

India Telecom

In live wire mode

Time for the relief rally

Since our initiating report on telecom, at least one uncertainty – the impact of the 3G price - is out for the sector. However, plenty of other worries – consolidation in the industry, Trai recommendations, BWA auctions that would make the road ahead hazy, and the limited visibility in earnings - still lingers on. At the same, value has emerged for large integrated players at least. Given that scenario, we believe, the long-term buy and hold approach may not work for the sector for the next couple of years as the share price movement would only offer a 10-20% trading opportunities depending on the news flow, 3G uptake and competitive intensity in 2G space. We believe, post 3G, we could see a relief rally and in that context, our preferred picks are RCom and Bharti.

3G auction: Winner's curse prevails but with diverse severity

By and large, we believe, all operators are content with the auction results as they stuck to purely defending their core circles in terms of revenue and subscriber bases. However, 3G spectrum will be earnings dilutive due to the amortization of spectrum and higher interest expenses. Amortization of the spectrum depends on the timing of the (spectrum) allocation (we have assumed it to be from Q3FY11E). We believe that overall success of 3G on a pan-india basis would depend on its success in metros due to high disposable income and lower cost of rollout per user due to high subscriber density. Since RCom and Bharti are two players in our coverage, having won metro 3G auctions, we believe these two would be the first to show growth at the EBITDA level from 3G services.

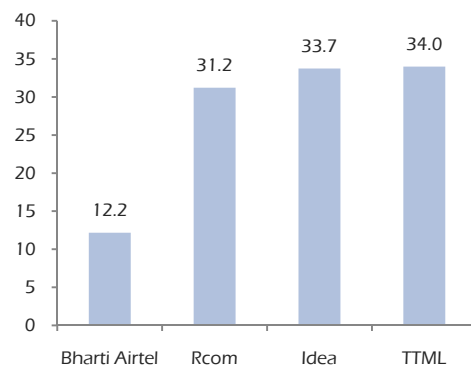
Consolidation remains at bay, but irrational price war to subside

Since there is no pan-India 3G winner and almost all bidders (except Etisalat/Videocon) would get a pie of spectrum, consolidation in the short-term would not be possible. Yet the intensity of price war could subside as operators would now focus more on arranging the financing for the 3G spectrum. BWA is another uncertainty for the sector, and in our estimation, dual players would not go for BWA spectrum as they already have CMDA spectrum nationwide, which could compete against BWA spectrum.

Our view: Upgrading sector to equal weight

As individual stocks have corrected (20-30%) after our initiation, we feel that the value has emerged hence we upgrade the sector to equal weight and our top picks in the sector are RCom and Bharti Airtel.

Spectrum cost as % of Market cap



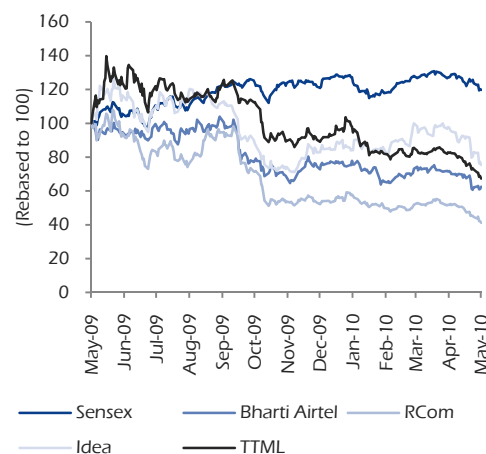
Source: DOT, Elara Securities Research

Leverage post 3G

	No of circles with 3G license	3G payout (INR Bn)	Net Debt/EBITDA (FY11E)
Bharti Airtel	13	123	2.6*
Rcom	13	86	3.0
Idea	11	58	3.0
TTML	1	13	7.3

Source: DOT, Elara Securities Estimate (* Includes Zain deal)

Price performance



Source: Bloomberg

Key Financials

Company	Rating	Mcap		CMP Target Upside			EV/EBITDA (x)			P/E (x)			P/BV (x)			ROE (%)		
		INR bn	USD bn	(INR)	(INR)	(%)	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Bharti Airtel	Accumulate	1,011	21.5	266	272*	9.7	6.3	6.7	5.5	11.1	14.2	12.8	2.7	2.3	2.0	27.8	17.3	16.4
RCom	Buy	275	5.9	133	175	31.3	6.2	6.6	5.4	6.2	17.2	11.9	0.7	0.7	0.7	12.4	4.1	5.7
Idea Cellular	Reduce	171	3.7	52	50	(3.7)	6.9	7.8	6.1	18.0	62.7	20.9	1.5	1.5	1.4	7.7	2.4	6.8
TTML	Reduce	37	0.8	19	20	3.2	13.5	13.6	10.8	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Elara Securities Estimate *Target price includes INR-20 for Zain acquisition

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3G bid winners details and total out-go per operator

Circle	Category	Final Price (INR Mn)	Bharti Airtel (13)	RCom (13)	Idea (11)	Vodafone (9)	Aircel (13)	TTSL (9)	Stel (3)
Delhi	Metro	33,169	Y	Y		Y			
Mumbai	Metro	32,471	Y	Y		Y			
Kolkata	Metro	5,443		Y		Y	Y		
Maharashtra	A	12,578			Y	Y		Y	
Gujarat	A	10,761			Y	Y		Y	
Andhra Pradesh	A	13,731	Y		Y		Y		
Karnataka	A	15,799	Y				Y	Y	
Tamil Nadu	A	14,649	Y			Y	Y		
Kerala	B	3,125			Y		Y	Y	
Punjab	B	3,220		Y	Y		Y	Y	
Haryana	B	2,226			Y	Y		Y	
Uttar Pradesh (E)	B	3,646			Y	Y	Y		
Uttar Pradesh (W)	B	5,140	Y		Y			Y	
Rajasthan	B	3,210	Y	Y				Y	
Madhya Pradesh	B	2,584		Y	Y			Y	
West Bengal	B	1,236	Y	Y		Y	Y		
Himachal Pradesh	C	372	Y	Y	Y				Y
Bihar	C	2,035	Y	Y			Y		Y
Orissa	C	970		Y			Y		Y
Assam	C	415	Y	Y			Y		
North East	C	423	Y	Y			Y		
Jammu & Kashmir	C	303	Y	Y	Y		Y		
Total (INR Mn)		167,506	122,955	85,850	57,686	116,179	64,995	58,643	3,377

Source: DOT, Elara Securities Research

Subscriber market share in % (as on March 2010)

	Bharti Airtel	RCom	Vodafone	Idea	TTSL	Aircel
Metro						
Delhi	20.9	20.2	17.9	9.2	18.5	4.0
Mumbai	11.5	21.9	19.3	5.8	16.9	3.4
Kolkata	17.0	22.5	21.6	3.4	14.6	7.6
Metro Total	16.5	21.4	19.3	6.6	17.0	4.6
Category A						
Maharashtra	15.2	16.4	16.5	21.5	18.1	0.9
Gujarat	16.9	17.3	33.5	16.7	5.6	0.0
Andhra Pradesh	28.5	15.3	12.7	13.9	16.2	2.1
Karnataka	34.0	15.2	13.9	7.1	14.8	2.1
Tamil Nadu	20.3	12.2	16.8	1.5	7.9	27.8
Category A Total	22.9	15.0	17.9	11.5	12.6	8.0
Category B						
Kerala	12.9	14.0	17.4	22.2	9.4	5.0
Punjab	23.8	13.2	15.5	16.3	11.3	0.0
Haryana	10.9	17.4	20.6	15.3	17.6	0.0
Uttar Pradesh (E)	20.5	19.5	22.7	8.4	6.4	2.0
Uttar Pradesh (W)	13.2	20.5	20.9	19.1	10.8	2.5
Rajasthan	30.5	15.2	22.2	6.9	8.1	0.0
Madhya Pradesh	20.8	26.3	5.8	22.7	11.4	0.0
West Bengal	22.1	18.9	29.0	2.5	6.8	8.9
Category B Total	20.1	18.6	19.3	13.6	9.5	2.3
Category C						
Himachal Pradesh	26.4	23.5	3.4	5.3	2.9	9.4
Bihar	29.8	19.0	8.6	8.2	9.2	8.7
Orissa	27.1	17.7	7.0	3.9	12.9	11.1
Assam	27.5	19.6	9.2	0.9	1.0	28.8
North East	27.0	9.7	9.2	0.5	1.2	32.2
Jammu & Kashmir	34.0	8.9	3.2	1.0	1.9	33.5
Category C Total	28.9	17.7	7.7	5.3	7.5	14.9
All India Subs Mkt share	21.8	17.5	17.3	10.9	11.3	6.3

