

India: Telecom Services

3G/BWA spectrum auction countdown begins; BRTI is best placed

3G (UMTS) spectrum auction scheduled to begin on 16-Jan-09

In an information memorandum (IM) on the auction of 3G (UMTS) and broadband wireless access (BWA) spectrum, the government (DoT) has outlined the timeline and methodology of the auction process along with the quantum of 3G, BWA spectrum available for auction. As per the DoT, the last date for submission of applications to pre-qualify for the 3G and BWA auctions is January 5, 2009. A two-stage e-auction of 3G spectrum is scheduled to commence on January 16, 2009; spectrum frequencies will be assigned to the winners with 30 days of the close of the auction. Notably, the IM does not indicate the availability and auction timeline of EVDO spectrum (800 MHz, 450 MHz, 1900 MHz).

Spectrum available for auction – TWO slots each in Delhi, Gujarat; FOUR slots each in 15/22 service areas; ZERO in Rajasthan, NE

The IM indicates that excluding the 3G spectrum (in 2.1GHz band i.e. UMTS band) already assigned to the government incumbents (MTNL, BSNL), 3G spectrum is available to accommodate up to 4 operators in 15/22 service areas; only 2 slots each are available for auction in Delhi and Gujarat and there is no 3G spectrum available in 2 service areas. However, the DoT can notify any change in spectrum to be auctioned before the pre-bid conference, scheduled for December 23, 2008; the DoT is unlikely to make further 3G/BWA spectrum allocation within 12 months of the proposed auction in January 2009, based on the IM.

BWA spectrum – 3 blocks of 20MHz in 2.3/2.5 GHz up for auction

The IM does not indicate any surprises in the BWA spectrum availability and auction timeline; BWA spectrum auction will begin two days post the close of 3G spectrum auction; 3 slots are available across the country.

Bidding capacity – balance sheet strength pegs BRTI favorably to RCOM, IDEA and majority of other peers

In our view, low leverage and positive cash flows position Bharti Airtel (BRTI) favorably amongst its peers in the 3G, BWA spectrum auction. As Reliance Communication (RCOM) intends to pursue 3G spectrum in both the UMTS and EVDO bands, the likely push back of EVDO spectrum auction arguably dents its CDMA business prospects, but also eases a potential near-term financial constraint had it sought funding for both UMTS and EVDO spectrum auctions simultaneously.

WIRELESS TELCOS – VALUATION SNAPSHOT

Company	BRTI	RCOM	IDEA	MTNL
Ticker	BRTI.BO	RLCM.BO	IDEA.BO	MTNL.BO
Rating	Buy*	Neutral	Neutral	Neutral
Current Price (Rs)	722.3	249.2	53.5	74.9
Target Price (Rs)	847.0	228.0	51.0	80.0
Upside/Downside	17.3%	-8.5%	-4.7%	6.9%
	FY09E	FY09E	FY09E	FY09E
Revenue Growth	39.4%	27.5%	47.0%	-4.5%
EBITDA Growth	36.2%	18.6%	23.9%	-43.7%
EBITDA Margin	41.1%	39.3%	28.2%	9.1%
Earnings Growth	25.7%	6.4%	-6.8%	-47.8%
EPS (Rs) (Basic)	44.3	26.7	3.5	3.5
P/E	16.3	9.3	15.4	21.5
EV/EBITDA	9.6	7.6	9.1	NM

*Denotes stock is on Conviction List.

NOTE: Our 12-m target prices are based on DCF valuation; Closing prices as of December 12, 2008. Key risks: BRTI – (1) Intensifying competition leads to sub-par KPIs, (2) Adverse regulatory developments. IDEA – (1) Margins are subdued for a long period on the back of new rollouts, (2) Non-compelling valuation multiples. RCOM – (1) sub-par KPIs, (2) poor external tenancy on towerco. MTNL - Potential 'cash burn', loss at EBITDA level. Source: Datastream, Goldman Sachs Research estimate.

