

India Ahead of the Pack

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J.P. Morgan Daily Valuations

India

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India Telecom

Feb-09 GSM subscriber net adds down 1% M/M,
Bharti stable; we remain cautious - ALERT

- 9.5MM GSM net adds in February:** GSM net adds were at 9.18MM in Feb-09 vs. 9.3MM in Jan-09 – excluding RCOM. GSM operators reported combined subscriber net adds of 9.5MM in Feb-09 vs. 9.6MM in Jan-09 (excluding the new RCOM GSM circles), down 1.2% M/M; we have assumed that RCOM's GSM net adds in old GSM circles in February were the same (391,000) as in Jan-09 (Feb-09 numbers have not been disclosed yet). The subscriber number shows some moderation on a comparative basis, driven by Idea/MTNL.
- The key operator to highlight here is Idea, whose net adds were down to 1.5MM in Feb-09 vs. 2.0MM in Jan-09:** This could put some pressure on consensus expectations built on strong Jan-09 numbers. In the previous month, Idea benefited from reduced lifetime prepaid prices in Mumbai, adding 278,380 in Jan-09 vs. 87,261 subscribers in Feb-09. Idea also saw slower net adds in Bihar circle adding 260,385 in Jan-09 vs. 77,844 in Feb-09. Idea's net adds in the Dec-08 quarter were at 3.8MM, and Idea has already added 3.5MM together in Jan-09 and Feb-09.
- Bharti net adds stable at 2.7MM:** Bharti's net adds in February were stable at 2.7MM with the total subscriber base to 91.1MM. Bharti needs to add 2MM in Mar-09 to reach our estimate of 93MM. **Vodafone remains strong** with reported net adds of 2.5MM (2.4MM in Jan-09). Vodafone added 272,731 subs in Bihar (151,880 subs in January) with continued momentum in other new circles.
- BSNL net adds continue to improve,** as the company added 1.5MM in Feb-09 vs. 1.3MM/874,000 in Jan-09/Dec-08. BSNL has improved its GSM net add market share (excluding new RCOM GSM circles) from 10% in Dec-08 to 16% in Feb-09.
- J.P. Morgan investment view:** For Feb-09, the subscriber thrust from the newly launched circles seems to be fading, especially with Idea's net adds substantially lower M/M. While Bharti continues to remain stable, we believe that increasing competition, new circle launches, rural expansion and strain on tariffs will pressure margins. Further MTC (Mobile Termination Charge) cut continues to reflect the regulatory push to create a conducive environment for more competition. We are fundamentally cautious on the sector with no Overweight ratings.

GSM subscriber growth in Feb-09

Total subs ('000)	Feb-09	Jan-09	M/M change	Feb-08	Y/Y change
Bharti	91,115	88,383	3.1%	59,670	52.7%
VOD-Essar	65,921	63,340	4.1%	42,557	54.9%
BSNL	44,181	42,673	3.5%	34,573	27.8%
Idea [a]	41,519	40,016	3.8%	26,958	54.0%
Aircel	17,477	16,761	4.3%	10,185	71.6%
RCOM – GSM [b]	11,136	10,745	3.6%	6,676	66.8%
MTNL	4,085	4,004	2.0%	3,122	30.8%
Total	277,506	267,930	3.6%	185,017	50.0%
Net adds	9,576	9,694	-1.2%	6,266	52.8%

Source: COAI. [a] Including Spice circles. [b] RCOM's old GSM circles Feb-09 GSM net adds are not available yet (assumed same as in Jan-09).

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GSM net adds in Feb-09

Subscribers in 000s

Net Adds ('000)	Feb-09	Jan-09	M/M
Bharti	2,732	2,732	0.0%
VOD-Essar	2,581	2,407	7.2%
BSNL	1,508	1,312	14.9%
Idea [a]	1,502	2,003	-25.0%
Aircel	716	686	4.4%
RCOM [b]	391	391	0.0%
MTNL	81	104	-22.3%
Total	9,576	9,694	-1.2%

Source: COAI, Company data. [a] Including Spice circles. [b] Feb-09 old GSM numbers not yet disclosed by RCOM; assumed to be same as in Jan-09.

