India | Telecommunications

29 January 2013

Bharti Infratel

Passive play on aggressive data rollout

- We initiate coverage on Bharti Infratel (BIL) with an Outperform rating and PT of INR 240. Potential re-leveraging and one-off dividends provide upside triggers.
- BIL offers investors a low risk option to gain exposure to the ongoing wave of data network rollout.
- Robust free cash generation capacity and potential for higher dividends will lead to a re-rating notwithstanding the moderate EBITDA CAGR (~9% over FY12-15E).
- Strong parentage provides superior visibility to tenancy even as stability in telecom tariffs might alleviate any pricing pressure on rentals.

Initiate with Outperform. We initiate coverage on BIL with Outperform and PT of INR 240, including the DCF of BIL standalone and its proportionate share in Indus. We find valuations attractive given consolidated FCF yield of c.7-8% over FY13-15E (vs. global peers' c.2%) and FY13E P/B of 2.1x (vs. global avg. of c.9-10x). At our PT, imputed EV/EBITDA of 9.4x FY14E is reasonable vis-à-vis peers' notwithstanding BIL's slower growth and higher WACC (low debt).

Well placed to leverage data network rollout. Towercos' economics improves materially with incremental co-location, which comes with insignificant opex/capex. As per Analysys Mason estimates, industry co-location is likely to increase from 1.7x in FY12 to 2.5x in FY17E on account of (1) requirement for 3G capacity sites, (2) 4G rollout in urban areas including by operators without existing MSAs and (3) weaker propagation characteristics in higher frequency bands (2.1Ghz, 2.3Ghz). We estimate BIL's consolidated co-location will increase to 2.45x in FY18E (from 1.9x currently) in line with the industry.

Moderate but predictable growth. Co-location growth coupled with improving rental yields (growing data co-location + annual escalation) is likely to lead to 9.4% CAGR in consolidated EBITDA and 26% CAGR in net profit. BIL's FY13E net cash balance sheet makes it well positioned to either grow inorganically or return cash to shareholders.

Risks. Industry consolidation/exits, slower-than-expected data rollouts and disruptive pricing from other towercos pose downside risks besides stock overhang for minimum 25% float requirement and a potential Indus IPO. Inorganic growth through acquisition of other tower assets (India or abroad) can correct the capital structure, but the net impact on valuation will need to be assessed.

OUTPERFORM (initiating coverage)

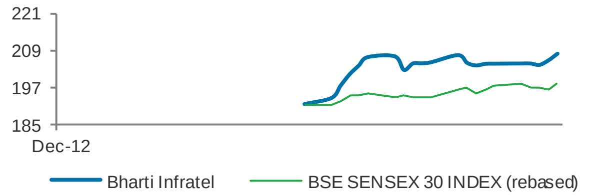
PRICE as of 27 Jan 2013	PRICE TARGET
INR 208.30	**INR 240.00**

Bloomberg code	**Reuters code**
BHIN IN	BHRI.NS
Market cap	**12-month range**
INR 393,395mn (USD 7,326mn)	INR 188.25 - 211.05
EPS adj est change	NA

Year-end: March	**2012**	**2013E**	**2014E**	**2015E**
Sales (INR mn)	94,521	100,554	109,581	117,421
EBITDA (INR mn)	35,391	38,926	43,040	46,332
EBIT (INR mn)	13,929	15,446	18,222	20,368
Pre-tax profit (INR mn)	11,307	14,664	19,241	22,567
Net profit adj. (INR mn)	7,507	9,825	12,891	15,120
FCF (INR mn)	16,208	29,659	33,436	33,054
EPS adj. (INR)	3.98	5.20	6.83	8.01
DPS (INR)	0.00	2.60	3.41	4.00
Book value/share (INR)	76.90	96.09	98.93	102.25
EPS growth adj. (%)	36.1	30.9	31.2	17.3
DPS growth (%)	-	nm	31.1	17.2
EBITDA margin (%)	37.4	38.7	39.3	39.5
EBIT margin (%)	14.7	15.4	16.6	17.3
Net margin adj. (%)	7.9	9.8	11.8	12.9
Div. payout (%)	0.0	50.0	50.0	49.9
Net gearing (%)	21.4	-11.3	-22.8	-32.9
ROE (%)	5.3	6.0	7.0	8.0
ROCE (%)	6.9	7.1	7.7	8.5
EV/sales (x)	-	3.7	3.2	2.8
EV/EBITDA (x)	-	9.6	8.2	7.1
PBR (x)	-	2.2	2.1	2.0
PER adj. (x)	**-**	**40.0**	**30.5**	**26.0**
Dividend yield (%)	**-**	**1.2**	**1.6**	**1.9**

Source: Company, Standard Chartered Research estimates

Share price performance



Share price (%)	**-1 mth**	**-3 mth**	**-12 mth**
Ordinary shares	9	nm	nm
Relative to index	4	nm	nm
Relative to sector	-	-	-
Major shareholder			Bharti (79.4%)
Free float			21%
Average turnover (USD)			16,913,276

Source: Company, FactSet

Rahul Singh
Rahul.Singh@sc.com
+91 22 4205 5901

Saurav Anand
Saurav.Anand@sc.com
+91 22 4205 5910

Contents

Investment Summary	3
Financials & Valuation	4
Data roll-out to drive the next phase of growth	12
Nationwide network, execution track record	17
Business description	17
Risks	21
Management structure and network history	22

Investment summary

Data network rollout is the key industry driver

In the medium to long term, industry tenancy is likely to increase from 1.70x in FY12 to 2.46x in FY17E given (1) the requirement for 3G capable sites as usage increases, (2) 4G rollout in urban areas including by operators without existing MSAs and (3) weaker propagation characteristics of the higher frequency bands allocated for 3G/4G (2.1/ 2.3Ghz). The initial 3G rollout on co-location will not increase revenues proportionately, as it will only attract incremental loading charges under existing MSAs. The next rollout phase (comprising capacity sites) is likely to result in higher average sharing factors. Meanwhile, BIL's and Indus' parentage make the consolidated entity well positioned versus peers in terms of build-out and/or upgrade capex to accommodate more sharing operators. We forecast tenancy for BIL (standalone) to grow from 1.80x to 2.35x and for Indus from 1.94x to 2.50x over FY12-18E.

Parentage and MSAs provide good visibility

BIL, together with its 42% interest in Indus, is one of the largest tower and related infrastructure providers in India. The operator-owned structure has ensured strong growth in tower sites and co-location factor. We expect BIL's consolidated tenancy to go up to 2.45x by FY18E, in line with industry-wide estimates. The Master Services Agreement (MSA) not only provides stability (annual escalation, exit clauses), but also provides incentives to optimise capex/opex for potential upside. Indus, with (1) its dominant network in Metro and Category A/B circles and (2) co-ownership by Vodafone and Idea, will be a key beneficiary of additional tenancy arising from the 3G capacity sites in the imminent data rollout, in our view. Indus is therefore well positioned to be a key driver of BIL's performance on a consolidated basis.

Moderate but predictable earnings growth

We estimate consolidated EBITDA CAGR of 9.4% over FY12-15E backed by 7.5% CAGR in revenue and c.200bps expansion in EBITDA margin. Nevertheless, consolidated net profit is likely to post c.26% CAGR over FY12-15E given the accentuated impact of high depreciation rates, in our view. BIL has a strong balance sheet and we expect the consolidated entity to be net cash positive with FY13E net cash balance of c.INR 25bn (incl. cash infusion from the recent IPO).

Valuation and capital structure provide upside

We expect the consolidated entity to generate strong free cash flows. We estimate net free cash flow generation of c.INR 90bn over FY13-15E and a FCF yield of c.7-8% over FY13-15E, making the stock attractive at current levels. We value the stock using the sum-of-the-parts methodology; adding up the DCF values of BIL standalone and BIL's share in the Indus JV. Our PT of INR 240 imputes an EV/EBITDA of 9.4x FY14E, which is reasonable vis-à-vis peer valuations notwithstanding slower growth and higher cost of capital (low debt).

Given the cash rich balance sheet (net cash estimated at INR 25/share) as on March 2014E, the high leverage (net debt/EBITDA of 2.5-5x) and cash requirement of the parent companies, i.e., Bharti, Vodafone and Idea, we believe the cash return to shareholders could be higher and could involve one-off dividends besides the regular dividend (assumed at 50% of consolidated profit). We therefore believe there is potential to re-leverage the balance sheets (Indus' as well as BIL consolidated) to return cash to shareholders in addition to exploring debt-financed acquisitions for inorganic growth.

Financials and valuation

- We estimate consolidated EBITDA CAGR of 9.4% over FY12-15E backed by 7.5% CAGR in revenue and c.200bps expansion in EBITDA margin. Nevertheless, consolidated net profit is likely to post c.26% CAGR over FY12-15E given the accentuated impact of high depreciation rates, in our view.

- BIL has a strong balance sheet and we expect the consolidated entity to be net cash positive with FY13E net cash balance of c.INR 25bn (net cash infusion of c.INR 32bn in the recent IPO).

- We expect the consolidated entity to generate strong free cash flows. We estimate net free cash flow generation of c.INR 93bn over FY13-15E and a FCF yield of c.7-8% over FY13-15E, making the stock attractive at current levels.

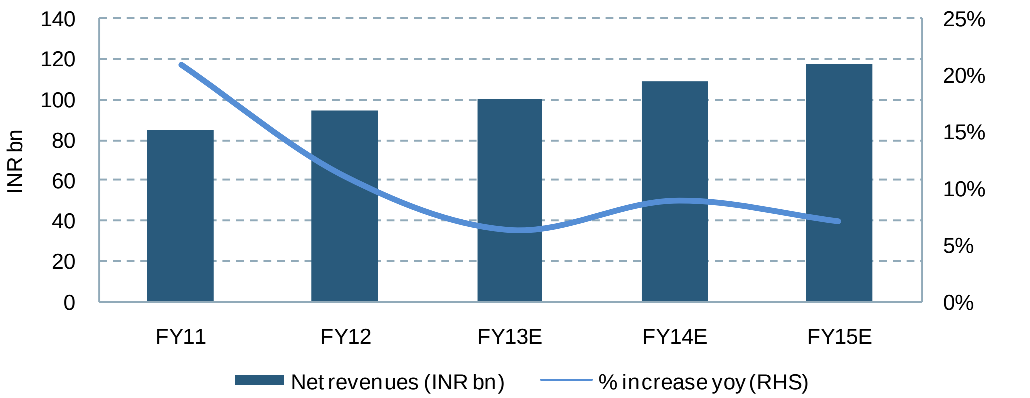
- We value the stock using the sum-of-the-parts methodology; adding up the DCF values of BIL standalone and BIL's share in the Indus JV. Our PT of INR 240 imputes an EV/EBITDA of 9.4x FY14E, which is reasonable vis-à-vis peer valuations notwithstanding slower growth and higher cost of capital (low debt).

