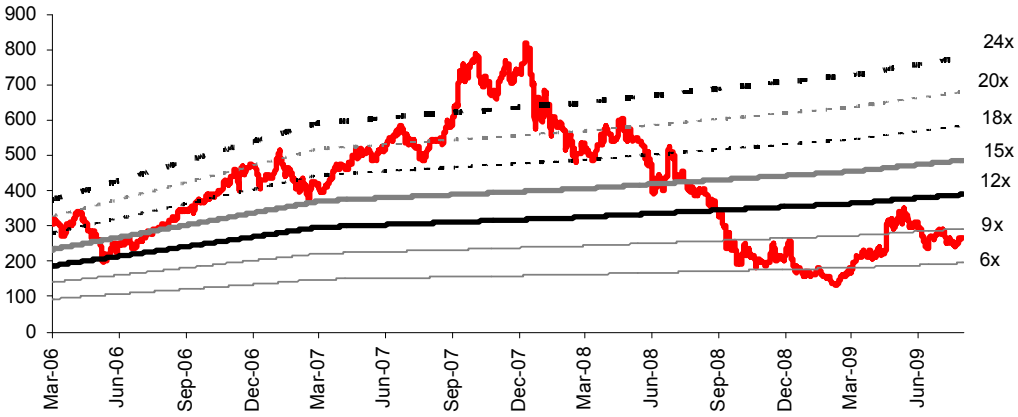
Indian markets have sharply rebounded from the October 2008 lows. However, as shown in Fig4–7, Bharti and RCOM have yet to mirror the sharp rebound in the broader market and there has been very little increase in one-year forward rolling PER multiples of these stocks.

Fig 4 Bharti – one-year forward rolling PER mutiple



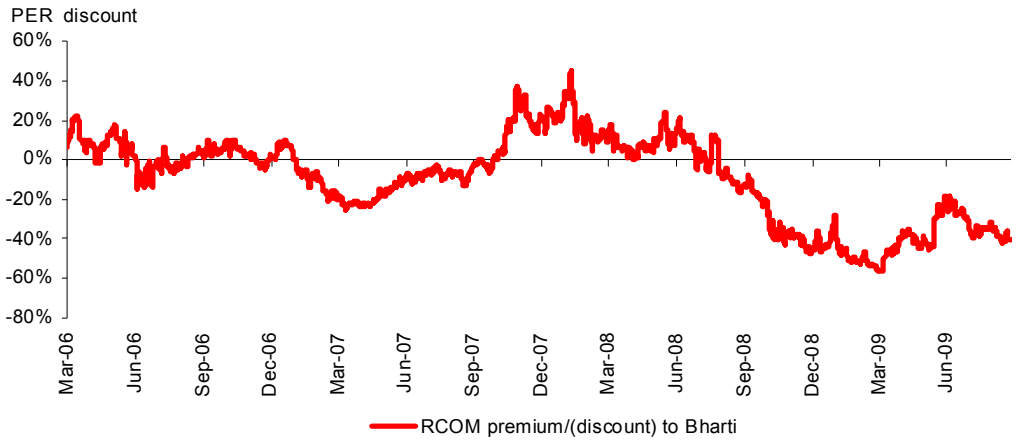
Source: Company Data, Macquarie Research, September 2009

Fig 5 RCOM – one-year forward rolling PER mutiple



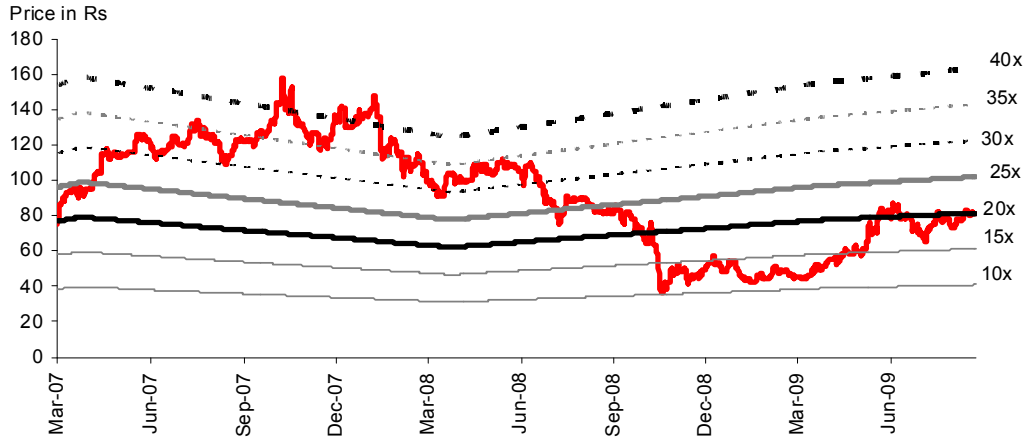
Source: Company Data, Macquarie Research, September 2009

Fig 6 RCOM premium/(discount) to Bharti on PER



Source: Bloomberg, Macquarie Research, September 2009

Fig 7 Idea Cellular: One year forward rolling PER chart – Significant rerating over



Source: Bloomberg, Macquarie Research, September 2009

Bharti trading at same FY3/11E PER multiple as China Mobile despite flat growth outlook for the later

Bharti is trading at 12.2x FY3/11E PER, in line with China Mobile's PER valuation. It is worth highlighting that Bharti has a significantly superior FY3/09–11E EBITDA and EPS growth profile vs China Mobile. (Please see Global Emerging Market Comp Sheet – Fig 8). We note that RCOM is one of the cheapest wireless telcos in Asia trading at a 7.4x FY3/11E PER. In contrast, Idea is one of the most expensive wireless stocks globally, trading at an 18x FY3/11E PER.

Fig 8 Global emerging market telecom valuations

Macquarie - Global Emerging Market Telecom Valuation

Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x) FY3/10E	EV/EBITDA (x) FY3/11E	PER (x) FY3/10E	PER (x) FY3/11E	PEG (FY3/09-3/11E)	ROE (FY3/10E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)
Bharti Airtel	BHARTI IN	OP	422	575	36%	9.0	7.3	14.3	12.2	0.8	31.5	**18.6**	**24.3**
Reliance Communications	RCOM IN	OP	264	360	36%	7.9	6.0	8.7	7.4	0.7	15.3	19.9	14.2
Idea Cellular	IDEA IN	UP	80	70	-12%	8.4	6.2	20.5	18.2	1.4	8.4	34.5	18.5
MTNL	MTNL IN	UP	94	51	-46%	11.2	11.3	103.0	-21.2	na	0.5	-0.3	na
China Mobile	941 HK	N	75	77	2%	4.9	4.7	11.7	12.1	-19.5	24.3	3.1	-0.6
China Unicom	762 HK	UP	10	9	-18%	4.6	5.0	19.0	24.3	3.4	5.6	2.9	8.4
Indosat	ISAT IJ	N	5,200	5,200	0%	4.5	4.0	12.0	9.1	4.1	13.1	5.0	2.3
SK Telecom	017670 KS	OP	174,500	235,000	35%	4.3	3.8	9.2	7.0	0.5	13.0	8.0	19.2
LG Telecom	032640 KQ	OP	7,710	11,500	49%	3.5	3.0	6.4	5.9	0.3	14.3	9.2	30.3
Digi.Com	DIGI MK	N	22	22	2%	7.3	6.5	12.5	11.2	23.0	53.1	7.1	0.6
Axiata	AXIATA MK	N	3	3	-1%	7.7	6.7	16.2	16.0	-2.2	9.6	13.9	-15.5
Globe	GLO PM	OP	1,000	1,330	33%	4.3	4.0	8.7	8.3	0.6	26.1	4.1	15.3
Far EasTone	4904 TT	N	37	39	3%	5.0	5.1	10.8	10.6	2.8	15.1	-3.0	4.1
Taiwan Mobile	3045 TT	OP	51	57	12%	5.3	5.2	9.2	9.4	5.9	31.0	1.9	1.7
AIS	ADVANC TB	UP	86	75	-13%	6.0	5.9	14.7	14.0	3.6	24.7	-1.3	4.3
TAC	DTAC TB	UP	34	20	-42%	5.1	5.1	7.3	6.7	-0.4	10.8	-3.9	-20.8
MobileOne	M1 SP	OP	2	2	5%	5.4	5.4	10.8	11.2	na	59.3	-6.3	-9.6
MTN Group Ltd	MTN SJ	OP	12,706	17,000	34%	4.9	4.2	11.6	9.1	0.5	24.0	18.3	26.8
Orascom Telecom	ORTE EY	NR	36	na	na	4.0	3.8	11.1	10.7				
Vivo Participacoes Sa	VIVO3 BZ	NR	43	na	na	3.5	3.1	12.2	9.3				
America Movil	AMXL MM	NR	30	na	na	5.6	5.4	12.9	11.8				
Etihad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.5	8.9				
Saudi Telecom Co	STC AB	NR	47	na	na	5.8	5.8	7.6	7.4				
Qatar Telecom	QTEL QD	NR	152	na	na	4.9	4.7	6.9	6.3				
Average						**5.6**	**5.1**	**11.5**	**10.8**				
Average (ex-China Mobile)						**5.6**	**5.1**	**11.5**	**10.7**				
RCOM's valuation (discount)/premium to Bharti						**-11%**	**-17%**	**-39%**	**-39%**				
Idea's valuation (discount)/premium to Bharti						**-6%**	**-14%**	**43%**	**49%**				

Note: Prices as of 1 September 2009.

Data for Not rated companies are based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, September 2009

RCOM is trading at an 11% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 6% discount to Bharti

MNP: Analysis of global markets point to insignificant direct fallout

Mobile Number Portability (MNP) allows customers to keep their phone numbers when switching operators. As MNP makes it easier for subscribers to switch networks, the conventional understanding from developed markets is that MNP would lead to an increase in churn and marketing costs while decreasing the handset replacement cycle (since operators induce subscribers to change networks by offering a new handset or offering substantial handset subsidy). In the long term, however, MNP has seen mixed performance in most markets (including most developed markets where postpaid/contract subscribers make up the majority) with the dominant outcome being that of very little shifts in market share compared to what was seen before MNP implementation.

State-run telcos are at maximum risk of losing lucrative subscribers after MNP rollout. We note that churn in the Indian wireless market is already high, at around 4% per month, and an introduction of MNP would largely impact the postpaid and corporate segments. Among the existing operators, we expect the state-run telcos – BSNL (not listed) and MTNL – to be net losers and see insignificant subscriber share loss for the private telcos on a net basis.

Greenfield entrants: top two players in a circle largely unhurt

The Indian wireless market is already very competitive with the presence of between seven and nine players in each of the 22 telecom circles in the country. Geographic expansion by existing players to complete their pan-India footprints – Idea Cellular (in seven circles) and Aircel Maxis (in five circles), and entry of new players – Sistema Shyam, Loop Telecom and Telenor Unitech – will take the number of operators per circle to 10–12. However, the entry of three or four new players in each circle is unlikely to materially alter the revenue market shares of the top two players in each circle, in our view. The battle for market share and the resultant churn would be played out largely between the pack of operators that rank between third and eighth in a circle.

International operators have flocked into India – what are they seeing here? The Indian wireless market continues to attract foreign telco operators exploring growth opportunities outside their home markets. We note that in the past 18 months, the Indian markets have seen the entry of four major international telcos – NTT DoCoMo (Japan), Sistema (MTS, Russia), Telenor (Norway) and Etihad Etisalat (UAE). Stocks mentioned: NTT DoCoMo (9437 JT, ¥141k, N, TP: ¥150k, Upside: 6%; covered by Nathan Ramler), Telenor (TEL NO, NKr65.5, Not rated), and Etihad Etisalat (EEC AB, SR37.3, Not rated)

Large-cap international telcos are already present in India. India figures prominently in the global strategy of leading international telcos. Big international operators, namely SingTel (ST SP, S$3.13, N, TP: S$3.16, Upside: 1%; covered by Ramakrishna Maruvada) Vodafone (VOD LN, £130.6, OP, TP: £145, Upside: 11%; covered by Guy Peddy), Axiata (AXIATA MK, RM3.09, N, TP: RM3.06, Downside: 1%, covered by Prem Jearajasingam) and Maxis (Not Listed), have had a significant Indian presence for at least a couple of years. We therefore see little merit in the argument that entry of new international players in the Indian market over the past 12 months will change the on-the-ground competitive scenario in the country. The global telcos with an existing footprint are larger in size (measured by any metric) and more credible in terms of funding ability and global standing than any of the new foreign partners that are tying up with the greenfield licensees.

Tariff wars: our forecasts already factor in sharp declines in ARPM

ARPM will decline, but is unlikely to fall beyond what we have already factored in. Our financial forecasts are based on a 7.8%, 6.5%, and 8.4% CAGR decline in ARPM over FY3/09–13E for Bharti, RCOM and Idea, respectively. We do not expect tariffs to fall at a rate beyond what has already been factored into our models. We believe that any risk to our ARPM numbers is very clearly on the upside.

Targets outlined by new players support our view on industry pricing discipline. Both Sistema and Telenor have outlined strong business cases in their investor presentations justifying their investments in the Indian market. In contrast to the street expectation of new operators trashing prices to gain subscriber market share, the two operators have stressed targeted offerings and distribution as the key differentiating factors. In fact, Telenor expects wireless market ARPU to bottom out in 2009–10 and remain until FY18.

Promotional pricing in new circle launches have been limited-period offers. We believe investors may have made the mistake of seeing limited period promotional offers as the evidence of a sustained tariff war. It is worth noting that despite RCOM's free talk-time minutes promotional offering for its GSM services launched in January, leading industry operators have made no changes in their tariffs – keeping the local call rate steady at Rs1 per minute and NLD call rate at Rs1.5 per minute. We note that several operators (Aircel, Sistema Shyam and Idea Cellular) have entered new circles in the past six months offering promotional tariffs such as tiered pricing and reduced lower call rates. Even so, incumbent players in those circles have not reacted irrationally to take on the new entrants. The unwillingness to be drawn into a race to cut tariffs or offer irrational promotional schemes to capture subscriber market share is testament to the pricing discipline in Indian wireless market.

Capital intensity: FY3/09 capex came in below company guidance

Top two players – Bharti and RCOM – have guided for lower capital intensity in FY3/10 compared to the previous year. Indian wireless operators have surprised positively, with FY3/09 capex outlay lower than initial company guidance for all the three listed telcos (Please see Fig 28 in the section capex peaked in FY3/09).

Entry of Chinese equipment vendors will drive down cell base station prices. The Indian wireless market has been a big growth driver for all the major equipment vendors in FY3/09. Huawei witnessed a 2.5x jump in revenues and ZTE registered an impressive 100% YoY growth. Competition from Chinese telecom equipment vendors has pressured cell base station prices in the international market. Falling base station prices, coupled with a flattening population coverage, will aid the capex moderation for Indian telcos.

India wireless subs forecast: ~800m subscribers by March 2012

We reiterate our positive stance on robust subscriber growth opportunity. Indian telecom operators continue to demonstrate strong momentum in monthly subscriber additions. As a result, we have revised up our subscriber forecast for the Indian wireless market. We now expect Indian wireless operators to reach 800m subscribers by March 2012, implying 66% wireless SIM penetration.

Bharti would continue to lead the industry… We expect Bharti to maintain its dominant position in the industry, despite an assumed decline of 90bp in subscriber market to 22.9% in FY3/10E. Our revised subscriber estimate of 127m by March 2010 for Bharti implies monthly net adds of 2.76m (vs 2.81m done by Bharti in July 2009).

…despite factoring in sharp cuts in the net adds market share. We have revised our net adds market share assumption for Bharti to 21%, from 24.4% seen in FY3/09, due to the expected launch of services by greenfield operators and expansion by regional players to offer pan-India services (Aircel, Sistema Shyam and Idea Cellular).

3G and Broadband Wireless Access: New frontiers for growth

3G and Broadband Wireless Access (BWA) spectrum auctions will add two attractive revenue streams: 1) Indian telcos would be able to tap massive potential offered by data and other high bandwidth VAS applications (such as mobile video), and 2) low broadband penetration (0.6%) can mirror the exponential growth in the Indian wireless subscriber base, and help telcos to realise the related lift to revenues.

3G services: demand-side drivers are already in place. Demand for 3G services would be dictated primarily by two factors:

- **Prices of 3G enabled handsets expected to fall sharply.** Handset manufacturers are gearing up to offer 3G-enabled handsets at dramatically lower prices. We expect prices of 3G enabled handsets to fall sharply from the current Rs14,000–15,000 (about US$300) levels to the Rs4,000–5,000 level (about US$100), due to increased competition among the handset makers.

- **Launch of competitively priced 3G plans:** In developed markets, most operators do not offer different 2G and plain vanilla 3G service plans. We believe Indian wireless operators will price their 3G services to promote use and encourage users to try wireless broadband. As India's 3G auctions have yet to take place, we have analysed the wireless broadband plans on offer by RCOM and Tata Teleservices compared to wireline broadband services to understand the competitive positioning of the two services. Based on our pricing analysis (For details please see Fig 47 and 48) of the two platforms, we expect a significant jump in the wireless broadband segment, due to the low price points and convenience it offers. It is worth noting that currently, less than 1% of India's broadband subscribers are on wireless broadband.

Timing of 3G auctions and continuing delay in MNP implementation: Positive for incumbents. The Department of Telecommunications (DoT) has fixed the base reserve price for pan-India 3G spectrum and licences at Rs35bn (the reserve price had previously been fixed at Rs40bn). Telecom Minister A. Raja has expressed confidence in carrying out the 3G spectrum auction in a 90-day period (September–November 2009). This, coupled with continuous delay in MNP implementation, would work to the advantage of incumbents and would hurt greenfield entrants, in our view. We note that MNP was first expected to be rolled out in September 2008, but even a year after this, there is still no fixed timetable. We estimate that the earliest that MNP is likely to be rolled out in Indian cities is January-June 2010.

MNP: Not a lot to worry about, except in the corporate segment

The DoT has awarded the MNP licence to Syniverse Technologies in Zone 1 and MNP Interconnection in Zone 2. According to DoT, MNP was to be implemented in Delhi, Mumbai, Maharashtra and Gujarat Service areas of Zone I and Kolkata, Tamil Nadu, Chennai, Andhra and Karnataka of Zone 2, with effect from September. DoT had targeted a complete roll-out of the facility throughout the country by 20 March 2010. However, we do expect MNP implementation to be delayed again and expect MNP to be introduced in urban areas by Jan–June 2010.

Fig 9 MNP should be implemented in Metros and Category A circles by Sept

MNP Licensor	Zone	Circles included in the Zone	Circle Category	Expected timeline for MNP implementation
Syniverse Technologies	Zone - 1	Delhi	Metros	Sep-09
		Mumbai		
		Maharashtra	A	
		Gujarat		
		Punjab	B	Mar-10
		Haryana		
		Uttar Pradesh (West)		
		Uttar Pradesh (East)		
		Rajasthan		
		Himachal Pradesh	C	
		Jammu & Kashmir		
MNP Interconnection Telecom Solutions	Zone - 2	Chennai	Metros	Sep-09
		Kolkata		
		Andhra Pradesh	A	
		Karnataka		
		Tamil Nadu		
		Madhya Pradesh	B	Mar-10
		WB and Andaman & Nicobar		
		Bihar	C	
		Orissa		
		Assam		
		North East		

Source: DoT, Macquarie Research, September 2009

Global impact of MNP: direct fallout insignificant

MNP allows customers to keep their phone numbers when switching operators. As MNP makes it easier for subscribers to switch networks, the conventional understanding from developed markets is that MNP would lead to an increase in churn and marketing costs, while decreasing the handset replacement cycle (as operators induce subscribers to change networks by offering a new handset or offering substantial handset subsidy). In the long term, however, MNP has seen mixed performance in most markets (including most developed markets, where postpaid/contract subscribers make up the majority), with the dominant outcome being very minor changes in market share compared to what was seen before MNP implementation.

Fig 10 Impact of MNP in key markets

Country	Impact of MNP on market leaders	Reason
Hong Kong	NEGATIVE Churn rates nearly doubled to 5% from 3% per month and 1.5m subscribers ported within the first nine-month period (30% of total subscribers then)	Lower switching cost due to handset subsidies (financial cost) and SIM cards (personal cost)
United Kingdom	NEUTRAL Only 1.5% of total mobile users ported in the first year of MNP	30 sterling pounds charged for porting, high proportion of pre-paid subs and porting time of two days
Netherlands	Only 0.5% of total mobile users ported in the first year of MNP	Long porting time after registration of up to 25 days
Australia	NEUTRAL Only 3.2% of total mobile users ported in the first 9 months of MNP and churn rates peaked at 2.6%, returning to pre-MNP levels of 1.3% after one year	In spite of porting time of only 3 hours, lack of handset subsidies kept churn rates low
Finland	NEGATIVE In one year, combined market share of top three dropped from 98.7% to 87.9%. Churn doubled from pre-MNP levels	Customer retention is difficult as handsets cannot be bundled along with mobile subscription
Japan	NEUTRAL Shifts in market share since the time of MNP implementation have been relatively small, and the net MNP movements smaller still	The launch of MNP in October 2006 coincided with the rebranding of the Vodafone mobile business as SoftBank Mobile with the attendant price cuts and change in the handset sales model - these changes have had a bigger impact on the space than MNP has

Source: Macquarie Research, September 2009

MNP had little impact in certain markets …

Our analysis of MNP around the world leads us to believe that MNP by itself doesn't significantly alter the switching rates, as operators in several markets have focused on customer retention strategies. Singapore is a classic example. Full MNP was introduced in 2007, but porting rates remained low. The market did witness two quarters of higher handset subsidies but stabilised after that.

… but wreaked havoc in some others

However, MNP can have a deleterious effect when operators embark on aggressive strategies in pursuit of market share. Hong Kong and Korea (although a regulatory clamp-down on illegal subsidies provided relief) are good examples here. Lessons from these two countries suggest that structural changes, ability and willingness to undercut pricing, handset subsidy levels and service differentiation become key variables in assessing the impact of MNP.

Fig 11 When is MNP a risk to margins?

MNP becomes a potent weapon when…	MNP impact is likely muted when…
• Accompanied by structural changes (New entrants entering the market) • High degree of competition or aggressive handset subsidies (Hong Kong) • Different service/value propositions among operators (in Korea, this worked for LG Telecom)	• Time delay in porting services (Netherlands) • High porting charges (UK) • Lack of aggressive subsidies • Operators focus on customer retention (Singapore)

Source: Macquarie Research, September 2009

Fig 12 Porting times and charges – critical elements for MNP

Country	Time to port mobile number	Porting Charge (US$)	Monthly ARPU (US$)	Porting charge as percentage of monthly blended ARPU (%)
Australia	3 hrs	6.1	45.7	13.3%
Hong Kong	1-2 days	3.3 + dipping charge	20.91	15.8%
Netherlands	typically 25 days	11	45.29	24.3%
Singapore	7 days	12.4	35.63	34.8%
Taiwan	4-9 days	7.6	24.36	31.2%
United Kingdom	5 days	53.1	44.76	118.6%

Note: In several cases, these charges are waived depending on operator

Source: Macquarie Research, July 2009

Four reasons why MNP will not have a material impact in India

Based on our analysis of MNP implementation around the world, we believe the risks to incumbent operators in the Indian market are overplayed. The Indian wireless market is largely prepaid (more than 94% of subscribers are already on prepaid plans) with high level of churn typifying the market, which implies little attachment to existing phone numbers by prepaid subscribers). The key GSM operators run annual churn of 25–65% – prepaid churn is 3.2% per month for Bharti Airtel, 2.1% for Vodafone Essar and 5.2% for Idea Cellular – and as such we do not think introduction of MNP will see any meaningful increase in prepaid as well as overall churn for the incumbent players.

Having said that, we analyse the Indian wireless market on each of the four parameters that pose risks to margins when MNP is introduced in a market:

- **Structural changes:** We expect new entrants to benefit from MNP only when their value proposition is superior to what the incumbents have or can offer. We do not believe that the Indian wireless market presents an untapped opportunity in this regard. Innovative offerings that are not replicable by existing operators are the only structural change that would help new entrants to benefit from MNP implementation. However, the challengers could use network quality parameters as a means of differentiation, where incumbents face some issues, especially in the top 25–50 cities.

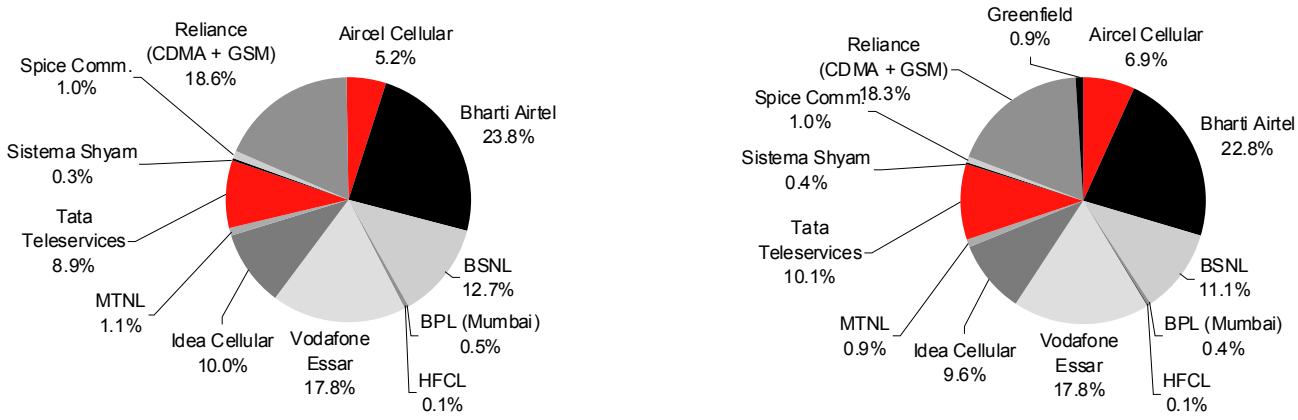
Fig 13 Evaluating the competitive strategy of new entrants

Differentiating factor	Comment
Scale of operations	New entrants will find it difficult, even with passive infrastructure sharing, to replicate the scale and population coverage of incumbents such as Bharti and RCOM. We note that Bharti has more than ~100,000 BTS and over a million retail points of presence (PoP)
Urban vs rural focus	A focus on urban markets will help new entrants to roll out their services faster due to easier access to shared infrastructure, but gaining market share in the highly penetrated urban markets would be difficult. Although rural markets present a relatively untapped opportunity, time to market in these areas is invariably longer due to challenges in setting up the network, retail distribution network and getting brand awareness and familiarity up in areas underserved by media.
Focus on VAS vs simple voice plans	We have seen new players experiment with both strategies – Aircel has focused on providing a wide array of VAS services as it has embarked on its pan-India launch. Sistema, on the other hand, is likely to focus on simple voice plans and voice-based VAS services.

Source: Macquarie Research, September 2009

- **Ability to undercut pricing:** We remain convinced that tariffs in the Indian wireless market offer little scope for operators to undercut pricing significantly beyond a few months and using tariff as a carrot to lure subscribers from incumbents. As highlighted in detail in the section on industry pricing (see Pages 12-14), industry heavyweights Bharti and Vodafone Essar have maintained their pricing discipline despite RCOM's offering free minutes on its newly launched GSM platform. RCOM has raised the price of its new GSM connection significantly since the launch of its GSM service in January 2009.
- **Handset subsidy levels:** Indian operators have refrained from using handset subsidies as a tool to increase subscribers, given: 1) the high churn rates, 2) the resultant difficulty in enforcing contracts with subscribers and 3) low ARPU even in the postpaid segment, making handset subsidy an extremely expensive subscriber acquisition tool. It is worth noting that RCOM management has categorically refused to resort to handset subsidy to augment its GSM subscriber base. This is significant, as handset bundling and subsidy was a key part of the RCOM CDMA offering. We also note that the handful of bundled handset offerings in the GSM space have met with limited success in the past, given the penchant of the Indian consumer to choose her/his handset irrespective of her/his usage and ARPU levels as handset bundling typically restricts the choice of handsets for the prospective customer.
- **Service differentiation:** In our view, the key area of concern after MNP implementation from an incumbent's perspective is the fallout on the postpaid subscriber base, both retail and corporate. MNP implementation could result in three outcomes for the incumbents: 1) pressure on postpaid ARPU, led by price cuts implying compression in ARPM, 2) higher subscriber retention costs and 3) higher customer acquisition and servicing costs. Here again, global experience suggests that in such cases strong incumbents benefit at the cost of smaller fringe players. Specifically, in the Indian context, this could be a positive for Bharti Airtel, RCOM, Vodafone Essar and Idea Cellular at the cost of the state-run operators BSNL and MTNL across each one of the 22 circles, and players such as Loop Mobile (formerly called BPL Mobile) in Mumbai.

Fig 14 We expect Bharti's subs market share to fall by 100bp by FY3/11E from 23.8% in July 2009



BPL (Mumbai) is now rebranded as Loop Mobile. Loop's subscriber forecast for other circles is included in greenfield forecast.
Source: TRAI, Macquarie Research, September 2009

- **Loss in subscriber market share due to MNP and new entrants already factored in.** We do no think that any of the new players will be able to offer a value proposition that is either not already on offer by incumbents or is not easily replicable. Even so, our subscriber forecast has built in a loss in subscriber market share for incumbents over the next two years. We continue to believe that our forecasts are conservative and actual outcomes are likely to be far more benign for the incumbents.

- **Our ARPU forecast more than adequately captures downside, if any from introduction of MNP.** As shown in Figure 15 below, we are factoring in a sharp decline of between 22% and 39% YoY in our postpaid ARPU assumptions for Bharti and Idea following introduction of MNP. Even on a blended basis, our ARPM forecasts are reflecting the increased pressure on incumbents. Similar to our conservative stance on subscriber market share for incumbents, we expect Bharti and RCOM to deliver positive surprises on the following metrics.

Fig 15 Factoring in a sharp fall in Postpaid ARPU following introduction of MNP

	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A	2QFY10E	3QFY10E	4QFY10E
Bharti Airtel								
Blended ARPU (Rs)	**350**	**331**	**324**	**305**	**278**	**268**	**262**	**256**
Postpaid ARPU (Rs)	621	587	581	551	506	482	454	433
Prepaid ARPU (Rs)	327	310	306	289	266	256	251	247
YoY Growth (%)								
Blended ARPU (Rs)	-10.4%	-9.5%	-9.3%	-14.6%	-20.4%	-19.0%	-19.4%	-16.2%
Postpaid ARPU (Rs)	-8.3%	-8.3%	-7.8%	-14.4%	-18.4%	-17.9%	-21.8%	-21.4%
Prepaid ARPU (Rs)	-8.5%	-8.3%	-7.8%	-14.7%	-18.7%	-17.3%	-17.8%	-14.7%
QoQ Growth (%)								
Blended ARPU (Rs)	-2.1%	-5.3%	-2.0%	-6.0%	-8.8%	-3.6%	-2.4%	-2.3%
Postpaid ARPU (Rs)	-3.6%	-5.4%	-1.1%	-5.2%	-8.0%	-4.8%	-5.7%	-4.8%
Prepaid ARPU (Rs)	-3.4%	-5.2%	-1.4%	-5.4%	-8.0%	-3.7%	-1.9%	-1.9%
ARPM (Rs)	**0.65**	**0.63**	**0.64**	**0.63**	**0.58**	**0.56**	**0.54**	**0.52**
YoY Growth (%)	-19.9%	-19.4%	-14.9%	-10.7%	-11.0%	-11.2%	-15.7%	-16.5%
QoQ Growth (%)	-7.1%	-3.8%	2.1%	-2.1%	-7.4%	-3.9%	-3.2%	-3.1%
RCOM								
Blended ARPU (Rs)	**282**	**271**	**251**	**224**	**210**	**205**	**200**	**194**
Postpaid ARPU (Rs)	600	590	561	536	527	511	499	483
Prepaid ARPU (Rs)	243	232	217	186	182	180	178	174
YoY Growth (%)								
Blended ARPU (Rs)	-24.8%	-24.9%	-26.0%	-29.3%	-25.5%	-24.4%	-20.3%	-13.4%
Postpaid ARPU (Rs)	-15.2%	-12.3%	-16.9%	-17.0%	-12.2%	-13.4%	-11.0%	-9.9%
Prepaid ARPU (Rs)	-20.7%	-19.2%	-24.4%	-32.0%	-25.2%	-22.4%	-17.9%	-6.6%
QoQ Growth (%)								
Blended ARPU (Rs)	-11.0%	-3.9%	-7.4%	-10.8%	-6.3%	-2.5%	-2.3%	-3.0%
Postpaid ARPU (Rs)	-7.2%	-1.6%	-5.0%	-4.4%	-1.8%	-2.9%	-2.4%	-3.2%
Prepaid ARPU (Rs)	-11.4%	-4.2%	-6.7%	-14.1%	-2.6%	-0.6%	-1.3%	-2.2%
ARPM (Rs)	**0.66**	**0.64**	**0.61**	**0.60**	**0.58**	**0.57**	**0.56**	**0.55**
YoY Growth (%)	-9.7%	-13.0%	-18.9%	-18.3%	-13.4%	-11.1%	-8.2%	-9.5%
QoQ Growth (%)	-9.9%	-3.5%	-4.4%	-1.6%	-4.5%	-1.0%	-1.3%	-3.0%
Idea Cellular								
Blended ARPU (Rs)	280	263	268	255	232	225	215	205
Postpaid ARPU (Rs)	554	538	550	525	370	357	338	320
Prepaid ARPU (Rs)	261	245	251	239	225	218	210	199
YoY Growth (%)								
Blended ARPU (Rs)	-12.5%	-8.7%	-3.9%	-11.1%	-17.1%	-14.5%	-19.7%	-19.8%
Postpaid ARPU (Rs)	-18.1%	-9.6%	0.9%	-6.9%	-33.1%	-33.6%	-38.5%	-39.1%
Prepaid ARPU (Rs)	-6.7%	-5.2%	-2.3%	-9.8%	-13.8%	-10.9%	-16.4%	-16.7%
QoQ Growth (%)								
Blended ARPU (Rs)	-2.4%	-6.1%	1.9%	-4.9%	-9.0%	-3.1%	-4.3%	-4.9%
Postpaid ARPU (Rs)	-1.9%	-2.9%	2.3%	-4.5%	-29.5%	-3.5%	-5.3%	-5.4%
Prepaid ARPU (Rs)	-1.9%	-6.0%	2.3%	-4.5%	-6.1%	-2.8%	-4.1%	-4.8%
ARPM (Rs)	**0.65**	**0.62**	**0.64**	**0.63**	**0.58**	**0.57**	**0.55**	**0.52**
YoY Growth (%)	-22.7%	-22.5%	-13.5%	-9.8%	-10.7%	-8.3%	-13.8%	-17.7%
QoQ Growth (%)	-7.0%	-4.6%	3.2%	-1.6%	-7.9%	-2.0%	-2.9%	-6.1%

Source:Company data, Macquarie Research, September 2009

- **There is no clarity yet on porting charges.** Under the MNP service licence conditions, three types of charges are applicable in case of MNP. The first is Per-Port Transaction, the charge payable by the Recipient Operator (the operator, where the subscriber wishes to port his or her number) to the MNP service provider for processing the request. The second is Porting, which means the charge payable by subscriber for porting his or her number. The third is Dipping, the cost that service providers pay for the query response of MNP service provider. The exact amount of porting charge applicable for switching a number has not yet been decided by the government, and a high porting fee (~Rs300) would make MNP unattractive for a large portion (80%+) of the subscriber base, in our view.

Greenfield players: the long, winding, narrow road to profitability

Top two players in a circle would be largely unhurt by entry of greenfield operators

The battle for market share and the resultant churn would be played out largely between the pack of operators ranked third to eighth in a circle.

The Indian wireless market is already very competitive, with between seven and nine players in each of the 22 telecom circles in the country. As indicated in Figure 16, geographic expansion by existing players to complete their pan-India footprints – Idea Cellular (in seven circles) and Aircel Maxis (in five circles), and entry of new players – Sistema Shyam, Loop Telecom and Telenor Unitech – will take the number of operators per circle to 10–12. However, the entry of three or four new players in each circle is unlikely to materially alter the revenue market shares of the top two players in each circle, in our view. The battle for market shares and the resultant churn would be played out largely between the pack of operators ranking between third and eighth in a circle.

Fig 16 Indian Wireless market: snapshot of the number of players in each circle and timeline for new launches

Circle	Number of Operators			New Operators	Respective Launch Dates
	FY08	FY09	FY10E		
Metros					
Delhi	6	7	9	Sistema Shyam / Telenor Unitech	Aug-09 / by Mar -10
Mumbai	6	7	8	Telenor Unitech	by Mar -10
Chennai	6	6	10	Idea Cellular /Sistema Shyam / Loop Telecom / Telenor Unitech	Jul - Sep 09 / Apr - 09 / Jul - Sep 09 / by Mar -10
Kolkata	5	6	9	Idea Cellular/ Sistema Shyam / Telenor Unitech	Jul - Sep 09 / Apr 09 / by Mar -10
A' Circles					
Maharashtra	6	6	8	Aircel / Telenor Unitech	by Mar -10
Gujarat	6	6	8	Aircel / Telenor Unitech	by Mar -10 / by Mar -10
Andhra Pradesh	6	7	9	Loop Telecom / Telenor Unitech	Jul-Sep 09 / by Mar -10
Karnataka	6	7	9	Loop Telecom / Telenor Unitech	Jul-Sep 09 / by Mar -10
Tamil Nadu	6	6	10	Idea Cellular /Sistema Shyam / Loop Telecom / Telenor Unitech	Jul - Sep 09 / Apr - 09 / Jul - Sep 09 / by Mar -10
B' Circles					
Kerala	6	7	8	Sistema Shyam / Loop Telecom / Telenor Unitech	Apr-09 / Jul-Sep 09 / by Mar -10
Punjab	7	7	9	Aircel / Telenor Unitech	By Mar-10 / by Mar -10
Haryana	6	6	8	Aircel / Telenor Unitech	By Mar-10 / by Mar -10
Uttar Pradesh (West)	6	7	8	Telenor Unitech	
Uttar Pradesh (East)	6	7	8	Telenor Unitech	
Rajasthan	7	7	9	Aircel / Telenor Unitech	By Mar-10 / by Mar -10
Madhya Pradesh	5	6	8	Aircel / Telenor Unitech	By Mar-10 / by Mar -10
West Bengal and Andaman & Nicobar	6	6	8	Idea Cellular / Sistema Shyam / Telenor Unitech	Jul - Sep 09 / May - 09 / by Mar -10
C' Circles					
Himachal Pradesh	6	7	8	Telenor Unitech	
Bihar	5	7	9	Sistema Shyam / Telenor Unitech	Jul -09 / by Mar -10
Orissa	5	6	9	Idea Cellular / Loop Telecom / Telenor Unitech	Apr-09 / Jul-Sep 09 / by Mar -10
Assam	4	6	8	Idea Cellular / Telenor Unitech	Oct - Dec 09 / by Mar -10
North East	4	6	8	Idea Cellular / Telenor Unitech	Oct - Dec 09 / by Mar -10
Jammu & Kashmir	4	6	7	Idea Cellular	Oct - Dec 09

Source: Company data, Media reports, Macquarie Research, September 2009

International operators have flocked into India – What are they seeing here?

The Indian wireless market continues to attract foreign telco operators of all kinds exploring growth opportunities outside their home markets. We note that in the past 18 months, the Indian markets have seen the entry of four major international telcos – NTT DoCoMo (Japan), Sistema (MTS, Russia), Telenor (Norway) and Etihad Etisalat (UAE).

Fig 17 Foreign telcos seeking growth outside their home market have dialled into India

S.No.	Licensee	Promoter	Foreign partner	Foreign partner's stake	Consideration paid by foreign operator (US$ m)	Implied Market Cap (US$ bn)*	Licenses received	License in Circles	Spectrum allocated in circles (x)	Technology platform
1	Sistema Shyam Tele Services	Shyam Group	Sistema Group (MTS, Russia)	74%	na	na	22	All India	22	CDMA
2	Unitech Wireless	Unitech Group	Telenor	67%	1,100	1,636	22	All India	21	GSM
3	Datacom Solutions	Videocon group	na	na	na	na	21	All India (except Punjab)	5	GSM
4	Swan Telecom (Etisalat DB Telecom India)	Dynamix Balwas Infrastructure Pvt. Ltd.	Etihad Etisalat	45%	900	2,000	13	All India except Kolkata., MP, WB, HP, Bihar, Orissa, Assam, NE and J&K.	4	GSM
5	S Tel	(1) Sky City Foundations Pvt Ltd (2)Telecom Investments (Mauritius) Ltd	Batelco and Millennium Private Equity	49%	225	459	6	HP, Bihar, Orissa, Assam, NE, J&K	1	GSM
6	Tata Teleservices^	Tata Group	NTT DoCoMo	26%	2,700	10,385	22	All India	22	Both CDMA and GSM

* Assuming fresh issues of shares

^As part of the deal, DoCoMo has made an open offer for Tata Teleservices Maharashtra Ltd., valuing the listed subsidiary at US$700m. As a result, the total deal value is US$11bn.

Source: Company data, Media reports, Macquarie Research, September 2009

Large-cap international telcos are already in India

India figures prominently in the global strategy of leading international telcos. Big international operators, namely SingTel, Vodafone, Axiata and Maxis, have had a significant presence in India for at least the past few years. As such, we see little merit in the argument that entry of new international players in the Indian market over the past 12 months will change the on-the-ground competitive scenario in the country. The global telcos with an existing footprint are larger in size (measured by any metric) and more credible in terms of funding ability and global standing than any of the new foreign partners that are tying up with the greenfield licensees.

Fig 18 Indian operations increasingly becoming more relevant for international operators

International Operator	Presence in Indian operator	Current holding	Contribution from India to the parent company
SingTel	Bharti Airtel	30.5%	Bharti makes up 26.2% of Macquarie's SingTel valuation
Vodafone	Vodafone Essar	67%	India contributes 7.4% of Vodafone Group's total worldwide revenues
Axiata	Idea Cellular	20%	3.6% contribution to core profits starting FY10E
NTT DoCoMo	Tata Teleservices	26%	Negligible
Maxis	Aircel	74%	N.A. since Maxis is unlisted

Source: Company data, Macquarie Research, September 2009

Targets outlined by new players support our view on pricing

Both Sistema and Telenor have outlined strong business cases in their investor presentations justifying their investments in the Indian market. In contrast to the popular street expectation of new operators trashing prices to gain subscriber market share, the two operators have stressed that targeted offerings and distribution as the key differentiating factors. In fact, Telenor expects wireless market ARPU to bottom out in 2009–10 and remain steady until FY18.

Fig 19 Financial targets of new operators leave little room for disruptive pricing

S.No.	Licensee	Circles launched	Subs	Investment	Break even guidance	Additional comments
1	Sistema Shyam TeleServices	5 - Rajasthan, TN & Chennai, Kerala, West Bengal and Kolkata	Over 1 million	US$5.5bn	▪ EBITDA break even - FY12 ▪ Operating cash flow break even - by FY13	▪ Sistema's tower portfolio will have 20% of owned towers while the rest will be in tie-up with other operators.
2	Unitech Wireless	None	na	na	▪ Capex of NOK 5.5-6.5 bn (US$0.85bn – US$1bn) and EBITDA loss of NOK 2.0-2.5 bn (US$0.3bn – US$0.4bn) ▪ Accumulated capex of approx. NOK 12 bn (US$1.9bn) in first three years ▪ Operating cash flow breakeven in ~5 years from launch ▪ Long term ambition of 30% EBITDA margin and 20% operating cash flow margin	▪ Tower sharing agreements in place with WTTIL (Tata Towers) ▪ 1m pan-India retail points ▪ 8% pan-India market share ▪ 60% pop coverage in first year of operation

Source: Company data, Macquarie Research, September 2009

New entrants: challenges outweigh opportunities

Opportunities	Challenges
▪ Mobile Number Portability	▪ Operation on 1,800 MHz spectrum
▪ Tower sharing	▪ Brand infancy
▪ Low wireless penetration in India	▪ Distribution challenges
	▪ Customer care and billing

Source: Macquarie Research, September 2009

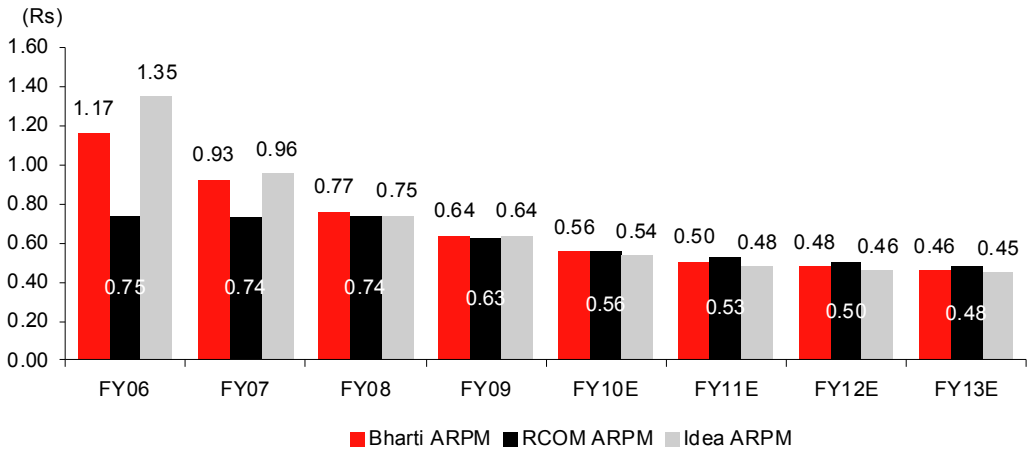
- **Mobile Number Portability:** The DoT (the licensing authority on telecoms in India) has awarded the MNP license to Syniverse Technologies in Zone 1 and MNP Interconnection in Zone 2. According to the DoT, MNP will be implemented in Delhi, Mumbai, Maharashtra and Gujarat Service areas of Zone I and Kolkata, Tamil Nadu, Chennai, Andhra and Karnataka of Zone 2, with effect from September. The facility will be available throughout the country by 20 March 2010. We note that churn in the Indian wireless market is already high at ~4% per month, and the fall-out from the introduction of MNP would largely be felt in the postpaid and corporate segments. Among the existing operators, we expect the state-run telcos BSNL and MTNL to be net losers. We see insignificant subscriber share loss for the private telcos on a net basis.
- **Tower sharing:** Greenfield operators are expected to extensively use shared passive infrastructure services to roll out networks (80–100% of their BTS would be on leased towers). We note that tower sharing provides new operators advantages in time to market and cuts upfront capex by about half. Even so, a corresponding increase in opex (due to tower lease rentals) would hurt margins and delay EBITDA breakeven.
- **Low wireless SIM penetration:** India continues to have one of the lowest wireless SIM penetrations in the world, at 34%. We highlight that our pan-Indian wireless SIM forecast implies significant growth of 26.8% CAGR over FY3/09–12E and 21.5% CAGR over FY3/09–15E in total wireless SIM – source of opportunity for new entrants.
- **1,800 MHz spectrum:** New entrants have been allocated start-up GSM spectrum of 4.4 MHz in the 1,800 MHz band. We note that the 1,800 MHz spectrum band is inefficient compared to the 900 MHz band, in which the incumbents largely operate. Capex and opex efficiencies arising from the difference in operational spectrum bands between leaders and greenfield entrants may alone result in 8–10% margin differential at the PAT level.
- **Brand infancy:** Wireless is a consumer-facing business and to attract subscribers, new operators would need to invest significantly to build a reliable brand. We note that Bharti and Reliance Communications have consistently made it into the top 10 most trusted brands in the country, based on an independent survey by reputed agencies.
- **Distribution challenges:** Bharti has one of the widest distribution networks in the country. It matches the scale of FMCG distribution. The company already has over a million retail points of presence (PoP), dwarfing the distribution of many of its putative competitors. It will remain a massive challenge for greenfield entrants to scale up their businesses, as well as establish a nationwide wireless network.
- **Customer care and billing:** Domestic partners of the greenfield operators have no background in the telecom industry, or, for that matter, in any consumer-facing business. As such, we believe new players are underestimating the challenge of building a robust customer care and billing infrastructure. While we agree that international telcos will bring their expertise in customer care and billing in overseas markets, we expect the prepaid nature of the business and the unique facets and localised issues in Indian wireless will handicap new players in comparison to the incumbents, at least in the first two years of operation.

Tariff war: Yes, but will it be higher than expected?

Our financial forecast already factor in sharp declines in ARPM

Blended tariffs measured as ARPM have declined sharply in FY3/09 for both Bharti (down 16.9% YoY), RCOM (down 14.9% YoY) and Idea (down 14.4% YoY). We expect ARPM to fall further in FY3/10E to Rs0.58 for Bharti (9.1% YoY decline), Rs0.56 for RCOM (10.5% YoY decline) and Rs0.57 for Idea (11.5% YoY decline). The fall in ARPM is led by the decline in tariffs which in turn is also impacted in part by the reduction in access termination rate to 20 paise per minute from 30 paise, affected on 1 April 2009. We note that our financial forecasts are based on a 7.8%, 6.5%, and 8.4% CAGR decline in ARPM over FY3/09–13E for Bharti, RCOM and Idea, respectively. One should take note of the fact that we have the steepest declines built in for Bharti and RCOM while we have the lowest rate of decline for Idea, just to be conservative. We do not expect tariffs to fall at a rate over and above what has already been factored into our models. We believe there exists very clear upside risks to our ARPM numbers, if any.

Fig 20 We have already built in a sharp fall in revenue/minute for the three players



Source: Company data, Macquarie Research, September 2009

Operators' new price plans: where is the price war?

- **Lifetime prepaid priced at Rs99 by all the major operators across circles.** We note that Bharti cut the price of its lifetime prepaid offering to Rs99 from Rs199 in January 2009. While the market believed this to be a response to the freebie-laden launch of GSM services in 14 circles by RCOM in January, we disagree – this cut was a year overdue. Except for selective and limited period promotional offers, from operators that have newly launched operations in certain circles, industry pricing has converged to the lifetime prepaid joining fees of Rs99 (Figure 21).
- **Little variation in base tariffs across operators.** We highlight that base tariffs for voice calls and SMS are same across major national and regional players (See Figure 21 for details). All the operators have priced local calls at Rs1 per minute and local SMS at Rs1 and NLD calls and long distance SMS at Rs1.5 per min.
- **Recharge vouchers in differing denominations being offered by different operators to enable discounted rates for local calls – but all converge to the same call rate.** Indian operators have introduced recharge vouchers in multiple denominations for customers wishing to avail themselves of local call rates lower than the rack rate of Rs1 per minute. Figure 21 shows recharge vouchers at the lowest denominations available in the market for availing reduced local call tariffs. Even here, leading national players have uniform reduced call rate for local calls of Rs0.6 per minute.

- **Promotional pricing in new circle launches have been limited period offers.** We believe investors may have made the mistake of seeing limited period promotional offers as the evidence of a sustained tariff war. It is worth noting that despite free talktime minutes led promotional offering by RCOM for its GSM services launched in January, leading industry operators have made no changes in their tariffs, keeping the local call rate steady at Rs1 per minute and NLD call rate at Rs1.5 per minute. We note that several operators (Aircel, Sistema Shyam and Idea Cellular) have entered new circles in the past six months offering promotional tariffs (such as tiered pricing and reduced local call rates). Even so, incumbent players in those circles have not reacted irrationally in their incumbency circles to take on the new entrants. This trend, of not being drawn in a race to cut tariffs or offer irrational promotional schemes to capture subscriber market share, is a testament to pricing discipline in Indian wireless market.

Fig 21 Lifetime prepaid offering by all the major telecom operators: operators have refrained from disrupting the base tariffs

Operator	Bharti	RCOM GSM	RCOM CDMA	Vodafone Essar	BSNL	Idea Cellular	Tata Teleservices	Aircel*	Sistema Shyam	Loop Mobile
Lifetime Prepaid	**Rs. 99**	**Rs. 49**	**Rs. 99**	**Rs. 99**	**Rs. 66**	**Rs. 99**	**Rs. 98**	**Rs. 99**	**Rs. 49**	**Rs. 99**
Call charges										
Local	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 1 per min.	Rs 0.7 per min.	Rs 1 per min.
NLD	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.5 per min.	Rs 1.4 per min.	Rs 1.5 per min.
SMS charges										
Local	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 1 per msg	Rs 0.5 per msg	Rs 1 per msg
NLD	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 1.5 per msg	Rs 0.5 per msg	Rs 1.5 per msg
Prepaid Recharge Voucher Options for reduced Local Call Rates										
Recharge Voucher Price	Rs 13	Rs 46	Rs 34	Rs 12	Rs 49	Rs 149	Rs 49	Rs 29	Rs 51	Rs 252
Available Talktime	Nil	Rs 20	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Rs 101
Validity	10 days	90 days	30 days	15 days	25 days	180 days	30 days	30 days	Lifelong	60 days
Reduced Local Call Rate	All local calls @ Rs0.6 per min.	All local calls on own network @ Rs0.3 per min. and other local calls @ Rs0.6 per min.	All local calls @ Rs0.6 per min.	All local calls @ Rs0.6 per min.	All local calls on Own Network @ Rs.0.49 per min & Other Network @ Rs.0.70/Min	All local calls @ Rs0.6 per min.	All local calls on Own Network Mobile @ Rs.0.39 per min & Other Network Mobile @ Rs.0.49/Min	All local calls @ Rs0.5 per min.	All local calls @ Rs0.5 per min.	All local calls @ Rs0.5 per min.

The tariffs indicated in the table above are base tariffs. Please note that RCOM GSM, Idea Cellular, and Aircel have launched selected period promotional offers in the new circles.

* Aircel has launched tiered pricing plans in the circles launched over last six months. In Mumbai the tiered pricing plan is: for local calls - 2nd minute is charged at Rs0.5/min. and 3rd minute onwards the call charge is Rs0.3/min. For NLD calls 2nd minute is charged at Rs1/min. and 3rd minute onwards the call charge is Rs0.75/min.

Source: Company websites, Macquarie Research, September 2009

RCOM GSM: GSM incumbents refuse to be drawn into any tariff wars

Entry level price points for new GSM SIM raised to Rs49 from Rs25. RCOM launched its new GSM offering on 29 December 2008. The initial connection fee (the cost of getting the SIM card and activating it) was kept at Rs25. However, the connection fee was raised to Rs49 after about 45 days in each circle.

Initial promotional schemes offering free minutes have already been phased out. To entice users to sample its services, RCOM had launched two different sets of inaugural plans in different circles in January 2009: 1) offering free credit of Rs300 per month for a three-month period and 2) free credit of Rs150 per month for a period of three months. Within one month of launch, this freebie offer was replaced with three promotional plans for a new RCOM GSM user (outlined in the table below). We note that even these have been phased out now.

Fig 22 Three promotional recharge options have been phased out by RCOM in April–June 2009 quarter

Recharge Scheme	Price (Rs)	Benefits
1	60	Free daily talktime worth Rs4 and subscriber will be eligible to get double talktime on every subsequent recharge until 31 March, 2009.
2	26	Subscriber will be eligible to get double talktime on every subsequent recharge until 31 March, 2009.
3	5	Reduced tariffs offering local calls at Rs0.5 per min. and NLD calls at Rs1 per min.

Note: Subscriber can use the credit accrued due to double promotion offer only for local calls and local SMS.

Source: Company website, Macquarie Research, September 2009

Current RCOM GSM plans no longer offer free minutes. We highlight that six months after launching its GSM services in 14 circles, RCOM has withdrawn all promotional plans offering free minutes. The current promotional tariff structure offers local calls at Rs0.3 per minute and NLD calls at Rs0.6 per minute. Even so, the RCOM website clearly mentions that discounted tariffs are valid only for a six-month period and the base tariffs after the six-month promotional period would be Rs1 per minute for local calls and Rs1.5 per minute for NLD calls.

Incumbent GSM operators' responses until now leave little doubt about their pricing philosophy and their assessment of the threat posed by lower pricing. The incumbent GSM operators in the country have refused to be drawn into the tariff war, despite RCOM offering free minutes on its network in an effort to lure customers. As such, we remain confident of our thesis of very low probability of tariff disruption (beyond what has been factored by us) in the Indian telecom market.

Per-second pricing from Tata DoCoMo: Incumbents are not blinking

Tata Teleservices recently launched its GSM service in South India. Tata Tele has made its foray in the GSM segment with the launch of operations in the southern states of Tamil Nadu (including Chennai), Karnataka, Andhra Pradesh, Kerala and Orissa in July 2009. The company has launched its services under the Tata DoCoMo brand and introduced "pay per second pricing" model, albeit as a promotional plan (veering away from the current practice in India of pricing calls based on a one-minute pulse rate). Tata Teleservices expects to complete its pan-India GSM launch by December 2009, under the Tata DoCoMo brand.

Analysis of subscriber net additions in these newly launched circles points to limited impact on incumbents. There was a lot of investor concern over the impact Tata DoCoMo may have had, given the "per second pulse rate" moving away from the norm of "per minute pulse rate" that is prevalent in the industry. We emphasise that while Tata DoCoMo has shown impressive subscriber addition numbers (as was expected), it has not been able to wreak havoc on the key incumbents' subscriber addition numbers. In our view, the launch of Tata DoCoMo GSM services has just added a new layer of growth to the market, thereby expanding the overall market, as was the case with the RCOM GSM launch in January 2009.

Fig 23 Impact of newly launched Tata DoCoMo GSM services: Incumbents have little reason to get worried

	Net adds (in m)				Net adds market share (%)			
	Apr'09	May'09	Jun'09	Jul'09	Apr'09	May'09	Jun'09	Jul'09
Tamil Nadu								
Vodafone Essar	0.18	0.15	0.15	0.17	21%	19%	16%	11%
Aircel Limited	0.27	0.31	0.30	0.30	32%	38%	32%	20%
BSNL	0.14	0.05	0.09	0.11	17%	6%	10%	8%
Bharti Airtel	0.15	0.21	0.24	0.26	18%	26%	26%	17%
Tata Teleservices	**-0.00**	**-0.00**	**-0.01**	**0.38**	**0%**	**-1%**	**-1%**	**25%**
Reliance Communications	0.05	0.07	0.06	0.09	6%	9%	6%	6%
Sistema Shyam	0.05	0.01	0.05	0.05	7%	2%	6%	3%
Idea Cellular	-	0.01	0.06	0.16	0%	1%	6%	11%
Total	0.82	0.80	0.94	1.51	100%	100%	100%	100%
Andhra Pradesh								
Idea Mobile	0.14	0.10	0.17	0.07	17%	12%	18%	5%
Bharti Airtel	0.39	0.35	0.28	0.33	44%	39%	30%	27%
Vodafone Essar	0.15	0.15	0.16	0.16	17%	17%	17%	13%
BSNL	0.05	0.07	0.16	0.17	6%	8%	17%	14%
Tata Teleservices	**0.04**	**0.03**	**0.03**	**0.34**	**4%**	**3%**	**3%**	**27%**
Reliance Communications	0.04	0.12	0.10	0.09	5%	13%	10%	8%
Aircel	0.05	0.07	0.04	0.08	6%	8%	4%	7%
Total	0.87	0.89	0.93	1.24	100%	100%	100%	100%
Karnataka								
Bharti Airtel	0.14	0.19	0.23	0.20	27%	28%	31%	19%
Spice Comm	0.03	0.03	0.05	0.05	7%	5%	7%	5%
Vodafone Essar	0.13	0.13	0.13	0.07	25%	19%	17%	7%
BSNL	0.08	0.07	0.09	0.08	16%	10%	12%	8%
Tata Teleservices	**0.01**	**0.01**	**0.01**	**0.43**	**2%**	**1%**	**2%**	**42%**
Reliance Communications	0.08	0.18	0.19	0.15	16%	28%	26%	14%
Aircel	0.04	0.05	0.05	0.05	9%	7%	7%	5%
Total	0.51	0.65	0.75	1.03	100%	100%	100%	100%
Kerala								
Idea Mobile	0.10	0.14	0.12	0.01	22%	30%	18%	1%
BPL Cellular	0.13	0.12	0.10	0.10	28%	25%	16%	13%
Bharti Cellular	0.13	0.08	0.12	0.09	27%	18%	18%	12%
BSNL	0.04	0.03	0.13	0.18	9%	6%	20%	24%
Tata Teleservices	**0.01**	**0.00**	**0.01**	**0.28**	**1%**	**1%**	**1%**	**37%**
Reliance Communications	0.00	0.04	0.10	0.03	1%	9%	15%	5%
Aircel	0.04	0.04	0.05	0.04	9%	9%	8%	6%
Sistema Shyam	0.02	0.01	0.02	0.02	3%	3%	3%	3%
Total	0.46	0.46	0.66	0.76	100%	100%	100%	100%
Orissa								
BSNL	0.07	0.05	0.05	0.06	15%	12%	12%	9%
Bharti Airtel	0.12	0.13	0.18	0.17	26%	32%	40%	29%
Dishnet Wireless (Aircel)	0.04	0.02	0.04	0.01	9%	5%	10%	2%
Vodafone	0.10	0.09	0.06	0.01	22%	22%	14%	2%
Tata Teleservices	**0.02**	**0.01**	**0.01**	**0.26**	**4%**	**3%**	**2%**	**45%**
Reliance Telecom	0.05	0.03	0.03	0.06	12%	8%	8%	10%
Reliance Infocom	0.02	0.01	0.01	0.01	4%	1%	1%	2%
Reliance (CDMA+GSM)	0.07	0.04	0.04	0.07	16%	10%	9%	12%
Idea Cellular	0.04	0.07	0.06	0.01	8%	16%	13%	1%
Total	0.46	0.41	0.44	0.59	100%	100%	100%	100%

Source: Company data, Macquarie Research, September 2009

Per-second pricing unlikely to be a game-changer. We do not view the launch of the Tata's GSM service and per-second billing as a structural game changer in the wireless market (assuming other players do not join the war with per-second offerings, which looks unlikely at this point, as their own subscriber adds numbers have not been impacted negatively).

