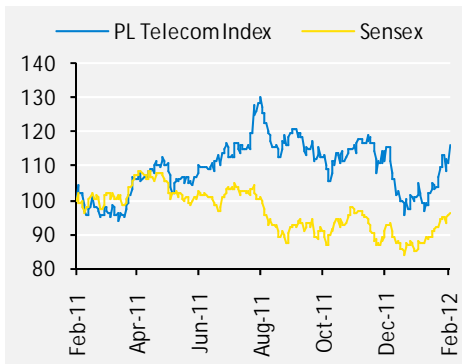


February 02, 2012

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**Sensex v/s PL Telecom Index**



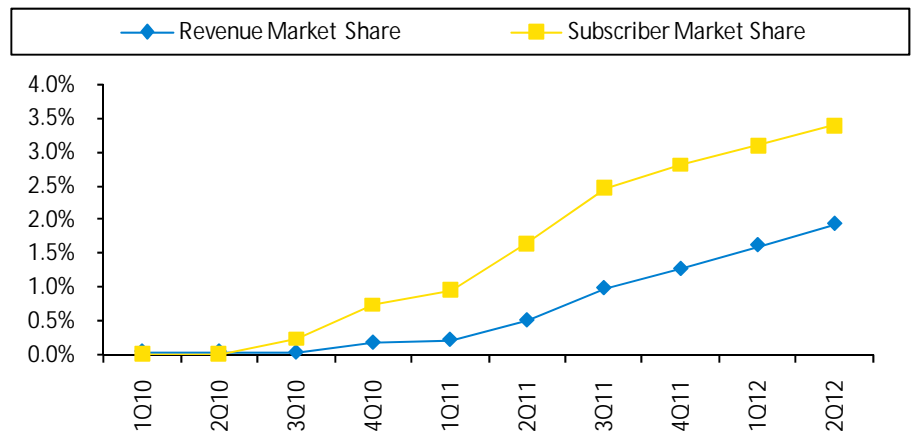
Source: Bloomberg

**Stock Performance**

(%)	1M	6M	12M
<b>Sensex</b>	<b>12.3</b>	<b>(3.7)</b>	<b>(3.6)</b>
<b>Telecom Index</b>	<b>10.6</b>	<b>(5.2)</b>	<b>16.4</b>
Bharti Airtel	11.9	(10.8)	19.5
Idea Cellular	15.4	1.1	39.7

- **The Supreme Court cancelled all the 122 2G licences** granted in 2008, affecting operations of 11 service providers. The operators are allowed to continue operations for the next four months as TRAI determines the transition mechanism for subscribers of these operators and also arrives at an appropriate market price for the licences. Companies intending to continue operating will have to pay the market price to do so.
- **The road ahead:** The SC has asked TRAI to make fresh recommendations on allotment of licences within four months. TRAI has said it prefers the auction route for issuance of these licences and may release a consultation paper to determine the process. The Govt will have to act on these recommendations within one month. Operators are likely to ask for a review of the judgement.
- **Incumbents to benefit:** With the primary impact on new entrants, incumbents like Bharti and Idea (in its 13 established circles) will benefit from moderation in competitive intensity. Some of the affected operators may not pursue fresh licences, while those who do may follow the incumbents' lead in raising tariffs, given that they will have to shell out 'market price' for the licences. The higher entry cost will also lead to a significant extension of the payback period for the affected licencees. Also, the cancellation of licences would increase the availability of spectrum to be auctioned, allowing incumbents to benefit from greater capacity for 2G services.
- **Positive impact on Bharti:** We believe that Bharti will benefit from the structural strength in tariffs, going forward, as the competitive intensity is moderated on the back of 1) exit of few new entrants and 2) higher entry costs for those that wish to continue. While the shift in subscribers from affected operators to the incumbents will be a positive trend, Bharti is also expected to benefit from margin improvement driven by tariff strength and lower subscriber acquisition costs. Consequently, we maintain our '**Accumulate**' rating on Bharti with a revised target price of Rs 409 (Rs392). However, the regulatory overhang remains, especially related to one-time charge on excess spectrum.
- **Idea - Positive for established circles but new circle drag to increase:** The affected service areas account for ~4% of revenues and reported an EBITDA loss 9MFY12 Rs4.9bn, amounting to a drag of 11% on Idea's EBITDA. As an incumbent in its 13 established circles, Idea will reap the benefits of subscriber shift and improved ARPM. However, we believe that Idea intends to remain a pan-India player and will bid for the 9 licences to continue operations in the affected service areas. While the final entry price will most likely be determined through the auction process, it is certain to extend the payback period for its new circles. Consequently, we reduce our FY13E EV/EBITDA based target price for Idea to Rs84 (Rs94) and downgrade the stock to **Reduce (Accumulate)**.