Consolidated revenue likely to increase at 7.5% CAGR over FY12-15E

Revenues primarily comprise (1) service revenues of BIL's towers in 11 telecommunications circles, (2) energy cost billings attributable to those towers, (3) consideration from Indus by BIVL IRU and (4) 42% of Indus' service revenues and energy cost billings in respect of the towers it has developed on an unconsolidated basis as well as the towers it operates pursuant to the IRUs granted to it.

We expect consolidated revenue to increase at a CAGR of 7.5% to INR 117.4bn backed by (1) 1.7% CAGR in consolidated towers (83,500 towers in FY15), (2) increase in average sharing factor to 2.1 in FY15E from 1.9 in FY12 and (3) c.2.2% CAGR in rental increase over FY12-15E. Rental growth is likely to be higher going forward given the impact of additional loading charges from the rollout of 3G networks and co-location with the existing 2G sites in the initial stages. BIL's share of Indus' revenue from operations is likely to increase by 8.4% CAGR over FY12-15E to INR 64.3bn in the FY15E from INR 50.5bn in FY12, in our view.

Fig 1: Consolidated revenue and growth



Source: Company, Standard Chartered Research estimates

Rentals and tenancy critical for tower revenues

Tower revenue and profitability are critically dependent on two factors: (1) rental per tenant per month and (2) sharing factor or tenancy.

Setting up towers is capital intensive with high initial capex and low recurring capex. Tower companies incur significant capex for new towers, but minimal capex for new sharing operators added on to the towers as tenants. In addition, with the increase in co-location, revenues increase at a much faster pace than operating costs, resulting in expansion of EBITDA margin with higher tenancy. As the number of sharing operators sharing the infrastructure goes up, the fixed cost gets recovered, with revenues from additional sharing operators contributing to profitability. This benefit is usually passed on to all the sharing operators in the form of discounts on rents.

Components of rental revenue: The gross tower rentals consist of four major components:

1. **Base rentals**: These are the base rentals agreed to by the two parties in the first year of the MSA. Typically, the rentals for the first tenant on a tower are pegged on an average at INR 35,000/month. When the second tenant comes on board, rentals for both the tenants are reduced by c.10% to INR 32,000/month. When the third tenant comes on board, rentals for all the three tenants get reduced by c.5-6% to INR 30,000/month. We assume that further tenancy increase would be accompanied by 10% tenancy discounts. Hence, a 0.5x increase in portfolio tenancy would result in approximately 5% lower rental.

2. **Annual escalation charge**: There is an annual escalation charge of c.2.5%, which is built in the MSAs, stating that the base rentals for the tower companies would be escalated by 2.5% p.a.

3. **3G/4G loading charges**: Whenever an existing 2G tenant wants to load its 3G radio equipment, rental for the existing site is hiked by c.INR 3,000/month with an escalation clause of 2.5% to accommodate the equipment. Installation of 3G site on an existing 2G site does not lead to any increase in reported tenancy.

4. **Pass through costs**: These are mostly power and fuel costs, which are billed to the tenants and the net rentals are grossed up by this amount.

All the above four components sans pass through costs such as power and fuel form the net rental revenues. The rental assumptions for BIL, Indus and the consolidated entity, are shown in the table below.

Fig 2: Revenue build-up - Tower, tenancy and rental assumptions

	FY11	FY12	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
Towers								
BIL (standalone)	32,777	33,147	34,347	35,147	35,647	35,947	36,147	36,247
Indus	108,586	109,114	111,914	113,414	114,414	114,914	115,414	115,914
Consolidated	77,197	79,164	80,763	82,466	83,491	84,106	84,516	84,826
Average tenancy								
BIL (standalone)	1.73	1.82	1.91	1.98	2.07	2.16	2.25	2.35
Indus	1.83	1.94	2.05	2.12	2.17	2.27	2.39	2.52
Consolidated	1.81	1.89	1.99	2.06	2.12	2.22	2.33	2.45
Rentals (INR/tenant/month)								
BIL (standalone)	36,995	36,889	37,688	38,479	39,233	40,145	41,048	41,794
% change YoY	-1.1%	-0.9%	2.2%	2.1%	2.0%	2.3%	2.2%	1.8%
Indus	30,043	31,138	31,884	32,683	33,539	34,353	35,093	35,659
% change YoY	7.1%	-1.1%	1.7%	2.5%	2.6%	2.4%	2.2%	1.6%

Source: Company, Standard Chartered Research estimates

Recognising revenue using revenue equalisation: BIL uses the principle of revenue equalisation for tower rental. This implies that the base 2G reported rental remains flat over the life of the contract whereas cash rental escalates by 2.5% per annum. The reported revenue (and hence the rental) would follow equalisation such that the total rental to be received over the contract period is levelised. The reported rental would then be held constant at this level for the next 15 years. This explains why the reported rental per tenant per month has been stable despite the 2.5% escalation. We also estimate that reported EBITDA is higher vis-a-vis the cash-EBITDA by about c.7%. It is, however, important to note that the impact of revenue and rent equalisation is minor in DCF-based computation (our primary valuation methodology). We have not assumed any equalisation in our P&L forecasts and working capital movements. This also explains the higher rental growth assumption (2.2% CAGR over FY12-15E) in our forecasts, apart from the higher positive impact of loading charges from the 3G rollout.

Fig 3: Impact of rental

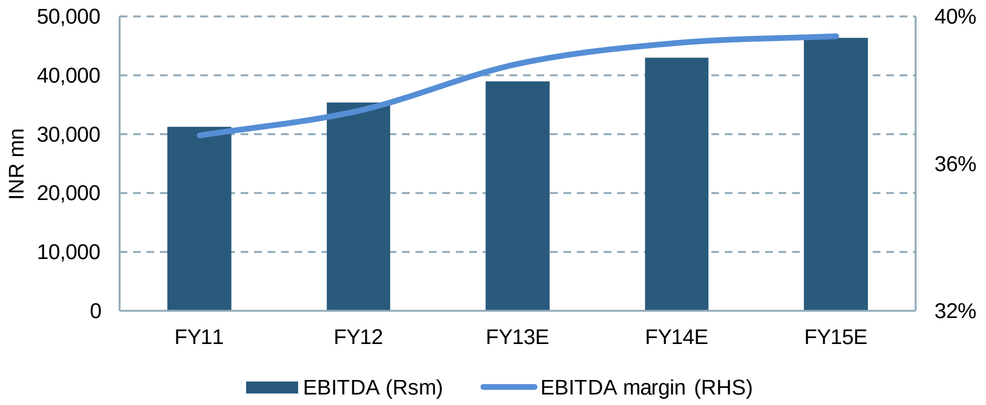
	FY08	FY09	FY10	FY11	FY12
EBITDA - ex other income	2,582	15,103	24,185	31,288	35,391
Rent equalisation	148	721	671	669	521
Revenue equalisation	-286	-2,025	-3,008	-3,154	-2,677
Cash- EBITDA	2,445	13,798	21,848	28,803	33,236
Difference in EBITDA	5.6%	9.5%	10.7%	8.6%	6.5%

Source: Company, Standard Chartered Research estimates

Consolidated EBITDA likely to increase at 9.4% CAGR over FY12-15E

We expect consolidated EBITDA to reach INR 46.3bn in FY15E from INR 35.3bn in FY12 with the increase in (1) the number of towers, (2) increase in co-locations and (3) rise in operating leverage with the higher sharing factor. Consolidated EBITDA margin is likely to increase by c.210bps over FY12-15E to 39.5% in FY15E, in our view. Adjusting for energy costs, we estimate consolidated FY15E EBITDA margin to increase to 62% from 58% in FY12.

Fig 4: Consolidated EBITDA and EBITDA margin



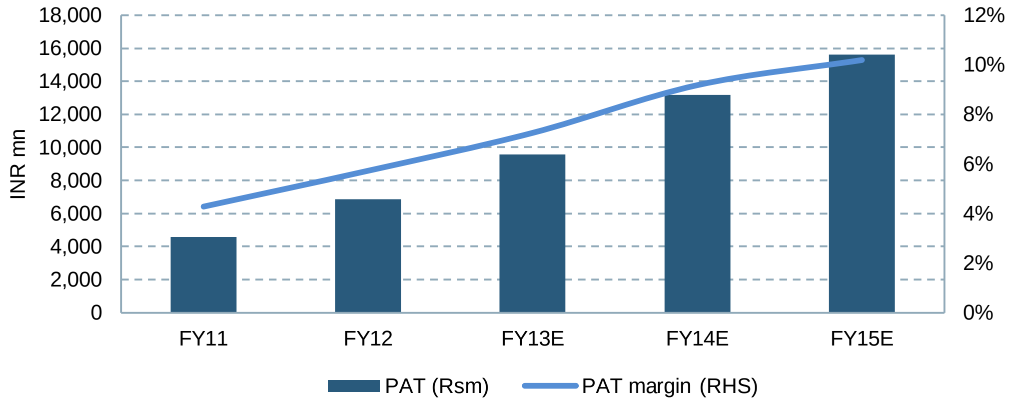
Source: Company, Standard Chartered Research estimates
Note; EBITDA margin is calculated on gross revenues (incl. energy payments)

The largest component of the consolidated expense is power and fuel, which we expect to increase at a CAGR of 8.3% over FY12-15E to INR 42.7bn in FY15E from INR 33.6bn in FY12. Power and fuel costs increase are attributable to (1) increase in sharing factors and (2) rise in electricity charges and diesel prices. Under the terms of BIL's and Indus' MSAs, increases in energy charges are generally passed through to customers and therefore these increases do not impact profitability.

Consolidated earnings likely to increase at 26% CAGR over FY12-15E

We estimate consolidated net profit to double in the next three years – to INR 15.1bn in FY15E from INR 7.5bn in FY12, primarily due to an increase in operating EBITDA and low base (accentuated by the high depreciation rate). Consolidated net profit is likely to increase at a CAGR of 26% over FY12-15E backed by 31% CAGR in Indus' net profit and supported by increase in consolidated EBITDA margin, in our view. It is important to note that the depreciation rate (c.10% of gross fixed assets) at BIL is higher compared to global peers and hence net profit/EPS understate the cash generating capacity of the business.