Past experience suggests that the per-second pricing model would not alter competitive dynamics on a sustainable basis. We note that the per-second pricing model was introduced in Indonesia and was more suited for the Indonesian markets due to lower MoU in the country. However, India already has the second-highest MoU in the world, and we see little elasticity impact from the implementation of this scheme. In addition, we recall that RCOM launched a similar scheme with a 15-second pulse rate when it launched its CDMA operations in 2004, but phased it out as soon as it gained a critical mass of subscribers. This would be a massive loss-making strategy if it were continued for new subscriber acquisitions beyond a six- to 12-month period post launch.

Capex for incumbents peaked in FY3/09

Capital intensity in the business is expected to come down

Indian wireless operators have surprised positively, with the FY3/09 capex outlay lower than initial company guidance for all the three listed telcos (See comments in Figure 24 below).

Bharti has crossed 80% population coverage. We highlight that Bharti has now crossed 82% population coverage in the April–June 2009 quarter and from here on the company needs to make only calibrated investments. More importantly, we note that Bharti is confident that it will meet its capex requirements by internal accruals.

RCOM has completed its pan-India GSM launch. For India's second biggest telco operator, Reliance Communications, we expect FY3/10E capex to fall by 43% to US$2.3bn.

Idea is expected to complete its pan-India operations by December 2010. Idea has guided for US$1.25bn capex in FY3/10 (including Spice operations). We forecast Idea's capex to decline from US$1.4bn in FY3/10E and US$1.3bn in FY3/11E to US$0.6bn in FY3/12E.

Fig 24 FY3/09 capex surprised positively, dominant Indian wireless operators are past the peak capex cycle

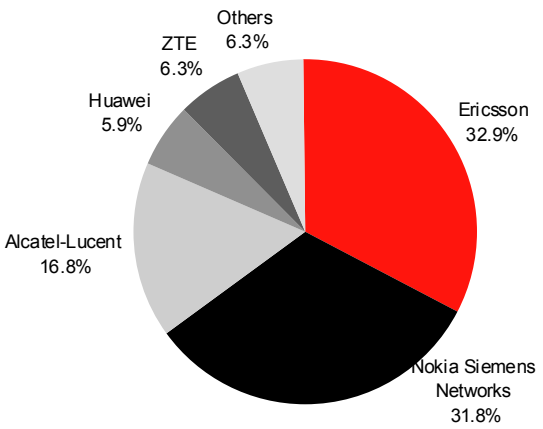
Amount in US$bn	FY3/10E Capex guidance	FY3/09A Capex	Comment
Bharti (incl. passive infra capex)	2.75-2.95	2.9	FY3/09 capex of US$2.9bn came in 17% lower than initial company guidance and we expect similar positive surprise in FY3/10
RCOM	~2.1	3.9	RCOM has already cut FY3/10E capex guidance by 33%
Idea	~1.25	1.1	FY3/09 capex of US$1.1bn came in 30% lower than guidance, do not expect FY3/10E capex to exceed guidance

Source: Company data, Macquarie Research, September 2009

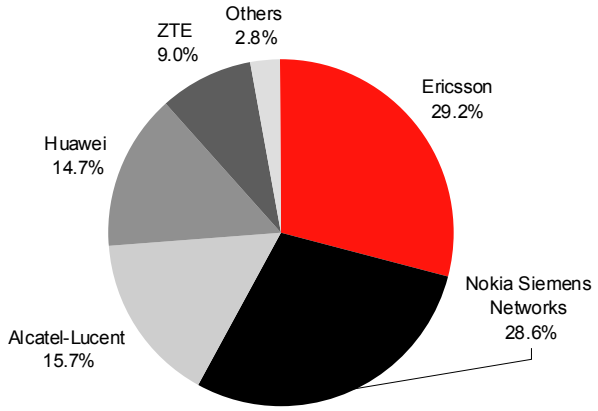
Entry of Chinese equipment vendors aids capex moderation

For network equipment vendors, it's India Shining. The Indian wireless market has been a big growth driver for all the major equipment vendors in FY3/09. Specifically, Huawei witnessed a 2.5x jump in revenues and ZTE registered an impressive 100% YoY growth.

Fig 25 Revenue maket share of Chinese equipment vendors has doubled in from FY08 (LHS) to FY09 (RHS)



Source: Voice & Data, Macquarie Research, September 2009



Source: Voice & Data, Macquarie Research, September 2009

FY09: an extremely successful year for Chinese equipment vendors. As shown in Figure 27 below, ZTE and Huawei have been able to corner some large equipment orders from GSM operators in the Indian market. ZTE claims to have 100% market share in the Indian next-generation network (NGN) market. The company has acquired TCOM's nationwide NGN project and has also won contracts from BSNL for various projects.

Fig 26 Indian wireless infrastructure sector has grown at 39.9% YoY in FY09

Company	FY08 Revenue (in Rs bn)	FY09 Revenue (in Rs bn)	YoY Growth (%)
Ericsson	78.2	97.0	24.1
Nokia Siemens Networks	75.6	95.2	26.0
Alcatel-Lucent	40.0	52.3	30.8
Huawei	**14.0**	**48.9**	**249.0**
ZTE	**15.0**	**30.0**	**100.0**
Others (incl. Motorola, Nortel etc.)	15.0	9.2	-38.5
Total	**237.7**	**332.6**	**39.9**

Source: Voice & Data, Macquarie Research, September 2009

Huawei has made inroads in the Indian telecom operators. Huawei has now established its presence with all the top ten operators in India, with the addition of Bharti Airtel, RCOM and Loop Mobile in FY09.

Fig 27 Summary of equipment vendors and operator relationships in India

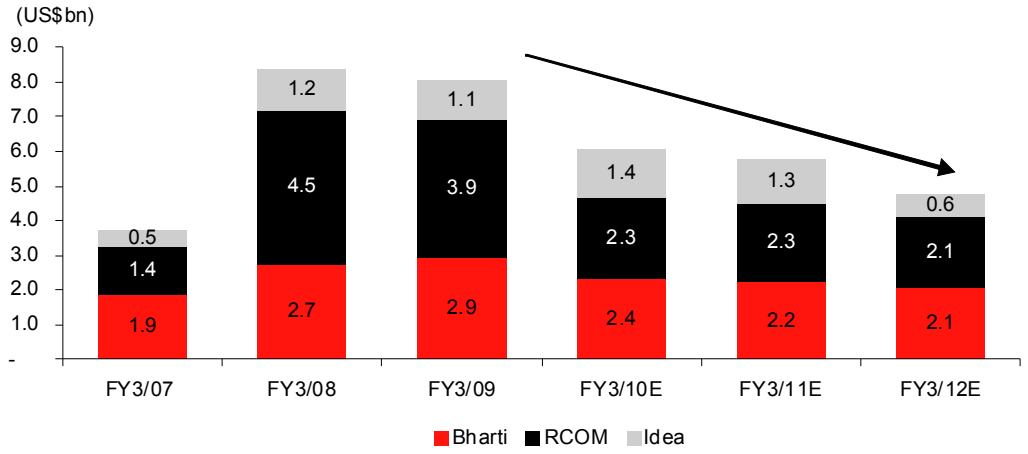
Equipment Vendor	Operator	No. of circles
Alcatel Lucent		
	MTNL	Mumbai
	Tata Teleservices	**Expansion of CDMA/GSM network in 22 circles**
	BSNL	West zone contract
Ericsson		
	Idea Cellular	Expansion work in seven circles (incl. Mumbai)
	Aircel	Expansion related projects won from existing customers, further details not available
	Bharti	
	BSNL	
	Idea Cellular	
	MTNL	
	Vodafone Essar	
Huawei		
	Bharti Airtel	**New addition**
	RCOM	**New addition**
	Loop	**New addition - Expansion in Mumbai (US$20m contract won in March 2008)**
	Datacom	New
	Unitech wireless	US$400m contract in three circles – Karnataka, TN and Andhra Pradesh
	BSNL	Existing customer - Expansion orders
	Tata Teleservices	Existing customer - Expansion orders
Motorola		
	BSNL	US$90m contract for adding 2.3m lines in South India
Nokia Siemens Networks		
	Tata Teleservices	**Majority of the 22 telecom circles**
	Idea Cellular	Bihar, Selected for upgrading and expanding Idea's network with GPRS technology across all 22 circles
	Aircel	Delhi and Mumbai
ZTE		
	Aircel	2
	Idea Cellular	2
	Sistema Shyam	**15**
	Loop Telecom	**21**

Source: Voice & Data, Macquarie Research, September 2009

Telcos should benefit from lower cell base station prices. Competition from Chinese telecom equipment vendors ZTE and Huawei has pressured the cell base station prices in the international market. Falling base station prices, coupled with flattening population coverage, will help the Indian telcos to moderate their capex.

Combined capex of the three listed telcos in each of the past two years has been in excess of US$8bn. Three listed telcos have spent in excess of US$8bn, both in FY3/08 as well as FY3/09. The biggest contributor to industry capex is RCOM, which spent US$4.5bn in FY3/08 and US$3.9bn in FY3/09.

Fig 28 Investors are missing that capex moderation expected to play out in the next two years

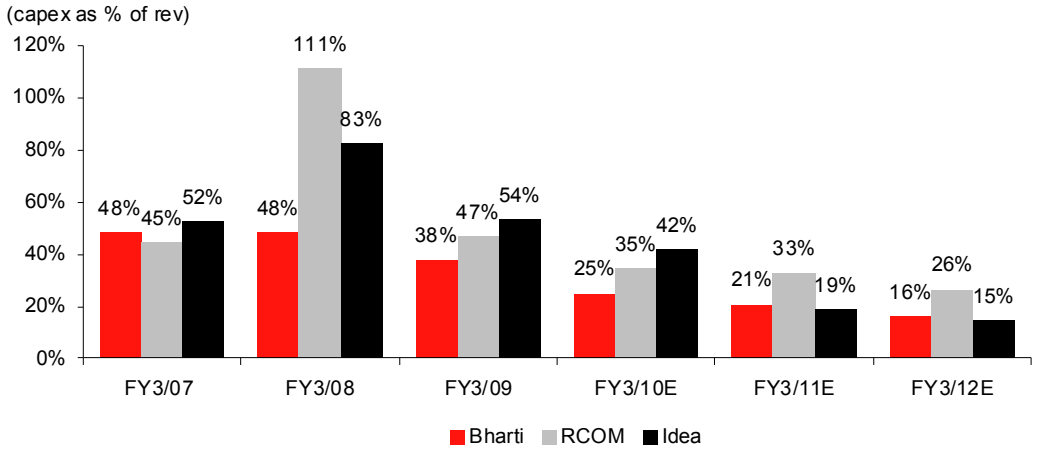


Reported and forecast capex estimates in INR converted to US$ based on forex rate of 1US$/INR = 47.6

Source: Compnany data, Macquarie Research, September 2009

Capital intensity ratios will show signs of easing. We expect capital intensity for Bharti and RCOM to fall drastically over the next two years. We highlight that capex as a percentage of revenue will fall from 82% in FY3/08 to 26% by FY3/12E for RCOM. Even so, it will still remain higher for RCOM than its sector peers, due to passive infrastructure capex that is not present for Idea and greatly reduced for Bharti due to the formation of Indus Towers.

Fig 29 Total capex as a percentage of revenues to dip below 20% mark for Bharti by FY3/12E



Source: Company data, Macquarie Research, September 2009

Forecast robust top-line and bottom-line growth despite cut in capex outlay. We note that our revised financial forecasts are not factoring in any slowdown in growth despite reduced capital intensity in the business.

Fig 30 Forecast improved earnings growth profile despite reduction in capex outflow

	Change in FY3/10E capex forecast (%)	FY09-11E revenue CAGR (%)		FY09-11E EBITDA CAGR (%)		FY09-11E EPS CAGR (%)	
		New	Old	New	Old	New	Old
Bharti	(25.8)	15.8	16.6	18.6	20.2	24.3	24.3
RCOM	(38.7)	21.1	17.1	19.9	17.5	14.2	6.1
Idea	(27.3)	22.7	16.1	34.5	20.9	18.5	7.2

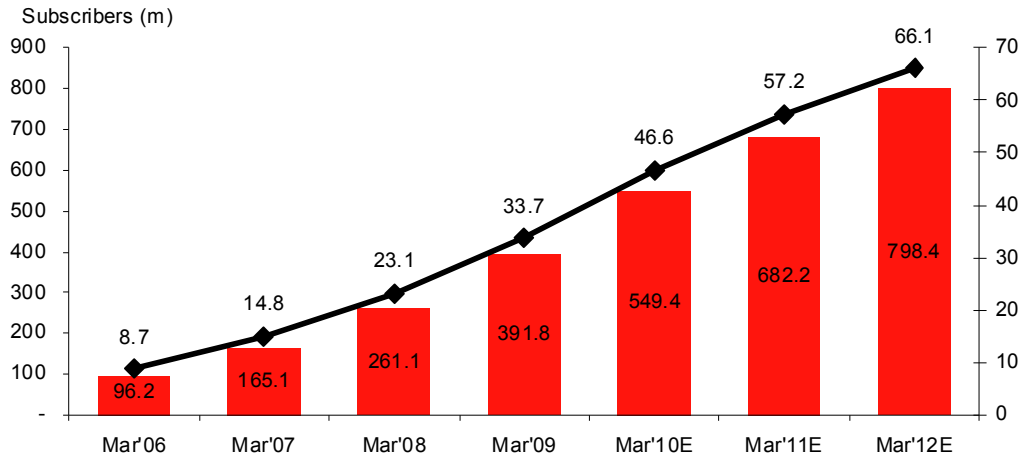
Source: Macquarie Research, September 2009

Massive upgrade in our subscriber forecasts

We forecast the Indian wireless market to reach the 800m mark by March 2012

Our revised subscriber forecast (see Figure 31) implies 66% wireless SIM penetration by March 2012 and three-year subscriber growth CAGR of 26.8% (vs 59.7% delivered over FY3/06–09). We maintain our positive view on the solid subscriber growth in Indian market and expect street estimates to be revised upwards following the record subscriber growth seen in FY3/09.

Fig 31 India wireless SIM penetration to reach 66% by March 2012E

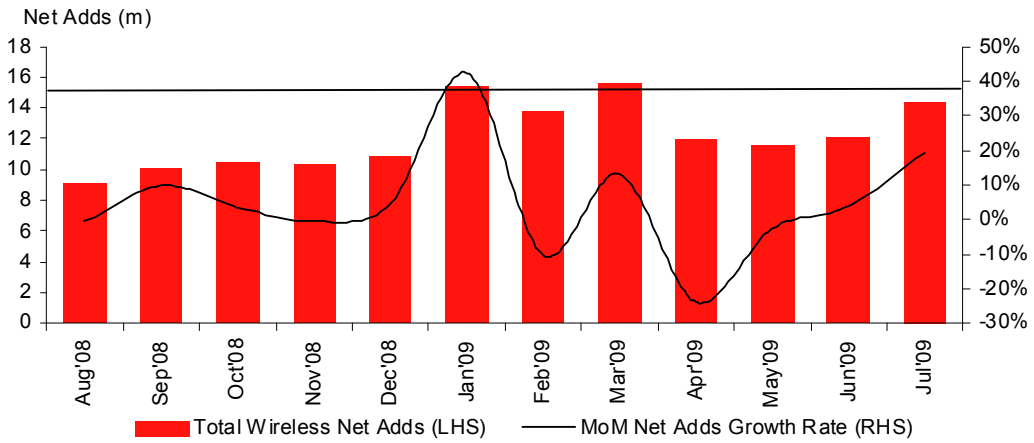


Source: Company data, Macquarie Research, September 2009

Indian wireless operators have delivered record subscriber growth

Indian wireless operators added a record 130.7m subscribers in the twelve-month period from April 2008 to March 2009. The implied that the monthly net adds run rate delivered by Indian operators jumped 36% to 10.9m in FY3/09 from 8m in FY3/08. We are raising our wireless subscriber forecast and now expect the Indian wireless market to reach 549.4m by March 2010, implying 46.6% wireless penetration, up from 33.7% in March 2009.

Fig 32 Industry monthly net adds crossed the 15m mark twice in the past year



Source: Company data, Macquarie Research, September 2009

Bharti would continue to lead the industry…

We expect Bharti to maintain its dominant position in the industry, despite an assumed decline of 90bp in subscriber market to 22.9% in FY3/10E. Our revised subscriber estimate of 127m by March 2010E for Bharti, implies monthly net adds of 2.76m (vs 2.81m achieved by Bharti in July 2009).

Fig 33 Subscriber base by operator

Subscriber base by Operator (m)	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Bharti	93.9	127.0	155.5	180.0	202.0	220.0	235.0
RCOM	72.7	100.5	125.1	141.7	156.1	168.1	177.3
Vodafone Essar	68.8	98.2	121.1	140.9	155.9	168.5	178.7
BSNL	52.1	65.9	75.5	83.9	91.1	97.1	101.9
Idea	38.9	54.5	65.2	75.4	84.4	92.1	98.6
Tata Teleservices	35.1	51.9	68.7	84.3	96.3	105.9	113.1
Aircel Maxis	18.5	32.9	47.3	60.5	70.1	77.3	82.1
MTNL	4.5	5.4	6.3	7.0	7.6	8.1	8.4
BPL (Mumbai)	2.2	2.6	3.0	3.2	3.4	3.5	3.6
HFCL	0.4	0.6	0.7	0.9	1.1	1.3	1.5
Sistema Shyam	0.6	1.8	2.8	3.5	4.0	4.3	4.4
Spice Communications	4.1	4.6	5.1	5.5	5.8	6.1	6.3
Greenfield		3.4	5.8	11.5	16.6	20.9	24.5
All India	391.8	549.4	682.2	798.4	894.4	973.2	1,035.5
YoY Growth		40.2%	24.2%	17.0%	12.0%	8.8%	6.4%
Wireless SIM Penetration (%)	33.7%	46.6%	57.2%	66.1%	73.2%	78.7%	82.8%
All India Population	1,162.0	1,177.7	1,193.1	1,208.0	1,222.5	1,236.5	1,250.7
YoY Growth		1.4%	1.3%	1.3%	1.2%	1.1%	1.1%

Source: Company data, Macquarie Research, September 2009

Fig 34 Subscriber market share by operator

Subs market share (%)	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Bharti	24.0	23.1	22.8	22.5	22.6	22.6	22.7
RCOM	18.5	18.3	18.3	17.7	17.4	17.3	17.1
Vodafone Essar	17.6	17.9	17.8	17.7	17.4	17.3	17.3
BSNL	13.3	12.0	11.1	10.5	10.2	10.0	9.8
Idea	9.9	9.9	9.6	9.4	9.4	9.5	9.5
Tata Teleservices	9.0	9.5	10.1	10.6	10.8	10.9	10.9
Aircel Maxis	4.7	6.0	6.9	7.6	7.8	7.9	7.9
MTNL	1.1	1.0	0.9	0.9	0.8	0.8	0.8
BPL (Mumbai)	0.6	0.5	0.4	0.4	0.4	0.4	0.3
HFCL	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sistema Shyam	0.2	0.3	0.4	0.4	0.4	0.4	0.4
Spice Communications	1.1	0.8	0.7	0.7	0.6	0.6	0.6
Greenfield	0.0	0.6	0.9	1.4	1.9	2.2	2.4
All India	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, Macquarie Research, September 2009

…despite factoring in a sharp cut in the net adds market share

We have revised our net adds market share assumption for Bharti to 21% from 24.4% seen in FY3/09 due to expected launch of services by greenfield operators and expansion by regional players to offer pan-India services (Aircel, Sistema Shyam and Idea Cellular).

Fig 35 Monthly net adds by operator

Operator Monthly Net adds (m)	FY09	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Bharti	2.66	2.76	2.38	2.04	1.83	1.50	1.25
RCOM	2.24	2.32	2.05	1.38	1.20	1.00	0.77
Vodafone Essar	2.05	2.45	1.91	1.65	1.25	1.05	0.85
BSNL	0.95	1.15	0.80	0.70	0.60	0.50	0.40
Idea	1.24	1.30	0.89	0.85	0.75	0.64	0.54
Tata Teleservices	0.90	1.40	1.40	1.30	1.00	0.80	0.60
Aircel Maxis	0.66	1.20	1.20	1.10	0.80	0.60	0.40
MTNL	0.08	0.08	0.07	0.06	0.05	0.04	0.03
BPL (Mumbai)	0.07	0.04	0.03	0.02	0.01	0.01	0.01
HFCL	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Sistema Shyam	0.04	0.10	0.08	0.06	0.04	0.02	0.01
Spice Communications	(0.01)	0.04	0.04	0.03	0.03	0.02	0.02
Greenfield		0.28	0.20	0.48	0.42	0.36	0.30
All India	10.89	13.14	11.07	9.69	8.00	6.56	5.19

Source:Company data, Macquarie Research, September 2009

Fig 36 Net adds market share by operator

Net adds market share (%)	FY2009	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E
Bharti	24.4	21.0	21.5	21.1	22.9	22.9	24.1
RCOM	20.6	17.7	18.5	14.2	15.0	15.2	14.8
Vodafone Essar	18.9	18.6	17.3	17.0	15.6	16.0	16.4
BSNL	8.7	8.8	7.2	7.2	7.5	7.6	7.7
Idea	11.4	9.9	8.1	8.8	9.4	9.8	10.5
Tata Teleservices	8.3	10.7	12.7	13.4	12.5	12.2	11.6
Aircel Maxis	6.0	9.1	10.8	11.4	10.0	9.1	7.7
MTNL	0.7	0.6	0.6	0.6	0.6	0.6	0.6
BPL (Mumbai)	0.7	0.3	0.3	0.2	0.1	0.2	0.2
HFCL	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Sistema Shyam	0.4	0.8	0.7	0.6	0.5	0.3	0.2
Spice Communications	-0.1	0.3	0.3	0.3	0.4	0.4	0.4
Greenfield	0.0	2.2	1.8	4.9	5.3	5.5	5.7
All India	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company data, Macquarie Research, September 2009

Indian handset market: distribution reach is the key differentiator

Rapid subscriber addition to fuel the growth of the Indian handset market. The Indian handset market is worth US$5.5bn annually, according to the latest data released by *Voice & Data* magazine. This implies 7.9% growth in FY3/09, compared to 11.9% growth witnessed by the market in FY3/08. The industry is expected to grow at 10-15% in FY3/10, on the back of sustained growth in the subscriber base.

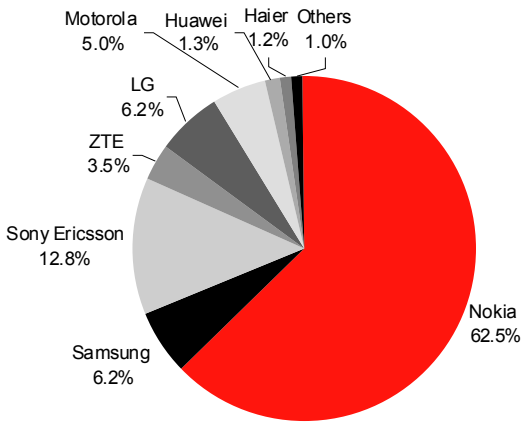
Fig 37 Indian handset market grew 8% in FY09, defying global slowdown

Company	FY08 Revenue (in Rs bn)	FY09 Revenue (in Rs bn)	YoY Growth (%)
Nokia	150.0	165.7	10.4
Samsung	15.0	25.9	72.7
Sony Ericsson	30.8	15.5	-49.6
ZTE	8.5	14.4	69.4
LG	15.0	11.6	-22.3
Motorola	12.0	9.1	-24.5
Huawei	3.2	3.6	12.5
Haier	3.0	3.9	29.4
Others	2.5	9.4	275.5
Total	240.0	259.1	7.9

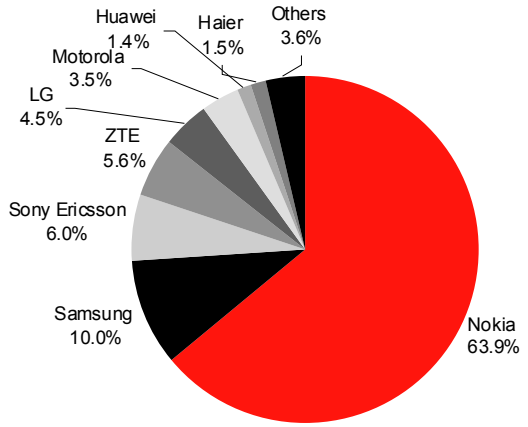
Source: Voice & Data, Macquarie Research, September 2009

Distribution strength separates winners from losers. Nokia continues to have a substantial lead over its competitors, having 190,000 outlets across the country. The company expanded its distribution network by 40% in FY09 and managed to increase its market share to 63.9% from 62.5% last year. Samsung, the No. 2 player, augmented its distribution network by appointing Telemart as its national distributor. We highlight that extensive distribution reach is a key competitive advantage – both in the telecom services and wireless handsets business – and one that is not easily replicable by late entrants.

Fig 38 Nokia continues to lead; Samsung displaced Sony Ericsson from the No. 2 slot in FY09



Source: *Voice & Data*, Macquarie Research, September 2009



Source: *Voice & Data*, Macquarie Research, September 2009

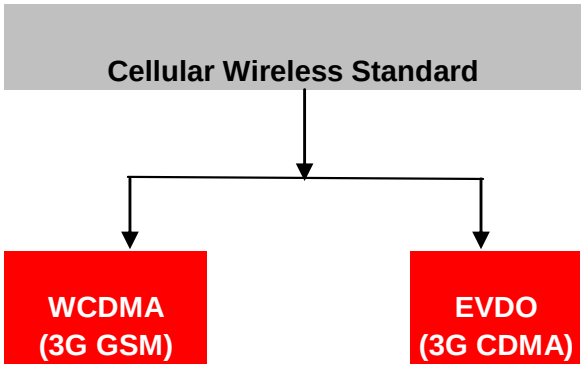
India to keep prime position among global handset manufacturers: According to data released by Gartner, global handset sales were up 6% YoY in 2008 (vs 26% YoY growth in handset sales in India over the corresponding period). For 2008, total handset sales in India were around 124m, up from 98m in 2007. Based on weaker market sentiment and a cautious approach by consumers, Gartner expects India to post flat YoY growth in handset sales in 2009. Even so, we believe the slowdown in handset sales will be due largely to a decline in replacement category sales. These accounted for almost 40% of sales in 2008.

Little risk to our subscriber growth forecasts: We believe that in the current economic downturn, consumer spending will shift to smaller-ticket items and note that the cost of mobile connection in India is one-eighth to one-tenth the cost of an entry level handset. Hence, we do not see any risks to our strong net subscriber addition forecast of 157.6m in FY10, up 20.6% YoY from 131m net subscriber additions in FY09.

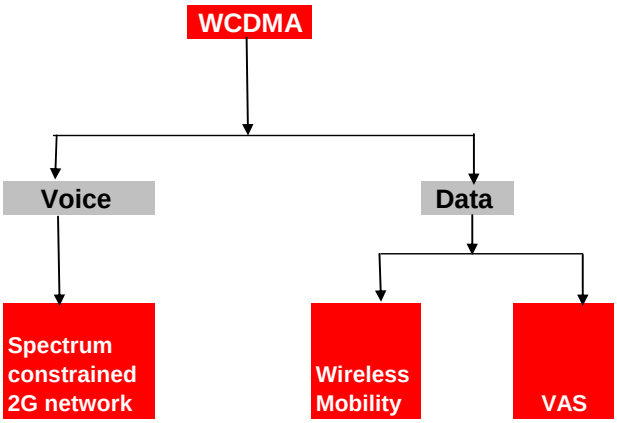
Wireless broadband: New frontier for growth

3G and Broadband Wireless Access (BWA) spectrum auctions will add two attractive revenue streams: 1) Indian telcos would be able to tap the huge potential offered by data and other high-bandwidth VAS applications (such as mobile video) and 2) low broadband penetration (0.6%) can mirror the exponential growth in Indian wireless subscriber base.

Fig 39 Cellular Wireless Standard: Current 3G auctions expected to focus only on WCDMA (3G GSM)



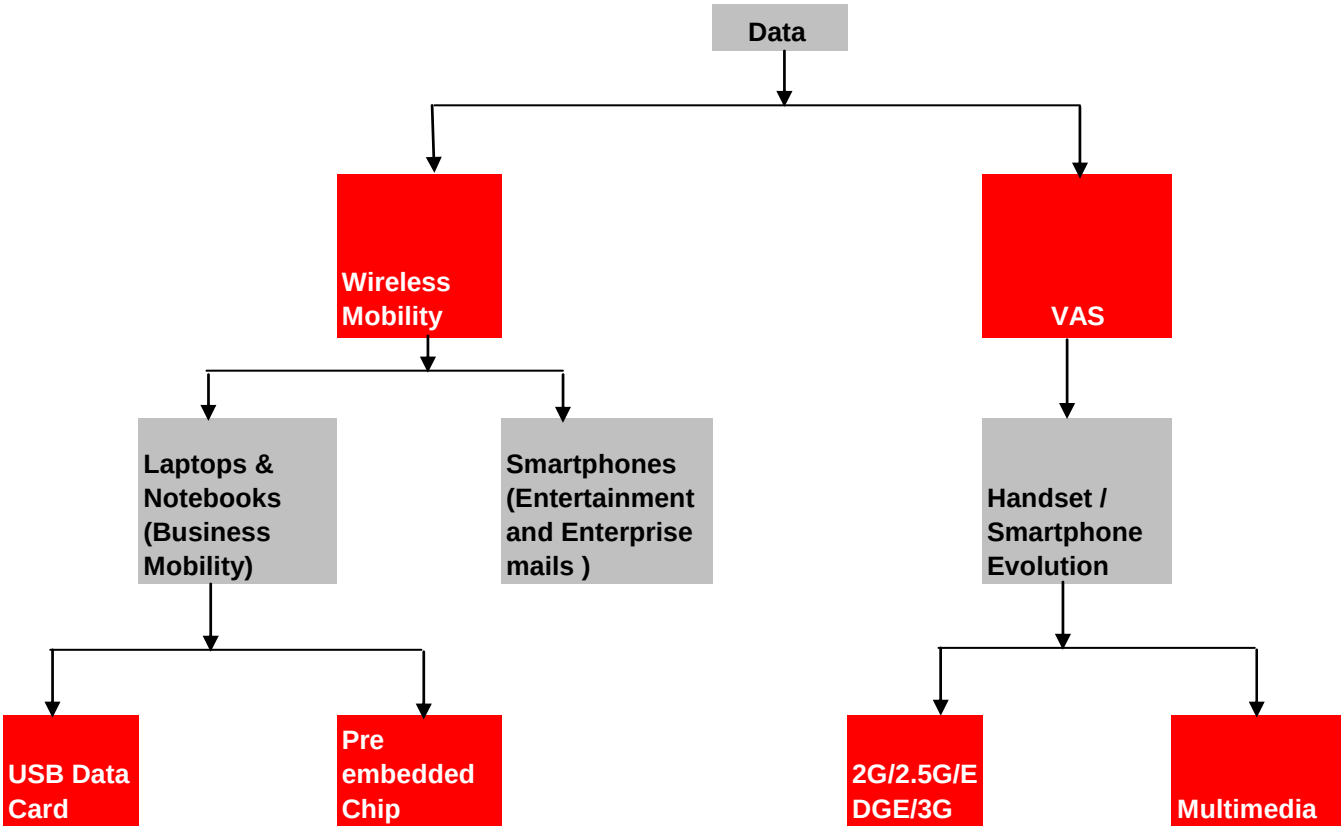
Source: Voice & Data, Macquarie Research, September 2009



Source: Voice & Data, Macquarie Research, September 2009

Biggest opportunity lies in data applications. As outlined in Figure 40 below, we see maximum upside for Telcos by offering data-based 3G applications. We have identified the various participants in the ecosystem that would play a key role in developing a successful business model and in turn gain from the opportunity Indian 3G market presents.

Fig 40 WCDMA (3G GSM technology): data-related applications to present maximum opportunities



Source: Company data, Macquarie Research, September 2009

Key issues and themes surrounding mobile broadband technologies

Rural deployment: SmarTone-Vodafone and Telstra offer HSPA coverage to more than 90% of the population in Hong Kong and Australia, respectively. Living well beyond the reach of fixed-line infrastructure, many farmers in Australia's outback rely on HSPA to provide them with a broadband connection.

Mobile broadband in emerging markets: Operators and governments in many countries see HSPA as the most cost-effective way to bring broadband connections to the majority of their people. Brazil, Cambodia, Egypt, Mexico, Namibia, South Africa, Sri Lanka, the Philippines and Uruguay are among the developing countries that have commercial HSPA services up and running. As of February 2009, there were 235 HSPA commercial networks in over 100 countries around the world and a further 65 networks were in the development and planning stage, which will bring the total number of countries with HSPA networks to 122.

Cost advantage of HSPA: The World Bank has estimated that the cost of a new mobile connection is one-tenth that of a new fixed-line connection. HSPA provides download speeds that are comparable to DSL, and so in many developing countries, it is increasingly being used as a primary broadband connection, with its mobility and versatility regarded as bonuses.

Download speeds and tailored service offerings are keys to differentiation: The capabilities and day-to-day performance of HSPA networks vary depending on which version of the technology has been deployed, the geographic coverage of the network and the way it has been designed. Some HSPA networks will be configured to offer very high download speeds, while some will be configured to support more users simultaneously. Some operators will focus on providing fast uplinks to make it easier for business customers to send large files or for customers to share photos or videos. Mobile operators can also differentiate themselves by adapting their networks to support specific combinations of services, such as enabling their customers to send each other videos or images while carrying on a voice call.

Wide array of economical HSPA handsets: By February 2009, there were over 1,110 HSPA devices commercially available from 128 vendors, including top brands such as LG, Samsung, HTC, Nokia, Apple, Sony Ericsson, Dell, HP and Huawei. There are also more than 300 notebook models with an embedded HSPA modem for sale around the globe today. We note that the cost of 3G handsets has fallen sharply and low-end 3G models now wholesale for as little as US$60. GSMA expects the price of low-end HSPA handset to follow a similar trajectory. HSPA-enabled laptops are available for as little as US$450 in retail market.

Mobile broadband as useful on handsets as it is on notebooks. People increasingly want to access the Internet and other multimedia content quickly and easily on the move without having to carry a laptop. With a HSPA handset, a user can also enjoy impressive online video games or download music on impulse without having to lug around a laptop.

Six million new subscribers are accessing mobile broadband using HSPA every month. Today, more than 80m people subscribe to mobile broadband service using HSPA technology in 100 countries. That figure is growing by six million every month, according to Wireless Intelligence. As a result, usage of data service is growing rapidly. The Vodafone Group, for example reported a 25% increase in data revenues (excluding messages) for the quarter ending 31 December 2008. As more people get HSPA devices, more services aimed specifically at mobile broadband users will be developed, creating a virtuous circle.

"Voice" was the killer app on 2G; "Choice" is the killer app on 3G. An ever-burgeoning ecosystem of network providers, device manufacturers, content providers, and application developers are making sure that there is something for everyone. Multimedia messaging, streaming video, full track music downloads, social networking, e-commerce applications, internet browsing, rapid email synchronisation, exchanging power point presentations, online gaming – the killer application is **choice.**

The evolutionary path for HSPA is already in place. The technological successor of HSPA is LTE, a very advanced mobile broadband technology designed to be fully compatible with HSPA and GSM. The first HSPA+ (also known as HSPA evolution) networks, which enable peak theoretical speeds of up to 42Mbps on downlink and above 11Mbps on uplink, have been deployed. Telstra has already commercially launched in Australia with peak downloading rates at 21Mbps. In our view, HSPA is likely to remain the dominant global mobile broadband technology for the next five to ten years.

WiMax is also a 3G standard. We note that WiMax can provide 75Mbps speed and cover distance of 50km, but can't do both at the same time. As in any radio network, there is a trade-off between distance and connection speeds. We note that, in theory, both WiMax and LTE networks will be able to offer peak speeds of 150Mbps, but only if users are within a couple of kilometres of the base stations.

3G services: analysing the demand and supply drivers

The 3G system represents the next step in the evolution of mobile cellular communication. The 2G system focused on voice communications, while 3G systems support increased data communication. They allow high speed data transfer of at least 144kbps, mobile Internet access, entertainment, and triple-play converged communications services, and have a markedly greater capacity and spectrum efficiency than 2G systems.

Demand side drivers in place

Demand for 3G services in the market would be primarily dictated by two factors:

Cheaper 3G-enabled handsets. Handset manufacturers are gearing up to offer 3G-enabled handsets at dramatically lowered prices. We expect prices of 3G-enabled handsets to fall sharply from the current Rs14,000–15,000 (about US$300) levels to the Rs4,000–5,000 level (about US$100), due to increased competition among the handset makers. Key entry level 3G handsets that are expected to be unveiled over next six months are:

- **The Nokia 2730 Classic.** The handset, which is expected to be launched in 3Q 2009, will be Nokia's cheapest 3G-capable phone. The phone will sell for about US$108, excluding carrier subsidies and taxes. The Nokia 7020 will ship in the fourth quarter for about US$122 before taxes and subsidies. (For detailed specifications of these models, please see Appendix 2).
- **LG KU250.** South Korean electronics company LG Electronics has already introduced its KU250 3G phone model, one of the cheapest phones in 3G category. The company plans to launch an adaptation of this model in India for around US$100.
- **Other operators.** Media reports have indicated that Chinese handset manufacturer Huawei is in talks with Indian operators to sell 3G-capable handsets for as little as US$80–100. We note that possible bulk deals could be a factor that would pull down the prices of 3G handsets. Motorola India also expects the prices of 3G phones to come down to Rs4,000–5,000. Motorola currently has about three 3G handset models in the Rs14,000–19,000 price range.

India already has decent Smartphone/multimedia enabled handset penetration

- We estimate that India has about 2m BlackBerry handsets in use. In addition, India already has about 40–50m smartphones and multimedia handsets in circulation. This, coupled with the fall in entry-level handset price for 3G handsets, presents Indian telcos with a large target market waiting to be tapped.

3G price plans

In developed markets most operators' service plans do not offer different 2G and plain vanilla 3G service plans. The best measure of 3G services pricing is the data plan offered by major telecom operators in respective markets.

Fig 41 Most 3G markets do not have separate 3G plans on offer

Country	Different 2G/3G plans?	Data plan
Australia	No	AUD 20/month for 1GB AUD 40/month for 5GB of data
Japan	No	Most customers sign up for flat rate data plans, which are usually structured in two tiers and are capped at JPY 4,410 per month (~US$45) for normal data use and JPY 5,985 (~US$63) for full internet browsing access.
Singapore	No	S$5/month for basic VAS S$36/month for unlimited use
US	No	Unlimited data plan at US$30-35/ month

Source: Company websites of Telecom operators in the respective countires, September 2009

Postpaid ARPU in India is pretty high at ~US$18 – highlighting the 3G opportunity. Indian telcos (except Vodafone Essar) do not disclose the postpaid ARPU. However, the limited data available from the Vodafone Essar results and quarterly performance indicators published by TRAI point to postpaid ARPU of ~Rs800 (US$17) for GSM operators. We believe that the postpaid ARPU for Indian GSM operators is material and has potential to move higher due to launch of data-rich 3G services.

Fig 42 Vodafone Essar: postpaid ARPU is 3.5x prepaid ARPU

(Rs)	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Postpaid ARPU	899	910	904	871	850	815	807
Prepaid ARPU	283	287	272	250	245	229	204

Source: Company data, Macquarie Research, September 2009

Fig 43 GSM postpaid ARPU (net of interconnect) is pretty high at ~Rs550

(Rs)	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
GSM Postpaid ARPU (net of interconnect)											
Metros	758	755	707	739	732	714	712	658	627	621	587
Category A Circles	646	638	619	664	600	618	632	610	580	554	534
Category B Circles	537	495	502	545	551	532	543	508	534	480	501
Category C Circles	538	550	542	594	584	569	590	548	533	514	506
All India	**643**	**632**	**613**	**655**	**632**	**628**	**638**	**600**	**584**	**559**	**543**
CDMA Postpaid ARPU (net of interconnect)											
Metros	616	539	579	614	548	588	537	462	448	423	403
Category A Circles	516	426	418	438	411	489	484	442	431	394	393
Category B Circles	475	387	343	392	388	411	431	392	406	344	342
Category C Circles	609	427	356	425	405	408	446	435	474	327	360
All India	**543**	**456**	**447**	**482**	**450**	**499**	**489**	**436**	**432**	**388**	**381**

Source: TRAI, Macquarie Research, September 2009

Prepaid market offers entertainment-related uplift to ARPU. Wireless prepaid ARPU for Indian telcos is very low, at about US$4.5. Even so, the main opportunity for Indian telecom operators is to entice a large number of prepaid customers to subscribe to entertainment-related applications, for example, streaming of music videos, and downloading of songs and sports clips.

Supply side constrained: 3G spectrum auctions expected to take place by November 2009

DoT has fixed the base reserve price for 3G spectrum at Rs35bn. The DoT has fixed the base reserve price for a pan-India 3G spectrum and licence at Rs35bn (the reserve was formerly fixed at Rs40bn). We view this development as positive for the large-scale incumbents – Bharti, RCOM, and Vodafone. We believe scale players will benefit from this move, as spectrum-constrained incumbents will now receive 3G spectrum ahead of the launch of 2G services by greenfield entrants, hence denying the benefit of better network quality to new entrants.

Further clarity awaited, but the Telecom Ministry has expressed commitment to carry out the auctions before the end of 2009. The DoT has yet to formulate the 3G spectrum auction guidelines. Even so, we note that Telecom Minister A. Raja has expressed confidence in carrying out the 3G spectrum auction within a 90-day period (September–November 2009). It is worth highlighting that cash raised from the 3G spectrum auction is crucial to fund the central government's widening fiscal deficit.

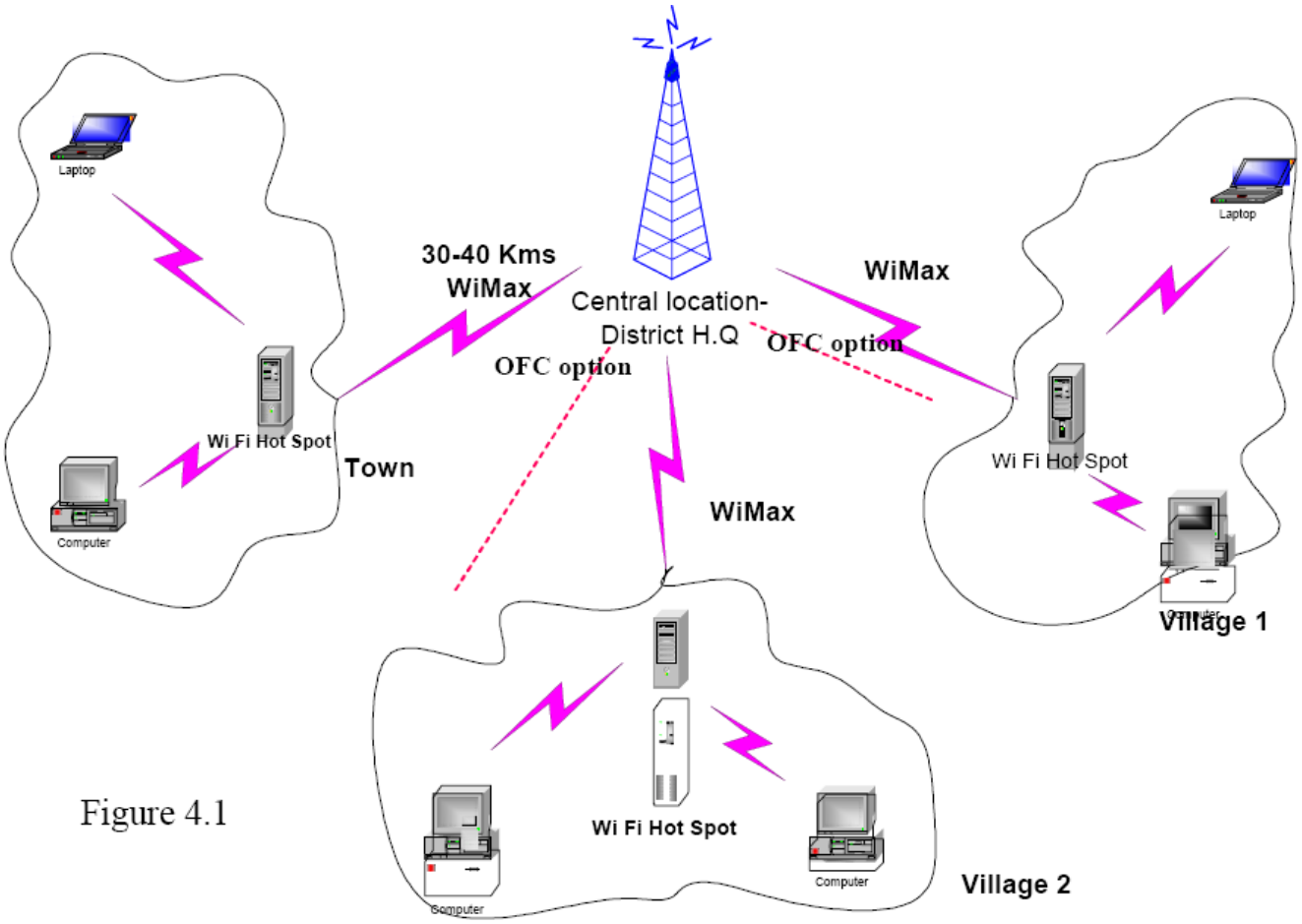
BWA on WiMax: catalyst for growth of broadband in India

There are various technologies available in the market that can foster faster rollout of Broadband services in the country. They are:

- ⇒ Digital Subscriber Line (DSL) system on copper local loops
- ⇒ Cable modem access. India currently has about 73m cable TV HHs but only 13m HHs are on digital cable and capable of delivering broadband.
- ⇒ Fibre to the Home (FTTH)/Fibre to the curb (FTTC)
- ⇒ Broadband over Power Line (BPL). Existing electrical power line as a local loop for delivering of Broadband services
- ⇒ VSAT based Broadband access
- ⇒ Terrestrial Wireless based access

- **Efforts on providing wireline broadband have not yielded results.** India has 6.8m subscribers, implying 0.6% broadband penetration as of May 2009. TRAI has noted that one of the primary reasons for the slow progress could be the focus of various service providers on offering Wired Broadband Access by making use of existing copper loops as well as Cable TV access network.
- **Wireless broadband has the best potential to alleviate the broadband divide.** Of all the available options outlined above, wireless has a great potential because of ease of its installation operation and maintenance, flexibility for the service providers and convenience to the end users. In addition, penetration of copper loops is not widespread in rural areas. As a result, wireless-based access could be one of the ideal solutions for last-mile connectivity through a combination of different technologies such as WiMAX and WiFi. These technologies have the added advantages of interoperability and economies of scale due to international standardisation.
- **Connectivity needs of rural India best served by WiMAX/WiFi.** We note that private telecom operators such as Bharti have adopted a “cherry-picking” strategy to roll out its wireline broadband service. This is a concerted effort by Bharti to enter only those markets where the company sees a clear roadmap for profitable growth in the segment. Wireless-based broadband technologies such as WiMAX and WiFi are best positioned for bridging the broadband divide of rural India.

Fig 44 Typical rural connectivity using WiMAX/Wi-Fi



Source: TRAI, Macquarie Research, September 2009

- **Spectrum allocation – holding up the launch of BWA in the country.** For the deployment of any wireless technology, suitable and sufficient spectrum availability is a prerequisite. As such, the upcoming Broadband Wireless Access (BWA) spectrum auction should finally pave the way for exponential growth in India's broadband subscriber base. Figure 45 below highlights the various frequency bands being currently used around the world to offer BWA. Based on the Information Memorandum released by the DoT in December last year, the government plans to auction BWA spectrum in the 2.3GHz and 2.5GHz bands.

Fig 45 Summary of international efforts for broadband wireless frequency allocation

Frequency	Comments
700-800 MHz	Being considered for future allocations, especially in USA and Philippines
2.3-2.4 GHz	Being used in USA, Korea, Malaysia, Singapore for wireless mobile services, including broadband
2.5-2.69 GHz	Recommended for expansion of IMT-2000 services by ITU. Being considered by some for technology neutral allocation USA, Brazil, Mexico, Canada, Australia, New Zealand, Hong Kong, Singapore
3.4-3.6 GHz	Strong support to shift satellite and other users from and to allow for mixed TDD and FDD allocations for WiMAX and other 4G platforms-US, UK, France, Malaysia, China, Germany, Hong Kong, Australia, New Zealand, Africa and some parts of Latin America
5.15-5.35, 5.725-5.85 GHz	Being considered for unlicensed usage by broadband wireless technologies including WiMAX

Source: Macquarie Research, September 2009

- **TRAI calculations imply 15MHz spectrum per operator in Mumbai.** The DoT had proposed auctioning of 20MHz blocks as per the Information Memorandum published in December 2008. We believe this is in line with the requirement that an operator would have to service customers taking up wireless broadband services. Figure 46 below presents the estimated BWA spectrum required per operator in 2010 in the Mumbai circle.

Fig 46 BWA spectrum requirement per operator in 2010 in Mumbai

Population (2006e)	16,000,000	
Growth rate	5%	
Population (2010e)	19,448,100	
Broadband policy goal (2010)	20,000,000	
Bombay subs broadband % of policy goal (2010)	10%	
Bombay subs broadband (2010)	2,000,000	
Bombay BWA subs as % of Bband subs (2010)	50%	
Bombay BWA subs (2010)	1,000,000	
Market share of one operator	10%	
Subs	100,000	[227/km2]
Per sub download data rate	0.25	Mbps
	256	Kbps
Duty cycle (what % of time the channel is active)	0.25	
Peak time customers	0.25	
Max download data throughput needed	1562.5	Mbps
Download/Upload traffic channel bandwidth ratio	3	:1
Total data throughput needed	2083.333333	Mbps
Cell radius	1.71	Km
Cell area	7.55	Km2
Area of Bombay	440	Km2
Number of cells	58	
Throughput per cell	35.76278706	mbps
Spectral efficiency	2.5	bps/Hz
Spectrum needed per cell	15,000,000	Hz
Estimated Spectrum needed per cell	**15**	**MHz**

Source:TRAI, Macquarie Research, September 2009

RCOM and TCOM mobile broadband launched with cheaper tariffs

Leading CDMA operators RCOM and Tata Teleservices have launched their mobile broadband offerings in the past three to six months, initially only in select cities.

- RCOM launched its mobile broadband service, called Reliance Netconnect Broadband+, in March this year. The service offers up to 3.1Mbps of downlink speed (compared to wireless internet speed of ~247Kbps offered by wireless data cards operating on GSM EDGE or CDMA 1x networks). Snapshot of various tariff plans offered by RCOM are collated in Figure 47 below. The USB device will cost the subscribers about Rs3,500.

Fig 47 Reliance Netconnect Broadband+ tariff plans

Plan Name	Monthly Rental	Bundled Usage	Usage Charges beyond Free Usage	Roaming
Pay As you Go	Rs299/-	Nil	Rs2 per MB	Nationwide*
Broadband+ 10GB @Night	Rs499/-	10GB@ Night	50 paise per minute during day	Nationwide
Broadband+ 1 GB Plan	Rs650/-	1 GB	Rs2 per MB	Nationwide
Broadband+ 2.5 GB Plan	Rs850/-	2.5 GB	Rs2 per MB	Nationwide
Broadband+ 5 GB Plan	Rs1,099/-	5 GB	Rs2 per MB	Nationwide
Broadband+ Citywide 10GB Plan	Rs1,099/-	10GB	Rs2 per MB	Citywide
Broadband+ 10GB Plan	Rs1,750/-	10GB	Rs2 per MB	Nationwide
Add on pack details				
Broadband+10GB Night Add on pack	Rs199/-	10GB	Rs2 per MB	As per plan chosen

Day Usage : 6 AM to 10 PM ; Night Usage : 10 PM to 6 AM

Source: Company data, Macquarie Research, September 2009

- Tata Teleservices launched its mobile broadband service Tata Photon+ in April 2009. The company promises up to 3.1Mbps of downlink speed to its customers opting for this service. Current tariff plans for the service using a USB modem are shown in Figure 48 below:

Fig 48 Tata Photon+ tariff plans

Plan Name	Monthly Rental (Rs)	Free Usage	Additional Usage Charges
Pay as you Surf	299	NIL	Rs2/MB
Get Started 400	400	150 MB	Rs2/MB
Night Surf	499	10 GB @ Night (10pm - 7am)	Rs2/MB 7am–10pm
Photon+ 1	650	1 GB	Rs2/MB
Photon+ 2.5	850	2.5 GB	Rs2/MB
Freedom Plan	1,250	10 GB	Rs2/MB
Add on pack details			
High Speed - Night Surf Add-on Pack	Rs199	10 GB @ Night (10pm - 7am)	Rs2/MB (7am – 10pm)

Source: Company data, Macquarie Research, September 2009

What does the pricing of these plans mean for mobile broadband?

We believe the low price points and convenience that mobile broadband offers customers will result in a significant jump in the share of mobile broadband in the overall broadband pie. It is worth noting that currently, less than 1% of India's broadband subscribers are on wireless broadband.

Fig 49 Fixed line broadband plans are expensive vs. mobile broadband plans

Operator	Monthly rental (Rs)	Download speed
Bharti Airtel	550	512 Kbps
MTNL	649	512 Kbps
RCOM	1399	600 Kbps
Tata Indicom	1850	512 Kbps

Source: Macquarie Research, September 2009

Appendix 1: MNP impact in regional markets

Overview of lessons from other regional markets

Fig 50 MNP introduction timeline

Year	Countries
1997	Singapore
1999	Hong Kong, Netherlands, United Kingdom
2000	Spain, Switzerland
2001	Australia, Sweden, Denmark, Norway
2002	Italy, Belgium, Portugal, Germany
2003	USA, Austria, Finland, France, Ireland, Luxembourg
2004	Korea
2005	Taiwan
2006	Japan, South Africa

Source: Macquarie Research, September 2009

In **Korea**, EBITDA margins post-MNP were affected as a result of aggressive marketing expenses. Recently, stringent regulatory intervention has restored sanity and margins have improved. LGT became a key beneficiary of MNP, as it managed to differentiate its services by focusing on voice-centric services.

Fig 51 Key lessons from Korea

Status of MNP	Asymmetric MNP affecting SKT first in Jan 2004
	Full three-way MNP from Jan 2005
Short-term impact	Churn and marketing costs increased
	EBITDA margins decreased for all players (SKT down by about 7pps)
Long-term impact	Margins moderated due to regulatory intervention with regards to handset subsidies
	LGT is a key beneficiary of MNP as it differentiated itself by focusing only on voice-centric services

Source: Macquarie Research, September 2009

In **Singapore**, operators focused on customer retention programs and as a result churn rates, ironically, decreased after MNP was introduced. Porting rates are very low (about 2%), and operators are focusing on profitability, rather than promoting churn.

Fig 52 Key lessons from Singapore

Status of MNP	Launched in phases from April 1997.
	SMS portability and removal of recurring fee from June 2003.
Short-term impact	Churn rates remained stable as operators increased customer retention efforts
	Service differentiation was removed when M1 and SingTel mimicked StarHub's 'free incoming call' price plans.
Long-term impact	Porting rates are very low (2-3%) and overall MNP had a limited impact
	Operators were not interested in promoting churn, as they focus on profitability

Source: Macquarie Research, September 2009

In **Hong Kong**, MNP made waves but this seems to be an exception. The large number of players, removal of contract terms post-MNP and aggressive subsidies meant that churn rates almost doubled to about 5%. EBITDA margins were affected for all players and about 30% of subscribers switched operators in the first year.

Fig 53 Key lessons from Hong Kong

Status of MNP	Launched in March 1999
Short-term impact	MNP made waves as churn rates doubled to 5% and over 30% ported in first year
	Margins nosed dived because of large number of players (high degree of competition) and removal of contract periods
Long-term impact	Porting rates decreased from 2002 but have increased for the past few months due to 3G migration

Source: Macquarie Research, September 2009

In **Australia**, MNP had limited impact. This is despite having one of the lowest porting times (about three hours) in our coverage. A key reason was lack of handset subsides. Optus managed to use MNP to penetrate the corporate market segment.

Fig 54 Key lessons from Australia

Status of MNP	Launched September 2001
Short-term impact	MNP has very little immediate impact on residential segment due to prevalence of existing two-year contracts.
	SME segmented was targeted successfully by Optus and Vodafone.
	Large corporations saw pre-emptive price reductions by Telstra, but less churn to Optus.
Long-term impact	MNP has helped enable the current fierce price competition in mobiles by widening the “churnable” market.

Source: Macquarie Research, September 2009

Appendix 2– Preview of new handsets

2730 Classic

- According to Nokia, the 2730 Classic is "Nokia's most affordable 3G phone offering faster access to the Internet and a richer browsing experience. With the steady spread of 3G data networks across the developing world, the Nokia 2730 classic is ideal for staying connected with friends and family, and sharing one's life with others."
- The 2730 Classic is expected to start shipping in the third quarter of 2009 for an estimated retail price of US$108 before subsidies and taxes.

Fig 55 The Nokia 2730 Classic: Cheapest 3G-enabled phone from Nokia

Source: Company data, September 2009

LG KU 250

- According to Softpedia, the LG-KU250 phone was recently awarded the winning title "3G for all programmes" by the GSM Association.
- The phone does not have very impressive features. Still, the GSM Association considered the LG-KU250 worthy of its appreciation for one thing only – the phone's capability of supporting a wide range of 3G services including voice calls, video clips, high-speed Internet access and music downloads. Moreover, the GSMA is confident that this handset will leave a lasting impact on the industry due to its performance.

Fig 56 LG KU 250: Award-winning 3G-enabled phone; a variant is likely to be launched in Indian markets

Source: Company data, September 2009

Nokia 2720 Fold

- According to Nokia, the 2720 Fold "is a compact fold phone with an exciting mirror-effect design, which helps people stay organised with easy access to email, calendar, Internet connectivity and file-sharing applications. Email can be activated by completing a simple three step set-up process, and in select markets will be offered with Nokia Life Tools."
- The 2720 Fold is expected to begin shipping in the third quarter of 2009 for an estimated retail price of US$74 before subsidies and taxes.

Fig 57 Nokia 2720 Fold: handsets with lower price tags would benefit from Indian subscriber growth

Source: Company data, September 2009

Nokia 7020

- According to Nokia, the 7020 is "a fashionable fold phone that uses light, color and metal finishes to convey personal style. You will never miss a thing with the stardust effect when you get a call or message, or tap twice to have the cover light up. Connect to social networks, and share pictures taken with the 2-megapixel camera and shown on the bright display."
- The 7020 is expected to begin shipping in the fourth quarter of 2009 for an estimated retail price of US$121 before subsidies and taxes.

Fig 58 The Nokia 7020: expected to be launched in 4Q 2009

Source: Company data, September 2009

Appendix 3– Mobile broadband case study

Our analysis of the Sri Lankan telecom market provides us with an interesting case study on Dialog Mobile, the leading Sri Lankan telecom operator which rolled out mobile broadband in 2008. We believe that Sri Lankan and Indian telecom markets are similar in many ways – low internet penetration and population demographics being some of them. As such, success of wireless broadband in Sri Lanka points to the potential this service holds for Indian telecommunication market.

Dialog Mobile – Targeting the bottom of the pyramid

- **Upgrade of 3G network to offer HSPA mobile broadband required 20% incremental investment.** Dialog Mobile is the largest mobile operator in Sri Lanka, with 4.5m customers, of whom 87% are prepaid with an ARPU of less than US$4. In 2007, Dialog took the decision to upgrade its 3G network, which launched the previous year, to support HSPA mobile broadband. Dialog estimates that the HSPA required an incremental investment of about 20%. That made HSPA the most cost-effective option for rolling out broadband services to the vast majority of Sri Lankans. Whereas fixed broadband would require significant investment in trenching copper and fibre lines, HSPA broadband could share the cells site infrastructure already created for Dialog's GSM network. And unlike most fixed wireless broadband offerings, HSPA does not require line of sight.
- **25% of 3G subscribers are using HSPA to connect to the internet.** Dialog has created several different HSPA tariff plans. These start at US$0.45 per month for a 5MB allowance, rising to US$28 for 5GB allowance providing peak speeds of up to 7.2Mbps. The latter plan includes a free modem valued at US$54. The same package is offered to university students at US$14. As of September 2008, Dalog had 120,000 3G customers, around 30,000 of whom were connecting their laptops and desktops to the internet with HSPA modems and data cards.

Appendix 4: Indian operations; global capabilities

We believe Indian telcos have come of age, with highly skilled management teams ready to take on global challenges. Irrespective of the outcome of the current MTN deal, we see the top management of Bharti highly capable of leading global operations in the future. Below we have reproduced the profiles of key management personnel of Bharti Airtel.