Source: TRAI, Elara Securities Research

Revenue market share in % (As on Q4FY10)

Circles	Bharti Airtel	RCom	Vodafone	Idea	TTSL	Aircel
Metro						
Delhi	36.5	13.3	24.6	9.9	10.2	1.8
Mumbai	18.6	15.0	33.0	5.2	14.5	1.5
Kolkata	28.2	17.8	30.6	1.4	10.5	4.5
Metro Total	28.1	14.6	28.9	6.8	12.0	2.1
Category A						
Maharashtra	20.5	10.0	20.3	28.4	11.6	0.6
Gujarat	20.3	9.7	39.4	18.0	4.9	0.0
Andhra Pradesh	39.6	9.2	11.8	16.1	13.9	1.2
Karnataka	49.9	9.2	14.5	6.4	11.0	0.8
Tamil Nadu	33.9	7.9	21.0	0.9	6.3	22.7
Category A Total	33.4	9.1	20.4	13.6	9.7	5.7
Category B						
Kerala	18.0	8.8	22.1	29.0	6.0	1.8
Punjab	37.8	6.2	17.2	17.8	6.9	
Haryana	17.9	9.8	24.5	20.4	12.8	
Uttar Pradesh (E)	29.1	11.6	30.6	10.2	4.2	0.9
Uttar Pradesh (W)	18.4	12.3	24.1	27.7	7.5	1.4
Rajasthan	44.2	8.4	22.9	7.3	5.6	
Madhya Pradesh	28.6	20.5	3.7	29.1	8.1	
West Bengal	28.6	12.5	36.4	1.2	4.2	6.7
Category B Total	28.7	11.4	22.4	17.9	6.5	1.2
Category C						
Himachal Pradesh	42.7	17.1	4.6	7.0	3.4	5.2
Bihar	46.4	17.2	7.6	7.5	8.4	5.3
Orissa	37.1	17.1	7.2	2.4	9.5	8.1
Assam	34.4	18.6	7.6	0.6	1.6	26.2
North East	38.0	5.5	7.2	0.2	1.5	31.0
Jammu & Kashmir	22.8	4.1	2.6	0.6	2.1	21.5
Category C Total	39.1	14.7	6.7	4.1	6.0	12.9
All India Revenue Market share	31.5	11.5	21.0	12.6	8.7	4.4

Source: TRAI, Elara Securities Research

Contribution of each circle to the total gross revenue in % (As on Q4FY10)

Circles	% of Total India Revenue	Bharti Airtel	RCom	Vodafone	Idea	TTSL	Aircel
Metro							
Delhi	8.4	9.8	9.7	9.9	6.6	10.0	3.5
Mumbai	7.5	4.4	9.8	11.7	3.1	12.5	2.6
Kolkata	2.6	2.3	4.0	3.8	0.3	3.1	2.7
Category A							
Maharashtra	7.8	5.1	6.8	7.5	17.6	10.4	1.0
Gujarat	5.8	3.7	4.8	10.8	8.2	3.2	0.0
Andhra Pradesh	8.1	10.2	6.5	4.5	10.3	13.0	2.1
Karnataka	7.3	11.5	5.8	5.0	3.7	9.3	1.4
Tamil Nadu	8.6	9.3	5.9	8.6	0.6	6.2	44.3
Category B							
Kerala	4.4	2.50	3.33	4.58	10.03	3.04	1.75
Punjab	4.0	4.76	2.15	3.25	5.62	3.16	0.00
Haryana	2.0	1.16	1.72	2.36	3.29	3.01	0.00
Uttar Pradesh (E)	5.8	5.34	5.82	8.42	4.66	2.84	1.24
Uttar Pradesh (W)	4.2	2.43	4.46	4.77	9.14	3.63	1.31
Rajasthan	4.7	6.60	3.44	5.13	2.72	3.06	0.00
Madhya Pradesh	4.4	3.98	7.82	0.77	10.10	4.10	0.00
West Bengal	3.0	2.71	3.23	5.17	0.29	1.45	4.55
Category C							
Himachal Pradesh	0.7	1.0	1.1	0.2	0.4	0.3	0.9
Bihar	4.6	6.8	6.9	1.7	2.7	4.5	5.5
Orissa	2.1	2.5	3.1	0.7	0.4	2.3	3.9
Assam	1.6	1.7	2.5	0.6	0.1	0.3	9.3
North East	1.0	1.2	0.5	0.3	0.0	0.2	6.9
Jammu & Kashmir	1.5	1.1	0.5	0.2	0.1	0.4	7.1
Total revenue coverage through 3G	100	68.7	54.8	68.3	79.4	42.9	90.7

Source: TRAI, Elara Securities Research (Highlighted circles indicate the circles where the operators have won 3G license)

Spectrum cost as % of annualized revenue (As on Q4FY10)

Circles	3G Final price (INR Mn)	Industry	Bharti Airtel	RCom	Vodafone	Idea	TTSL	Aircel
Metro								
Delhi	33,169	35.4	97.1	267.1	144			
Mumbai	32,471	39.1	209.8	260.2	118			
Kolkata	5,443	18.9		106.2	62			417.7
Category A								
Maharashtra	12,578	14.5			72	51.1	125.6	
Gujarat	10,761	16.8			43	93.7	346.9	
Andhra Pradesh	13,731	15.3	38.6			95.0		1320.3
Karnataka	15,799	19.5	39.2				177.6	2363.7
Tamil Nadu	14,649	15.3	45.1		73			67.4
Category B								
Kerala	3,125	6.5				22.3	107.1	363.5
Punjab	3,220	7.3		117.1	42	40.9	106.2	
Haryana	2,226	9.9			40	48.3	77.0	
Uttar Pradesh (E)	3,646	5.7			19	55.8		599.7
Uttar Pradesh (W)	5,140	11.1	60.5			40.2	147.3	
Rajasthan	3,210	6.1	13.9	73.1			109.4	
Madhya Pradesh	2,584	5.3		25.9		18.3	65.6	
West Bengal	1,236	3.7	13.1	30.0				55.4
Category C								
Himachal Pradesh	372	4.5	10.6	26.5		65.0		86.8
Bihar	2,035	4.0	8.6	23.1				75.7
Orissa	970	4.2	11.2	24.3				51.1
Assam	415	2.4	6.9	12.8				9.1
North East	423	3.9	10.1	70.0				12.4
Jammu & Kashmir	303	1.9	8.2	45.4		313.0		8.7

Source: TRAI, DOT, Elara Securities Research (Highlighted circles indicates the circles where the 3G spectrum cost is more than the annual gross revenues)

Bharti Airtel

Not happy with limited circles

Missed the opportunity of Pan-India spectrum

Bharti Airtel was the only player with the balance sheet to go for the 3G pan-India license for, but it went for licenses in 13 circles for a total payment of INR123bn. These circles contribute around 68.7% of its wireless revenue as on Q4FY10, and provide the pan-India wireless revenue market coverage of 61.2%. Lastly, the spectrum cost, as a percentage of its FY10 revenues, is at 35% - the lowest among all its peers, and would not increase the burden on its balance sheet (excluding Zain).

Protects its 2G footprint to a large extent

Bharti's strategy of defending its revenue turf was similar to most incumbent players. Among the circles given a miss by Bharti, Punjab and UP (E) stand out. Bharti is the number one player in Punjab in subscriber market share terms and second in revenue market share as it contributed ~ 5% to the total wireless gross revenue of the company as of Q4FY10. Similarly in UP (E), Bharti is the #1 player in subscriber and revenue market share terms as it provides 5.3% of its wireless gross revenue.