Fig 5: Consolidated net profit and net profit margin

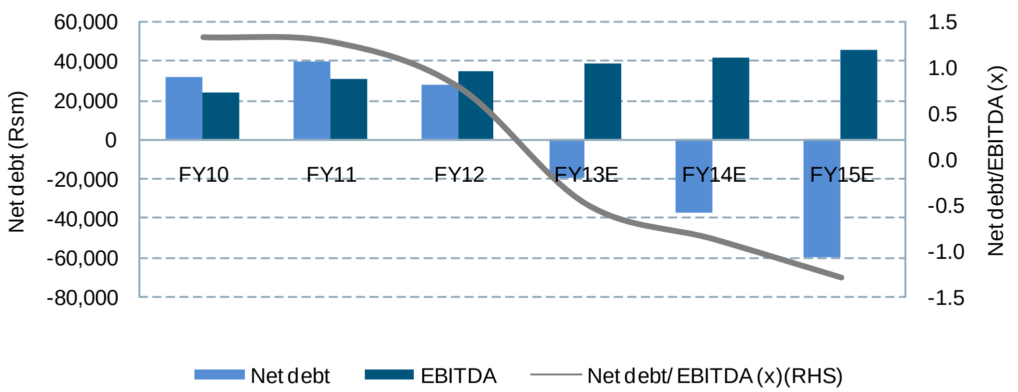


Source: Company, Standard Chartered Research estimates

Balance sheet remains healthy

The balance sheet of the consolidated entity remains healthy and is net cash post the IPO. With the cash inflow post the issuance of fresh shares, we expect FY13E net cash to be .INR 25bn. With significant operating cash flow and stable capex, we expect consolidated net cash to increase to INR 70bn (INR 37/share) by end-FY15E.

Fig 6: Consolidated net debt to EBITDA

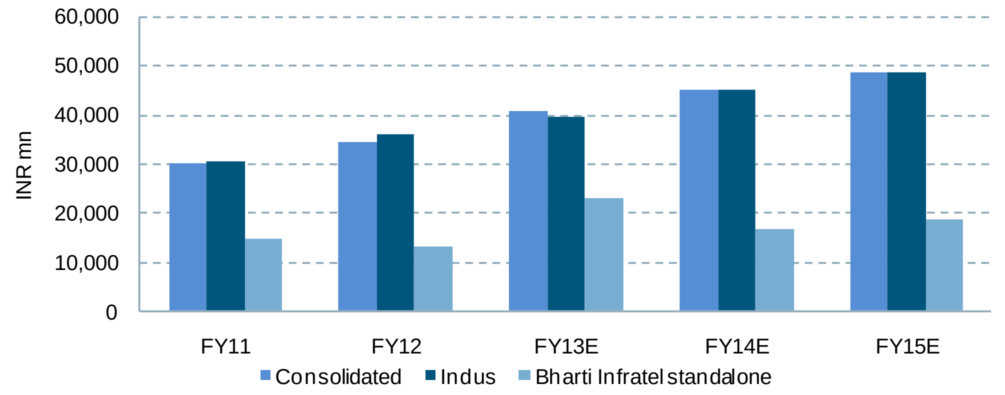


Source: Company, Standard Chartered Research estimates

Free cash flow generation to remain strong

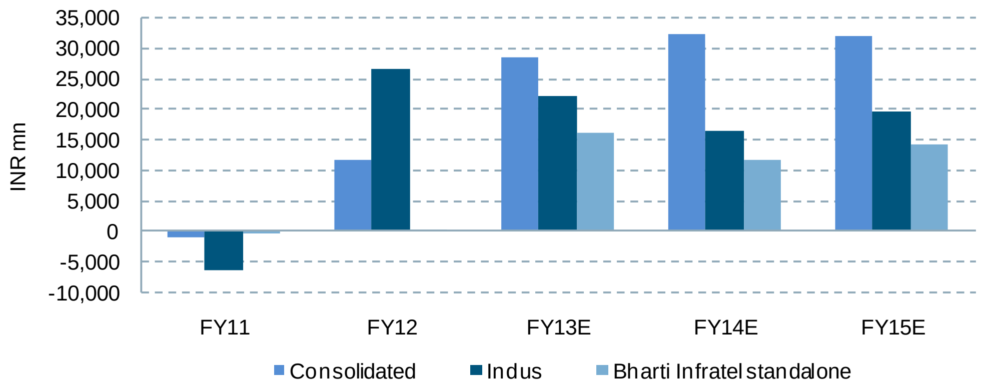
Increase in operating cash flows aided by the decline in capex intensity (the company is already past its prime capex period) will lead to significant growth in free cash flows going forward. Free cash flow generation remains strong both at the standalone and at the consolidated levels. BIL turned free cash flow positive in FY12 with net free cash flow of INR 11.8bn. With the steady increase in operating cash flows and stable capex, FCF yield is at a robust c.7-8% over FY13-15E at the current stock price level.

Fig 7: Operating cash flows to remain strong



Source: Company, Standard Chartered Research estimates

Fig 8: Consolidated FCF of c.INR 93bn over FY13-15E



Source: Company, Standard Chartered Research estimates

Valuations – Annuity cash flow stream with moderate growth

We value the stock using the sum-of-the-parts methodology, adding up the DCF values of BIL standalone and BIL's share in the Indus JV. Our PT of INR 240 values the stock at an EV/EBITDA of 9.4x FY14E, which is at a reasonable discount to peers, and adequately factors in lower growth and higher cost of capital (given no debt in the capital structure) for BIL.

Assumptions:

- In our base case, we assume that consolidated tenancy increases marginally to c.2.1x in FY15E (from 1.9x in FY12) and thereafter increases gradually to c.2.4x by the terminal year (2018).
- We also assume 3G take-up at a conservative pace and hence consolidated rental CAGR of c.2.2% over FY12-15E despite annual escalation clause of 2.5% and incremental rental gains due to 3G loading.
- The capex-to-sales ratio is about 13% in FY13-14E (before gradually declining to 8% in subsequent years) on rural expansion and shorter-than-expected life-spans of diesel generator sets, batteries, and other tower equipment.

BIL (standalone) valuation: Our DCF-based model for BIL standalone values it at an enterprise value of c.INR 208bn. We assume WACC of 11.2% and a terminal growth rate of 3%.

Fig 9: BIL (standalone) – DCF valuation

INR mn	FY12	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
Oper. EBIT	5,739	6,855	8,298	9,533	11,203	12,936	14,763
(Less) Taxes	-2,365	-2,732	-3,410	-3,886	-4,520	-5,216	-5,960
Marginal tax rate	30.8%	30.8%	30.8%	30.8%	30.8%	30.8%	30.8%
NOPAT	3,377	4,123	4,888	5,647	6,684	7,721	8,804
(Add) Depreciation	10,628	11,061	11,711	12,293	12,770	13,142	13,453
(Less) Capex	-1,032	-6,861	-6,335	-5,446	-4,285	-3,374	-3,041
(Less) Working capital	-119	5,940	-1,247	-1,286	36	163	282
Free cash flows	12,855	14,263	9,017	11,207	15,205	17,652	19,498
NPV (explicit FCFs)			47,958				
NPV (terminal value)			160,026				
Firm value			207,984				

Source: Company, Standard Chartered Research estimates

Indus valuation: Our DCF-based model for Indus values the entity at an enterprise value of c.INR 469bn leading to a corresponding enterprise valuation for BIL of INR 197bn. We assume WACC of 11.2% and a terminal growth rate of 3%.

Fig 10: Indus – DCF valuation

INR mn	FY12	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E
Oper. EBIT	30,615	32,129	35,303	37,471	39,723	45,313	51,614
(Less) Taxes	-3,240	-4,712	-6,483	-7,687	-9,602	-11,667	-13,707
Net int. income/(exp)	9,667	7,638	6,672	5,505	3,946	2,846	1,588
Marginal tax rate	32.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Tax shield adjustments	3,097	2,521	2,202	1,817	1,302	939	524
NOPAT	30,472	29,938	31,022	31,601	31,424	34,586	38,431
(Add) Depreciation	15,850	17,895	19,531	20,877	22,657	23,055	23,447
(Less) Capex	-18,336	-15,669	-13,465	-10,212	-6,977	-6,962	-7,138
(Less) IRU	-11,674	-11,674	-11,674	-11,674	-11,674	-11,674	-11,674
(Less) Working capital	13,958	4,820	-5,309	-3,940	-3,688	-552	1,153
Free cash flows	30,270	25,310	20,103	26,652	31,741	38,453	44,218
Consolidated FCF	25569	24893	22707	20210	24538	31355	36224
NPV (explicit FCFs)			106,505				
NPV (terminal value)			362,901				
Firm value			469,406				

Source: Company, Standard Chartered Research estimates

Consolidated BIL valuation: We value the consolidated business by adding the enterprise value for BIL (standalone) and its 42% stake of BIL in Indus and adding the consolidated net cash. Our consolidated equity valuation for the consolidated entity is INR 240/share.

Fig 11: Consolidated: SOTP based PT of INR 240

Particulars	Value
EV - Infratel standalone (INR mn)	207,984
EV - Indus (INR mn) –value of 42% stake	197,151
Consolidated EV (INR mn)	405,134
Consolidated net debt - FY14E	-47,905
Consolidated equity value (INR mn)	453,039
Equity value/share (INR)	**240**

Source: Company, Standard Chartered Research estimates

Downside risks to our PT exists in the case of (1) stock-sale overhang due to potential dilution or secondary sale by Bharti Airtel to meet the mandatory 25% free float norm, and (2) muted data network rollout for the next 2-3 years.

Peer comparison: Although it has a lower EBITDA CAGR (9% vs. a 21% global peer average, FY13-15E), BIL is trading at almost half their average EV/EBITDA multiple, with a superior FCF yield, and is cheaper on growth-adjusted valuations. Based on our estimates; discount to US peers is as high as c.50%, which may not be completely justified even after considering (1) lower cost of capital for the US tower companies and (2) their higher return and growth profiles.

Fig 12: Peer valuation table

	Revenue CAGR FY13-15E	EBITDA CAGR FY13-15E	EV/EBITDA FY13E	FCF yield FY13E	P/B FY13E	RoE FY13E	EV/tower (USD '000) FY13E	Net debt/ EBITDA (x) FY13E
American Towers	10.7%	11.3%	20.7	NM	8.9	19.6%	772	4.1
SBA	15.6%	18.2%	21.9	2.3	15.4	NM	710	8.5
Crown Castle	10.8%	9.6%	19.5	1.6	8.6	10.5%	808	6.9
Tower Bersama	41.4%	41.6%	26.0	2.2	7.3	21.8%	454	5.8
Sarana Nusantara	24.3%	24.1%	16.9	0.7	13.0	33.5%	446	3.3
BIL	8.1%	9.1%	9.4	7.6	2.1	6.0%	97	-0.6

Source: Company, Standard Chartered Research estimates

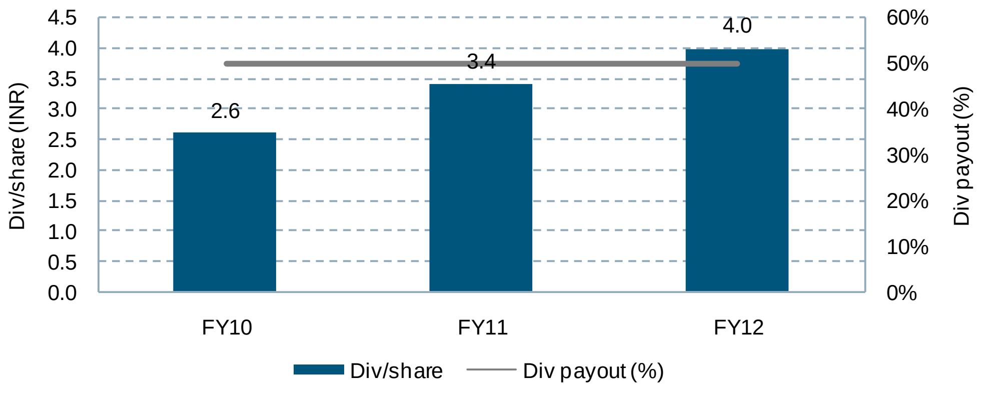
Dividend policy – Scope for potential surprises?