Manoj Kohli: CEO and Joint Managing Director

Manoj Kohli is the CEO and Joint Managing Director, Bharti Airtel. He heads the integrated telco including all businesses of Mobile Services, Telemedia Services, Enterprise Services and International Operations. Manoj started his career in 1979 with DCM Ltd., where he initially led the HR function, followed by leadership positions across different business verticals. He subsequently worked at AlliedSignal, where he was Executive Director in charge of its new Industrial Park and operations in India. Next, Manoj joined Escotel, which he led for over five years as Executive Director and CEO, before joining Bharti Airtel. Manoj holds degrees in Commerce and Law and an MBA from Delhi University. Manoj also attended the Executive Business Program at the Michigan Business School and the Advanced Management Program at the Wharton Business School.

Sanjay Kapoor: Deputy CEO

Sanjay Kapoor has over 25 years of experience, of which 11 years have been in the telecommunications sector. In his current role he is responsible for the Mobile, Telemedia and DTH businesses at Bharti Airtel Limited. Sanjay joined the Bharti group in 1998 and has since held a number of senior management positions across the Mobility arena. Prior to joining the Bharti Group, Sanjay worked for Xerox India as Director – Operations Support. He spent 14 years with the global document management company, handling a range of key portfolios, ranging from Sales & Marketing to General Management functions. Sanjay holds a Bachelor's degree in Commerce (Hons) from Delhi University, an MBA from Cranfield School of Management (UK) and is a Graduate of Wharton's Advanced Management Program.

David Nishball: President – Enterprise Services

David Nishball is President of Enterprise Services at Airtel. As president of this business unit, David leads all business-to-business activities, including wholesale carrier and corporate markets – both within India and globally. David has over 25 years of experience spanning various roles and functions in the telecom industry, including 15 years in international markets. Prior to joining Airtel, David was a Senior Vice President, Asia-Pacific, for Orange Business Services (formerly Equant), based in Singapore. During his career, David has held a number of strategic positions at AT&T and its related companies. David was a founding officer of WorldPartners Company, a global telecommunications services venture between AT&T, KDD - Japan, Singapore Telecom and Unisource, serving as the Vice President, Marketing.

Atul Bindal: President – Mobile Services

Atul Bindal is President, Mobile Services, of Bharti Airtel Ltd. Prior to this, Atul Bindal was President, Telemedia Services. Before moving to Bharti, Atul was Commercial Director, Asia Pacific with DHL in Singapore with executive responsibilities for Sales, Marketing, Customer Service, Pricing and E Commerce for the US$1.5bn region. Previously, Atul served with AlliedSignal/Honeywell for almost seven years across India, Asia Pacific and the US in various operating and functional roles. Atul has also worked in various leadership roles in Marketing, Sales and General Management with American Express, Lipton and Shell. Atul is a Mechanical Engineer from Delhi University, and has a Postgraduate degree in Management from the Indian Institute of Management Calcutta.

K. Srinivas: Joint President – Telemedia Services

K. Srinivas is currently the Joint President of Bharti Airtel's Telemedia business and is a member of the Airtel Management Board. Srini joined Bharti Airtel in November 2002 and as a CEO, led the operations of mobile services in Andhra Pradesh and Delhi. He led the launch of Airtel's first 100% owned venture overseas by successfully translating the unique business model of Airtel beyond the shores of the country. Of his 22 years of working experience, Srini spent his early years in Britannia Industries Limited, then a subsidiary of Nabisco, and Hindustan Lever Limited (HLL) a subsidiary of Unilever. During these years, he worked in various sales, marketing and business development roles across different profit centres. Srini is a Mechanical Engineering graduate and a PGDM from IIM Bangalore (1987).

INDIA

Bharti Airtel

3 September 2009

BHARTI IN		**Outperform**
Stock price as of 01 Sep 09	Rs	421.65
12-month target	Rs	525.00
Upside/downside	%	+24.5
Valuation	Rs	525.00

- DCF (WACC 12.5%, beta 1.0, ERP 7.5%, RFR 7.5%, TGR 3.5%)

GICS sector	telecommunication services	
Market cap	Rs bn	1,601
30-day avg turnover	US$m	67.7
Market cap	US$m	32,646
Number shares on issue	m	3,797

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	369.6	427.3	495.8	568.3
EBITDA	bn	151.7	179.4	213.5	259.2
EBITDA growth	%	33.4	18.3	19.0	21.4
Adjusted profit	bn	84.7	111.8	130.9	154.3
EPS adj	Rs	22.32	29.46	34.49	40.66
EPS adj growth	%	26.5	32.0	17.1	17.9
PE adj	x	18.9	14.3	12.2	10.4
ROA	%	19.3	18.4	20.3	21.1
ROE	%	32.2	31.5	28.6	27.2
EV/EBITDA	x	10.9	9.1	7.5	6.1
Net debt/equity	%	22.2	1.5	-10.5	-24.1
Price/book	x	5.3	3.9	3.1	2.6

BHARTI IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, September 2009 (all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

Good getting better in India; MTN key

Event

- We revisit our estimates for Bharti and increase our target price to Rs525 from Rs487.5 earlier, despite the 50bp increase to our WACC to 12.5% due to the MTN deal overhang. We also raise our EPS forecasts by 1% for FY10, 4% for FY11 and 13% for FY12, driven by higher wireless subs estimates for Bharti and India. We reaffirm our OP rating on Bharti, which remains our top pick among Asia telecoms. In our view, Bharti is not an 'ex-growth or low-growth' stock by any means (as lots of industry watchers tend to argue) – our forecast EPS CAGR is 24.3% over two years and 22.1% over three years.

Impact

- **Forecast sharp capex moderation from peak FY3/09 levels, but not at the cost of growth.** Bharti has been in a high-capex mode for the last 14 years and is now turning positive on free cash after its 2G network has reached close to 85% population coverage. We forecast total capex of US$2.1bn in FY3/10, down 24% from the US$2.9bn spent in FY3/09. Reduced wireless capex (both passive and active) is the key source for overall capex moderation, which along with strong EBITDA growth, should drive massive free cash generation over the next 18 months (see Figures 2 and 3). Bharti's FCF profile will likely deliver positive surprises and be a positive driver of valuations.
- **Bharti's world-leading cost structure presents the biggest challenge for new entrants.** Bharti carried 141bn mobile minutes (up 34% YoY) on its network in 1Q, making it the fifth-largest wireless telco globally ahead of carriers like Sprint Nextel and T-Mobile (USA), and Lat-Am major America Movil. Bharti is the lowest-cost producer of voice minutes globally; this superlative cost structure is the key hurdle for challengers and greenfield telcos.
- **Factoring in higher wireless subscribers for Bharti despite loss in net adds market share.** We raise our all-India wireless subs forecast to 549m from 500m earlier. Driven by higher competition, we now forecast Bharti to capture 21% of net adds market share in FY3/10, down 340bp from 24.4% logged in FY3/09. Even so, we raise our wireless subs estimate for Bharti to 127m in FY3/10 from 117m earlier. Our subscriber forecast implies 2.76m monthly net adds through FY3/10E, well ahead of consensus estimates.

Earnings and target price revision

- We raise our FY3/10E, FY3/11E and FY3/12E EPS by 0.6%, 4.3% and 12.9%, respectively. Our revised target price is Rs525, up from Rs487.5.

Price catalyst

- 12-month price target: Rs525.00 based on a DCF methodology.
- Catalyst: 1) Outcome of MTN deal; 2) External tenancy on Indus Towers.

Action and recommendation

- **Bharti is trading at an attractive 12.2x FY3/11E PER**, on the back of a meagre 4% return over the past year and 22% CYTD. We believe the outcome of the MTN deal is a key trigger near term, but that the stock will likely go up on any announcement unless Bharti raises the bid price by 20–25%.

Bharti Airtel – key estimate changes and drivers

Fig 1 Bharti Airtel – new estimates, old estimates and change in estimates

Amount in Rs bn, unless otherwise stated	New estimates			Old estimates			Change (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
India wireless subscribers (SIM cards) incl. fixed wireless (m)	549.4	682.2	798.4	500.0	602.0	692.0	9.9	13.3	15.4
Bharti's wireless subscribers (m)	**127.0**	**155.5**	**180.0**	**119.5**	**137.5**	**149.5**	**6.3**	**13.1**	**20.4**
Bharti's market share (%)	23.2	23.0	22.8	23.9	22.8	21.6	-2.9	0.6	5.5
Implied monthly subs net adds (m)	2.76	2.38	2.04	2.20	1.50	1.00	25.3	58.3	104.2
Total revenues	427	496	568	448	505	547	-4.7	-1.8	3.9
Total EBITDA	179	214	259	190	222	247	-5.5	-3.7	5.0
EBITDA margin (%)	42.0	43.1	45.6	42.4	43.9	45.1	-0.9	-1.9	1.0
Total capex	107	102	90	144	109	92	-25.8	-5.8	-1.7
Profit before tax (PBT)	134	164	205	137	161	182	-2.2	1.8	12.6
Diluted EPS (Rs)	**29.5**	**34.5**	**40.7**	**29.3**	**33.1**	**36.0**	**0.6**	**4.3**	**12.9**
2 yr EPS CAGR - FY3/09–11E (%)	***24.3***			***24.3***					
3 yr EPS CAGR - FY3/09–12E (%)	***22.1***			***19.0***					
Gross mobile ARPU (Rs per mth)	270	249	239	280	258	248	-3.4	-3.3	-3.7
Mobility revenues	352	414	481	357	397	427	-1.2	4.2	12.5
Mobility EBITDA	120	149	182	112	129	145	6.7	15.2	25.3
Mobility EBITDA margin (%)	33.9	36.0	37.8	31.4	32.6	34.0	8.1	10.6	11.3
Mobility capex (incl. passive infrastructure)	61	62	53	106	79	66	-42.5	-21.4	-20.4
Broadband & fixed line gross ARPL (Rs per month)	1,007	1,003	1,018	1,127	1,115	1,115	-10.6	-10.1	-8.7
Broadband & fixed line revenues	35	40	45	42	46	49	-15.3	-12.5	-8.5
Broadband & fixed line EBITDA	15	17	19	18	20	22	-19.3	-15.6	-11.4
Broadband & fixed line EBITDA margin (%)	41.8	42.5	42.8	43.9	44.0	44.2	-4.8	-3.5	-3.1
Broadband & fixed line capex	18	13	12	9	3	3	109.7	302.5	247.9
Enterprise - Carriers revenues	77	96	112	80	88	94	-3.9	8.6	19.3
Enterprise - Carriers EBITDA	36	45	52	34	39	43	5.1	15.4	21.9
Enterprise - Carriers EBITDA margin (%)	46.2	46.8	46.5	42.3	44.0	45.5	9.4	6.3	2.2
Enterprise - Carriers capex	17	24	22	24	22	19	-28.0	8.6	19.3
Enterprise - Corporates revenues	20	23	27	24	27	30	-17.2	-14.3	-12.0
Enterprise - Corporates EBITDA	9	11	12	10	12	14	-14.2	-11.1	-8.7
Enterprise - Corporates EBITDA margin (%)	45.3	45.9	46.4	43.7	44.2	44.7	3.6	3.8	3.8
Enterprise - Corporates capex	1	2	3	4	3	3	-65.8	-28.0	-1.9
Passive Infrastructure revenues	32	26	29	na	na	na	na	na	na
Passive Infrastructure EBITDA	13	7	8	na	na	na	na	na	na
Passive Infrastructure EBITDA margin (%)	41.8	26.0	26.5	na	na	na	na	na	na
Passive Infrastructure capex	13	9	6	na	na	na	na	na	na
Weighted Average Cost of Capital for DCF (%)	**12.5**			**12**					

Source: Macquarie Research, September 2009

Capex moderation likely to play out in FY3/10E and continue thereafter

FY3/09 capex was 17% lower than guidance. We believe Bharti's capex has peaked in FY3/09 at US$2.9bn. Management has guided for FY3/10 capex of US$2.0–2.2bn (excluding passive infrastructure), slightly above our forecast of US$1.8bn. If we were to include passive infrastructure capex to be done by Bharti Infratel (Not listed) and Indus Towers (Not listed), capex guidance would be US$2.75–2.95bn. We forecast total capex of US$2.1bn for Bharti in FY3/10. Our forecast includes passive infrastructure capex by Bharti Infratel but excludes capex by Indus Towers.

Fig 2 Capex has peaked in FY3/09

FY3/09 capex (US$bn)	Actual	Guidance	Actual vs guidance (%)
Total capex (excluding passive infrastructure capex)	2.1	2.5	-15%
Total capex (including passive infrastructure capex)	2.9	3.5	-17%
FY3/10E capex (US$bn)	**Macq. Est.**	**Guidance**	**Macq. vs. Guidance * (%)**
Total capex (excluding passive infrastructure capex)	1.8	2 - 2.2	-13%
Total capex (including passive infrastructure capex)	2.8	2.75 - 2.95	-1%

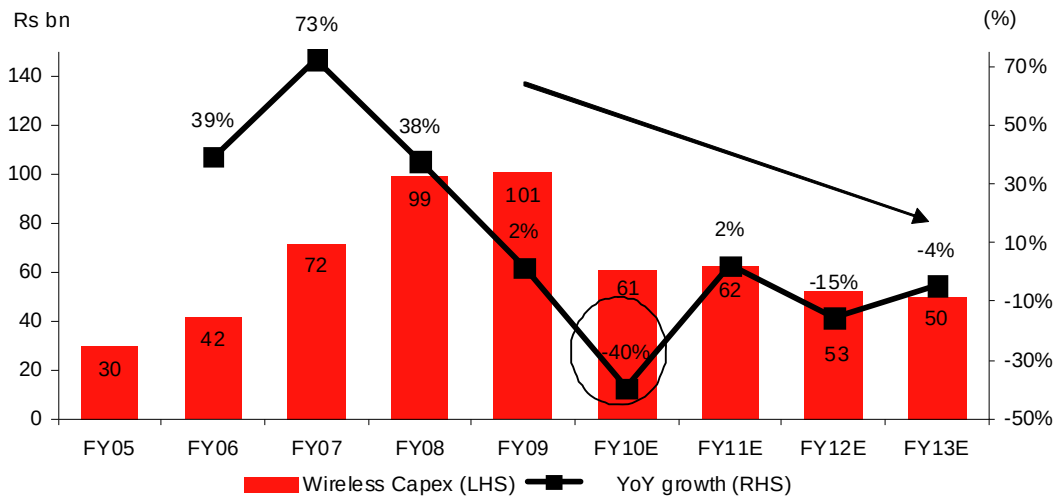
Note: FY3/10E capex including passive infrastructure takes into account passive capex for Bharti to be done by Indus

* Based on mid-point of the guidance

Source: Company data, Macquarie Research, September 2009

Expect wireless capex to decline 23% YoY in FY3/10E. We note that Bharti's population coverage has crossed the 82% mark in 1Q FY3/10. As such, the company believes that it would need to make only a calibrated investment going forward. We are building in a 40% YoY decline in wireless capex to Rs61bn in FY3/10E with moderate changes thereafter, as shown in Figure 3.

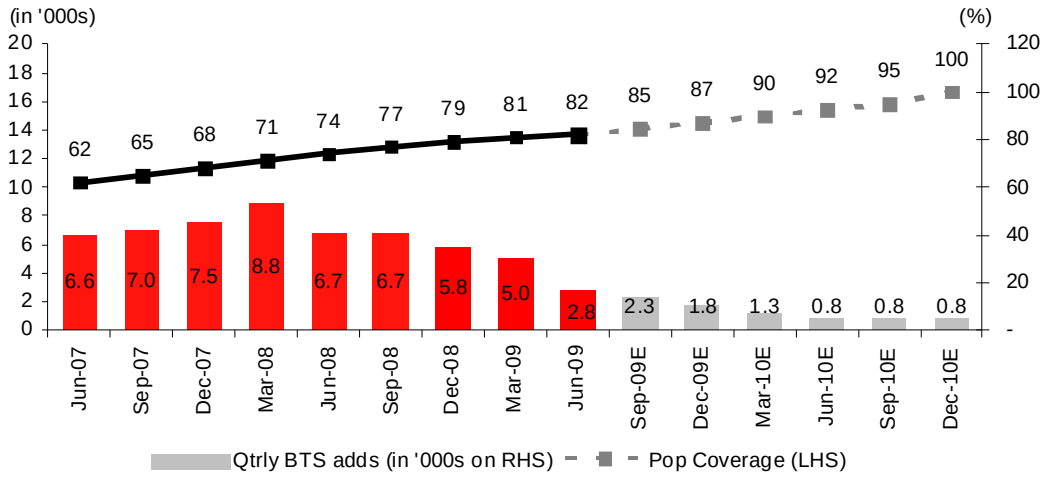
Fig 3 Wireless (passive+active) capex – expect sharp deceleration in capex in FY3/10E



Source: Company data, Macquarie Research, September 2009

Quarterly BTS addition has already moderated from the peak. Quarterly BTS addition for Bharti has already peaked a year ago in the March 2008 quarter. Bharti added 2,781 cell sites in the last quarter and we expect this to decline to 780 cell sites addition in the December 2010 quarter.

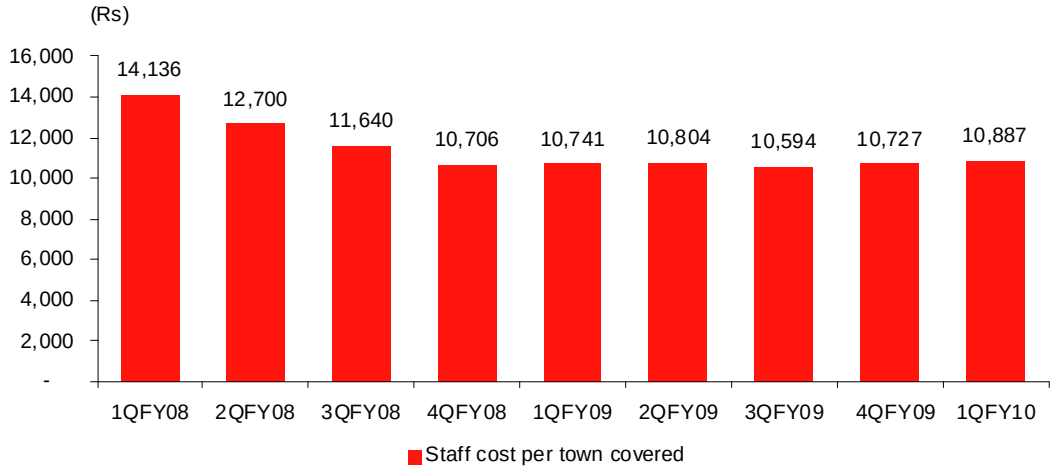
Fig 4 Pace of BTS addition has slowed down as pop coverage crosses 82%



Source: Company data, Macquarie Research, September 2009

Scale efficiencies on display. Bharti's extensive distribution reach gives it an edge over its existing competitors as well as new entrants in terms of subscriber addition capability and customer service. Figure 5 shows that staff cost per town covered has fallen by 23% in two years and data in Figure 6 demonstrates consistent improvement in employee productivity metrics.

Fig 5 Staff cost per town covered highlights Bharti's scale efficiencies



Source: Company data, Macquarie Research, September 2009

Fig 6 Employee productivity has consistently improved for Bharti on a QoQ basis

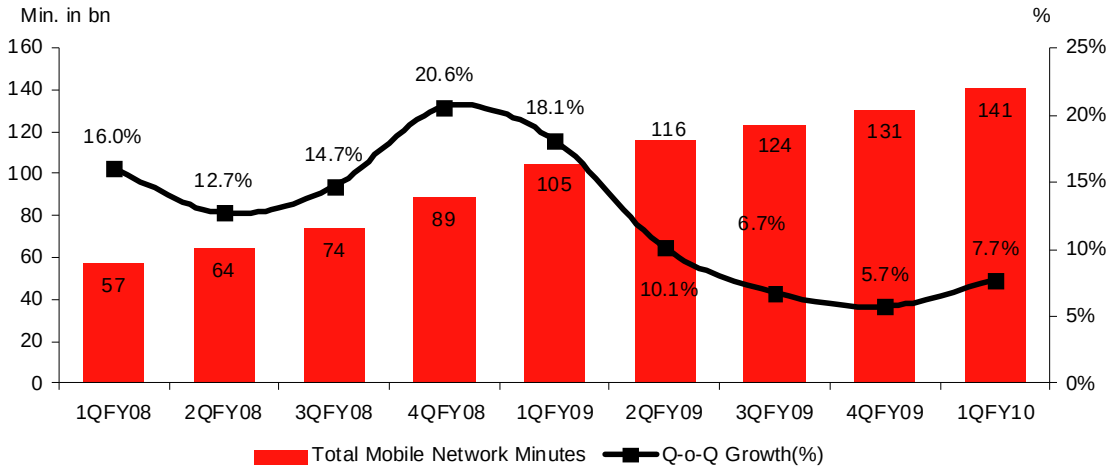
	Jun. 2008	Sept. 2008	Dec. 2008	Mar. 2009	Jun. 2009
Consolidated – Bharti Airtel					
Total Employees (No.)	26,144	25,616	25,553	24,538	23,789
Number of Customers per employee (No.)	2,745	3,123	3,454	3,939	4,422
Mobile Services					
Number of Customers per employee (No.)	8,130	9,527	10,555	11,992	13,388
Gross Revenue per employee per month (Rs m)	2.70	2.99	3.26	3.50	3.58

Source: Company data, Macquarie Research, September 2009

Bharti – one of the lowest-cost producer of mobile minutes

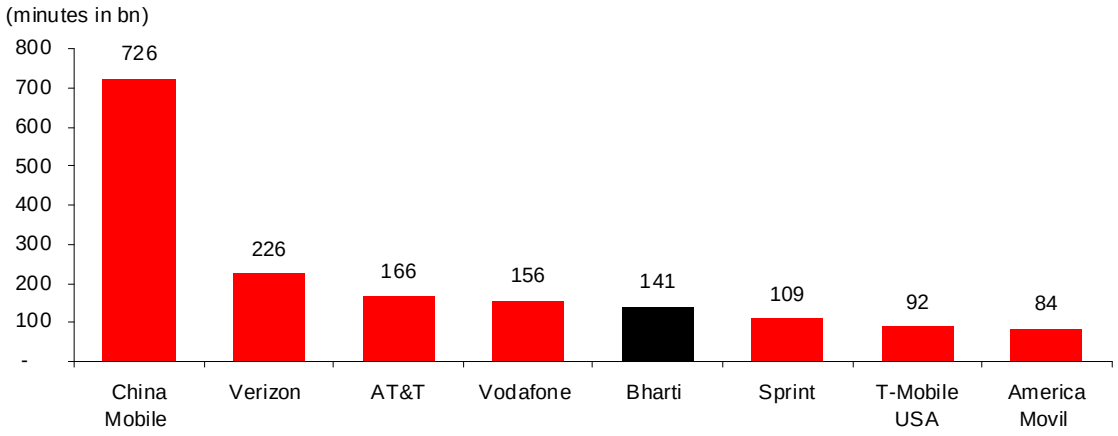
Greenfield entrants lack Bharti's scale advantage. Bharti carried 141bn mobile minutes on its network, almost twice that of No. 2 operator Vodafone Essar (Not Listed). We note that despite RCOM's (RCOM IN, Rs264, OP, TP:Rs360, 36%) freebie offer during the Jan–Mar 2009 quarter, Bharti registered sequential growth of 6% in mobile network minutes. We remain convinced that Bharti is likely the lowest-cost producer of voice minutes in the world and this remains the biggest entry barrier for greenfield players.

Fig 7 Bharti carried 141bn mobile minutes on its network



Source: Company data, Macquarie Research, September 2009

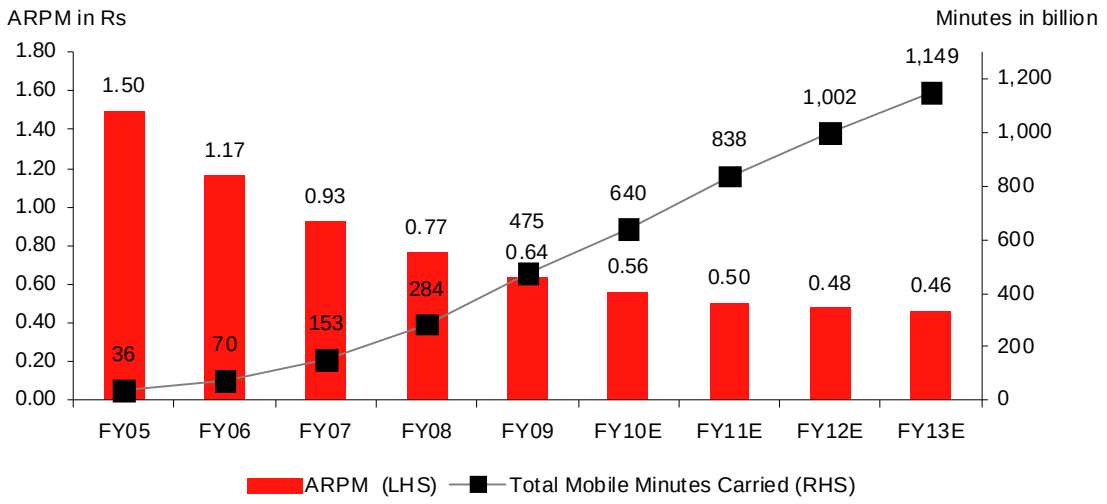
Fig 8 Mobile network minutes carried by global operators in Apr–Jun 2009 quarter



Source:Company data, Macquarie Research, September 2009

Bharti compares favourably with global telecom giants. Bharti carried a total of 140.7bn voice minutes on its network in 1Q from a single country operation, compared to Vodafone Plc's total network minutes of 143.6bn generated from its operations spanning 30 countries This highlights the scale Bharti has built in its India business, which has led to a global-sized minutes factory and a resultant cost structure that, in our opinion, is best-in-class globally.

Fig 9 Fall in tariffs would result in increased voice traffic

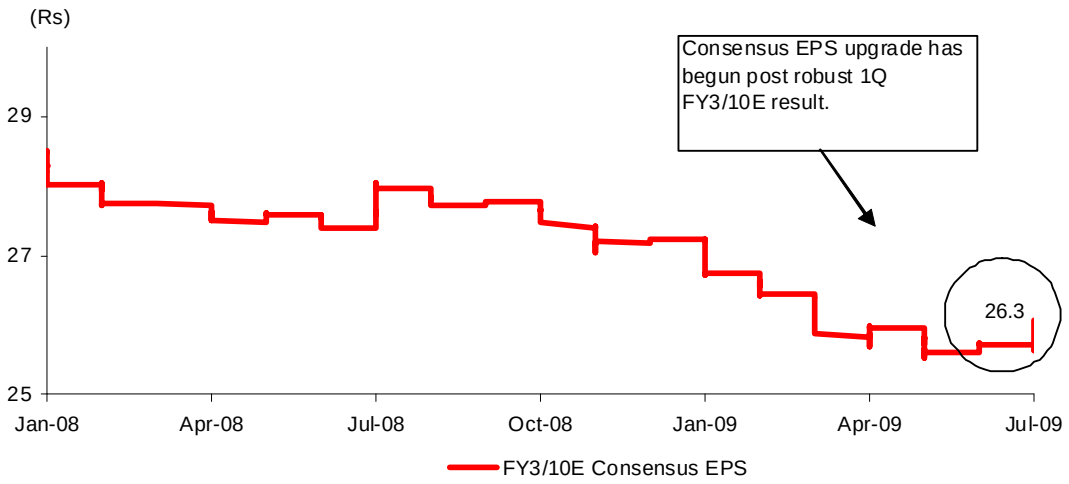


Source: Company data, Macquarie Research, September 2009

Expect FY3/10E consensus upgrade to drive re-rating

Consensus EPS estimates have upside risk. We note that consensus is building only 17% YoY earnings growth for Bharti. In contrast, we expect the company to deliver robust earnings growth of 32% in FY3/10.

Fig 10 Expect consensus FY3/10E EPS upgrade to drive stock outperformance



Source: Bloomberg, Macquarie Research, September 2009

Fig 11 We see little downside risk to our 12% above-consensus FY10 EPS forecast

(Amount in Rsm, except per share data)	Revenue	EBITDA	EPS
FY3/10E			
Macquarie Estimate	**427,309**	**179,437**	**29.5**
Consensus Estimate	427,350	175,286	26.2
Macquarie above consensus	0.0%	2.4%	12.2%
FY3/11E			
Macquarie Estimate	**495,802**	**213,510**	**34.5**
Consensus Estimate	488,763	198,379	29.3
Macquarie above consensus	1.4%	7.6%	17.5%

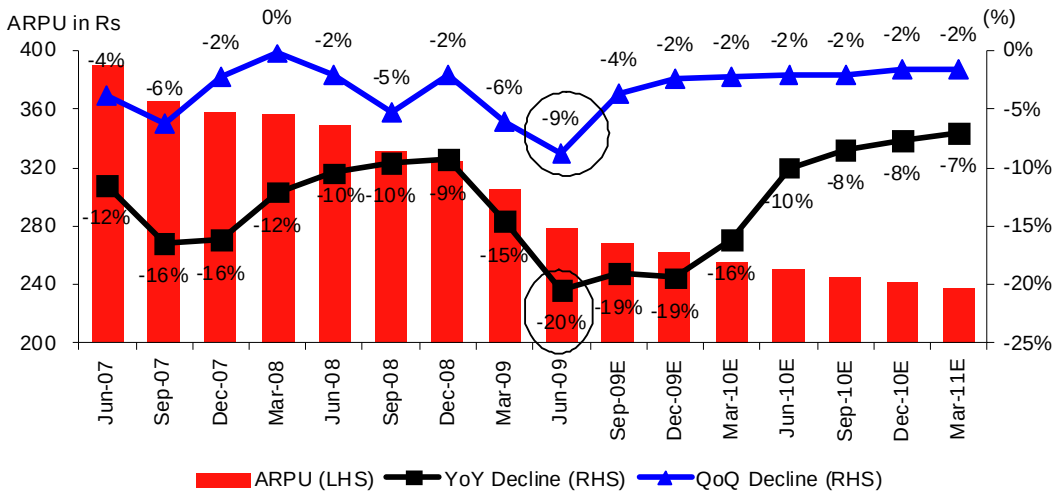
Source: Bloomberg, Macquarie Research, September 2009

Mobility – factoring in steep ARPU decline in FY3/10, subs growth robust

Expect Bharti to cross 125m subscriber mark by March 2010E. We expect Bharti to add 33.1m subscribers in FY3/10E. This implies a monthly net adds run rate of 2.76m per month (vs 2.81m add achieved in July 2009). Our revised forecast is based on 21% net adds market share for Bharti in FY3/10E (a steep decline from 24.4% in FY3/09).

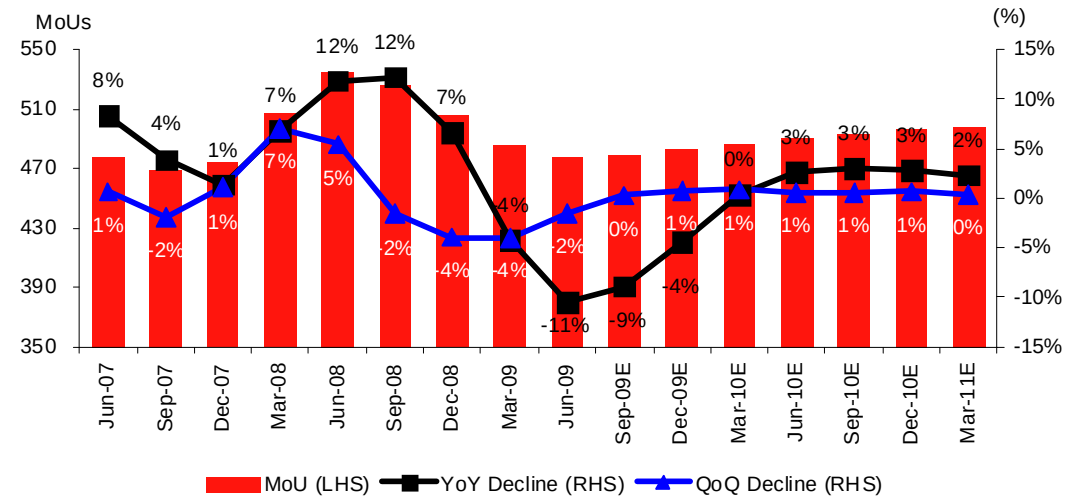
We forecast a double-digit YoY ARPU decline in the next four quarters. Bharti's wireless ARPU declined by 20% YoY and 9% QoQ in 1Q FY3/10. We note that 1Q ARPU was also hit by a cut in the termination rate. Excluding the impact of termination rate cut, 1Q ARPU dipped by 18% YoY and 5% QoQ in 1Q. We believe 1H 2009 has marked the peak of competitive intensity in the Indian wireless space. Even so, we are modelling in a 17.1% YoY decline in our FY3/10E ARPU to Rs270, based on a double-digit YoY decline in ARPU for the remaining three quarters as well.

Fig 12 ARPU in June 2009 quarter declined sharply due to termination rate cut



Source: Company data, Macquarie Research, September 2009

Fig 13 We have not assumed MoUs to jump significantly despite assumed tariff fall



Source: Macquarie Research, September 2009

EBITDA margins should expand by 290bp in FY3/10E. We expect Bharti's scale advantage to result in mobility margin expansion to 33.9% in FY3/10E from 31% in FY3/09. Our margin improvement forecast is due primarily to reduced access cost following a cut in termination charges.

Broadband and Fixed Line

Subscriber addition run rate has slowed in the broadband and fixed-line segment. Bharti added 0.5m broadband and fixed-line subscriber in FY3/09, 21% lower than our estimate of 0.63m. As a result, we have trimmed our subscriber forecast and are factoring in 0.45m net adds in FY3/10E vs 0.48m earlier.

Cutting segment revenues to factor in lower subs addition and reduced ARPU. A lower subs forecast, coupled with a cut in our ARPU assumption, has resulted in 10.6% and 10.1% lower revenue forecasts for the segment (for FY3/10 and FY3/11).

Enterprise – Carriers

Increased mobile traffic drives significant upside to our earlier forecast. We note that Bharti's Enterprise – Carrier segment now carries ~65% of Bharti's mobile traffic, up from 57% in FY3/08. As a result, we have updated our traffic assumption for the segment, driving our revenue forecast higher. In addition, we are factoring in a 180bp YoY increase in margins to 46.2% in FY3/10E.

Enterprise – Corporate

Slowdown hurting growth. Segment revenue of Rs16.94bn in FY3/09 missed our estimate by 14%. As a result, we are cutting our revenue forecast by 17% for FY3/10E and 14% for FY3/11E. Our FY3/10E margin assumption is now 45.3%, up from 43.7% earlier. We note that our revised margin assumption implies 60 bp YoY decline in margins reported in FY3/09.

Passive Infrastructure Services

Revised forecast reflects IRU signed with Indus Towers. Bharti has transferred its 35,066 towers in 12 circles to Indus Towers, effective 1 January 2009. As per the IRU agreement, Bharti would receive IRU revenues until the time the demerger of the tower assets is complete (we expect the transaction to close by March 2010). Until then, the tower assets would continue to be on Bharti's balance sheet and Bharti would need to factor in the depreciation on these assets.

Revenue forecast based on payments made by wireless division to Bharti Infratel. Our top-line forecast for the segment is based on tower lease rentals and variable expense paid by the wireless division to Bharti Infratel. To arrive at the tenancy mix between Bharti Infratel and Indus Towers, we have allocated 30% of new BTS addition by Bharti Airtel to Bharti Infratel and the remaining to Indus Towers. We are forecasting a monthly tower lease rental of Rs36,420 in FY3/10E (in line with the average monthly lease rental reported by Bharti Infratel in 1Q FY3/10E) and variable monthly expenses of Rs18,500.

Fig 14 Passive Infrastructure Services – revenue forecast for Bharti Infratel

Tower lease rentals calculation	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Number of subscribers (m)	127	156	180	202
Subscribers per BTS	**1,150**	**1,339**	**1,502**	**1,605**
YoY change (%)	20	16	12	7
Bharti Airtel's number of BTS	**103,049**	**111,849**	**119,849**	**125,849**
QoQ/YoY growth	10.4%	8.5%	7.2%	5.0%
New BTS added	9,681	8,800	8,000	6,000
Bharti Airtel Tenancy on Bharti Infratel Towers	**38,547**	**41,187**	**43,587**	**45,387**
Bharti Airtel Tenancy on Indus Towers	64,502	70,662	76,262	80,462
Fixed monthly lease rental per tenant (Rs)	36,420	36,420	37,513	37,513
Reimbursable monthly expense per tenant (Rs)	18,625	18,813	19,377	19,377
YoY growth (%)				
Fixed monthly lease rental per tenant	13	0	3	0
Reimbursable monthly expense	5	1	3	0
Total rentals paid by wireless to Bharti Infratel (Rs m)	**24,538**	**26,368**	**28,936**	**30,370**

Source: Macquarie Research, September 2009

FY3/10 revenue forecast includes IRU income from Indus. Our FY3/10 revenue forecast of Rs30.4bn includes Rs6.9bn as IRU revenue from Indus Towers. Excluding the IRU revenue, we expect Passive Infrastructure segment revenue of Rs24.8bn.

Excluding Indus IRU, forecast 26% EBITDA margin for the segment in FY3/10E. We acknowledge that there could be upside risk to our margin forecast for the segment. In the absence of any external tenancy, we have been conservative in our forecasts.

Valuation – revising our DCF-based TP to Rs525 for the base business ex-towers

Raising our DCF-based target price to Rs525. Based on the changes outlined above, we have marginally increased our target price to Rs525 from Rs487.5.

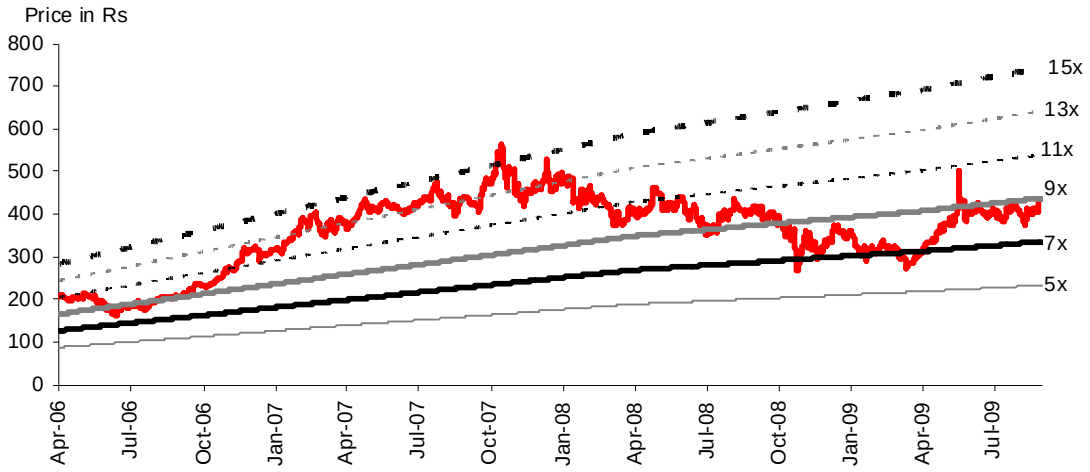
17.8x FY3/10E PER multiple at our target price of Rs525. Our target price for Bharti works out to be 17.8x FY3/10E PER. In our view, with its superior earnings growth, Bharti merits a higher target multiple than RCOM. We believe RCOM should trade at a 15–20% discount to Bharti on FY3/10E PER.

Fig 15 Valuation multiples at our target price – Bharti and RCOM

	PER		EV/EBITDA	
	FY10E	FY11E	FY10E	FY11E
Bharti	17.8	15.2	11.1	9.1
RCOM	11.8	10.2	9.1	6.9
RCOM's valn discount to Bharti	*-34%*	*-33%*	*-19%*	*-24%*
IDEA	18.1	16.1	7.3	5.8
Idea's valn discount to Bharti	*1%*	*5%*	*-34%*	*-36%*

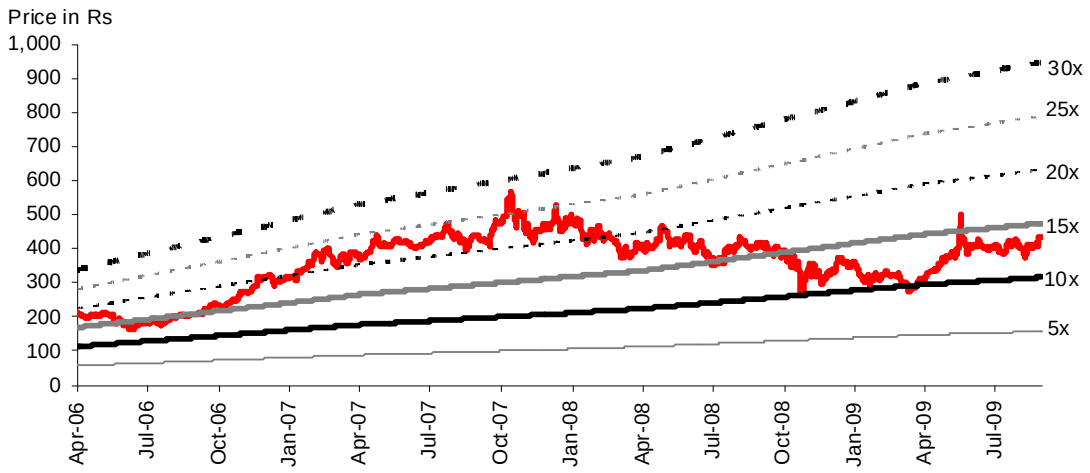
Source: Bloomberg, Macquarie Research, September 2009

Fig 16 Bharti – one-year forward EV/EBITDA chart



Source: Company Data, Macquarie Research, September 2009

Fig 17 Bharti – one-year forward PER mutliple



Source: Company Data, Macquarie Research, September 2009

Fig 18 Bharti Airtel – DCF valuation model for the base business, fiscal year-end March

Year-end Mar (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	**179,437**	**213,510**	**259,151**	**293,972**	**324,031**	**354,529**	**386,456**	**421,677**	**457,036**	**492,344**	**525,853**
Growth (% YoY)	18.3	19.0	21.4	13.4	10.2	9.4	9.0	9.1	8.4	7.7	6.8
Tax expense	(20,075)	(30,044)	(47,247)	(60,458)	(75,801)	(93,467)	(112,020)	(125,534)	(139,680)	(154,393)	(169,023)
Change in working capital	14,780	5,273	9,076	9,241	7,988	7,874	7,604	7,630	7,186	6,403	7,231
Cash flow from operations	174,141	188,740	220,980	242,754	256,218	268,936	282,041	303,773	324,542	344,353	364,061
Capital expenditure	(106,642)	(102,315)	(90,155)	(83,725)	(76,194)	(75,302)	(74,920)	(74,960)	(74,638)	(73,934)	(71,077)
Free cash flow	**67,500**	**86,424**	**130,825**	**159,029**	**180,024**	**193,634**	**207,121**	**228,813**	**249,904**	**270,419**	**292,984**
Growth (% YoY)		28.0	51.4	21.6	13.2	7.6	7.0	10.5	9.2	8.2	8.3
Free Cash flow for valuation purposes	67,500	86,424	130,825	159,029	180,024	193,634	207,121	228,813	249,904	270,419	292,984
Present Value of Free Cash flow	64,268	73,141	98,412	106,298	106,957	102,257	97,222	95,437	92,649	89,112	85,817
Free Cash Flow Yield (%)	3.4	4.3	6.6	8.0	9.0	9.7	10.4	11.5	12.5	13.6	14.7

Discount rate (WACC, %)	12.5%
1. Present value of cash flow till 2020	
Total PV of free cash flow till 2020 {a}	**1,011,569**
2. Terminal value calculation	
Growth from 2020 to perpetuity (%)	3.5%
FCF in FY20	292,984
Exit PER multiple (X)	11.5
Terminal value	3,367,814
Implied Exit EV/EBITDA Multiple (X)	5.1
PV of terminal value {b}	986,458
Total company value {a} + {b}	**1,998,027**
Net debt/(cash)	6,098
Value to equity holders	1,991,929
Value to equity holders (Rs/share)	**525**

Calculation of WACC of Bharti Airtel (%)	
Risk free rate of return = Rf (%)	7.5
Equity risk premium	7.5
Beta	1.0
Cost of equity = Re	15.0
Unadjusted cost of debt	8.00
Post tax cost of debt = Rd	6.73
Equity = We	70.0
Debt = Wd	30.0
WACC = Re x We + Rd x Wd	12.50%

Sensitivity of 12-month DCF to WACC and Terminal Growth

Terminal Growth \ WACC	10.5%	11.5%	12.5%	13.5%	14.5%
2.5%	642	561	497	444	401
3.0%	668	579	510	455	409
3.5%	696	600	525	466	418
4.0%	729	623	542	478	427
4.5%	768	649	560	492	437

Source: Macquarie Research, September 2009

Fig 19 Global emerging market telecom valuations

Macquarie - Global Emerging Market Telecom Valuation

Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x) FY3/10E	EV/EBITDA (x) FY3/11E	PER (x) FY3/10E	PER (x) FY3/11E	PEG (FY3/09-3/11E)	ROE (FY3/10E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)
Bharti Airtel	BHARTI IN	OP	422	575	36%	9.0	7.3	14.3	12.2	0.8	31.5	**18.6**	**24.3**
Reliance Communications	RCOM IN	OP	264	360	36%	7.9	6.0	8.7	7.4	0.7	15.3	19.9	14.2
Idea Cellular	IDEA IN	UP	80	70	-12%	8.4	6.2	20.5	18.2	1.4	8.4	34.5	18.5
MTNL	MTNL IN	UP	94	51	-46%	11.2	11.3	103.0	-21.2	na	0.5	-0.3	na
China Mobile	941 HK	N	75	77	2%	4.9	4.7	11.7	12.1	-19.5	24.3	3.1	-0.6
China Unicom	762 HK	UP	10	9	-18%	4.6	5.0	19.0	24.3	3.4	5.6	2.9	8.4
Indosat	ISAT IJ	N	5,200	5,200	0%	4.5	4.0	12.0	9.1	4.1	13.1	5.0	2.3
SK Telecom	017670 KS	OP	174,500	235,000	35%	4.3	3.8	9.2	7.0	0.5	13.0	8.0	19.2
LG Telecom	032640 KQ	OP	7,710	11,500	49%	3.5	3.0	6.4	5.9	0.3	14.3	9.2	30.3
Digi.Com	DIGI MK	N	22	22	2%	7.3	6.5	12.5	11.2	23.0	53.1	7.1	0.6
Axiata	AXIATA MK	N	3	3	-1%	7.7	6.7	16.2	16.0	-2.2	9.6	13.9	-15.5
Globe	GLO PM	OP	1,000	1,330	33%	4.3	4.0	8.7	8.3	0.6	26.1	4.1	15.3
Far EasTone	4904 TT	N	37	39	3%	5.0	5.1	10.8	10.6	2.8	15.1	-3.0	4.1
Taiwan Mobile	3045 TT	OP	51	57	12%	5.3	5.2	9.2	9.4	5.9	31.0	1.9	1.7
AIS	ADVANC TB	UP	86	75	-13%	6.0	5.9	14.7	14.0	3.6	24.7	-1.3	4.3
TAC	DTAC TB	UP	34	20	-42%	5.1	5.1	7.3	6.7	-0.4	10.8	-3.9	-20.8
MobileOne	M1 SP	OP	2	2	5%	5.4	5.4	10.8	11.2	na	59.3	-6.3	-9.6
MTN Group Ltd	MTN SJ	OP	12,706	17,000	34%	4.9	4.2	11.6	9.1	0.5	24.0	18.3	26.8
Orascom Telecom	ORTE EY	NR	36	na	na	4.0	3.8	11.1	10.7				
Vivo Participacoes Sa	VIVO3 BZ	NR	43	na	na	3.5	3.1	12.2	9.3				
America Movil	AMXL MM	NR	30	na	na	5.6	5.4	12.9	11.8				
Etihad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.5	8.9				
Saudi Telecom Co	STC AB	NR	47	na	na	5.8	5.8	7.6	7.4				
Qatar Telecom	QTEL QD	NR	152	na	na	4.9	4.7	6.9	6.3				
Average						**5.6**	**5.1**	**11.5**	**10.8**				
Average (ex-China Mobile)						**5.6**	**5.1**	**11.5**	**10.7**				
RCOM's valuation (discount)/premium to Bharti						**-11%**	**-17%**	**-39%**	**-39%**				
Idea's valuation (discount)/premium to Bharti						**-6%**	**-14%**	**43%**	**49%**				

Note: Prices as of 1 September 2009.

Data for Not rated companies are based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, September 2009

RCOM is trading at a 11% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 6% discount to Bharti

Bharti Airtel – detailed financial statements

Fig 20 Bharti Airtel – annual income statement, fiscal year-end March

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Revenues						
Services	184,152	269,004	367,411	424,858	493,214	565,577
Indefeasible right of use sales	436	436	436	1,598	1,598	1,598
Equipment	607	810	1,768	854	991	1,135
Total revenues	**185,196**	**270,250**	**369,615**	**427,309**	**495,802**	**568,310**
Operating expenses						
Access & Interconnect Charges	48,330	68,011	91,167	93,470	107,831	121,521
(% of total revenues)	*26.1%*	*25.2%*	*24.7%*	*21.9%*	*21.7%*	*21.4%*
Network operations cost	21,100	33,001	59,355	77,164	85,365	90,930
(% of total revenues)	*11.4%*	*12.2%*	*16.1%*	*18.1%*	*17.2%*	*16.0%*
Employee costs	12,489	14,768	16,992	20,073	23,303	26,711
(% of total revenues)	*6.7%*	*5.5%*	*4.6%*	*4.7%*	*4.7%*	*4.7%*
Costs of equipment sales	589	661	1,449	421	496	568
(% of total revenues)	*0.3%*	*0.2%*	*0.4%*	*0.1%*	*0.1%*	*0.1%*
SG&A expenses	28,416	40,094	48,973	56,744	65,297	69,429
(% of total revenues)	*15.3%*	*14.8%*	*13.2%*	*13.3%*	*13.2%*	*12.2%*
Pre-operating cost	9	-	-	-	-	-
(% of total revenues)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Total operating expense	**110,932**	**156,535**	**217,937**	**247,872**	**282,292**	**309,159**
(% of total revenues)	*59.9%*	*57.9%*	*59.0%*	*58.0%*	*56.9%*	*54.4%*
				186,572	215,968	247,753
EBITDA	**74,264**	**113,715**	**151,678**	**179,437**	**213,510**	**259,151**
EBITDA margin	***40.1%***	***42.1%***	***41.0%***	***42.0%***	***43.1%***	***45.6%***
Interest expense	(3,044)	(4,054)	(27,618)	(8,316)	(6,316)	(5,302)
Interest income	1,606	1,713	16,005	17,567	5,764	7,836
Depreciation	(24,973)	(37,260)	(47,581)	(57,462)	(56,715)	(67,842)
Share of profits in associates / JV	(2)	(1)	(713)	1,961	6,199	9,805
Other income	1,064	2,740	1,522	1,435	1,831	2,014
Non operating expenses	(54)	(317)	(220)	(311)	(240)	(240)
Profit before taxes (PBT)	**48,860**	**76,537**	**93,074**	**134,311**	**164,032**	**205,423**
Income tax (expense) / benefit	(5,822)	(8,378)	(6,615)	(20,075)	(30,044)	(47,247)
Effective tax rate	11.9%	10.9%	7.1%	14.9%	18.3%	23.0%
Profit after taxes (PAT)	**43,039**	**68,159**	**86,459**	**114,235**	**133,989**	**158,176**
(Profit) / loss to minority shareholders	(467)	(1,151)	(1,759)	(2,450)	(3,123)	(3,911)
Adjusted net profit	**42,572**	**67,008**	**84,700**	**111,785**	**130,866**	**154,265**
Adjusted diluted EPS	**11.2**	**17.7**	**22.3**	**29.5**	**34.5**	**40.7**
YoY growth (%)						
Service revenues	60.6	46.1	36.6	16.0	16.1	14.7
Total revenues	59.4	45.9	36.8	15.6	16.0	14.6
Operating expenses	51.7	41.1	39.2	13.7	13.9	9.5
SG&A	50.3	41.1	22.1	15.9	15.1	6.3
EBITDA	72.3	53.1	33.4	18.3	19.0	21.4
Net profit after taxes	88.6	57.4	26.4	32.0	17.1	17.9
Diluted EPS	87.2	57.3	26.4	32.0	17.1	17.9
Key parameters						
ROE	37.4%	37.4%	32.2%	31.5%	28.6%	27.2%
RoCE	19.5%	20.2%	19.7%	19.6%	22.9%	25.8%
Fixed asset turnover (X)	0.88	0.86	0.90	0.93	0.98	1.08
Total asset turnover (X)	0.37	0.33	0.36	0.34	0.34	0.31

Source: Company data, Macquarie Research, September 2009

Fig 21 Bharti Airtel – annual balance sheet, fiscal year-end March

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E	FY12E
ASSETS						
Cash and cash equivalents	7,464	6,777	11,145	71,431	105,853	219,716
Accounts receivable, net	13,093	15,986	18,262	21,073	24,450	28,026
Unbilled receivables	4,890	12,076	10,266	10,829	12,565	14,402
Inventories	912	1,142	963	1,171	1,358	1,557
Short term investments	2,004	48,086	37,925	43,845	50,873	58,313
Deferred taxes on income	1,178	2,770	8,810	10,186	11,818	13,547
Derivative financial instruments	729	2,992	11,545	11,545	11,545	11,545
Restricted cash	134	85	84	84	84	84
Prepaid expenses/ current assets	13,711	23,522	29,957	24,585	28,526	32,697
Due from related parties	729	346	15,122	17,482	20,284	23,251
Total current assets	**44,843**	**113,782**	**144,079**	**212,231**	**267,357**	**403,139**
Property and equipment, net	**210,604**	**313,407**	**409,136**	**458,315**	**503,916**	**526,228**
Acquired intangible assets	14,116	13,204	13,310	13,310	13,310	13,310
Goodwill	23,684	27,043	27,054	27,054	27,054	27,054
Investment in associates and JV	182	108	128	128	128	128
Investments	500	-	-	-	-	-
Restricted cash, non-current	54	58	12	12	12	12
Deferred taxes on income	20	-	-	-	-	-
Other assets	3,887	5,041	10,230	11,827	13,723	15,729
Total assets	**297,888**	**472,643**	**603,947**	**722,876**	**825,499**	**985,599**
Current liabilities						
Short-term debt/current portion of long-term debt	10,925	19,348	64,808	66,264	55,618	68,196
Trade payables	16,877	18,749	18,771	27,164	24,749	27,104
Equipment supply payables	42,633	61,069	62,359	61,119	69,606	76,231
Accrued expenses	12,523	19,543	31,358	30,560	34,803	38,115
Unearned income	17,035	25,080	30,912	35,121	38,034	43,596
Unearned income- indefeasible right to use sales	336	336	292	1,598	1,598	1,598
Derivative financial instruments	1,981	3,184	499	499	499	499
Due to related parties	30		40	45	51	56
Other current liabilities	4,295	6,826	8,148	9,267	10,554	11,558
Deferred taxes on income	14	-	-	-	-	-
Total current liabilities	**106,649**	**154,135**	**217,185**	**231,636**	**235,512**	**266,954**
Long-term debt, net of current portion	41,536	77,715	53,993	55,206	46,337	56,815
Deferred taxes on income	3,616	5,301	7,556	8,736	10,136	11,618
Unearned income- Indefeasible right to use sales	3,800	3,464	3,330	3,330	3,330	3,330
Other liabilities	4,933	6,430	7,234	8,363	9,703	11,122
Total liabilities	**160,534**	**247,045**	**289,298**	**307,271**	**305,018**	**349,840**
Minority interest	1,801	3,013	10,704	10,704	10,704	10,704
Stockholders' equity						
Common stock	18,959	18,979	18,982	18,982	18,982	18,982
Additional paid in capital	56,645	77,745	74,103	74,103	74,103	74,103
Deferred stock based compensation	-	12	3	3	3	3
Treasury stock	(134)	(119)	(107)	(107)	(107)	(107)
Retained earnings / (deficit)	60,083	125,964	210,664	311,619	416,494	531,774
Accumulated other comprehensive income(loss)	0	4	301	301	301	301
Total stockholders' equity	135,553	222,585	303,945	404,900	509,776	625,055
Total liabilities and stockholders' equity	**297,888**	**472,643**	**603,947**	**722,876**	**825,498**	**985,599**
Ratios						
Net debt/equity	0.3	0.19	0.23	0.02	(0.1)	(0.2)
WC/Revenues (%)	-37%	-17%	-21%	0.3	0.2	0.2
Net working capital days <Days of Gross Sales>	(136.5)	(63.7)	(77.2)	(77.6)	(54.5)	(53.6)

Source: Company data, Macquarie Research, September 2009

Fig 22 Bharti Airtel – annual cashflow statement, fiscal year-end March

Particulars (Rs m)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Cashflow from operating activities						
Net (loss) / profit	42,572	67,008	84,699	111,785	130,866	154,265
Depreciation and amortization	24,973	36,922	46,684	57,462	56,715	67,842
Deferred tax expense	491	(36)	(3,785)	(196)	(232)	(246)
Share of (profits) / losses in joint venture	2	1	713			
(Gain) / loss on sale of property and equipment	(15)	65	9			
Interest income earned	-	-				
Deferred stock based compensation	235	339	897	-	-	
Fair value loss / (gain) on trading securities	(327)	(587)	(2,674)			
Finance costs charged	12	1	3			
Unrealized foreign exchange gain	(1,632)	1,227	18,108			
Provision for impairment of receivables and advances	4,010	3,240	3,695			
Debt origination costs amortised	519	274	267			
Fair value loss / (gain) on derivatives and other financial expenses	248	(904)	(11,054)	-	-	-
Minority interest	467	1,151	1,759	-		
Indefeasible right to use sales	(436)	(436)	(1,598)	-	-	-
Current tax impact on ESOP exercised	0	-				
Proceeds from Indefeasible right to use sales	101	101	1,306			
Changes in Working Capital:	**(509)**	**(5,072)**	**9,530**	**14,780**	**5,273**	**9,076**
Accounts receivable	(5,351)	(6,938)	(6,196)	(2,811)	(3,378)	(3,576)
Inventories	(531)	(230)	180	(208)	(188)	(199)
Unbilled receivables and other current assets	(6,627)	(16,965)	(3,690)	4,809	(5,676)	(6,009)
Trade payables	2,096	1,826	338	7,153	6,072	8,980
Accrued expenses	4,210	5,818	11,815	(799)	4,244	3,312
Unearned income and other current liabilities	5,693	11,418	7,083	6,635	4,200	6,567
Other non-current liabilities	952	557	795	1,129	1,340	1,419
Non-current assets	(1,040)	(1,748)	(6,306)	(1,597)	(1,896)	(2,007)
Due to / from related parties, net	(75)	382	(15,449)	(2,355)	(2,796)	(2,962)
Net cash provided by/(used in) operating activities	**70,549**	**102,484**	**127,597**	**181,008**	**189,270**	**227,387**
Cashflows from investing activities						
Purchase of property and equipment	(74,294)	(126,258)	(145,129)	(106,642)	(102,315)	(90,155)
Proceeds from sale of property and equipment	1,097	12,270	2,066	-	(0)	(0)
Proceeds of short term investments	-	-	-	-	-	-
Proceeds from sale of marketable securities	-	-	-	-	-	-
Acquisition of intangible assets	(504)	(2,195)	(1,249)	-	-	-
Non-current investments	(0)	500	-	-	-	-
Restricted cash	58	45	46	-	-	-
Investment in joint ventures	5	(59)	(20)	-	-	-
Short term investments	850	(45,440)	12,835	(5,920)	(7,028)	(7,440)
Licence entry fees		(456)	(28)			
Cash paid for acquisition of subsidiaries, net		14,873	1,020			
Net cash used in investing activities	**(72,788)**	**(146,720)**	**(130,459)**	**(112,562)**	**(109,343)**	**(97,594)**
Cashflows from financing activities						
Net movement in cash credit and bank overdraft	(861)	2,227	(2,297)			
Proceeds from issuance of short-term borrowings	1,954	2,229	7,609	1,456	(10,646)	12,577
Repayment of short-term borrowings	(4,486)	(1,954)	(2,229)			
Proceeds from issuance of long-term borrowings	34,237	50,662	18,319	1,213	(8,869)	10,479
Repayment of long-term borrowings	(24,129)	(9,673)	(14,394)			
Proceeds from exercise of stock options	110	199	198			
Additional paid in capital	375	-	-	-	-	-
Due to related parties,/ changes in minority interest	1	12	155			
Dividend (including dividend tax)	-	-	-	(10,829)	(25,990)	(38,985)
Cash paid for debt issue costs	(148)	(152)	(130)	-	-	-
Net cash provided by/(used in) financing activities	**7,053**	**43,550**	**7,230**	**(8,160)**	**(45,505)**	**(15,929)**
			-	-	-	-
Net (decrease) / increase in cash during the year	**4,814**	**(686)**	**4,368**	**60,286**	**34,422**	**113,863**
Add : Balance as at the beginning of the year	2,649	7,464	6,777	11,145	71,431	105,853
Balance as at the end of the year	**7,464**	**6,777**	**11,145**	**71,431**	**105,853**	**219,716**