India Telecom

TRAI cuts Termination charges as expected,
Marginally negative but bigger risk is potential tariff
reduction, Remain cautious - ALERT

- **The Telecom Regulatory Authority of India (TRAI) announced a widely expected reduction in termination charges (TC)** for all domestic calls from Rs 0.30/minute to Rs 0.20/minute. TC for international incoming calls has been increased to Rs 0.40/minute from Rs 0.30/minute. There is no change in the ceiling on national long distance (NLD) carriage rates of Rs 0.65/minute. The new charges would be effective from 1 April, 2009.
- **Marginally negative for incumbents:** Reduction in TC is negative for incumbents (Bharti, RCOM, Vodafone, Idea) as all these operators have higher incoming minutes (on which they receive TC) than outgoing minutes (on which they pay TC). With limited data disclosure from companies on % of off-net minutes/incoming minutes, exact impact is difficult to calculate. Based on TRAI data, we estimate **net negative EBITDA impact of just 0.6%/0.5%/1.1% on FY10E for Bharti/RCOM/Idea**. Also our calculations do not include positive impact from increase in international TC that could reduce the impact.
- **However key threat is tariff reduction:** TRAI has explicitly stated in its release that it expects operators to reduce tariffs to pass on benefits of lower TC to consumers. We believe that this could be the real threat to FY10 estimates - our analysis indicates that **if operators reduce tariffs by Rs 0.05/minute (half of reduction in TC), it would reduce FY10E EBITDA by 11%/10%/20% for Bharti/RCOM/Idea**.
- **Tariff cuts beginning to happen but unlikely to see huge cuts right away:** Tata Teleservices has stated that they would cut tariffs on back of TC cut without quantifying the exact quantum of cuts. While it is difficult to see incumbents cutting tariffs significantly right-away (given the huge negative impact on profits), we expect more tariff cuts from new entrants/smaller players that would eventually force incumbents to reduce tariffs in our view. This is in addition to normal tariff reductions.
- **We remain fundamentally cautious on the sector and expect stocks to correct further near-term after an already steep fall in the last few days. We have no Overweight ratings in the sector.**

Table 1: Impact on cut in termination charges

FY10E	Bharti	RCOM	Idea
Scenario1:No change in tariffs			
% impact on FY10 revenues	-3.6%	-3.0%	-4.2%
% impact on FY10 EBITDA	-0.6%	-0.5%	-1.1%
% impact on FY10 EPS	-0.8%	-0.9%	-3.4%
Scenario2:Operators reduce tariffs by Rs0.05/min			
% impact on FY10 revenues	-7.2%	-6.4%	-8.5%
% impact on FY10 EBITDA	-10.8%	-9.6%	-20.3%
% impact on FY10 EPS	-15.1%	-19.1%	-62.8%

Source: Company reports and J.P. Morgan estimates.

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Table 2: Impact on cut in termination charges

	FY10E	Bharti	RCOM	Idea	Remarks
Network traffic (million minutes)		690,990	400,879	262,107	
% of incoming minutes		51.5%	51.5%	51.5%	Based on latest TRAI data and company reports
% of On-net minutes		54.0%	60.0%	54.0%	Based on latest TRAI data and company reports
Off-net minutes		317,855	160,352	120,569	
Net incoming off-net minutes		9,536	4,811	3,617	
Scenario1:No change in tariffs					
Change in termination charge (Rs/min)		-0.10	-0.10	-0.10	
Impact on revenues(Rs million)		(16,370)	(8,258)	(6,209)	
Impact on EBITDA (Rs million)		(954)	(481)	(362)	
Impact on net profit (Rs million)		(830)	(467)	(326)	
% impact on FY10 revenues		-3.6%	-3.0%	-4.2%	
% impact on FY10 EBITDA		-0.6%	-0.5%	-1.1%	
% impact on FY10 EPS		-0.8%	-0.9%	-3.4%	
Scenario2:Operators reduce tariffs by Rs0.05/min					
ARPM cut (Rs/min)		-0.05	-0.05	-0.05	
Impact on revenues(Rs million)		(33,126)	(17,979)	(12,565)	
Impact on EBITDA (Rs million)		(17,710)	(10,202)	(6,718)	
Impact on net profit (Rs million)		(15,409)	(9,896)	(6,046)	
% impact on FY10 revenues		-7.2%	-6.4%	-8.5%	
% impact on FY10 EBITDA		-10.8%	-9.6%	-20.3%	
% impact on FY10 EPS		-15.1%	-19.1%	-62.8%	

Source: Company reports and J.P. Morgan estimates.