- Given the cash rich balance sheet (net cash estimated at INR 25/share) as on March 2014E and the high leverage of the parent group of companies, i.e., Bharti, Vodafone and Idea at net debt/EBITDA of 2.5-5x, we believe cash return to shareholders could be much more and could involve one-off dividends besides the regular dividend. This could involve dividends at Indus through higher leveraging of the balance sheet (net debt/EBITDA at 1.5x vs. potential leverage of 3x).

- Note that we have assumed a payout of 50% of consolidated PAT (at the upper end of company guidance) as the regular dividend, i.e., INR 2.5-4.0/share over FY13-15E. While the dividend yield on regular stream works out to only 1.5-2.0%, we believe that given the cash commitment of the incumbent parents towards excess spectrum charges and renewals/refarming, re-leveraging of the towercos (Infratel/Indus) and return of cash to the shareholders could be a recurring theme.

- Also note that both BIL and Indus are under-leveraged vis-à-vis other towercos. In other words, there is an opportunity to create equity value by re-leveraging the balance sheet (to say net debt/EBITDA of 3.0x) in order to generate RoEs well in excess of RoCE/RoA. While it is difficult for us to predict the exact logistics of such a leveraging phase, return of cash to shareholders could be one of the key options apart from a leveraged buyout of an acquisition target.

Fig 13: Dividend per share likely to grow steadily



Source: Company, Standard Chartered Research

Fig 14: Summary of spectrum charges over 2014-2016E

	Excess spectrum charges	Spectrum renewal payment over 2014-2016E
	INR bn	INR bn
Bharti	52.0	192.2
Vodafone	35.9	267.1
Idea	21.1	153.6

Source: Company, Standard Chartered Research estimates

Data roll-out to drive the next phase of growth

- In the medium to long term, industry tenancy is expected to increase from 1.70x in FY12 to 2.46x in FY17E given (1) the requirement for 3G capable sites as usage increases, (2) 4G rollout in urban areas including by operators without existing MSAs and (3) weaker propagation characteristics of the higher frequency bands allocated for 3G/4G (2.1/ 2.3Ghz).
- Meanwhile, BIL's and Indus' parentage make the consolidated entity well positioned versus peers in terms of build-out and/or upgrade capex to accommodate more sharing operators.
- The initial 3G rollout on co-location will not increase revenues proportionately, as it will only attract incremental loading charges under existing MSAs. The next rollout phase (comprising capacity sites) is likely to result in higher average sharing factors.
- We forecast tenancy for BIL (standalone) to grow from 1.80x to 2.35x and for Indus from 1.94x to 2.50x over FY12-18E.

Passive exposure to increasing data coverage

Data usage in India is still at a nascent stage and has significant growth potential. The rise in the number of sharing operators in the past decade arose mainly from voice coverage by new entrants as well as existing operators.

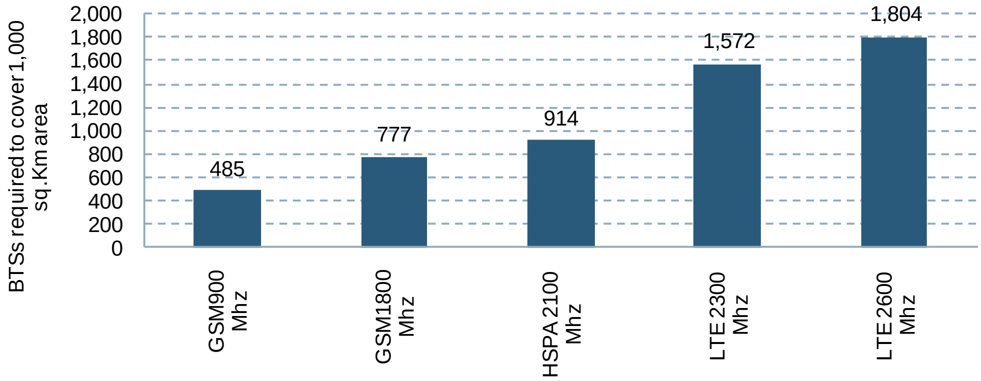
As an emerging market comparable, we look at Indonesia where 3G services were launched in 2006. The initial adoption rate was slow, with only c.7% of subscribers using 3G by 2011. Since then the adoption rate and total 3G data traffic have nearly doubled. We expect a similar data growth trajectory in India.

We believe there is significant growth potential for tower companies going forward given the rollout of 3G and 4G data networks. Wireless operators are already rolling out 3G networks in metros and category A circles, and are likely to soon start significant rollout programs in category B and C circles. While the primary rollout in the initial phase would be in the form of co-location of 3G sites with 2G sites under existing MSAs, future expansion would require additional coverage with installation of new 3G sites. Co-location of 3G sites with 2G sites leads to only additional loading charges for operators and hence may increase rental yields but might not impact the reported co-location/sharing factor. Hence, the impact on revenues will not be proportionate due to the partial revenues realised from co-located 3G sharing factors as per current MSAs.

Higher frequency bands need a larger number of cells sites
With the increase in 3G usage and the requirement for capacity sites, new builds will be required, especially in urban areas. Higher frequency bands have lower propagation characteristics and hence 3G and BWA frequency (2011 MHz and 2300 MHz) bands cover smaller areas than 2G frequency bands (900 MHz and 1800 MHz bands). Given this, the number of sites required for these higher frequency bands (2100 MHz, 2300 MHz) will be much more for equivalent coverage and capacity. The 3G capacity sites will therefore result in full incremental sharing factors.

Unlike in 3G, where the initial rollout has not led to immediate increase in tenancy, the majority of 4G coverage will result in full incremental tenancy due to the difference in frequency bands as well as deployment by operators such as RIL, which do not have existing MSAs.

Fig 15: Sites required to cover 1,000 sq km dense urban area in different frequency bands



Source: Analysys Mason

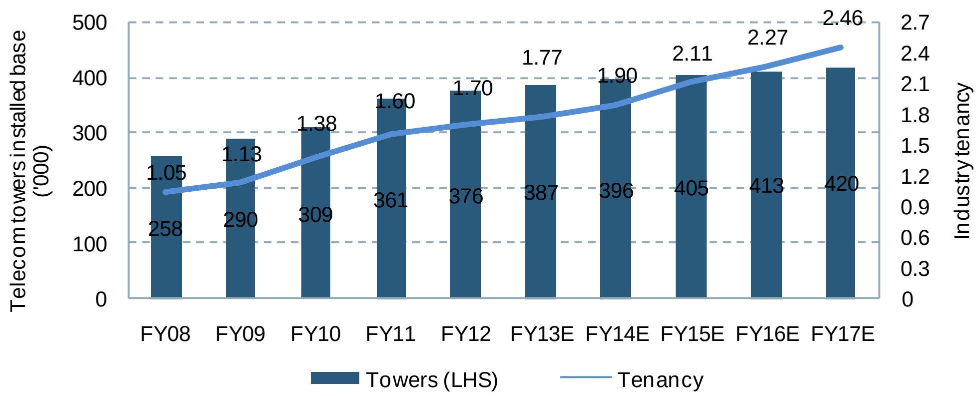
Fig 16: BTS multiples across frequency bands in dense urban areas

		New frequency band				
		900 MHz	1800 MHz	2100 MHz	2300 MHz	2600 MHz
Base frequency band	900 MHz	1.0x	1.6x	1.9x	3.2x	3.7x
	1800 MHz		1.0x	1.2x	2.0x	2.3x
	2100 MHz			1.0x	1.7x	2.0x
	2300 MHz				1.0x	1.1x
	2600 MHz					1.0x

Source: Analysys Mason

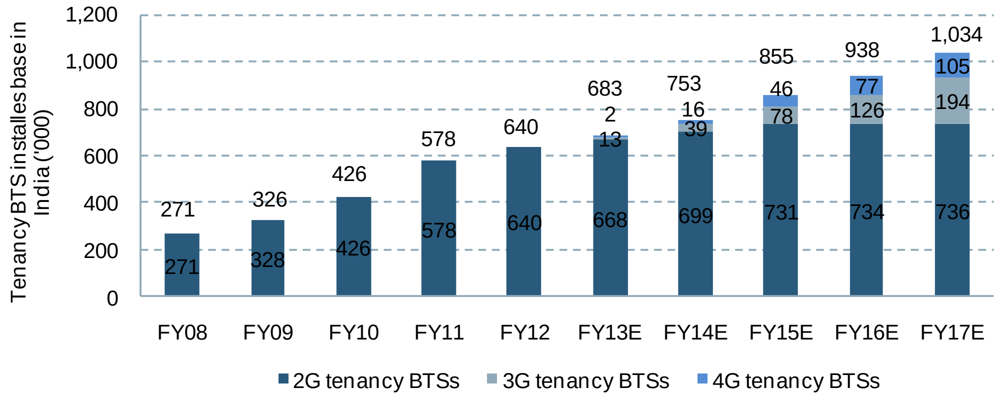
Compared to other developed and developing countries, India currently has low smartphone penetration and low data usage. It has, however, significant potential to grow because of various initiatives by operators, handset OEMs and VAS providers such as decreasing device prices, availability of affordable data plans and development of mobile internet ecosystem around consumer use cases.

Fig 17: Towers installed base and industry co-location, FY08-FY17E



Source: Analysys Mason

Fig 18: Projected increase in average sharing factors

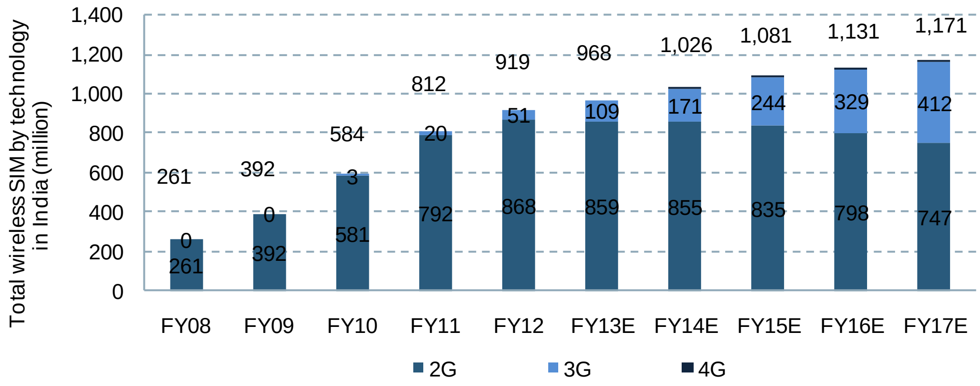


Source: Analysys Mason, Company

Past growth primarily due to voice led expansion

India's tower and passive telecommunications infrastructure industry is highly leveraged to the growth in the Indian wireless telecommunications sector. The Indian wireless industry has shown significant growth in the past with exponential increase in subscriber base and consequent increase in overall wireless traffic. The focus of Indian operators in the past decade has been to develop an affordable mass market telecoms service model, which allows for service availability in the deepest pockets of Indian urban and rural areas, at affordable prices. Mobile coverage in the past decade has been extended to nearly 600,000 villages in India, covering more than 95% of the addressable population.