Source: Company data, Macquarie Research, September 2009

Fig 23 Key quarterly operating & financial metrics – wireless business: Bharti and RCOM

Bharti Airtel - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**50,579**	**56,105**	**64,201**	**69,150**	**72,843**	**79,392**	**82,216**	**82,285**
YoY growth (%)	*53.2*	*49.3*	*51.3*	*47.2*	*44.0*	*41.5*	*28.1*	*19.0*
QoQ growth (%)	*7.7*	*10.9*	*14.4*	*7.7*	*5.3*	*9.0*	*3.6*	*0.1*
Subscribers (m)	**48.88**	**55.16**	**61.98**	**69.38**	**77.48**	**85.65**	**93.92**	**102.37**
YoY growth (%)	*80.6*	*72.5*	*66.9*	*62.5*	*58.5*	*55.3*	*51.5*	*47.5*
QoQ growth (%)	*14.5*	*12.9*	*12.4*	*11.9*	*11.7*	*10.5*	*9.7*	*9.0*
Gross ARPU (Rs)	**366**	**358**	**357**	**350**	**331**	**324**	**305**	**278**
YoY growth (%)	*-16.5*	*-16.2*	*-12.1*	*-10.4*	*-9.5*	*-9.3*	*-14.6*	*-20.4*
QoQ growth (%)	*-6.3*	*-2.2*	*-0.2*	*-2.1*	*-5.3*	*-2.0*	*-6.0*	*-8.8*
Avg. monthly MoUs per subscriber	**469**	**474**	**507**	**534**	**526**	**505**	**485**	**478**
YoY growth (%)	*3.9*	*1.4*	*6.8*	*11.8*	*12.2*	*6.7*	*-4.3*	*-10.6*
QoQ growth (%)	*-1.9*	*1.1*	*7.0*	*5.4*	*-1.6*	*-3.9*	*-4.0*	*-1.5*
ARPM (Rs)	**0.78**	**0.76**	**0.70**	**0.65**	**0.63**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-19.6*	*-17.3*	*-17.7*	*-19.9*	*-19.4*	*-14.9*	*-10.7*	*-11.0*
QoQ growth (%)	*-4.4*	*-3.3*	*-6.7*	*-7.1*	*-3.8*	*2.1*	*-2.1*	*-7.4*
Total minutes carried (m)	**64,375**	**73,840**	**89,058**	**105,217**	**115,834**	**123,626**	**130,669**	**140,713**
YoY growth (%)	*90.2*	*78.8*	*80.9*	*84.2*	*79.9*	*67.4*	*46.7*	*33.7*
QoQ growth (%)	*12.7*	*14.7*	*20.6*	*18.1*	*10.1*	*6.7*	*5.7*	*7.7*
Avg. EBITDA per minute (Rs)	**0.32**	**0.31**	**0.26**	**0.20**	**0.19**	**0.20**	**0.20**	**0.19**
YoY growth (%)	*-10.3*	*-9.3*	*-24.2*	*-39.6*	*-41.0*	*-34.8*	*-22.6*	*-4.1*
QoQ growth (%)	*-3.5*	*-3.8*	*-17.4*	*-21.2*	*-5.7*	*6.3*	*-2.0*	*-2.4*
Wireless EBITDA (Rs m)	**20,728**	**22,887**	**22,779**	**21,218**	**22,009**	**24,963**	**25,860**	**27,183**
YoY growth (%)	*70.2*	*62.0*	*37.2*	*11.2*	*6.2*	*9.1*	*13.5*	*28.1*
QoQ growth (%)	*8.6*	*10.4*	*-0.5*	*-6.9*	*3.7*	*13.4*	*3.6*	*5.1*
EBITDA margin (%)	**41.0**	**40.8**	**35.5**	**30.7**	**30.2**	**31.4**	**31.5**	**33.0**
YoY expansion (basis points)	*410.0*	*319.5*	*-365.1*	*-994.7*	*-1,076.7*	*-935.0*	*-402.7*	*235.1*
QoQ expansion (basis points)	*35.0*	*-18.8*	*-531.2*	*-479.7*	*-47.0*	*122.8*	*1.1*	*158.1*
Blended Churn	3.8%	3.8%	4.2%	3.7%	3.2%	2.9%	3.2%	3.4%
VAS as % of total revenue	**9.8%**	**9.3%**	**9.4%**	**9.7%**	**10.0%**	**9.5%**	**9.3%**	**9.3%**
YoY growth (%)	*-4.9*	*-10.6*	*-6.9*	*-2.0*	*2.0*	*2.2*	*-1.1*	*-4.1*
QoQ growth (%)	*-1.0*	*-5.1*	*1.1*	*3.2*	*3.1*	*-5.0*	*-2.1*	*0.0*
Total Cell Sites	**52,826**	**60,299**	**69,141**	**75,876**	**82,554**	**88,319**	**93,368**	**96,149**
YoY growth (%)	*75.9*	*75.8*	*76.3*	*65.7*	*56.3*	*46.5*	*35.0*	*26.7*
QoQ growth (%)	*15.4*	*14.1*	*14.7*	*9.7*	*8.8*	*7.0*	*5.7*	*3.0*
Wireless Capex (Rs m)	**28,661**	**27,538**	**17,995**	**32,227**	**23,396**	**29,012**	**16,039**	**13,037**
YoY growth (%)	*4.4*	*76.6*	*68.1*	*-1.8*	*-18.4*	*5.4*	*-10.9*	*-59.5*
QoQ growth (%)	*-12.6*	*-3.9*	*-34.7*	*79.1*	*-27.4*	*24.0*	*-44.7*	*-18.7*
Total Population Centres covered	**294,876**	**325,525**	**347,646**	**369,335**	**389,571**	**406,939**	**419,966**	**428,216**
YoY growth (%)	*85.0*	*79.7*	*64.0*	*48.7*	*32.1*	*25.0*	*20.8*	*15.9*
QoQ growth (%)	*18.7*	*10.4*	*6.8*	*6.2*	*5.5*	*4.5*	*3.2*	*2.0*
Total employees	**23,264**	**24,703**	**25,543**	**26,144**	**25,616**	**25,553**	**24,538**	**23,789**
YoY growth (%)	*na*	*35.6*	*25.7*	*13.9*	*10.1*	*3.4*	*-3.9*	*-9.0*
QoQ growth (%)	*1.3*	*6.2*	*3.4*	*2.4*	*-2.0*	*-0.2*	*-4.0*	*-3.1*

Reliance Communications - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**37,230**	**39,567**	**41,608**	**41,187**	**43,356**	**44,119**	**45,015**	**47,931**
YoY growth (%)	*44.6*	*43.8*	*40.1*	*22.1*	*16.5*	*11.5*	*8.2*	*16.4*
QoQ growth (%)	*10.4*	*6.3*	*5.2*	*-1.0*	*5.3*	*1.8*	*2.0*	*6.5*
Subscribers (m)	**36.32**	**40.96**	**45.79**	**50.79**	**56.05**	**61.35**	**72.67**	**79.62**
YoY growth (%)	*39.8*	*36.6*	*63.5*	*59.4*	*54.3*	*49.8*	*58.7*	*56.8*
QoQ growth (%)	*14.0*	*12.8*	*11.8*	*10.9*	*10.4*	*9.5*	*18.5*	*22.3*
Gross ARPU (Rs)	**361**	**339**	**317**	**282**	**271**	**251**	**224**	**210**
YoY growth (%)	*2.0*	*3.4*	*-15.9*	*-24.8*	*-24.9*	*-26.0*	*-29.3*	*-25.5*
QoQ growth (%)	*-3.7*	*-6.1*	*-6.5*	*-11.0*	*-3.9*	*-7.4*	*-10.8*	*-6.3*
Avg. monthly MoUs per subscriber	**490**	**449**	**430**	**425**	**423**	**410**	**372**	**365**
YoY growth (%)	*6.3*	*-1.1*	*-20.5*	*-16.7*	*-13.7*	*-8.7*	*-13.5*	*-14.1*
QoQ growth (%)	*-3.9*	*-8.4*	*-4.2*	*-1.2*	*-0.4*	*-3.1*	*-9.3*	*-1.9*
ARPM (Rs)	**0.74**	**0.76**	**0.74**	**0.66**	**0.64**	**0.61**	**0.60**	**0.58**
YoY growth (%)	*-4.1*	*4.5*	*5.8*	*-9.7*	*-13.0*	*-18.9*	*-18.3*	*-13.4*
QoQ growth (%)	*0.2*	*2.5*	*-2.4*	*-9.9*	*-3.5*	*-4.4*	*-1.6*	*-4.5*
Total minutes carried (m)	**50,122**	**52,054**	**55,959**	**61,527**	**67,786**	**72,195**	**74,778**	**83,300**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*34.4*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*11.4*
Avg. EBITDA per minute (Rs)	**0.26**	**0.30**	**0.30**	**0.27**	**0.25**	**0.23**	**0.22**	**0.22**
YoY growth (%)	*-4.9*	*12.5*	*10.7*	*-7.4*	*-5.6*	*-24.3*	*-25.8*	*-18.7*
QoQ growth (%)	*-9.9*	*15.3*	*-1.4*	*-9.7*	*-8.1*	*-7.5*	*-3.4*	*0.0*
Wireless EBITDA (Rs m)	**14,873**	**15,819**	**16,763**	**16,623**	**16,859**	**16,616**	**16,629**	**18,489**
YoY growth (%)	*60.0*	*53.7*	*45.6*	*24.1*	*13.4*	*5.0*	*-0.8*	*11.2*
QoQ growth (%)	*11.1*	*6.4*	*6.0*	*-0.8*	*1.4*	*-1.4*	*0.1*	*11.2*
EBITDA margin (%)	**39.9**	**40.0**	**40.3**	**40.4**	**38.9**	**37.7**	**36.9**	**38.6**
YoY expansion (basis points)	*384.6*	*257.1*	*152.0*	*65.6*	*-106.4*	*-231.9*	*-334.7*	*-178.6*
QoQ expansion (basis points)	*24.5*	*3.1*	*30.8*	*7.2*	*-147.5*	*-122.3*	*-72.1*	*163.3*
Blended Churn	1.5%	1.4%	1.4%	1.4%	1.3%	1.0%	0.8%	1.3%
VAS as % of total revenue	**6.2%**	**6.4%**	**6.9%**	**7.6%**	**7.3%**	**7.4%**	**na**	**na**
YoY growth (%)	*-1.6*	*1.6*	*9.5*	*33.3*	*17.7*	*15.6*	*na*	*na*
QoQ growth (%)	*8.8*	*3.2*	*7.8*	*10.1*	*-3.9*	*1.4*	*na*	*na*
Total Cell Sites	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Wireless Capex (Rs m)	**49,685**	**60,605**	**46,442**	**56,926**	**33,260**	**32,508**	**17,084**	**9,402**
YoY growth (%)	*231.6*	*401.3*	*371.0*	*280.2*	*-33.1*	*-46.4*	*-63.2*	*-83.5*
QoQ growth (%)	*231.8*	*22.0*	*-23.4*	*22.6*	*-41.6*	*-2.3*	*-47.4*	*-45.0*
Total Population Centres covered	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*

Source: Company data, Macquarie Research, September 2009

Fig 24 Key quarterly operating & financial metrics – wireless business: Vodafone and Idea

Vodafone Essar - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless revenues (in Rsm)	**34,891**	**36,300**	**41,887**	**46,474**	**47,498**	**51,481**	**53,308**	**53,713**
YoY growth (%)	*na*	*na*	*na*	*na*	*36.1*	*41.8*	*27.3*	*15.6*
QoQ growth (%)	*na*	*4.0*	*15.4*	*11.0*	*2.2*	*8.4*	*3.5*	*0.8*
Wireless revenues (in GBPm)	**440**	**491**	**559**	**565**	**574**	**674**	**791**	**755**
YoY growth (%)	*na*	*na*	*na*	*na*	*30.5*	*37.3*	*41.5*	*33.6*
QoQ growth (%)	*na*	*11.6*	*13.8*	*1.1*	*1.6*	*17.4*	*17.4*	*-4.6*
Subscribers (m)	**33.68**	**35.66**	**44.13**	**49.20**	**54.63**	**60.93**	**68.77**	**76.45**
YoY growth (%)	*65.5*	*53.0*	*66.9*	*60.0*	*62.2*	*70.9*	*55.8*	*55.4*
QoQ growth (%)	*9.5*	*5.9*	*23.7*	*11.5*	*11.0*	*11.5*	*12.9*	*11.2*
Gross ARPU (Rs)	**361**	**349**	**350**	**332**	**305**	**297**	**274**	**247**
YoY growth (%)	*-14.0*	*-15.7*	*-13.6*	*na*	*-15.5*	*-14.9*	*-21.7*	*-25.7*
QoQ growth (%)	*na*	*-3.3*	*0.3*	*-5.1*	*-8.1*	*-2.6*	*-7.7*	*-10.0*
Avg. monthly MoUs per subscriber	**373**	**384**	**391**	**374**	**364**	**355**	**336**	**330**
YoY growth (%)	*-8.2*	*-10.5*	*-9.6*	*na*	*-2.2*	*-7.4*	*-14.1*	*-11.9*
QoQ growth (%)	*-10.3*	*3.0*	*1.8*	*-4.2*	*-2.6*	*-2.5*	*-5.6*	*-1.8*
ARPM (Rs)	**0.97**	**0.91**	**0.90**	**0.89**	**0.84**	**0.84**	**0.82**	**0.75**
YoY growth (%)	*-6.3*	*-5.8*	*-4.4*	*na*	*-13.6*	*-8.1*	*-8.9*	*-15.7*
QoQ growth (%)	*na*	*-6.1*	*-1.5*	*-0.9*	*-5.7*	*-0.2*	*-2.3*	*-8.4*
Total minutes carried (m)	**36,011**	**39,913**	**46,734**	**52,349**	**56,745**	**61,606**	**65,276**	**71,775**
YoY growth (%)	*na*	*na*	*na*	*na*	*57.6*	*54.4*	*39.7*	*37.1*
QoQ growth (%)	*na*	*10.8*	*17.1*	*12.0*	*8.4*	*8.6*	*6.0*	*10.0*
Blended Churn	3.4%	3.9%	3.3%	2.7%	2.7%	2.4%	2.1%	2.6%
Total Cell Sites	**na**	**41,000**	**48,000**	**52,000**	**59,000**	**69,000**	**78,000**	**84,000**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*68.3*	*62.5*	*61.5*
QoQ growth (%)	*na*	*na*	*17.1*	*8.3*	*13.5*	*16.9*	*13.0*	*7.7*

Idea Cellular - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
Wireless Revenues (Rs m)	**15,622**	**17,081**	**19,724**	**21,735**	**22,992**	**26,184**	**28,502**	**28,872**
YoY growth (%)	*56.1*	*49.0*	*51.1*	*47.1*	*47.2*	*53.3*	*44.5*	*32.8*
QoQ growth (%)	*5.7*	*9.3*	*15.5*	*10.2*	*5.8*	*13.9*	*8.9*	*1.3*
Subscribers (m)	**18.67**	**21.05**	**24.00**	**27.19**	**30.38**	**34.21**	**38.89**	**42.64**
YoY growth (%)	*80.2*	*69.2*	*48.8*	*45.6*	*44.3*	*42.5*	*43.0*	*40.3*
QoQ growth (%)	*15.8*	*12.8*	*14.0*	*13.3*	*11.7*	*12.6*	*13.7*	*9.6*
Gross ARPU (Rs)	**288**	**279**	**287**	**278**	**261**	**268**	**255**	**232**
YoY growth (%)	*-19.1*	*-13.4*	*-9.5*	*-13.1*	*-9.4*	*-3.9*	*-11.1*	*-17.1*
QoQ growth (%)	*-10.0*	*-3.1*	*2.9*	*-3.1*	*-6.1*	*1.9*	*-4.9*	*-9.0*
Avg. monthly MoUs per subscriber	**360**	**377**	**411**	**431**	**421**	**416**	**402**	**399**
YoY growth (%)	*-0.9*	*2.2*	*6.2*	*13.1*	*16.9*	*10.3*	*-2.2*	*-7.4*
QoQ growth (%)	*-5.5*	*4.7*	*9.0*	*4.9*	*-2.3*	*-1.2*	*-3.4*	*-0.7*
ARPM (Rs)	**0.80**	**0.74**	**0.70**	**0.65**	**0.62**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-22.7*	*-15.2*	*-14.8*	*-23.2*	*-22.5*	*-13.5*	*-9.8*	*-10.7*
QoQ growth (%)	*-4.8*	*-7.5*	*-5.6*	*-7.6*	*-3.9*	*3.2*	*-1.6*	*-7.9*
Total minutes carried (m)	**18,831**	**22,457**	**27,824**	**33,087**	**36,315**	**40,254**	**44,224**	**48,729**
YoY growth (%)	*93.4*	*77.8*	*79.9*	*93.5*	*92.8*	*79.2*	*58.9*	*47.3*
QoQ growth (%)	*10.1*	*19.3*	*23.9*	*18.9*	*9.8*	*10.8*	*9.9*	*10.2*
Avg. EBITDA per minute (Rs)	**0.27**	**0.25**	**0.24**	**0.22**	**0.17**	**0.17**	**0.17**	**0.16**
YoY growth (%)	*-21.1*	*-14.0*	*-12.7*	*-26.9*	*-39.0*	*-33.4*	*-30.5*	*-27.7*
QoQ growth (%)	*-8.9*	*-7.1*	*-5.8*	*-8.3*	*-24.0*	*1.5*	*-1.7*	*-4.7*
Wireless EBITDA (Rs m)	**5,107**	**5,672**	**6,606**	**7,219**	**6,024**	**6,780**	**7,290**	**7,690**
YoY growth (%)	*43.9*	*53.1*	*51.4*	*40.8*	*18.0*	*19.5*	*10.4*	*6.5*
QoQ growth (%)	*-0.4*	*11.1*	*16.5*	*9.3*	*-16.6*	*12.6*	*7.5*	*5.5*
EBITDA margin (%)	**32.7**	**33.2**	**33.5**	**33.2**	**26.2**	**25.9**	**25.6**	**26.6**
YoY expansion (basis points)	*-275.2*	*88.1*	*7.9*	*-149.6*	*-649.1*	*-731.3*	*-791.5*	*-657.8*
QoQ expansion (basis points)	*-201.9*	*51.6*	*28.6*	*-27.8*	*-701.5*	*-30.5*	*-31.7*	*105.9*
Blended Churn	4.5%	4.7%	4.6%	4.0%	3.9%	4.3%	5.2%	6.7%
VAS as % of total revenue	**8.3%**	**8.0%**	**8.2%**	**8.9%**	**9.8%**	**9.5%**	**9.5%**	**10.1%**
YoY growth (%)	*-13.5*	*-13.0*	*-8.9*	*6.0*	*18.1*	*18.8*	*15.9*	*13.7*
QoQ growth (%)	*-1.2*	*-3.6*	*2.5*	*8.5*	*10.1*	*-3.1*	*0.0*	*6.5*
Total Cell Sites	**17,105**	**21,197**	**24,793**	**27,594**	**33,377**	**39,289**	**44,230**	**48,067**
YoY growth (%)	*na*	*na*	*na*	*109.7*	*95.1*	*85.4*	*78.4*	*74.2*
QoQ growth (%)	*30.0*	*23.9*	*17.0*	*11.3*	*21.0*	*17.7*	*12.6*	*8.7*
Total capex (Rs m)	**12,352**	**11,946**	**19,161**	**19,817**	**11,950**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*79.1*	*-3.3*	*na*	*na*	*na*
QoQ growth (%)	*11.7*	*-3.3*	*60.4*	*3.4*	*-39.7*	*na*	*na*	*na*
Total Population Centres covered	**8,413**	**11,104**	**13,308**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*177.6*	*207.8*	*200.3*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*38.7*	*32.0*	*19.8*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**4,945**	**5,139**	**5,309**	**5,604**	**5,658**	**5,864**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*14.4*	*14.1*
QoQ growth (%)	*na*	*na*	*na*	*3.9*	*3.3*	*5.6*	*1.0*	*3.6*

Source: Company data, Macquarie Research, September 2009

Fig 25 Key quarterly operating & financial metrics – wireless business: MTNL and Tata Teleservices Maha.

MTNL- Actuals for 1QFY10								
March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
Wireless Revenues (Rs m)	**2,523**	**2,329**	**2,409**	**2,298**	**2,332**	**2,269**	**2,089**	**1,478**
YoY growth (%)	*26.4*	*6.3*	*22.0*	*2.5*	*-7.6*	*-2.6*	*-13.3*	*-35.7*
QoQ growth (%)	*12.6*	*-7.7*	*3.4*	*-4.6*	*1.5*	*-2.7*	*-7.9*	*-29.2*
Subscribers (m)	**2.99**	**3.21**	**3.53**	**3.72**	**3.96**	**4.19**	**4.48**	**4.58**
YoY growth (%)	*26.3*	*26.5*	*20.1*	*32.2*	*32.2*	*30.5*	*26.9*	*23.1*
QoQ growth (%)	*6.5*	*7.2*	*10.0*	*5.3*	*6.4*	*5.8*	*7.0*	*2.1*
Blended ARPU GSM (Rs)	**284**	**242**	**237**	**213**	**207**	**188**	**162**	**108**
YoY growth (%)	*4.2*	*-12.6*	*3.7*	*-15.7*	*-27.2*	*-22.2*	*-31.5*	*-49.5*
QoQ growth (%)	*12.6*	*-14.8*	*-2.3*	*-10.0*	*-2.8*	*-9.0*	*-14.0*	*-33.6*

Tata Tele Maha. - Actuals for 1QFY10	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Subscribers (m)	**3.79**	**4.33**	**4.68**	**5.19**	**5.70**	**6.15**	**6.96**	**7.44**
YoY growth (%)	na	na	na	64%	50%	42%	49%	43%
QoQ growth (%)	20%	14%	8%	11%	10%	8%	13%	7%
Gross ARPU (Rs)	**265**	**254**	**254**	**232**	**210**	**196**	**178**	**154**
YoY growth (%)	na	na	na	-23%	-21%	-23%	-30%	-34%
QoQ growth (%)	-13%	-4%	0%	-9%	-9%	-7%	-9%	-13%
Avg. monthly MoUs per subscriber	**356**	**313**	**302**	**369**	**336**	**323**	**311**	**292**
YoY growth (%)	na	na	na	-7%	-6%	3%	3%	-21%
QoQ growth (%)	-10%	-12%	-4%	22%	-9%	-4%	-4%	-6%
ARPM (Rs)	**0.74**	**0.81**	**0.84**	**0.63**	**0.62**	**0.61**	**0.57**	**0.53**
YoY growth (%)	na	na	na	-18%	-16%	-25%	-32%	-16%
QoQ growth (%)	-4%	9%	4%	-25%	-2%	-2%	-7%	-7%
Total minutes carried (m)	**na**	**na**	**4083**	**5463**	**5487**	**5741**	**6113**	**6301**
YoY growth (%)	na	na	na	na	na	na	50%	15%
QoQ growth (%)	na	na	na	34%	0%	5%	6%	3%
Blended Churn	**1.10%**	**1.80%**	**2.20%**	**0.80%**	**0.80%**	**1.80%**	**1.10%**	**1.20%**
VAS as % of total revenue	**9.30%**	**10.40%**	**11.80%**	**12.30%**	**13.40%**	**13.40%**	**13.90%**	**15.40%**
YoY growth (%)	na	na	na	48.2	44.1	28.8	17.8	25.2
QoQ growth (%)	12.0	11.8	13.5	4.2	8.9	-	3.7	10.8
Total Cell Sites	**na**	**na**	**1,538**	**1,757**	**2,050**	**2,367**	**2,681**	**2,703**
YoY growth (%)	na	na	na	na	na	na	na	54%
QoQ growth (%)	na	na	na	14%	17%	15%	13%	1%
Total Population Centres covered	**na**	**na**	**7,966**	**8,026**	**8,115**	**9,378**	**10,664**	**10,904**
YoY growth (%)	na	na	na	na	na	na	34%	36%
QoQ growth (%)	na	na	na	1%	1%	16%	14%	2%

Source: Company data, Macquarie Research, September 2009

Bharti Airtel (BHARTI IN, Outperform, Target price: Rs525.00)

Quarterly Results		1Q/10A	2Q/10E	3Q/10E	4Q/10E
Revenue	**m**	**99,416**	**103,875**	**109,438**	**114,580**
Gross Profit	**m**	**54,999**	**57,410**	**60,848**	**62,924**
Cost of Goods Sold	m	44,417	46,465	48,590	51,656
EBITDA	**m**	**41,518**	**43,571**	**46,594**	**47,754**
Depreciation	m	14,330	13,889	14,323	14,921
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**27,188**	**29,683**	**32,271**	**32,833**
Net Interest Income	m	2,605	3,000	2,000	1,646
Associates	m	240	346	566	809
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	55	356	356	356
Pre-Tax Profit	**m**	**30,088**	**33,384**	**35,194**	**35,644**
Tax Expense	m	-4,442	-5,008	-5,279	-5,347
Net Profit	**m**	**25,646**	**28,377**	**29,915**	**30,298**
Minority Interests	m	-479	-626	-666	-680
Reported Earnings	**m**	**25,167**	**27,751**	**29,249**	**29,618**
Adjusted Earnings	**m**	**25,167**	**27,751**	**29,249**	**29,618**
EPS (rep)		6.63	7.31	7.71	7.81
EPS (adj)		6.63	7.31	7.71	7.81
EPS Growth yoy (adj)	%	24.3	35.6	35.4	32.2
EBITDA Margin	%	41.8	41.9	42.6	41.7
EBIT Margin	%	27.3	28.6	29.5	28.7
Earnings Split	%	22.5	24.8	26.2	26.5
Revenue Growth	%	17.2	15.2	13.6	16.6
EBIT Growth	%	8.0	16.7	20.6	22.8

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**369,615**	**427,309**	**495,802**	**568,310**
Gross Profit	**m**	**200,652**	**236,181**	**278,807**	**328,580**
Cost of Goods Sold	m	168,963	191,128	216,994	239,730
EBITDA	**m**	**151,678**	**179,437**	**213,510**	**259,151**
Depreciation	m	47,581	57,462	56,715	67,842
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**104,098**	**121,975**	**156,795**	**191,309**
Net Interest Income	m	-11,613	9,251	-553	2,535
Associates	m	-713	1,961	6,199	9,805
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	1,302	1,124	1,591	1,774
Pre-Tax Profit	**m**	**93,074**	**134,311**	**164,032**	**205,423**
Tax Expense	m	-6,615	-20,075	-30,044	-47,247
Net Profit	**m**	**86,459**	**114,235**	**133,989**	**158,176**
Minority Interests	m	-1,759	-2,450	-3,123	-3,911
Reported Earnings	**m**	**84,700**	**111,785**	**130,866**	**154,265**
Adjusted Earnings	**m**	**84,700**	**111,785**	**130,866**	**154,265**
EPS (rep)		22.32	29.46	34.49	40.66
EPS (adj)		22.32	29.46	34.49	40.66
EPS Growth (adj)	%	26.5	32.0	17.1	17.9
PE (rep)	x	18.9	14.3	12.2	10.4
PE (adj)	x	18.9	14.3	12.2	10.4
Total DPS		1.00	2.50	6.00	9.00
Total Div Yield	%	0.2	0.6	1.4	2.1
Weighted Average Shares	m	3,794	3,794	3,794	3,794
Period End Shares	m	3,792	3,792	3,792	3,792

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	36.8	15.6	16.0	14.6
EBITDA Growth	%	33.4	18.3	19.0	21.4
EBIT Growth	%	36.2	17.2	28.5	22.0
Gross Profit Margin	%	54.3	55.3	56.2	57.8
EBITDA Margin	%	41.0	42.0	43.1	45.6
EBIT Margin	%	28.2	28.5	31.6	33.7
Net Profit Margin	%	23.4	26.7	27.0	27.8
Payout Ratio	%	4.5	8.5	17.4	22.1
EV/EBITDA	x	10.9	9.1	7.5	6.1
EV/EBIT	x	15.9	13.3	10.1	8.2
Balance Sheet Ratios					
ROE	%	32.2	31.5	28.6	27.2
ROA	%	19.3	18.4	20.3	21.1
ROIC	%	36.1	27.0	30.4	31.6
Net Debt/Equity	%	22.2	1.5	-10.5	-24.1
Interest Cover	x	9.0	nmf	283.7	nmf
Price/Book	x	5.3	3.9	3.1	2.6
Book Value per Share		80.1	106.8	134.4	164.8

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**128,495**	**169,051**	**187,348**	**221,861**
Tax Paid	m	0	0	0	0
Chgs in Working Cap	m	13,381	14,780	5,273	9,076
Net Interest Paid	m	0	0	0	0
Other	m	-19,122	-2,823	-3,351	-3,549
Operating Cashflow	**m**	**122,755**	**181,008**	**189,270**	**227,387**
Acquisitions	m	-1,097	-5,920	-7,028	-7,440
Capex	m	-140,171	-106,642	-102,315	-90,155
Asset Sales	m	-3,255	0	-0	-0
Other	m	47	0	0	0
Investing Cashflow	**m**	**-144,476**	**-112,562**	**-109,343**	**-97,594**
Dividend (Ordinary)	m	0	0	0	-38,985
Equity Raised	m	-3,340	2	-1	0
Debt Movements	m	21,738	2,669	-19,515	23,056
Other	m	7,691	0	0	0
Financing Cashflow	**m**	**26,089**	**2,671**	**-19,516**	**-15,929**
Net Chg in Cash/Debt	**m**	**4,368**	**71,117**	**60,411**	**113,863**
Free Cashflow	**m**	**-17,416**	**74,366**	**86,955**	**137,232**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	49,070	115,276	156,726	278,029
Receivables	m	28,528	31,902	37,015	42,429
Inventories	m	963	1,171	1,358	1,557
Investments	m	0	0	0	0
Fixed Assets	m	409,136	458,315	503,916	526,228
Intangibles	m	27,054	27,054	27,054	27,054
Other Assets	m	89,197	89,158	99,429	110,302
Total Assets	**m**	**603,947**	**722,876**	**825,499**	**985,599**
Payables	m	81,130	88,283	94,355	103,335
Short Term Debt	m	64,808	66,264	55,618	68,196
Long Term Debt	m	53,993	55,206	46,337	56,815
Provisions	m	0	0	0	0
Other Liabilities	m	89,368	97,518	108,708	121,494
Total Liabilities	**m**	**289,298**	**307,271**	**305,018**	**349,840**
Shareholders' Funds	m	303,945	404,900	509,776	624,754
Minority Interests	m	10,704	10,704	10,704	10,704
Other	m	0	0	0	0
Total S/H Equity	**m**	**314,649**	**415,605**	**520,480**	**635,459**
Total Liab & S/H Funds	**m**	**603,947**	**722,876**	**825,498**	**985,298**

All figures in INR unless noted.
Source: Macquarie Research, September 2009

INDIA

Reliance Communications

3 September 2009

RCOM IN		**Outperform**
Stock price as of 01 Sep 09	Rs	264.00
12-month target	Rs	360.00
Upside/downside	%	+36.4
Valuation	Rs	360.00

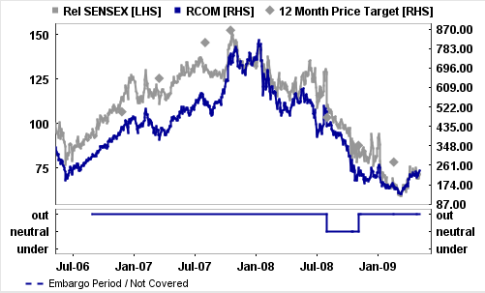
- DCF (WACC 13.0%, beta 1.1, ERP 7.5%, RFR 7.5%, TGR 3.5%)

GICS sector		telecommunication services
Market cap	Rs m	544,903
30-day avg turnover	US$m	64.4
Market cap	US$m	11,111
Number shares on issue	m	2,064

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	229.4	272.9	336.3	380.4
EBITDA	bn	92.9	106.9	133.5	156.4
EBITDA growth	%	13.3	15.1	24.9	17.1
EBIT	bn	53.5	58.7	78.2	98.5
Adjusted profit	bn	59.1	66.0	77.2	86.4
EPS adj	Rs	27.17	30.28	35.42	39.63
EPS adj growth	%	9.3	11.5	17.0	11.9
PE adj	x	9.7	8.7	7.5	6.7
ROA	%	6.2	5.4	6.1	7.2
ROE	%	18.9	16.0	14.8	13.7
EV/EBITDA	x	8.6	7.4	6.0	5.1
Net debt/equity	%	48.2	38.0	23.9	2.4
Price/book	x	1.7	1.2	1.0	0.8

RCOM IN rel SENSEX performance, & rec history



Source: FactSet, Macquarie Research, September 2009 (all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

From ugly duckling to top flight eagle

Event

- We upgrade our target price for RCOM to Rs360 from Rs275 (even with 50bp higher WACC of 13%), following solid 1Q results, a cut in capex guidance and forecasts despite higher subs and a new tower deal. We reiterate our Outperform rating with potential upside of 36.4% to our new target price.

Impact

- **We increased our target price.** This is driven by reduced capital intensity, higher subscriber forecasts, the launch of EVDO data cards and introduction of third-party revenues in Reliance Infratel on the back of the tenancy deal with Etisalat DB Telecom. RCOM has cut its FY3/10 capex guidance by 33% to Rs100bn. In addition, FY3/09 capex of Rs190bn was 37% lower than the original guidance of Rs300bn given in January 2008. As such, we have cut our capex forecasts for FY3/10–12 by 21–39% as pop coverage maxes out.
- **Consensus estimate of 15% YoY drop in FY3/10 EPS is aggressive, in our view.** Our EPS estimates for FY3/10 and FY3/11 are 32% and 41%, respectively, ahead of the Street. We expect upgrades to drive a re-rating and outperformance in RCOM (see Figure 3).
- **Mobility: Uplift from wireless broadband key reason for 4% increase in wireless revenues.** Our FY3/10 wireless revenue forecast is flat with our earlier estimate, as an increased sub estimate has been offset by reduced ARPU to take into account the termination rate cut. Even so, our FY3/11 and FY3/12 revenue estimates have increased by 4% to capture upside from wireless broadband. We expect FY3/10 wireless revenue growth of 19.8% and attribute approximately 6% YoY growth contribution from wireless broadband (Rs12.3bn revenue opportunity).
- **Broadband and Global business: Minor change in top line but reducing capex forecasts.** We have significantly reduced our capex forecasts on the back of a sharp cut in capex guidance by management.
- **Towers: Rolling in contribution from Etisalat DB Telecom deal, potential upside from S Tel and Aircel deal yet to be factored into our estimates.** The share of revenue from external tenancy on Reliance Infratel towers is insignificant in FY3/10 (roughly 1% of total revenues). However, Reliance Infratel has signed a deal with S Tel to provide passive infrastructure services, and media reports have hinted at a similar deal with Aircel (Not Listed). The potential contributions from these deals are yet to be factored in our model.

Earnings and target price revision

- We raise our FY3/10E, FY3/11E and FY3/12E EPS by 17%, 20% and 21%, respectively. We increase our target price to Rs360 from Rs275.

Price catalyst

- 12-month price target: Rs360.00 based on a DCF methodology.
- Catalyst: Launch of postpaid GSM service in 14 new circles.

Action and recommendation

- RCOM is a favoured beta play in the sector and, in our view, has the potential to deliver outsized returns, if new tenancy deals are incrementally signed by Reliance Infratel.

RCOM – Key estimate changes and drivers

Fig 1 RCOM – New estimates, old estimates and changes in estimates

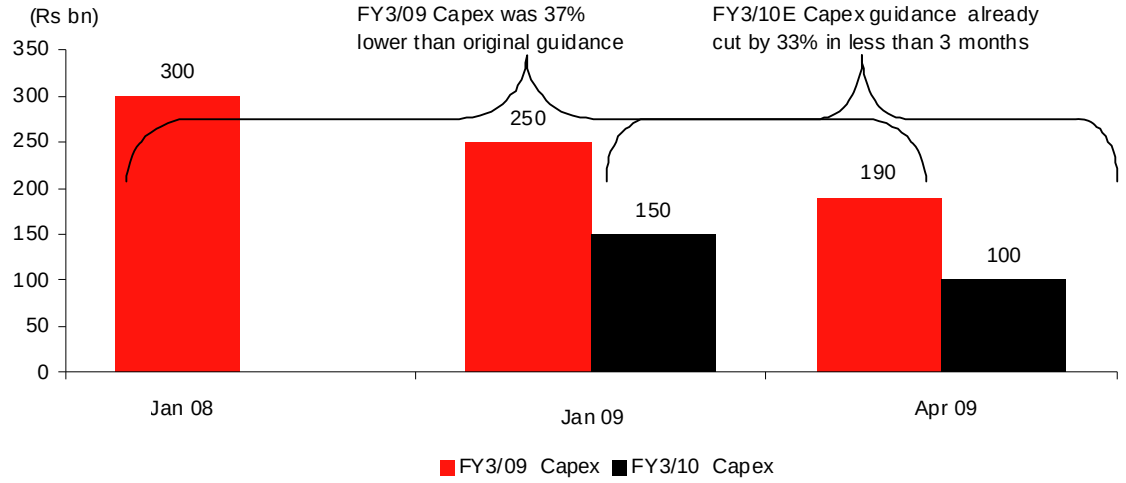
Particulars	NEW estimates			OLD estimates			% difference		
Amount in Rs bn, unless otherwise stated	**FY10E**	**FY11E**	**FY12E**	**FY10E**	**FY11E**	**FY12E**	**FY10E**	**FY11E**	**FY12E**
India wireless subscribers (SIM cards) including fixed wireless (m)	**549.4**	**682.2**	**798.4**	**500.0**	**602.0**	**692.0**	**9.88**	**13.32**	**15.38**
RCOM's Wireless Subscribers (m)	**100.5**	**125.1**	**141.7**	**96.2**	**117.0**	**133.9**	**4.43**	**6.96**	**5.83**
RCOM's market share (%)	18.3	18.3	17.7	19.2	19.4	19.3	-0.95	-1.09	-1.60
Implied monthly subscriber net adds (m)	2.3	2.1	1.4	1.9	1.7	1.4	0.44	0.32	-0.03
Total Revenues	**273.1**	**336.3**	**380.4**	**273.2**	**315.3**	**357.6**	**-0.01**	**6.65**	**6.38**
Total EBITDA	107.1	133.5	156.4	109.1	127.2	145.1	-1.84	4.95	7.78
EBITDA margin (%)	***39.2***	***39.7***	***41.1***	***39.9***	***40.3***	***40.6***	***-1.83***	***-1.60***	***1.31***
Total Capex	93.0	105.0	95.3	151.7	138.2	120.2	-38.66	-24.03	-20.69
Profit before tax (PBT)	74.7	90.2	106.9	60.9	73.4	86.0	22.66	22.99	24.37
Diluted EPS (Rs)	**30.4**	**35.4**	**39.6**	**25.9**	**29.6**	**32.7**	**17.33**	**19.78**	**21.13**
2 yr EPS CAGR - FY3/09–11E (%)	***14.2***			***6.1***					
3 yr EPS CAGR - FY3/09–12E (%)	***13.4***			***7.6***					
Gross Wireless ARPU (Rs per month)	201.8	185.5	176.1	207.6	187.5	179.8	-2.79	-1.08	-2.05
Wireless Revenues	209.7	251.1	281.9	211.6	239.9	270.6	-0.91	4.67	4.17
Wireless EBITDA	80.4	97.6	111.2	79.7	92.9	106.2	0.88	5.11	4.77
Wireless EBITDA margin (%)	38.3	38.9	39.5	37.7	38.7	39.2	0.68	0.16	0.23
Wireless Capex	83.7	74.7	63.5	102.1	89.5	74.9	-18.03	-16.50	-15.15
Broadband & Fixed Line Gross ARPL (Rs per month)	1,644.8	1,611.6	1,579.4	1,652.0	1,617.0	1,584.6	-0.43	-0.33	-0.33
Broadband & Fixed Revenues	28.8	33.5	40.9	31.0	36.2	45.4	-7.07	-7.49	-10.01
Broadband & Fixed EBITDA	12.7	14.8	18.1	13.7	16.0	20.1	-7.24	-7.49	-10.01
Broadband & Fixed EBITDA margin (%)	44.0	44.1	44.3	44.1	44.1	44.3	-0.08	0.00	0.00
Broadband & Fixed Capex	2.8	4.0	4.9	12.0	13.4	13.1	-76.86	-70.02	-62.67
Global Revenues	77.1	89.7	97.3	76.2	88.6	96.8	1.24	1.23	0.55
Global EBITDA	19.4	22.5	25.9	18.9	22.7	26.5	2.79	-0.72	-1.90
Global EBITDA margin (%)	25.1	25.1	26.7	24.7	25.6	27.3	0.38	-0.49	-0.67
Global Capex	10.0	17.9	17.5	25.7	23.2	20.8	-61.12	-22.51	-15.94
Reliance Infratel Revenues	4.1	16.0	19.3	na	na	na	na	na	na
Reliance Infratel EBITDA	1.6	9.2	11.1	na	na	na	na	na	na
Reliance Infratel EBITDA margin (%)	38.3	57.5	57.4	na	na	na	na	na	na
Reliance Infratel Capex	0.2	0.8	1.0	na	na	na	na	na	na
Weighted average cost of capital for DCF (%)	**13.0%**			**12.5%**					

Source: Macquarie Research, September 2009

Upgrade in target price linked to lower capex intensity in the business

Cutting FY3/10E capex by 39% to Rs93bn (down 52% YoY). RCOM's FY3/09 capex of approximately Rs190bn came in 37% below original company guidance of Rs300bn. Management cut its original capex guidance by 25% to Rs250bn in January 2009. Even so, the actual capex outlay for the company was only Rs190bn. On its 3Q FY3/09 earnings call, management had guided to FY3/10 capex of Rs150bn. In less than three months, this has been lowered to Rs100bn.

Fig 2 RCOM capex guidance trajectory



Source: Company data, Macquarie Research, September 2009

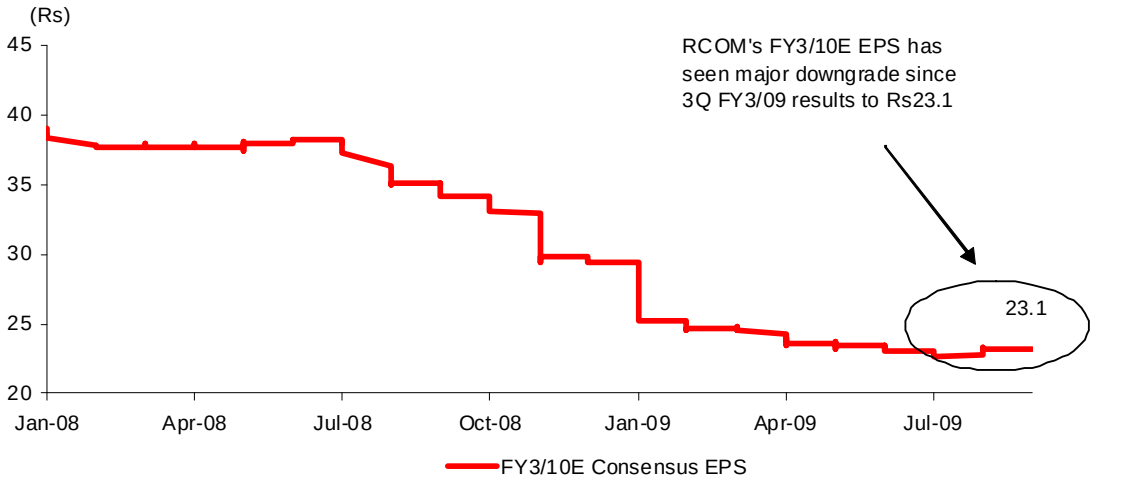
GSM launch behind us, factoring in sharp cut in capex intensity ahead. The pan-India GSM launch was the key reason for the high capital intensity for RCOM last year. The company has been able to establish a pan-India GSM presence in FY3/09, and we expect a decline in capex outlay from the peak level in FY3/09.

Lowering capex forecast in the Global business and the Broadband and Fixed Line segment. We are reducing our FY3/10 capex forecast for the Global business to Rs10bn from Rs26bn, based on our assumption that the bulk of the Rs37bn capex in the Global segment this year was for the NGN submarine cable system. We have reduced our capex forecast for Broadband and Fixed Line segment following positive surprise in FY3/09 capex.

Expect FY3/10E consensus upgrades to drive re-rating

Consensus FY3/10 EPS estimates have upside risks, we believe. Consensus is calling for a 15% YoY earnings decline for RCOM. We are more positive on the company's ability and expect earnings to grow 12% YoY.

Fig 3 Consensus has sharply downgraded FY3/10E EPS in the last eight months



Source: Bloomberg, Macquarie Research, September 2009

Macquarie vs consensus: Mixed bag. Our FY3/10 revenue estimate of Rs273bn is 3% above consensus, and our EBITDA estimate of Rs107.1bn is 1.2% above consensus. Even so, our FY3/10 EPS estimate of Rs30.4 is 31.5% ahead of consensus due to below-the-line items – primarily a net interest income assumption of Rs15.7bn (vs Rs7.9bn recorded in FY3/09).

Fig 4 Our EPS forecast assumes net interest income of Rs15.7bn in FY3/10

	Revenue	EBITDA	EPS
FY3/10E			
Macquarie Estimate	**273,131**	**107,110**	**30.4**
Consensus Estimate	265,291	105,834	23.1
Macquarie above consensus	3.0%	1.2%	31.5%
FY3/11E			
Macquarie Estimate	**336,255**	**133,489**	**35.4**
Consensus Estimate	309,379	123,312	25.2
Macquarie above consensus	8.7%	8.3%	40.4%

Source: Macquarie Research, September 2008

Valuation: DCF-based fair value of Rs360

Revising DCF-based core business value to Rs360 from Rs275. We are raising our target price as a result of a lower capex intensity assumption, upside from passive infra deal and potential upside from wireless broadband.

Our target price of Rs360 is 9.1x FY3/10E EV/EBITDA. Our target price for RCOM works out to 9.1x FY3/10E EV/EBITDA. This represents a 19% discount to Bharti Airtel's (BHARTI IN, Rs422, Outperform, TP: Rs525, upside:24%) FY3/10E target EV/EBITDA multiple. On FY3/10E PER multiples, RCOM would trade 11.8x at our target price, a 34% discount to Bharti's 17.8x target multiple.

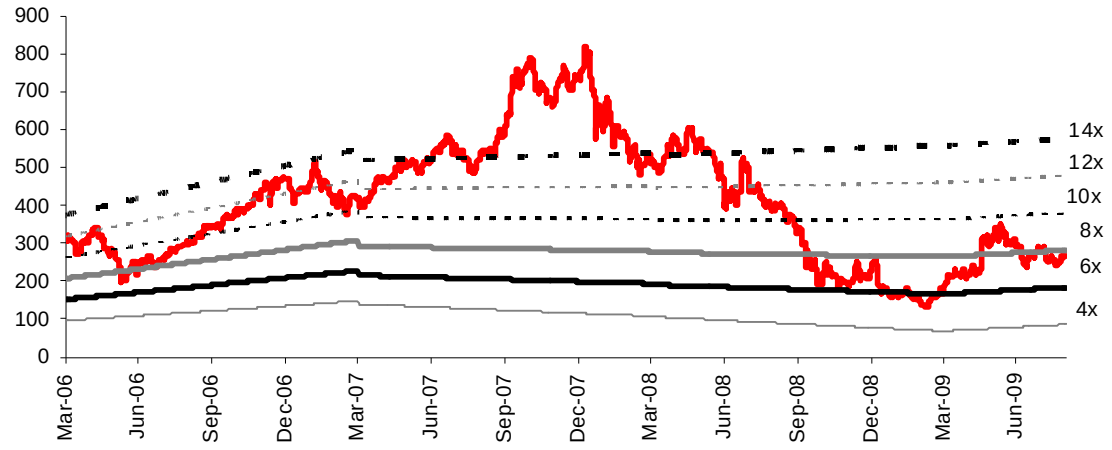
Expect RCOM to trade at a 15–20% discount to Bharti's EV/EBITDA multiple. We believe that Bharti's 15–20% EV/EBITDA premium to RCOM is sustainable and justified, given Bharti's better growth profile, enhanced earnings visibility on earnings growth and comfortable leverage and cashflow position.

Fig 5 Valuation multiples at our target price: Bharti and RCOM

	PER		EV/EBITDA	
	FY10E	FY11E	FY10E	FY11E
Bharti	17.8	15.2	11.1	9.1
RCOM	11.8	10.2	9.1	6.9
RCOM's valn discount to Bharti	*-34%*	*-33%*	*-19%*	*-24%*

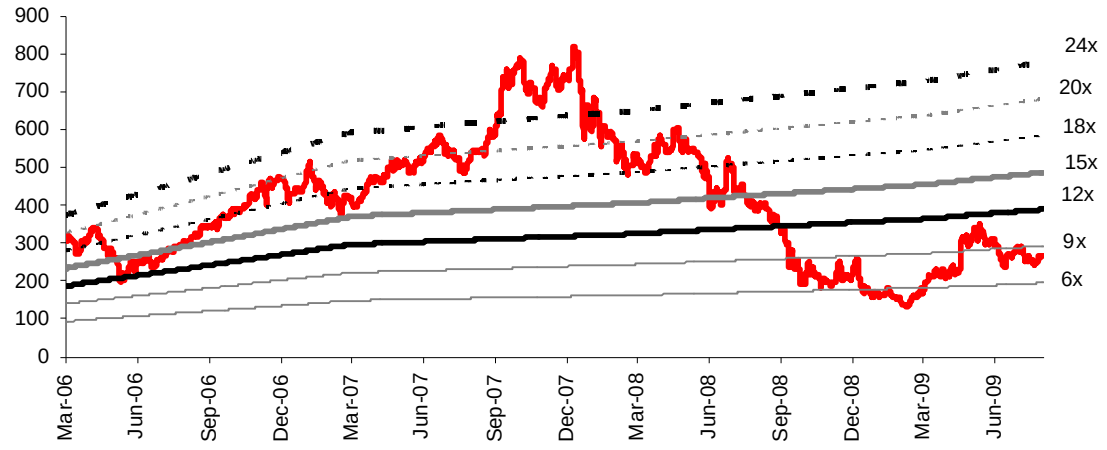
Source: Bloomberg, Macquarie Research, September 2009

Fig 6 RCOM one-year-forward rolling EV/EBITDA



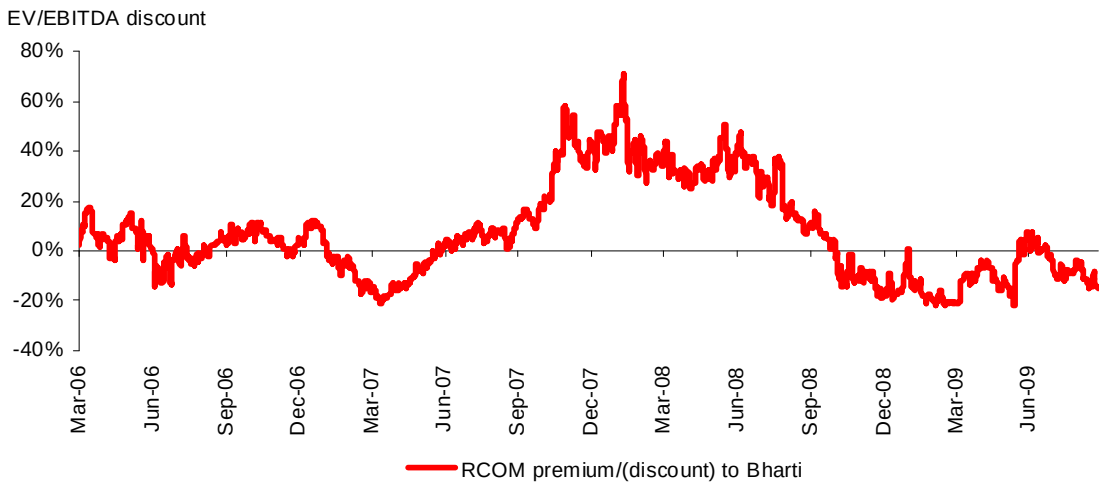
Source: Bloomberg, Macquarie Research, September 2009

Fig 7 RCOM one-year forward rolling PER



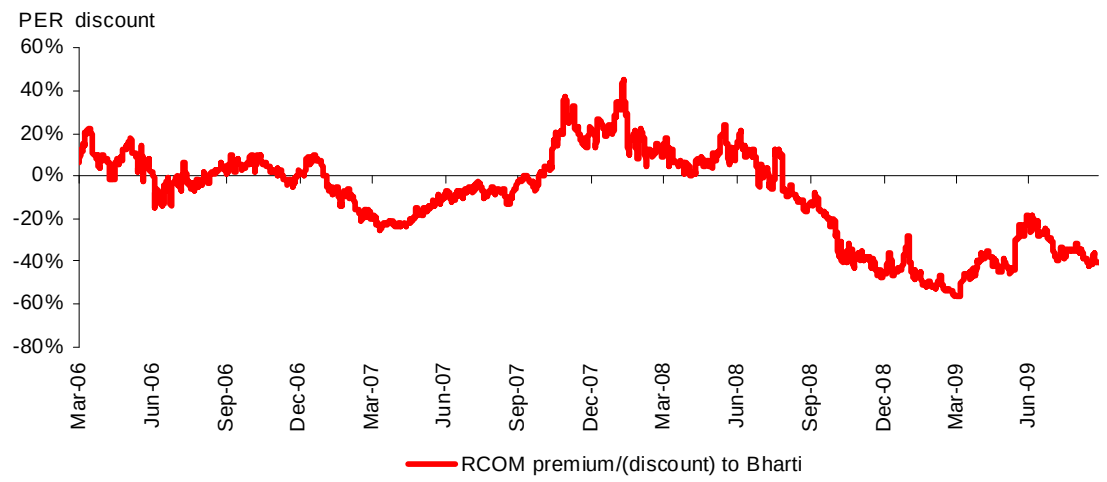
Source: Bloomberg, Macquarie Research, September 2009

Fig 8 RCOM premium/(discount) to Bharti on EV/EBITDA



Source: Bloomberg, Macquarie Research, September 2009

Fig 9 RCOM premium/(discount) to Bharti on PER



Source: Bloomberg, Macquarie Research, September 2009

Fig 10 RCOM – DCF valuation model for the base business, fiscal year-end March

Year-end Mar (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	107,110	133,489	156,354	173,040	190,575	208,351	226,380	245,104	262,584	279,420	295,668
Growth (% YoY)	15.3	24.6	17.1	10.7	10.1	9.3	8.7	8.3	7.1	6.4	5.8
Tax expense	(5,015)	(9,024)	(16,035)	(21,079)	(26,676)	(32,953)	(41,121)	(50,380)	(59,787)	(64,850)	(74,029)
Change in working capital	32,787	31,835	14,733	20,390	21,186	19,347	18,534	17,160	21,726	21,878	23,596
Cashflow from operations	134,882	156,301	155,052	172,350	185,085	194,744	203,793	211,884	224,522	236,448	245,235
Capital expenditure	(91,554)	(105,821)	(96,266)	(97,016)	(95,405)	(94,421)	(96,102)	(93,721)	(92,710)	(93,289)	(95,655)
Free cashflow	43,327	50,480	58,785	75,334	89,680	100,323	107,690	118,163	131,813	143,159	149,580
Growth (% YoY)	nmf	nmf	16.5	28.2	19.0	11.9	7.3	9.7	11.6	8.6	4.5
Free cashflow for valuation purposes	43,327	50,480	58,785	75,334	89,680	100,323	107,690	118,163	131,813	143,159	149,580
Present Value of Free Cashflow	41,185	42,481	43,797	49,674	52,353	51,850	49,275	47,851	47,258	45,440	42,034

Discount rate (%)	13.0%
1. Present value of cashflow till 2020	
Total PV of free cashflow till 2020 {a}	**513,198**
2. Terminal value calculation	
Growth from 2020 to perpetuity (%)	3.5%
FCF in FY2020	149,580
Exit PER multiple (X)	10.9
Terminal value	1,630,287
Implied Exit EV/EBITDA Multiple (X)	5.5
PV of terminal value {b}	458,129
Total company value {a} + {b}	971,327
- Net debt/(cash)	186,717
Value to equity holders	784,609
Equity value (Rs per share)	**360**

Calculation of WACC of RCOM (%)

Risk free rate of return = Rf (%)	7.50
Equity risk premium	7.50
Beta	1.1
Cost of equity = Re	15.86
Unadjusted cost of debt	7.50
Post tax cost of debt = Rd	6.25
Equity = We	70.00
Debt = Wd	30.00
WACC = Re x We + Rd x Wd	13.0%

Sensitivity of 12-month DCF to WACC and Terminal Growth

Terminal Growth \ WACC	11.0%	12.0%	13.0%	14.0%	15.0%
2.5%	456	391	339	296	261
3.0%	475	405	349	304	267
3.5%	495	419	**360**	312	273
4.0%	522	438	374	322	281
4.5%	550	458	388	333	289

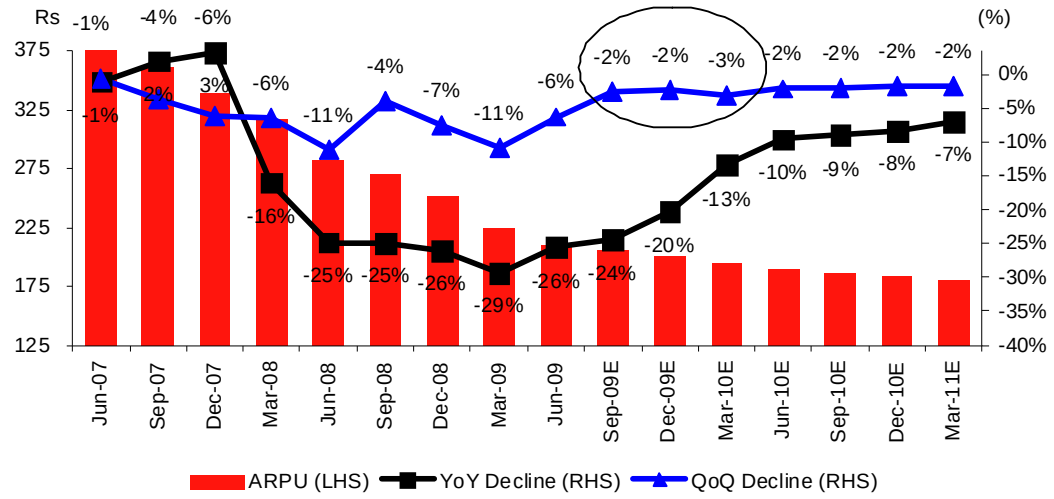
Source: Macquarie Research, September 2009

Mobile: Expect ARPU to deteriorate but higher sub base could offset pain

We expect RCOM to cross the 100m subscriber mark by March 2010. We expect the company to add 27.8m subscribers in FY3/10. This implies a monthly net add run rate of 2.32m (vs 2.39m net adds in July 2009). Our revised forecast is based on 18% net add market share for RCOM in FY3/10 (down from 20.6% in FY3/09).

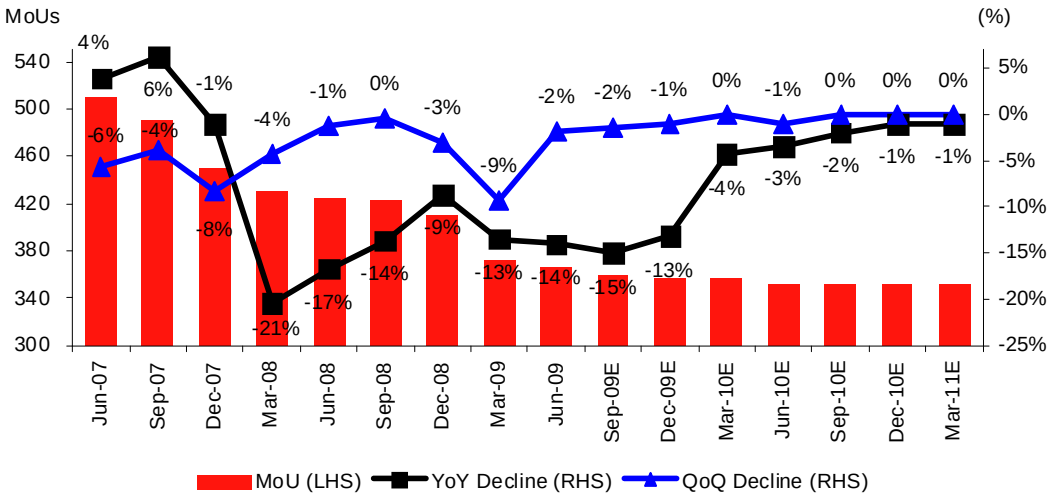
We expect ARPU to continue to decline in coming quarters. RCOM's wireless ARPU declined 25.5% YoY and 6.3% QoQ in 1Q FY3/10. We estimate the company's new GSM (launched in 14 circles) subscriber addition in the January–June 2009 period at 11.5m. We expect the GSM launch and wireless broadband offerings to arrest the steep decline in ARPU that RCOM has been experiencing for the past five quarters.