3G (UMTS) / BWA AUCTION PROCESS TIMELINE

Source: DoT's Information Memorandum on Auction of 3G and BWA Spectrum

- 23-Dec-08** – Pre-bid conference
- 05-Jan-09** – Final date of applications
- 06-Jan-09** – Publication of ownership details of applicants
- 09-Jan-09** – Pre-qualification of bidders
- 12-Jan-09 to 13-Jan-09** – Mock auction
- 16-Jan-09** – 3G spectrum auction commences
- 2 days post 3G auction ends** – BWA auction commences

RELATED RESEARCH

December 11, 2008

India Telecom Services – 3G spectrum – TRAI proposes a market-determined annual fee

August 4, 2008

India Telecom Services – 3G spectrum 'global' auction by Dec-08; norms favor incumbents

Anirudh Gangahar
+91(22)6616-9040 | anirudh.gangahar@gs.com Goldman Sachs India SPL
Rishi Jhunjhunwala
+91(80)6637-8667 | rishi.jhunjhunwala@gs.com Goldman Sachs India SPL

The Goldman Sachs Group, Inc. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification, see the end of the text. Other important disclosures follow the Reg AC certification, or go to www.gs.com/research/hedge.html. Analysts employed by non-US affiliates are not registered/qualified as research analysts with FINRA in the U.S.

Exhibit 1: 3G spectrum (UMTS) availability – Up to 4 slots available for an avg. 8-9 existing GSM licensees per circle
 Currently, only 2 slots available in Delhi, Gujarat; 1 slot in West Bengal and no spectrum available in Rajasthan, North East

Service Area	Service Area Category	Reserve Price (Rs mn)	Bandwith to be allotted (Paired MHz)	2x5 MHz blocks		
				To be allotted	Reserved for BSNL/MTNL	Available for auction
Andhra Pradesh	A	1,600	25	5	1	4
Assam	C	300	25	5	1	4
Bihar	C	300	25	5	1	4
Delhi	Metro	1,600	15	3	1	2
Gujarat	A	1,600	15	3	1	2
Haryana	B	800	25	5	1	4
Himachal Pradesh	C	300	20	4	1	3
Jammu & Kashmir	C	300	25	5	1	4
Karnataka	A	1,600	25	5	1	4
Kerala	B	800	25	5	1	4
Kolkata	Metro	800	25	5	1	4
Madhya Pradesh	B	800	25	5	1	4
Maharashtra	A	1,600	25	5	1	4
Mumbai	Metro	1,600	25	5	1	4
North East (NE)	C	300	5	1	1	0
Orissa	C	300	25	5	1	4
Punjab	B	800	25	5	1	4
Rajasthan	B	800	0	0	0	0
Tamil Nadu (incl. Chennai)	A	1,600	25	5	1	4
Uttar Pradesh (E)	B	800	25	5	1	4
Uttar Pradesh (W)	B	800	20	4	1	3
West Bengal	B	800	10	2	1	1
All India (ex. Rajasthan, NE)		19,100				
All India (ex. Rajasthan, NE) [in US\$ mn]		394				

Note #1: INR/US\$ exchange rate = Rs48.5/US\$

Note #2: DoT may notify any change in spectrum to be auctioned before the pre-bid conference, scheduled for December 23, 2008.

Source: Department of Telecommunications (DoT), Goldman Sachs Research Estimates.

Exhibit 2: 3G auctions – BRTI's financial strength positions it favorably to RCOM / IDEA

Our earning estimates for RCOM and IDEA do not capture any borrowing to fund potential success in securing 3G spectrum