Fig 19: Indian wireless subs growth (FY08 – FY17E)

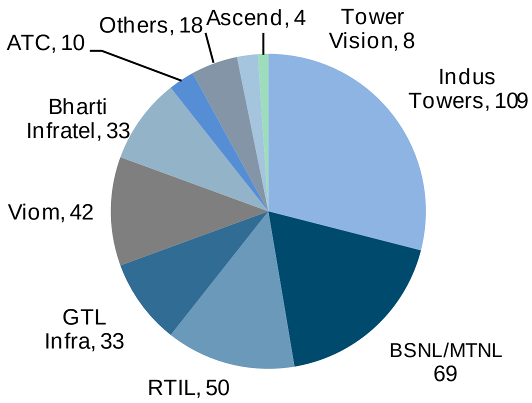


Source: Analysys Mason

Similar growth has been witnessed in India's passive telecommunications infrastructure with an increase in the number of towers and average sharing factors as operators increased their coverage as well as capacities. The current co-location of towercos in India primarily reflects the growth in the 2G (GSM) subscriber base and usage in the past 10 years and the associated expansion in network coverage and capacity to support this traffic demand.

There are an estimated 640,000 2G installed base stations in India across operators and circles, translating into 1,360 2G subscribers per base station. These base stations are installed on an estimated 376,000 towers, which have been installed by the towercos across India to address the coverage and capacity demand from subscribers. The main towercos in India are Indus Towers (109,000 towers), Reliance Infratel (50,000 towers), BIL (33,000 towers), Viom Networks (42,000 towers), GTL Infra (33,000 towers), ATC (10,000 towers), Tower Vision (8,000 towers) and other small independent towercos such as Ascend Telecom. A majority of these towercos were formed as a result of portfolio carve-outs by operators, with others (such as Viom and ATC) having grown over time through acquisitions.

Fig 20: Operator-wise tower breakdown (in thousands)



Source: Analysys Mason

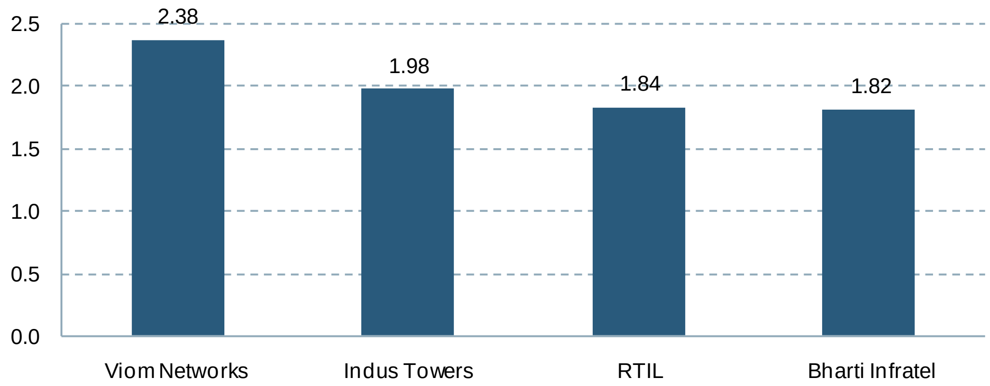
Larger operator-owned tower companies better placed

The Indian tower industry comprises (a) passive telecommunications infrastructure of wireless telecommunications service providers and (b) independent passive telecommunications infrastructure companies. Most of the large tower companies such as Indus are carve-outs of tower portfolios of multiple operators; hence, they have wider coverage with a larger number of towers and also greater captive co-location. The presence of RoFR agreements for BIL and Indus also ensures that a minimum captive co-location is available for these organizations. The co-location metrics and market share hence reflect the genesis of these tower companies. Given the capital intensive nature of the industry and greater access to capital for the operator-owned larger tower companies, they are well placed to capitalize on the current industry environment.

Given the RoFR arrangements, geographic footprint in urban, semi-urban and rural areas, and ability to invest in improving the physical capability (microwave capacity, energy support) of telecom operator-owned tower companies, they appear well placed to address the open market demand as well. Independent tower companies, which do not have access to capital, have sub-scale portfolios and few RoFR agreements, will have to depend on open market average sharing factors to grow, or consider inorganic growth options to maintain profitability and achieve scale.

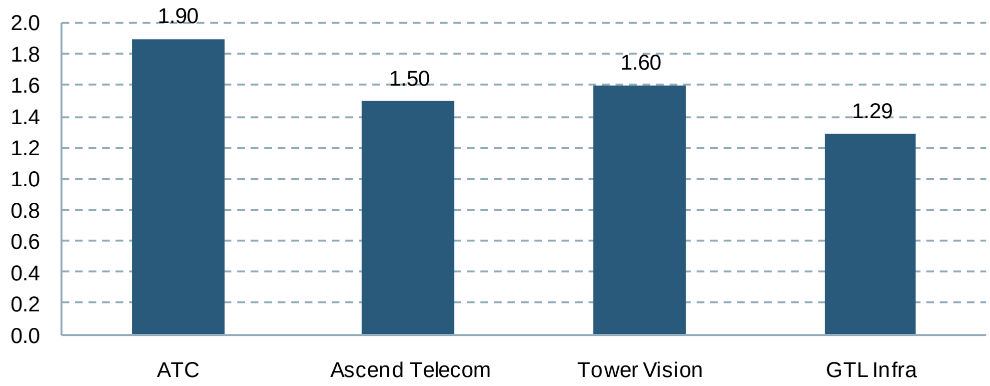
Industry average sharing factor has grown from 1.05 in 2007-2008 to 1.70 in 2011-2012, of which tenancy for telco-owned towercos is estimated at ~ 1.94 and tenancies for independent towercos is estimated at ~1.46.

Fig 21: Average sharing factor breakdown of operator-driven tower companies



Source: Analysys Mason, Company

Fig 22: Average sharing factor breakdown of independent tower companies (June 2012)



Source: Analysys Mason, Company

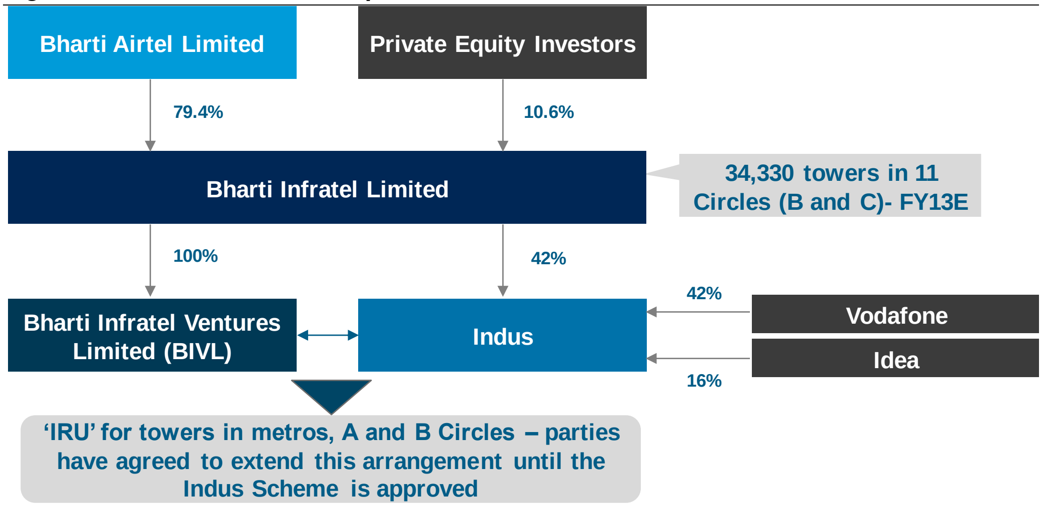
Nationwide network, execution track record

- BIL, together with its 42% interest in Indus, is one of the largest tower and related infrastructure providers in India.
- The operator-owned structure has ensured strong growth in tower sites and co-location factor. We expect consolidated tenancy of 2.45x by FY18E in line with industry-wide estimates.
- The Master Services Agreement not only provides stability (annual escalation, exit clauses), but also provides incentives to optimise capex/opex for potential upside.
- Indus, with (1) its dominant network in Metro and Category A/B circles and (2) co-ownership by Vodafone and Idea, will be a key beneficiary of additional tenancy arising from the 3G capacity sites in the imminent data rollout, in our view. Indus is therefore well positioned to be a key driver of BIL's performance on a consolidated basis.

Operator owned, parentage includes three large incumbents

BIL is a registered IP-I provider and provides telecom towers and related infrastructure services. It was incorporated in 2006 as a subsidiary of Bharti Airtel, a leading global telecommunications company with operations in 20 countries across Asia and Africa. In January 2008, Bharti Airtel transferred its towers to BIL through a scheme of arrangement effective as of 21 January 2008.

Fig 23: BIL and Indus ownership structure



Source: Company

Business description

BIL, together with its 42% interest in Indus, is one of the largest tower and related infrastructure providers in India. It has a nationwide presence with operations in all 22 telecommunications circles in India (with four overlapping circles). BIL is the largest tower infrastructure provider in the seven telecommunications circles where it operates exclusive of Indus, while Indus is the largest tower infrastructure provider in the 15 telecommunications circles where it operates.

1. As of 30 September 2012, BIL standalone had a portfolio of 34,220 telecommunications towers with 62,027 tenants, while Indus had a portfolio of 110,561 telecommunications towers with 219,687 tenants.

2. As of 30 September 2012, BIL's (standalone) average tenancy was 1.82 sharing operators per tower and the average sharing factor of the towers owned and/or operated by Indus was 1.98 sharing operators per tower.

3. About 89% of BIL's towers were Ground Based Towers (GBTs) and 11% were Roof-top Towers (RTTs), while 62.6% of Indus' towers were GBTs and 37.4% were RTTs as of 30 June 2012.

The circle-wise coverage of the towers of BIL and Indus is summarised below.