Fig 11 Uplift from wireless broadband could help arrest the sequential dip in ARPU



Source: Company data, Macquarie Research, September 2009

Fig 12 We have not assumed MoUs to jump significantly despite assumed tariff fall



Source: Company data, Macquarie Research, September 2009

Forecast EBITDA margins to dip 10bp in FY3/10. We expect RCOM's wireless margin to remain close to the FY3/09 level of 38.3% (vs 38.4% in FY3/09).

Global business: FY3/10E revenue growth 14%, down from 24% last year

Factoring in slower revenue growth due to global economic downturn. We have broadly maintained our revenue assumptions for the Global segment. Our FY3/10 revenue growth assumption is 14%, a significant dip from the 24% growth generated in FY3/09.

Expect EBITDA margin to expand 120bp YoY in FY3/10. We expect RCOM to increase its FY3/10 Global segment EBITDA margin to 25.1% from 23.9%. In FY3/09, EBITDA margins were under pressure during 1H due to integration expenses related to the Vanco acquisition.

Broadband and Fixed Line business: Sub growth to pick up in FY3/11

Quarterly subscriber addition run rate has slowed in last two quarters. RCOM added 0.04m fixed-line subscribers in the April–June 2009 quarter and 0.05m in the January–March 2009 quarter (down from 0.08m in 3Q and 0.11m in 2Q). As a result of the weak subscriber addition trajectory, we reduced our FY3/10 subscriber addition forecast to 0.15m from 0.32m.

No change to our margin assumption. Broadband and Fixed Line continue to enjoy the highest margins across all segments. We have maintained our FY3/10 EBITDA margin forecast of 44% (down from 45.9% in FY3/09).

Tower-sharing deal with Etisalat adds around Rs37 to our target price

The deal is among the first third-party tower tenancy deals for any operator-promoted TowerCo. Etisalat DB Telecom, one of the greenfield telcos, has signed a 10-year tower rental agreement with Reliance Infratel, the 95%-owned TowerCo of RCOM. Under the agreement, Reliance Infratel would provide Etisalat DB and its subsidiaries with complete tower and transmission infrastructure for its network rollout in 15 key telecom circles.

The key assumptions used to arrive at the financial benefit from the deal are as follows:

- Reliance Infratel is to lease out 22k cell sites by March 2010, ramping to 30k cell sites by March 2011. Thereafter, we have built in a modest 1k in incremental cell sites to be leased by Reliance Infratel to Etisalat DB Telecom.
- 2% annual escalation in fixed monthly rentals.
- 4% annual escalation in reimbursable revenues.
- 90% EBITDA margin on core revenues (ie, revenues due to fixed monthly rentals from Etisalat).
- Capex as 5% of total rental revenues.
- Depreciation as % of Gross Block (in line with our assumption for the wireless segment).

RCOM recently signed a deal with S Tel to provide passive telecom infrastructure in six circles. The company's press release did not provide the financial details of the deal. The six circles covered under the deal are all Category C – Orissa, Bihar, Himachal Pradesh, North East, Assam and J&K. Even though the financial details for the deal are not known, we believe that Reliance Infratel's entering into a strategic arrangement with greenfield operators is a significant and durable positive for the tower business model.

Recent media reports suggest that RCOM is in talks with Aircel (majority-owned subsidiary of Maxis, Malaysia) for a large tower-sharing/tenancy deal. Similar to the two deals that Reliance Infratel (95% subsidiary of RCOM) has signed with Etisalat DB Telecom and S Tel, according to *Business Standard* RCOM is expected to sign a US$300m (Rs14.4bn) agreement with Aircel. The deal is expected to cover both new and existing circles of Aircel.

Balance sheet to de-leverage significantly following pre payment of Rs50bn debt

According to *Business Standard* on 1 September, RCOM has prepaid a term loan of Rs50bn raised from Indian banks a year earlier. The article attributes the payment of loans from its internal accruals and cash reserves, and on an average of three years ahead of schedule. The term loans were taken from State Bank of India, Punjab National Bank and IDBI, according to sources. The repayment date for the remaining Rs 50bn loan starts from 2011. We note the company has net debt of Rs221bn and we expect this to fall by over 50% to Rs112bn FY3/12E as capex intensity in the business moderates and cashflows from GSM business start contributing meaningfully.

Fig 13 Global emerging market telecom valuations

Macquarie - Global Emerging Market Telecom Valuation

Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x) FY3/10E	EV/EBITDA (x) FY3/11E	PER (x) FY3/10E	PER (x) FY3/11E	PEG (FY3/09-3/11E)	ROE (FY3/10E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)
Bharti Airtel	BHARTI IN	OP	422	575	36%	9.0	7.3	14.3	12.2	0.8	31.5	**18.6**	**24.3**
Reliance Communications	RCOM IN	OP	264	360	36%	7.9	6.0	8.7	7.4	0.7	15.3	19.9	14.2
Idea Cellular	IDEA IN	UP	80	70	-12%	8.4	6.2	20.5	18.2	1.4	8.4	34.5	18.5
MTNL	MTNL IN	UP	94	51	-46%	11.2	11.3	103.0	-21.2	na	0.5	-0.3	na
China Mobile	941 HK	N	75	77	2%	4.9	4.7	11.7	12.1	-19.5	24.3	3.1	-0.6
China Unicom	762 HK	UP	10	9	-18%	4.6	5.0	19.0	24.3	3.4	5.6	2.9	8.4
Indosat	ISAT IJ	N	5,200	5,200	0%	4.5	4.0	12.0	9.1	4.1	13.1	5.0	2.3
SK Telecom	017670 KS	OP	174,500	235,000	35%	4.3	3.8	9.2	7.0	0.5	13.0	8.0	19.2
LG Telecom	032640 KQ	OP	7,710	11,500	49%	3.5	3.0	6.4	5.9	0.3	14.3	9.2	30.3
Digi.Com	DIGI MK	N	22	22	2%	7.3	6.5	12.5	11.2	23.0	53.1	7.1	0.6
Axiata	AXIATA MK	N	3	3	-1%	7.7	6.7	16.2	16.0	-2.2	9.6	13.9	-15.5
Globe	GLO PM	OP	1,000	1,330	33%	4.3	4.0	8.7	8.3	0.6	26.1	4.1	15.3
Far EasTone	4904 TT	N	37	39	3%	5.0	5.1	10.8	10.6	2.8	15.1	-3.0	4.1
Taiwan Mobile	3045 TT	OP	51	57	12%	5.3	5.2	9.2	9.4	5.9	31.0	1.9	1.7
AIS	ADVANC TB	UP	86	75	-13%	6.0	5.9	14.7	14.0	3.6	24.7	-1.3	4.3
TAC	DTAC TB	UP	34	20	-42%	5.1	5.1	7.3	6.7	-0.4	10.8	-3.9	-20.8
MobileOne	M1 SP	OP	2	2	5%	5.4	5.4	10.8	11.2	na	59.3	-6.3	-9.6
MTN Group Ltd	MTN SJ	OP	12,706	17,000	34%	4.9	4.2	11.6	9.1	0.5	24.0	18.3	26.8
Orascom Telecom	ORTE EY	NR	36	na	na	4.0	3.8	11.1	10.7				
Vivo Participacoes Sa	VIVO3 BZ	NR	43	na	na	3.5	3.1	12.2	9.3				
America Movil	AMXL MM	NR	30	na	na	5.6	5.4	12.9	11.8				
Etihad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.5	8.9				
Saudi Telecom Co	STC AB	NR	47	na	na	5.8	5.8	7.6	7.4				
Qatar Telecom	QTEL QD	NR	152	na	na	4.9	4.7	6.9	6.3				
Average						**5.6**	**5.1**	**11.5**	**10.8**				
Average (ex-China Mobile)						**5.6**	**5.1**	**11.5**	**10.7**				
RCOM's valuation (discount)/premium to Bharti						**-11%**	**-17%**	**-39%**	**-39%**				
Idea's valuation (discount)/premium to Bharti						**-6%**	**-14%**	**43%**	**49%**				

Note: Prices as of 1 September 2009.

Data for Not rated companies are based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, September 2009

RCOM is trading at a 11% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 6% discount to Bharti

Reliance Communications – Detailed financial statements

Fig 14 RCOM – Annual income statement, fiscal year-end March

Particulars (Rs m)	FY08	FY09	FY10E	FY11E	FY12E
Revenues					
Wireless	152,135	173,677	209,651	251,071	281,911
Global Service revenues	54,751	67,761	77,141	89,701	97,304
Broadband & Telephone Service revenues	17,867	25,243	28,794	33,515	40,901
Direct-to-Home and IPTV		1,492	5,452	8,851	13,026
Reliance Infratel			4,136	16,024	19,311
Others	4,310	8,606	6,271	3,672	3,305
Inter-segment eliminations	(38,386)	(47,368)	(58,314)	(66,578)	(75,325)
Total Revenues	**190,678**	**229,411**	**273,131**	**336,255**	**380,432**
Operating Expenses					
Access & Interconnect Charges	40,583	35,682	37,226	46,663	53,307
(% of total revenues)	*21.3%*	*15.6%*	*13.6%*	*13.9%*	*14.0%*
Network Operations Costs - (a)	22,008	43,642	59,768	71,596	81,002
(% of total revenues)	*11.5%*	*19.0%*	*21.9%*	*21.3%*	*21.3%*
Employee Cost - (b)	12,037	16,702	20,010	24,209	27,187
(% of total revenues)	*6.3%*	*7.3%*	*7.3%*	*7.2%*	*7.1%*
Selling & General Cost - (c)	34,061	40,510	49,017	60,297	62,582
(% of total revenues)	*17.9%*	*17.7%*	*17.9%*	*17.9%*	*16.5%*
Total Service Operating Expenses - (a+b+c)	68,106	100,854	128,795	156,102	170,771
(% of total revenues)	*35.7%*	*44.0%*	*47.2%*	*46.4%*	*44.9%*
Total Operating Expense	**108,689**	**136,536**	**166,021**	**202,766**	**224,078**
(% of total revenues)	*57.0%*	*59.5%*	*60.8%*	*60.3%*	*58.9%*
EBITDA	**81,989**	**92,875**	**107,110**	**133,489**	**156,354**
EBITDA Margin	*43.0%*	*40.5%*	*39.2%*	*39.7%*	*41.1%*
Depreciation	(28,054)	(39,313)	(46,974)	(53,849)	(56,452)
Amortisation of ESO	**0**	**(75)**	**(1,161)**	**(1,400)**	**(1,400)**
Net Interest	3,998	7,867	15,717	12,000	8,400
Profit Before Taxes (PBT)	**57,933**	**61,354**	**74,692**	**90,240**	**106,902**
(% of total revenues)	*30.4%*	*26.7%*	*27.3%*	*26.8%*	*28.1%*
Income tax expense / (benefit)	2,836	(123)	5,015	9,024	16,035
Effective Tax Rate (%)	*4.9%*	*-0.2%*	*6.7%*	*10.0%*	*15.0%*
Profit After Taxes (PAT)	**55,097**	**61,476**	**69,677**	**81,216**	**90,867**
Minority interest	13,911	2,399	3,397	3,974	4,446
Extraordinary items	12,829				
Reported Net Profit	**54,015**	59,077	66,280	77,242	86,420
Adjusted Net Profit	**53,389**	**59,077**	**66,280**	**77,242**	**86,420**
PAT Margin	*28.0%*	*25.8%*	*24.3%*	*23.0%*	*22.7%*
Adjusted Diluted EPS	**24.75**	**27.17**	**30.39**	**35.42**	**39.63**
Diluted number of shares outstanding	2,157	2,181	2,181	2,181	2,181
YoY Growth (%)					
Total Revenues	**31.8**	**20.3**	**19.1**	**23.1**	**13.1**
Access & Interconnection Charges	7.3	(12.1)	4.3	25.4	14.2
Network Operations	31.5	98.3	36.9	19.8	13.1
Employee Costs	32.6	38.8	19.8	21.0	12.3
Selling & General Costs	42.9	18.9	21.0	23.0	3.8
Operating Expenses	24.3	25.6	21.6	22.1	10.5
EBITDA	**43.3**	**13.3**	**15.3**	**24.6**	**17.1**
Adjusted Net Profit After Taxes	67.1	10.7	12.2	16.5	11.9
Adjusted Diluted EPS	**58.4**	**9.8**	**11.9**	**16.5**	**11.9**
Key parameters					
ROE (%)	20.6%	16.6%	14.6%	14.8%	13.7%
ROA (%)	8.1%	6.0%	5.3%	6.1%	7.2%
Fixed asset turnover (X)	0.34	0.29	0.33	0.38	0.41
Total asset turnover (X)	0.33	0.28	0.30	0.35	0.38

Source: Company data, Macquarie Research, September 2009

Fig 15 RCOM – Balance sheet, fiscal year-end March

Particulars (Rs m)	FY08	FY09	FY10E	FY11E	FY12E
ASSETS					
Cash and Cash equivalents	8,782	16,829	134,695	163,982	183,441
Inventories	4,059	5,427	5,238	6,449	7,296
Debtors	27,224	39,618	59,864	72,778	81,298
Other Current Assets	23,058	17,714	29,932	35,929	39,607
Loans and Advances	42,695	67,557	67,347	81,070	89,636
Total Current Assets	**105,817**	**147,145**	**297,076**	**360,207**	**401,277**
Fixed Assets					
Gross Block	463,388	755,026	854,696	956,186	1,049,123
Less: Depreciation	89,561	141,069	188,043	241,892	298,344
Net Block	373,826	613,957	666,653	714,294	750,779
Capital Work-in-progress	149,299	113,096	106,664	110,995	114,325
Goodwill	35,654	52,215	52,215	52,215	52,215
Total Fixed Assets	**558,780**	**779,268**	**825,533**	**877,504**	**917,319**
Investments	**109,996**	**95,657**	**95,657**	**95,657**	**95,657**
Total Assets	**774,593**	**1,022,070**	**1,218,266**	**1,333,369**	**1,414,253**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities	156,213	159,718	261,539	316,648	346,860
Provisions	45,591	41,377	47,759	58,330	64,461
Total Current Liabilities	**201,804**	**201,095**	**309,298**	**374,977**	**411,321**
Secured Foreign Currency Loans	0	0	-	-	-
Secured Rupee Loans	9,500	30,000	30,000	30,000	30,000
Unsecured Loans	248,717	361,623	387,069	364,229	266,010
Total Debt	**258,217**	**391,623**	**417,069**	**394,229**	**296,010**
Minority interest	**24,309**	**6,549**	**6,549**	**6,549**	**6,549**
Stockholders' Equity	**290,263**	**422,803**	**485,349**	**557,613**	**700,372**
Share capital	10,320	10,320	10,320	10,320	10,884
Reserves	279,943	412,483	475,029	547,292	689,488
Total Liabilities and Stockholders' Equity	**774,593**	**1,022,070**	**1,218,266**	**1,333,369**	**1,414,253**
Ratios					
Net debt/equity	0.48	0.89	0.58	0.41	0.16
Gross Debt/Equity	0.89	0.93	0.86	0.71	0.42
WC/Revenues (%)	(50.34)	(23.52)	(4.47)	(4.39)	(2.64)
Net working capital days <Days of Gross Sales>	(183.74)	(85.84)	(16.33)	(16.03)	(9.64)

Source: Company data, Macquarie Research, September 2009

Fig 16 RCOM – Cashflow statement, fiscal year-end March

Particulars (Rs m)	FY08	FY09	FY10E	FY11E	FY12E
Cashflows from operating activities					
Net Profit / (Loss)	70,763	61,967	69,133	77,242	86,420
Add:					
Depreciation	28,053	36,077	46,974	53,849	56,452
Provision for Doubtful Debts	1,475	1,368	235		
Interest expense (net)	226	-3,358	-20,818	-12,000	-8,400
(Profit)/Loss on sale of assets / investments	-1,544	-3,280	-784		
Tax expense / (income)	-2,160	-3,926	-1,218		
Extraordinary items	-12,809	-721	111		
Exchange (gain) / loss	-3,595	-2,797			
Increase / (decrease) in working capital	-35,944	-20,255	32,787	31,835	14,733
Net cash provided by/ used in operating activities	**44,465**	**65,075**	**126,420**	**150,927**	**149,205**
Cashflows from investing activities					
Capex	-173,930	-122,584	-91,554	-105,821	-96,266
Sale of fixed assets / investments	-29,788	15,725	-94,339	0	0
Interest expense (net)	7,764	6,779	4,601	12,000	8,400
Net cash provided by/ used in investing activities	**-195,955**	**-100,079**	**-181,292**	**-93,821**	**-87,866**
Cashflows from financing activities					
Changes in Net Debt	100,745	75,084	84,445	-22,839	-98,219
Increase in share capital					66,297
Dividends including dividend tax	-1,183	-1,792	-3,734	-4,979	-9,958
Financial charges	-10,227	-30,861	0		
Net cash provided by/ used in financing activities	**89,335**	**42,431**	**80,711**	**-27,818**	**-41,880**
Net (decrease) / increase in cash	**-62,154**	**7,427**	**25,838**	**29,287**	**19,459**
Cash at the beginning of the period	72,006	8,782	109,577	135,415	164,702
Net increase/(decrease) in investments		0			
Net increase/(decrease) in cash due to subsidiaries	-1,044	**822**			
Effect of exchange Gain / (Loss) on cash and cash eqvt.	-27	**-201**			
Cash at the end of the period	**8,782**	**16,829**	**135,415**	**164,702**	**184,162**

Source: Company data, Macquarie Research, September 2009

Fig 17 Key quarterly operating and financial metrics – Wireless business: Bharti and RCOM

Bharti Airtel - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**50,579**	**56,105**	**64,201**	**69,150**	**72,843**	**79,392**	**82,216**	**82,285**
YoY growth (%)	*53.2*	*49.3*	*51.3*	*47.2*	*44.0*	*41.5*	*28.1*	*19.0*
QoQ growth (%)	*7.7*	*10.9*	*14.4*	*7.7*	*5.3*	*9.0*	*3.6*	*0.1*
Subscribers (m)	**48.88**	**55.16**	**61.98**	**69.38**	**77.48**	**85.65**	**93.92**	**102.37**
YoY growth (%)	*80.6*	*72.5*	*66.9*	*62.5*	*58.5*	*55.3*	*51.5*	*47.5*
QoQ growth (%)	*14.5*	*12.9*	*12.4*	*11.9*	*11.7*	*10.5*	*9.7*	*9.0*
Gross ARPU (Rs)	**366**	**358**	**357**	**350**	**331**	**324**	**305**	**278**
YoY growth (%)	*-16.5*	*-16.2*	*-12.1*	*-10.4*	*-9.5*	*-9.3*	*-14.6*	*-20.4*
QoQ growth (%)	*-6.3*	*-2.2*	*-0.2*	*-2.1*	*-5.3*	*-2.0*	*-6.0*	*-8.8*
Avg. monthly MoUs per subscriber	**469**	**474**	**507**	**534**	**526**	**505**	**485**	**478**
YoY growth (%)	*3.9*	*1.4*	*6.8*	*11.8*	*12.2*	*6.7*	*-4.3*	*-10.6*
QoQ growth (%)	*-1.9*	*1.1*	*7.0*	*5.4*	*-1.6*	*-3.9*	*-4.0*	*-1.5*
ARPM (Rs)	**0.78**	**0.76**	**0.70**	**0.65**	**0.63**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-19.6*	*-17.3*	*-17.7*	*-19.9*	*-19.4*	*-14.9*	*-10.7*	*-11.0*
QoQ growth (%)	*-4.4*	*-3.3*	*-6.7*	*-7.1*	*-3.8*	*2.1*	*-2.1*	*-7.4*
Total minutes carried (m)	**64,375**	**73,840**	**89,058**	**105,217**	**115,834**	**123,626**	**130,669**	**140,713**
YoY growth (%)	*90.2*	*78.8*	*80.9*	*84.2*	*79.9*	*67.4*	*46.7*	*33.7*
QoQ growth (%)	*12.7*	*14.7*	*20.6*	*18.1*	*10.1*	*6.7*	*5.7*	*7.7*
Avg. EBITDA per minute (Rs)	**0.32**	**0.31**	**0.26**	**0.20**	**0.19**	**0.20**	**0.20**	**0.19**
YoY growth (%)	*-10.3*	*-9.3*	*-24.2*	*-39.6*	*-41.0*	*-34.8*	*-22.6*	*-4.1*
QoQ growth (%)	*-3.5*	*-3.8*	*-17.4*	*-21.2*	*-5.7*	*6.3*	*-2.0*	*-2.4*
Wireless EBITDA (Rs m)	**20,728**	**22,887**	**22,779**	**21,218**	**22,009**	**24,963**	**25,860**	**27,183**
YoY growth (%)	*70.2*	*62.0*	*37.2*	*11.2*	*6.2*	*9.1*	*13.5*	*28.1*
QoQ growth (%)	*8.6*	*10.4*	*-0.5*	*-6.9*	*3.7*	*13.4*	*3.6*	*5.1*
EBITDA margin (%)	**41.0**	**40.8**	**35.5**	**30.7**	**30.2**	**31.4**	**31.5**	**33.0**
YoY expansion (basis points)	*410.0*	*319.5*	*-365.1*	*-994.7*	*-1,076.7*	*-935.0*	*-402.7*	*235.1*
QoQ expansion (basis points)	*35.0*	*-18.8*	*-531.2*	*-479.7*	*-47.0*	*122.8*	*1.1*	*158.1*
Blended Churn	3.8%	3.8%	4.2%	3.7%	3.2%	2.9%	3.2%	3.4%
VAS as % of total revenue	**9.8%**	**9.3%**	**9.4%**	**9.7%**	**10.0%**	**9.5%**	**9.3%**	**9.3%**
YoY growth (%)	*-4.9*	*-10.6*	*-6.9*	*-2.0*	*2.0*	*2.2*	*-1.1*	*-4.1*
QoQ growth (%)	*-1.0*	*-5.1*	*1.1*	*3.2*	*3.1*	*-5.0*	*-2.1*	*0.0*
Total Cell Sites	**52,826**	**60,299**	**69,141**	**75,876**	**82,554**	**88,319**	**93,368**	**96,149**
YoY growth (%)	*75.9*	*75.8*	*76.3*	*65.7*	*56.3*	*46.5*	*35.0*	*26.7*
QoQ growth (%)	*15.4*	*14.1*	*14.7*	*9.7*	*8.8*	*7.0*	*5.7*	*3.0*
Wireless Capex (Rs m)	**28,661**	**27,538**	**17,995**	**32,227**	**23,396**	**29,012**	**16,039**	**13,037**
YoY growth (%)	*4.4*	*76.6*	*68.1*	*-1.8*	*-18.4*	*5.4*	*-10.9*	*-59.5*
QoQ growth (%)	*-12.6*	*-3.9*	*-34.7*	*79.1*	*-27.4*	*24.0*	*-44.7*	*-18.7*
Total Population Centres covered	**294,876**	**325,525**	**347,646**	**369,335**	**389,571**	**406,939**	**419,966**	**428,216**
YoY growth (%)	*85.0*	*79.7*	*64.0*	*48.7*	*32.1*	*25.0*	*20.8*	*15.9*
QoQ growth (%)	*18.7*	*10.4*	*6.8*	*6.2*	*5.5*	*4.5*	*3.2*	*2.0*
Total employees	**23,264**	**24,703**	**25,543**	**26,144**	**25,616**	**25,553**	**24,538**	**23,789**
YoY growth (%)	*na*	*35.6*	*25.7*	*13.9*	*10.1*	*3.4*	*-3.9*	*-9.0*
QoQ growth (%)	*1.3*	*6.2*	*3.4*	*2.4*	*-2.0*	*-0.2*	*-4.0*	*-3.1*

Reliance Communications - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**37,230**	**39,567**	**41,608**	**41,187**	**43,356**	**44,119**	**45,015**	**47,931**
YoY growth (%)	*44.6*	*43.8*	*40.1*	*22.1*	*16.5*	*11.5*	*8.2*	*16.4*
QoQ growth (%)	*10.4*	*6.3*	*5.2*	*-1.0*	*5.3*	*1.8*	*2.0*	*6.5*
Subscribers (m)	**36.32**	**40.96**	**45.79**	**50.79**	**56.05**	**61.35**	**72.67**	**79.62**
YoY growth (%)	*39.8*	*36.6*	*63.5*	*59.4*	*54.3*	*49.8*	*58.7*	*56.8*
QoQ growth (%)	*14.0*	*12.8*	*11.8*	*10.9*	*10.4*	*9.5*	*18.5*	*22.3*
Gross ARPU (Rs)	**361**	**339**	**317**	**282**	**271**	**251**	**224**	**210**
YoY growth (%)	*2.0*	*3.4*	*-15.9*	*-24.8*	*-24.9*	*-26.0*	*-29.3*	*-25.5*
QoQ growth (%)	*-3.7*	*-6.1*	*-6.5*	*-11.0*	*-3.9*	*-7.4*	*-10.8*	*-6.3*
Avg. monthly MoUs per subscriber	**490**	**449**	**430**	**425**	**423**	**410**	**372**	**365**
YoY growth (%)	*6.3*	*-1.1*	*-20.5*	*-16.7*	*-13.7*	*-8.7*	*-13.5*	*-14.1*
QoQ growth (%)	*-3.9*	*-8.4*	*-4.2*	*-1.2*	*-0.4*	*-3.1*	*-9.3*	*-1.9*
ARPM (Rs)	**0.74**	**0.76**	**0.74**	**0.66**	**0.64**	**0.61**	**0.60**	**0.58**
YoY growth (%)	*-4.1*	*4.5*	*5.8*	*-9.7*	*-13.0*	*-18.9*	*-18.3*	*-13.4*
QoQ growth (%)	*0.2*	*2.5*	*-2.4*	*-9.9*	*-3.5*	*-4.4*	*-1.6*	*-4.5*
Total minutes carried (m)	**50,122**	**52,054**	**55,959**	**61,527**	**67,786**	**72,195**	**74,778**	**83,300**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*34.4*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*11.4*
Avg. EBITDA per minute (Rs)	**0.26**	**0.30**	**0.30**	**0.27**	**0.25**	**0.23**	**0.22**	**0.22**
YoY growth (%)	*-4.9*	*12.5*	*10.7*	*-7.4*	*-5.6*	*-24.3*	*-25.8*	*-18.7*
QoQ growth (%)	*-9.9*	*15.3*	*-1.4*	*-9.7*	*-8.1*	*-7.5*	*-3.4*	*0.0*
Wireless EBITDA (Rs m)	**14,873**	**15,819**	**16,763**	**16,623**	**16,859**	**16,616**	**16,629**	**18,489**
YoY growth (%)	*60.0*	*53.7*	*45.6*	*24.1*	*13.4*	*5.0*	*-0.8*	*11.2*
QoQ growth (%)	*11.1*	*6.4*	*6.0*	*-0.8*	*1.4*	*-1.4*	*0.1*	*11.2*
EBITDA margin (%)	**39.9**	**40.0**	**40.3**	**40.4**	**38.9**	**37.7**	**36.9**	**38.6**
YoY expansion (basis points)	*384.6*	*257.1*	*152.0*	*65.6*	*-106.4*	*-231.9*	*-334.7*	*-178.6*
QoQ expansion (basis points)	*24.5*	*3.1*	*30.8*	*7.2*	*-147.5*	*-122.3*	*-72.1*	*163.3*
Blended Churn	1.5%	1.4%	1.4%	1.4%	1.3%	1.0%	0.8%	1.3%
VAS as % of total revenue	**6.2%**	**6.4%**	**6.9%**	**7.6%**	**7.3%**	**7.4%**	**na**	**na**
YoY growth (%)	*-1.6*	*1.6*	*9.5*	*33.3*	*17.7*	*15.6*	*na*	*na*
QoQ growth (%)	*8.8*	*3.2*	*7.8*	*10.1*	*-3.9*	*1.4*	*na*	*na*
Total Cell Sites	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Wireless Capex (Rs m)	**49,685**	**60,605**	**46,442**	**56,926**	**33,260**	**32,508**	**17,084**	**9,402**
YoY growth (%)	*231.6*	*401.3*	*371.0*	*280.2*	*-33.1*	*-46.4*	*-63.2*	*-83.5*
QoQ growth (%)	*231.8*	*22.0*	*-23.4*	*22.6*	*-41.6*	*-2.3*	*-47.4*	*-45.0*
Total Population Centres covered	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*

Source: Company data, Macquarie Research, September 2009

Fig 18 Key quarterly operating and financial metrics – Wireless business: Vodafone and Idea

Vodafone Essar - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless revenues (in Rsm)	**34,891**	**36,300**	**41,887**	**46,474**	**47,498**	**51,481**	**53,308**	**53,713**
YoY growth (%)	*na*	*na*	*na*	*na*	*36.1*	*41.8*	*27.3*	*15.6*
QoQ growth (%)	*na*	*4.0*	*15.4*	*11.0*	*2.2*	*8.4*	*3.5*	*0.8*
Wireless revenues (in GBPm)	**440**	**491**	**559**	**565**	**574**	**674**	**791**	**755**
YoY growth (%)	*na*	*na*	*na*	*na*	*30.5*	*37.3*	*41.5*	*33.6*
QoQ growth (%)	*na*	*11.6*	*13.8*	*1.1*	*1.6*	*17.4*	*17.4*	*-4.6*
Subscribers (m)	**33.68**	**35.66**	**44.13**	**49.20**	**54.63**	**60.93**	**68.77**	**76.45**
YoY growth (%)	*65.5*	*53.0*	*66.9*	*60.0*	*62.2*	*70.9*	*55.8*	*55.4*
QoQ growth (%)	*9.5*	*5.9*	*23.7*	*11.5*	*11.0*	*11.5*	*12.9*	*11.2*
Gross ARPU (Rs)	**361**	**349**	**350**	**332**	**305**	**297**	**274**	**247**
YoY growth (%)	*-14.0*	*-15.7*	*-13.6*	*na*	*-15.5*	*-14.9*	*-21.7*	*-25.7*
QoQ growth (%)	*na*	*-3.3*	*0.3*	*-5.1*	*-8.1*	*-2.6*	*-7.7*	*-10.0*
Avg. monthly MoUs per subscriber	**373**	**384**	**391**	**374**	**364**	**355**	**336**	**330**
YoY growth (%)	*-8.2*	*-10.5*	*-9.6*	*na*	*-2.2*	*-7.4*	*-14.1*	*-11.9*
QoQ growth (%)	*-10.3*	*3.0*	*1.8*	*-4.2*	*-2.6*	*-2.5*	*-5.6*	*-1.8*
ARPM (Rs)	**0.97**	**0.91**	**0.90**	**0.89**	**0.84**	**0.84**	**0.82**	**0.75**
YoY growth (%)	*-6.3*	*-5.8*	*-4.4*	*na*	*-13.6*	*-8.1*	*-8.9*	*-15.7*
QoQ growth (%)	*na*	*-6.1*	*-1.5*	*-0.9*	*-5.7*	*-0.2*	*-2.3*	*-8.4*
Total minutes carried (m)	**36,011**	**39,913**	**46,734**	**52,349**	**56,745**	**61,606**	**65,276**	**71,775**
YoY growth (%)	*na*	*na*	*na*	*na*	*57.6*	*54.4*	*39.7*	*37.1*
QoQ growth (%)	*na*	*10.8*	*17.1*	*12.0*	*8.4*	*8.6*	*6.0*	*10.0*
Blended Churn	3.4%	3.9%	3.3%	2.7%	2.7%	2.4%	2.1%	2.6%
Total Cell Sites	**na**	**41,000**	**48,000**	**52,000**	**59,000**	**69,000**	**78,000**	**84,000**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*68.3*	*62.5*	*61.5*
QoQ growth (%)	*na*	*na*	*17.1*	*8.3*	*13.5*	*16.9*	*13.0*	*7.7*

Idea Cellular - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
Wireless Revenues (Rs m)	**15,622**	**17,081**	**19,724**	**21,735**	**22,992**	**26,184**	**28,502**	**28,872**
YoY growth (%)	*56.1*	*49.0*	*51.1*	*47.1*	*47.2*	*53.3*	*44.5*	*32.8*
QoQ growth (%)	*5.7*	*9.3*	*15.5*	*10.2*	*5.8*	*13.9*	*8.9*	*1.3*
Subscribers (m)	**18.67**	**21.05**	**24.00**	**27.19**	**30.38**	**34.21**	**38.89**	**42.64**
YoY growth (%)	*80.2*	*69.2*	*48.8*	*45.6*	*44.3*	*42.5*	*43.0*	*40.3*
QoQ growth (%)	*15.8*	*12.8*	*14.0*	*13.3*	*11.7*	*12.6*	*13.7*	*9.6*
Gross ARPU (Rs)	**288**	**279**	**287**	**278**	**261**	**268**	**255**	**232**
YoY growth (%)	*-19.1*	*-13.4*	*-9.5*	*-13.1*	*-9.4*	*-3.9*	*-11.1*	*-17.1*
QoQ growth (%)	*-10.0*	*-3.1*	*2.9*	*-3.1*	*-6.1*	*1.9*	*-4.9*	*-9.0*
Avg. monthly MoUs per subscriber	**360**	**377**	**411**	**431**	**421**	**416**	**402**	**399**
YoY growth (%)	*-0.9*	*2.2*	*6.2*	*13.1*	*16.9*	*10.3*	*-2.2*	*-7.4*
QoQ growth (%)	*-5.5*	*4.7*	*9.0*	*4.9*	*-2.3*	*-1.2*	*-3.4*	*-0.7*
ARPM (Rs)	**0.80**	**0.74**	**0.70**	**0.65**	**0.62**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-22.7*	*-15.2*	*-14.8*	*-23.2*	*-22.5*	*-13.5*	*-9.8*	*-10.7*
QoQ growth (%)	*-4.8*	*-7.5*	*-5.6*	*-7.6*	*-3.9*	*3.2*	*-1.6*	*-7.9*
Total minutes carried (m)	**18,831**	**22,457**	**27,824**	**33,087**	**36,315**	**40,254**	**44,224**	**48,729**
YoY growth (%)	*93.4*	*77.8*	*79.9*	*93.5*	*92.8*	*79.2*	*58.9*	*47.3*
QoQ growth (%)	*10.1*	*19.3*	*23.9*	*18.9*	*9.8*	*10.8*	*9.9*	*10.2*
Avg. EBITDA per minute (Rs)	**0.27**	**0.25**	**0.24**	**0.22**	**0.17**	**0.17**	**0.17**	**0.16**
YoY growth (%)	*-21.1*	*-14.0*	*-12.7*	*-26.9*	*-39.0*	*-33.4*	*-30.5*	*-27.7*
QoQ growth (%)	*-8.9*	*-7.1*	*-5.8*	*-8.3*	*-24.0*	*1.5*	*-1.7*	*-4.7*
Wireless EBITDA (Rs m)	**5,107**	**5,672**	**6,606**	**7,219**	**6,024**	**6,780**	**7,290**	**7,690**
YoY growth (%)	*43.9*	*53.1*	*51.4*	*40.8*	*18.0*	*19.5*	*10.4*	*6.5*
QoQ growth (%)	*-0.4*	*11.1*	*16.5*	*9.3*	*-16.6*	*12.6*	*7.5*	*5.5*
EBITDA margin (%)	**32.7**	**33.2**	**33.5**	**33.2**	**26.2**	**25.9**	**25.6**	**26.6**
YoY expansion (basis points)	*-275.2*	*88.1*	*7.9*	*-149.6*	*-649.1*	*-731.3*	*-791.5*	*-657.8*
QoQ expansion (basis points)	*-201.9*	*51.6*	*28.6*	*-27.8*	*-701.5*	*-30.5*	*-31.7*	*105.9*
Blended Churn	4.5%	4.7%	4.6%	4.0%	3.9%	4.3%	5.2%	6.7%
VAS as % of total revenue	**8.3%**	**8.0%**	**8.2%**	**8.9%**	**9.8%**	**9.5%**	**9.5%**	**10.1%**
YoY growth (%)	*-13.5*	*-13.0*	*-8.9*	*6.0*	*18.1*	*18.8*	*15.9*	*13.7*
QoQ growth (%)	*-1.2*	*-3.6*	*2.5*	*8.5*	*10.1*	*-3.1*	*0.0*	*6.5*
Total Cell Sites	**17,105**	**21,197**	**24,793**	**27,594**	**33,377**	**39,289**	**44,230**	**48,067**
YoY growth (%)	*na*	*na*	*na*	*109.7*	*95.1*	*85.4*	*78.4*	*74.2*
QoQ growth (%)	*30.0*	*23.9*	*17.0*	*11.3*	*21.0*	*17.7*	*12.6*	*8.7*
Total capex (Rs m)	**12,352**	**11,946**	**19,161**	**19,817**	**11,950**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*79.1*	*-3.3*	*na*	*na*	*na*
QoQ growth (%)	*11.7*	*-3.3*	*60.4*	*3.4*	*-39.7*	*na*	*na*	*na*
Total Population Centres covered	**8,413**	**11,104**	**13,308**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*177.6*	*207.8*	*200.3*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*38.7*	*32.0*	*19.8*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**4,945**	**5,139**	**5,309**	**5,604**	**5,658**	**5,864**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*14.4*	*14.1*
QoQ growth (%)	*na*	*na*	*na*	*3.9*	*3.3*	*5.6*	*1.0*	*3.6*

Source: Company data, Macquarie Research, September 2009

Reliance Communications (RCOM IN, Outperform, Target price: Rs360.00)

Quarterly Results		1Q/10A	2Q/10E	3Q/10E	4Q/10E
Revenue	**m**	**61,452**	**66,209**	**71,118**	**74,095**
Gross Profit	**m**	**35,639**	**37,213**	**40,366**	**42,652**
Cost of Goods Sold	m	25,813	28,995	30,752	31,443
EBITDA	**m**	**24,525**	**25,304**	**27,572**	**29,454**
Depreciation	m	11,144	11,498	11,935	12,397
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	111	350	350	350
EBIT	**m**	**13,270**	**13,455**	**15,287**	**16,707**
Net Interest Income	m	6,205	4,344	3,040	2,128
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**19,475**	**17,799**	**18,327**	**18,835**
Tax Expense	m	-2,267	-890	-916	-942
Net Profit	**m**	**17,208**	**16,909**	**17,411**	**17,893**
Minority Interests	m	-842	-827	-852	-876
Reported Earnings	**m**	**16,366**	**16,081**	**16,559**	**17,018**
Adjusted Earnings	**m**	**16,366**	**16,081**	**16,559**	**17,018**
EPS (rep)		7.51	7.37	7.59	7.80
EPS (adj)		7.51	7.37	7.59	7.80
EPS Growth yoy (adj)	%	7.1	5.1	17.4	17.0
EBITDA Margin	%	39.9	38.2	38.8	39.8
EBIT Margin	%	21.6	20.3	21.5	22.5
Earnings Split	%	24.8	24.4	25.1	25.8
Revenue Growth	%	15.5	17.3	21.6	21.0
EBIT Growth	%	0.3	2.0	16.7	19.5

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**229,411**	**272,874**	**336,255**	**380,432**
Gross Profit	**m**	**133,385**	**155,871**	**193,787**	**218,935**
Cost of Goods Sold	m	96,026	117,003	142,468	161,496
EBITDA	**m**	**92,875**	**106,854**	**133,489**	**156,354**
Depreciation	m	37,743	46,974	53,849	56,452
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	1,645	1,161	1,400	1,400
EBIT	**m**	**53,487**	**58,719**	**78,240**	**98,502**
Net Interest Income	m	7,867	15,717	12,000	8,400
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**61,354**	**74,436**	**90,240**	**106,902**
Tax Expense	m	123	-5,015	-9,024	-16,035
Net Profit	**m**	**61,476**	**69,421**	**81,216**	**90,867**
Minority Interests	m	-2,399	-3,397	-3,974	-4,446
Reported Earnings	**m**	**59,077**	**66,024**	**77,242**	**86,420**
Adjusted Earnings	**m**	**59,077**	**66,024**	**77,242**	**86,420**
EPS (rep)		27.16	30.28	35.42	39.63
EPS (adj)		27.17	30.28	35.42	39.63
EPS Growth (adj)	%	9.3	11.5	17.0	11.9
PE (rep)	x	9.7	8.7	7.5	6.7
PE (adj)	x	9.7	8.7	7.5	6.7
Total DPS		2.00	1.50	2.00	4.00
Total Div Yield	%	0.8	0.6	0.8	1.5
Weighted Average Shares	m	2,175	2,181	2,181	2,181
Period End Shares	m	2,181	2,181	2,181	2,181

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	20.3	18.9	23.2	13.1
EBITDA Growth	%	13.3	15.1	24.9	17.1
EBIT Growth	%	-0.8	9.8	33.2	25.9
Gross Profit Margin	%	58.1	57.1	57.6	57.5
EBITDA Margin	%	40.5	39.2	39.7	41.1
EBIT Margin	%	23.3	21.5	23.3	25.9
Net Profit Margin	%	26.8	25.4	24.2	23.9
Payout Ratio	%	7.4	5.0	5.6	10.1
EV/EBITDA	x	8.6	7.4	6.0	5.1
EV/EBIT	x	14.9	13.6	10.2	8.1
Balance Sheet Ratios					
ROE	%	18.9	16.0	14.8	13.7
ROA	%	6.2	5.4	6.1	7.2
ROIC	%	13.3	10.5	10.4	12.0
Net Debt/Equity	%	48.2	38.0	23.9	2.4
Interest Cover	x	nmf	nmf	nmf	nmf
Price/Book	x	1.7	1.2	1.0	0.8
Book Value per Share		156.3	222.6	255.7	321.2

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**90,747**	**93,398**	**119,091**	**134,472**
Tax Paid	m	0	0	0	0
Chgs in Working Cap	m	-7,448	32,787	31,835	14,733
Net Interest Paid	m	0	0	0	0
Other	m	962	235	0	0
Operating Cashflow	**m**	**84,261**	**126,420**	**150,927**	**149,205**
Acquisitions	m	0	0	0	0
Capex	m	-131,484	-91,554	-105,821	-96,266
Asset Sales	m	-3,596	-94,339	0	0
Other	m	-2,846	4,601	12,000	8,400
Investing Cashflow	**m**	**-137,926**	**-181,292**	**-93,821**	**-87,866**
Dividend (Ordinary)	m	0	-3,734	-4,979	-9,958
Equity Raised	m	0	0	0	66,297
Debt Movements	m	55,125	84,445	-22,839	-98,219
Other	m	0	0	0	0
Financing Cashflow	**m**	**55,125**	**80,711**	**-27,818**	**-41,880**
Net Chg in Cash/Debt	**m**	**1,460**	**25,838**	**29,287**	**19,459**
Free Cashflow	**m**	**-47,223**	**34,865**	**45,106**	**52,939**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	120,259	230,352	259,639	279,098
Receivables	m	49,523	59,864	72,778	81,298
Inventories	m	5,335	5,238	6,449	7,296
Investments	m	0	0	0	0
Fixed Assets	m	660,516	773,317	825,289	865,104
Intangibles	m	35,654	52,215	52,215	52,215
Other Assets	m	101,003	97,279	116,998	129,243
Total Assets	**m**	**972,290**	**1,218,266**	**1,333,369**	**1,414,253**
Payables	m	291,091	261,539	316,648	346,860
Short Term Debt	m	0	0	0	0
Long Term Debt	m	289,926	417,069	394,229	296,010
Provisions	m	39,411	47,759	58,330	64,461
Other Liabilities	m	0	0	0	0
Total Liabilities	**m**	**620,428**	**726,367**	**769,207**	**707,332**
Shareholders' Funds	m	340,847	485,349	557,613	700,372
Minority Interests	m	11,014	6,549	6,549	6,549
Other	m	0	0	0	0
Total S/H Equity	**m**	**351,861**	**491,899**	**564,162**	**706,921**
Total Liab & S/H Funds	**m**	**972,290**	**1,218,266**	**1,333,369**	**1,414,253**

All figures in INR unless noted.
Source: Company data, Macquarie Research, September 2009

INDIA

Idea Cellular

3 September 2009

IDEA IN		**Underperform**
Stock price as of 01 Sep 09	Rs	79.55
12-month target	Rs	70.00
Upside/downside	%	-12.0
Valuation	Rs	70.00

- DCF (WACC 12.5%, beta 1.0, ERP 6.0%, RFR 9.0%, TGR 3.5%)

GICS sector		telecommunication services
Market cap	Rs m	246,613
30-day avg turnover	US$m	16.0
Market cap	US$m	5,029
Number shares on issue	m	3,100

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	bn	101.2	128.4	152.4	171.6
EBITDA	bn	28.2	38.8	51.0	63.6
EBITDA growth	%	25.2	37.6	31.5	24.8
Adjusted profit	bn	9.1	12.2	14.1	22.5
EPS adj	Rs	3.07	3.88	4.36	6.95
PE adj	x	25.9	20.5	18.2	11.5
ROA	%	7.2	6.7	9.0	12.0
ROE	%	10.4	8.4	8.9	12.7
EV/EBITDA	x	10.3	7.8	5.9	4.7
Net debt/equity	%	27.4	52.0	42.9	26.0
Price/book	x	1.8	1.7	1.6	1.4

IDEA IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, September 2009
(all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

Pricing in blue sky and more

Event

- We reassess our estimates and target price for Idea following good 1Q results and a more optimal capex and opex strategy in new circles. We upgrade our TP to Rs70 from Rs45 due to better profitability, inclusion of the Spice Comm (SPCM IN, Rs60, Not rated) and the expanded Indus Towers (post-infusion of tower assets from Bharti, Vodafone & Idea) in its financials, and lower capex outlay for Idea stemming from a change of strategy. Retain Underperform.

Impact

- **Incorporating financial uplift from Spice and Indus towers.** We have included a 41% contribution from Spice Communications (100% from 4Q FY3/10E) and 16% contribution from Indus in Idea's consolidated financials.
- **Increasing estimates for Idea (standalone) on back of higher subs forecast and better profitability.** We are raising our revenue, EBITDA and PAT estimates for Idea following positive surprises on margins for the past two quarters. Our top-line estimate changes (up 10–13% in the next three years) are tied to our increased market subs forecast. Even so, our revised EBITDA forecast is up 4–7%, as positive revision in the top line is offset by lower margins on a standalone basis due to payment of tower rentals to Indus starting 4Q FY3/09. See Figure 1 for detailed changes in our P&L estimates for Idea standalone and Figure 2 for Idea consolidated vs our old estimates.
- **Capital intensity in the sector is falling as population coverage reaches 80%-plus in addressable markets; Idea no exception.** Our increased target price reflects the reduced capital intensity. We cut our capex forecast sharply for all three telcos under coverage, as: 1) operators are increasingly relying on tower-sharing to cover the rural population, 2) calibrated investment approach has resulted in operators rationalising new coverage capex and 3) per-unit cost of most wireless electronics have fallen sharply in the past year.

Earnings and target price revision

- We are increasing our FY10E EPS by 20% to Rs3.88. We increase our TP to Rs70 from Rs45 due to lower-than-expected losses in new circles.

Price catalyst

- 12-month price target: Rs70.00 based on a DCF methodology.
- Catalyst: Margin pressure in 2Q and external tenancy on Indus Towers

Action and recommendation

- **Recommend taking profits in Idea and switching to Bharti and RCOM.** Idea has returned 55% CYTD and 77% in the past six months, well ahead of its peers Bharti and RCOM. Positive surprises on margins led by excellent cost management are already reflected in rich valuations and we do not see material upside from these levels. Bharti remains our top telco pick in India followed by RCOM. At a PER of 21x FY3/10E and 18x FY3/11E, Idea is among the most expensive wireless stocks globally. Without a material M&A transaction, and that too at a substantially higher price than the current stock price, we do not think the stock offers much upside from here fundamentally.

Analysis – Detailed commentary on business and financials on pages 3–8; circle-wise estimate changes detailed in Figure 5

Fig 1 Idea standalone (excl. Spice and Indus) – new estimates, old estimates and changes in estimates

Amount in Rs million	New Estimates (excl. Spice and Indus)			Old Estimates (Excl. Spice and Indus)			Change (New Est. excl. Spice)			Comments
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	
India wireless subs (m)	549.4	682.2	798.4	475.0	553.0	613.0	15.7%	23.4%	30.2%	**Raising All-India wireless forecast for strong monthly net adds momentum**
Idea's wireless subs (m)	54.5	65.2	75.4	49.4	57.1	64.3	10.5%	14.3%	17.3%	
Idea's market share	9.9%	9.6%	9.4%	10.4%	10.3%	10.5%	-4.5%	-7.4%	-9.9%	
Implied monthly net adds	1.30	0.89	0.85	1.04	0.64	0.60	24.9%	38.6%	41.9%	
Gross ARPU (Rs)	218	192	184	215	198	188	1.6%	-2.8%	-2.3%	
MoUs	406	398	397	422	416	414	-3.8%	-4.4%	-4.1%	
ARPM (Rs)	0.54	0.48	0.46	0.51	0.48	0.45	5.7%	1.7%	1.9%	
Revenue	**122,443**	**138,223**	**155,080**	**111,193**	**126,398**	**136,919**	**10.1%**	**9.4%**	**13.3%**	**Increase in subscriber forecast**
Operating expense	(78,316)	(85,052)	(90,448)	(79,084)	(87,562)	(89,879)	-1.0%	-2.9%	0.6%	
EBITDA	**33,456**	**40,505**	**50,373**	**32,109**	**38,837**	**47,039**	**4.2%**	**4.3%**	**7.1%**	**Our revised margin assumption is down only 150-190bp despite ~500bp negative impact of tower rentals paid to Indus**
EBITDA margin	27.3%	29.3%	32.5%	28.9%	30.7%	34.4%	-155.3 bp	-142.2 bp	-187.4 bp	
D&A	(17,869)	(20,886)	(22,469)	(17,930)	(21,745)	(24,530)	-0.3%	-3.9%	-8.4%	
Other income	43	43	43	178	178	178	-76.0%	-76.0%	-76.0%	
EBIT	15,630	19,661	27,947	14,357	17,270	22,687	8.9%	13.8%	23.2%	
EBIT margin	12.8%	14.2%	18.0%	12.9%	13.7%	16.6%				
Interest income	3,193	865	767	2,977	1,126	721	7.3%	-23.1%	6.4%	Revised debt assumption.
Interest expense	(6,467)	(7,452)	(7,452)	(5,582)	(5,832)	(6,082)	15.9%	27.8%	22.5%	
Tax	(597)	(1,438)	(3,189)	(1,453)	(1,735)	(2,788)	-58.9%	-17.1%	14.4%	
PAT	**11,760**	**11,636**	**18,073**	**10,299**	**10,829**	**14,538**	**14.2%**	**7.5%**	**24.3%**	
PAT margin	9.6%	8.4%	11.7%	9.3%	8.6%	10.6%				
EPS (Rs)	na	na	na	3.32	3.49	4.69	na	na	na	
Shares outstanding (m)	na	na	na	3,100	3,100	3,100	na	na	na	

Source: Macquarie Research, September 2009

Incorporating Spice and Indus financials in our official estimates. Idea has started consolidating 41% of Spice financials and 16% of Indus financials in its numbers from the October–December 2008 quarter. We have updated our forecast to account for the contributions from Spice and Indus. We expect Idea to complete the Spice merger by December 2009 and are incorporating 100% of Spice financials in Idea, starting from 4Q FY3/10E.

Fig 2 Idea consolidated (incl. Spice and Indus) – new estimates, old estimates and changes in estimates

Amount in Rs million	New Estimates (incl. Spice and Indus)			Old Estimates (Excl. Spice and Indus)			Change (New Est. incl. Spice and Indus)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Revenue	**128,411**	**152,438**	**171,592**	**111,193**	**126,398**	**136,919**	**15.5%**	**20.6%**	**25.3%**
Operating expense	(89,648)	(101,479)	(107,994)	(79,084)	(87,562)	(89,879)	13.4%	15.9%	20.2%
EBITDA	**38,763**	**50,959**	**63,598**	**32,109**	**38,837**	**47,039**	**20.7%**	**31.2%**	**35.2%**
EBITDA margin	30.2%	33.4%	37.1%	28.9%	30.7%	34.4%			
D&A	(20,558)	(25,134)	(26,791)	(17,930)	(21,745)	(24,530)	14.7%	15.6%	9.2%
Other income	43	43	43	178	178	178	-76.0%	-76.0%	-76.0%
EBIT	18,248	25,867	36,850	14,357	17,270	22,687	27.1%	49.8%	62.4%
EBIT margin	14.2%	17.0%	21.5%	12.9%	13.7%	16.6%			
Interest income	3,193	865	767	2,977	1,126	721	7.3%	-23.1%	6.4%
Interest expense	(8,351)	(9,919)	(9,768)	(5,582)	(5,832)	(6,082)	49.6%	70.1%	60.6%
Tax	(937)	(2,718)	(5,391)	(1,453)	(1,735)	(2,788)	-35.5%	56.7%	93.4%
PAT	**12,153**	**14,096**	**22,459**	**10,299**	**10,829**	**14,538**	**18.0%**	**30.2%**	**54.5%**
PAT margin	9.5%	9.2%	13.1%	9.3%	8.6%	10.6%			
EPS (Rs)	**3.88**	**4.36**	**6.95**	**3.32**	**3.49**	**4.69**	**16.7%**	**24.8%**	**48.2%**
Shares outstanding (m)	3,233	3,233	3,233	3,100	3,100	3,100	4.3%	4.3%	4.3%
2 yr EPS CAGR - FY3/09–11E (%)	***18.5***			***7.2***					
3 yr EPS CAGR - FY3/09–12E (%)	***30.8***			***15.6***					

Source: Macquarie Research, September 2009

Below consensus on revenues, ahead on EBITDA and PAT

We are below consensus on revenues by 4–6% for the next two years but significantly ahead of consensus on EBITDA and PAT. We believe consensus is over-estimating the revenue contribution from the Spice and Indus towers but building in massive EBITDA losses from new circle launches.

Fig 3 Idea has surprised positively on margins: expect consensus upgrade to FY10 EPS

Amount in Rs million, except per share data	Revenue	EBITDA	EPS
FY3/10E			
Macquarie Estimate	**128,411**	**38,763**	**3.9**
Consensus Estimate	133,608	36,332	3.4
Macquarie vs consensus	-3.9%	6.7%	13.5%
FY3/11E			
Macquarie Estimate	**152,438**	**50,959**	**4.4**
Consensus Estimate	162,377	44,692	4.1
Macquarie vs consensus	-6.1%	14.0%	7.2%

Source: Macquarie Research, September 2008

Capex moderation likely to play out in FY3/10E

FY3/09 capex was 15% lower than guidance. Similar to the trends that we have seen at Bharti, Idea's reported capex of Rs55bn in FY3/09 came in 15.4% below the company guidance of Rs65bn. Management has guided for Rs55bn capex in FY3/10E and believes that capex in stronger circles (ie the eight original circles and probably the three acquired circles) peaked in FY3/09.

Fig 4 Idea has already cut FY3/10E capex by 8% in one quarter

FY3/09 Capex (Rs m)	Actual	Guidance	Actual vs Guidance (%)
Total Capex (excl. Spice and Indus)	55,000	65,000	-15.4
FY3/10E Capex (Rs m)	**Macq. Est.**	**Guidance***	**Macq. vs Guidance (%)**
Total Capex (incl. Spice but ex-Indus)	54,637	55,000	-0.7

* Idea has already fine-tuned its FY3/10E capex guidance by 8% to Rs55bn from earlier guidance of Rs60bn

Source: Company data, Macquarie Research, May 2009

We expect wireless capex to remain flat in FY3/10E. Idea would need to spend heavily to launch its operations in seven new circles in FY3/10E. Although the company has not provided a breakdown of the Rs55bn capex between the existing (eight original, three acquired and two Spice circles) and new circles (Mumbai, Bihar and seven new circles), we estimate that about 53% of capex (Rs29.2bn) will be used to fund the new launches and the rest (Rs25.4bn) in existing circles.

Increased subscriber base and better profitability were the key drivers of our upward revision in estimates

Raising subscriber forecast to factor in our upward revision to All-India subs forecast. We have increased our All-India Wireless subscriber forecast by 16%, 23% and 30% for FY3/10E, FY3/11E and FY3/12E, respectively. Even so, our subscriber forecast for Idea has increased by only 11%, 14% and 17%, respectively, for the next three years. We believe that Idea will face stiff competition in the new circles from other players such as Aircel, RCOM GSM, as well as greenfield entrants.

Factoring in 17% YoY decline in FY3/10E ARPU. We believe that the entry of Idea in highly penetrated circles such as Mumbai, Bihar, TN (including Chennai) and Kolkata over the next six months and the entry of new players to Idea's established circles could pose downside risks to our ARPU assumptions.

Subscriber addition run-rate has surprised positively, largely driven by positive momentum in newly launched circles. Idea (ex-Spice) had a subscriber base of 42.77m as of June 2009, having added 1.53m subscribers in that month. Idea would need to average 1.3m monthly net additions in FY3/10E to meet our March 2010 subscriber forecast of 54.5m. Upward revisions to our FY3/10E subscriber forecast are due largely to strong contributions from newly launched circles. We highlight that 30% of Idea's monthly net adds have come from four of the newly launched circles: Mumbai, Bihar, Orissa and Tamil Nadu. We expect monthly net adds from these circles to stabilise after the initial promotional offers run out.

Change in top-line estimates driven largely by increased subscriber forecast. As a result of the above-mentioned changes in subscriber forecast, we are increasing our revenue assumption by 10%, 9% and 13%, respectively, for FY3/10E–FY3/12E.

Factoring in higher margins, when adjusted for ~500bp hit due to tower rentals paid to Indus Towers. Idea has surprised positively on margins for the past two quarters. Two factors that have contributed to improved profitability are:

- **Considerable improvement in EBITDA margins of 11 existing circles.** Idea has been able to improve margins in these circles by ~750bp in the past nine months (30.4% in 1Q FY3/10 vs 27.9% in 2Q FY3/09). It is worth noting that starting 4Q FY3/09, there is a ~500bp hit on EBITDA margin in eleven existing circles due to tower rental payments made to Indus towers.
- **Idea has capped losses in newly launched circles in the past 12 months.** Idea's EBITDA losses in new circles remained flat QoQ at Rs644m in 1Q FY3/10, despite the launch of two new circles – Orissa and Tamil Nadu (excluding Chennai) – during the quarter.

Fig 5 Idea (standalone) – detailed circle-wise break up of new estimates, old estimates and change in estimates

	New Estimates			Old Estimates			Change (%)		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
India Wireless Subscribers incl. fixed wireless (m)	549.4	682.2	798.4	475.0	553.0	613.0	15.7%	23.4%	30.2%
Idea Cellular – key operating metrics									
Idea (Standalone)									
Idea's Wireless Subscribers (m)	54.5	65.2	75.4	49.4	57.1	64.3	10.5%	14.3%	17.3%
Idea's market share (%)	9.9%	9.6%	9.4%	10.4%	10.3%	10.5%	-4.5%	-7.4%	-9.9%
Implied monthly subscriber net additions (m)	1.30	0.89	0.85	1.04	0.64	0.60	24.9%	38.6%	41.9%
Wireless ARPU (Rs per month)	218	192	184	215	198	188	1.6%	-2.8%	-2.3%
8 original circles									
Idea's Wireless Subscribers (m)	44.0	50.6	56.4	42.6	45.4	49.5	3.4%	11.3%	14.1%
Implied monthly subscriber net additions (m)	0.84	0.55	0.49	0.78	0.24	0.34	7.8%	130.5%	44.5%
Wireless ARPU (Rs per month)	227	201	192	221	204	196	2.7%	-1.7%	-1.9%
3 acquired circles									
Idea's Wireless Subscribers (m)	5.3	6.6	7.8	4.4	6.8	7.7	18.4%	-2.7%	0.4%
Implied monthly subscriber net additions (m)	0.16	0.11	0.10	0.11	0.19	0.08	43.9%	-43.5%	21.3%
Wireless ARPU (Rs per month)	167	149	144	183	171	164	-8.4%	-12.6%	-12.6%
Mumbai + Bihar									
Idea's Wireless Subscribers (m)	3.3	4.3	5.6	1.5	2.4	2.9	112.1%	81.4%	89.5%
Implied monthly subscriber net additions (m)	0.14	0.09	0.11	0.09	0.07	0.05	61.4%	24.6%	123.4%
Wireless ARPU (Rs per month)	206	188	184	179	170	166	14.9%	10.6%	11.5%
Seven proposed circles									
Idea's Wireless Subscribers (m)	2.0	3.8	5.7	0.8	2.6	4.1	141.8%	48.3%	37.0%
Implied monthly subscriber net additions (m)	0.17	0.15	0.15	0.07	0.15	0.13	141.8%	3.9%	18.3%
Wireless ARPU (Rs per month)	165	165	153	163	156	151	1.4%	5.4%	1.5%
Idea Cellular (standalone) – key financials									
Idea (Standalone)									
Total Revenues	122,443	138,223	155,080	111,193	126,398	136,919	10.1%	9.4%	13.3%
Total EBITDA	33,456	40,505	50,373	32,109	38,837	47,039	4.2%	4.3%	7.1%
EBITDA margin (%)	27.3%	29.3%	32.5%	28.9%	30.7%	34.4%	-155.3%	-142.2%	-187.4%
Total Capex	52,362	27,305	22,915	72,070	46,719	36,497	-27.3%	-41.6%	-37.2%
Diluted EPS (Rs)	na	na	na	3.32	3.50	4.69			
Eight original circles									
Total Revenues	105,897	113,274	123,076	100,265	107,732	111,275	5.6%	5.1%	10.6%
Total EBITDA	34,622	37,955	45,257	32,340	36,666	38,949	7.1%	3.5%	16.2%
EBITDA margin (%)	32.7%	33.5%	36.8%	32.3%	34.0%	35.0%	43.9 bp	-52.7 bp	176.9 bp
Total Capex	19,935	15,614	13,828	42,789	19,821	23,254	-53.4%	-21.2%	-40.5%
Three acquired circles									
Total Revenues	8,673	10,602	12,374	8,306	11,482	14,306	4.4%	-7.7%	-13.5%
Total EBITDA	1,471	2,831	3,835	1,766	3,690	5,100	-16.7%	-23.3%	-24.8%
EBITDA margin (%)	17.0%	26.7%	31.0%	21.3%	32.1%	35.6%	-431.0 bp	-543.5 bp	-465.3 bp
Total Capex	3,168	2,400	2,210	5,509	7,292	4,468	-42.5%	-67.1%	-50.5%
Mumbai + Bihar									
Total Revenues	6,211	8,553	10,941	2,217	3,997	5,282	180.2%	114.0%	107.1%
Total EBITDA	(1,204)	122	1,306	(1,524)	517	1,238	-21.0%	-76.5%	5.5%
EBITDA margin (%)	-19.4%	1.4%	11.9%	-68.7%	12.9%	23.4%	NM	NM	NM
Total Capex	4,256	2,455	2,111	4,772	2,953	2,375	-10.8%	-16.9%	-11.1%
Seven proposed circles									
Total Revenues	1,661	5,794	8,689	405	3,187	6,055	309.9%	81.8%	43.5%
Total EBITDA	(1,431)	(403)	(25)	(473)	(3,690)	(314)	202.4%	-89.1%	-91.9%
EBITDA margin (%)	-86.1%	-7.0%	-0.3%	-116.7%	-115.8%	-5.2%	NM	NM	NM
Total Capex	25,003	6,836	4,767	18,000	15,818	5,704	38.9%	-56.8%	-16.4%

Source: Macquarie Research, September 2009

Expect new circles to achieve EBITDA breakeven only in FY3/13E, three and a half years from now

Idea will launch in five new circles in the next six months. Idea is now operational in 17 circles and is expected to complete its pan-India presence by December 2009. We expect the Kolkata and West Bengal circles to be launched in the current July–September 2009 quarter and the remaining three smaller circles – North East, Assam and Jammu & Kashmir – in the October–December 2009 quarter. We expect new circles to achieve EBITDA breakeven within about three years of the launch of operations.

