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## News Roundup

### Corporate

- IReliance Industries (RIL), India's biggest private sector company, has struck a deal to explore uranium in Australia, as soaring demand and prices turn the heavy radioactive metal into a lucrative commodity. (ET)
- ISwedish truck giant AB Volvo is acquiring a 50% economic interest in Eicher Motors' (EML) commercial vehicles business, which is being spun off into a new joint venture company. (ET)
- IICICI Bank Ltd is set to enter the high-end wealth management business in an effort to tap into the country's growing affluence and is close to finalising an agreement with the UK-based Fortis Private Investment Management for this. (Mint)

### Economic and political

- In a move that could impact India's trade relations with Afganishtan, Chile, Latin American trading bloc Mercosr and the South African Customs Union, the Planning Commission said that India should shun Preferential Trade Agreements (PTAs) with other countries. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

## EQUITY MARKETS

India	Change, %			
	10-Dec	1-day	1-mo	3-mo
Sensex	19,931	(0.2)	5.4	28.2
Nifty	5,961	(0.2)	5.3	32.5
<b>Global/Regional indices</b>				
Dow Jones	13,727	0.7	5.2	4.6
Nasdaq Composite	2,719	0.5	3.5	6.2
FTSE	6,565	0.2	4.1	7.0
Nikkie	16,038	0.7	2.9	1.0
Hang Seng	28,744	0.9	(0.1)	20.0
KOSPI	1,911	0.2	(4.0)	3.4
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	10-Dec	1-mo	3-mo	
Cash (NSE+BSE)	234.6	267.9	264.9	
Derivatives (NSE)	472.8	14.1	373.3	
Deri. open interest	1,032.3	190.0	799.6	

### Forex/money market

	Change, basis points			
	10-Dec	1-day	1-mo	3-mo
Rs/US\$	39.4	-	6	(115)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	-	(5)	3

### Net investment (US\$m)

	7-Dec	MTD	CYTD
FIs	1	301	16,448
MFs	18	57	705

### Top movers -3mo basis

Best performers	Change, %			
	10-Dec	1-day	1-mo	3-mo
Neywell Lignite	258	1.4	54.6	178.6
Reliance Energy	1,946	0.7	5.9	126.2
Reliance Cap	2,393	(0.2)	17.8	94.3
MRF	7,319	1.6	(6.2)	91.8
Engineers India	876	5.0	(5.3)	88.2
<b>Worst performers</b>				
i-Flex	1,598	(1.0)	22.6	(18.2)
Glaxosmithkline	986	1.7	(2.5)	(13.1)
Container Corp	1,879	1.1	(2.8)	(12.8)
Britannia	1,461	(2.4)	(5.8)	(6.4)
Colgate-Palmolive	382	-	(1.3)	(5.2)

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**Retail****REXP.BO, Rs919**

Rating	BUY
Sector coverage view	Neutral
Target Price (Rs)	1,410
52W High -Low (Rs)	988 - 286
Market Cap (Rs bn)	44.5

**Financials**

June y/e	2007	2008E	2009E
Sales (Rs bn)	68.9	80.7	88.2
Net Profit (Rs bn)	1.0	2.2	3.2
EPS (Rs)	27.4	46.0	65.4
EPS <i>gth</i>	48.7	69.8	43.5
P/E (x)	33.5	20.0	14.1
EV/EBITDA (x)	9.4	2.8	1.8
Div yield (%)	0.2	0.2	0.3

**Rajesh Exports: Initiating with a BUY; New facets to sharpen gold edge**

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- **Initiate with BUY and SOTP-based target valuation of Rs1,410**
- **Large scale and designs to support transition to a jewelry retailer**
- **Revenue mix shift to drive margins and PAT CAGR of 55% over FY2007-10E**
- **Key risks—execution and slowdown in demand for gold jewelry**

We expect Rajesh Exports to effectively leverage its superior jewelry manufacturing operations, scale, wide design portfolio and strong cash flows to become a leading player in the Indian jewelry retail space. Increasing consumption expenditure and Rajesh's strengths in quality and variety will likely drive retail operations, resulting in margin expansion and earnings growth. In our view, the key factors that would drive growth and valuations are execution and continued demand for jewelry in India and abroad.

**Initiate with BUY and SOTP-based target valuation of Rs1,410**

We value Rajesh Exports using the SOTP methodology—with the export and retailing operations valued separately on a DCF basis. We value the jewelry export business at an EV of Rs28 bn, jewelry retail business at an EV of Rs25.4 bn and the real estate property at Rs2.5 bn. We highlight that any faster-than-expected store roll-outs and even slightly higher-than-estimated margins can significantly impact earnings and valuations.

**Large scale and designs to support transition to a jewelry retailer**

We believe Rajesh's large jewelry manufacturing scale and vast design repertoire will support the company's transition from a jewelry maker to a jewelry retailer and its foray into (1) higher-margin private label offshoring and (2) branded diamond jewelry manufacturing. We expect increasing consumption expenditure and customer focus on quality and designs to drive growth of organized jewelry retail in India, wherein we expect Rajesh to emerge as a leading domestic jewelry retailer.

**Revenue mix shift to drive margins and PAT CAGR of 55% over FY2007-10E**

We expect the increasing share of jewelry retailing, private label jewelry and diamond jewelry exports in Rajesh's revenue stream to drive EBITDA margin expansion of 280 bps (to 5.9%) over FY2007-10E. We model the revenue share of jewelry retail to increase to 18% in FY2010E from 2.6% in 1HFY08 and account for 22% of EBITDA and 22% of PAT in FY2010. We expect revenues and PAT to grow at a CAGR of 9% and 55%, respectively, over FY2007-10.