Leverage within limits, but BWA/Zain deal could extend it

Having no (existing) net debt on Bharti's balance sheet, we see a limited, additional burden of the 3G spectrum (net debt/EBITDA ratio of 0.3 FY11). However, though the Zain deal would take the same ratio to 2.6x. Further, there is a risk that since Bharti did not get some of its key circles; it might go for BWA in those circles thus increasing the leverage through aggressive pricing further. As indicated by the management, post the Zain consolidation, Bharti might look at a dilution of equity or listing of its tower subsidiary, Bharti Infratel.

Our view – Upgrade to Accumulate

We maintain our target price of INR292 and change our rating to Accumulate as at least in the short-term, most of the negative factors have been priced into the stock. Our target price does not include Zain financials and the BWA auction bid. We believe that the Zain deal will impact the target price by INR20 negatively. We would reassess our target price once details on Zain and BWA are clear.

Circles	3G Bid amount (INR mn)	Subscriber Market share (%)	Revenue market share (%)	% of wireless subscribers	% of wireless gross revenues
Delhi	33,169	20.9	36.5	4.6	9.8
Mumbai	32,471	11.5	18.6	2.4	4.4
Andhra Pradesh	13,731	28.5	39.6	10.2	10.2
Karnataka	15,799	34.0	49.9	9.9	11.5
Tamil Nadu	14,649	20.3	33.9	8.6	9.3
Uttar Pradesh (W)	5,140	13.2	18.4	3.2	2.4
Rajasthan	3,210	30.5	44.2	8.1	6.6
West Bengal	1,236	22.1	28.6	4.4	2.7
Himachal Pradesh	372	26.4	42.7	1.0	1.0
Bihar	2,035	29.8	46.4	8.6	6.8
Assam	415	27.5	34.4	1.9	1.7
North East	423	27.0	38.0	1.1	1.2
Jammu & Kashmir	303	34.0	22.8	1.5	1.1
Total	122,955			65.4	68.7

Source: DOT, TRAI, Elara Securities Research

Rating : Accumulate

Target Price : INR292*

Upside : 10%

CMP : INR266 (as on 21 May 2010)

*Excluding Zain acquisition

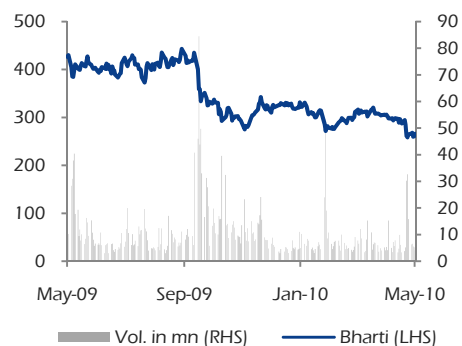
Key data

Bloomberg /Reuters Code	BHARTI IN/BRTI.BO
Current /Dil. Shares O/S (mn)	3,793/3,794
Mkt Cap (INRbn/US\$bn)	1,011/21.5
Daily Vol. (3M NSE Avg.)	7,389,299
Face Value (INR)	5

1 US\$= INR46.9

Source: Bloomberg; * As on 21 May 2010

Price & volume



Source: Bloomberg

Share Holding (%)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	67.4	67.7	67.8	67.8
Institutional Investors	27.5	26.5	25.5	26
Other Investors	3.9	4.5	4.6	4.0
General Public	1.2	1.3	2.1	2.2

Source: Bloomberg

Price Performance (%)

	3M	6M	12M
Sensex	1.6	(3.4)	19.7
Bharti	(4.5)	(7.8)	(37.5)
RCOM	(17.7)	(23.4)	(58.9)
Idea	(10.9)	1.7	(24.6)
TTML	(17.9)	(24.9)	(32.7)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	369,615	36.8	151,678	41.0	84,699	26.4	44.6	35.9	30.2	6.0	3.8
FY10	396,149	7.2	158,397	40.0	91,026	7.5	24.0	27.8	23.8	11.1	6.3
FY11E	413,620	4.4	159,609	38.6	71,128	(21.9)	18.7	17.3	18.3	14.2	6.7
FY12E	464,527	12.3	178,153	38.4	78,624	10.5	20.7	16.4	17.6	12.8	5.5

Source: Company, Elara Securities Estimate

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Elara Securities (India) Private Limited

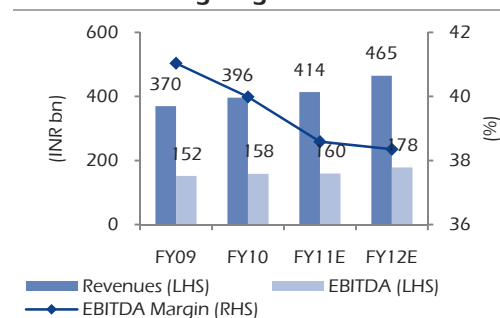
Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	369,615	396,149	413,620	464,527
EBITDA	151,678	158,397	159,609	178,153
Add:- Non operating Income	1,522	1,275	1,158	1,301
OPBITDA	153,200	159,672	160,767	179,453
Less :- Depreciation & Amortization	47,581	58,588	71,726	84,524
EBIT	105,619	101,084	89,042	94,929
Less:- Interest Expenses	11,613	(5,783)	4,811	748
Add:- loss/profits in associates/ JV	(713)	(292)	628	724
Less:- Non operating expenses	220	181	-	-
PBT	93,073	106,978	84,859	94,905
Less :- Taxes	6,615	13,958	11,880	14,236
Minority Interest	1,759	1,994	1,851	2,045
Adjusted PAT	84,699	91,026	71,128	78,624
Add/Less: - Extra-ordinaries	-	-	-	-
Reported PAT	84,699	91,026	71,128	78,624
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	93,281	116,452	116,452	116,452
Reserves	210,664	297,248	363,937	438,122
Minority Interest	10,704	28,489	30,340	32,385
Borrowings	118,801	64,619	77,574	27,574
Non Current Liabilities	18,120	8,657	8,657	8,657
Total Liabilities	451,570	515,465	596,960	623,190
Gross Block	558,748	653,407	856,362	936,362
Less:- Accumulated Depreciation	149,612	209,599	281,325	365,849
Net Block	409,136	443,808	575,037	570,513
Non current Assets	23,667	26,190	26,190	26,190
Net Working Capital	(8,287)	8,695	(41,039)	(10,284)
Goodwill	27,054	36,771	36,771	36,771
Total Assets	451,570	515,464	596,960	623,190
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	151,132	160,318	142,853	163,149
Add/Less : Working Capital Changes	(18,501)	(21,635)	(4,899)	(1,456)
Operating Cash Flow	132,631	138,683	137,955	161,693
Less:- Capex	140,171	81,831	80,000	80,000
Add/Less: Non current assets/Liabilities	(12,132)	(2,332)	1,851	2,045
Free Cash Flow	(7,540)	56,852	57,955	81,693
Financing Cash Flow	13,852	(26,217)	8,516	(54,439)
Investing Cash Flow	(140,191)	(81,875)	(142,951)	(80,000)
Net change in Cash	(5,840)	28,259	5,371	29,299
Ratio Analysis	FY09	FY10	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	36.8	7.18	4.4	12.3
EBITDA Growth	33.4	(2.6)	0.8	11.6
PAT Growth	26.4	7.5	(21.9)	10.5
EBITDA Margin	41.0	40.0	38.6	38.4
Net Margin	22.9	23.0	17.2	16.9
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.3	(0.0)	0.1	(0.0)
Net Debt/EBITDA (x)	0.5	(0.1)	0.3	(0.1)
ROE	35.9	27.8	17.3	16.4
ROCE	30.2	23.8	18.3	17.6
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	44.6	24.0	18.7	20.7
EPS Growth (%)	26.5	(46.3)	(21.9)	10.5
DPS (INR/Share)	1.0	1.0	1.0	1.0
P/E Ratio (x)	6.0	11.1	14.2	12.8
EV/EBITDA (x)	3.8	6.3	6.7	5.5
P/BV (x)	1.8	2.7	2.3	2.0
Dividend Yield (%)	0.4	0.4	0.4	0.4