Fig 6 Our detailed circle-wise assumption for Idea Cellular

Rs m; Year ends March	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Eight Original Circles						
Revenue	105,897	113,274	123,076	131,294	139,680	148,235
YoY	16.2%	7.0%	8.7%	6.7%	6.4%	6.1%
EBITDA	34,622	37,955	45,257	49,233	53,125	56,998
EBITDA margin	32.7%	33.5%	36.8%	37.5%	38.0%	38.5%
ARPU (Rs per month)	227	201	192	186	184	183
YoY	-16%	-11%	-4%	-3%	-1%	0%
Capex	19,935	15,614	13,828	12,651	12,348	12,739
Capex/Revenue	18.8%	13.8%	11.2%	9.6%	8.8%	8.6%
Capex/EBITDA	58%	41%	31%	26%	23%	22%
Three Acquired Circles						
Revenue	8,673	10,602	12,374	13,938	15,221	16,463
YoY	29.0%	22.2%	16.7%	12.6%	9.2%	8.2%
EBITDA	1,471	2,831	3,835	4,559	5,077	5,613
EBITDA margin	17.0%	26.7%	31.0%	32.7%	33.4%	34.1%
ARPU (Rs per month)	167	149	144	141	139	139
YoY	-22%	-11%	-4%	-2%	-1%	0%
Capex	3,168	2,400	2,210	1,958	1,855	1,726
Capex/Revenue	36.5%	22.6%	17.9%	14.0%	12.2%	10.5%
Capex/EBITDA	215%	85%	58%	43%	37%	31%
Mumbai + Bihar						
Revenue	6,211	8,553	10,941	13,815	16,343	18,006
YoY	308.6%	37.7%	27.9%	26.3%	18.3%	10.2%
EBITDA	(1,204)	122	1,306	2,378	3,182	3,926
EBITDA margin	-19.4%	1.4%	11.9%	17.2%	19.5%	21.8%
ARPU (Rs per month)	206	188	184	186	187	189
YoY	-38%	-9%	-2%	1%	1%	1%
Capex	4,256	2,455	2,111	1,876	1,754	1,337
Capex/Revenue	68.5%	28.7%	19.3%	13.6%	10.7%	7.4%
Capex/EBITDA	-353%	2019%	162%	79%	55%	34%
Seven Proposed Circles						
Revenue	1,661	5,794	8,689	12,165	15,561	18,506
YoY		248.8%	50.0%	40.0%	27.9%	18.9%
EBITDA	(1,431)	(403)	(25)	660	1,670	2,609
EBITDA margin	-86.1%	-7.0%	-0.3%	5.4%	10.7%	14.1%
ARPU (Rs per month)	165	165	153	153	154	154
YoY	0%	0%	-7%	0%	0%	0%
Capex	25,003	6,836	4,767	4,342	4,180	3,751
Capex/Revenue	1505.2%	118.0%	54.9%	35.7%	26.9%	20.3%
Capex/EBITDA	-1748%	-1696%	-18762%	658%	250%	144%

Source: Macquarie Research, September 2009

Spice Communications: we expect EBITDA margin to stabilise at 30%

Merger expected to close in the January–March 2010 quarter, and we expect margins to improve substantially by FY3/11E. We believe that the merger of two Spice circles – Punjab and Karnataka – is likely to be completed by 4Q FY3/10E. After the merger integration, we forecast 430bp YoY expansion in margins in the Spice circles. We note that Spice has spectrum in the 900MHz band in these two circles, which has an inherent advantage over 1,800MHz band when it comes to spectral efficiency.

Fig 7 Detailed assumptions for Spice Comm: full merger led integration likely to be completed by March 2010E

Rs m; Year ends March	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Spice Circles (Karnataka + Punjab)						
Revenue	13,333	14,069	14,708	15,732	17,127	18,574
YoY	4.1%	5.5%	4.5%	7.0%	8.9%	8.4%
EBITDA	3,403	4,186	4,376	4,681	5,096	5,526
EBITDA margin	25.5%	29.8%	29.8%	29.8%	29.8%	29.8%
ARPU (Rs per month)	245	217	206	200	197	195
YoY	0%	0%	0%	0%	0%	0%
Capex	2,275	1,578	2,015	2,079	2,263	2,134
Capex/Revenue	17.1%	11.2%	13.7%	13.2%	13.2%	11.5%
Capex/EBITDA	67%	38%	46%	44%	44%	39%

Source: Macquarie Research, September 2009

Indus Towers: Significant contribution to Idea's consolidated financials beyond FY3/12

Indus would add 22,000 towers in three years. At the end of 1Q FY3/10, Indus had 97,925 towers. We are building in 2,000 new tower additions each quarter until FY3/11E. After that, we expect 5,000 tower additions in FY3/12E, and finally settle at a steady tower addition run-rate of 2,000 towers from FY3/15E.

Fig 8 Indus operating metrics – tenancy ratio to cross 3x by FY3/15E

	FY3/2010E	FY3/2011E	FY3/2012E	FY3/2013E	FY3/2014E	FY3/2015E
Total number of towers	103,925	111,925	116,925	120,925	123,925	125,925
Towers added	8,771	8,000	5,000	4,000	3,000	2,000
Tenancy (x)	1.79	2.11	2.21	2.31	2.41	2.51
Total number of tenants	186,370	236,532	258,791	279,737	299,069	316,488

Source: Macquarie Research, September 2009

Our monthly rental per tenant assumptions are conservative. Based on 1Q financials, we estimate monthly per tenant revenues of Rs28,305 for Indus. This compares with Bharti Infratel's reported monthly tower rental of Rs36,420. To arrive at our financial forecast we are building in an 8% increase in monthly rental per tenant in FY3/11E and 7% in increase in FY3/12E.

Expect monthly opex per tower to grow at 4% YoY. Our cost assumption is based on an increase in monthly opex per tower at an annual rate of 4%. We estimate monthly opex per tower for Indus in 1Q FY3/10 was Rs29,888. We expect this to increase by 1% on a sequential basis, implying 4% YoY increase in monthly opex per tower.

Margins to rise sharply, and cross the 50% mark in FY3/11E. Indus reported 1Q FY3/10E EBITDA margin of 30.4%. The company has been able to deliver this with tenancy of 1.55. Steady increase in the tenancy ratio would have a direct bearing on the EBITDA margins for Indus, as the incremental revenues from new tenants should come with ~90% EBITDA margins.

Fig 9 Indus Towers – detailed P&L model

Indus financials based on Idea results (Rs m)	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues	57,282	80,073	100,392	115,698	130,569	144,414
Opex	36,355	40,898	45,085	48,733	52,173	55,368
EBITDA	20,927	39,175	55,307	66,966	78,396	89,046
EBITDA margins	36.5%	48.9%	55.1%	57.9%	60.0%	61.7%
Depreciation & Amortisation	7,653	9,212	9,836	10,335	10,710	10,959
EBIT	13,274	29,963	45,471	56,630	67,686	78,086
Interest & Finance Cost/(Other income)	7,497	7,102	6,158	2,329	(1,021)	(5,390)
PBT	5,777	22,861	39,314	54,301	68,707	83,476
Tax	2,129	8,001	13,760	19,005	24,047	29,217
PAT	3,647	14,860	25,554	35,296	44,659	54,259
Assumptions						
Total monthly rental per tenant	29,166	31,570	33,780	35,807	37,597	39,101
YoY growth (%)		8.2%	7.0%	6.0%	5.0%	4.0%
Opex per tower per month	30,340	31,572	32,835	34,148	35,514	36,934
YoY growth (%)		4.1%	4.0%	4.0%	4.0%	4.0%
Gross block	144,726	162,326	173,326	182,126	188,726	193,126
Capex per tower	2.2	2.2	2.2	2.2	2.2	2.2
Total capex	19,296	17,600	11,000	8,800	6,600	4,400
Depreciation as % of Gross Block	5.3%	5.7%	5.7%	5.7%	5.7%	5.7%
Tax rate (%)	36.9%	35.0%	35.0%	35.0%	35.0%	35.0%

Source: Macquarie Research, September 2009

Our DCF-derived valuation for Indus Towers is US$17.5bn. Based on the financial estimates outlined above and assuming 13% WACC and 3% terminal growth, our DCF-derived valuation for Indus Towers is US$17.5bn Applying a 26% holding company discount to Aditya Birla Telecom Ltd.'s (ABTL, 80% subsidiary of Idea Cellular) 16% stake in Indus Towers, would imply Rs18/share value for Idea shareholders. We are not building in any uplift from TowerCo in arriving at our target price for Idea, in line with our valuation thesis for Bharti. (For our target price analysis for Idea please see our valuation section on page 9.)

Fig 10 Indus Towers – DCF-derived valuation of US$17.5bn

	FY2010E	FY2011E	FY2012E	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E	FY2018E	FY2019E	FY2020E
Free Cash Flow											
EBITDA	20,927	39,175	55,307	66,966	78,396	89,046	98,723	107,561	117,053	127,243	138,175
- Interest	7,497	7,102	6,158	2,329	(1,021)	(5,390)	(10,792)	(17,099)	(24,314)	(32,532)	(41,855)
-Capex	19,296	17,600	11,000	8,800	6,600	4,400	4,400	4,400	4,400	4,400	4,400
-Tax	-	-	0	0	0	0	0	0	0	0	0
FCF	**(5,866)**	**14,473**	**38,149**	**55,836**	**72,816**	**90,035**	**105,115**	**120,260**	**136,968**	**155,376**	**175,630**
WACC	13%										
Total PV of free cash flow till 2020 (Rsm)	376,665										
Terminal Growth (%)	3%										
Exit Multiple	10.3										
Terminal value (Rsm)	1,808,988										
PV of Terminal value (Rsm)	471,599										
NPV (Rsm)	848,264										
NPV (US$m)	**17,501**										
Per tower valuation (Rsm)	8.16	7.58	7.25	7.01	6.84	6.74	6.63	6.53	6.43	6.33	6.24
Per tower valuation (US$ '000s)	168	156	150	145	141	139	137	135	133	131	129

Source: Macquarie Research, September 2009

Fig 11 Indus Towers – Comparison with Global Tower Companies

	American Towers	Crown Castle	SBA Communications	Indus Towers
Market Cap (US$m) (Our target market cap for Indus)	13,239	7,870	2,962	17,501
EV (US$m)	17,181	14,101	5,094	19,428
EV attributable to pure tower business (revenue share) (US$m)	16,508	12,876	4,381	19,428
EV per Existing Tower (US$)	639,778	534,931	547,306	186,938
EV/Revenue (x)				
CY2009	10.0x	8.4x	9.2x	2.1x
CY2010	9.2x	7.9x	8.3x	1.5x
EV/EBITDA (x)				
CY2009	14.7x	14.2x	15.2x	5.8x
CY2010	13.4x	13.1x	13.5x	3.1x
Operating Metrics				
Occupancy Rate (Current)	2.5	2.5	2.6	1.8
Number of Towers (Current)	25,802	24,071	8,004	103,925
Average Rental per tenant per month	$2,132	$2,132	$1,924	US$603
Financial Metrics				
Revenue (US$m)				
CY2009	1,710	1,672	556	9,165
CY2010	1,866	1,789	614	12,812
EBITDA (US$m)				
CY2009	1,167	995	336	3,348
CY2010	1,279	1,076	377	6,268
Margins (%)				
EBITDA margin (%) (CY09/FY10)	68.3	59.5	60.5	36.5
EBIT margin (%) (CY09/FY10)	39.0	18.7	10.3	23.2
PAT margin (%) (CY09/FY10)	14.4	(8.5)	(13.0)	6.4
Return on Equity (%)				
CY2009	7.7	(4.6)	(10.9)	na
CY2010	9.5	(0.7)	(5.4)	na
Return on Assets (%)				
CY2009	7.9	2.5	1.8	na
CY2010	8.0	4.2	2.4	na
Price/CFPS (x)				
CY2009	19.5	19.9	14.9	(3.0)
CY2010	16.4	14.8	12.6	1.2

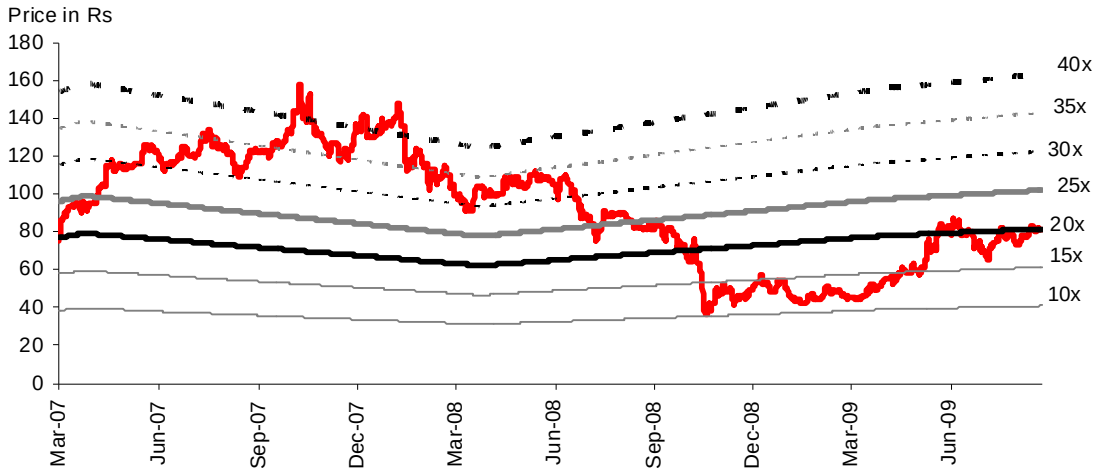
Source: Macquarie Research, September 2009

Valuation: DCF-based fair value of Rs70 for the base business ex-towers

Revising DCF-based core business value to Rs70 from Rs45. The increase in our target price is due largely to two factors: 1) losses in newly launched circles that were lower than we had estimated and 2) reduced capital intensity in the business.

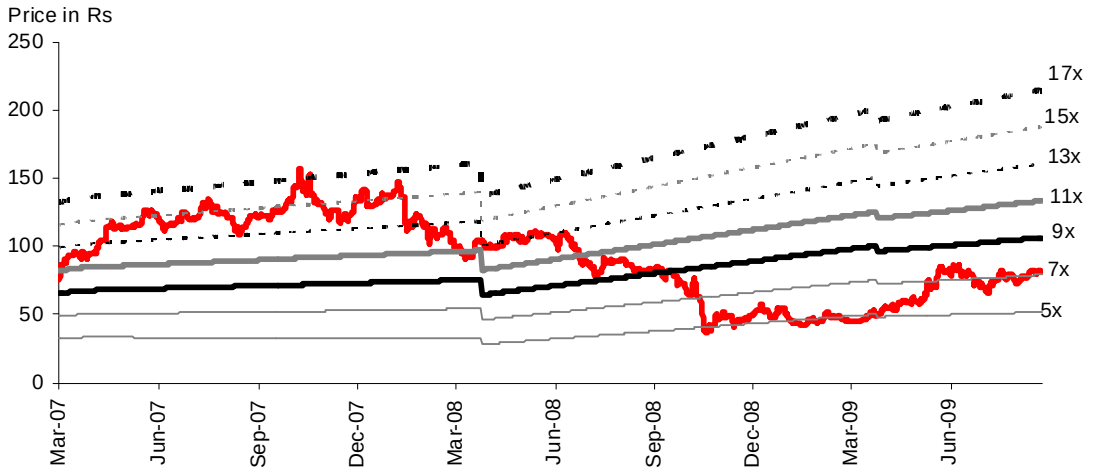
Our DCF analysis does not include the uplift from Indus towers. Our DCF analysis is based on financial performance of Idea and Spice, and does not factor in any contribution from Indus Towers. This view is in line with our investment thesis of not factoring in the valuation upside from Tower assets until we see third-party external tenancy on operator-owned towers, or an IPO of any of the operator-owned TowerCo.

Fig 12 Idea Cellular: One year forward rolling PER chart – Significant rerating over



Source: Bloomberg, Macquarie Research, September 2009

Fig 13 Idea Cellular: One year forward rolling EV/EBITDA chart



Source: Bloomberg, Macquarie Research, September 2009

Fig 14 Idea Cellular: DCF valaution model for the base business, fiscal year end March

Year-end March (Rs m)	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
EBITDA	35,415	44,691	54,749	61,512	68,149	74,672	80,852	85,660	89,112	91,781	94,436
Growth (% YoY)	25.7	26.2	22.5	12.4	10.8	9.6	8.3	5.9	4.0	3.0	2.9
Tax expense	(597)	(1,438)	(3,189)	(4,871)	(7,020)	(9,542)	(12,401)	(15,110)	(17,822)	(21,094)	(23,663)
Change in working capital	(2,010)	91	(1,204)	832	877	765	607	692	715	648	661
Cash flow from operations	32,807	43,343	50,356	57,473	62,007	65,895	69,058	71,241	72,005	71,336	71,434
Capital expenditure	(71,279)	(29,760)	(25,627)	(23,702)	(23,284)	(22,640)	(21,940)	(21,024)	(19,708)	(19,094)	(19,151)
Free cash flow	(38,472)	13,583	24,729	33,771	38,722	43,255	47,118	50,217	52,297	52,242	52,283
Growth (% YoY)	nmf	nmf	nmf	36.6	14.7	11.7	8.9	6.6	4.1	(0.1)	0.1

Discount rate (%)	13.0%
1. Present value of cash flow till 2020	
Total PV of free cash flow till 2020 {a}	149,987
2. Terminal value calculation	
Growth from 2020 to perpetuity (%)	3.5%
FCF in FY2020	52,283
Exit FCF multiple (X)	10.8
Terminal value	566,741
Implied exit EV/EBITDA (X)	6.0
PV of terminal value {b}	156,279
Total company value {a} + {b}	306,266
Net debt/(cash)	78,922
Value to equity holders	227,344
Value to equity holders (Rs/share)	70

Calculation of WACC of Idea Cellular (%)	
Risk free rate of return = Rf (%)	7.50
Equity risk premium	7.50
Beta	1.02
Cost of equity = Re	15.2
Unadjusted cost of debt	10.00
Post tax cost of debt = Rd	8.14
Equity = We	70.0
Debt = Wd	30.0
WACC = Re x We + Rd x Wd	13.0%

Sensitivity of 12-month DCF to WACC and Terminal Growth

Terminal Growth \ WACC	11.0%	12.0%	13.0%	14.0%	16.0%
2.5%	93	78	65	55	40
3.0%	97	81	68	57	41
3.5%	102	84	**70**	59	42
4.0%	108	88	73	61	43
4.5%	114	93	77	64	45

Source: Macquarie Research, September 2009

Fig 15 Global emerging market telecom valuations

Macquarie - Global Emerging Market Telecom Valuation

Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x) FY3/10E	EV/EBITDA (x) FY3/11E	PER (x) FY3/10E	PER (x) FY3/11E	PEG (FY3/09-3/11E)	ROE (FY3/10E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)
Bharti Airtel	BHARTI IN	OP	422	575	36%	9.0	7.3	14.3	12.2	0.8	31.5	**18.6**	**24.3**
Reliance Communications	RCOM IN	OP	264	360	36%	7.9	6.0	8.7	7.4	0.7	15.3	19.9	14.2
Idea Cellular	IDEA IN	UP	80	70	-12%	8.4	6.2	20.5	18.2	1.4	8.4	34.5	18.5
MTNL	MTNL IN	UP	94	51	-46%	11.2	11.3	103.0	-21.2	na	0.5	-0.3	na
China Mobile	941 HK	N	75	77	2%	4.9	4.7	11.7	12.1	-19.5	24.3	3.1	-0.6
China Unicom	762 HK	UP	10	9	-18%	4.6	5.0	19.0	24.3	3.4	5.6	2.9	8.4
Indosat	ISAT IJ	N	5,200	5,200	0%	4.5	4.0	12.0	9.1	4.1	13.1	5.0	2.3
SK Telecom	017670 KS	OP	174,500	235,000	35%	4.3	3.8	9.2	7.0	0.5	13.0	8.0	19.2
LG Telecom	032640 KQ	OP	7,710	11,500	49%	3.5	3.0	6.4	5.9	0.3	14.3	9.2	30.3
Digi.Com	DIGI MK	N	22	22	2%	7.3	6.5	12.5	11.2	23.0	53.1	7.1	0.6
Axiata	AXIATA MK	N	3	3	-1%	7.7	6.7	16.2	16.0	-2.2	9.6	13.9	-15.5
Globe	GLO PM	OP	1,000	1,330	33%	4.3	4.0	8.7	8.3	0.6	26.1	4.1	15.3
Far EasTone	4904 TT	N	37	39	3%	5.0	5.1	10.8	10.6	2.8	15.1	-3.0	4.1
Taiwan Mobile	3045 TT	OP	51	57	12%	5.3	5.2	9.2	9.4	5.9	31.0	1.9	1.7
AIS	ADVANC TB	UP	86	75	-13%	6.0	5.9	14.7	14.0	3.6	24.7	-1.3	4.3
TAC	DTAC TB	UP	34	20	-42%	5.1	5.1	7.3	6.7	-0.4	10.8	-3.9	-20.8
MobileOne	M1 SP	OP	2	2	5%	5.4	5.4	10.8	11.2	na	59.3	-6.3	-9.6
MTN Group Ltd	MTN SJ	OP	12,706	17,000	34%	4.9	4.2	11.6	9.1	0.5	24.0	18.3	26.8
Orascom Telecom	ORTE EY	NR	36	na	na	4.0	3.8	11.1	10.7				
Vivo Participacoes Sa	VIVO3 BZ	NR	43	na	na	3.5	3.1	12.2	9.3				
America Movil	AMXL MM	NR	30	na	na	5.6	5.4	12.9	11.8				
Etihad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.5	8.9				
Saudi Telecom Co	STC AB	NR	47	na	na	5.8	5.8	7.6	7.4				
Qatar Telecom	QTEL QD	NR	152	na	na	4.9	4.7	6.9	6.3				
Average						**5.6**	**5.1**	**11.5**	**10.8**				
Average (ex-China Mobile)						**5.6**	**5.1**	**11.5**	**10.7**				
RCOM's valuation (discount)/premium to Bharti						**-11%**	**-17%**	**-39%**	**-39%**				
Idea's valuation (discount)/premium to Bharti						**-6%**	**-14%**	**43%**	**49%**				

Note: Prices as of 1 September 2009.

Data for Not rated companies are based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, September 2009

RCOM is trading at a 11% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 6% discount to Bharti

Financial statements

Fig 16 Idea Cellular (consolidated) – income statement, fiscal year-end March

(Rs m)	FY09	FY10E	FY11E	FY12E	FY13E
Revenues					
Idea Standalone Revenue	99,412	122,443	138,223	155,080	171,213
Spice Comm. Revenues	2,440	7,474	14,069	14,708	15,732
Indus	2,042	9,165	12,812	16,063	18,512
Eliminations	(2,650)	(10,670)	(12,667)	(14,258)	(15,763)
Sales of Trading Goods	-	-	-	-	-
Total Revenues	**101,244**	**128,411**	**152,438**	**171,592**	**189,694**
Operating Expenses					
Idea Standalone Opex	(72,099)	(88,986)	(97,719)	(104,707)	(114,382)
(% of total revenues)	72.5%	72.7%	70.7%	67.5%	66.8%
Spice Comm. Opex	(1,881)	(5,516)	(9,883)	(10,332)	(11,052)
(% of total Spice revenues)	77.1%	73.8%	70.2%	70.2%	70.2%
Indus Opex	(1,738)	(5,817)	(6,544)	(7,214)	(7,797)
(% of Indus revenues)	85.1%	63.5%	51.1%	44.9%	42.1%
Total Operating Expense	**(73,069)**	**(89,648)**	**(101,479)**	**(107,994)**	**(117,468)**
(% of total revenues)	72.2%	69.8%	66.6%	62.9%	61.9%
Idea Standalone EBITDA	27,312	33,456	40,505	50,373	56,831
Spice Comm. EBITDA	559	1,958	4,186	4,376	4,681
Indus EBITDA	304	3,348	6,268	8,849	10,714
EBITDA	**28,175**	**38,763**	**50,959**	**63,598**	**72,226**
Idea Standalone EBITDA margin	27.5%	27.3%	29.3%	32.5%	33.2%
Spice Comm. EBITDA margin	22.9%	26.2%	29.8%	29.8%	29.8%
Indus EBITDA margin	14.9%	36.5%	48.9%	55.1%	57.9%
EBITDA Margin	27.8%	30.2%	33.4%	37.1%	38.1%
Other Income	**241**	**43**	**43**	**43**	**43**
Idea Depreciation	(11,530)	(16,258)	(19,280)	(20,864)	(22,091)
Spice Depreciation	(476)	(1,464)	(2,774)	(2,748)	(2,794)
Indus Depreciation	(308)	(1,225)	(1,474)	(1,574)	(1,654)
Depreciation	**(12,314)**	**(18,946)**	**(23,528)**	**(25,186)**	**(26,539)**
		-	-	-	-
Amortisation of Intangible Assets	(1,726)	(1,611)	(1,606)	(1,605)	(1,605)
Idea Standalone EBIT	6,745	15,630	19,661	27,947	33,177
Spice Comm. EBIT	83	494	1,412	1,628	1,887
Indus EBIT	(4)	2,124	4,794	7,275	9,061
EBIT	**14,376**	**18,248**	**25,867**	**36,850**	**44,125**
EBIT Margin	14.2%	14.2%	17.0%	21.5%	23.3%
Idea Standalone Interest Income	3,580	3,193	865	767	2,109
Spice Comm. Interest Income	-	-	-	-	-
Indus Interest Income					
Interest Income	**5,096**	**3,193**	**865**	**767**	**2,109**
Idea Standalone Interest and Financing Charges	(9,212)	(6,467)	(7,452)	(7,452)	(7,452)
Spice Comm. Interest and Financing Charges	(477)	(685)	(1,330)	(1,330)	(1,330)
Indus Interest and Financing Charges		(1,200)	(1,136)	(985)	(373)
Interest and Financing Charges	**(10,041)**	**(8,351)**	**(9,919)**	**(9,768)**	**(9,155)**
Idea Standalone PBT	10,182	12,357	13,074	21,262	27,834
Spice Comm. PBT	(394)	(191)	82	298	557
Indus PBT	(356)	924	3,658	6,290	8,688
Profit Before Taxes (PBT)	**9,431**	**13,090**	**16,814**	**27,850**	**37,079**
Income tax (expense) / benefit	(380)	(937)	(2,718)	(5,391)	(7,912)
Exceptionals	0	0	0	0	0
Idea Standalone PAT	9,803	11,760	11,636	18,073	22,963
Spice Comm. PAT	(394)	(191)	82	298	557
Indus PAT	(357)	584	2,378	4,089	5,647
Profit After Taxes (PAT)	9,051	12,153	14,096	22,459	29,167
Adjusted Net Profit (pre exceptionals)	**9,051**	**12,153**	**14,096**	**22,459**	**29,167**
Diluted EPS	3.11	3.88	4.36	6.95	9.02

Source: Company data, Macquarie Research, September 2009

Fig 17 Idea Cellular (consolidated) – balance sheet, fiscal year-end March

(Rs m)	FY09	FY10E	FY11E	FY12E	FY13E
ASSETS					
Cash and cash equivalents	51,251	4,703	12,785	35,150	69,925
Sundry Debtors	4,289	6,256	6,861	8,271	8,978
Inventories	482	581	650	637	680
Loans and Advances	7,523	9,619	10,497	12,170	13,238
Other Current Asset	4,606	7,952	8,247	8,521	8,875
Total Current Assets	**68,151**	**29,111**	**39,040**	**64,750**	**101,696**
Gross Block	182,926	259,996	292,372	319,559	344,469
Less: Depreciation	(43,556)	(62,502)	(86,030)	(111,216)	(137,755)
Net PP&E	139,371	197,493	206,342	208,343	206,714
Property and Equipment, net	**139,371**	**197,493**	**206,342**	**208,343**	**206,714**
Acquired intangible assets, net	12,118	10,668	9,261	7,856	6,452
Capital Work in progress	14,952	12,049	12,049	12,049	12,049
Other fixed assets	27,070	22,717	21,310	19,905	18,501
Goodwill	27,897	27,962	27,962	27,962	27,962
Investments	-	-	-	-	-
Deferred taxes (net)	(917)	(1,116)	(1,116)	(1,116)	(1,116)
Total Assets	**261,572**	**276,168**	**293,539**	**319,844**	**353,757**
Current Liabilities					
Total Current Liability	37,083	44,035	47,311	51,157	55,902
Provisions	534	534	534	534	534
Total Current Liabilities	**37,617**	**44,570**	**47,845**	**51,692**	**56,437**
Secured Loans	43,828	36,500	36,500	36,500	36,500
Unsecured Loans	41,841	43,316	43,316	43,316	43,316
Total Borrowings	85,669	79,816	79,816	79,816	79,816
Minority interest	-	-	-	-	-
Stockholders' equity					
Equity Share Capital	31,183	32,535	32,535	32,535	32,535
Preference Share Capital	19	19	19	19	19
Share Capital	31,202	32,554	32,554	32,554	32,554
Advance against Share capital	-	-	-	-	-
Reserves and Surplus	112,154	112,154	112,154	112,154	112,154
Profit and Loss Account	(5,070)	7,074	21,170	43,629	72,796
Total stockholders' equity	138,286	151,782	165,878	188,337	217,504
Total liabilities and stockholders' equity	**261,572**	**276,168**	**293,539**	**319,844**	**353,757**

Source: Company data, Macquarie Research, September 2009

Fig 18 Idea Cellular (consolidated) – cashflow statement, fiscal year-end March

(Rs m)	FY09	FY10E	FY11E	FY12E	FY13E
Cash Flow from Operating Activities					
Net Profit/(Loss) after Tax	**9,051**	**12,153**	**14,096**	**22,459**	**29,167**
Adjustments For					
Depreciation, Amortisation of assets	14,040	20,558	25,134	26,791	28,144
Interest charge and Forex	10,041	8,351	9,919	9,768	9,155
Profit on sale of current investment	0	0	0	0	0
Provision for Bad & Doubtful Debts/Advances	0	0	0	0	0
Provision for Gratuity, Leave Encashment & ARO	-285	0	0	0	0
Provision for Fringe Benefit Tax	77	0	0	0	0
Provision for Tax (Net of Current Tax, Deferred Tax & MAT Credit)	303	204	0	0	0
Dividend income	0	0	0	0	0
Interest received	-5,096	-3,193	-865	-767	-2,109
Others	4,167	31	0		
(Profit)/ Loss on sale of fixed assets/ assets discarded	0	0	0	0	0
Operating profit before working capital changes	**32,298**	**38,103**	**48,283**	**58,250**	**64,357**
Changes in Current Assets and Current Liabilities					
(Increase)/Decrease in Sundry Debtors	-2,303	-1,967	-605	-1,409	-707
(Increase)/Decrease in Inventories	-206	-99	-69	12	-43
(Increase)/Decrease in Other Current Assets	-4,085	-3,347	-295	-274	-354
(Increase)/Decrease in Loans and Advances	219	-2,096	-878	-1,673	-1,068
Increase /(Decrease) in Current Liabilities	6,377	5,498	1,938	2,140	3,004
Cash generated from operations	**32,300**	**36,093**	**48,374**	**57,046**	**65,189**
Tax paid (FBT & TDS)	-124	-738	-2,718	-5,391	-7,912
Net cash from operating activities	32,176	35,354	45,655	51,655	57,278
Cash Flow from Investing Activities					
Purchase of Fixed assets (including CWIP)	-77,565	-74,366	-32,576	-27,387	-25,110
Investments in Subsidiaries	0	0	0	0	0
Proceeds from sale of Fixed assets	0	0	0	0	0
Sale/(purchase) of Other Investments (net)	-22,276	-65	0	0	0
Interest and Dividend Received	5,096	3,193	865	767	2,109
Net cash used in investing activities	-94,745	-71,238	-31,711	-26,620	-23,001
Cash Flow from Financing Activities					
Proceeds/ Advance received from issue of Share Capital	4,829	1,352	0	0	0
Redemption of preference shares	19	0	0	0	0
Proceeds from Long term borrowings	0	0	0	0	0
Repayment of Long Term Borrowings	-10,721	-7,328	0	0	0
Proceeds from Short Term Loan	31,236	1,475	0	0	0
Repayment of Short Term Loan	0	0	0	0	0
Proceeds from borrowings- Net	4,596	1,454	1,338	1,706	1,741
Short Term Loan from / to subsidiary & other Body Corporates	0	0	0	0	0
Dividends including dividend tax	0	0	0	0	0
Interest Paid	-10,134	-8,351	-9,919	-9,768	-9,155
Others	89,020	0	0	0	0
Net cash from financing activities	108,845	-11,397	-8,581	-8,061	-7,414
Net increase / (decrease) in cash and cash equivalent	46,276	-47,281	5,364	16,975	26,863
Cash and cash equivalent at the beginning	4,974	51,250	3,969	9,333	26,307
Add :					
Cash and cash equivalents taken over on acquisition	0	0	0	0	0
Cash and cash equivalent at the end	51,250	3,969	9,333	26,307	53,170

Source: Company data, Macquarie Research, September 2009

Idea Cellular (IDEA IN, Underperform, Target price: Rs70.00)

Quarterly Results		1Q/10A	2Q/10E	3Q/10E	4Q/10E
Revenue	**m**	**29,749**	**31,070**	**32,342**	**35,250**
Gross Profit	**m**	**14,725**	**15,571**	**16,352**	**18,112**
Cost of Goods Sold	m	15,024	15,499	15,989	17,138
EBITDA	**m**	**8,588**	**9,241**	**9,821**	**11,112**
Depreciation	m	4,153	4,516	4,805	5,472
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	402	403	403	404
EBIT	**m**	**4,033**	**4,322**	**4,613**	**5,237**
Net Interest Income	m	-869	-1,223	-1,329	-1,736
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	11	11	11	11
Pre-Tax Profit	**m**	**3,175**	**3,110**	**3,295**	**3,511**
Tax Expense	m	-204	-192	-244	-298
Net Profit	**m**	**2,971**	**2,917**	**3,051**	**3,213**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**2,971**	**2,917**	**3,051**	**3,213**
Adjusted Earnings	**m**	**2,971**	**2,917**	**3,051**	**3,213**
EPS (rep)		0.96	0.94	0.98	0.99
EPS (adj)		0.96	0.94	0.98	0.99
EPS Growth yoy (adj)	%	-5.5	102.4	39.1	12.3
EBITDA Margin	%	28.9	29.7	30.4	31.5
EBIT Margin	%	13.6	13.9	14.3	14.9
Earnings Split	%	24.4	24.0	25.1	26.4
Revenue Growth	%	36.9	35.1	18.5	20.6
EBIT Growth	%	-9.8	44.5	53.2	43.0

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**101,244**	**128,411**	**152,438**	**171,592**
Gross Profit	**m**	**50,224**	**64,761**	**80,388**	**94,917**
Cost of Goods Sold	m	51,020	63,650	72,050	76,676
EBITDA	**m**	**28,176**	**38,763**	**50,959**	**63,598**
Depreciation	m	12,314	18,946	23,528	25,186
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	1,726	1,611	1,606	1,605
EBIT	**m**	**14,136**	**18,205**	**25,825**	**36,808**
Net Interest Income	m	-4,945	-5,158	-9,053	-9,001
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	241	43	43	43
Pre-Tax Profit	**m**	**9,432**	**13,090**	**16,814**	**27,850**
Tax Expense	m	-380	-937	-2,718	-5,391
Net Profit	**m**	**9,052**	**12,153**	**14,096**	**22,459**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**9,052**	**12,153**	**14,096**	**22,459**
Adjusted Earnings	**m**	**9,052**	**12,153**	**14,096**	**22,459**
EPS (rep)		3.03	3.88	4.36	6.95
EPS (adj)		3.07	3.88	4.36	6.95
EPS Growth (adj)	%	-22.3	26.2	12.5	59.3
PE (rep)	x	26.2	20.5	18.2	11.5
PE (adj)	x	25.9	20.5	18.2	11.5
Total DPS		0.00	0.00	0.00	0.00
Total Div Yield	%	0.0	0.0	0.0	0.0
Weighted Average Shares	m	2,984	3,134	3,233	3,233
Period End Shares	m	3,100	3,233	3,233	3,233

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	50.7	26.8	18.7	12.6
EBITDA Growth	%	25.2	37.6	31.5	24.8
EBIT Growth	%	2.8	28.8	41.9	42.5
Gross Profit Margin	%	49.6	50.4	52.7	55.3
EBITDA Margin	%	27.8	30.2	33.4	37.1
EBIT Margin	%	14.0	14.2	16.9	21.5
Net Profit Margin	%	8.9	9.5	9.2	13.1
Payout Ratio	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	10.3	7.8	5.9	4.7
EV/EBIT	x	20.5	16.5	11.6	8.2
Balance Sheet Ratios					
ROE	%	10.4	8.4	8.9	12.7
ROA	%	7.2	6.7	9.0	12.0
ROIC	%	14.7	9.6	9.4	12.5
Net Debt/Equity	%	27.4	52.0	42.9	26.0
Interest Cover	x	2.9	3.5	2.9	4.1
Price/Book	x	1.8	1.7	1.6	1.4
Book Value per Share		44.6	46.9	51.3	58.3

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**28,176**	**38,763**	**50,959**	**63,598**
Tax Paid	m	-124	-738	-2,718	-5,391
Chgs in Working Cap	m	2	-2,010	91	-1,204
Net Interest Paid	m	-10,041	-8,351	-9,919	-9,768
Other	m	14,164	7,691	7,243	4,420
Operating Cashflow	**m**	**32,176**	**35,354**	**45,655**	**51,655**
Acquisitions	m	0	0	0	0
Capex	m	-77,565	-74,366	-32,576	-27,387
Asset Sales	m	0	0	0	0
Other	m	-17,180	3,128	865	767
Investing Cashflow	**m**	**-94,745**	**-71,238**	**-31,711**	**-26,620**
Dividend (Ordinary)	m	0	0	0	0
Equity Raised	m	4,848	1,352	0	0
Debt Movements	m	25,110	-4,398	1,338	1,706
Other	m	78,886	-8,351	-9,919	-9,768
Financing Cashflow	**m**	**108,845**	**-11,397**	**-8,581**	**-8,061**
Net Chg in Cash/Debt	**m**	**46,277**	**-47,281**	**5,364**	**16,975**
Free Cashflow	**m**	**-45,389**	**-39,012**	**13,079**	**24,269**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	51,251	4,703	12,785	35,150
Receivables	m	4,289	6,256	6,861	8,271
Inventories	m	482	581	650	637
Investments	m	0	0	0	0
Fixed Assets	m	166,441	220,210	227,652	228,248
Intangibles	m	27,897	27,962	27,962	27,962
Other Assets	m	12,129	17,571	18,744	20,692
Total Assets	**m**	**262,489**	**277,284**	**294,655**	**320,960**
Payables	m	23,059	27,433	29,380	31,428
Short Term Debt	m	3,496	3,809	4,102	4,303
Long Term Debt	m	85,669	79,816	79,816	79,816
Provisions	m	534	534	534	534
Other Liabilities	m	11,444	13,909	14,944	16,542
Total Liabilities	**m**	**124,203**	**125,502**	**128,777**	**132,624**
Shareholders' Funds	m	138,286	151,782	165,878	188,337
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**138,286**	**151,782**	**165,878**	**188,337**
Total Liab & S/H Funds	**m**	**262,489**	**277,284**	**294,655**	**320,960**

All figures in INR unless noted.
Source: Macquarie Research, September 2009

INDIA

OnMobile Global

17 August 2009

ONMB IN		**Outperform**
Stock price as of 14 Aug 09	Rs	525.90
12-month target	Rs	700.00
Upside/downside	%	+33.1
Valuation	Rs	700.00
- DCF (WACC 12.5%, beta 1.0, ERP 7.5%, RFR 7.5%, TGR 5.0%)		
GICS sector		software & services
Market cap	Rs m	30,457
30-day avg turnover	US$m	2.9
Market cap	US$m	633
Number shares on issue	m	57.91

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	4,064	5,476	8,027	11,037
EBITDA	m	1,274	1,432	2,293	3,346
EBITDA growth	%	21.5	12.4	60.1	45.9
Adjusted profit	m	852	649	1,145	1,697
EPS adj	Rs	14.22	10.18	17.97	26.63
EPS adj growth	%	19.7	-28.4	76.5	48.2
PE adj	x	37.0	51.7	29.3	19.7
ROA	%	9.2	8.2	12.9	16.9
ROE	%	13.0	8.9	13.9	17.6
EV/EBITDA	x	22.9	21.8	13.6	9.3
Net debt/equity	%	-40.2	-41.1	-29.5	-25.2
Price/book	x	4.5	4.4	3.8	3.2

ONMB IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, August 2009
(all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

India won, reaching out to the world

Event

- OnMobile has entered into separate strategic deals with two leading international telecom operators – Vodafone (in April 2009) and Telefónica (in July 2009) – to provide a suite of VAS services. We view these developments as extremely positive for the stock, and we are reassessing our financial forecasts to reflect the potential upside from these deals. Our revised EPS estimates are down 38% in FY10 and 13% in FY11 but up 12% in FY12 (see Figure 1 for details of our revisions). **We reiterate our Outperform rating, with a significantly higher TP of Rs700 (vs Rs325 previously). OnMobile is our top midcap pick in the India TMT space.**

Impact

- **OnMobile is in the process of making the leap from India's premier VAS company to a global premier VAS company.** Partnerships with two of the world's largest telecom operators will position OnMobile as a global VAS provider of choice and broadens the stage to global markets, in our view.
- **OnMobile is one of the top 10 fastest-growing companies in our India coverage universe.** We forecast impressive top-line (42%) and EBITDA (53%) CAGRs for FY3/10–12 (see Figure 2 for the screen of fastest-growing companies in the Macquarie India coverage universe).
- **Expect combined revenues from the two international deals that have been announced to cross Rs1.1bn in FY3/11,** making up 14% of overall revenues, based on our detailed analysis of the two deals (installation of VAS in Vodafone's emerging markets and Telefónica's LatAm markets).
- **Core revenue and EBITDA growth to remain strong.** We expect OnMobile to deliver YoY growth of 19% in core business revenues and 32.6% in core business EBITDA. Even so, full-year reported FY3/10 EBITDA and profit will be under pressure due an expected Rs257m EBITDA loss due to new business.

Earnings and target price revision

- We have cut our FY10 and FY11 EPS estimates by 38% and 13%, respectively, but have raised our FY12 EPS estimate by 12%. We increased our target price to Rs700 from Rs325.

Price catalyst

- 12-month price target: Rs700.00 based on a DCF methodology.
- Catalyst: Launch of operations in Telefónica markets.

Action and recommendation

- **We reiterate our Outperform rating and recommend that investors accumulate the shares with a two- to three-year investment horizon.** Near-term profitability for OnMobile will likely be under pressure due to investments that need to be made for realising the significant growth from the two international deals. We estimate strong revenue and EBITDA CAGRs of 37% and 47%, respectively, for FY3/10–13. Thus, we believe that investors should value OnMobile as a hyper-growth stock and not assign undue importance to the company's near-term quarterly performance.

Analysis

Fig 1 OnMobile Global: Revisions in estimates and target price, with basis for revision

Amount in Rs m	New Estimates			Old Estimates			Change (%)			Comments
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	
Revenues										
Telecom VAS	5,131.3	7,522.4	10,342.6	5,343.4	7,402.2	9,546.1	-4.0%	1.6%	8.3%	
Domestic	3,211.4	4,319.3	5,313.1	4,026.1	5,337.2	6,440.1	-20.2%	-19.1%	-17.5%	Reducing to factor in lower share of non-SMS VAS ARPU in gross ARPU
International	1,919.9	3,203.0	5,029.5	1,317.3	2,065.0	3,106.0	45.7%	55.1%	61.9%	Factoring in upside from Vodafone and Telefónica deal s
Other Services	344.5	505.0	694.4	420.0	420.0	420.0	-18.0%	20.2%	65.3%	
Total Revenue	**5,475.8**	**8,027.4**	**11,037.0**	**5,763.4**	**7,822.2**	**9,966.1**	**-5.0%**	**2.6%**	**10.7%**	
y-o-y growth, %	34.8	46.6	37.5	46.8	35.7	27.4				
Operating Expenses										
Cost of Sales & Services	1,514.9	2,087.1	2,759.2	1,095.1	1,525.3	1,993.2	38.3%	36.8%	38.4%	
Content fee & royalty	1092.0	1444.9	1876.3	691.6	938.7	1195.9	57.9%	53.9%	56.9%	Increasing content cost to reflect the elevated spend on content in recent quarters
Other sales & services expenditure	422.9	642.2	883.0	403.4	586.7	797.3	4.8%	9.5%	10.7%	
Manpower costs	1,684.9	2,429.9	3,285.7	1,613.8	2,229.3	2,890.2	4.4%	9.0%	13.7%	
Administration and other expenses	844.2	1,217.6	1,646.5	1,066.2	1,408.0	1,793.9	-20.8%	-13.5%	-8.2%	
Total Operating Expenses	4,044.1	5,734.6	7,691.4	3,775.0	5,162.7	6,677.3	7.1%	11.1%	15.2%	
y-o-y growth, %	45.0	41.8	34.1	40.4	36.8	29.3				
EBITDA	**1,431.7**	**2,292.8**	**3,345.6**	**1,988.4**	**2,659.6**	**3,288.8**	**-28.0%**	**-13.8%**	**1.7%**	
EBITDA Margin	26.1	28.6	30.3	34.5	34.0	33.0				
y-o-y growth, %	0.1	0.6	0.5	60.6	33.8	23.7				
Depreciation	631.6	862.8	1,100.2	769.8	1,020.9	1,346.8	-18.0%	-15.5%	-18.3%	
EBIT	800.1	1,430.0	2,245.4	1,218.6	1,638.6	1,942.0	-34.3%	-12.7%	15.6%	
EBIT Margin	14.6	17.8	20.3	21.1	20.9	19.5				
Finance charges	0.0	0.0	0.0	0.0	0.0	0.0	na	na	na	
Other income	176.5	193.4	160.7	224.9	243.9	257.2	-21.5%	-20.7%	-37.5%	Reducing interest income to reflect investments in lower yield instruments
Profit Before Taxes (PBT)	976.6	1,623.4	2,406.1	1,443.5	1,882.6	2,199.2	-32.3%	-13.8%	9.4%	
Taxation										
Provision for taxation	328.0	478.6	709.4	471.6	636.8	749.6	-30.4%	-24.8%	-5.4%	
Profit After Tax										
Profit After Taxes	**648.6**	**1,144.7**	**1,696.7**	**971.9**	**1,245.8**	**1,449.6**	**-33.3%**	**-8.1%**	**17.0%**	
PAT Margin (%)	11.8	14.3	15.4	16.9	15.9	14.5				
Diluted EPS	**10.2**	**18.0**	**26.6**	**16.5**	**20.8**	**23.7**	**-38.1%**	**-13.4%**	**12.2%**	

Source: Macquarie Research, August 2009

Investment for growth will weigh down on FY3/10 profitability

- **Opex pressure due to two international deals will likely 'optically' suppress reported FY3/10 financials.** We estimate that OnMobile will spend approximately Rs890m in FY3/10 under the investments to reap the significant opportunity from the Vodafone (VOD LON, £1.29, Outperform, TP: £1.45 – Guy Peddy) and Telefónica (TEF MAD, €17.42, Outperform, TP: €16.50 – Guy Peddy) deals. Starting in 1Q FY3/10, OnMobile began breaking out its revenues and costs between core business and investments. We believe that this disclosure will help investors to better analyse the underlying core business trends. OnMobile defines investments as (1) investments in new customer deployments until one year following launch of services, and (2) large, measurable, discreet expenditures in new product developments and deployment until one year following launch of this product to the first customer.
- **Core business performance remains robust.** We expect OnMobile to deliver YoY growth of 19% in core business revenues and 32.6% in core business EBITDA. We estimate Rs633m revenues from investments and corresponding opex of Rs890m for FY3/10. Reported EBITDA of Rs1,432m implies only 12% YoY growth. Even so, adding back the loss of Rs257m due to investments implies core EBITDA growth of 32.6%.
- **Hyper-growth story remains on track; forecast three-year FY3/10–13 revenue, EBITDA and EPS CAGRs of 37%, 47% and 54%, respectively.** We remain convinced of OnMobile's ability to deliver impressive top-line growth and margins once initial opex is behind the company. We view the stock as expensive on optically depressed FY3/10E earnings, but we recommend that investors focus on the expected strong three-year growth CAGR and robust performance in FY3/10 based on core business financials.
- **We are positive on the long-term financial uplift from the two international deals and believe that investors should add to their positions.**

On track to deliver robust two-year (FY10–12) top-line and EBITDA CAGR

- **OnMobile has the highest expected top-line CAGR in Macquarie's TMT universe.** We expect OnMobile to post two-year revenue CGAR of 42% during FY3/10–12. Based on the impressive top-line growth, OnMobile screens as one of the top 10 companies based on two-year revenue CAGR in our coverage universe.

Fig 2 OnMobile screens amongst the top 10 two-year revenue CAGR companies under our coverage universe

	Revenue	EBITDA	Bloomberg Ticker	Rating	Target Price (Rs)	Current Price (Rs)	Up/(Down) %	Analyst
Reliance Petroleum	175%	133%	RPET IN	Underperform	73	125.6	-41.9%	Jal Irani
Indiabulls Real Estate	104%	267%	IBREL IN	Outperform	246	241.5	1.9%	Unmesh Sharma
Cairn India	80%	91%	CAIR IN	Underperform	175	246.1	-28.9%	Jal Irani
Mahindra Lifespace Developers Ltd	49%	27%	MLIFE IN	Underperform	209	323.5	-35.4%	Unmesh Sharma
Reliance Capital	45%	-2%	RCFT IN	Outperform	1063	862.4	23.3%	Seshadri Sen
OnMobile Global	**42%**	**53%**	**ONMB IN**	**Outperform**	**700**	**531**	**31.8%**	**Shubham Majumder**
Ackruti City	40%	50%	AKCL IN	Underperform	364	517	-29.6%	Unmesh Sharma
Jaiprakash Associates	40%	30%	JPA IN	Outperform	269	220.4	22.1%	Inderjeetsingh Bhatia
ICSA	38%	33%	AURFI IN	Outperform	260	177.35	46.6%	Inderjeetsingh Bhatia
Provogue	33%	38%	PROV IN	Underperform	45	65.2	-31.0%	Unmesh Sharma

Note: Prices as of 14 August 2009. Note: The recommendations for some of the stocks in this report may be out of line with Macquarie's standard recommendation price range bands. These stocks are covered by analysts other than the author of this report.

Source: Bloomberg, Macquarie Research, August 2009

Vodafone deal could contribute ~9% of total revenues in about three years

- **Expect approximately Rs500m upside to revenues in FY3/10 from the deal.** On 19 April 2009, Vodafone announced a strategic deal with OnMobile Global to roll out caller ring back tone (CRBT) applications in Vodafone's global emerging market operations. Our revenue forecast from the Vodafone deal is based on the messaging and data revenue forecast in the two key emerging markets for Vodafone – Africa and Central Europe, and Asia Pacific and the Middle East (excluding India, Australia and New Zealand).

Fig 3 Subscriber growth in Central Europe will likely be muted, but expect robust sub growth in Asia Pacific and the Middle East (ex-India, Australia and New Zealand)

	FY10E	FY11E	FY12E	FY13E
Africa and Central Europe				
Total Subscribers (m)	56.70	57.68	58.62	59.51
YoY growth (%)	1.8	1.7	1.6	1.5
Messaging and Data revenues (GBP m)	840	975	1,119	1,273
YoY growth (%)	18.2	16.0	14.8	13.7
Messaging and Data ARPU (GBP)	1.2	1.4	1.6	1.8
YoY growth (%)	15.0	14.0	13.0	12.0
Asia Pacific and Middle East				
Total Subscribers (m)	25.07	31.83	39.47	47.76
YoY growth (%)	30.0	27.0	24.0	21.0
Messaging and Data revenues (GBP m)	701	890	1,103	1,335
YoY growth (%)	41.8	27.0	24.0	21.0
Messaging and Data ARPU (GBP)	2.3	2.3	2.3	2.3
YoY growth (%)	(5.0)	-	-	-

Source: Macquarie Research, August 2009

- Our financial forecast is based on 25% revenue share, broadly in line with our revenue share assumption for OnMobile in the Indian market. Even so, we have been conservative in our market share assumption for OnMobile of 3% growth in the next four years.

Fig 4 Even small pie of Vodafone's VAS market in these two regions would translate into meaningful revenue enhancement for OnMobile

	FY10E	FY11E	FY12E	FY13E
Total VAS market size (GBP m)	1,541	1,865	2,223	2,608
YoY Growth (%)	27.9	21.0	19.2	17.3
OnMobile market share	1.75%	1.75%	2.50%	3.10%
OnMobile revenue share from Vodafone	25%	25%	25%	25%
OnMobile revenue opportunity from Vodafone deal (GBPm)	7	8	14	20
GBP/INR	72.52	67.01	69.78	69.78
OnMobile revenues from Vodafone deal Rsm)	489	547	969	1,410

Source: Macquarie Research, August 2009

- **Vodafone deal not limited to emerging markets.** OnMobile management clarified that the preview of the deal is not limited to emerging markets, and it sees opportunities even in the developed market operations of Vodafone. Our current estimates are building in revenues from the Africa and Central Europe region and from the Asia Pacific and Middle East region.
- **OnMobile has deployed its first RBT for Vodafone in one its European operations.** OnMobile has launched its services in Vodafone's Romania operations, and services are expected to go live in Vodacom (Vodafone's South African subsidiary) by the October–December quarter.
- **Expect revenue from Vodacom engagement in July–September 2009 quarter.** OnMobile has been in talks with Vodacom (Vodafone's 65% African subsidiary) for the last two quarters to provide mobile VAS services. Management expects revenue from Vodacom to start flowing in the July–September 2009 quarter.

OnMobile adds another feather to its cap; signs exclusive deal with Telefónica

- **Telefónica has the world's third-largest subscriber base.** Telefónica Group is the third-largest telecom operator in the world based on a subscriber base of 261.4m (mobile plus fixed line) across multiple countries in Europe and Latin America. It has significant presence in Latin America, and the scope of the current agreement encompasses 13 countries and more than 130m subscribers. We expect Telefónica to grow its wireless subscriber base at 5–6% in the next two years. Telefónica increased its LatAm sub base 16% in FY3/09, and we believe that there is upside risk to our subscriber forecasts.

Fig 5 Our subscriber growth assumption is conservative

	FY2011E	FY2012E	FY2013E	FY2014E
Country				
Brazil	50.7	52.3	53.9	55.5
Argentina	15.7	16.0	16.2	16.5
Chile	7.6	7.8	8.0	8.1
Peru	13.2	14.0	14.3	14.5
Colombia	12.0	12.9	13.2	13.5
Mexico	19.4	20.6	21.3	21.7
Venezuela	12.8	13.5	13.9	14.2
Other	12.8	14.1	15.4	16.7
Total Subscribers (m)	144.1	151.1	156.1	160.8
YoY growth (%)	6.3%	4.9%	3.3%	3.0%

Source: Macquarie Research, August 2009

- **We expect the Telefónica deal to add Rs1.5bn to FY3/13 top line.** We have assumed 4.5% share of VAS revenues in total revenues for Telefónica in FY3/13. Our revenue share assumption for OnMobile is 25%, and we have been conservative in our market share expectation (only 2% in FY3/11). These assumptions are broadly in line with our assumptions for the Vodafone deal. Our wireless revenue forecast, shown in Figure 5, is derived from Telefónica's financial estimates by our European analyst, Guy Peddy.

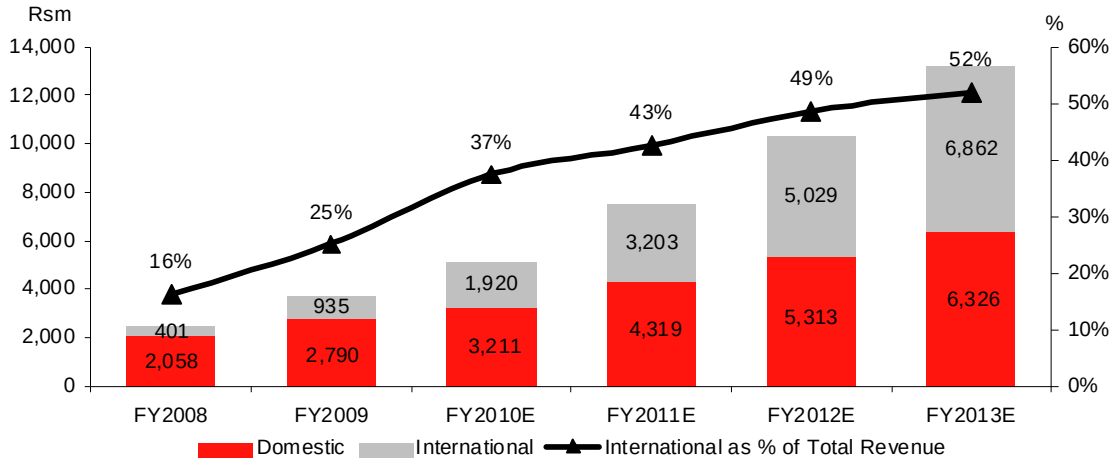
Fig 6 Forecast Rs1bn in revenues from Telefónica deal by FY3/12

	FY10E	FY11E	FY12E	FY13E
Total Wireless revenues (EUR m)	40,063	42,791	45,006	46,688
YoY Growth (%)	5.0%	6.8%	5.2%	3.7%
VAS share in total mobile revenues (%)	4.0%	4.5%	5.0%	5.5%
OnMobile market share (%)	na	2.00%	3.50%	4.50%
OnMobile revenue share from Telefónica (%)	na	25%	25%	25%
OnMobile revenues from Telefónica deal (€ m)	na	10	20	29
EUR/INR	na	58.7	57.4	53.2
OnMobile revenues from Telefónica deal (Rsm)	na	565	1,130	1,537

Source: Macquarie Research, August 2009

- **The deal cements OnMobile's strong credentials in the global VAS space.** OnMobile secured a strategic deal with Vodafone in April to offer CRBT applications in Vodafone's global emerging market operations. Announcement of a second international deal in the space of three months supports our view on the company's ability to deliver value to its telecom partners.
- **OnMobile's geographical expansion in LatAm provides ample of growth opportunities.** Telefónica's LatAm operations have less than 3% of wireless revenues coming from VAS services. This is primarily due to a lack of targeted VAS offerings by Telefónica's existing VAS providers – Ericsson (ERIC US, US$9.59, Underperform, TP: US$8.00 – Phil Cusick) and Huawei (unlisted) provide only ring tones currently – in these markets. We expect OnMobile to exploit the significant opportunities these markets offer, given the low penetration of VAS services and lack of attractive VAS applications currently on offer.

Fig 7 Vodafone, Telefónica deals skew revenue mix in favour of international revenues



Source: Company data, Macquarie Research, August 2009

Base business: Increase in international revenues (ex-Vodafone deal) balances the cut in domestic revenues

- **Forecast Indian wireless market to cross 1bn mark by March 2015.** We maintain our positive view on the solid subscriber growth in the Indian market and expect Street estimates to be raised following the record subscriber growth in FY3/09.