Fig 24: BIL and Indus - Circles of operations

Name	*Telecommunications Circles*
BIL	Jammu & Kashmir, Himachal Pradesh, Haryana, Uttar Pradesh (East), Uttar Pradesh (West), Rajasthan, Madhya Pradesh and Chhattisgarh, Bihar, Orissa, Assam and North-East States
Indus	Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Kolkata, Maharashtra & Goa, Mumbai, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh (East), Uttar Pradesh (West), West Bengal

Source: Company

BIL and Indus have overlapping operations in Haryana, Rajasthan, Uttar Pradesh (East) and Uttar Pradesh (West). 9,923 of BIL's tower sites are located in these circles, where Indus also has operations. As per the Indus Shareholding Agreement, BIL is not permitted to roll out any new tower sites in these circles, although it may continue to own and operate its existing telecommunications towers in these circles, and add additional sharing operators to these towers. Details of BIL's and Indus' tower portfolios are shown below.

Fig 25: Towers and co-locations

	31 Mar 2010	31 Mar 2011	31 Mar 2012	30 Sep 2012
Number of towers				
BIL (consolidated)	73,921	78,442	79,064	80,655
BIL (standalone)	30,564	32,775	33,147	34,220
Indus	103,230	108,732	109,325	110,561
BIL (consolidated)	124,819	142,086	149,908	154,296
BIL (standalone)	49,999	57,621	60,160	62,027
Indus	178,144	201,106	213,685	219,687

Source: Company

BIL and Indus Towers have physical co-location, which may vary subject to the active infrastructure installed at a tower. As of 30 September 2012, BIL's average tower occupancy rate was 1.81 sharing operators per tower, while Indus' average sharing factor was 1.98 sharing operators per tower. Note that co-location of a 3G site with an existing 2G site (of the same operator) is not counted as an additional co-location as it generates only incremental loading charges (as per the existing MSA).

Fig 26: Average tenancy (x)

	31 Mar 2010	31 Mar 2011	31 Mar 2012	30 Sep 2012
BIL (consolidated)	1.57	1.75	1.85	1.90
BIL (standalone)	1.51	1.70	1.79	1.81
Indus	1.62	1.79	1.90	1.97

Source: Company

Fig 27: Rental per tenant per month (INR)

	31 Mar 2010	31 Mar 2011	31 Mar 2012	30 Sep 2012
BIL (consolidated)	34,184	34,724	34,625	34,099
BIL (standalone)	38,051	37,009	36,908	36,295
Indus	28,373	30,587	31,496	30,964

Source: Company

Fig 28: Key network parameters for BIL and Indus

	BIL (standalone)	Indus
GTT (%)	89.1	62.8
RTT (%)	11.0	37.4
External co-location * (nos)	27,278	31,666
External co-location * (x)	0.82	0.30
Single sharing factor towers (nos)	15,553	41,855
% of single co-location tower sites	45%	39%

Source: Company
*Co-location from operators excl. Bharti for BIL (standalone) and excl. Bharti, Vodafone & Idea for Indus

Operating framework provides visibility

Master Services Agreement (MSA)
The MSA is the long-term, non-discriminatory contract, varying from 5 to 15 years, between BIL/Indus and each of its customers (including the parent), and governs the framework to provide a wireless operator access to and use of a tower site to install active equipment. The MSA is a non-exclusive agreement, such that BIL retains the right to provide other service providers access to, and use of, its tower sites. The MSA entered into by Indus is substantially similar to BIL's MSA.

MSAs spell out specific details of the tower sharing process, including site selection and acquisition and construction timelines, base charges and loading fees for additional equipment (including 3G/4G) as well as the premiums applicable, term based premium and volume based discounts depending on the length of the service contract for the site and the aggregate number of sites at which the service provider is a sharing operator, annual escalation clause (c2.5%), service levels and uptimes to be maintained, along with exit payments and penalties.

The service contracts include energy costs, which are a combination of fixed contract and fixed cum variable contracts. Hence, any reduction in energy costs due to environmental-friendly initiatives could reduce overall costs, with the benefits accruing directly to the company.

Indus' footprint and relationship key to BIL

Indus was incorporated in November 2007 and Bharti Airtel, BIL, Vodafone India (and certain of its subsidiaries), Idea Cellular and Idea Cellular Infrastructure Services Limited entered into a framework agreement dated 8 December 2007. BIL, Vodafone India and Idea Cellular hold 42%, 42% and 16% stakes, respectively, in Indus.

BIL has entered into an indefeasible right to use agreement ("BIL IRU") with Indus, which granted Indus an indefeasible right to use ("IRU") certain of its towers in the telecommunication circles of Mumbai, Kolkata, Maharashtra, Tamil Nadu, Chennai, Kerala, Gujarat, Delhi, Karnataka, Andhra Pradesh, Punjab and West Bengal ("Specified Circles"). In addition, the joint venture partners have entered into similar IRU agreements with Indus and on the basis of these IRU agreements, Indus operates and derives revenues from the towers that are contributed to it.

A chronology of the events of the development of BIL's relationship with Indus is outlined in the table below.

Fig 29: Chronology of events regarding amalgamation of Indus

2007	BIL, Bharti Airtel and their joint venture partners entered into a joint venture to set up Indus to operate in 15 telecommunication circles in India
	Framework Agreement entered into among BIL, Bharti Airtel and their joint venture partners, under which each party is required to contribute towers to Indus
	Shareholders Agreement entered into among Bharti Airtel, BIL and their joint venture partners
2008	IRU agreements signed with Indus
2009	BIL transferred certain of its towers in the Specified Circles to BIVL pursuant to a scheme of arrangement which was effective as of 1 April 2009

Source: Company

BIL and Indus do not compete with each other in any telecommunications circle and they do not have any conflicts of interest in this regard. Both the companies share synergies ranging from knowledge sharing in relation to new operational initiatives such as solar energy and fixed energy models to sharing best practices and standards. For example, Indus has benefitted from BIL's solar energy initiatives, while BIL has replicated Indus' training institute model and has learnt from the health and safety standards implemented by Indus.

IRU agreements

Pursuant to the BIVL IRU, BIVL granted Indus an indefeasible right to use the towers of BIL in the Specified Circles. Under the BIVL IRU, Indus has the right to provide wireless operators access to these towers and derive revenues from these assets.

The BIVL IRU provides that the towers covered by it will remain the property of BIVL. Indus is required to pay BIL a sum of INR 401.8mn per month as consideration for the grant of the IRU. Indus undertakes to operate and maintain the towers covered by the IRU while it has the sole right to collect revenues arising from providing access to the towers. BIVL will continue to make payments under these contracts and Indus will reimburse these payments to BIVL. Indus has similar IRU agreements with tower infrastructure entities of other joint venture partners.

Funding flexibility

The telecom tower industry is highly capital intensive with most existing telecom tower companies under significant capital stress. A strong balance sheet and ready access to capital allow BIL to expand and upgrade its tower portfolio to accommodate demand for co-location. BIL, on a consolidated basis, is expected to have net cash of c.INR 25bn in FY13E.

Experienced management team

BIL has an experienced management team with significant experience in the roll out of the tower portfolio. The management team has significant sector-specific project and operational management expertise and an understanding of the opportunities and risks associated with the tower business. Similarly, Indus' management has significant experience in the tower infrastructure business. This experience provides significant advantages in commercial negotiations with suppliers and customers, identifying costs and operational efficiencies, anticipating and avoiding potential execution roadblocks and completing expansion and roll out within budgets.

Risks

- **Regulatory**. The licensing regime (including potential revenue share based license fee payments) might change in the future, which could impact the company's profitability. Implementation of certain TRAI measures could also result in higher competition.
- **Decrease in demand for tower space**. If the Indian wireless market and data usage do not grow or grows at a slower-than-expected rate, demand for BIL's and Indus' towers could be adversely affected.
- **Higher competition in the tower industry leading to tariff pressure.** BIL and Indus face intense competition in the market from (1) other operator-owned towercos and (2) independent towercos. India's passive telecommunications infrastructure may face consolidation and international companies could invest in it, resulting in the emergence of stronger competitors. Furthermore, competitive pricing/tariff pressure and the increasing need for BIL's and Indus' customers to reduce capex/opex, including power and fuel costs, could adversely affect BIL's or Indus' growth prospects and revenue.
- **Merger process could be delayed.** BIL proposes to merge its subsidiary, BIVL, into Indus as part of the consolidation of the towers that BIL, Vodafone India and its subsidiaries and Idea agreed to contribute to Indus. One of the schemes of arrangement filed by Vodafone India in this regard is currently pending in the High Court of Gujarat. A failure by Vodafone India to obtain the High Court of Gujarat's approval for the scheme of arrangement could result in fewer towers being consolidated into Indus than contemplated under the proposed merger. This may have an adverse effect on Indus and hence BIL.
- **Consolidation in the wireless industry could reduce demand.** Consolidation in the industry may result in reduced capital expenditure in the aggregate due to the overlap of wireless carriers in existing networks, and their expansion plans, leading to a reduction in demand for new tower sites or additional space at existing sites.
- **Potential listing of Indus**. Although our view is of potential re-leveraging of Indus as way of returning cash to shareholders, a potential IPO of Indus is not ruled out. Listing of Indus could result in BIL attracting a holding company discount thus impacting the stock performance.

Management structure and network history

IPO details and shareholding

BIL came out with its IPO on 28 December 2012. In the IPO, four of the financial investors sold 42.7mn shares, while 146.2mn new shares were issued. Post the IPO, Bharti Airtel's stake in the consolidated entity dropped to 79.4%.

Fig 30: Company shareholding pre and post IPO

	pre-IPO		post-IPO	
Bharti Airtel	1,500.0	86.1%	1,500.0	79.4%
Others	242.4	13.9%	199.7	10.6%
Public			188.9	10.0%
Total	1,742.4	100%	1,888.6	100.0%

Source: Company

Fig 31: Board structure

Name	Designation
Rakesh Bharti Mittal	Chairman and a non-independent and non-executive Director
Akhil Kumar Gupta	Managing Director and Vice Chairman
Sarvjit Singh Dhillon	Non-independent and non-executive Director
Sanjay Nayar	Non-independent and non-executive Director
Narayanan Kumar	Vice-Chairman and an independent and non-executive Director
Vinod Kumar Dhall	Independent and non-executive Director
Jitender Balakrishnan	Independent and non-executive Director
Bharat Sumant Raut	Independent and non-executive Director

Source: Analysys Mason, Company

Brief biographies

Rakesh Bharti Mittal is the Chairman and a non-independent and non-executive Director. He was appointed as a Director on 3 September 2012. He holds a diploma in Electrical Engineering and Controls from the YMCA Institute of Engineering, Faridabad.

Akhil Kumar Gupta is the Managing Director and Vice Chairman. He was appointed as a Director on 31 March 2008. He is a certified chartered accountant and a fellow member of the ICAI. He has also completed an advanced management program from the Harvard Business School, Harvard University, USA. He has over 28 years of experience in the telecommunications industry. He has been associated with strategically and financially significant initiatives of BIL, including the formation of Indus Towers Limited.