Financials & Key Ratios	FY08	FY09E	FY10E	FY11E	CAGR (FY08-11E)
Net Income (Rs mn)					
Bharti Airtel	66,711	84,039	95,168	112,330	19.0%
Idea Cellular	10,423	9,715	11,658	14,486	11.6%
Reliance Comm.	51,636	55,119	47,517	62,225	6.4%
EPS (fully diluted)					
Bharti Airtel	35.15	44.18	50.03	59.05	18.9%
Idea Cellular	3.93	3.44	3.51	4.36	3.5%
Reliance Comm.	23.85	25.37	21.87	28.64	6.3%
Free Cash Flow (Rs bn)					
Bharti Airtel	(21.1)	(68.6)	27.3	76.8	
Idea Cellular	(32.6)	(65.0)	(29.5)	(7.4)	
Reliance Comm.	(129.5)	(68.2)	(63.8)	20.9	
Net Debt to Equity					
Bharti Airtel	0.19	0.39	0.26	0.08	
Idea Cellular	1.61	0.85	1.09	1.09	
Reliance Comm.	0.65	0.78	0.93	0.82	
Debt-to-equity					
Bharti Airtel	0.44	0.44	0.31	0.21	
Idea Cellular	1.84	1.28	1.31	1.26	
Reliance Comm.	1.19	1.15	1.06	0.99	

Note: Net income and EPS are on a pre-exceptional basis. Our earning estimates for BRTI assumes that the company secures nationwide 3G spectrum; the debt-funded outlay towards the bid is Rs40.4 bn – twice the reserve price for all-India 3G spectrum – the amount being amortized over a 20-yr period

Source: Company data, Goldman Sachs Research estimates.

Reg AC

I, Anirudh Gangahar, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Investment profile

The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

Quantum

Quantum is Goldman Sachs' proprietary database providing access to detailed financial statement histories, forecasts and ratios. It can be used for in-depth analysis of a single company, or to make comparisons between companies in different sectors and markets.

Disclosures

Coverage group(s) of stocks by primary analyst(s)

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Company-specific regulatory disclosures

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Distribution of ratings/investment banking relationships

Goldman Sachs Investment Research global coverage universe

	Rating Distribution			Investment Banking Relationships		
	Buy	Hold	Sell	Buy	Hold	Sell
Global	26%	57%	17%	52%	47%	37%

As of October 1, 2008, Goldman Sachs Global Investment Research had investment ratings on 3,165 equity securities. Goldman Sachs assigns stocks as Buys and Sells on various regional Investment Lists; stocks not so assigned are deemed Neutral. Such assignments equate to Buy, Hold and Sell for the purposes of the above disclosure required by NASD/NYSE rules. See 'Ratings, Coverage groups and views and related definitions' below.

Price target and rating history chart(s)

Compendium report: please see disclosures at <http://www.gs.com/research/hedge.html>. Disclosures applicable to the companies included in this compendium can be found in the latest relevant published research.

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director, advisory board member or employee of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman, Sachs & Co. and therefore may not be subject to NASD Rule 2711/NYSE Rules 472 restrictions on communications with subject company, public appearances and trading securities held by the analysts. **Distribution of ratings:** See the distribution of ratings disclosure above. **Price chart:** See the price chart, with changes of ratings and price targets in prior periods, above, or, if electronic format or if with respect to multiple companies which are the subject of this report, on the Goldman Sachs website at <http://www.gs.com/research/hedge.html>. Goldman, Sachs & Co. is a member of SIPC(<http://www.sipc.org>).

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. **Canada:** Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research in Canada if and to the extent it relates to equity securities of Canadian issuers. Analysts may conduct site visits but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited; **Japan:** See below. **Korea:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in Russian law, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian Law on Appraisal. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165W). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Services Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 4 (1) (d) and Article 6 (2) of the European Commission Directive 2003/126/EC is available at http://www.gs.com/client_services/global_investment_research/europeanpolicy.html

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer under the Financial Instrument and Exchange Law, registered with the Kanto Financial Bureau (Registration No. 69), and is a member of Japan Securities Dealers Association (JSDA) and Financial Futures Association of Japan (FFJAJ). Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Ratings, coverage groups and views and related definitions

Buy (B), Neutral (N), Sell (S) -Analysts recommend stocks as Buys or Sells for inclusion on various regional Investment Lists. Being assigned a Buy or Sell on an Investment List is determined by a stock's return potential relative to its coverage group as described below. Any stock not assigned as a Buy or a Sell on an Investment List is deemed Neutral. Each regional Investment Review Committee manages various regional Investment Lists to a global guideline of 25%-35% of stocks as Buy and 10%-15% of stocks as Sell; however, the distribution of Buys and Sells in any particular coverage group may vary as determined by the regional Investment Review Committee. Regional Conviction Buy and Sell lists represent investment recommendations focused on either the size of the potential return or the likelihood of the realization of the return.