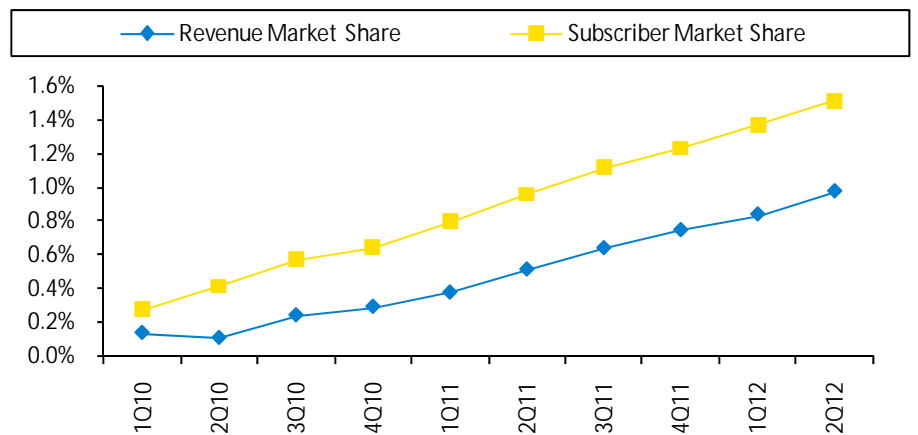
**Exhibit 1: Uninor**



Among the new entrants, operators like Uninor and Sistema Shyam are likely to bid for licences to continue operations

Source: Company Data, PL Research

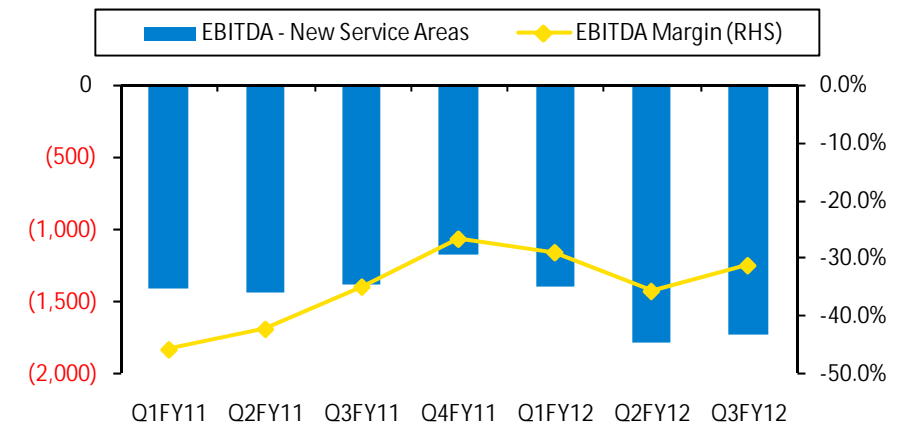
**Exhibit 2: Sistema Shyam**



Source: Company Data, PL Research

Higher licence fee payments for the 9 new circles could further increase losses and extend payback periods

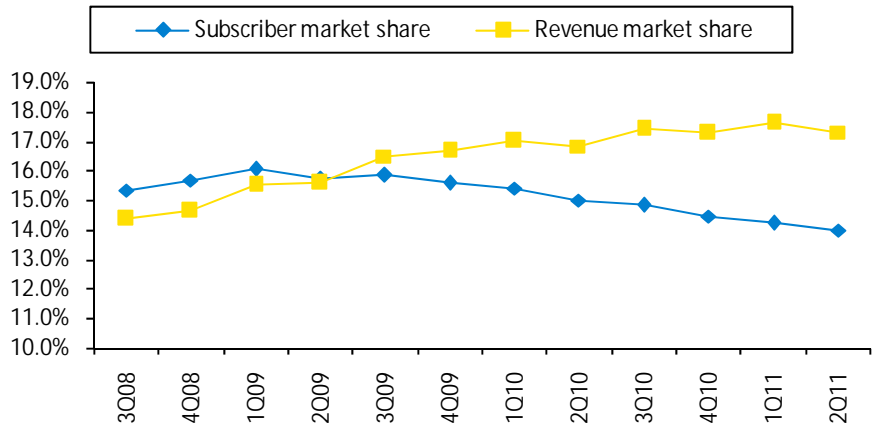
**Exhibit 3: Idea: New service areas' payback to get extended as entry price increases**