Source: Company, Elara Securities Estimate

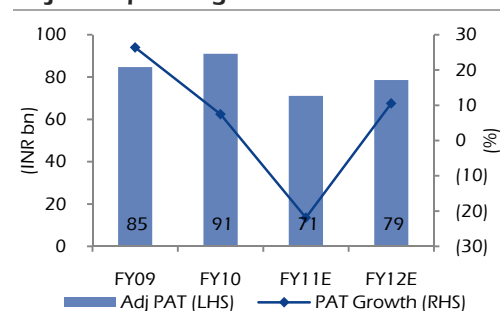
Elara Securities (India) Private Limited

Revenue & margins growth trend



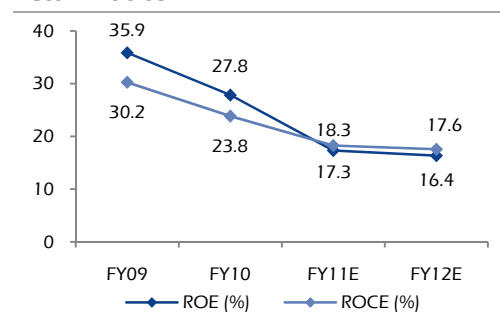
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



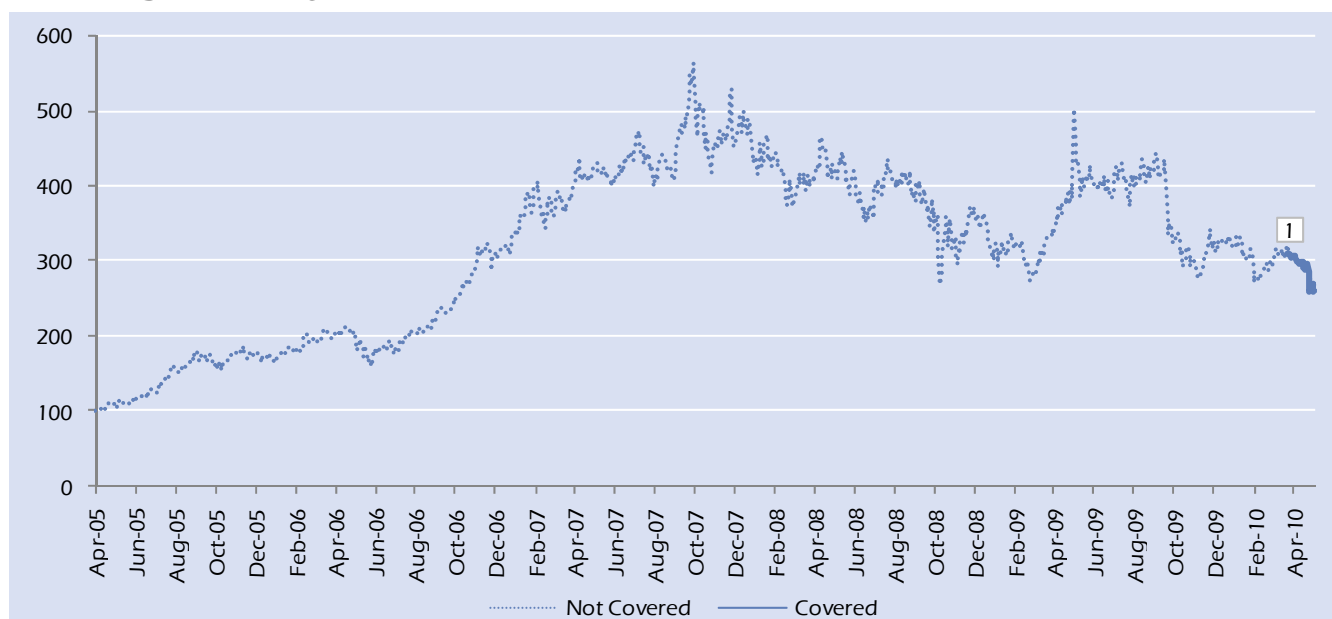
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



Date	Rating	Target Price	Closing Price
19-Apr-2010	Reduce	INR292	INR307

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Reliance Communication

A great prospect to reshape its brand

Metro-focused strategy in 3G bids

RCom won 3G bids in 13 circles at a total cost of INR86bn as the company had a focused approach in winning bids in metros where the 3G adoption is likely to be faster. Through this, it gains the coverage of 54.8% of its Q4FY10 wireless revenue and the pan-India coverage of 46.1%. RCom has the subscriber market share in metros at 21.4%, but the revenue market share is 14.6%. Through the premium 3G offering, RCom would look at improving its revenue market share in metros. The total cost of spectrum is around 68% of its FY10 wireless gross revenue which is on the higher side.

Leverage to go up

RCom has a net debt to the tune of INR199bn and a net debt to EBITDA ratio of 2.5x as of FY10. With an increased leverage on account of the 3G, net debt to EBITDA would increase to 3x in FY11E, which is manageable according to our estimates. In case, the wireless price irrationality moves to non-wireless business as well, the risk of equity dilution would increase for the company.

Road ahead: Non-wireless business to grow at 10%

We maintain our stance that the performance of non-wireless business of RCom is likely to offset any further negative impact on the wireless side. RCom's non-wireless business (Globalcom, Broadband) showed steady revenue on QoQ basis (YoY growth of 20%) and posted on combined basis, an EBITDA of INR6.1bn with the margin of 22.4%. We consider that non-wireless business would maintain a growth rate of 10% going forward annually.

Our View – Buy with a reduced target price of INR175

The (more than) anticipated decline in EBITDA margins in Q4FY10 and the Etisalat deal with Reliance Infratel failing to provide any uptick in wireless revenue to RCom, we reduce our target price of RCom to INR175 but maintain our Buy rating on the stock.

Circles	3G Bid amount (INR Mn)	Subscriber Market share (%)	Revenue market share (%)	% of wireless subscribers	% of wireless gross revenues
Delhi	33,169	20.2	13.3	5.6	9.7
Mumbai	32,471	21.9	15.0	5.7	9.8
Kolkata	5,443	22.5	17.8	3.6	4.0
Punjab	3,220	13.2	6.2	2.6	2.2
Rajasthan	3,210	15.2	8.4	5.0	3.4
Madhya Pradesh	2,584	26.3	20.5	8.2	7.8
West Bengal	1,236	18.9	12.5	4.7	3.2
Himachal Pradesh	372	23.5	17.1	1.1	1.1
Bihar	2,035	19.0	17.2	6.9	6.9
Orissa	970	17.7	17.1	2.6	3.1
Assam	415	19.6	18.6	1.7	2.5
North East	423	9.7	5.5	0.5	0.5
Jammu & Kashmir	303	8.9	4.1	0.5	0.5
Total	85,850			48.6	54.8

Source: DOT, TRAI, Elara Securities Research

Key Financials

Y/E Mar (INR Mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	229,485	20.4	94,313	41.1	60,524	12.4	28.0	19.4	9.1	4.7	7.0
FY10	221,323	(3.6)	78,205	35.3	46,925	(22.5)	21.6	12.4	5.8	6.2	6.2
FY11E	227,808	2.4	79,748	35.0	16,642	(65.0)	7.7	4.1	5.3	17.2	6.6
FY12E	259,007	13.7	92,748	35.8	24,026	44.4	11.2	5.7	6.7	11.9	5.4

Source: Company, Elara Securities Estimate

Rating : Buy

Target Price : INR175

Upside : 31%

CMP : INR133 (as on 21 May 2010)

Key data

Bloomberg /Reuters Code	RCOM IN/RLCM.BO
Current /Dil. Shares O/S (mn)	2,064/2,064
Mkt Cap (INRbn/US\$bn)	275/5.9
Daily Vol. (3M NSE Avg.)	2,758,390
Face Value (INR)	5

1 US\$= INR46.9

Source: Bloomberg; * As on 21 May 2010

Price & volume



Source: Bloomberg

Share holding (%)

	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	67.3	67.2	67.5	67.6
Institutional Investors	18.6	19.2	17.2	17.5
Other Investors	3.4	3.0	3.5	3.1
General Public	10.8	10.6	11.8	11.8