Return potential represents the price differential between the current share price and the price target expected during the time horizon associated with the price target. Price targets are required for all covered stocks. The return potential, price target and associated time horizon are stated in each report adding or reiterating an Investment List membership.

Coverage groups and views: A list of all stocks in each coverage group is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>. The analyst assigns one of the following coverage views which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and/or valuation. **Attractive (A).** The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Not Rated (NR). The investment rating and target price, if any, have been removed pursuant to Goldman Sachs policy when Goldman Sachs is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances. **Rating Suspended (RS).** Goldman Sachs Research has suspended the investment rating and price target, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon. **Coverage Suspended (CS).** Goldman Sachs has suspended coverage of this company. **Not Covered (NC).** Goldman Sachs does not cover this company. **Not Available or Not Applicable (NA).** The information is not available for display or is not applicable. **Not Meaningful (NM).** The information is not meaningful and is therefore excluded.

Ratings, coverage views and related definitions prior to June 26, 2006

Our rating system requires that analysts rank order the stocks in their coverage groups and assign one of three investment ratings (see definitions below) within a ratings distribution guideline of no more than 25% of the stocks should be rated Outperform and no fewer than 10% rated Underperform. The analyst assigns one of three coverage views (see definitions below), which represents the analyst's investment outlook on the coverage group relative to the group's historical fundamentals and valuation. Each coverage group, listing all stocks covered in that group, is available by primary analyst, stock and coverage group at <http://www.gs.com/research/hedge.html>.

Definitions

Outperform (OP). We expect this stock to outperform the median total return for the analyst's coverage universe over the next 12 months. **In-Line (IL).** We expect this stock to perform in line with the median total return for the analyst's coverage universe over the next 12 months. **Underperform (U).** We expect this stock to underperform the median total return for the analyst's coverage universe over the next 12 months.

Coverage views: Attractive (A). The investment outlook over the following 12 months is favorable relative to the coverage group's historical fundamentals and/or valuation. **Neutral (N).** The investment outlook over the following 12 months is neutral relative to the coverage group's historical fundamentals and/or valuation. **Cautious (C).** The investment outlook over the following 12 months is unfavorable relative to the coverage group's historical fundamentals and/or valuation.

Current Investment List (CIL). We expect stocks on this list to provide an absolute total return of approximately 15%-20% over the next 12 months. We only assign this designation to stocks rated Outperform. We require a 12-month price target for stocks with this designation. Each stock on the CIL will **automatically** come off the list after 90 days unless renewed by the covering analyst and the relevant Regional Investment Review Committee.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs, and pursuant to certain contractual arrangements, on a global basis. Analysts based in Goldman Sachs offices around the world produce equity research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy.

This research is disseminated in Australia by Goldman Sachs JBWere Pty Ltd (ABN 21 006 797 897) on behalf of Goldman Sachs; in Canada by Goldman Sachs Canada Inc. regarding Canadian equities and by Goldman Sachs & Co. (all other research); in Germany by Goldman Sachs & Co. oHG; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs JBWere (NZ) Limited on behalf of Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman, Sachs & Co. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International, authorised and regulated by the Financial Services Authority, has approved this research in connection with its distribution in the European Union and United Kingdom; Goldman, Sachs & Co. oHG, regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht, may also be distributing research in Germany.

General disclosures in addition to specific disclosures required by certain jurisdictions

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives (including options and warrants) thereof of covered companies referred to in this research.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options disclosure documents which are available from Goldman Sachs sales representatives or at <http://www.theocc.com/publications/risks/riskchap1.jsp>. Transactions cost may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Our research is disseminated primarily electronically, and, in some cases, in printed form. Electronic research is simultaneously available to all clients.

Disclosure information is also available at <http://www.gs.com/research/hedge.html> or from Research Compliance, One New York Plaza, New York, NY 10004.

Copyright 2008 The Goldman Sachs Group, Inc.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.