**Key risks—execution and slowdown in demand for gold jewelry**

Key risks for Rajesh originate from (1) lower-than-expected roll-out of jewelry retail stores, which could lead to lower-than-estimated margins and earnings and (2) any slowdown in consumer demand for gold jewelry in India and abroad.

**Banking****SREI.BO, Rs211**

Rating	BUY
Sector coverage view	Attractive
Target Price (Rs)	240
52W High -Low (Rs)	212 - 46
Market Cap (Rs bn)	23.0

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	1.5	2.2	3.9
Net Profit (Rs bn)	0.8	1.1	1.0
EPS (Rs)	7.3	10.3	7.5
EPS gth	63.6	41.2	(26.8)
P/E (x)	29.0	20.5	28.1
P/B (x)	5.1	4.2	2
Div yield (%)	0.5	0.9	1.3

**Shareholding, September 2007**

	% of Over/(under)		
	Pattern	Portfolio	weight
Promoters	20.1	-	-
FIs	49.7	0.1	0.1
MFs	7.3	0.1	0.1
UTI	-	-	-
LIC	-	-	-

**SREI Infrastructure Finance: Upgrading target price to factor in value of new businesses**

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- **Srei proposes to capitalize on its project development business to scale-up project finance activity**
- **Growth in new business initiatives adds value to the stock, we raise estimates and target price to Rs240, upgrade to BUY from ADD**
- **Key challenges: (a) Attracting appropriate human resources to scale-up its businesses and (b) Managing financial resources to fund projects under development**

After our recent meeting with Srei's management, we have turned significantly more positive on the stock and are increasing our earnings estimates and target price substantially. Several key developments on the project development front in road, ports and SEZ projects and a large advisory assignment will likely drive Srei's price and valuation hereon. While our fair value works out to Rs220, we believe that the stock will trade at a premium and hence assign a target price of Rs240 (up from Rs130 earlier). Given the significant uncertainty relating to projects (delays, profitability) we have assigned substantial discounts to the project related business. However, we believe that the fair value of the stock will increase over time as new projects gain traction. Key risks to our price target could arise from: (1) delays in implementation as most projects are government driven, (2) lack of experience in project development and assessments of such projects, though it should be noted that the company has partnered with experts in the respective field (3) management depth and quality and (4) most of all, lack of balance sheet size at Srei, and the large equity investment required in these projects. We believe Srei will likely need to tap the capital market shortly to meet its funding requirements.

**Earnings revised up.** We are raising our estimates by 5% for FY2009E and 21% for FY2010E to factor in (a) higher loan growth in project finance, (b) higher advisory fees, and (c) investment banking income. We have not factored in capital gains on proposed equity investments in infrastructure projects, but have taken the value of some of these gains into our SOTP calculation.

**Project development, project finance and advisory—capturing value across the spectrum.** Srei, along with project contractors, bids for development of infrastructure projects. It has development rights for six road projects and two ports. Srei proposes to provide a gamut of financial and advisory services for the projects under development.

- **Primarily, participate in equity of projects to be offloaded at later stage.** Based on projects (roads, ports and SEZs) under consideration, Srei will require to invest around Rs19 bn in equity investment over a 2-3 year period. Srei's equity base will be roughly Rs8 bn in FY2009, insufficient to fund these projects. Srei plans to sell down these investments during the project implementation stage to release capital. In the case of road projects, Srei may have to pool these in an SPV to unlock value.
- **Valuing roads at 20% discount:** We have valued the road projects in the range of 1.2X-1.9X its investments. However, we have taken a 20% discount, given the implementation risk and Srei's stretched balance sheet, which may force the company to sell its investments at lower valuations. While ports can add significant value over the long term, we have not included them in our SOTP as the company has yet to sign concession agreement.

- **Project advisory and loan syndication will likely boost its fee income.** Srei, along with Rites Ltd., has already bagged a government advisory assignment for the Ganga Expressway—a 950-km road project from Greater Noida to Ballia. The project cost is expected to be about Rs250 bn. According to the management, the project consultants (Srei and Rites) will earn 1% gross fees (Rs2.5 bn) over next 3-4 years. Srei will have a share of 65-75% in these fees.
- **Project development activity will also drive growth in its project finance book.** We factor a loan book (project finance business) of Rs29 bn and Rs43 bn in FY2009E and FY2010E, respectively, in our estimates.

While this segment provides a big business opportunity, it significantly increases the risk profile of Srei as all the streams are exposed to project completion issues. According to the management, the construction company that partners with Srei for the project will be responsible for project completion. Srei has been associated with project contractors for several years and hence it is in well placed to appraise the construction contractor.

**Investment banking—capitalizing on relationships with infrastructure companies.** Srei's investment banking business has earned fees of Rs79 mn in 1HFY08. The focus is on emerging infrastructure companies which are tapping equity markets. The company has a reasonable pipeline for its size and expects to close the year with about 10 deals. We believe that capital market linked businesses (brokerage and investment banking) should be valued at PER of the index. We value Srei's capital market business at 12X PER FY2009—a discount to the Sensex (currently trading at 19X PER FY2009), given its small size.

**SEZ's in Maharashtra and West Bengal add Rs6 per share.** Srei proposes to set up two SEZs: (a) Auto and auto ancillary SEZ in Khadakpur, West Bengal (100 hectares); Srei will hold 89% in this company, with the balance held by the Government of West Bengal. (b) Engineering sector SEZ in Raigarh, Maharashtra (81 hectares). Srei will own 50% in this company and Quipo the balance 50%. Srei's direct and indirect holding therefore will be 58%. We value these SEZs at Rs10 mn per hectare. However, given the uncertainty associated with execution of these SEZs, we assign 50% probability to our estimates.