Source: Bloomberg

Price performance (%)

	3M	6M	12M
Sensex	1.6	(3.4)	19.7
RCOM	(17.7)	(23.4)	(58.9)
Bharti	(4.5)	(7.8)	(37.5)
Idea	(10.9)	1.7	(24.6)
TTML	(17.9)	(24.9)	(32.7)

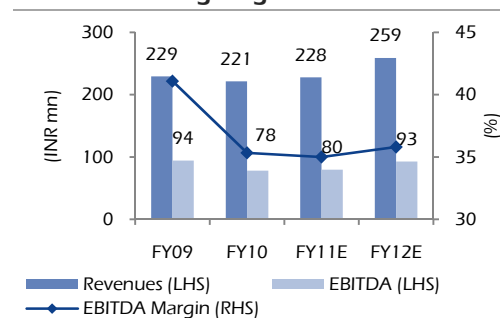
Source: Bloomberg

Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	229,485	221,323	227,808	259,007
EBITDA	94,313	78,205	79,748	92,748
Less :- Depreciation & Amortization	36,077	37,465	45,300	48,395
EBIT	58,236	40,740	34,448	44,353
Less:- Interest Expenses	(3,806)	(11,863)	14,427	14,599
PBT	62,042	52,603	20,021	29,753
Less :- Taxes	(518)	4,454	2,503	4,463
Less :- (profits)/loss from Minorities/Ass.	2,036	1,224	876	1,265
Adjusted PAT	60,524	46,925	16,642	24,026
Add/Less: - Extra-ordinaries	75	375	-	-
Reported PAT	60,449	46,550	16,642	24,026
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	10,320	10,320	10,320	10,320
Reserves	412,483	377,505	391,882	413,390
Minority Interest	6,549	7,472	8,348	9,612
Borrowings	391,623	247,473	268,323	238,323
Total Liabilities	820,975	642,770	678,873	671,646
Gross Block	755,101	786,643	897,493	922,493
Less:- Accumulated Depreciation	141,144	190,765	236,065	284,460
Net Block	613,957	595,878	661,427	638,032
Add:- Capital work in progress	113,096	119,517	119,517	119,517
Investments	95,657	1,199	-	-
Net Working Capital	(53,669)	(73,824)	(102,072)	(85,903)
Total Assets	820,975	642,770	678,873	671,646
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	88,870	68,771	62,820	73,685
Add/Less : Working Capital Changes	(15,524)	17,435	5,304	(14,445)
Operating Cash Flow	73,346	86,206	68,123	59,240
Less:- Capex	(147,054)	(58,080)	(110,850)	(25,000)
Free Cash Flow	(73,708)	28,126	(42,726)	34,240
Financing Cash Flow	82,083	(69,711)	18,584	(32,517)
Investing Cash Flow	(161,832)	(77,489)	(109,651)	(25,000)
Net change in Cash	(6,403)	(60,994)	(22,943)	1,723
Ratio Analysis	FY09	FY10	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	20.4	(3.6)	2.4	13.7
EBITDA Growth	15.0	(17.1)	1.1	16.3
PAT Growth	12.4	(22.5)	(65.0)	44.4
EBITDA Margin	41.1	35.3	35.0	35.8
Net Margin	26.4	21.2	7.3	9.3
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	1.0	0.5	0.6	0.5
Net Debt/EBITDA (x)	4.0	2.5	3.0	2.3
ROE	19.4	12.4	4.1	5.7
ROCE	9.1	5.8	5.3	6.7
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	28.0	21.6	7.7	11.2
EPS Growth (%)	12.3	(22.9)	(66.2)	44.4
DPS (INR/Share)	0.8	0.9	0.9	1.0
P/E Ratio (x)	4.7	6.2	17.2	11.9
EV/EBITDA (x)	7.0	6.2	6.6	5.4
P/BV (x)	0.8	0.7	0.7	0.7
Dividend Yield (%)	0.6	0.6	0.7	0.8

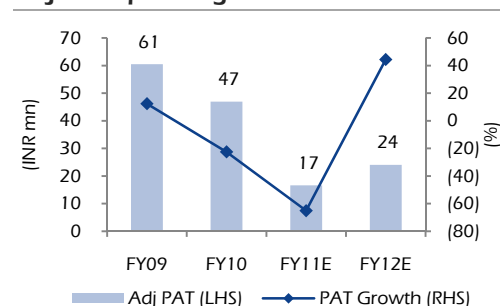
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



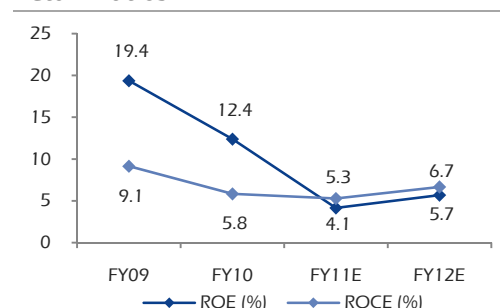
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

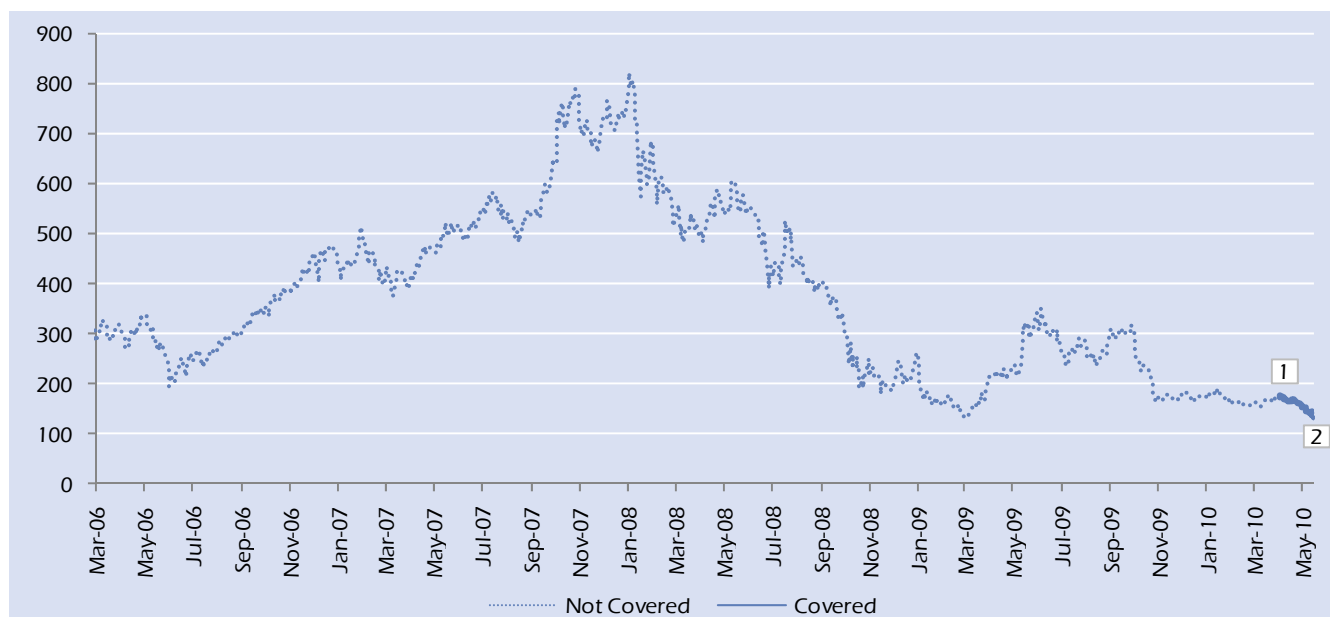
Valuation Summary

We have valued the company on SOTP basis and with conservative estimates, we arrive at a target price of INR175 for the company. We maintain our Buy rating on the stock.