Source: Company Data, PL Research

*Established circles to benefit from tariff strength and subscriber transition from cancelled operators*

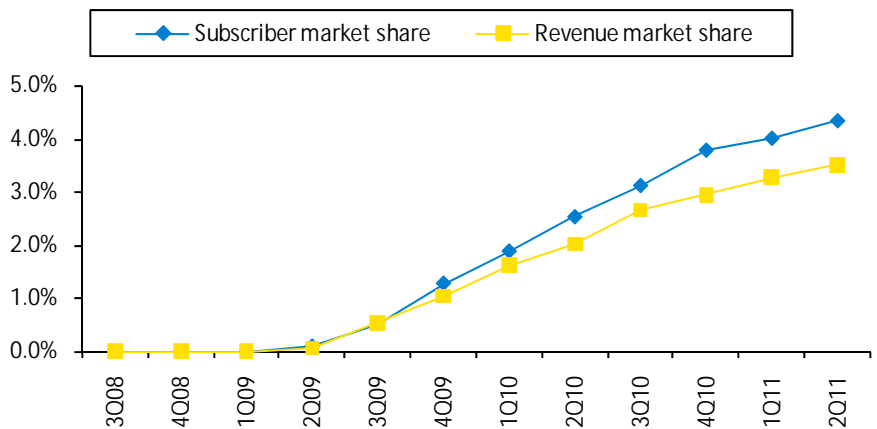
**Exhibit 4: Idea 13 established circles to benefit...**



Source: Company Data, PL Research

*New circles are an integral part of Idea's pan-India ambitions and we expect them to bid aggressively for these*

**Exhibit 5: ...New circles scaling up but will licence fee to exert drag**



Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>418,473</b>	<b>594,673</b>	<b>725,584</b>	<b>845,798</b>
Raw Material Expenses	—	—	—	—
Gross Profit	418,473	594,673	725,584	845,798
Employee Cost	19,028	32,189	35,229	36,255
Other Expenses	231,300	361,650	443,303	495,508
<b>EBITDA</b>	<b>168,145</b>	<b>200,834</b>	<b>247,052</b>	<b>314,035</b>
Depr. & Amortization	60,457	102,073	128,868	137,128
Net Interest	(6,075)	21,797	39,677	27,245
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>113,763</b>	<b>76,963</b>	<b>78,507</b>	<b>149,662</b>
Total Tax	13,710	17,802	23,897	43,315
<b>Profit after Tax</b>	<b>100,053</b>	<b>59,161</b>	<b>54,609</b>	<b>106,347</b>
Ex-Od items / Min. Int.	1,994	(1,761)	(230)	3,867
<b>Adj. PAT</b>	<b>98,059</b>	<b>60,922</b>	<b>54,839</b>	<b>102,479</b>
<b>Avg. Shares O/S (m)</b>	<b>3,797.6</b>	<b>3,797.6</b>	<b>3,797.6</b>	<b>3,797.6</b>
<b>EPS (Rs.)</b>	<b>25.8</b>	<b>16.0</b>	<b>14.4</b>	<b>27.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	162,376	187,139	255,836	273,610
C/F from Investing	(137,951)	(602,965)	(171,875)	(154,735)
C/F from Financing	(11,866)	396,983	63,880	(28,549)
Inc. / Dec. in Cash	12,559	(18,843)	147,841	90,326
Opening Cash	12,402	24,961	6,119	61,919
Closing Cash	24,961	6,119	61,919	152,245
FCFF	(79,077)	(367,606)	203,929	133,297
FCFE	(51,596)	83,258	150,280	133,297

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	13.2	42.1	22.0	16.6
EBITDA (%)	10.9	19.4	23.0	27.1
PAT (%)	15.1	(37.9)	(10.0)	86.9
EPS (%)	464.5	(37.9)	(10.0)	86.9
<b>Profitability</b>				
EBITDA Margin (%)	40.2	33.8	34.0	37.1
PAT Margin (%)	23.4	10.2	7.6	12.1
RoCE (%)	20.5	9.0	7.6	11.1
RoE (%)	27.0	13.4	10.9	18.0
<b>Balance Sheet</b>				
Net Debt : Equity	0.2	1.1	0.9	0.8
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	14.9	24.1	26.7	14.3
P / B (x)	3.5	3.0	2.8	2.4
EV / EBITDA (x)	9.0	9.9	7.7	5.9
EV / Sales (x)	3.6	3.3	2.6	2.2
<b>Earnings Quality</b>				
Eff. Tax Rate	12.1	23.1	30.4	28.9
Other Inc / PBT	—	—	—	—
Eff. Depr. Rate (%)	10.5	7.5	9.1	9.3
FCFE / PAT	(52.6)	136.7	274.0	130.1