**Alternative assets to scale up.** Srei currently manages Rs9 bn of private equity—Rs1.5 bn in equity and Rs8 bn in debt. These investments have been fully invested and the company now proposes to raise additional Rs12 bn (US\$300 mn) of equity. The management has highlighted that it has already received interest from several investors and the commitments will likely be firmed up over the next few months. This business will be headed by Mr Vijay Jindal, ex-CEO of Economic Times and head of the media-exchange-based private equity division of Bennet and Coleman group. We value Srei's alternative equity assets at 15% of equity AUMs and for the purpose of our SOTP have assumed that the company will raise only half its target at Rs6 bn.

**Quipo telecom—rapid growth in telecom towers.** Quipo telecom, (Srei's economic holding of 12%) has set up about 1,500 towers over the last ten months. We expect the company to have 3,000 towers by March 2009E. We value this business at Rs15 bn i.e. @ Rs50 mn/ telecom tower—a benchmark used by our telecom analysts team for valuing Bharti, Idea and Vodafone's telecom tower JV. The private placement in Reliance Communication's (R-Com) telecom tower business values its tower business at Rs100 mn/ telecom tower.

**E-Governance initiatives to provide reach.** As a part of the government's e-Governance initiative, Srei proposes to set-up 18,000 common service centres (kiosks measuring about 200 sq.ft) across the states of West Bengal, Bihar and Uttar Pradesh catering to a population of 160 mn. Srei proposes to partner with a local villager who will manage the kiosk. The company has already short-listed local candidates in West Bengal and the rollout will commence shortly. Given its vast distribution across 18,000 villages and towns, Srei proposes to capitalize this network to cross sell products/ services.

While Srei will provide the background infrastructure i.e. primarily connectivity, the cost of network terminals will be borne by the local partner. The company expects the initial cost of Rs0.1 mn per outlet, i.e. overall capex of Rs1.8 bn, over a period of 2-3 years. Given the nascent stage of this business, we are not factoring it into our model and valuations.

**Ability to attract human resources to scale up businesses is crucial.** Srei attributes its success in construction equipment finance business to the relationships that it has shared with construction contractors. It has identified several newer business opportunities around its current business and has made aggressive plans to capitalize on them. Its ability to hire and retain appropriate human resources to effectively scale up respective businesses remain crucial. See Exhibit for profiles of key employees.

### Srei Infrastructure finance - Sum-of-parts-based valuation

	Stake (%)	Value of the firm (Rs mn)	Value per share (Rs)	Comments
Parent company	100%	12,874	96	Residual growth model
JV with BNP	50%	27,252	81	2.4X PBR FY2009 (20% discount to valuation multiple paid by BNP)
Asset management	100%	1,125	8	Equity AUMs of Rs7.5 bn (currently Rs1.5 bn of equity),
Investment banking	100%	1,020	8	Investment banking business valued at 12X FY2009E EPS
SEZs				Valuation of Rs10 mn per hectare, 50% probability
Bengal Srei, Kahdakpur	89%	1,000	3	100 hectares
Quipo SEZ, Raigadh	51%	1,810	3	181 hectares
Unrealised gains on road projects		907	6	20% discount to the unrealised gains on road projects
Quipo telecom	12%	15,000	13	3000 telecom towers; EV of Rs5 mn per tower
<b>Total fair value</b>			<b>220</b>	

Source: Kotak Institutional equities estimates.

### Profile of key employees

Employee	Designation	Brief profile
K.K. Mohanty	ED, Roads	Over 24 years of experience, worked in project finance and equity finance businesses Was also with Orrisa State Financial corporation for 11 years B-Tech and MBA
Swapan Chakaraborty	Advisor, Ports	Was principal secretary, PWD, West Bengal and principal secretary, department of development and planning, West Bengal. IAS (Retd.)
Alok Upadhyay	SVP, Project finance & international business	Looking at urban infrastructure B-Tech, (IIT- Kharagpur)
Dr. Rati Ranjan Mandal	ED, Srei Capital Markets	Experience of over 30 years in project finance, advisory and investment banking M-Tech, IIT (Delhi), MSc. In Project management, (Manchester), PHD from UMIST (Manchester)
Amir Ahsan	Consultant, SEZ	Associate director, Gujarat Hydrocarbon and Energy SEZ.
Devendra Kumar Vuyas	CEO, Equipment finance	Has been with Srei for last ten years. Responsible for entire asset finance business B-Com, CA.
Ashok Kumar Parteek	Head, capital markets	Over 17 experience in capital markets, Member eastern India regional council of institute of company secretaries of India
Vijay Jindal	CEO, Srei Venture Capital	Was director Bennet and Coleman (B&C), CEO, Economic Times, Set up media exchange based private equity divisions of B&C

Source: Company.

**Srei has been lead manager for smaller IPOs**

IPOs managed by Srei

Name of the company	Size (Rs mn)
Kaveri Seeds	680
Magnum Ventures	360
Suryachakrya Power	122
Dhanus Technologies	1,564
Kaushalya Infrastructure	762

Source: Company, SEBI.

**Brief information on ports to be developed by Srei**

Ports	Project cost (Rs mn)	Equity investment (Rs mn)	Srei's share (%)	Srei's share (Rs mn)	Status
Machlipattnam port project, Andhra Pradesh	18,000	5,400	38	2,052	In partnership with Maytas, Nagarjuna Constructions, MoU signed, concession agreement yet to be finalised
Subernekhya, Orrisa	21,870	6,561	100	6,561	MoU signed, Concession agreement yet to be finalised
<b>Total</b>				<b>8,613</b>	

Source: Company.