(USD Bn)	Worst case	Base case	Best Case
Wireless			
EV/EBITDA (x) (FY11E)	4	5	6
EV	4.6	5.8	7.0
Globalcom			
EV/EBITDA (x) (FY11E)	4	5	6
EV	2.0	2.5	3.0
Broadband			
EV/EBITDA (x) (FY11E)	5	6	7
EV	1.2	1.4	1.7
Reliance Infratel			
EV/EBITDA (x) (FY11E)	7	8	9
EV	5.3	6.1	6.8
Total	13.1	15.8	18.5
Enterprise Value	11.2	13.4	15.7
Net Debt	5.4	5.4	5.4
Target Market Cap	5.8	8.0	10.3
Per Share Value (INR)	126	175	225

Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	19-Apr-2010	Buy	INR200	INR166
2	21-May-2010	Buy	INR175	INR133

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Idea Cellular

Prudent strategy needs a smart execution

Smart strategy in 3G bids, but outflow much above our estimates

Idea's bidding strategy for defending its established circles in 3G auction was in-line with our expectations though the total outgo exceeded our estimates (a net outflow of INR58bn vs our estimate of INR38bn). The company has won 3G slots in 11 out of the total 22 circles, providing it revenue coverage of 79% (the highest among peers) of its circles and ~50% of the total pan-India revenue market coverage. Further, the spectrum cost (as % of its FY10 wireless gross revenues) is 43.5% - one of the lowest in our telecom coverage.

Increased leverage intensifies risk of equity dilution

According to our estimates, the 3G spectrum cost and the related capex would increase the net debt/EBITDA ratio from 1.9x in FY10 to 3x in FY11E. If the price war in 2G does not get more intensive, and the subscriber growth remains unabated (a scenario we do not subscribe to), the debt would still be within the manageable levels but the increased interest expenditure and amortization of the spectrum costs would hurt the bottom line. Lastly, the increased leverage could heighten the risk of the equity dilution for Idea or a possible sale of its stake in the Indus Towers.

Our view – Maintain Target Price of INR50

We believe that focusing primarily on its incumbency advantage in its established circles is a prudent strategy. Despite this, we maintain our target price of INR50 as lack of 3G spectrum in metros implies that Idea incumbency advantage doesn't remain sustainable and increased leverage put pressure on EPS going forward.

Circles	3G Bid amount (INR Mn)	Subscriber Market share (%)	Revenue market share (%)	% of wireless subscribers	% of wireless gross revenues
Maharashtra	12,578	21.5	28.4	14.7	17.6
Gujarat	10,761	16.7	18.0	8.5	8.2
Andhra Pradesh	13,731	13.9	16.1	9.9	10.3
Kerala	3,125	22.2	29.0	8.4	10.0
Punjab	3,220	16.3	17.8	5.1	5.6
Haryana	2,226	15.3	20.4	3.4	3.3
Uttar Pradesh (E)	3,646	8.4	10.2	5.8	4.7
Uttar Pradesh (W)	5,140	19.1	27.7	9.2	9.1
Madhya Pradesh	2,584	22.7	29.1	11.4	10.1
Himachal Pradesh	372	5.3	7.0	0.4	0.4
Jammu & Kashmir	303	1.0	0.6	0.1	0.1
Total	57,686	10.9	12.6	76.8	79.4

Source: DOT, TRAI, Elara Securities Research

Rating : Reduce

Target Price : INR50

Downside : 4%

CMP : INR52 (as on 21 May 2010)

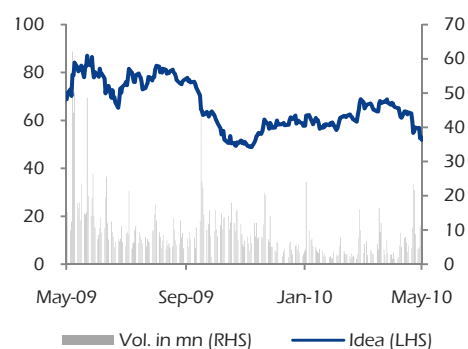
Key data

Bloomberg /Reuters Code	IDEA IN/IDEA.BO
Current /Dil. Shares O/S (mn)	3269/3269
Mkt Cap (INRbn/US\$bn)	171/3.7
Daily Vol. (3M NSE Avg.)	4,598,784
Face Value (INR)	10

1 US\$= INR46.9

Source: Bloomberg; * As on 21 May 2010

Price & volume



Source: Bloomberg

Share Holding (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q
Promoter	49.1	49.1	49.1	47.0	
Institutional Investors	15.9	15.8	15.1	14.9	
Other Investors	32.1	32.1	32.1	34.9	
General Public	2.9	3.0	3.8	3.2	

Source: Bloomberg

Price Performance	3M	6M	12M
Sensex	1.6	(3.4)	19.7
Idea	(10.9)	1.7	(24.6)
Bharti	(4.5)	(7.8)	(37.5)
RCOM	(17.7)	(23.4)	(58.9)
TTML	(17.9)	(24.9)	(32.7)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	101,313	50.8	28,134	27.8	8,816	(15.4)	3.0	10.5	6.4	17.3	6.8
FY10E	124,471	22.9	34,072	27.4	9,539	8.2	2.9	7.7	5.7	18.0	6.9
FY11E	144,152	15.8	36,258	25.2	2,732	(71.4)	0.8	2.4	3.8	62.7	7.8
FY12E	162,481	12.7	44,723	27.5	8,192	199.9	2.5	6.8	5.5	20.9	6.1

Source: Company, Elara Securities Estimate

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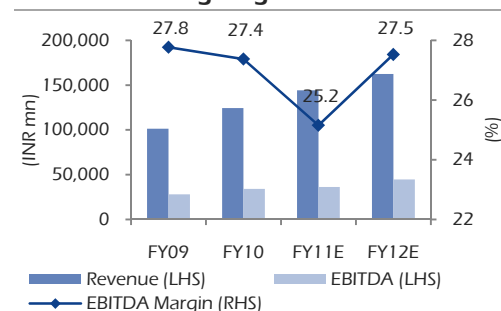
Elara Securities (India) Private Limited

Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	101,313	124,471	144,152	162,481
EBITDA	28,134	34,072	36,258	44,723
Add:- Non operating Income	231	836	500	500
OPBITDA	28,364	34,908	36,758	45,223
Less :- Depreciation & Amortization	14,028	20,149	25,847	28,662
EBIT	14,337	14,759	10,911	16,562
Less:- Interest Expenses	4,945	4,005	7,845	7,145
PBT	9,391	10,754	3,065	9,416
Less :- Taxes	576	1,214	333	1,224
Adjusted PAT	8,816	9,539	2,732	8,192
Add/Less: - Extra-ordinaries	-	-	-	-
Reported PAT	8,816	9,539	2,732	8,192
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	31,202	33,461	33,461	33,461
Reserves	101,451	80,261	82,993	91,185
Borrowings	89,122	78,593	126,279	116,279
Total Liabilities	221,775	192,315	242,733	240,925
Gross Block	205,234	270,585	348,271	368,271
Less:- Accumulated Depreciation	59,971	88,907	114,754	143,416
Net Block	145,263	181,678	233,517	224,855
Add:- Capital work in progress	21,409	5,465	5,465	5,465
Goodwill	22,457	61	61	61
Investments	20,452	-	-	-
Net Working Capital	13,324	7,253	5,832	2,686
Deferred Tax Assets	(1,130)	(2,142)	(2,142)	(2,142)
Total Assets	221,775	192,315	242,733	230,925
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	26,775	39,488	28,579	36,854
Add/Less : Working Capital Changes	(4,133)	(10,591)	3,142	1,283
Operating Cash Flow	22,642	28,897	31,721	38,137
Less:- Capex	(101,330)	(33,000)	(77,686)	(20,000)
Free Cash Flow	(78,688)	(4,103)	(45,965)	18,137
Financing Cash Flow	102,027	(16,603)	47,686	(20,000)
Investing Cash Flow	(100,235)	(28,955)	(77,686)	(20,000)
Net change in Cash	24,434	(16,662)	1,721	(1,863)
Ration Analysis	FY09	FY10	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	50.8	22.9	15.8	12.7
EBITDA Growth	24.9	21.1	6.4	23.3
PAT Growth	(15.4)	8.2	(71.4)	199.9
EBITDA Margin	27.8	27.4	25.2	27.5
Net Margin	8.7	7.7	1.9	5.0
Return & Liquidity Ratios (%)				
Net Debt/Equity (x)	0.3	0.6	0.9	0.8
Net Debt/EBITDA (x)	1.3	1.9	3.0	2.3
ROE	10.5	7.7	2.4	6.8
ROCE	6.4	5.7	3.8	5.5
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	3.0	2.9	0.8	2.5
EPS Growth (%)	(23.9)	(3.9)	(71.4)	199.9
DPS (INR/Share)	0.0	0.0	0.0	0.0
P/E Ratio (x)	17.3	18.0	62.7	20.9
EV/EBITDA (x)	6.8	6.9	7.8	6.1
P/BV(x)	1.4	1.5	1.5	1.4
Dividend Yield (%)	0.0	0.0	0.0	0.0