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	421,940	487,668	516,905	619,385
Total Debt	81,474	532,338	478,689	478,689
Other Liabilities	59,548	75,213	79,996	83,864
<b>Total Liabilities</b>	<b>562,962</b>	<b>1,095,219</b>	<b>1,075,591</b>	<b>1,181,938</b>
Net Fixed Assets	573,255	1,352,987	1,416,386	1,470,311
Goodwill	—	—	—	—
Investments	—	—	—	—
Net Current Assets	(10,293)	(257,768)	(340,795)	(288,373)
Cash & Equivalents	25,323	9,575	42,076	85,766
Other Current Assets	112,362	102,502	141,223	155,795
Current Liabilities	147,978	369,845	524,094	529,933
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>562,962</b>	<b>1,095,219</b>	<b>1,075,591</b>	<b>1,181,938</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12E
<b>Net Revenue</b>	<b>162,654</b>	<b>169,828</b>	<b>172,764</b>	<b>185,941</b>
<b>EBITDA</b>	<b>54,442</b>	<b>57,059</b>	<b>58,151</b>	<b>63,309</b>
% of revenue	33.5	33.6	33.7	34.0
Depr. & Amortization	29,701	31,314	31,840	32,905
Net Interest	6,438	8,550	11,208	10,328
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>18,303</b>	<b>17,195</b>	<b>15,123</b>	<b>20,076</b>
Total Tax	4,996	5,141	4,900	6,023
<b>Profit after Tax</b>	<b>14,008</b>	<b>12,152</b>	<b>10,267</b>	<b>14,097</b>
<b>Adj. PAT</b>	<b>14,008</b>	<b>12,152</b>	<b>10,267</b>	<b>14,097</b>

**Key Operating Metrics**

Y/e March	2010	2011	2012E	2013E
India Wireless Subs (m)	128	162	178	194
Voice ARPU (Rs)	223	181	171	177
MOU (minutes)	460	456	444	445
ARPM (Rs)	0.5	0.4	0.4	0.4
Network Mins (m)	610,430	792,132	906,546	993,830

Source: Company Data, PL Research.

**Income Statement (Rs m)**

Y/e March	2011	2012E	2013E	2014E
<b>Net Revenue</b>	<b>155,032</b>	<b>193,932</b>	<b>226,221</b>	<b>255,953</b>
Raw Material Expenses	117,126	111,047	129,851	146,917
Gross Profit	37,907	82,886	96,370	109,036
Employee Cost	—	—	—	—
Other Expenses	—	31,673	34,386	38,905
<b>EBITDA</b>	<b>37,907</b>	<b>51,213</b>	<b>61,985</b>	<b>70,131</b>
Depr. & Amortization	23,973	29,772	31,932	32,381
Net Interest	3,965	10,875	9,808	7,182
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>9,969</b>	<b>10,566</b>	<b>20,244</b>	<b>30,568</b>
Total Tax	982	3,369	6,073	9,170
<b>Profit after Tax</b>	<b>8,987</b>	<b>7,197</b>	<b>14,171</b>	<b>21,398</b>
Ex-Od items / Min. Int.	—	—	—	—
<b>Adj. PAT</b>	<b>8,987</b>	<b>7,197</b>	<b>14,171</b>	<b>21,398</b>
<b>Avg. Shares O/S (m)</b>	<b>3,300.2</b>	<b>3,303.8</b>	<b>3,303.8</b>	<b>3,303.8</b>
<b>EPS (Rs.)</b>	<b>2.7</b>	<b>2.2</b>	<b>4.3</b>	<b>6.5</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	34,643	(20,762)	52,552	51,197
C/F from Investing	(84,752)	17,686	(35,000)	(15,340)
C/F from Financing	46,404	3,821	(6,183)	(32,822)
Inc. / Dec. in Cash	(3,706)	746	11,370	3,035
Opening Cash	—	—	—	—
Closing Cash	—	—	—	—
FCFF	(66,878)	54,610	17,552	35,857
FCFE	(20,478)	58,396	11,370	3,035