**Srei has project development mandates for seven road projects**

Details of road projects to be developed by Srei

Project	Partner	Project cost (Rs mn)	Equity (Rs mn)	Srei's stake (%)	Comments	Valuation (X)	Srei's unrealised gain (Rs mn)
Trissur-Angamalli	KMC Construction	5,509	1,470	49	Design, Construction, Development, Finance, Improvement, Operation and Maintenance of BOT Road Project	1.2	144
Bharatpur - Mahua	Madhucon projects	2,905	596	26	4/6 Laning of Bharatpur (km 63.00) - Mahua (km 120.00) of NH-11 in Rajasthan	1.4	62
Madurai- Tuticorin	Madhucon projects	8,970	1,404	39	Four laning of Madurai to Tuticorin Section from Km. 138.800 to Km. 264.500 of NH-45B under NHDP Phase IIIA	1.4	219
Karur- Dindigul	Madhucon projects	3,640	728	26	4/6 Laning of Karur (km 305.60) - Dindigul (km 373.27) Section of NH -7	1.4	76
Nagpur Seoni	Sadbhav engineering	4,723	1,181	49	Rehabilitation & Up-gradation to 4-laning of Lakhnadon-MP/MH Border Section from km 596/750 to km 653/225 of NH-7	1.2	116
Jaora- Nayagaon	Viva Infrastructure	4,144	1,243	26	Development of Road -Jaora-Nayagaon section of SH-31-(BOT)	1.9	291
<b>Total</b>		<b>29,890</b>	<b>6,622</b>				<b>907</b>

Source: Company.

**SREI Infrastructure Finance, Income statement and balance sheet, March fiscal years 2005-2010E (%)**

	2005	2006	2007	2008E	2009E	2010E
<b>Income statement</b>						
Interest income	1,261	2,190	3,669	5,337	8,399	13,292
Interest expenses	567	1,076	2,155	3,285	5,208	8,257
<b>Net interest income</b>	<b>694</b>	<b>1,114</b>	<b>1,514</b>	<b>2,052</b>	<b>3,191</b>	<b>5,035</b>
Provisions and write/off	54	52	103	150	333	433
Net interest income (after prov.)	640	1,062	1,411	1,903	2,858	4,602
Other income	39	5	21	188	691	920
<b>Operating expenses</b>	<b>275</b>	<b>374</b>	<b>567</b>	<b>817</b>	<b>1,261</b>	<b>1,718</b>
Employee expenses	99	147	223	328	508	660
Admin and other expenses	136	178	264	429	687	983
Brokerage and service charges	17	17	20	20	20	20
other miscellaneous expenses	11	16	38	10	10	10
Depreciation	12	16	22	31	37	45
<b>Pretax income</b>	<b>398</b>	<b>682</b>	<b>858</b>	<b>1,267</b>	<b>2,280</b>	<b>3,797</b>
Tax provisions	19	31	65	120	204	328
Deferred Tax	96	167	0	28	528	871
<b>Net Profit</b>	<b>283</b>	<b>484</b>	<b>792</b>	<b>1,119</b>	<b>1,548</b>	<b>2,597</b>
<b>Net Profit after minority interest</b>	<b>283</b>	<b>484</b>	<b>792</b>	<b>1,119</b>	<b>1,006</b>	<b>1,834</b>
EPS (Rs)	5	4	7	10	8	14
BPS (Rs)	30	37	43	51	92	102
ABVPS (Rs)	30	37	42	50	89	99
<b>Balance sheet</b>						
Construction equipment finance	8,717	15,873	30,447	38,535	62,714	83,751
Project finance	1,538	2,801	5,373	6,800	29,040	43,560
<b>Net loans</b>	<b>10,256</b>	<b>18,674</b>	<b>35,820</b>	<b>45,335</b>	<b>91,754</b>	<b>127,311</b>
Total Investments	495	1,039	1,467	1,467	804	804
Cash & deposits	437	1,424	753	753	1,506	1,506
Stock in trade	88	108	88	100	200	200
Installments due	23	34	27	34	69	95
Other advances recoverable in cash & kind	715	841	1,712	1,712	2,712	2,712
Net fixed assets	178	202	257	383	499	598
<b>Total assets</b>	<b>12,277</b>	<b>22,322</b>	<b>40,124</b>	<b>49,784</b>	<b>97,543</b>	<b>133,226</b>
Total Borrowings	9,855	16,944	33,035	41,801	77,787	110,830
Current liabilities	93	332	1,079	1,079	1,079	1,079
Provisions	224	356	656	656	656	656
Deferred tax liability	478	645	645	673	1,083	1,662
<b>Total liabilities</b>	<b>10,651</b>	<b>18,276</b>	<b>35,414</b>	<b>44,208</b>	<b>80,605</b>	<b>114,226</b>
Share capital	535	1,091	1,091	1,091	1,341	1,341
Reserves	1,105	3,014	3,679	4,485	11,056	12,353
<b>Shareholders fund</b>	<b>1,626</b>	<b>4,046</b>	<b>4,710</b>	<b>5,576</b>	<b>12,397</b>	<b>13,694</b>
<b>Minority interest</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,542</b>	<b>5,306</b>

Source: Company, Kotak Institutional Equities estimates.