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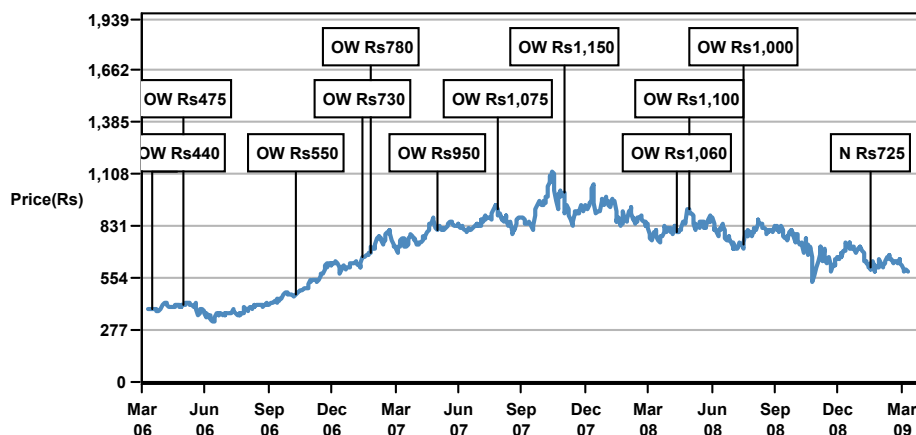
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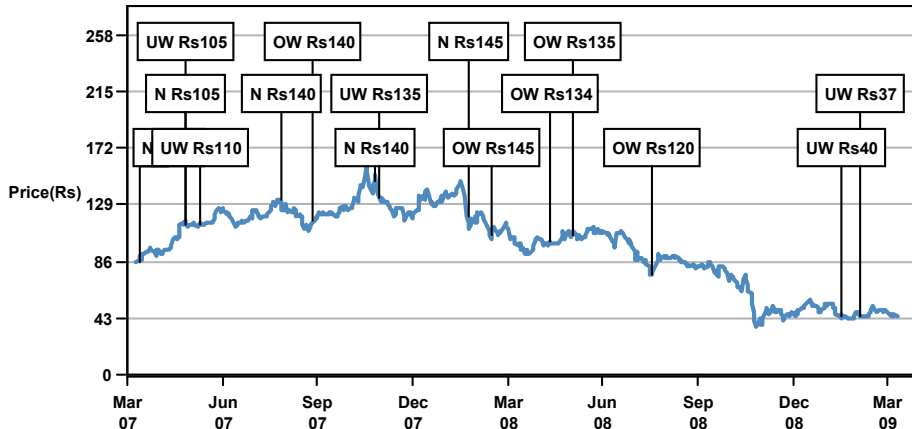
Bharti Airtel Limited (BRTI.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
17-Mar-06	OW	391.20	440.00
29-Apr-06	OW	405.85	475.00
10-Oct-06	OW	463.85	550.00
14-Jan-07	OW	664.70	730.00
24-Jan-07	OW	689.15	780.00
30-Apr-07	OW	812.05	950.00
27-Jul-07	OW	925.25	1075.00
01-Nov-07	OW	1006.60	1150.00
11-Apr-08	OW	798.70	1060.00
28-Apr-08	OW	927.85	1100.00
17-Jul-08	OW	730.35	1000.00
14-Jan-09	N	607.10	725.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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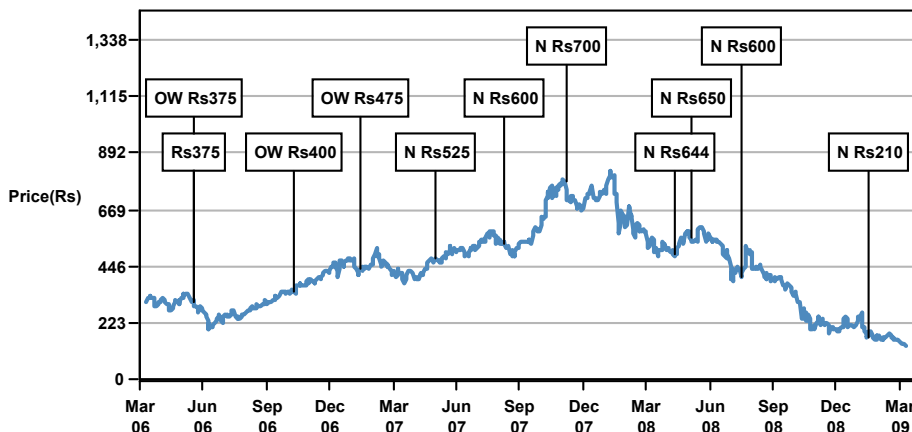
Idea Cellular Limited (IDEA.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
12-Mar-07	N	85.55	90.00
25-Apr-07	N	114.60	105.00
26-Apr-07	UW	117.50	105.00
10-May-07	UW	113.40	110.00
26-Jul-07	N	133.40	140.00
26-Aug-07	OW	117.10	140.00
25-Oct-07	N	146.65	140.00
28-Oct-07	UW	133.70	135.00
22-Jan-08	N	120.25	145.00
13-Feb-08	OW	106.25	145.00
10-Apr-08	OW	101.95	134.00
02-May-08	OW	105.50	135.00
17-Jul-08	OW	76.35	120.00
14-Jan-09	UW	43.95	40.00
01-Feb-09	UW	44.70	37.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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Reliance Communications Limited (RLCM.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
18-May-06	OW	311.30	375.00
10-Oct-06	OW	347.50	400.00
13-Jan-07	OW	433.75	475.00
02-May-07	N	477.10	525.00
08-Aug-07	N	532.35	600.00
06-Nov-07	N	779.30	700.00
10-Apr-08	N	496.35	644.00
04-May-08	N	561.20	650.00
17-Jul-08	N	399.30	600.00
14-Jan-09	N	168.00	210.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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