**Key Financial Metrics**

Y/e March	2011	2012E	2013E	2014E
<b>Growth</b>				
Revenue (%)	25.0	25.1	16.6	13.1
EBITDA (%)	12.9	35.1	21.0	13.1
PAT (%)	(5.8)	(19.9)	96.9	51.0
EPS (%)	(5.8)	(20.0)	96.9	51.0
<b>Profitability</b>				
EBITDA Margin (%)	24.5	26.4	27.4	27.4
PAT Margin (%)	5.8	3.7	6.3	8.4
RoCE (%)	5.2	5.6	7.7	9.9
RoE (%)	7.4	5.5	10.0	13.4

**Balance Sheet**

Net Debt : Equity	0.9	0.9	0.7	0.4
Net Wrkng Cap. (days)	(119)	(135)	(112)	(102)

**Valuation**

PER (x)	35.2	44.0	22.3	14.8
P / B (x)	2.5	2.3	2.1	1.9
EV / EBITDA (x)	11.5	8.6	6.8	5.5
EV / Sales (x)	2.8	2.3	1.9	1.5

**Earnings Quality**

Eff. Tax Rate	9.8	31.9	30.0	30.0
Other Inc / PBT	—	—	—	—
Eff. Depr. Rate (%)	6.4	8.4	8.2	8.0
FCFE / PAT	(227.9)	811.4	80.2	14.2

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	127,761	134,994	149,165	170,563
Total Debt	124,993	128,779	122,596	89,774
Other Liabilities	2,161	2,161	2,161	2,161
<b>Total Liabilities</b>	<b>254,916</b>	<b>265,934</b>	<b>273,922</b>	<b>262,498</b>
Net Fixed Assets	259,226	211,768	214,836	197,795
Goodwill	61	57,747	57,747	57,747
Investments	—	—	—	—
Net Current Assets	(4,372)	(3,581)	1,339	6,956
Cash & Equivalents	4,260	5,006	16,376	19,411
Other Current Assets	33,970	36,467	34,091	39,307
Current Liabilities	42,602	45,054	49,127	51,762
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>254,916</b>	<b>265,934</b>	<b>273,922</b>	<b>262,498</b>

**Quarterly Financials (Rs m)**

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
<b>Net Revenue</b>	<b>42,347</b>	<b>45,207</b>	<b>46,199</b>	<b>50,308</b>
<b>EBITDA</b>	<b>10,752</b>	<b>12,040</b>	<b>11,866</b>	<b>13,446</b>
% of revenue	25.4	26.6	25.7	26.7
Depr. & Amortization	6,572	7,026	7,369	7,575
Net Interest	854	2,463	2,939	2,880
Other Income	—	—	—	—
<b>Profit before Tax</b>	<b>3,326</b>	<b>2,551</b>	<b>1,559</b>	<b>2,991</b>
Total Tax	581	778	501	981
<b>Profit after Tax</b>	<b>2,745</b>	<b>1,773</b>	<b>1,058</b>	<b>2,010</b>
<b>Adj. PAT</b>	<b>2,745</b>	<b>1,773</b>	<b>1,058</b>	<b>2,010</b>

**Key Operating Metrics**

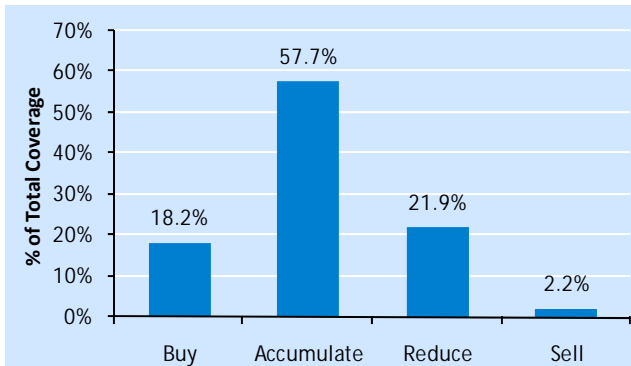
Y/e March	2011	2012E	2013E	2014E
Subscriber Base (m)	95	112	134	150
ARPU (Rs)	160	155	154	151
MOU (minutes)	390	370	366	355
ARPM (Rs)	0.41	0.42	0.42	0.42
Network minutes (m)	371,806	458,927	539,460	604,317

Source: Company Data, PL Research.



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<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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