## Telecom

Sector coverage view

Cautious

Company	Rating	Price, Rs	
		10-Dec	Target
Bharti	REDUCE	970	790
Rcom	SELL	729	550
MTNL	SELL	179	135
VSNL	REDUCE	628	550
Idea Cellular	SELL	136	120

## GSM net adds inch up marginally in Nov '07; Bharti consistent; Vodafone slips

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- **GSM operators (excluding RCL's GSM operations) add 5.8 mn subs in November**
- **Flat net adds mom for Bharti; Vodafone-Essar slips on net adds as BSNL picks up**
- **Total subs addition may be 8.1 mn in November assuming that CDMA operators maintain their October 2007 subs addition**

GSM operators (excluding RCL) added 5.8 mn subs in Nov '07, a marginal uptick from 5.7 mn in October 2007 (6 mn including RCL). BSNL was the only GSM operator to increase its subscriber additions mom substantially. We believe the total subs addition for Nov 2007 may be 8.1 mn (versus 8 mn in Oct '07), assuming that CDMA operators maintain their Oct '07 subs additions pace. Overall subs net adds are in-line with our estimates (we forecast 7.9 mn subs net adds per month from Dec '07 to Mar '08). The key highlights of the Nov '07 GSM net adds were (1) Bharti's consistency in subs addition pace—the company's monthly net adds have been between 1.96 mn and 2.06 mn for the past six months, (2) consistent, albeit marginal (before November) decline in Vodafone's net adds for the past four months (3) pick-up in net add pace for BSNL; BSNL could likely be the party-spoiler for the private wireless operators once its capacity comes on-board in all the circles. We maintain our REDUCE rating on Bharti and SELL rating on RCOM and Idea with a 12-month forward DCF-based target price of Rs790, Rs550, and Rs120, respectively. Key risk is higher-than-expected profitability.

**Overall Nov '07 GSM subs addition in line with our estimates.** The aggregate GSM (ex-RCL) net adds for the month of Nov '07 (5.8 mn vs 5.7 mn in Oct '07) were in line with our estimates. We expect 8.1 mn net subs adds in Nov '07 versus 8 mn in the month of Oct '07, assuming that CDMA operators maintain monthly net adds at previous month level. We are disappointed with the marginal uptick in subs net add in November given the aggressive promotions by the wireless operators during the festive season (Diwali was in the second week of the month). However, we do not see a risk to our end-Mar '08 subs estimates of 247.6 mn—implying a monthly run rate of 7.9 mn net adds per month from Dec '07 to Mar '08—reasonable in our view.

**Bharti maintains steady pace; acceleration likely round the corner.** Bharti maintained its market-leader position adding 2.05 mn subs in the month of Nov '07 (35.3% of net adds ex-RCL GSM versus 35.5% in Oct '07). We are a tad disappointed with the flat mom net adds trajectory displayed by Bharti over the past six months. However, with the current regulatory environment that could likely lead to a substantial increase in competitive intensity in the next 12 months, we expect Bharti to become more aggressive about network expansion and subscriber acquisition in the coming months (in a bid to lower the overall pie available to the new entrants). Our Mar'08 subs estimate for Bharti (62.3 mn) implies net adds of 2.33 mn per month from Dec '07 to Mar '08; this could be at risk unless our expected acceleration in the pace of net adds materializes.

**Deceleration in Vodafone' net add pace surprising.** Nov '07 net adds for Vodafone-Essar, at 1.38 mn, were substantially below the Oct '07 net adds of 1.53 mn and marked the fourth consecutive month of declining net adds. We find the deceleration in the pace of net adds surprising given (1) Vodafone recently launched its bundled-handset offering priced at Rs1,450; the company indicated in its India Analyst day that it has sold 1 mn bundled handsets over the past two months; (2) the company's aggressive marketing campaigns including special promotions around Diwali. We attribute the decline to the transition phase of re-branding to Vodafone from Hutch earlier.



**Idea Cellular—an in-line month.** Idea's net adds of 800,000 subs (13.8% of GSM market net adds ex-RCL vs 13.1% in Oct '07) was in-line with our expectations, and bucked the trend of declining monthly net adds for the previous four months. Idea is on pace to achieve our Mar '08 subs estimate of 23.4 mn subs, which implies monthly net adds of 784,000 subs from Dec '07 to Mar '08.

**BSNL—strong subs net adds in UP(East) drives uptick in net add pace, for second month in succession.** BSNL reported subs net adds of 912,000 for the month of Nov '07, its highest net adds since it added 2 mn subs in Mar '07. More important, 43% of BSNL's net adds for the month came from the UP(east) service area. We believe that BSNL's performance over the next few months (till its new capacity gets commissioned) remains contingent on its performance in the select circles where it does not face capacity constraints. It also highlights the competitive intensity that BSNL can bring to the table, if not faced by capacity constraints.

BSNL's much talked about new capacity may finally come on stream (in the next six to nine months) though with half of originally planned size (22.7 mn versus 45.5 mn lines earlier). Ericsson has signed on revised purchase order with BSNL for 13.1 mn lines. Nokia Siemens Networks is yet to sign on its share of 9.6 mn lines.

**Others—another strong month for Aircel.** Aircel added 502,000 subs in Nov '07, its strongest ever monthly subs add. MTNL added 64,000 subs vs 54,000 in Oct '07) and Spice added 91,000 subs vs 89,000 in Oct '07.