Sarvjit Singh Dhillon has been a non-independent and non-executive Director since 2 January 2012. He is also a fellow member of the Chartered Institute of Management Accounts, United Kingdom, and has completed the Stanford executive program from Stanford University, USA. Currently, he is the group chief financial officer of Bharti Enterprises Limited and has in the past served as the chief financial officer and director of strategy of Bharti Airtel. He has over 23 years of experience in the telecommunications industry.

Sanjay Nayar has been a non-independent and non-executive Director since 31 January 2011. He holds a bachelor's degree in arts from Brown University, Rhode Island, USA and a master's degree in business administration from Harvard Business School, Harvard University, USA.

Narayanan Kumar has been the Vice Chairman and an independent and non-executive Director since 29 April 2008. He is the Consul General for Greece in Chennai and the business representative of the International Enterprise Singapore (formerly the Singapore Trade Development Board). He has in the past been associated with the Confederation of Indian Industry as its president.

Vinod Kumar Dhall has been an independent and non-executive Director since 3 September 2012. He entered the Indian Administrative Service in 1966 and retired as the secretary, Ministry of Corporate Affairs, Government of India. He was also associated with the Competition Commission of India as its founding head, until July 2008. He has overall 27 years of experience in the fields of competition law, corporate affairs, industry and commerce, economic regulation and finance.

Jitender Balakrishnan has been an independent and non-executive Director of the company since 3 September 2012.

Bharat Sumant Raut has been an independent and non-executive Director of the company since 3 September 2012. He is also a certified chartered accountant and a fellow member of the ICAI. He has 42 years of experience in the fields of accountancy and law.

Income statement (INR mn)					
Year-end: Mar	2011	2012	2013E	2014E	2015E
Operating revenue	85,081	94,521	100,554	109,581	117,421
Gross profit	42,303	47,380	50,153	54,880	58,941
Operating expenses	(11,015)	(11,989)	(11,226)	(11,841)	(12,609)
Other income	0	0	0	0	0
Other expenses	(20,191)	(21,462)	(23,480)	(24,817)	(25,964)
EBIT	**11,097**	**13,929**	**15,446**	**18,222**	**20,368**
Net interest	(3,150)	(2,622)	(782)	1,018	2,199
Associates	0	0	0	0	0
Other non-operational	0	0	0	0	0
Exceptional items	0	0	0	0	0
Pre-tax profit	**7,947**	**11,307**	**14,664**	**19,241**	**22,567**
Taxation	(2,433)	(3,799)	(4,839)	(6,349)	(7,447)
Minority interests	0	0	0	0	0
Exceptional items after tax	0	0	0	0	0
Net profit	**5,515**	**7,507**	**9,825**	**12,891**	**15,120**
Net profit adj.	**5,515**	**7,507**	**9,825**	**12,891**	**15,120**
EBITDA	**31,288**	**35,391**	**38,926**	**43,040**	**46,332**
EPS (INR)	2.92	3.98	5.20	6.83	8.01
EPS adj. (INR)	2.92	3.98	5.20	6.83	8.01
DPS (INR)	0.00	0.00	2.60	3.41	4.00
Avg fully diluted shares (mn)	1,889	1,889	1,889	1,889	1,889

Cash flow statement (INR mn)					
Year-end: Mar	2011	2012	2013E	2014E	2015E
EBIT	11,097	13,929	15,446	18,222	20,368
Depreciation & amortisation	20,191	21,462	23,480	24,817	25,964
Net interest	(4,194)	(3,804)	(3,420)	(2,897)	(2,159)
Tax paid	4,771	3,627	4,839	6,349	7,447
Changes in working capital	3,445	1,268	6,310	4,839	(436)
Others	(6,593)	(4,474)	(3,620)	(5,886)	(8,377)
Cash flow from operations	**28,716**	**32,009**	**43,036**	**45,445**	**42,807**
Capex	(24,188)	(15,801)	(13,376)	(12,009)	(9,753)
Acquisitions	0	0	0	0	0
Disposals	0	0	0	0	0
Others	(5,518)	(4,355)	(987)	(1,000)	(1,000)
Cash flow from investing	**(29,706)**	**(20,156)**	**(14,363)**	**(13,009)**	**(10,753)**
Dividends	0	0	5,748	7,541	8,845
Issue of shares	0	0	32,164	0	0
Change in debt	4,530	2,236	(1,000)	(6,000)	(6,000)
Other financing cash flow	(10,217)	(13,746)	(14,929)	(17,980)	(19,850)
Cash flow from financing	**(5,687)**	**(11,509)**	**21,983**	**(16,439)**	**(17,004)**
Change in cash	**(6,677)**	**344**	**50,655**	**15,998**	**15,050**
Exchange rate effect	0	0	0	0	0
Free cash flow	**4,528**	**16,208**	**29,659**	**33,436**	**33,054**

Balance sheet (INR mn)					
Year-end: Mar	2011	2012	2013E	2014E	2015E
Cash	137	481	51,136	67,134	82,184
Short-term investments	2,455	3,363	4,363	5,363	6,363
Accounts receivable	6,987	6,826	7,010	7,639	8,186
Inventory	0	0	0	0	0
Other current assets	23,517	31,471	26,071	21,624	22,104
Total current assets	**33,095**	**42,140**	**88,580**	**101,760**	**118,837**
PP&E	179,549	169,132	159,028	146,220	130,009
Intangible assets	0	0	0	0	0
Associates and JVs	0	0	0	0	0
Other long-term assets	20,250	23,469	24,064	26,099	27,864
Total long-term assets	**199,799**	**192,601**	**183,092**	**172,319**	**157,873**
Total assets	**232,894**	**234,741**	**271,672**	**274,079**	**276,709**
Short-term debt	5,468	7,704	7,704	6,704	5,704
Accounts payable	2,207	4,017	4,314	4,658	4,976
Other current liabilities	19,414	22,884	23,847	25,381	26,398
Total current liabilities	**27,089**	**34,605**	**35,865**	**36,744**	**37,079**
Long-term debt	37,170	23,888	22,888	17,888	12,888
Convertible bonds	0	0	0	0	0
Deferred tax	0	0	0	0	0
Other long-term liabilities	28,686	31,006	31,436	32,614	33,634
Total long-term liabilities	**65,856**	**54,894**	**54,324**	**50,502**	**46,522**
Total liabilities	**92,945**	**89,499**	**90,189**	**87,245**	**83,601**
Shareholders' funds	139,949	145,242	181,484	186,833	193,108
Minority interests	0	0	0	0	0
Total equity	**139,949**	**145,242**	**181,484**	**186,833**	**193,108**
Total liabilities and equity	**232,894**	**234,741**	**271,672**	**274,079**	**276,709**
Net debt (cash)	42,501	31,112	(20,544)	(42,542)	(63,591)
Year-end shares (mn)	1,889	1,889	1,889	1,889	1,889

Financial ratios and other					
Year-end: Mar	2011	2012	2013E	2014E	2015E
Operating ratios					
Gross margin (%)	49.7	50.1	49.9	50.1	50.2
EBITDA margin (%)	36.8	37.4	38.7	39.3	39.5
EBIT margin (%)	13.0	14.7	15.4	16.6	17.3
Net margin adj. (%)	6.5	7.9	9.8	11.8	12.9
Effective tax rate (%)	30.6	33.6	33.0	33.0	33.0
Sales growth (%)	20.9	11.1	6.4	9.0	7.2
Net income growth (%)	118.0	36.1	30.9	31.2	17.3
EPS growth (%)	118.0	36.1	30.9	31.2	17.3
EPS growth adj. (%)	118.0	36.1	30.9	31.2	17.3
DPS growth (%)	-	-	nm	31.1	17.2
Efficiency ratios					
ROE (%)	4.0	5.3	6.0	7.0	8.0
ROCE (%)	5.5	6.9	7.1	7.7	8.5
Asset turnover (x)	0.4	0.4	0.4	0.4	0.4
Op. cash/EBIT (x)	2.6	2.3	2.8	2.5	2.1
Depreciation/capex (x)	0.8	1.4	1.8	2.1	2.7
Inventory days	0.0	0.0	0.0	0.0	0.0
Accounts receivable days	34.3	26.7	25.1	24.4	24.6
Accounts payable days	27.3	24.1	30.2	29.9	30.1
Leverage ratios					
Net gearing (%)	30.4	21.4	-11.3	-22.8	-32.9
Debt/capital (%)	20.7	15.8	13.0	10.4	7.8
Interest cover (x)	2.6	3.4	4.5	6.3	9.4
Debt/EBITDA (x)	1.4	1.0	0.8	0.6	0.5
Current ratio (x)	1.2	1.2	2.5	2.8	3.2
Valuation					
EV/sales (x)	-	-	3.7	3.2	2.8
EV/EBITDA (x)	-	-	9.6	8.2	7.1
EV/EBIT (x)	-	-	24.1	19.3	16.2
PER (x)	-	-	40.0	30.5	26.0
PER adj. (x)	-	-	40.0	30.5	26.0
PBR (x)	-	-	2.2	2.1	2.0
Dividend yield (%)	-	-	1.2	1.6	1.9
Other					
Consolidated towers	77,197	79,164	80,763	82,466	83,491
BIL - SA avg sharing factor	1.73	1.82	1.91	1.98	2.07
BIL-SA average rentals (INR)	36,995	36,889	37,688	38,479	39,233
Indus avg sharing factor	1.83	1.94	2.05	2.12	2.17
Indus average rentals (INR)	30,043	31,138	31,884	32,683	33,539

Source: Company, Standard Chartered Research estimates

Disclosures appendix

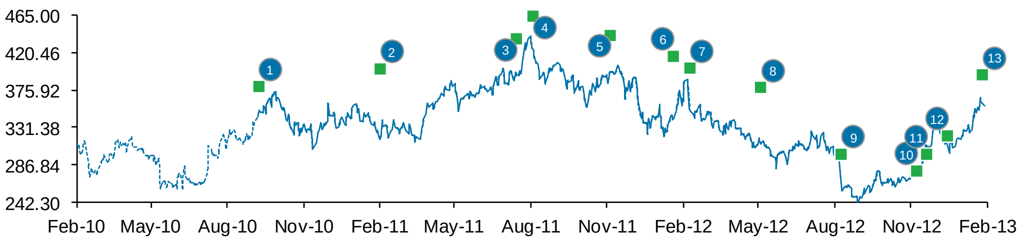
The information and opinions in this report were prepared by Standard Chartered Bank (Hong Kong) Limited, Standard Chartered Bank Singapore Branch, Standard Chartered Securities (India) Limited, Standard Chartered Securities Korea Limited and/or one or more of its affiliates (together with its group of companies, "SCB") and the research analyst(s) named in this report. THIS RESEARCH HAS NOT BEEN PRODUCED IN THE UNITED STATES.