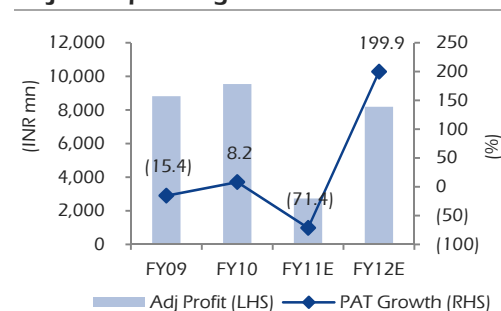
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



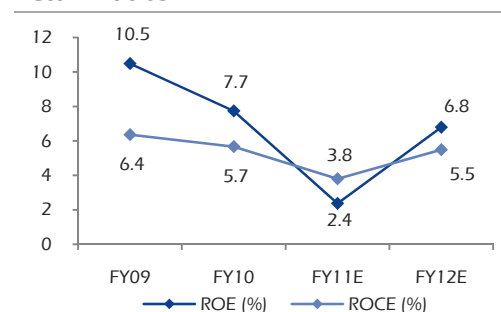
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



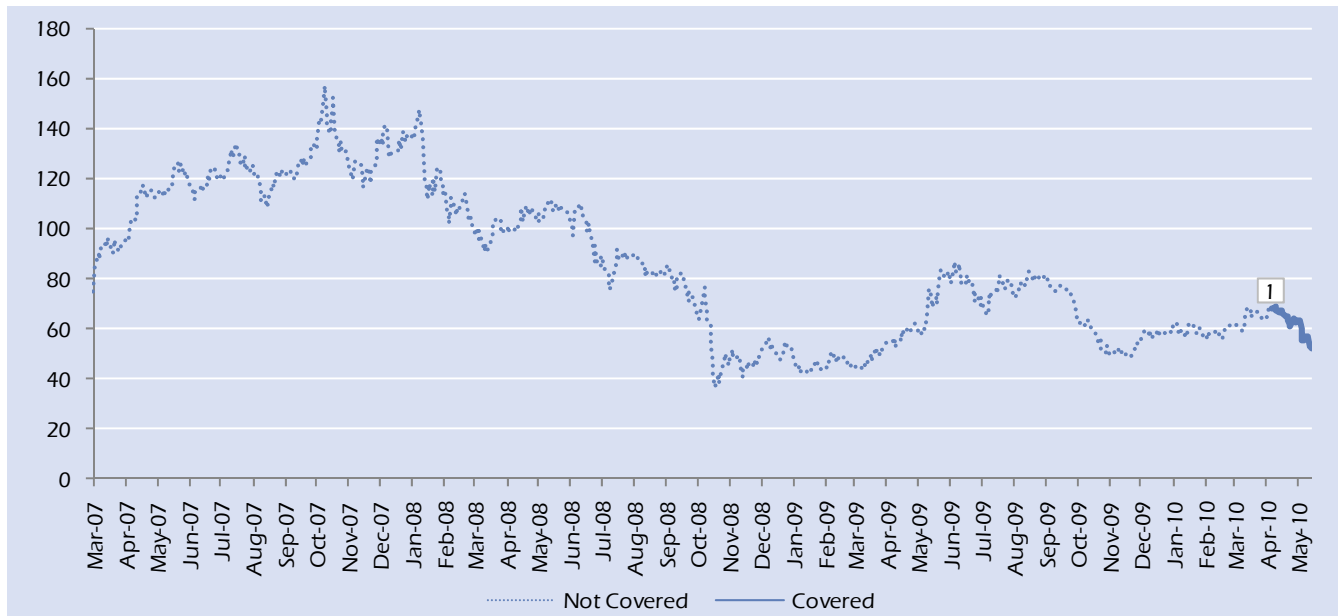
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	19-Apr-2010	Sell	INR50	INR67

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

Tata Teleservices Maharashtra



Mumbai reign to come under attack

But Maharashtra stays within its grip

TTML has won only the Maharashtra circle out of two circles where it is present for an outflow of INR12.6bn. We believe that the expensive auction for Mumbai (~ 10x of reserve price) restricted TTML to bid only for Maharashtra. For the group, TTSL has managed to get nine circles for a total payment of INR59bn. In total, TTSL will have coverage of 42.9% of its wireless revenue market and 44.5% of the addressable market on a pan-India basis (lowest in our coverage universe). TTML has paid 61.2% - as a percentage of its FY10 gross revenue - for the spectrum.

Sale of tower business, more subscribers to assuage pain of 3G bid

The sale of its tower business -21st Century, in the process of receiving regulatory approvals - for INR13.2bn should ease the additional debt from the 3G spectrum bid. Since the incremental subscriber addition remains healthy for the company, the risk of equity dilution is indeed lower.

Mumbai GSM terrain to see fierce competition from 3G winners

TTML will find it difficult to protect its GSM turf in Mumbai with leading operators, Bharti, RCom and Vodafone winning 3G slots in Mumbai. Mumbai accounts for 54.5% of TTML's wireless gross revenue and 36% of its wireless subscriber market share. TTML could remain competitive by leveraging its CDMA network to offer applications akin to those of 3G.

Our View – Maintaining Target Price of INR20

Though the company is steadily gaining a large incremental subscriber market share, it would not become PAT profitable in next year. Post the 3G launch (within 1 year), its subscriber base would become vulnerable and could move to large operators. We maintain our Target Price of INR20 and change our rating to Reduce.

Circle	3G Bid amount (INR Mn)	Subscriber Market share (%)	Revenue market share (%)	% of wireless subscribers	% of wireless gross revenues
Maharashtra	12,578	18.1	11.6	63.7	45.4
Total	12,578			63.7	45.4

Source: DOT, TRAI, Elara Securities Research

Rating : Reduce

Target Price : INR20

Upside : 3%

CMP : INR19 (as on 21 May 2010)

Key data

Bloomberg /Reuters Code	TTLS IN/TTML.BO
Current/Dil. Shares O/S (mn)	1,897/1,897
Mkt Cap (INRbn/US\$m)	36.9/786.5
Daily Vol. (3M NSE Avg.)	1,907,951
Face Value (INR)	10

1 US\$= INR46.9

Source: Bloomberg; * As on 20 May 2010

Price & volume



Source: Bloomberg

Share Holding (%)	Q1FY10	Q2FY10	Q3FY10	Q4FY10
Promoter	77.8	77.7	77.7	77.7
Institutional Investors	1.3	1.7	1.8	1.8
Other Investors	3.3	3.2	3.1	3.1
General Public	17.7	17.3	17.4	17.4

Source: Bloomberg

Price Performance	3M	6M	12M
Sensex	1.6	(3.4)	19.7
TTML	(17.9)	(24.9)	(32.7)
Bharti	(4.5)	(7.8)	(37.5)
RCom	(17.7)	(23.4)	(58.9)
Idea	(10.9)	1.7	(24.6)

Source: Bloomberg

Key Financials

Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	20,460	19.8	5,880	28.7	(1,699)	(35.2)	(0.9)	NA	4.2	NA	11.9
FY10E	22,778	11.3	5,648	24.8	(3,180)	(87.1)	(1.7)	NA	0.0	NA	13.5
FY11E	24,696	8.4	5,900	23.9	(4,233)	(33.1)	(2.2)	NA	NA	NA	13.6
FY12E	27,595	11.7	7,172	26.0	(3,326)	21.4	(1.8)	NA	1.8	NA	10.8