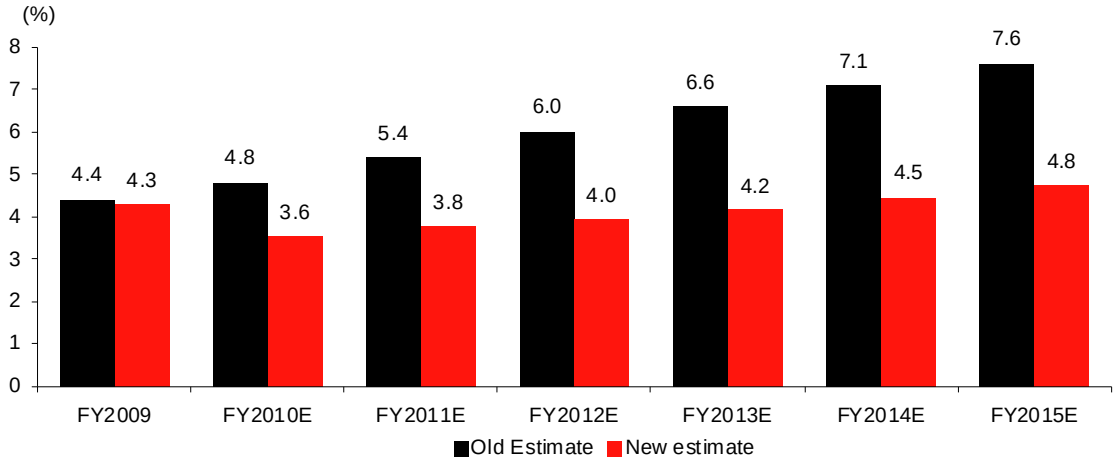
Fig 8 Indian wireless operators continue to surprise positively: Raising our All India subscriber forecast

(Subscriber base in m)	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E
All India subscriber base (New)	549.4	682.2	798.4	894.4	973.2	1,035.5	1,085.6
All India subscriber base (Old)	500.0	602.0	692.0	770.0	836.0	890.0	932.0
New estimate higher/(lower) than Old estimate	9.88%	13.32%	15.38%	16.16%	16.41%	16.34%	16.48%

Source: Macquarie Research, August 2009

- **Share of non-SMS VAS revenues could be lower than our earlier expectations.** Non-SMS revenues represented approximately 4.3% of total wireless ARPU for India wireless operators in FY3/09. Even so, we have cut our share of non-SMS ARPU as a percentage of total ARPU due to increased contribution of rural subscribers to the total industry subscriber addition, and factoring in the potential impact from the TRAI directive (effective 10 June 2009), which requires telecom operators to seek explicit approval from customers before activating VAS services. The directive has hurt the revenues from the “Press “ * ” to Copy” RBT application. We now expect the share of non-SMS revenue to dip to 3.6% in FY3/10, before recovering to 4.0% by FY3/12.

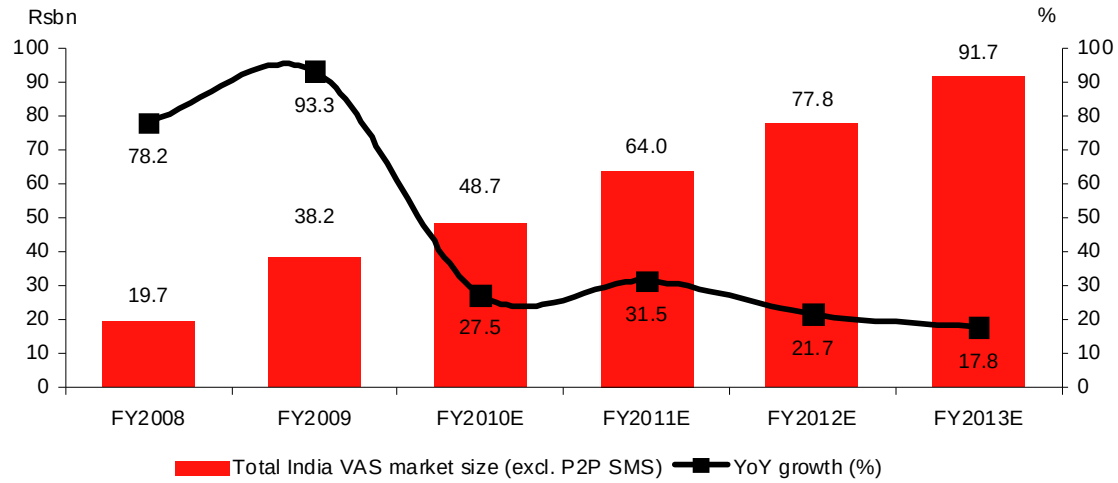
Fig 9 Our revised estimate of non-SMS share of gross ARPU has upside risks



Source: Company data, Macquarie Research, August 2009

- **Forecast Indian VAS market to grow at three-year CAGR of 23.5% to Rs92bn.** The downward revision in the share of non-SMS ARPU in total ARPU has more than offset the positive revision to our subscriber forecast. As a result of lower VAS industry revenue forecast, we have cut our domestic revenue forecasts for OnMobile by 20% in FY3/10, 19% in FY3/11 and 17% in FY3/12.

Fig 10 India VAS market: US$1.5bn plus opportunity by March 2012



Source: Company data, Macquarie Research, August 2009

- **Penetrating the international operators: OnMobile's strategy to win business in new markets.** On its 1Q FY3/10 earnings call, OnMobile management reiterated its focus on penetrating wireless operators in international markets. Three possible scenarios and OnMobile's approach to handle them are detailed in Figure 11.

Fig 11 Scale and experience should help OnMobile to beat local competition in international markets

Scenario	Description	Comments
1	RBT service is not live in the operator.	There are only two reasons for not implementing RBT: the operator has not thought about it, which is rare, and lacklustre performance of the application in the market.
2	The service is implemented by local companies.	OnMobile is better placed than local companies due to scale of operations and superior product suite.
3	The service is live and implemented by a player such as Ericsson or Huawei.	Bigger network equipment players have been able to generate only ~5% penetration of the service vs ~25% penetration generated by OnMobile.

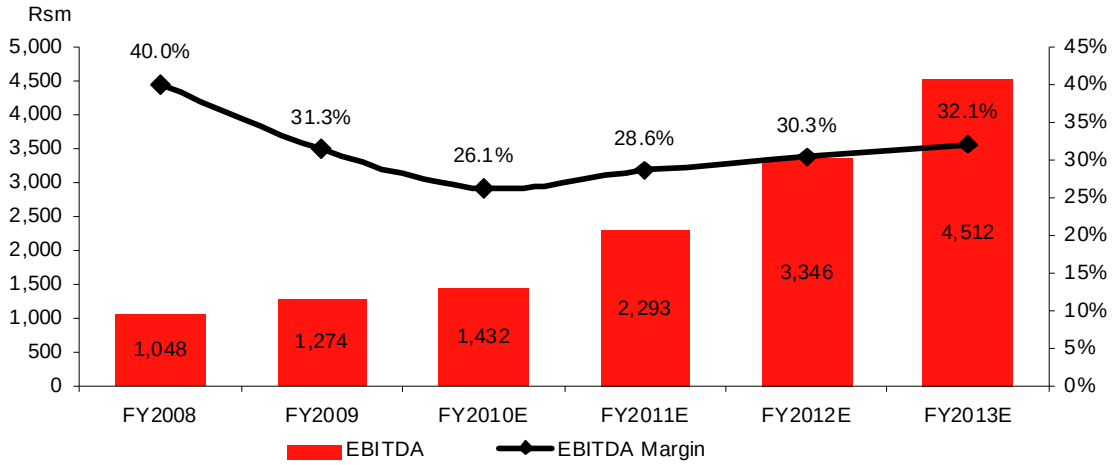
Source: Company data, Macquarie Research, August 2009

- **Revising organic international revenues based on solid FY3/09 results.** OnMobile reported international revenues of Rs935m, 13.5% higher than our estimate of Rs824m. We increased our organic international revenue forecast to factor in the positive surprise in FY3/09 results and the positive effect on the company's international operations from the Vodafone and Telefónica deals.

Expect EBITDA margins to decline in FY3/10, rebound in FY3/11

- **Sharp ramp-up in content costs is the key reason for margin dip in FY3/10.** Content fees and royalties have increased significantly for OnMobile in the last four quarters. Management has attributed the rise in content costs to minimum guarantee deals that it has signed for content procurement in the last year. We have factored in content cost as a percentage of revenues at 28% for FY3/10 (vs 19% in FY3/09), as OnMobile would need to tie up the content before rolling out its services in Vodafone and Telefónica markets. In the longer run, we expect content costs as a percentage of revenues to stabilise at 22%.

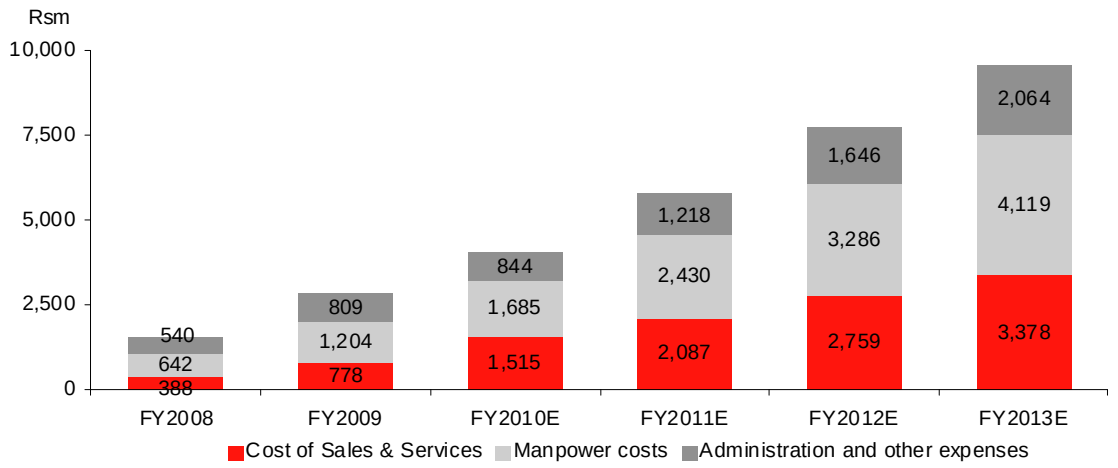
Fig 12 FY10 margins remain subdued due to investments in new international markets



Source: Company data, Macquarie Research, August 2009

- **Manpower costs are likely to register a sharp jump in FY3/11,** as international markets (covered under the preview of the Vodafone and Telefónica deals) go live. We expect FY3/10 employee costs at 30.8% of revenues. This ratio will likely move down to 30.3% in FY3/11, despite a significant 44% YoY increase in employee costs.

Fig 13 Manpower costs to remain the biggest-cost item (28.5% of revenues)

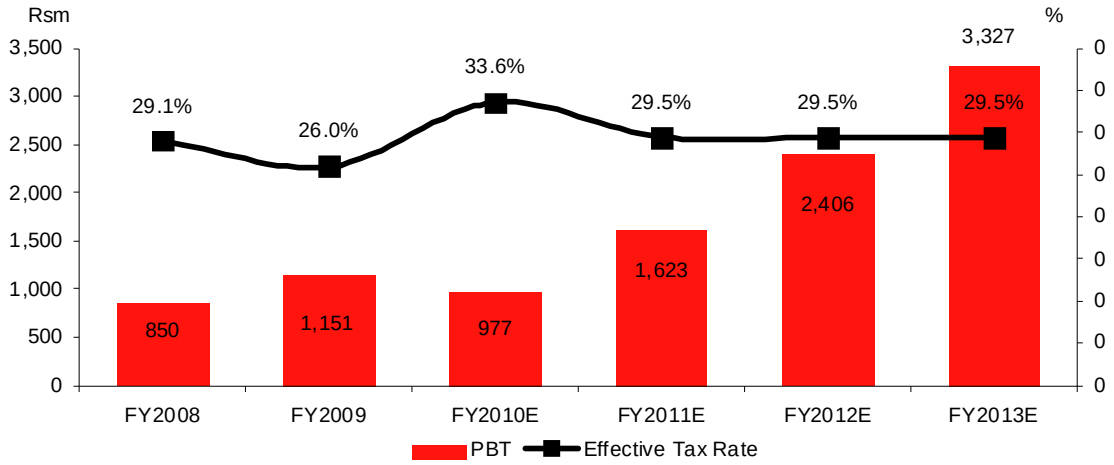


Source: Company data, Macquarie Research, August 2009

FY3/09 depreciation and tax were lower than our expectations

- **Forecast FY3/10 tax rate of 33%, up from 26% in FY3/09.** Carryforward losses on Voxmobili (unlisted) will run out in FY3/10. Moreover, OnMobile will not be able to offset the expenditure in international markets against the profits made by its Indian operations, resulting in a higher effective tax rate on reported PBT.
- We expect net profit margin to decline to 12% for OnMobile in FY3/10, primarily due to a decline in other income (Rs176m in FY3/10 vs Rs318m in FY3/09) generated from cash on the balance sheet.

Fig 14 FY3/10E tax rate will be high due to higher share of profit from Indian operations

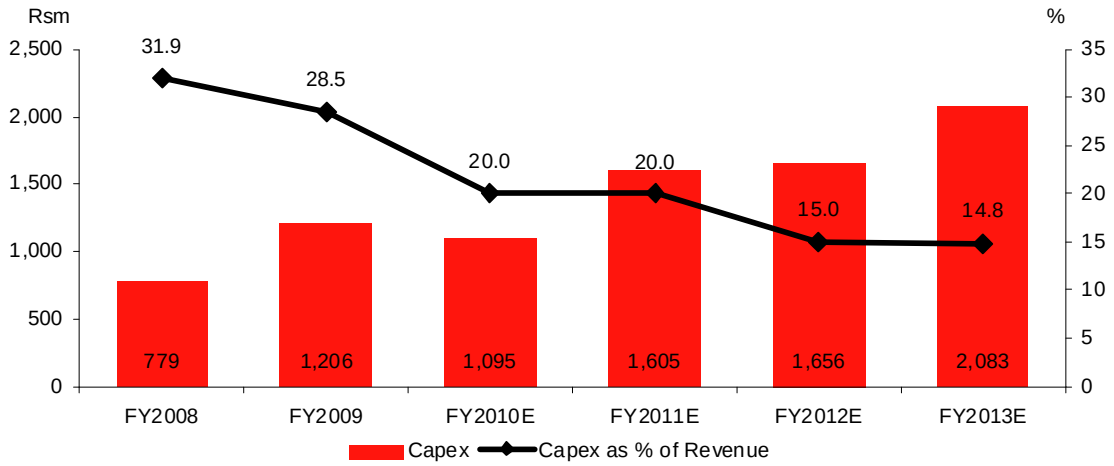


Source: Company data, Macquarie Research, August 2009

Majority of the capex is on computer and electronics equipment

- The bulk of the capex in this business is for technology hardware that is used to enable the VAS applications. Our capex forecast assumes 86% of annual apex toward purchases of computer and electronic equipment.
- Excluding the Rs579m acquisition payment for Telisma, OnMobile had capex of approximately Rs600m (15% of FY3/09 revenues). Management believes that capital intensity is likely to remain at these levels in the future. We have built in FY3/10 and FY3/11 capex at 20% of revenues but have cut our long-term capex forecast to 9.0% of revenues from 17.5%.

Fig 15 FY3/09 capex includes Rs579m acquisition payment for Telisma



Source: Company data, Macquarie Research, August 2009

Valuation: DCF-based target price now Rs700, implying upside of 33%

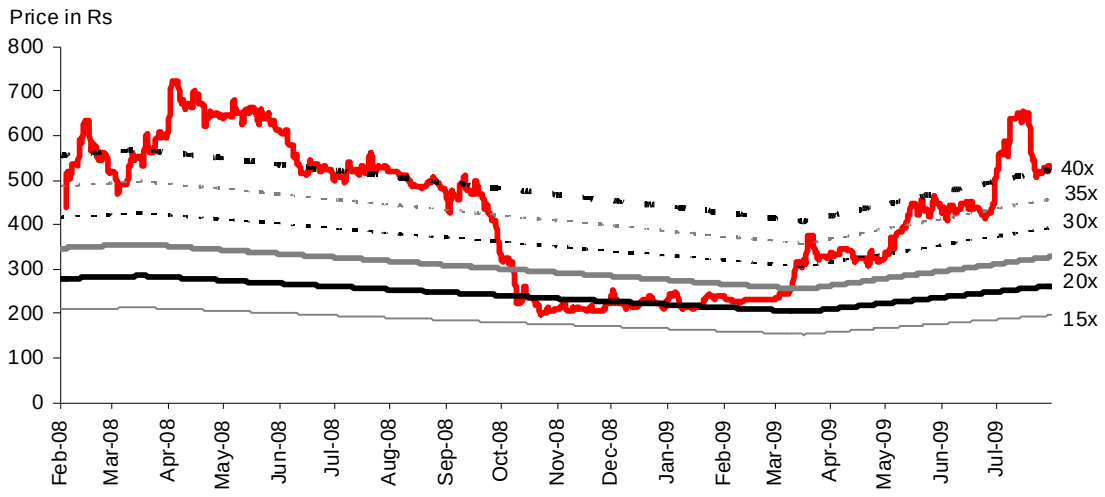
We now assume a discount rate of 12.5% (vs 13% previously) for OnMobile's DCF analysis. Our 12.5% WACC is based on a risk-free rate of 7.5%, equity risk premium of 7.5% and beta of 1.

Fig 16 Key DCF assumptions are conservative for an early-stage growth company

Parameters	
WACC (%)	12.5
Risk free rate of return = Rf (%)	7.5
Equity risk premium (%)	7.5
Beta	1.0
Cost of equity = Re (%)	15.1
Cost of debt = Rd (%)	6.34
FCF Growth from 2020 to perpetuity (%)	5
DCF Fair Value (Rs)	**700**

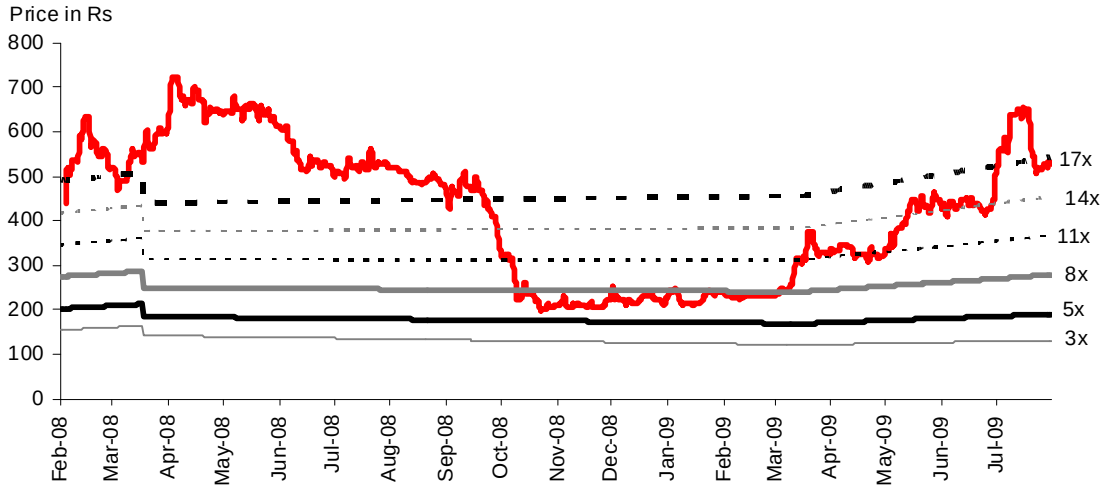
Source: Macquarie Research, August 2009

Fig 17 OnMobile one-year-forward rolling PER



Source: Bloomberg, Macquarie Research, August 2009

Fig 18 OnMobile one-year-forward rolling EV/EBITDA



Source: Bloomberg, Macquarie Research, August 2009

Fig 19 OnMobile – DCF valuation

Year-end Mar (Rs m)	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
EBITDA	1,432	2,293	3,346	4,512	5,873	7,345	8,782	10,295	11,907	13,602	15,309
Growth (% YoY)	0.1	60.1	45.9	34.9	30.2	25.1	19.6	17.2	15.7	14.2	12.5
Tax expense	(328)	(479)	(709)	(981)	(1,318)	(1,687)	(2,052)	(2,470)	(2,946)	(3,477)	(4,043)
Change in working capital	71	(946)	(1,089)	(1,215)	(1,351)	(1,388)	(1,427)	(1,469)	(1,531)	(1,577)	(1,512)
Cashflow from operations	1,174	868	1,547	2,317	3,204	4,271	5,303	6,357	7,429	8,548	9,754
Capital expenditure	(1,095)	(1,605)	(1,656)	(2,083)	(2,519)	(2,892)	(3,135)	(3,315)	(3,437)	(3,491)	(3,448)
Interest income	177	193	161	157	172	209	278	401	573	801	1,094
Free cashflow	256	(544)	52	391	857	1,588	2,446	3,442	4,565	5,858	7,400
Growth (% YoY)		(312.7)	(109.6)	645.2	119.3	85.3	54.0	40.7	32.6	28.3	26.3
Present Value of Free Cashflow	251	(474)	41	269	525	864	1,183	1,479	1,744	1,989	2,233

Discount rate (%)	**12.5%**
1. Present value of cashflow till 2020	
Total PV of free cashflow till 2020 {a}	10,102
2. Terminal value calculation	
Terminal Growth (%)	**5.0%**
FCF in FY2020	7,400
Exit FCF multiple (X)	14.0
Terminal value	103,611
Implied Exit EV/EBITDA Multiple (X)	6.8
PV of terminal value {b}	31,267
Total company value {a} + {b}	41,369
Net debt/(cash)	(3,223)
Value to equity holders	44,592
Equity value (Rs/share)	**700**

Calculation of WACC of OnMobile Global (%)

Risk free rate of return = Rf (%)	7.5
Equity risk premium	7.5
Beta	1.0
Cost of equity = Re (%)	15.1
Unadjusted cost of debt (%)	9.00
Cost of debt = Rd (%)	6.34
Equity = We	70.50
Debt = Wd	29.50
WACC = Re x We + Rd x Wd	12.5%

Sensitivity of 12-month DCF to WACC and Terminal Growth

Terminal Growth \ WACC	10.5%	11.5%	12.5%	13.5%	14.5%
4.0%	907	753	638	549	479
4.5%	966	794	667	570	495
5.0%	1,037	841	700	594	512
5.5%	1,121	896	738	621	532
6.0%	1,225	961	781	651	554

Source: Macquarie Research, August 2009

Fig 20 Peer group comparison not relevant, as there are very few listed mobile VAS players and the ones mentioned below differ from OnMobile in terms of product suites and operating dynamics

Company	Ticker	Price (lcy)	Market Cap (US$ m)	EV (US$ m)	EV/EBITDA (x)	EV/EBITDA (x)	PER (x)	PER (x)
					FY 2010	FY 2011	FY 2010	FY 2011
OnMobile - Outperform	ONMB IN	525.9	631.2	567.2	19.1x	11.9x	51.7x	29.3x
Tanla Solutions - Not rated	TANS IN	53.8	111.5	53.8	1.0x	0.9x	3.7x	3.6x
Comp2us - Not rated	078340 KS	8860.0	72.3	51.0	5.9x	4.3x	9.9x	7.0x
Danal - Not rated	064260 KS	17650.0	239.5	234.0	na	na	na	na
Buongiorno - Not rated	BNG IM	1.2	179.1	272.2	6.0x	5.5x	14.8x	11.2x
Netease.com - Not rated	NTES US	41.8	5,415.2	4,592.4	13.6x	10.4x	19.7x	14.9x
Sohu.com - Not rated	SOHU US	63.2	2,421.1	1,916.0	8.3x	7.1x	15.7x	14.3x
Sina.com - Not rated	SINA US	30.4	1,689.0	1,223.7	14.6x	8.2x	24.4x	18.0x
Tencent Holdings - Not rated	700 HK	118.7	27,643.6	26,569.3	30.4x	22.2x	44.5x	32.3x

Note: EV/EBITDA and PER for all other stocks based on Bloomberg consensus estimates except for OnMobile.

Source: Bloomberg, Macquarie Research, August 2009

Fig 21 OnMobile – Income statement (Rs m)

Particulars	FY3/07	FY3/08	FY3/09	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Revenues							
Telecoms VAS	1,280.6	2,459.1	3,724.8	5,131.3	7,522.4	10,342.6	13,188.4
y-o-y growth, %	63.2%	92.0%	51.5%	37.8%	46.6%	37.5%	27.5%
Domestic	**1,216.6**	**2,058.5**	**2,790.2**	**3,211.4**	**4,319.3**	**5,313.1**	**6,326.3**
y-o-y growth, %	55%	69%	36%	15%	35%	23%	19%
International	**64.0**	**400.6**	**934.6**	**1,919.9**	**3,203.0**	**5,029.5**	**6,862.1**
y-o-y growth, %	na	526%	133%	105%	67%	57%	36%
Other Services	49.1	159.0	338.7	344.5	505.0	694.4	885.4
y-o-y growth, %	18.7%	223.8%	113.0%	1.7%	46.6%	37.5%	27.5%
Total Revenue	**1,329.7**	**2,618.1**	**4,063.5**	**5,475.8**	**8,027.4**	**11,037.0**	**14,073.8**
y-o-y growth, %	61%	97%	55%	35%	47%	37%	28%
Operating Expenses							
Cost of Sales & Services	237.2	388.3	777.5	1,514.9	2,087.1	2,759.2	3,377.7
y-o-y growth, %	93.1%	63.7%	100.2%	94.8%	37.8%	32.2%	22.4%
(% of total revenues)	18%	15%	19%	28%	26.0%	25.0%	24.0%
Manpower costs	270.5	642.0	1,203.6	1,684.9	2,429.9	3,285.7	4,119.4
y-o-y growth, %	135.4%	137.4%	87.5%	40.0%	44.2%	35.2%	25.4%
(% of total revenues)	20.3	24.5	29.6	30.8	30.3	29.8	29.3
Administration and other expenses	212.1	539.6	808.7	844.2	1,217.6	1,646.5	2,064.3
y-o-y growth, %	81.1%	154.4%	49.9%	4.4%	44.2%	35.2%	25.4%
(% of total revenues)	16.0	20.6	19.9	15.4	15.2	14.9	14.7
Total Operating Expenses	719.8	1,569.8	2,789.8	4,044.1	5,734.6	7,691.4	9,561.4
y-o-y growth, %	102.9%	118.1%	77.7%	45.0%	41.8%	34.1%	24.3%
(% of total revenues)	54.1%	60.0%	68.7%	73.9%	71.4%	69.7%	67.9%
EBITDA	**609.9**	**1,048.3**	**1,273.7**	**1,431.7**	**2,292.8**	**3,345.6**	**4,512.4**
EBITDA Margin	*45.9%*	*40.0%*	*31.3%*	*26.1%*	*28.6%*	*30.3%*	*32.1%*
y-o-y growth, %	29.4%	71.9%	21.5%	12.4%	60.1%	45.9%	34.9%
Depreciation	142.9	256.0	439.7	631.6	862.8	1,100.2	1,342.3
EBIT	467.0	792.3	834.0	800.1	1,430.0	2,245.4	3,170.1
EBIT Margin	35.1%	30.3%	20.5%	14.6%	17.8%	20.3%	22.5%
y-o-y growth, %	20.9%	69.7%	5.3%	-4.1%	78.7%	57.0%	41.2%
Finance charges	0.2	17.0	0.5	0.0	0.0	0.0	0.0
Other income	43.4	74.7	317.7	176.5	193.4	160.7	157.1
y-o-y growth, %	3882.4%	72.1%	325.4%	-44.4%	9.5%	-16.9%	-2.3%
Profit Before Taxes (PBT)	510.2	850.0	1,151.2	976.6	1,623.4	2,406.1	3,327.1
Taxation							
Provision for taxation	167.6	246.9	299.3	328.0	478.6	709.4	981.0
Provision for taxation as % of PBT	32.8%	29.1%	26.0%	33.6%	29.5%	29.5%	29.5%
Profit After Tax							
Profit After Taxes (PAT)	342.6	603.0	851.9	648.6	1,144.7	1,696.7	2,346.2
Y-o-Y Growth	38.8%	76.0%	41.3%	-23.9%	76.5%	48.2%	38.3%
Share of Profit of Minority interest	5.5	0.0	0.0	0.0	0.0	0.0	0.0
Profit After Taxes (PAT) and Minority Interest	**337.1**	**603.0**	**851.9**	**648.6**	**1,144.7**	**1,696.7**	**2,346.2**
PAT Margin (%)	**25.4%**	**23.0%**	**21.0%**	**11.8%**	**14.3%**	**15.4%**	**16.7%**
Adjusted Earnings Per Share (Rs)							
Diluted	**6.7**	**11.5**	**14.2**	**10.2**	**18.0**	**26.6**	**36.8**

Source: Company data, Macquarie Research, August 2009

Fig 22 OnMobile – Balance sheet (Rs m)

Particulars	FY3/07	FY3/08	FY3/09	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Assets							
Current Assets							
Project Work in Progress	0.0	10.6	-	7.1	10.5	14.4	18.4
Sundry debtors	539.3	989.7	1,445.2	1,640.6	2,405.1	3,306.8	4,216.7
Cash and bank balances	211.7	1458.8	2855	3,135.9	2,592.2	2,644.7	3,035.6
Other current assets	5.4	12.5	22.4	22.4	22.4	22.4	22.4
Loans and advances	479.1	947	1686	1,774.1	2,600.8	3,575.9	4,559.8
Total Current Assets	**1,235.3**	**3,419.1**	**6,008.4**	**6,580.1**	**7,631.0**	**9,564.2**	**11,852.9**
Fixed Assets							
Gross Block	580.6	1,335.2	2,536.3	3,631.5	4,676.3	5,833.8	6,919.5
Less : Accumulated depreciation	288.4	539.9	1,560.8	2,192.4	2,494.6	3,096.7	3,441.8
Net Block	292.2	795.3	975.5	1,439.0	2,181.7	2,737.1	3,477.7
Add: Capital Work in Progress	42.9	113.4	71.5	-	-	-	-
Total Fixed Assets	335.1	908.7	1,047.0	1,439.0	2,181.7	2,737.1	3,477.7
Investments	1,018.2	3,193.7	86.7	86.7	86.7	86.7	86.7
Deferred tax Assets	0.0	-	1.0	1.0	1.0	1.0	1.0
Goodwill on Consolidation	204.8	1,367.9	2,107.8	2,107.8	2,107.8	2,107.8	2,107.8
Total Assets	**2,793.4**	**8,889.4**	**9,250.9**	**10,214.7**	**12,008.2**	**14,496.8**	**17,526.1**
Current Liabilities							
Sundry creditors							
for capital items- due to Holding company	73.3	66.8	85.3	85.3	85.3	85.3	85.3
for capital items- due to others	42.0	37.5	89.2	89.2	89.2	89.2	89.2
for expenses	129.2	543.2	670.6	935.2	1,404.7	1,989.4	2,473.0
Deferred revenue	1.1	11.7	60.8	15.0	22.0	30.2	38.6
Credit balance in bank account	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	52.4	1,080.0	116.1	185.6	263.1	352.9	438.8
Income Tax	376.7	594.1	849.3	849.2	848.9	848.6	848.1
Fringe Benefit Tax (Net)	3.3	0.2	0.0	0.2	0.2	0.2	0.2
Employee Benefits	10.1	49.9	99.5	129.7	187.1	253.0	317.2
Other Provisions	34.9	77.2	47.1	90.1	127.8	171.3	213.0
Total current Liabilities	**722.8**	**2,460.6**	**2,018.0**	**2,379.5**	**3,028.4**	**3,820.2**	**4,503.4**
Debt							
Secured Loans	0.0	0.0	42.7	0.0	0.0	0.0	0.0
Unsecured Loans	0.0	0.0	3.7	0.0	0.0	0.0	0.0
Total Debt	**-**	**0.0**	**46.4**	**0.0**	**0.0**	**0.0**	**0.0**
Other Long Term Liabilities							
Deferred Tax Liability	29.9	39.3	68.2	68.2	68.2	68.2	68.2
Due to erstwhile shareholders of ITfinity Solutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deferred Payment Liability	0.0	278.6	128.6	128.6	128.6	128.6	128.6
Stock Options Outstanding Account	0.0	1.4	0.3	0.3	0.3	0.3	0.3
Minority interest	13.9	0.0	0.0	0.0	0.0	0.0	0.0
Total Other Long Term Liabilities	43.7	319.3	197.0	197.0	197.0	197.0	197.0
Shareholders' Funds							
Share Capital	36.5	574.1	578.3	578.3	578.3	578.3	578.3
Reserves and Surplus	1,990.2	5,535.5	6,411.2	7,059.8	8,204.5	9,901.2	12,247.3
Total Shareholders' Funds	**2,026.8**	**6,109.5**	**6,989.5**	**7,638.1**	**8,782.8**	**10,479.5**	**12,825.7**
Total liabilities and stockholders' equity	**2,793.3**	**8,889.4**	**9,250.9**	**10,214.7**	**12,008.2**	**14,496.8**	**17,526.1**

Source: Company data, Macquarie Research, August 2009

Fig 23 OnMobile – Cashflow statement (Rs m)

Particulars	FY3/07	FY3/08	FY3/09	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Cashflow from operating activities							
Earnings before taxation	510.2	850.3	1,151.1	976.6	1,623.4	2,406.1	3,327.1
Adjustments:							
Depreciation and amortisation	143.5	255.6	439.7	631.6	862.8	1,100.2	1,342.3
Interest income	(7.9)	(9.7)	(100.3)	(176.5)	(193.4)	(160.7)	(157.1)
Yield on investments	(35.1)	(56.7)	(133.2)	0.0	0.0	0.0	0.0
Loss/(Profit) on sale of assets	0.0	1.6	(3.5)	0.0	0.0	0.0	0.0
Provision for doubtful debts	0.0	53.4	43.6	0.0	0.0	0.0	0.0
Profit on redemption of investments	0.0	(0.1)	11.9	0.0	0.0	0.0	0.0
Unrealised foreign exchange (Gain) / loss	(1.8)	50.9	32.6	0.0	0.0	0.0	0.0
Finance Charges	0.2	17.1	0.6	0.0	0.0	0.0	0.0
Others	2.5	(2.4)	(5.4)	0.0	0.0	0.0	0.0
Operating profit before working capital changes	611.7	1,159.9	1,437.0	1,431.7	2,292.8	3,345.6	4,512.4
Changes in current assets and liabilities							
Sundry debtors	(184.2)	(418.4)	(443.4)	(195.4)	(764.5)	(901.7)	(909.9)
Loans and advances	(16.5)	(141.0)	(279.9)	(95.5)	(830.0)	(979.0)	(987.9)
Current liabilities and provisions	148.4	254.2	183.6	361.5	648.8	791.8	683.2
Income taxes including FBT paid during the year	(211.4)	(305.0)	(416.7)	(328.0)	(478.6)	(709.4)	(981.0)
Net cash generated from operating activities (a)	**348.0**	**549.7**	**480.8**	**1,174.3**	**868.5**	**1,547.3**	**2,316.8**
Purchase of fixed assets and change in capital work-in-progress	(263.6)	(836.2)	(572.5)	(1,095.2)	(1,605.5)	(1,655.5)	(2,082.9)
Proceeds from sale of fixed assets	10.1	9.1	20.0	0.0	0.0	0.0	0.0
Investment in subsidiaries	0.0	(1,064.5)	(734.2)	0.0	0.0	0.0	0.0
Sale/ (Investment) in securities	(1,192.5)	(2,158.6)	3,102.4	0.0	0.0	0.0	0.0
Interest income	6.6	9.7	78.1	176.5	193.4	160.7	157.1
Yield on investments	34.9	44.2	145.7	0.0	0.0	0.0	0.0
Others	(10.0)	(2.5)	(248.3)	0.0	0.0	0.0	0.0
Net cash used in investing activities (b)	**(1,414.5)**	**(3,998.8)**	**1,791.3**	**(918.7)**	**(1,412.1)**	**(1,494.8)**	**(1,925.9)**
Proceeds from issuance of share capital	1,225.3	3,793.8	4.6	0.0	0.0	0.0	0.0
Issue charges	0.0	(72.5)	(8.4)	0.0	0.0	0.0	0.0
Net proceeds from issuances of share capital	1,225.3	3,721.4	(3.8)	0.0	0.0	0.0	0.0
Redemption of preference shares	0.0	(33.0)	0.0	0.0	0.0	0.0	0.0
Proceeds / (repayment) from Short term Borrowings	0.0	0.0	(0.6)	(46.4)	0.0	0.0	0.0
Finance charges	(0.2)	(17.1)	(0.6)	0.0	0.0	0.0	0.0
Others		992.7	(940.2)	71.5	0.0	0.0	0.0
Dividends paid during the year	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend tax paid during the year	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash used in financing activities (c)	**1,225.1**	**4,663.9**	**(945.2)**	**25.1**	**0.0**	**0.0**	**0.0**
Net change in cash and cash equivalent	158.60	1,214.81	1,326.96	280.75	(543.63)	52.46	390.93
Cash and cash equivalents at beginning of the year	53.1	211.7	1,458.8	2,855.1	3,135.9	2,592.2	2,644.7
Cash acquired on acquisition	0.0	32.4	69.3	-	-	-	-
Cash and cash equivalents at the end of the year	**211.7**	**1,458.8**	**2,855.11**	**3,135.86**	**2,592.23**	**2,644.69**	**3,035.62**

Source: Company data, Macquarie Research, August 2009

OnMobile Global (ONMB IN, Outperform, Target price: Rs700.00)

Quarterly Results		1Q/10A	2Q/10E	3Q/10E	4Q/10E
Revenue	**m**	**1,072**	**1,157**	**1,396**	**1,851**
Gross Profit	**m**	**774**	**833**	**1,012**	**1,342**
Cost of Goods Sold	m	298	324	384	509
EBITDA	**m**	**244**	**272**	**370**	**546**
Depreciation	m	133	145	165	189
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**111**	**127**	**205**	**358**
Net Interest Income	m	49	44	44	39
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**160**	**171**	**249**	**397**
Tax Expense	m	-71	-54	-78	-125
Net Profit	**m**	**89**	**117**	**171**	**272**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**89**	**117**	**171**	**272**
Adjusted Earnings	**m**	**89**	**117**	**171**	**272**
EPS (rep)		1.40	1.84	2.68	4.27
EPS (adj)		1.40	1.84	2.68	4.27
EPS Growth YoY (adj)	%	-44.9	-40.0	-41.9	6.5
EBITDA Margin	%	22.8	23.5	26.5	29.5
EBIT Margin	%	10.3	11.0	14.7	19.3
Earnings Split	%	13.8	18.1	26.3	41.9
Revenue Growth	%	37.8	18.7	20.6	60.5
EBIT Growth	%	-5.3	-23.5	-29.1	36.5

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**4,064**	**5,476**	**8,027**	**11,037**
Gross Profit	**m**	**3,286**	**3,961**	**5,940**	**8,278**
Cost of Goods Sold	m	778	1,515	2,087	2,759
EBITDA	**m**	**1,274**	**1,432**	**2,293**	**3,346**
Depreciation	m	440	632	863	1,100
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**834**	**800**	**1,430**	**2,245**
Net Interest Income	m	317	177	193	161
Associates	m	0	0	0	0
Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	0	0	0	0
Pre-Tax Profit	**m**	**1,151**	**977**	**1,623**	**2,406**
Tax Expense	m	-299	-328	-479	-709
Net Profit	**m**	**852**	**649**	**1,145**	**1,697**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**852**	**649**	**1,145**	**1,697**
Adjusted Earnings	**m**	**852**	**649**	**1,145**	**1,697**
EPS (rep)		14.22	10.18	17.97	26.63
EPS (adj)		14.22	10.18	17.97	26.63
EPS Growth (adj)	%	19.7	-28.4	76.5	48.2
PE (rep)	x	37.0	51.7	29.3	19.7
PE (adj)	x	37.0	51.7	29.3	19.7
Total DPS		0.00	0.00	0.00	0.00
Total Div Yield	%	0.0	0.0	0.0	0.0
Weighted Average Shares	m	60	64	64	64
Period End Shares	m	60	64	64	64

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	55.2	34.8	46.6	37.5
EBITDA Growth	%	21.5	12.4	60.1	45.9
EBIT Growth	%	5.2	-4.1	78.7	57.0
Gross Profit Margin	%	80.9	72.3	74.0	75.0
EBITDA Margin	%	31.3	26.1	28.6	30.3
EBIT Margin	%	20.5	14.6	17.8	20.3
Net Profit Margin	%	21.0	11.8	14.3	15.4
Payout Ratio	%	0.0	0.0	0.0	0.0
EV/EBITDA	x	22.9	21.8	13.6	9.3
EV/EBIT	x	35.0	39.0	21.8	13.9
Balance Sheet Ratios					
ROE	%	13.0	8.9	13.9	17.6
ROA	%	9.2	8.2	12.9	16.9
ROIC	%	13.3	12.7	22.4	25.6
Net Debt/Equity	%	-40.2	-41.1	-29.5	-25.2
Interest Cover	x	nmf	nmf	nmf	nmf
Price/Book	x	4.5	4.4	3.8	3.2
Book Value per Share		116.6	119.9	137.9	164.5

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**1,358**	**1,432**	**2,293**	**3,346**
Tax Paid	m	-417	-328	-479	-709
Chgs in Working Cap	m	-540	71	-946	-1,089
Net Interest Paid	m	0	0	0	0
Other	m	36	0	0	0
Operating Cashflow	**m**	**437**	**1,174**	**868**	**1,547**
Acquisitions	m	-734	0	0	0
Capex	m	-572	-1,095	-1,605	-1,656
Asset Sales	m	3,122	0	0	0
Other	m	-25	177	193	161
Investing Cashflow	**m**	**1,791**	**-919**	**-1,412**	**-1,495**
Dividend (Ordinary)	m	0	0	0	0
Equity Raised	m	-5	0	0	0
Debt Movements	m	1	46	0	0
Other	m	-941	72	0	0
Financing Cashflow	**m**	**-945**	**118**	**0**	**0**
Net Chg in Cash/Debt	**m**	**1,284**	**374**	**-544**	**52**
Free Cashflow	**m**	**-135**	**79**	**-737**	**-108**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	2,855	3,136	2,592	2,645
Receivables	m	1,445	1,641	2,405	3,307
Inventories	m	0	7	10	14
Investments	m	87	87	87	87
Fixed Assets	m	1,047	1,439	2,182	2,737
Intangibles	m	2,108	2,108	2,108	2,108
Other Assets	m	1,709	1,797	2,624	3,599
Total Assets	**m**	**9,251**	**10,215**	**12,008**	**14,497**
Payables	m	845	1,110	1,579	2,164
Short Term Debt	m	0	0	0	0
Long Term Debt	m	46	0	0	0
Provisions	m	47	90	128	171
Other Liabilities	m	1,323	1,377	1,518	1,682
Total Liabilities	**m**	**2,261**	**2,577**	**3,225**	**4,017**
Shareholders' Funds	m	6,989	7,638	8,783	10,480
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**6,989**	**7,638**	**8,783**	**10,480**
Total Liab & S/H Funds	**m**	**9,251**	**10,215**	**12,008**	**14,497**

All figures in INR unless noted.
Source: Company data, Macquarie Research, August 2009

INDIA

MTNL

3 August 2009

MTNL IN		**Underperform**
Stock price as of 31 Jul 09	Rs	102.65
12-month target	Rs	51.00
Upside/downside	%	-50.3
Valuation	Rs	51.00
- DCF (WACC 13.5%)		
GICS sector	telecommunication services	
Market cap	Rs m	64,670
30-day avg turnover	US$m	4.8
Market cap	US$m	1,337
Number shares on issue	m	630.0

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Total revenue	m	44,093	43,476	43,554	43,681
EBITDA	m	1,291	3,860	3,895	3,956
EBITDA growth	%	-82.1	199.1	0.9	1.6
Adjusted profit	m	1,075	574	-2,795	-3,317
EPS adj	Rs	1.71	0.91	-4.44	-5.27
EPS adj growth	%	-72.1	-46.6	nmf	-18.7
PE adj	x	60.1	112.6	nmf	nmf
ROA	%	-2.7	-2.1	-2.7	-2.9
ROE	%	0.9	0.5	-2.5	-3.1
EV/EBITDA	x	17.2	5.7	5.7	5.6
Net debt/equity	%	-36.1	-13.8	-13.8	-14.4
Price/book	x	0.5	0.6	0.6	0.6

MTNL IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, August 2009
(all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

Profits gone, dividends going, what's left? Hope

Event

- MTNL reported weak 1Q results holding up our thesis. It missed estimates on all financial parameters and reported an EBITDA loss for the second consecutive quarter. Reiterate Underperform (see Figure 2 for detailed results, YoY and QoQ growth and deviation from Macquarie forecasts).

Impact

- **Dividend cut to Rs1/sh from Rs4/sh:** Our negative thesis on MTNL is playing out. The MTNL board recommended a dividend per share of Rs1, down from Rs4/sh paid out last year. We highlight MTNL has reported negative EBITDA of Rs385m and net loss of Rs468m in 1Q FY3/10. Based on this quarterly run-rate, the company would find it difficult to pay out dividends to shareholders in FY3/10E. We have consistently flagged the risk to MTNL's dividends (see our note, *Last opportunity to get out; believe divs at risk*, 1 May 2009), and we believe investors should exit the stock.
- **Termination rate cut takes toll on top line, wireless revenue down 36% YoY:** We believe a steep decline in wireless revenue (Rs1.4bn, down 36% YoY and 30% QoQ) is due to a termination rate cut and continued loss in market share and that it validates our view that a termination cut would hurt BSNL/MTNL the most.
- **Wireless ARPU slides to Rs108, down 49.5% YoY:** We maintain our view that increased competition will have the maximum negative impact on small, fringe players such as MTNL (its operations are restricted only to Delhi and Mumbai circles). A sharp fall in wireless ARPU to Rs108 is due to: (1) loss of interconnect revenues, which used to make up the maximum share of revenues for the state-run incumbents, BSNL and MTNL; (2) poor quality of new subs addition since higher ARPU customers are churning out to new entrants in Delhi and Mumbai circles, namely, RCOM GSM, Aircel and Idea.
- **Revenue growth from broadband only silver lining in a dismal quarter:** MTNL reported 'other service' revenue of Rs1.6bn (up 24% YoY and 10% QoQ). We believe the growth is largely driven by solid performance in the broadband segment (quarterly revenue breakup not provided by MTNL).

Earnings and target price revision

- No change.

Price catalyst

- 12-month price target: Rs51.00 based on a DCF methodology.
- Catalyst: Loss of subs share due to entry of Aircel in Mumbai and Delhi circles.

Action and recommendation

- **Bharti is our top pick:** 1Q results reinforce our negative view on MTNL; the stock is richly valued at 113x FY3/10E PER. This is clearly not sustainable, given the worsening business outlook while cash and dividend support are dwindling. We recommend investors switch out of MTNL into Bharti.

Fig 1 Stocks mentioned in this report

Name/ticker	Curr price (Rs)	Rec	TP (Rs)	Diff %
BHARTI IN	410	OP	488	19
RCOM IN*	276	OP	275	0
IDEA IN	79	UP	45	-43
BSNL	Not listed			
Aircel	Not listed			

*We will be reviewing our investment opinions on RCOM. Note: Share price data as of 31 July 2009
Source: Bloomberg, Macquarie Research, August 2009

Fig 2 1Q FY3/10 results – MTNL quarterly P&L; YoY growth, QoQ growth and deviation from Macquarie expectations

Amount in Rs. Million, except ratios	1Q FY09	2Q FY09	3Q FY09	4Q FY09	1Q FY10A	(% chg YoY)	(% chg QoQ)	1QFY010	
	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09			Jun-09	Deviation
Basic and fixed line services	**7,583.1**	**7,245.0**	**7,540.2**	**7,001.0**	**6,275.4**	**-17.2%**	**-10.4%**	**6,992.5**	**-10**
Cellular services	2,132.7	2,208.0	2,140.3	1,962.0	1,367.2	-35.9%	-30.3%	2,003.7	-31
WLL services	165.0	124.0	128.3	127.0	111.2	-32.6%	-12.4%	127.1	-12
Other Services	1,308.6	1,442.2	1,513.7	1,471.9	1,623.3	24.0%	10.3%	1,324.7	22
Broadband	1,025.2	1,054.3	1,109.4	1,308.7	1,302.7	27.1%	-0.5%	1,325.1	-1
Others	283.4	387.9	404.3	163.1	320.6	13.1%	96.5%	(0.4)	-78898
Total Service Revenues	**11189.4**	**11019.2**	**11322.6**	**10561.9**	**9377.1**	**-16.2%**	**-11.2%**	**10448.0**	**-10**
Operating Expenditure									
Staff Cost	4,457.6	4,750.4	5,894.6	6,507.9	5,457.2	22.4%	-16.1%	4,680.5	16
As a percentage of revenue (%)	*40%*	*43%*	*52%*	*62%*	*58%*			*45%*	
Administrative Expenses	2,103.3	2,611.9	2,245.4	2,074.3	1,882.7	-10.5%	-9.2%	2,089.6	-9
As a percentage of revenue (%)	*19%*	*24%*	*20%*	*20%*	*20%*			*20%*	
License Cost	999.1	1,057.2	1,204.7	976.6	939.9	-5.9%	-3.8%	940.3	0
As a percentage of Service revenue (%)	*9%*	*10%*	*11%*	*9%*	*10%*			*9%*	
Revenue Sharing	1,912.2	2,069.1	1,885.1	2,053.4	1,482.5	-22.5%	-27.8%	1,985.1	-25
As a percentage of service revenue (%)	*17%*	*19%*	*17%*	*19%*	*16%*			*19%*	
Total Operating Expenditure	**9,472.2**	**10,488.5**	**11,229.7**	**11,612.1**	**9,762.3**	**3.1%**	**-15.9%**	**9,695.5**	**0**
As a percentage of revenue (%)	*84.7*	*95.2*	*99.2*	*109.9*	*104%*			*92.8*	
EBITDA	**1717.2**	**530.7**	**92.9**	**(1,050.2)**	**(385.2)**	**-122.4%**	**-63.3%**	**752.5**	**-151**
EBITDA Margin (%)	*15.3*	*4.8*	*0.8*	*-9.9*	*-4%*			*7.2*	
Depreciation and amortisation	1,780.1	1,795.9	1,797.9	1,884.4	1,811.9	1.8%	-3.8%	1,900.0	-4
EBIT	**(62.9)**	**(1,265.2)**	**(1,705.0)**	**(2,934.6)**	**(2,197.1)**	**3391.3%**	**-25.1%**	**(1,147.5)**	**91**
EBIT Margin (%)	*-1%*	*-11%*	*-15%*	*-28%*	*-23%*			*-11%*	
Interest & Financial Expenses	8.8	1.1	0.5	19.8	6.0	-32.0%	-69.8%	19.8	
Other Income	1,566.4	1,549.1	2,721.9	2,309.8	1,476.5	-5.7%	-36.1%	1,566.4	-5
Profit before tax	**1,494.6**	**282.9**	**1,016.4**	**(644.5)**	**(726.5)**	**-148.6%**	**12.7%**	**399.0**	**-282**
PBT Margin (%)	*13.4*	*2.6*	*9.0*	*-6.1*	*-8%*			*3.8*	
Tax Expense	369.2	392.2	432.3	189.0	-258.5	-170.0%	-236.8%	139.7	-285
Effective Tax Rate (%)	*24.7*	*138.7*	*42.5*	*-29.3*	*36%*			*35.0*	
Prior period adjustment	0.0	-1027.9	0.0	4.7	0.0	na	na	0.0%	
Reported Profit after tax	**1,125.4**	**918.6**	**584.2**	**(838.2)**	**(468.0)**	**-141.6%**	**-44.2%**	**259.4**	**-280**
Normalised Profit after tax	**1,125.4**	**199.1**	**(232.8)**	**(1,271.1)**	**(468.0)**	**-141.6%**	**-63.2%**	**259.4**	**-280**
PAT Margin (%)	*10.1*	*1.8*	*-2.1*	*-12.0*	*-5.0*			*2.5*	
Operating Metrics									
GSM wireless subscribers (m)	3.4	3.7	3.9	4.2	4.3	25.0%	2.9%	4.3	-0
Wireline subscribers (m)	3.7	3.7	3.7	3.7	3.7	-2.0%	-0.6%	3.6	0
ARPU (Rs)	212.9	206.9	188.3	162.0	107.6	-49.5%	-33.6%	157.1	-31

Source: Company data, Macquarie Research, August 2009

Detailed financial statements

Fig 3 MTNL – annual income statement

Amount in Rs m, except otherwise stated

	FY 3/08	FY 3/09	FY 3/10E	FY 3/11E	FY 3/12E	FY 3/13E
Service Revenues						
Basic and fixed line services	33,385	29,369	28,464	27,764	27,141	26,596
Cellular services	8,601	8,443	7,915	7,260	6,883	6,890
WLL services	901	544	393	743	696	659
Other Services	4,786	5,736	6,704	7,787	8,961	10,074
Broadband	3,359	4,498	5,131	6,136	7,227	8,253
Others	1,427	1,239	1,573	1,652	1,734	1,821
Total Service Revenues	**47,672**	**44,093**	**43,476**	**43,554**	**43,681**	**44,218**
YoY change	***-3.5%***	***-7.5%***	***-1.3%***	***0.2%***	***0.3%***	***1.2%***
Operating Expenses						
Staff Cost	16,447	21,610	18,747	18,753	18,759	18,768
% of revenues	35%	49%	43%	43%	43%	42%
YoY Growth (%)	-9%	31%	1%	3%	3%	5%
Administrative Expenses	11,635	9,035	8,695	8,711	8,736	8,844
% of revenues	24%	20%	20%	20%	20%	20%
License Cost	4,246	4,238	3,913	3,920	3,931	3,980
% of Service Revenue	9%	10%	9%	9%	9%	9%
Revenue Sharing	8,128	7,920	8,260	8,275	8,299	8,401
% of Service Revenue	17%	18%	19%	19%	19%	19%
Total Operating Expenses	**40,456**	**42,803**	**39,616**	**39,659**	**39,726**	**39,993**
EBITDA	**7,217**	**1,291**	**3,860**	**3,895**	**3,956**	**4,225**
EBITDA Margin	***15.1%***	***2.9%***	***8.9%***	***8.9%***	***9.1%***	***9.6%***
Depreciation	7,132	7,258	8,547	9,813	10,326	10,831
EBIT	84	-5,968	-4,687	-5,918	-6,370	-6,605
EBIT Margin	0.2%	-13.5%	-10.8%	-13.6%	-14.6%	-14.9%
Other Income	6,083	8,147	5,623	3,167	3,097	2,505
Interest income incl. above due to tax refunds	2,687	1,923	0	0	0	0
Interest	44	30	52	44	44	44
Profit Before Tax	**6,124**	**2,149**	**884**	**-2,795**	**-3,317**	**-4,144**
Prior Period Adjustment	-1,801	-1,023	0	0	0	0
Provision For Tax	2,260	1,383	309	0	0	0
Effective Tax Rate	36.9%	64.3%	35.0%	0.0%	0.0%	0.0%
Reported Profit After Tax	**5,664**	**1,790**	**574**	**-2,795**	**-3,317**	**-4,144**
Reported EPS (Rs)	8.99	2.84	0.91	(4.44)	(5.27)	(6.58)
Tax impact due to exceptional	879	981	0	0	0	0
Exceptional (net of tax)	1,808	1,969	0	0	0	0
Normalised Profit After Tax	**3,856**	**-179**	**574**	**-2,795**	**-3,317**	**-4,144**
Normalised EPS	6.12	(0.28)	0.91	(4.44)	(5.27)	(6.58)
DPS (Rs)	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.4**
Dividends (excluding tax)	2,520	2,520	2,520	2,520	2,520	2,772
Dividend Tax	428.3	428.3	428.3	428.3	428.3	471.1

Source: Company data, Macquarie Research, August 2009

Fig 4 MTNL – annual balance sheet

Amount in Rs m, except ratios

Particulars	FY 3/08	FY 3/09	FY 3/10E	FY 3/11E	FY 3/12E	FY 3/13E
Assets						
Cash & Bank Balances	**33,823**	**38,734**	**15,997**	**15,268**	**15,024**	**14,696**
Inventories	1,629	1,528	1,508	1,510	1,515	1,534
Accounts receivable less Provision	9,671	9,054	8,933	8,949	8,976	9,086
Other Current Assets	2,386	1,613	1,592	1,595	1,599	1,619
Amount and advances recoverable	54,034	54,034	54,034	54,034	54,034	54,034
Advance Tax	32,059	29,577	29,183	29,235	29,320	29,681
Loans & Advances (net of amount recoverable and advance tax)	8,470	8,470	8,470	8,470	8,470	8,470
Current Assets, Loans & Advances	**142,073**	**143,010**	**119,716**	**119,061**	**118,937**	**119,119**
Fixed Assets						
Gross Block	159,387	166,802	199,106	207,952	216,719	225,333
Less: Depreciation	95,452	102,785	111,332	121,145	131,471	142,301
Net Block	63,935	64,018	87,774	86,807	85,249	83,032
Capital Work-In-Progress	9,694	9,694	9,694	9,694	9,694	9,694
Investments	4,517	4,517	4,517	4,517	4,517	4,517
Miscellaneous Expenditure (to the extent not written off)	1,633	1,633	1,633	1,633	1,633	1,633
Net Current Assets	44,176	42,258	15,995	11,219	6,511	1,340
Total	**221,852**	**222,872**	**223,334**	**221,712**	**220,030**	**217,995**
Shareholder's Equity and Liabilities						
Current Liabilities & Provisions	97,897	100,752	103,721	107,843	112,426	117,779
Sundry Creditors	12,169	13,199	13,024	13,039	13,060	13,148
Advances Received	406	337	332	333	333	335
Deposits Received	10,282	10,556	10,416	10,428	10,445	10,515
Unclaimed Bonds	0	0	0	0	0	0
Other Current Liabilities	20,547	19,798	19,537	19,558	19,591	19,722
Provisions	54,493	56,863	60,411	64,486	68,997	74,057
Pensions	31,574	34,895	38,566	42,623	47,106	52,061
Income Tax	16,130	15,398	15,195	15,212	15,237	15,340
Other provisions	6,789	6,569	6,650	6,652	6,654	6,657
Deferred Tax Liability	4,850	4,075	3,942	3,942	3,942	3,942
Total Debt	**106**	**106**	**106**	**106**	**106**	**106**
Unsecured Loans	0	0	0	0	0	0
Secured Loans	106	106	106	106	106	106
Shareholders' Funds	118,999	117,939	115,565	109,821	103,556	96,168
Paid-Up Share Capital	6,300	6,300	6,300	6,300	6,300	6,300
Reserves	112,699	111,639	109,265	103,521	97,256	89,868
Total	**221,852**	**222,872**	**223,334**	**221,712**	**220,030**	**217,995**

Source: Company data, Macquarie Research, August 2009

Fig 5 MTNL – annual cashflow statement

Amount in Rs m, except ratios

Particulars	FY 3/08	FY 3/09	FY 3/10E	FY 3/11E	FY 3/12E	FY 3/13E
Cashflows from operating activities						
Net (loss) / profit	6,334	1,524	884	(2,795)	(3,317)	(4,144)
Prior Period Adjustment	1,853	1,028	-	-	-	-
Profit on sale of fixed assets	(26)	-	-	-	-	-
Loss on sale of fixed assets	444	-	-	-	-	-
Depreciation and amortization	7,132	7,333	8,547	9,813	10,326	10,831
Compensation under VRS Scheme	625	-	-	-	-	-
Interest Cost	28	44	52	44	44	44
Interest income earned	(4,138)	(4,984)	(5,623)	(3,167)	(3,097)	(2,505)
Interest Paid	(29)	(44)	(52)	(44)	(44)	(44)
Changes in Working Capital:						
Accounts receivable	(114)	617	121	(16)	(26)	(110)
Inventories	601	101	20	(3)	(4)	(19)
Change in Trade and Other receivables	2,929	6,111	3,384	4,067	4,493	4,972
Direct Taxes Paid	9,226	(1,439)	(442)	-	-	-
Net cash provided by / (used in) operating activities	24,865	10,291	6,891	7,899	8,374	9,024
Cashflows from investing activities			**(7,303)**			
Purchase of fixed assets (Capex)	(8,885)	(7,416)	(32,303)	(8,846)	(8,768)	(8,614)
Proceeds from sale of fixed assets	73	-	-	-	-	-
Interest received	2,912	4,984	5,623	3,167	3,097	2,505
Investments	(1,162)	-	-	-	-	-
Net cash used in investing activities	(7,062)	(2,431)	(26,681)	(5,679)	(5,671)	(6,108)
Cashflows from financing activities						
Repayment of loans	(34)	-	-	-	-	-
Dividend Paid (including tax)	(2,948)	(2,948)	(2,948)	(2,948)	(2,948)	(3,243)
Loan/Share Capital	206	-	-	-	-	-
Net cash provided by / (used in) financing activities	(2,777)	(2,948)	(2,948)	(2,948)	(2,948)	(3,243)
Net (decrease) / increase in cash and cash equivalents during the year	15,027	4,911	(22,737)	(729)	(245)	(327)
Add : Balance as at the beginning of the year	18,797	33,823	38,732	15,995	15,266	15,021
Balance as at the end of the year	33,823	38,734	15,995	15,266	15,021	14,694

Source: Company data, Macquarie Research, August 2009

Fig 6 Global emerging market telecoms valuations

Macquarie - Global Emerging Market Telecom Valuation

Company Name	Bloomberg Ticker	Reco	Price lcy	TP lcy	Up/Down (%)	EV/EBITDA (x) FY3/10E	EV/EBITDA (x) FY3/11E	PER (x) FY3/10E	PER (x) FY3/11E	PEG (FY3/09-3/11E)	ROE (FY3/09E, %)	EBITDA CAGR (FY3/09-3/11E, %)	EPS CAGR (FY3/09-3/11E, %)	P/BV (x) FY3/10E	P/BV (x) FY3/11E
Bharti Airtel	BHARTI IN	OP	410	488	19%	8.4	6.9	13.9	12.0	0.8	33.9	**19.3**	**23.5**	1.9	1.7
Reliance Communications	RCOM IN	OP	276	275	0%	7.9	6.6	10.6	9.3	1.7	23.0	17.5	6.1	1.5	1.3
Idea Cellular	IDEA IN	UP	79	45	-43%	9.1	7.8	23.8	22.6	3.6	23.1	20.9	7.2	1.8	1.4
MTNL	MTNL IN	UP	103	51	-50%	12.6	12.7	112.5	-23.1	na	1.0	-0.3	na	0.4	0.4
China Mobile	941 HK	N	81	71	-12%	5.2	5.0	12.4	12.4	6.5	27.6	5.1	2.0	2.8	2.5
China Unicom	762 HK	UP	11	7	-40%	4.6	4.8	19.7	25.2	-0.8	7.4	0.3	-19.4	1.1	1.1
Indosat	ISAT IJ	N	5,450	5,200	-5%	4.6	4.1	12.4	9.5	4.2	17.6	5.0	2.3	1.6	1.2
SK Telecom	017670 KS	OP	185,500	235,000	27%	4.5	4.0	9.7	7.4	0.5	11.5	8.0	19.2	1.3	1.2
LG Telecom	032640 KQ	OP	8,640	11,500	33%	3.8	3.3	7.1	6.6	0.3	11.8	9.2	30.3	1.0	0.9
Digi.Com	DIGI MK	N	22	22	-1%	7.5	6.7	12.8	11.5	23.6	65.7	7.1	0.6	8.3	7.2
Axiata	AXIATA MK	N	3	2	-27%	7.4	6.5	18.9	15.5	-1.4	4.8	9.7	-23.9	1.0	0.9
Globe	GLO PM	OP	1,050	1,145	9%	4.4	4.1	9.1	8.7	0.7	21.3	3.9	15.1	2.5	2.3
Far EasTone	4904 TT	UP	39	39	0%	5.0	5.1	11.1	10.9	2.9	14.1	-3.0	4.1	1.9	1.8
Taiwan Mobile	3045 TT	N	50	39	-23%	5.3	5.2	9.0	9.2	5.7	37.4	1.9	1.7	2.8	2.8
AIS	ADVANC TB	UP	87	75	-13%	6.0	5.9	14.8	14.1	3.7	22.2	-1.3	4.3	3.5	3.6
TAC	DTAC TB	UP	33	20	-40%	4.9	4.9	7.1	6.5	-0.4	16.8	-3.9	-20.8	1.2	1.2
MobileOne	M1 SP	OP	2	2	7%	5.4	5.4	10.6	11.0	na	72.1	-6.3	-9.6	5.7	5.4
MTN Group Ltd	MTN SJ	OP	12,800	17,000	33%	4.9	4.2	11.7	9.2	0.5	27.3	27.1	26.8	2.4	1.9
Orascom Telecom	ORTE EY	NR	36	na	na	3.7	3.6	10.8	8.9						
Vivo Participacoes Sa	VIVO3 BZ	NR	40	na	na	3.4	3.1	11.2	9.2						
America Movil	AMXL MM	NR	29	na	na	5.7	5.6	12.5	11.4						
Etihad Etisalat Co	EEC AB	NR	38	na	na	6.4	6.1	9.7	9.0						
Saudi Telecom Co	STC AB	NR	50	na	na	4.6	4.7	8.1	7.9						
Qatar Telecom	QTEL QD	NR	147	na	na	4.3	4.1	6.6	5.9						
Average						**5.5**	**5.1**	**11.9**	**11.0**						
Average (ex-China Mobile)						**5.5**	**5.1**	**11.9**	**11.0**						
RCOM's valuation (discount)/premium to Bharti						**-6%**	**-5%**	**-24%**	**-23%**					**-20%**	**-23%**
Idea's valuation (discount)/premium to Bharti						**9%**	**14%**	**71%**	**88%**					**-7%**	**-12%**

Note: Priced as of 31 July 2009. Data for non-rated companies based on Bloomberg consensus estimates.