## Subscriber details of leading GSM cellular operators ('000)

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07
<b>Subs ('000)</b>													
Bharti Airtel	30,262	31,974	33,732	35,440	37,141	38,892	40,744	42,704	44,763	46,815	48,876	50,909	52,961
Vodafone-Essar	22,275	23,306	24,414	25,343	26,442	27,703	29,209	30,752	32,437	34,115	35,658	37,187	38,563
IDEA Cellular	11,841	12,442	13,072	13,640	14,011	14,563	15,267	16,126	17,004	17,871	18,672	19,422	20,222
BPL	1,053	1,056	1,062	1,066	1,071	1,077	1,082	1,088	1,095	1,102	1,153	1,201	1,221
Spice Telecom	2,357	2,450	2,520	2,579	2,729	2,815	3,007	3,170	3,290	3,398	3,482	3,570	3,661
Reliance	3,410	3,641	3,876	4,111	4,348	4,625	4,939	5,298	5,699	6,142	6,627	7,154	7,722
MTNL	2,375	2,425	2,498	2,579	2,747	2,484	2,548	2,609	2,669	2,729	2,772	2,826	2,890
BSNL	22,975	23,619	24,442	25,444	27,429	27,756	27,994	28,423	28,979	29,704	30,303	31,033	31,945
Aircel	4,238	4,513	4,802	5,095	5,514	5,928	6,409	6,775	7,162	7,621	8,039	8,524	9,026
<b>Total market</b>	<b>100,786</b>	<b>105,425</b>	<b>110,420</b>	<b>115,297</b>	<b>121,431</b>	<b>124,843</b>	<b>130,124</b>	<b>135,787</b>	<b>141,839</b>	<b>148,089</b>	<b>153,991</b>	<b>160,014</b>	<b>165,831</b>
<b>Market share of subs (%)</b>													
Bharti Airtel	30.0	30.3	30.5	30.7	30.6	31.2	31.3	31.4	31.6	31.6	31.7	31.8	31.9
Vodafone-Essar	22.1	22.1	22.1	22.0	21.8	22.2	22.4	22.6	22.9	23.0	23.2	23.2	23.3
IDEA Cellular	11.7	11.8	11.8	11.8	11.5	11.7	11.7	11.9	12.0	12.1	12.1	12.1	12.2
BPL	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.8	0.7
Spice Telecom	2.3	2.3	2.3	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.2	2.2
Reliance	3.4	3.5	3.5	3.6	3.6	2.9	3.0	3.0	3.1	3.2	3.3	3.3	3.2
MTNL	2.4	2.3	2.3	2.2	2.3	2.0	2.0	1.9	1.9	1.8	1.8	1.8	1.7
BSNL	22.8	22.4	22.1	22.1	22.6	22.2	21.5	20.9	20.4	20.1	19.7	19.4	19.3
Aircel	4.2	4.3	4.3	4.4	4.5	4.7	4.9	5.0	5.0	5.1	5.2	5.3	5.4
<b>Growth (%)</b>													
Bharti Airtel	5.8	5.7	5.5	5.1	4.8	4.7	4.8	4.8	4.8	4.6	4.4	4.2	4.0
Vodafone-Essar	4.7	4.6	4.8	3.8	4.3	4.8	5.4	5.3	5.5	5.2	4.5	4.3	3.7
IDEA Cellular	7.8	5.1	5.1	4.3	2.7	3.9	4.8	5.6	5.4	5.1	4.5	4.0	4.1
BPL	0.3	0.3	0.6	0.3	0.5	0.6	0.5	0.5	0.6	0.7	4.7	4.2	1.6
Spice Telecom	4.0	3.9	2.9	2.3	5.8	3.1	6.8	5.4	3.8	3.3	2.5	2.5	2.6
Reliance	7.1	6.8	6.5	6.0	5.8	(16.6)	6.6	7.1	7.2	6.7	6.4	6.1	-
MTNL	2.1	2.1	3.0	3.2	6.5	(9.6)	2.6	2.4	2.3	2.3	1.6	1.9	2.3
BSNL	4.2	2.8	3.5	4.1	7.8	1.2	0.9	1.5	2.0	2.5	2.0	2.4	2.9
Aircel	5.8	6.5	6.4	6.1	8.2	7.5	8.1	5.7	5.7	6.4	5.5	6.0	5.9
<b>Total market</b>	<b>5.3</b>	<b>4.6</b>	<b>4.7</b>	<b>4.4</b>	<b>5.3</b>	<b>2.8</b>	<b>4.2</b>	<b>4.4</b>	<b>4.5</b>	<b>4.4</b>	<b>4.0</b>	<b>3.9</b>	<b>3.6</b>
<b>Net monthly adds ('000)</b>													
Bharti Airtel	1,650	1,712	1,758	1,708	1,701	1,751	1,851	1,960	2,059	2,051	2,061	2,033	2,053
Vodafone-Essar	1,008	1,032	1,108	929	1,099	1,261	1,506	1,542	1,686	1,678	1,542	1,529	1,376