Source: Company, Elara Securities Estimate

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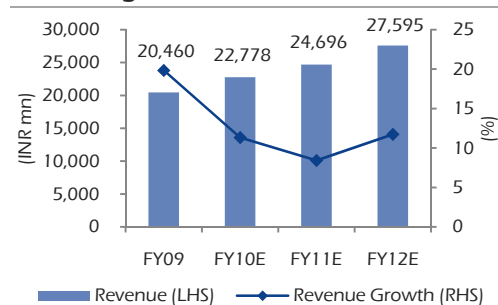
Elara Securities (India) Private Limited

Financials

Income Statement (INR mn)	FY09	FY10	FY11E	FY12E
Net Revenues	20,460	22,778	24,696	27,595
EBITDA	5,880	5,648	5,900	7,172
Add:- Non operating Income	121	317	-	-
OPBIDTA	6,001	5,965	5,900	7,172
Less :- Depreciation & Amortization	4,631	5,640	6,182	6,637
EBIT	1,370	325	(282)	535
Less:- Interest Expenses	3,057	3,505	3,951	3,861
PBT	(1,687)	(3,180)	(4,233)	(3,326)
Less :- Taxes	12	(0)	-	-
Adjusted PAT	(1,699)	(3,180)	(4,233)	(3,326)
Add/Less: - Extra-ordinaries	-	-	-	-
Reported PAT	(1,699)	(3,180)	(4,233)	(3,326)
Balance Sheet (INR mn)	FY09	FY10	FY11E	FY12E
Share Capital	18,972	18,972	18,972	18,972
Reserves	(22,759)	(25,939)	(30,174)	(33,500)
Borrowings	33,443	39,400	43,900	42,900
Total Liabilities	29,656	32,433	32,697	28,371
Gross Block	49,488	57,710	64,710	66,710
Less:- Accumulated Depreciation	17,531	23,171	29,353	35,990
Net Block	31,957	34,539	35,357	30,720
Add:- Capital work in progress	2,299	7,020	7,020	7,020
Investments	100	-	-	-
Net Working Capital	(4,699)	(9,126)	(9,680)	(9,369)
Total Assets	29,656	32,433	32,697	28,371
Cash Flow Statement (INR mn)	FY09	FY10	FY11E	FY12E
Cash profit adjusted for non cash items	6,004	2,460	1,949	3,311
Add/Less : Working Capital Changes	(2,116)	4,382	898	1,203
Operating Cash Flow	3,876	6,842	2,847	4,515
Less:- Capex	(8,070)	(12,943)	(7,000)	(2,000)
Free Cash Flow	(4,194)	(6,101)	(4,153)	2,515
Financing Cash Flow	4,211	5,957	4,500	(1,000)
Investing Cash Flow	(8,157)	(12,843)	(7,003)	(2,000)
Net change in Cash	(70)	(45)	344	1,515
RATIO ANALYSIS	FY09	FY10	FY11E	FY12E
Income Statement Ratios(%)				
Revenue Growth	19.8	11.3	8.4	11.7
EBITDA Growth	45.9	(3.9)	4.5	21.6
PAT Growth	(35.2)	(87.1)	(33.1)	21.4
EBITDA Margin	28.7	24.8	23.9	26.0
Net Margin	(8.3)	(14.0)	(17.1)	(12.1)
Return & Liquidity Ratios (%)				
Net Debt/EBITDA(x)	5.6	6.9	7.3	5.7
ROE	NA	NA	NA	NA
ROCE	4.21	0.03	NA	1.75
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	(0.9)	(1.7)	(2.2)	(1.8)
EPS Growth (%)	(35.7)	(87.3)	(33.0)	21.4
DPS (INR/Share)	0.0	0.0	0.0	0.0
P/E Ratio (x)	NA	NA	NA	NA
EV/EBITDA (x)	11.9	13.5	13.6	10.8
P/BV (x)	NA	NA	NA	NA
Dividend Yield (%)	0.0	0.0	0.0	0.0

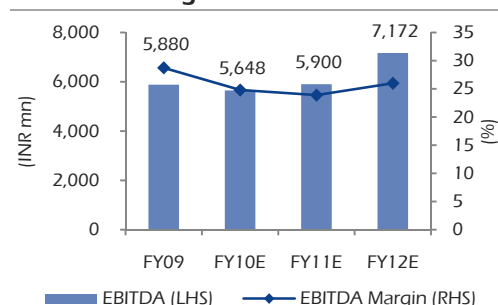
Source: Company Elara Securities Estimate

Revenue growth trend



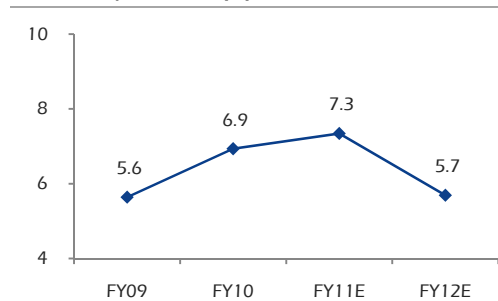
Source: Company Elara Securities Research

EBITDA & margins trend



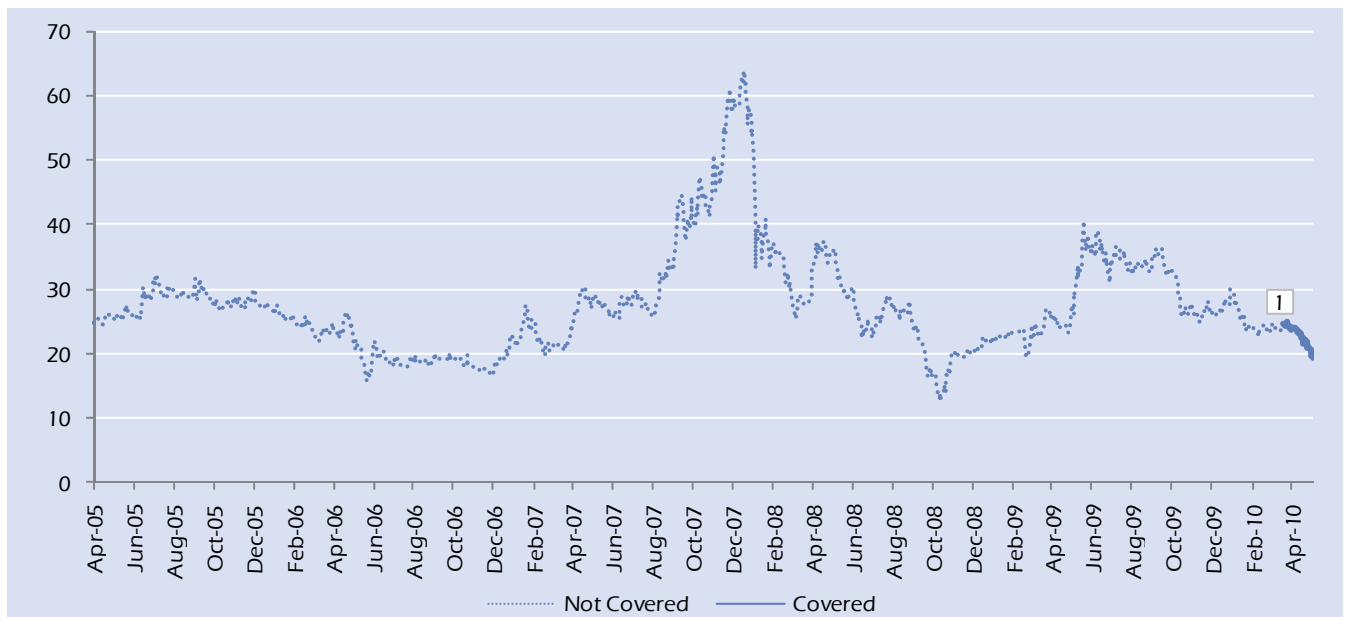
Source: Company Elara Securities Research

Net Debt/EBITDA(x)



Source: Company Elara Securities Research

Coverage History



Date	Rating	Target Price	Closing Price
19-Apr-2010	Sell	INR20	INR23

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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