Source: Bloomberg, Macquarie Research, August 2009

RCOM is trading at a 6% discount to Bharti on March 2010E EV/EBITDA; IDEA is trading at 9% premium over Bharti

Fig 7 Key quarterly operating and financial metrics – wireless business: Bharti and RCOM

Bharti Airtel - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**50,579**	**56,105**	**64,201**	**69,150**	**72,843**	**79,392**	**82,216**	**82,285**
YoY growth (%)	*53.2*	*49.3*	*51.3*	*47.2*	*44.0*	*41.5*	*28.1*	*19.0*
QoQ growth (%)	*7.7*	*10.9*	*14.4*	*7.7*	*5.3*	*9.0*	*3.6*	*0.1*
Subscribers (m)	**48.88**	**55.16**	**61.98**	**69.38**	**77.48**	**85.65**	**93.92**	**102.37**
YoY growth (%)	*80.6*	*72.5*	*66.9*	*62.5*	*58.5*	*55.3*	*51.5*	*47.5*
QoQ growth (%)	*14.5*	*12.9*	*12.4*	*11.9*	*11.7*	*10.5*	*9.7*	*9.0*
Gross ARPU (Rs)	**366**	**358**	**357**	**350**	**331**	**324**	**305**	**278**
YoY growth (%)	*-16.5*	*-16.2*	*-12.1*	*-10.4*	*-9.5*	*-9.3*	*-14.6*	*-20.4*
QoQ growth (%)	*-6.3*	*-2.2*	*-0.2*	*-2.1*	*-5.3*	*-2.0*	*-6.0*	*-8.8*
Avg. monthly MoUs per subscriber	**469**	**474**	**507**	**534**	**526**	**505**	**485**	**478**
YoY growth (%)	*3.9*	*1.4*	*6.8*	*11.8*	*12.2*	*6.7*	*-4.3*	*-10.6*
QoQ growth (%)	*-1.9*	*1.1*	*7.0*	*5.4*	*-1.6*	*-3.9*	*-4.0*	*-1.5*
ARPM (Rs)	**0.78**	**0.76**	**0.70**	**0.65**	**0.63**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-19.6*	*-17.3*	*-17.7*	*-19.9*	*-19.4*	*-14.9*	*-10.7*	*-11.0*
QoQ growth (%)	*-4.4*	*-3.3*	*-6.7*	*-7.1*	*-3.8*	*2.1*	*-2.1*	*-7.4*
Total minutes carried (m)	**64,375**	**73,840**	**89,058**	**105,217**	**115,834**	**123,626**	**130,669**	**140,713**
YoY growth (%)	*90.2*	*78.8*	*80.9*	*84.2*	*79.9*	*67.4*	*46.7*	*33.7*
QoQ growth (%)	*12.7*	*14.7*	*20.6*	*18.1*	*10.1*	*6.7*	*5.7*	*7.7*
Avg. EBITDA per minute (Rs)	**0.32**	**0.31**	**0.26**	**0.20**	**0.19**	**0.20**	**0.20**	**0.19**
YoY growth (%)	*-10.3*	*-9.3*	*-24.2*	*-39.6*	*-41.0*	*-34.8*	*-22.6*	*-4.1*
QoQ growth (%)	*-3.5*	*-3.8*	*-17.4*	*-21.2*	*-5.7*	*6.3*	*-2.0*	*-2.4*
Wireless EBITDA (Rs m)	**20,728**	**22,887**	**22,779**	**21,218**	**22,009**	**24,963**	**25,860**	**27,183**
YoY growth (%)	*70.2*	*62.0*	*37.2*	*11.2*	*6.2*	*9.1*	*13.5*	*28.1*
QoQ growth (%)	*8.6*	*10.4*	*-0.5*	*-6.9*	*3.7*	*13.4*	*3.6*	*5.1*
EBITDA margin (%)	**41.0**	**40.8**	**35.5**	**30.7**	**30.2**	**31.4**	**31.5**	**33.0**
YoY expansion (basis points)	*410.0*	*319.5*	*-365.1*	*-994.7*	*-1,076.7*	*-935.0*	*-402.7*	*235.1*
QoQ expansion (basis points)	*35.0*	*-18.8*	*-531.2*	*-479.7*	*-47.0*	*122.8*	*1.1*	*158.1*
Blended Churn	3.8%	3.8%	4.2%	3.7%	3.2%	2.9%	3.2%	3.4%
VAS as % of total revenue	**9.8%**	**9.3%**	**9.4%**	**9.7%**	**10.0%**	**9.5%**	**9.3%**	**9.3%**
YoY growth (%)	*-4.9*	*-10.6*	*-6.9*	*-2.0*	*2.0*	*2.2*	*-1.1*	*-4.1*
QoQ growth (%)	*-1.0*	*-5.1*	*1.1*	*3.2*	*3.1*	*-5.0*	*-2.1*	*0.0*
Total Cell Sites	**52,826**	**60,299**	**69,141**	**75,876**	**82,554**	**88,319**	**93,368**	**96,149**
YoY growth (%)	*75.9*	*75.8*	*76.3*	*65.7*	*56.3*	*46.5*	*35.0*	*26.7*
QoQ growth (%)	*15.4*	*14.1*	*14.7*	*9.7*	*8.8*	*7.0*	*5.7*	*3.0*
Wireless Capex (Rs m)	**28,661**	**27,538**	**17,995**	**32,227**	**23,396**	**29,012**	**16,039**	**13,037**
YoY growth (%)	*4.4*	*76.6*	*68.1*	*-1.8*	*-18.4*	*5.4*	*-10.9*	*-59.5*
QoQ growth (%)	*-12.6*	*-3.9*	*-34.7*	*79.1*	*-27.4*	*24.0*	*-44.7*	*-18.7*
Total Population Centres covered	**294,876**	**325,525**	**347,646**	**369,335**	**389,571**	**406,939**	**419,966**	**428,216**
YoY growth (%)	*85.0*	*79.7*	*64.0*	*48.7*	*32.1*	*25.0*	*20.8*	*15.9*
QoQ growth (%)	*18.7*	*10.4*	*6.8*	*6.2*	*5.5*	*4.5*	*3.2*	*2.0*
Total employees	**23,264**	**24,703**	**25,543**	**26,144**	**25,616**	**25,553**	**24,538**	**23,789**
YoY growth (%)	*na*	*35.6*	*25.7*	*13.9*	*10.1*	*3.4*	*-3.9*	*-9.0*
QoQ growth (%)	*1.3*	*6.2*	*3.4*	*2.4*	*-2.0*	*-0.2*	*-4.0*	*-3.1*

Reliance Communications - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless Revenues (Rs m)	**37,230**	**39,567**	**41,608**	**41,187**	**43,356**	**44,119**	**45,015**	**47,931**
YoY growth (%)	*44.6*	*43.8*	*40.1*	*22.1*	*16.5*	*11.5*	*8.2*	*16.4*
QoQ growth (%)	*10.4*	*6.3*	*5.2*	*-1.0*	*5.3*	*1.8*	*2.0*	*6.5*
Subscribers (m)	**36.32**	**40.96**	**45.79**	**50.79**	**56.05**	**61.35**	**72.67**	**79.62**
YoY growth (%)	*39.8*	*36.6*	*63.5*	*59.4*	*54.3*	*49.8*	*58.7*	*56.8*
QoQ growth (%)	*14.0*	*12.8*	*11.8*	*10.9*	*10.4*	*9.5*	*18.5*	*22.3*
Gross ARPU (Rs)	**361**	**339**	**317**	**282**	**271**	**251**	**224**	**210**
YoY growth (%)	*2.0*	*3.4*	*-15.9*	*-24.8*	*-24.9*	*-26.0*	*-29.3*	*-25.5*
QoQ growth (%)	*-3.7*	*-6.1*	*-6.5*	*-11.0*	*-3.9*	*-7.4*	*-10.8*	*-6.3*
Avg. monthly MoUs per subscriber	**490**	**449**	**430**	**425**	**423**	**410**	**372**	**365**
YoY growth (%)	*6.3*	*-1.1*	*-20.5*	*-16.7*	*-13.7*	*-8.7*	*-13.5*	*-14.1*
QoQ growth (%)	*-3.9*	*-8.4*	*-4.2*	*-1.2*	*-0.4*	*-3.1*	*-9.3*	*-1.9*
ARPM (Rs)	**0.74**	**0.76**	**0.74**	**0.66**	**0.64**	**0.61**	**0.60**	**0.58**
YoY growth (%)	*-4.1*	*4.5*	*5.8*	*-9.7*	*-13.0*	*-18.9*	*-18.3*	*-13.4*
QoQ growth (%)	*0.2*	*2.5*	*-2.4*	*-9.9*	*-3.5*	*-4.4*	*-1.6*	*-4.5*
Total minutes carried (m)	**50,122**	**52,054**	**55,959**	**61,527**	**67,786**	**72,195**	**74,778**	**83,300**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*34.4*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*11.4*
Avg. EBITDA per minute (Rs)	**0.26**	**0.30**	**0.30**	**0.27**	**0.25**	**0.23**	**0.22**	**0.22**
YoY growth (%)	*-4.9*	*12.5*	*10.7*	*-7.4*	*-5.6*	*-24.3*	*-25.8*	*-18.7*
QoQ growth (%)	*-9.9*	*15.3*	*-1.4*	*-9.7*	*-8.1*	*-7.5*	*-3.4*	*0.0*
Wireless EBITDA (Rs m)	**14,873**	**15,819**	**16,763**	**16,623**	**16,859**	**16,616**	**16,629**	**18,489**
YoY growth (%)	*60.0*	*53.7*	*45.6*	*24.1*	*13.4*	*5.0*	*-0.8*	*11.2*
QoQ growth (%)	*11.1*	*6.4*	*6.0*	*-0.8*	*1.4*	*-1.4*	*0.1*	*11.2*
EBITDA margin (%)	**39.9**	**40.0**	**40.3**	**40.4**	**38.9**	**37.7**	**36.9**	**38.6**
YoY expansion (basis points)	*384.6*	*257.1*	*152.0*	*65.6*	*-106.4*	*-231.9*	*-334.7*	*-178.6*
QoQ expansion (basis points)	*24.5*	*3.1*	*30.8*	*7.2*	*-147.5*	*-122.3*	*-72.1*	*163.3*
Blended Churn	1.5%	1.4%	1.4%	1.4%	1.3%	1.0%	0.8%	1.3%
VAS as % of total revenue	**6.2%**	**6.4%**	**6.9%**	**7.6%**	**7.3%**	**7.4%**	**na**	**na**
YoY growth (%)	*-1.6*	*1.6*	*9.5*	*33.3*	*17.7*	*15.6*	*na*	*na*
QoQ growth (%)	*8.8*	*3.2*	*7.8*	*10.1*	*-3.9*	*1.4*	*na*	*na*
Total Cell Sites	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Wireless Capex (Rs m)	**49,685**	**60,605**	**46,442**	**56,926**	**33,260**	**32,508**	**17,084**	**9,402**
YoY growth (%)	*231.6*	*401.3*	*371.0*	*280.2*	*-33.1*	*-46.4*	*-63.2*	*-83.5*
QoQ growth (%)	*231.8*	*22.0*	*-23.4*	*22.6*	*-41.6*	*-2.3*	*-47.4*	*-45.0*
Total Population Centres covered	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*

Source: Company data, Macquarie Research, August 2009

Fig 8 Key quarterly operating and financial metrics – wireless business: Vodafone Essar, Idea and MTNL

Vodafone Essar - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10A
Wireless revenues (in Rsm)	**34,891**	**36,300**	**41,887**	**46,474**	**47,498**	**51,481**	**53,308**	**53,713**
YoY growth (%)	*na*	*na*	*na*	*na*	*36.1*	*41.8*	*27.3*	*15.6*
QoQ growth (%)	*na*	*4.0*	*15.4*	*11.0*	*2.2*	*8.4*	*3.5*	*0.8*
Wireless revenues (in GBPm)	**440**	**491**	**559**	**565**	**574**	**674**	**791**	**755**
YoY growth (%)	*na*	*na*	*na*	*na*	*30.5*	*37.3*	*41.5*	*33.6*
QoQ growth (%)	*na*	*11.6*	*13.8*	*1.1*	*1.6*	*17.4*	*17.4*	*-4.6*
Subscribers (m)	**33.68**	**35.66**	**44.13**	**49.20**	**54.63**	**60.93**	**68.77**	**76.45**
YoY growth (%)	*65.5*	*53.0*	*66.9*	*60.0*	*62.2*	*70.9*	*55.8*	*55.4*
QoQ growth (%)	*9.5*	*5.9*	*23.7*	*11.5*	*11.0*	*11.5*	*12.9*	*11.2*
Gross ARPU (Rs)	**361**	**349**	**350**	**332**	**305**	**297**	**274**	**247**
YoY growth (%)	*-14.0*	*-15.7*	*-13.6*	*na*	*-15.5*	*-14.9*	*-21.7*	*-25.7*
QoQ growth (%)	*na*	*-3.3*	*0.3*	*-5.1*	*-8.1*	*-2.6*	*-7.7*	*-10.0*
Avg. monthly MoUs per subscriber	**373**	**384**	**391**	**374**	**364**	**355**	**336**	**330**
YoY growth (%)	*-8.2*	*-10.5*	*-9.6*	*na*	*-2.2*	*-7.4*	*-14.1*	*-11.9*
QoQ growth (%)	*-10.3*	*3.0*	*1.8*	*-4.2*	*-2.6*	*-2.5*	*-5.6*	*-1.8*
ARPM (Rs)	**0.97**	**0.91**	**0.90**	**0.89**	**0.84**	**0.84**	**0.82**	**0.75**
YoY growth (%)	*-6.3*	*-5.8*	*-4.4*	*na*	*-13.6*	*-8.1*	*-8.9*	*-15.7*
QoQ growth (%)	*na*	*-6.1*	*-1.5*	*-0.9*	*-5.7*	*-0.2*	*-2.3*	*-8.4*
Total minutes carried (m)	**36,011**	**39,913**	**46,734**	**52,349**	**56,745**	**61,606**	**65,276**	**71,775**
YoY growth (%)	*na*	*na*	*na*	*na*	*57.6*	*54.4*	*39.7*	*37.1*
QoQ growth (%)	*na*	*10.8*	*17.1*	*12.0*	*8.4*	*8.6*	*6.0*	*10.0*
Blended Churn	3.4%	3.9%	3.3%	2.7%	2.7%	2.4%	2.1%	2.6%
Total Cell Sites	**na**	**41,000**	**48,000**	**52,000**	**59,000**	**69,000**	**78,000**	**84,000**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*68.3*	*62.5*	*61.5*
QoQ growth (%)	*na*	*na*	*17.1*	*8.3*	*13.5*	*16.9*	*13.0*	*7.7*

Idea Cellular - Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
Wireless Revenues (Rs m)	**15,622**	**17,081**	**19,724**	**21,735**	**22,992**	**26,184**	**28,502**	**28,872**
YoY growth (%)	*56.1*	*49.0*	*51.1*	*47.1*	*47.2*	*53.3*	*44.5*	*32.8*
QoQ growth (%)	*5.7*	*9.3*	*15.5*	*10.2*	*5.8*	*13.9*	*8.9*	*1.3*
Subscribers (m)	**18.67**	**21.05**	**24.00**	**27.19**	**30.38**	**34.21**	**38.89**	**42.64**
YoY growth (%)	*80.2*	*69.2*	*48.8*	*45.6*	*44.3*	*42.5*	*43.0*	*40.3*
QoQ growth (%)	*15.8*	*12.8*	*14.0*	*13.3*	*11.7*	*12.6*	*13.7*	*9.6*
Gross ARPU (Rs)	**288**	**279**	**287**	**278**	**261**	**268**	**255**	**232**
YoY growth (%)	*-19.1*	*-13.4*	*-9.5*	*-13.1*	*-9.4*	*-3.9*	*-11.1*	*-17.1*
QoQ growth (%)	*-10.0*	*-3.1*	*2.9*	*-3.1*	*-6.1*	*1.9*	*-4.9*	*-9.0*
Avg. monthly MoUs per subscriber	**360**	**377**	**411**	**431**	**421**	**416**	**402**	**399**
YoY growth (%)	*-0.9*	*2.2*	*6.2*	*13.1*	*16.9*	*10.3*	*-2.2*	*-7.4*
QoQ growth (%)	*-5.5*	*4.7*	*9.0*	*4.9*	*-2.3*	*-1.2*	*-3.4*	*-0.7*
ARPM (Rs)	**0.80**	**0.74**	**0.70**	**0.65**	**0.62**	**0.64**	**0.63**	**0.58**
YoY growth (%)	*-22.7*	*-15.2*	*-14.8*	*-23.2*	*-22.5*	*-13.5*	*-9.8*	*-10.7*
QoQ growth (%)	*-4.8*	*-7.5*	*-5.6*	*-7.6*	*-3.9*	*3.2*	*-1.6*	*-7.9*
Total minutes carried (m)	**18,831**	**22,457**	**27,824**	**33,087**	**36,315**	**40,254**	**44,224**	**48,729**
YoY growth (%)	*93.4*	*77.8*	*79.9*	*93.5*	*92.8*	*79.2*	*58.9*	*47.3*
QoQ growth (%)	*10.1*	*19.3*	*23.9*	*18.9*	*9.8*	*10.8*	*9.9*	*10.2*
Avg. EBITDA per minute (Rs)	**0.27**	**0.25**	**0.24**	**0.22**	**0.17**	**0.17**	**0.17**	**0.16**
YoY growth (%)	*-21.1*	*-14.0*	*-12.7*	*-26.9*	*-39.0*	*-33.4*	*-30.5*	*-27.7*
QoQ growth (%)	*-8.9*	*-7.1*	*-5.8*	*-8.3*	*-24.0*	*1.5*	*-1.7*	*-4.7*
Wireless EBITDA (Rs m)	**5,107**	**5,672**	**6,606**	**7,219**	**6,024**	**6,780**	**7,290**	**7,690**
YoY growth (%)	*43.9*	*53.1*	*51.4*	*40.8*	*18.0*	*19.5*	*10.4*	*6.5*
QoQ growth (%)	*-0.4*	*11.1*	*16.5*	*9.3*	*-16.6*	*12.6*	*7.5*	*5.5*
EBITDA margin (%)	**32.7**	**33.2**	**33.5**	**33.2**	**26.2**	**25.9**	**25.6**	**26.6**
YoY expansion (basis points)	*-275.2*	*88.1*	*7.9*	*-149.6*	*-649.1*	*-731.3*	*-791.5*	*-657.8*
QoQ expansion (basis points)	*-201.9*	*51.6*	*28.6*	*-27.8*	*-701.5*	*-30.5*	*-31.7*	*105.9*
Blended Churn	4.5%	4.7%	4.6%	4.0%	3.9%	4.3%	5.2%	6.7%
VAS as % of total revenue	**8.3%**	**8.0%**	**8.2%**	**8.9%**	**9.8%**	**9.5%**	**9.5%**	**10.1%**
YoY growth (%)	*-13.5*	*-13.0*	*-8.9*	*6.0*	*18.1*	*18.8*	*15.9*	*13.7*
QoQ growth (%)	*-1.2*	*-3.6*	*2.5*	*8.5*	*10.1*	*-3.1*	*0.0*	*6.5*
Total Cell Sites	**17,105**	**21,197**	**24,793**	**27,594**	**33,377**	**39,289**	**44,230**	**48,067**
YoY growth (%)	*na*	*na*	*na*	*109.7*	*95.1*	*85.4*	*78.4*	*74.2*
QoQ growth (%)	*30.0*	*23.9*	*17.0*	*11.3*	*21.0*	*17.7*	*12.6*	*8.7*
Total capex (Rs m)	**12,352**	**11,946**	**19,161**	**19,817**	**11,950**	**na**	**na**	**na**
YoY growth (%)	*na*	*na*	*na*	*79.1*	*-3.3*	*na*	*na*	*na*
QoQ growth (%)	*11.7*	*-3.3*	*60.4*	*3.4*	*-39.7*	*na*	*na*	*na*
Total Population Centres covered	**8,413**	**11,104**	**13,308**	**na**	**na**	**na**	**na**	**na**
YoY growth (%)	*177.6*	*207.8*	*200.3*	*na*	*na*	*na*	*na*	*na*
QoQ growth (%)	*38.7*	*32.0*	*19.8*	*na*	*na*	*na*	*na*	*na*
Total employees	**na**	**na**	**4,945**	**5,139**	**5,309**	**5,604**	**5,658**	**5,864**
YoY growth (%)	*na*	*na*	*na*	*na*	*na*	*na*	*14.4*	*14.1*
QoQ growth (%)	*na*	*na*	*na*	*3.9*	*3.3*	*5.6*	*1.0*	*3.6*

MTNL- Actuals for 1QFY10

March Year ends; Rs million	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09	4QFY09A	1QFY10A
Wireless Revenues (Rs m)	**2,523**	**2,329**	**2,409**	**2,298**	**2,332**	**2,269**	**2,089**	**1,478**
YoY growth (%)	*26.4*	*6.3*	*22.0*	*2.5*	*-7.6*	*-2.6*	*-13.3*	*-35.7*
QoQ growth (%)	*12.6*	*-7.7*	*3.4*	*-4.6*	*1.5*	*-2.7*	*-7.9*	*-29.2*
Subscribers (m)	**2.99**	**3.21**	**3.53**	**3.72**	**3.96**	**4.19**	**4.48**	**4.58**
YoY growth (%)	*26.3*	*26.5*	*20.1*	*32.2*	*32.2*	*30.5*	*26.9*	*23.1*
QoQ growth (%)	*6.5*	*7.2*	*10.0*	*5.3*	*6.4*	*5.8*	*7.0*	*2.1*
Blended ARPU GSM (Rs)	**284**	**242**	**237**	**213**	**207**	**188**	**162**	**108**
YoY growth (%)	*4.2*	*-12.6*	*3.7*	*-15.7*	*-27.2*	*-22.2*	*-31.5*	*-49.5*
QoQ growth (%)	*12.6*	*-14.8*	*-2.3*	*-10.0*	*-2.8*	*-9.0*	*-14.0*	*-33.6*

Source: Company data, Macquarie Research, August 2009

MTNL (MTNL IN, Underperform, Target price: Rs51.00)

Quarterly Results		4Q/09A	1Q/10E	2Q/10E	3Q/10E
Revenue	**m**	**10,562**	**10,852**	**10,853**	**10,855**
Gross Profit	**m**	**1,024**	**3,133**	**3,064**	**3,053**
Cost of Goods Sold	m	9,538	7,719	7,789	7,802
EBITDA	**m**	**-1,050**	**962**	**893**	**882**
Depreciation	m	1,884	2,115	2,390	2,049
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**-2,935**	**-1,153**	**-1,496**	**-1,166**
Net Interest Income	m	-20	-17	-17	-17
Associates	m	0	0	0	0
Exceptionals	m	-666	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	2,310	1,566	1,549	1,000
Pre-Tax Profit	**m**	**-1,311**	**397**	**36**	**-183**
Tax Expense	m	-189	-139	-13	64
Net Profit	**m**	**-1,499**	**258**	**23**	**-119**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**-1,499**	**258**	**23**	**-119**
Adjusted Earnings	**m**	**-833**	**258**	**23**	**-119**
EPS (rep)		-2.38	0.41	0.04	-0.19
EPS (adj)		-1.32	0.41	0.04	-0.19
EPS Growth YoY (adj)	%	nmf	-77.1	-88.2	nmf
EBITDA Margin	%	-9.9	8.9	8.2	8.1
EBIT Margin	%	-27.8	-10.6	-13.8	-10.7
Earnings Split	%	-77.5	44.9	4.1	-20.8
Revenue Growth	%	-10.7	-3.0	-1.5	-4.1
EBIT Growth	%	-234.0	-1,731.7	-18.3	31.6

Profit & Loss		2009A	2010E	2011E	2012E
Revenue	**m**	**44,093**	**43,476**	**43,554**	**43,681**
Gross Profit	**m**	**10,325**	**12,555**	**12,606**	**12,692**
Cost of Goods Sold	m	33,768	30,921	30,948	30,989
EBITDA	**m**	**1,291**	**3,860**	**3,895**	**3,956**
Depreciation	m	7,258	8,547	9,813	10,326
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**-5,968**	**-4,687**	**-5,918**	**-6,370**
Net Interest Income	m	-30	-52	-44	-44
Associates	m	0	0	0	0
Exceptionals	m	-895	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	8,147	5,623	3,167	3,097
Pre-Tax Profit	**m**	**1,254**	**884**	**-2,795**	**-3,317**
Tax Expense	m	-1,383	-309	0	0
Net Profit	**m**	**-128**	**574**	**-2,795**	**-3,317**
Minority Interests	m	0	0	0	0
Reported Earnings	**m**	**-128**	**574**	**-2,795**	**-3,317**
Adjusted Earnings	**m**	**1,075**	**574**	**-2,795**	**-3,317**
EPS (rep)		-0.20	0.91	-4.44	-5.27
EPS (adj)		1.71	0.91	-4.44	-5.27
EPS Growth (adj)	%	-72.1	-46.6	nmf	-18.7
PE (rep)	x	nmf	112.6	nmf	nmf
PE (adj)	x	60.1	112.6	nmf	nmf
Total DPS		4.00	4.00	4.00	5.32
Total Div Yield	%	3.9	3.9	3.9	5.2
Weighted Average Shares	m	630	630	630	630
Period End Shares	m	630	630	630	630

Profit and Loss Ratios		2009A	2010E	2011E	2012E
Revenue Growth	%	-7.5	-1.4	0.2	0.3
EBITDA Growth	%	-82.1	199.1	0.9	1.6
EBIT Growth	%	nmf	21.5	-26.3	-7.6
Gross Profit Margin	%	23.4	28.9	28.9	29.1
EBITDA Margin	%	2.9	8.9	8.9	9.1
EBIT Margin	%	-13.5	-10.8	-13.6	-14.6
Net Profit Margin	%	-0.3	1.3	-6.4	-7.6
Payout Ratio	%	234.4	438.7	nmf	nmf
EV/EBITDA	x	17.2	5.7	5.7	5.6
EV/EBIT	x	-3.7	-4.7	-3.7	-3.5
Balance Sheet Ratios					
ROE	%	0.9	0.5	-2.5	-3.1
ROA	%	-2.7	-2.1	-2.7	-2.9
ROIC	%	0.7	-4.0	-5.9	-6.7
Net Debt/Equity	%	-36.1	-13.8	-13.8	-14.4
Interest Cover	x	-197.7	-90.1	-134.0	-144.0
Price/Book	x	0.5	0.6	0.6	0.6
Book Value per Share		187.0	183.4	174.3	164.4

Cashflow Analysis		2009A	2010E	2011E	2012E
EBITDA	**m**	**7,258**	**8,547**	**9,813**	**10,326**
Tax Paid	m	-3,037	-442	0	0
Chgs in Working Cap	m	11,672	3,525	4,048	4,463
Net Interest Paid	m	-30	-52	-44	-44
Other	m	-4,935	-4,687	-5,918	-6,370
Operating Cashflow	**m**	**10,929**	**6,891**	**7,899**	**8,374**
Acquisitions	m	0	0	0	0
Capex	m	-7,417	-32,303	-8,846	-8,768
Asset Sales	m	0	0	0	0
Other	m	0	0	0	0
Investing Cashflow	**m**	**-7,417**	**-32,303**	**-8,846**	**-8,768**
Dividend (Ordinary)	m	-2,948	-2,948	-2,948	-2,948
Equity Raised	m	0	0	0	0
Debt Movements	m	0	0	0	0
Other	m	0	0	0	0
Financing Cashflow	**m**	**-2,948**	**-2,948**	**-2,948**	**-2,948**
Net Chg in Cash/Debt	**m**	**8,710**	**-22,737**	**-729**	**-245**
Free Cashflow	**m**	**3,511**	**-25,412**	**-947**	**-394**

Balance Sheet		2009A	2010E	2011E	2012E
Cash	m	42,601	15,997	15,268	15,024
Receivables	m	9,060	8,933	8,949	8,976
Inventories	m	1,529	1,508	1,510	1,515
Investments	m	4,517	4,517	4,517	4,517
Fixed Assets	m	64,018	87,774	86,807	85,249
Intangibles	m	0	0	0	0
Other Assets	m	105,042	104,605	104,661	104,751
Total Assets	**m**	**226,766**	**223,334**	**221,712**	**220,030**
Payables	m	14,431	13,357	13,371	13,394
Short Term Debt	m	0	0	0	0
Long Term Debt	m	106	106	106	106
Provisions	m	58,831	60,411	64,486	68,997
Other Liabilities	m	35,558	33,895	33,927	33,978
Total Liabilities	**m**	**108,926**	**107,769**	**111,891**	**116,474**
Shareholders' Funds	m	117,840	115,565	109,821	103,556
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**117,840**	**115,565**	**109,821**	**103,556**
Total Liab & S/H Funds	**m**	**226,766**	**223,334**	**221,712**	**220,030**

All figures in INR unless noted.
Source: Company data, Macquarie Research, August 2009

INDIA

Tata Communications

5 June 2009

TCOM IN		**Underperform**
Stock price as of 04 Jun 09	Rs	518.40
12-month target	Rs	315.00
Upside/downside	%	-39.2
Valuation - Sum of Parts	Rs	315.00

GICS sector	telecommunication services	
Market cap	Rs m	147,744
30-day avg turnover	US$m	8.1
Market cap	US$m	3,138
Number shares on issue	m	285.0

Investment fundamentals

Year end 31 Mar		2008A	2009E	2010E	2011E
Total revenue	bn	82.6	96.6	110.8	125.2
EBITDA	bn	8.5	11.7	14.6	16.9
EBITDA growth	%	-19.8	38.8	24.3	16.1
EBIT	bn	0.6	1.9	2.6	2.9
Adjusted profit	bn	0.2	0.8	1.0	0.9
EPS rep	Rs	0.36	-0.44	3.34	3.16
EPS adj	Rs	0.62	2.92	3.34	3.16
EPS adj growth	%	-81.6	370.2	14.3	-5.3
PE adj	x	835.2	177.6	155.4	164.1
Total DPS	Rs	4.50	4.50	4.50	4.50
Total div yield	%	0.9	0.9	0.9	0.9
ROA	%	0.5	1.3	1.6	1.6
ROE	%	0.3	1.6	1.9	1.8
EV/EBITDA	x	21.6	15.5	12.5	10.8
Net debt/equity	%	59.3	77.6	97.9	111.8
Price/book	x	2.9	2.9	2.9	3.0

TCOM IN rel SENSEX performance, & rec history

Source: FactSet, Macquarie Research, June 2009 (all figures in INR unless noted)

Analysts

Shubham Majumder
9122 66533049 shubham.majumder@macquarie.com
Nitin Mohta
91 22 6653 3050 nitin.mohta@macquarie.com
Tim Smart
852 3922 3565 tim.smart@macquarie.com

Sell into strength, rally not supported by fundamentals and (rich) valuation

Event

- Tata Communications (TCOM) stock rallied ~9% on Thursday (4 June). We do not see any reason, fundamental or otherwise, for the stock to rally given poor 4Q results last week and little likelihood of the government of India disinvesting its 26% stake in the company. While disinvestment of the government stake has become a major theme in the markets, we do not see TCOM as a priority for the government by any means. This also happens to be the view of TCOM management.

Impact

- **TCOM now has extremely expensive valuations of a 155x PER and 12.5x EV/EBITDA on FY3/10E numbers. This is clearly not warranted, in our view, given modest EPS growth, if any, in FY3/10E and an RoE of 1.9%.**
- **We recommend investors sell into the strength and switch to Bharti.**
- **4Q results were lacklustre.** TCOM released a poor set of 4Q FY3/09 results last week. Consolidated revenues of Rs25.9bn (up 21.4% YoY and flat QoQ) missed our estimate by 5%, but EBITDA of Rs4.2bn (up 102.7% YoY and 12.9% QoQ) came in 11% ahead of our estimate because of a transfer in network cost to capex from opex. A net loss (excluding exceptional) of Rs118m was significantly poorer than our net profit estimate of Rs1,225m.
- **Value unlocking from surplus land assets unlikely in the near term.** Management noted that there has been no progress on the issue of surplus land assets. We do not see a likelihood of this in the next 12 months.
- **Entry of NTT DoCoMo adds another hurdle in restructuring of Tata Group's telecom businesses.** Following NTT DoCoMo's (9437 JP, ¥138,600, Neutral, TP: ¥150,000, upside: 8.2% – covered by our Japanese analyst Nathan Ramler) purchase of a 26% stake in Tata Teleservices (Not listed), Tata Group's telecom businesses will have three external partners – the government of India in TCOM and NTT DoCoMo and Temasek (not listed) in Tata Teleservices. This would increase the complexity in any groupwide restructuring of the three telecom businesses in the Tata Group, in our view.

Earnings and target price revision

- No changes.

Price catalyst

- 12-month price target: Rs315.00 based on a Sum of Parts methodology.
- Catalyst: Slowdown in top-line growth due to macroeconomic headwinds.

Action and recommendation

- **Value unlocking from noncore assets unlikely in the near term, maintain Underperform.** Noncore business assets and land already comprise 63% of our target price. We see limited potential for TCOM to realise value from the sale of surplus land assets in the next 12 months.

Stocks mentioned in the report: Bharti (BHARTI IN, Rs816.4, OP, TP:Rs975, upside: 19.4%).

TCOM – detailed financial statements

Fig 1 TCOM – consolidated annual income statement

(Rs m)	FY3/08	FY3/09	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Operating revenue						
Total revenues	82,630	99,632	110,828	125,241	139,453	152,412
Growth in total revenues (YoY %)	-4.0%	20.6%	14.7%	13.0%	11.3%	9.3%
Expenditure						
Salaries and related cost	8,950	12,273	13,022	14,403	16,037	17,146
% of revenues	10.8	12.3%	11.8	11.5	11.5	11.3
Network costs (includes interconnect charges)	47,635	53,002	58,843	66,362	73,320	79,900
% of revenues	57.6%	53.2%	53.1%	53.0%	52.6%	52.4%
Operating and other expense	17,594	20,861	24,382	27,553	29,982	32,006
% of revenues	21.3%	20.9%	22.0%	22.0%	21.5%	21.0%
Total operating expenses	74,178	86,136	96,247	108,318	119,339	129,053
EBITDA	8,452	13,496	14,581	16,923	20,114	23,359
EBITDA margin (%)	10.2%	13.5%	13.2%	13.5%	14.4%	15.3%
Depreciation, amortisation and impairment	7,844	11,023	11,979	14,051	15,639	16,669
EBIT	608	2,473	2,602	2,872	4,475	6,690
Interest expense	1,754	3,013	3,140	3,783	4,103	4,098
Other income	2,636	2102.8	2768.7	2769.5	2770.3	2771.2
Interest income	112	0	112.3	112.3	112.3	112.3
Profit before taxes	1,601	1,563	2,343	1,970	3,255	5,475
Taxes	1,769	1,545	1,651	1,199	1,561	1,911
Net profit/(loss) before minority interest and exceptional	(168)	18	692	771	1,694	3,564
Minority Interest	(383)	(1,238)	(258)	(129)	(65)	(32)
Tax impact of exceptional item	38	-				
Net profit (pre exceptional)	176.9	1,256	950.7	900.4	1,758.9	3,596.0
Basic EPS	0.62	4.41	3.34	3.16	6.17	12.62
Diluted EPS	0.62	4.41	3.34	3.16	6.17	12.62

Source: Company data, Macquarie Research, June 2009

Fig 2 TCOM – consolidated annual balance sheet

(Rs m)	FY3/08	FY3/09E	FY3/10E	FY3/11E	FY3/12E	FY3/13E
ASSETS:						
Current assets:						
Cash and cash equivalents	2,941	3,901	3,999	7,572	15,944	28,079
Loans and advances	16,734	19,765	22,667	25,615	28,522	31,172
Sundry debtors	20,746	19,972	22,905	25,884	28,821	31,499
Inventories	93	118	135	153	170	186
Other current assets	6,115	3,384	3,881	4,386	4,884	5,338
Total current assets	46,628	47,141	53,588	63,610	78,341	96,274
Investments	12,044	12,044	12,044	12,044	12,044	12,044
Property, plant and equipment, net	62,557.1	75,533	86,194	93,826	87,092	78,044
CWIP	20,406.2	20,406	20,406	20,406	20,406	20,406
Goodwill	1,674	1,674	1,674	1,674	1,674	1,674
Deferred tax asset						
Total assets	143,309	156,798	173,906	191,560	199,557	208,442
Liabilities and shareholders' equity:						
Current liabilities						
Current liabilities	53,229	57,395	65,062	73,222	80,672	87,238
Sundry creditors	29,329	30,240	34,280	38,579	42,504	45,964
Unearned income and deferred revenues	13,959	15,776	17,884	20,127	22,174	23,979
Other current liabilities	9,941	11,379	12,899	14,516	15,993	17,295
Provisions	3,641	4,187	4,482	4,766	5,104	5,332
Total current liabilities	56,870	61,583	69,544	77,988	85,776	92,571
Minority interest	32	(485)	(743)	(872)	(937)	(969)
Secured loan	1,052	947	841	741	670	600
Unsecured loan	32,414	42,414	52,414	62,414	62,414	62,414
Obligations under finance lease	423	315	236	176	131	98
Deferred tax liability	998	1,173	1,314	1,412	1,542	1,674
Total liabilities	91,790	105,947	123,605	141,859	149,597	156,387
Shareholders' equity:						
Share capital	2,850	2,850	2,850	2,850	2,850	2,850
Reserves and surplus	48,670	48,001	47,451	46,851	47,110	49,205
Total shareholders' equity	51,520	50,851	50,301	49,701	49,960	52,055
Total liabilities and shareholders' equity	143,309	156,798	173,906	191,560	199,557	208,442

Source: Company data, Macquarie Research, June 2009

Fig 3 TCOM – consolidated annual cashflow sheet

(Rs m)	FY3/08	FY3/09E	FY3/10E	FY3/11E	FY3/12E	FY3/13E
Cashflow from operating activities:						
Profit before taxes and exceptional items	1,601	2,332	2,343	1,970	3,255	5,475
Adjustment:	-					
Depreciation	7,844	9,784	11,979	14,051	15,639	16,669
Interest income	(112)	(112)	(112)	(112)	(112)	(112)
Interest expense	1,754	2,497	3,140	3,783	4,103	4,098
Operating profit before working capital changes	10,466	14,501	17,350	19,693	22,884	26,130
Inventories	(11)	(25)	(17)	(18)	(17)	(16)
Accounts receivable	(4,835)	773	(2,932)	(2,979)	(2,937)	(2,678)
Other current assets and loans and advances	(5,544)	(301)	(3,399)	(3,453)	(3,404)	(3,104)
Current liabilities and provisions	16,829	4,712	7,961	8,444	7,788	6,795
Cash generated from operations before tax and exceptional Items	16,904	19,661	18,962	21,688	24,313	27,127
Cash generated from operations before tax	16,904	19,661	18,962	21,688	24,313	27,127
Income tax (paid)/refunds	(4,219)	(1,842)	(1,510)	(1,101)	(1,430)	(1,780)
Net cash from operating activities	12,852	17,819	17,452	20,588	22,882	25,347
Cashflow from investing activities:						
Purchase of fixed assets	(25,439)	(24,217)	(24,722)	(23,978)	(11,861)	(10,380)
Sale/(Purchase) of current investments	6,019	-	-	-	-	-
Proceeds from the sale of fixed assets	107	1,457	2,083	2,295	2,957	2,758
Interest received	84	112	112	112	112	112
Net cash used in investing activities	(19,136)	(22,648)	(22,527)	(21,571)	(8,792)	(7,510)
Cashflow from financing activities:		222	222	222		
Proceeds from unsecured loans (net)	10,420	10,000	10,000	10,000	-	-
Repayment of secured loans (net)	(134)	(106)	(106)	(101)	(71)	(71)
Payment for finance lease	(98)	(107)	(80)	(60)	(45)	(33)
Dividends paid including dividend tax	(1,502)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Interest paid	(1,747)	(2,497)	(3,140)	(3,783)	(4,103)	(4,098)
Net cash used in financing activities	6,940	5,790	5,174	4,556	(5,718)	(5,702)
Net change in cash flows	656	960	98	3,573	8,372	12,135
Cash and cash equivalents, beginning of year	2,206	2,941	3,901	3,999	7,572	15,944
Cash and cash equivalents, end of year	2,884	3,901	3,999	7,572	15,944	28,079

Source: Company data, Macquarie Research, June 2009

Tata Communications (TCOM IN, Underperform, Target price: Rs315.00)

Quarterly Results		2Q/09A	3Q/09E	4Q/09E	1Q/10E
Revenue	**m**	**24,818**	**23,577**	**25,505**	**25,923**
Gross Profit	**m**	**11,062**	**10,374**	**12,716**	**12,159**
Cost of Goods Sold	m	13,756	13,203	12,789	13,763
EBITDA	**m**	**2,678**	**2,711**	**3,564**	**3,410**
Depreciation	m	2,479	2,500	2,665	2,802
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**199**	**211**	**899**	**609**
Net Interest Income	m	-545	-700	-770	-708
Associates	m	0	0	0	0
Exceptionals	m	-956	0	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	615	700	762	648
Pre-Tax Profit	**m**	**-687**	**211**	**891**	**548**
Tax Expense	m	-81	-500	-616	-386
Net Profit	**m**	**-768**	**-289**	**275**	**162**
Minority Interests	m	166	80	41	60
Reported Earnings	**m**	**-602**	**-209**	**316**	**222**
Adjusted Earnings	**m**	**354**	**-209**	**316**	**222**
EPS (rep)		-2.11	-0.73	1.11	0.78
EPS (adj)		1.24	-0.73	1.11	0.78
EPS Growth yoy (adj)	%	715.5	nmf	574.8	-39.9
EBITDA Margin	%	10.8	11.5	14.0	13.2
EBIT Margin	%	0.8	0.9	3.5	2.3
Earnings Split	%	42.6	-25.1	38.0	23.4
Revenue Growth	%	22.3	11.6	16.5	14.0
EBIT Growth	%	33.4	36.1	458.7	-4.9

Profit & Loss		2008A	2009E	2010E	2011E
Revenue	**m**	**82,630**	**96,639**	**110,828**	**125,241**
Gross Profit	**m**	**34,995**	**44,591**	**51,985**	**58,879**
Cost of Goods Sold	m	47,635	52,048	58,843	66,362
EBITDA	**m**	**8,452**	**11,734**	**14,581**	**16,923**
Depreciation	m	7,844	9,784	11,979	14,051
Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0
EBIT	**m**	**608**	**1,949**	**2,602**	**2,872**
Net Interest Income	m	-1,642	-2,385	-3,028	-3,671
Associates	m	0	0	0	0
Exceptionals	m	-112	-956	0	0
Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	2,636	2,767	2,769	2,769
Pre-Tax Profit	**m**	**1,489**	**1,376**	**2,343**	**1,970**
Tax Expense	m	-1,769	-2,017	-1,651	-1,199
Net Profit	**m**	**-280**	**-641**	**692**	**771**
Minority Interests	m	383	517	258	129
Reported Earnings	**m**	**103**	**-124**	**951**	**900**
Adjusted Earnings	**m**	**177**	**832**	**951**	**900**
EPS (rep)		0.36	-0.44	3.34	3.16
EPS (adj)		0.62	2.92	3.34	3.16
EPS Growth (adj)	%	-81.6	370.2	14.3	-5.3
PE (rep)	x	1,434.4	nmf	155.4	164.1
PE (adj)	x	835.2	177.6	155.4	164.1
Total DPS		4.50	4.50	4.50	4.50
Total Div Yield	%	0.9	0.9	0.9	0.9
Weighted Average Shares	m	285	285	285	285
Period End Shares	m	285	285	285	285

Profit and Loss Ratios		2008A	2009E	2010E	2011E
Revenue Growth	%	-4.0	17.0	14.7	13.0
EBITDA Growth	%	-19.8	38.8	24.3	16.1
EBIT Growth	%	-77.6	220.9	33.5	10.4
Gross Profit Margin	%	42.4	46.1	46.9	47.0
EBITDA Margin	%	10.2	12.1	13.2	13.5
EBIT Margin	%	0.7	2.0	2.3	2.3
Net Profit Margin	%	-0.3	-0.7	0.6	0.6
Payout Ratio	%	725.0	154.2	134.9	142.4
EV/EBITDA	x	21.6	15.5	12.5	10.8
EV/EBIT	x	300.3	93.6	70.1	63.5
Balance Sheet Ratios					
ROE	%	0.3	1.6	1.9	1.8
ROA	%	0.5	1.3	1.6	1.6
ROIC	%	-0.2	-1.1	0.9	1.1
Net Debt/Equity	%	59.3	77.6	97.9	111.8
Interest Cover	x	0.4	0.8	0.9	0.8
Price/Book	x	2.9	2.9	2.9	3.0
Book Value per Share		180.8	178.4	176.5	174.4

Cashflow Analysis		2008A	2009E	2010E	2011E
EBITDA	**m**	**8,452**	**11,734**	**14,581**	**16,923**
Tax Paid	m	4,219	1,842	1,510	1,101
Chgs in Working Cap	m	-6,439	-5,159	-1,612	-1,995
Net Interest Paid	m	-1,754	-2,497	-3,140	-3,783
Other	m	8,373	11,899	6,113	8,343
Operating Cashflow	**m**	**12,852**	**17,819**	**17,452**	**20,588**
Acquisitions	m	0	0	0	0
Capex	m	-25,439	-24,217	-24,722	-23,978
Asset Sales	m	6,126	1,457	2,083	2,295
Other	m	177	112	112	112
Investing Cashflow	**m**	**-19,136**	**-22,648**	**-22,527**	**-21,571**
Dividend (Ordinary)	m	-1,502	-1,500	-1,500	-1,500
Equity Raised	m	0	0	0	0
Debt Movements	m	10,286	9,894	9,894	9,900
Other	m	-1,844	-2,604	-3,220	-3,843
Financing Cashflow	**m**	**6,940**	**5,790**	**5,174**	**4,556**
Net Chg in Cash/Debt	**m**	**656**	**960**	**98**	**3,573**
Free Cashflow	**m**	**-12,587**	**-6,399**	**-7,271**	**-3,390**

Balance Sheet		2008A	2009E	2010E	2011E
Cash	m	2,941	3,901	3,999	7,572
Receivables	m	20,746	19,972	22,905	25,884
Inventories	m	93	118	135	153
Investments	m	12,044	12,044	12,044	12,044
Fixed Assets	m	82,963	95,940	106,600	114,232
Intangibles	m	1,674	1,674	1,674	1,674
Other Assets	m	22,849	23,150	26,549	30,001
Total Assets	**m**	**143,309**	**156,798**	**173,906**	**191,560**
Payables	m	29,329	30,240	34,280	38,579
Short Term Debt	m	0	0	0	0
Long Term Debt	m	33,466	43,361	53,255	63,155
Provisions	m	3,641	4,187	4,482	4,766
Other Liabilities	m	25,353	28,159	31,589	35,359
Total Liabilities	**m**	**91,790**	**105,947**	**123,605**	**141,859**
Shareholders' Funds	m	51,520	50,851	50,301	49,701
Minority Interests	m	0	0	0	0
Other	m	0	0	0	0
Total S/H Equity	**m**	**51,520**	**50,851**	**50,301**	**49,701**
Total Liab & S/H Funds	**m**	**143,309**	**156,798**	**173,906**	**191,560**

All figures in INR unless noted.
Source: Company data, Macquarie Research, June 2009

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of benchmark return (Russell 3000)
Neutral (Hold) – return within 5% of benchmark return (Russell 3000)
Underperform (Sell)– return >5% below benchmark return (Russell 3000)

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2009

	AU/NZ	Asia	RSA	USA	CA	EUR
Outperform	40.38%	48.53%	40.00%	44.02%	57.42%	43.84%
Neutral	39.25%	17.08%	45.00%	37.45%	32.90%	39.04%
Underperform	20.38%	34.40%	15.00%	18.53%	9.68%	17.12%

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Macquarie Research
Equities

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Asia Research

Head of Equity Research

Stephen O'Sullivan	(852) 3922 3566

Automobiles/Auto Parts

Kenneth Yap (Indonesia)	(6221) 515 7343
Clive Wiggins (Japan)	(813) 3512 7856
Dan Lucas (Japan)	(813) 3512 6050
ES Kwak (Korea)	(822) 3705 8644
Linda Huang (Taiwan)	(8862) 2734 7521

Banks and Non-Bank Financials

Ismael Pili (Asia)	(813) 3512 5979
Nick Lord (Asia)	(852) 3922 4774
Sarah Wu (China)	(852) 3922 4068
Jemmy Huang (Hong Kong, Taiwan)	(8862) 2734 7530
Seshadri Sen (India)	(9122) 6653 3053
Ferry Wong (Indonesia)	(6221) 515 7335
Chan Hwang (Korea)	(822) 3705 8643
Michael Na (Korea)	(822) 2095 7222
Chin Seng Tay (Malaysia, S'pore)	(65) 6231 2837
Nadine Javellana (Philippines)	(632) 857 0890
Matthew Smith (Taiwan)	(8862) 2734 7514
Alastair Macdonald (Thailand)	(662) 694 7741

Chemicals/Textiles

Christina Lee (Hong Kong)	(852) 3922 3571
Jal Irani (India)	(9122) 6653 3040
Sunaina Dhanuka (Malaysia)	(603) 2059 8993

Conglomerates

Gary Pinge (Asia)	(852) 3922 3557
Leah Jiang (China)	(8621) 2412 9020
Kenneth Yap (Indonesia)	(6221) 515 7343

Consumer

Mohan Singh (Asia)	(852) 3922 1111
Jessie Qian (China, Hong Kong)	(852) 3922 3568
Unmesh Sharma (India)	(9122) 6653 3042
Toby Williams (Japan)	(813) 3512 7392
HongSuk Na (Korea)	(822) 3705 8678
Edward Ong (Malaysia)	(603) 2059 8982
Alex Pomento (Philippines)	(632) 857 0899
Linda Huang (Taiwan)	(8862) 2734 7521

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Minoru Tayama (Japan)	(813) 3512 6058
Robert Burghart (Japan)	(813) 3512 7853

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Janet Lewis (Japan)	(813) 3512 7475
Chang Han Joo (Korea)	(822) 3705 8511
Sunaina Dhanuka (Malaysia)	(603) 2059 8993
David Gambrill (Thailand)	(662) 694 7753

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Mark Kellock (Asia)	(852) 3922 3567
Seshadri Sen (Asia)	(9122) 6653 3053
Makarim Salman (Japan)	(813) 3512 7421

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Shubham Majumder (India)	(9122) 6653 3049
George Hogan (Japan)	(813) 3512 7851
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Alex Pomento (Philippines)	(632) 857 0899

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Jal Irani (India)	(9122) 6653 3040
Polina Diyachkina (Japan)	(813) 3512 7886
Edward Ong (Malaysia)	(603) 2059 8982
Sunaina Dhanuka (Malaysia)	(603) 2059 8993

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Christina Lee (Hong Kong)	(852) 3922 3571
Abhishek Singhal (India)	(9122) 6653 3052
Naomi Kumagai (Japan)	(813) 3512 7474

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Matt Nacard (Asia)	(852) 3922 4731
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Chris Cheng (China, Hong Kong)	(852) 3922 3581
Unmesh Sharma (India)	(9122) 6653 3042
Hiroshi Okubo (Japan)	(813) 3512 7433
Chang Han Joo (Korea)	(822) 3705 8511
Tuck Yin Soong (Singapore)	(65) 6231 2838
Elaine Cheong (Singapore)	(65) 6231 2839
Corinne Jian (Taiwan)	(8862) 2734 7522
Patti Tomaitrichitr (Thailand)	(662) 694 7727

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Rakesh Arora (India)	(9122) 6653 3054
Adam Worthington (Indonesia)	(65) 6231 2981
Polina Diyachkina (Japan)	(813) 3512 7886

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Dohoon Lee (Hong Kong)	(852) 3922 1119
Patrick Yau (Hong Kong)	(852) 3922 1264
Zona Chen (Hong Kong)	(852) 3922 3578
Damian Thong (Japan)	(813) 3512 7877
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Michiko Kakiya (Japan)	(813) 3512 7868
Yukihiro Goto (Japan)	(813) 3512 5984
Michael Bang (Korea)	(822) 3705 8659
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Daniel Chang (Taiwan)	(8862) 2734 7516
James Chiu (Taiwan)	(8862) 2734 7517
Nicholas Teo (Taiwan)	(8862) 2734 7523
Stefan Chang (Taiwan)	(8862) 2734 7511

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Ramakrishna Maruvada (ASEAN)	(65) 6231 2842
Bin Liu (China)	(852) 3922 3634
Shubham Majumder (India)	(9122) 6653 3049
Kenneth Yap (Indonesia)	(6221) 515 7343
Nathan Ramler (Japan)	(813) 3512 7875
Prem Jearajasingam (Malaysia)	(603) 2059 8989

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Jonathan Windham (Asia)	(852) 3922 5417
Wei Sim (China, Hong Kong)	(852) 3922 3598
Janet Lewis (Japan)	(813) 3512 7475
Chang Han Joo (Korea)	(822) 3705 8511
ES Kwak (Korea)	(822) 3705 8644
Sunaina Dhanuka (Malaysia)	(603) 2059 8993

Utilities

Adam Worthington (Asia)	(65) 6231 2981
Carol Cao (China, Hong Kong)	(852) 3922 4075
Kakutoshi Ohori (Japan)	(813) 3512 7296
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Alex Pomento (Philippines)	(632) 857 0899

Commodities

Jim Lennon	(4420) 3037 4271
Max Layton	(4420) 3037 4273
Bonnie Liu	(8621) 2412 9008
Henry Liu	(8621) 2412 9005
Rakesh Arora	(9122) 6653 3054

Data Services

Andrea Clohessy (Asia)	(852) 3922 4076
Eric Yeung	(852) 3922 4077

Economics

Rajeev Malik (ASEAN, India)	(65) 6231 2841
Richard Gibbs (Australia)	(612) 8232 3935
Paul Cavey (China)	(852) 3922 3570
Richard Jerram (Japan)	(813) 3512 7855

Quantitative

Martin Emery (Asia)	(852) 3922 3582
Viking Kwok (Asia)	(852) 3922 4735
George Platt (Australia)	(612) 8232 6539
Tsumugi Akiba (Japan)	(813) 3512 7560
Patrick Hansen (Japan)	(813) 3512 7876

Strategy/Country

Daniel McCormack (Asia)	(852) 3922 4073
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Mahesh Kedia (Asia)	(852) 3922 3576
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Chan Hwang (Korea)	(822) 3705 8643
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Edward Ong (Malaysia)	(603) 2059 8982
Alex Pomento (Philippines)	(632) 857 0899
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Regional Heads of Sales

Giles Heyring (ASEAN)	(65) 6231 2888
Peter Slater (Boston)	(1 617) 598 2502
Thomas Renz (Geneva)	(41) 22 818 7712
Ajay Bhatia (India)	(9122) 6653 3200
Andrew Mouat (India)	(9122) 6653 3200
Stanley Dunda (Indonesia)	(6221) 515 1555
Jason Lee (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Scot Mackie (New York)	(1 212) 231 2848
Sheila Schroeder (San Francisco)	(1 415) 835 1235
John Sim (Singapore)	(65) 6231 2888

Regional Heads of Sales cont'd

Angus Kent (Thailand)	(662) 694 7601
Michael Newman (Tokyo)	(813) 3512 7920
Charles Nelson (UK/Europe)	(44) 20 3037 4832
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
Nick Ainsworth (Generalist)	(852) 3922 2010

Sales Trading

Adam Zaki (Asia)	(852) 3922 2002
Mike Keen (Europe)	(44) 20 3037 4905
Mona Lee (Hong Kong)	(852) 3922 2085
Brendan Rake (India)	(9122) 6653 3204
Stanley Dunda (Indonesia)	(6221) 515 1555
Mario Argyrides (Korea)	(822) 3705 8610

Sales Trading cont'd

Edward Robinson (London)	(44) 20 3037 4902
Thomas Chin (Malaysia)	(603) 2059 8888
Robert Risman (New York)	(1 212) 231 2555
Matthew Ryan (Singapore)	(65) 6231 2888
Isaac Huang (Taiwan)	(8862) 2734 7582
Jon Omori (Tokyo)	(813) 3512 7838

Alternative Strategies

Convertibles - Roland Sharman	(852) 3922 2095
Depository Receipts - Robert Ansell	(852)3922 2094
Derivatives - Wayne Edelist	(852) 3922 2134
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013