IDEA Cellular	862	601	629	568	371	553	703	860	878	867	801	750	800
BPL	4	4	6	4	5	6	5	6	7	7	51	48	19
Spice Telecom	91	92	70	59	150	86	192	163	120	107	84	89	91
Reliance	226	231	235	235	237	(723)	239	275	300	296	302	306	-
MTNL	49	50	74	81	168	(263)	64	61	60	60	43	54	64
BSNL	921	643	824	1,002	1,985	327	239	429	556	725	599	730	912
Aircel	233	275	290	292	420	413	481	366	387	458	419	485	502
<b>Total market</b>	<b>5,044</b>	<b>4,639</b>	<b>4,994</b>	<b>4,877</b>	<b>6,135</b>	<b>3,412</b>	<b>5,282</b>	<b>5,662</b>	<b>6,052</b>	<b>6,250</b>	<b>5,903</b>	<b>6,022</b>	<b>5,817</b>
<b>Market share of net adds (%)</b>													
Bharti Airtel	32.7	36.9	35.2	35.0	27.7	51.3	35.1	34.6	34.0	32.8	34.9	33.8	35.3
Vodafone-Essar	20.0	22.2	22.2	19.0	17.9	37.0	28.5	27.2	27.9	26.8	26.1	25.4	23.7
IDEA Cellular	17.1	13.0	12.6	11.6	6.0	16.2	13.3	15.2	14.5	13.9	13.6	12.5	13.8
BPL	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.9	0.8	0.3
Spice Telecom	1.8	2.0	1.4	1.2	2.5	2.5	3.6	2.9	2.0	1.7	1.4	1.5	1.6
Reliance	4.5	5.0	4.7	4.8	3.9	(21.2)	4.5	4.9	4.9	4.7	5.1	5.1	-
MTNL	1.0	1.1	1.5	1.7	2.7	(7.7)	1.2	1.1	1.0	1.0	0.7	0.9	1.1
BSNL	18.3	13.9	16.5	20.5	32.4	9.6	4.5	7.6	9.2	11.6	10.1	12.1	15.7
Aircel	4.6	5.9	5.8	6.0	6.8	12.1	9.1	6.5	6.4	7.3	7.1	8.0	8.6
<b>Circlewise subs ('000)</b>													
Metros	19,472	20,072	20,634	21,322	21,959	22,082	22,784	23,499	24,297	25,066	25,884	26,691	27,457
Circle A	36,059	37,443	39,237	40,717	42,680	44,453	46,252	48,139	50,430	52,996	55,247	57,719	60,089
Circle B	35,097	37,130	39,137	41,072	43,543	44,724	46,794	49,201	51,587	53,867	56,089	58,259	60,391
Circle C	10,159	10,779	11,412	12,185	13,250	13,584	14,295	14,948	15,525	16,160	16,771	17,345	17,894
<b>Total</b>	<b>100,786</b>	<b>105,425</b>	<b>110,420</b>	<b>115,297</b>	<b>121,431</b>	<b>124,843</b>	<b>130,124</b>	<b>135,787</b>	<b>141,839</b>	<b>148,089</b>	<b>153,991</b>	<b>160,014</b>	<b>165,831</b>
<b>Circlewise net adds ('000)</b>													
Metros	495	601	561	688	637	124	702	715	798	769	817	807	767
Circle A	1,867	1,385	1,794	1,480	1,963	1,772	1,800	1,886	2,292	2,566	2,252	2,471	2,370
Circle B	2,024	2,033	2,007	1,935	2,470	1,181	2,070	2,408	2,385	2,280	2,222	2,170	2,132
Circle C	659	620	632	774	1,064	334	711	653	577	635	611	574	549
<b>Total</b>	<b>5,044</b>	<b>4,639</b>	<b>4,994</b>	<b>4,877</b>	<b>6,135</b>	<b>3,412</b>	<b>5,282</b>	<b>5,662</b>	<b>6,052</b>	<b>6,250</b>	<b>5,903</b>	<b>6,022</b>	<b>5,817</b>
<b>Circlewise subs (%)</b>													
Metros	19	19	19	18	18	18	18	17	17	17	17	17	17
Circle A	36	36	36	35	35	36	36	35	36	36	36	36	36
Circle B	35	35	35	36	36	36	36	36	36	36	36	36	36
Circle C	10	10	10	11	11	11	11	11	11	11	11	11	11
<b>Circlewise net adds (%)</b>													
Metros	10	13	11	14	10	4	13	13	13	12	14	13	13
Circle A	37	30	36	30	32	52	34	33	38	41	38	41	41
Circle B	40	44	40	40	40	35	39	43	39	36	38	36	37
Circle C	13	13	13	16	17	10	13	12	10	10	10	10	9