Analyst Certification Disclosure: The research analyst or analysts responsible for the content of this research report certify that: (1) the views expressed and attributed to the research analyst or analysts in the research report accurately reflect their personal opinion(s) about the subject securities and issuers and/or other subject matter as appropriate; and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report. On a general basis, the efficacy of recommendations is a factor in the performance appraisals of analysts.

Where "disclosure date" appears below, this means the day prior to the report date. All share prices quoted are the closing price for the business day prior to the date of the report, unless otherwise stated.

SCB and/or its affiliates have received compensation for the provision of investment banking or financial advisory services within the past one year for the following companies: Bharti Airtel Ltd.
SCB was a lead manager of a public offering for this company within the past 12 months, for which it received fees: Bharti Infratel

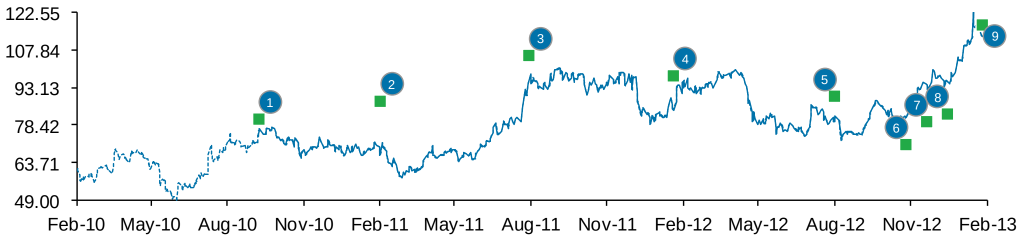
INR **Recommendation and price target history for Bharti Airtel**



	Date	Recommendation	Price target		Date	Recommendation	Price target		Date	Recommendation	Price target
1	7 Sep 10	OUTPERFORM	381.00	6	19 Jan 12	OUTPERFORM	417.00	10	7 Nov 12	IN-LINE	280.00
2	31 Jan 11	OUTPERFORM	402.00	7	8 Feb 12	OUTPERFORM	403.00	11	19 Nov 12	IN-LINE	300.00
3	14 Jul 11	OUTPERFORM	438.00	8	3 May 12	OUTPERFORM	380.00	12	14 Dec 12	IN-LINE	322.00
4	3 Aug 11	OUTPERFORM	465.00	9	8 Aug 12	IN-LINE	300.00	13	25 Jan 13	OUTPERFORM	395.00
5	4 Nov 11	OUTPERFORM	442.00								

Source: FactSet prices, SCB recommendations and price targets

INR **Recommendation and price target history for IDEA Cellular**



	Date	Recommendation	Price target		Date	Recommendation	Price target		Date	Recommendation	Price target
1	7 Sep 10	OUTPERFORM	81.00	4	19 Jan 12	OUTPERFORM	98.00	7	19 Nov 12	UNDERPERFORM	80.00
2	31 Jan 11	OUTPERFORM	88.00	5	31 Jul 12	OUTPERFORM	90.00	8	14 Dec 12	UNDERPERFORM	83.00
3	29 Jul 11	OUTPERFORM	106.00	6	25 Oct 12	UNDERPERFORM	71.00	9	25 Jan 13	IN-LINE	118.00

Source: FactSet prices, SCB recommendations and price targets

Recommendation Distribution and Investment Banking Relationships

	% of covered companies currently assigned this rating	% of companies assigned this rating with which SCB has provided investment banking services over the past 12 months
OUTPERFORM	55.7%	13.0%
IN-LINE	34.6%	14.9%
UNDERPERFORM	9.7%	3.3%

As of 31 December 2012

Research Recommendation

Terminology	Definitions
OUTPERFORM (OP)	The total return on the security is expected to outperform the relevant market index by 5% or more over the next 12 months
IN-LINE (IL)	The total return on the security is not expected to outperform or underperform the relevant market index by 5% or more over the next 12 months
UNDERPERFORM (UP)	The total return on the security is expected to underperform the relevant market index by 5% or more over the next 12 months

SCB uses an investment horizon of 12 months for its price targets.

Additional information, including disclosures, with respect to any securities referred to herein will be available upon request. Requests should be sent to scer@sc.com.

Global Disclaimer: Standard Chartered Bank and/or its affiliates ("SCB") makes no representation or warranty of any kind, express, implied or statutory regarding this document or any information contained or referred to in the document. The information in this document is provided for information purposes only. It does not constitute any offer, recommendation or solicitation to any person to enter into any transaction or adopt any hedging, trading or investment strategy, nor does it constitute any prediction of likely future movements in rates or prices or represent that any such future movements will not exceed those shown in any illustration. The stated price of the securities mentioned herein, if any, is as of the date indicated and is not any representation that any transaction can be effected at this price. While all reasonable care has been taken in preparing this document, no responsibility or liability is accepted for errors of fact or for any opinion expressed herein. The contents of this document may not be suitable for all investors as it has not been prepared with regard to the specific investment objectives or financial situation of any particular person. Any investments discussed may not be suitable for all investors. Users of this document should seek professional advice regarding the appropriateness of investing in any securities, financial instruments or investment strategies referred to in this document and should understand that statements regarding future prospects may not be realised. Opinions, forecasts, assumptions, estimates, derived valuations, projections, and price target(s), if any, contained in this document are as of the date indicated and are subject to change at any time without prior notice. Our recommendations are under constant review. The value and income of any of the securities or financial instruments mentioned in this document can fall as well as rise and an investor may get back less than invested. Future returns are not guaranteed, and a loss of original capital may be incurred. Foreign-currency denominated securities and financial instruments are subject to fluctuation in exchange rates that could have a positive or adverse effect on the value, price or income of such securities and financial instruments. Past performance is not indicative of comparable future results and no representation or warranty is made regarding future performance. While we endeavour to update on a reasonable basis the information and opinions contained herein, there may be regulatory, compliance or other reasons that prevent us from doing so. Accordingly, information may be available to us which is not reflected in this material, and we may have acted upon or used the information prior to or immediately following its publication. SCB is not a legal or tax adviser, and is not purporting to provide legal or tax advice. Independent legal and/or tax advice should be sought for any queries relating to the legal or tax implications of any investment. SCB, and/or a connected company, may have a position in any of the securities, instruments or currencies mentioned in this document. SCB and/or any member of the SCB group of companies or its respective officers, directors, employee benefit programmes or employees, including persons involved in the preparation or issuance of this document may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities or financial instruments referred to in this document and on the website or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. SCB has in place policies and procedures and physical information walls between its Research Department and differing public and private business functions to help ensure confidential information, including 'inside' information is not disclosed unless in line with its policies and procedures and the rules of its regulators. Data, opinions and other information appearing herein may have been obtained from public sources. SCB makes no representation or warranty as to the accuracy or completeness of such information obtained from public sources. You are advised to make your own independent judgment (with the advice of your professional advisers as necessary) with respect to any matter contained herein and not rely on this document as the basis for making any trading, hedging or investment decision. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary damages) from use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents or associated services. This material is for the use of intended recipients only and in any jurisdiction in which distribution to private/retail customers would require registration or licensing of the distributor which the distributor does not currently have, this document is intended solely for distribution to professional and institutional investors.

Country-Specific Disclosures - If you are receiving this document in any of the countries listed below, please note the following:
United Kingdom and European Economic Area: Standard Chartered Bank is authorised and regulated in the United Kingdom by the Financial Services Authority. This communication is not directed at Retail Clients in the European Economic Area as defined by Directive 2004/39/EC. Nothing in this document constitutes a personal recommendation or investment advice as defined by Directive 2004/39/EC.
Australia: The Australian Financial Services Licence for Standard Chartered Bank is Licence No: 246833 with the following Australian Registered Business Number (ARBN: 097571778). Australian investors should note that this document was prepared for "wholesale clients" only within the meaning of section 761G of the Australian Corporations Act 2001 (Act) and the Corporations Regulations. This document is not directed at persons who are "retail clients" as defined in the Australian Corporations Act 2001. **Brazil:** SCB disclosures pursuant to the Securities and Exchange Commission of Brazil ("CVM") Instruction 483/10: This research has not been produced in Brazil. The report has been prepared by the research analyst(s) in an autonomous and independent way, including in relation to SCB. THE SECURITIES MENTIONED IN THIS DOCUMENT HAVE NOT BEEN AND WILL NOT BE REGISTERED PURSUANT TO THE REQUIREMENTS OF THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL AND MAY NOT BE OFFERED OR SOLD IN BRAZIL EXCEPT PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS AND IN COMPLIANCE WITH THE SECURITIES LAWS OF BRAZIL. **Hong Kong**: This document, except for any portion advising on or facilitating any decision on futures contracts trading, is being distributed in Hong Kong by, and is attributable to, Standard Chartered Bank (Hong Kong) Limited which is regulated by the Hong Kong Monetary Authority. **India:** This document is being distributed in India by Standard Chartered Securities (India) Limited which is a SEBI registered broker and a member of the Bombay Stock Exchange Limited and The National Stock Exchange of India Limited. **Korea:** This document is being distributed in Korea by, and is attributable to, Standard Chartered Securities Korea Limited which is regulated by the Financial Supervisory Service. **Singapore:** This document is being distributed in Singapore by Standard Chartered Bank Singapore Branch only to accredited investors, expert investors or institutional investors, as defined in the Securities and Futures Act, Chapter 289 of Singapore. Recipients in Singapore should contact Standard Chartered Bank Singapore Branch in relation to any matters arising from, or in connection with, this document. **South Africa:** SCB is licensed as a Financial Services Provider in terms of Section 8 of the Financial Advisory and Intermediary Services Act 37 of 2002. SCB is a Registered Credit Provider in terms of the National Credit Act 34 of 2005 under registration number NCRCP4. **United States:** Except for any documents relating to foreign exchange, FX or global FX, Rates or Commodities, distribution of this document in the United States or to US persons is intended to be solely to major institutional investors as defined in Rule 15a-6(a)(2) under the US Securities Act of 1934. All US persons that receive this document by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities. Any US recipient of this document wanting additional information or to effect any transaction in any security or financial instrument mentioned herein, must do so by contacting a registered representative of Standard Chartered Securities (North America) Inc., 1095 Avenue of the Americas, New York, N.Y. 10036, US, tel + 1 212 667 0700. WE DO NOT OFFER OR SELL SECURITIES TO U.S. PERSONS UNLESS EITHER (A) THOSE SECURITIES ARE REGISTERED FOR SALE WITH THE U.S. SECURITIES AND EXCHANGE COMMISSION AND WITH ALL APPROPRIATE U.S. STATE AUTHORITIES; OR (B) THE SECURITIES OR THE SPECIFIC TRANSACTION QUALIFY FOR AN EXEMPTION UNDER THE U.S. FEDERAL AND STATE SECURITIES