Note:

(a) Nov '07 numbers for RCL not reported yet

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

**Bharti seems to be regaining the momentum lost to Vodafone-Essar**

Bharti and Vodafone-Essar's subscriber net adds in Vodafone-Essar's 16 circles, Nov '06 - Nov '07 ('000)

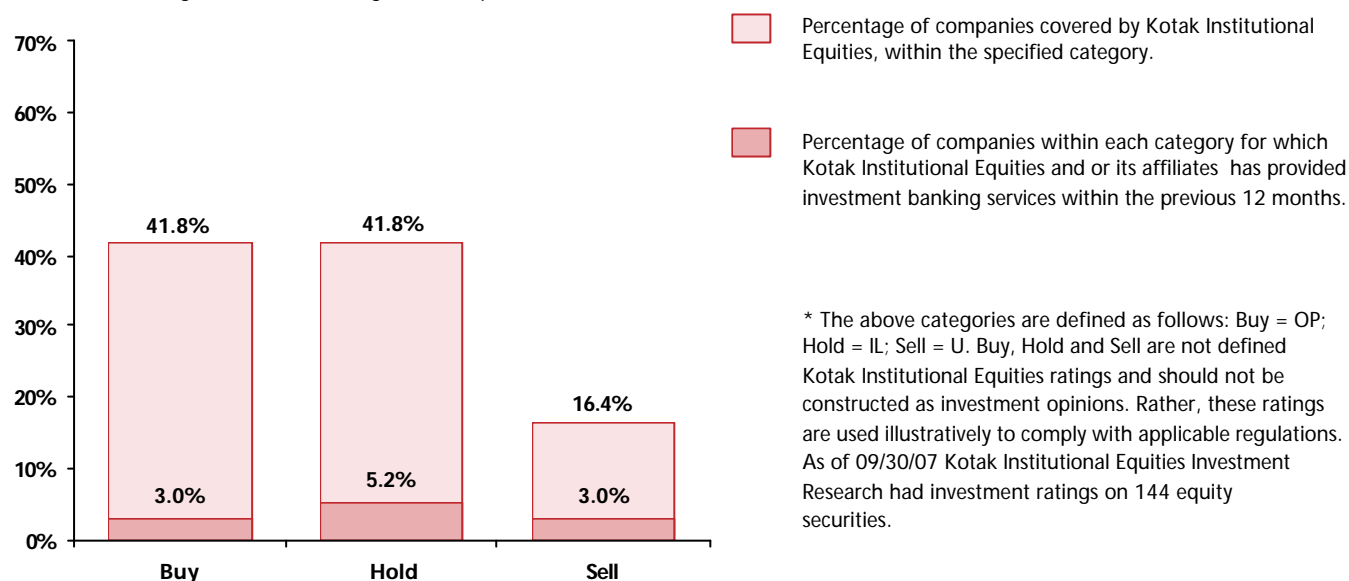
	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07
<b>Subscriber net adds</b>													
<b>Bharti Airtel (total)</b>	<b>1,296</b>	<b>1,321</b>	<b>1,383</b>	<b>1,311</b>	<b>1,196</b>	<b>1,295</b>	<b>1,398</b>	<b>1,470</b>	<b>1,656</b>	<b>1,650</b>	<b>1,698</b>	<b>1,710</b>	<b>1,614</b>
Andhra Pradesh	234	103	154	166	183	193	142	162	194	252	203	217	153
Calcutta	22	80	37	56	44	58	42	69	64	50	80	98	36
Chennai	17	30	26	42	47	58	48	51	43	40	59	81	76
Delhi	87	115	71	155	31	57	107	77	64	76	126	65	63
Gujarat	89	75	133	29	4	53	33	46	103	83	113	44	78
Karnataka	168	130	242	168	207	208	177	174	277	262	232	276	169
Kerala	22	56	53	41	40	37	65	40	49	65	59	35	48
Maharashtra	126	133	130	101	111	146	123	98	77	154	142	189	122
Mumbai	43	92	59	35	18	34	35	63	44	65	37	51	73
Haryana	42	39	31	14	48	20	9	7	20	14	5	8	40
Rajasthan	61	157	122	108	66	115	195	149	196	92	188	134	231
Tamil Nadu	84	56	116	136	149	131	124	136	188	239	150	207	221
Uttar Pradesh (East)	91	76	100	110	136	41	73	125	151	152	137	133	106
Punjab	122	87	29	57	12	28	65	41	45	37	47	35	101
Uttar Pradesh (West)	57	34	26	44	41	33	85	80	24	9	25	25	37
West Bengal	31	57	57	49	58	82	72	154	117	62	95	110	60
<b>Total</b>													
<b>Vodafone-Essar (total)</b>	<b>1,008</b>	<b>1,032</b>	<b>1,108</b>	<b>929</b>	<b>1,099</b>	<b>1,261</b>	<b>1,506</b>	<b>1,542</b>	<b>1,686</b>	<b>1,678</b>	<b>1,542</b>	<b>1,529</b>	<b>1,376</b>
Andhra Pradesh	61	61	65	50	56	65	81	90	101	100	100	101	72
Calcutta	15	20	20	29	38	40	50	45	54	60	50	60	65
Chennai	18	28	24	25	27	30	31	35	40	50	45	40	45
Delhi	39	32	64	62	86	29	141	64	122	97	83	98	65
Gujarat	218	202	182	126	145	156	200	145	145	130	136	155	155
Karnataka	75	51	46	32	42	56	80	90	110	126	110	101	95
Kerala	28	19	28	22	45	65	76	101	111	130	103	101	87
Maharashtra	17	11	20	34	50	66	80	100	125	126	127	118	131
Mumbai	36	32	33	23	27	64	63	72	78	78	79	89	91
Haryana	55	52	52	51	55	61	65	66	55	43	10	10	15
Rajasthan	69	85	120	90	91	95	115	125	130	142	140	122	105
Tamil Nadu	31	83	69	55	61	150	103	152	175	201	201	211	276
Uttar Pradesh (East)	102	82	81	86	122	133	150	168	152	161	151	116	(58)
Punjab	53	50	55	42	52	60	65	68	60	51	30	10	26
Uttar Pradesh (West)	101	103	104	101	101	109	91	105	110	81	90	76	100
West Bengal	90	120	146	100	100	82	115	115	116	101	85	122	105

Source: Cellular Operator's Association of India, Compiled by Kotak Institutional Equities

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### Kotak Institutional Equities Research coverage universe

Distribution of ratings/investment banking relationships



Source: Kotak Institutional Equities.

As of September 30, 2007

### Ratings and other definitions/identifiers

#### New rating system

Definitions of ratings

**BUY.** We expect this stock to outperform the BSE Sensex by 10% over the next 12 months.

**ADD.** We expect this stock to outperform the BSE Sensex by 0-10% over the next 12 months.

**REDUCE:** We expect this stock to underperform the BSE Sensex by 0-10% over the next 12 months.

**SELL:** We expect this stock to underperform the BSE Sensex by more than 10% over the next 12 months.

#### Old rating system

Definitions of ratings

**OP = Outperform.** We expect this stock to outperform the BSE Sensex over the next 12 months.

**IL = In-Line.** We expect this stock to perform in line with the BSE Sensex over the next 12 months.

**U = Underperform.** We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

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**NA = Not Available or Not Applicable.** The information is not available for display or is not applicable.

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