

- We believe the threat to incumbents from entry of new players; MVNOs and Internet Telephony are overplayed.
- We remain conservative on the tower company valuations in the absence of tower sharing arrangements.

Stock Picks

Company	BBG code	Rec	Share price (INR)	Target price (INR)	Upside (%)	Mkt cap (USD m)	Rec P/E		
							2008 (x)	2009E (x)	2010E (x)
Bharti Airtel	BHARTI IN	BUY	659.45	1,075.00	63.0	28,412	18.7	14.3	11.3
Reliance	RCOM IN	BUY	220.35	500.00	126.9	10,253	8.9	7.6	6.5
Idea Cellular	IDEA IN	BUY	49.90	65.00	30.3	3,398	12.6	15.9	12.2

Source: BNP Paribas estimates

- Indian GSM operators reported highest ever monthly net additions of 8m; net adds set to cross 10m including CDMA.
- Bharti maintains lead; under pressure in Bihar from new launches by Idea and Vodafone; Idea posts highest net adds.
- Reiterate POSITIVE outlook on the sector and BUY on Bharti (TP: INR1,075) and Idea (TP: INR65).

What slowdown? Net adds at new high

GSM net adds at new high, cross 8m in October
Indian GSM operators continued to exhibit healthy subscriber growth in October, taking the GSM subscriber base to 242m. GSM subscriber additions in August came in at 8.08m, compared with 7.69m in September 2008 assuming steady net additions for RCOM GSM. Aircel and BPL maintained their run rate. BSNL continued to lose market share, adding 669,551 subscribers.

Bharti maintains lead; under pressure in Bihar circle
Bharti maintained its run rate adding 2.72m subscribers but remains well ahead of the competition in terms of subscriber additions. Bharti witnessed pressure in net additions in Bihar circle with the launch of operations by Idea and Vodafone. Bharti's marketshare of GSM net additions has declined to 33.7% from 40.4% in August 2008. Decline in marketshare for Bharti due to expansion of operations by regional players is already built into our estimates.

Idea and Vodafone gain from new launches
Idea and Vodafone reported their highest ever subscribers additions of 1.2m and 2.07m on the back of new launches, in-line with our thesis of regional players gaining market-share with pan-India expansion. With the new launch, Idea is now present in 15 circles (including two circles from the Spice Communication acquisition) and Vodafone extended its reach to 20 circles. Idea added 73,987 subscribers in Bihar in the first month of launch capturing 21.6% of market share of GSM net additions. Idea added 78,000 subscribers in the recently launched Mumbai circle which is 18.7% of the monthly GSM net additions in the circle. Vodafone added 26,167 subscribers in Bihar and 5,013 subscribers in MP. Spice added 37,385 subscribers posting a gain in subscribers for the second consecutive month after the initial decline in subscriber additions post the announcement of acquisition by Idea Cellular.

We remain POSITIVE on the sector; BUY Bharti and Idea
The Indian telecom sector continues to post new highs in subscriber additions. Bharti maintains its position as an industry leader while Idea is gradually consolidating its position among the top five telecom players in India.

BNP Paribas research is available on Thomson Reuters, Bloomberg, and on <http://equities.bnpparibas.com>. Please contact your salesperson for authorisation. Please see the important notice on the back page.

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GSM Subscriber Base And Oct 08 Net Adds

Operator	Subscribers	Net adds
Aircel	14,659,298	781,055
Bharti	80,199,747	2,720,532
BPL	1,807,902	143,998
BSNL	39,836,494	669,551
Idea	31,582,937	1,202,774
MTNL	3,743,879	66,097
RCOM *	9,581,707	375,580
Spice	3,637,129	37,385
Vodafone	56,703,506	2,078,697
Total	241,752,599	8,075,669

* BNP Paribas estimate as October 2008 data not yet available
Source: COAI

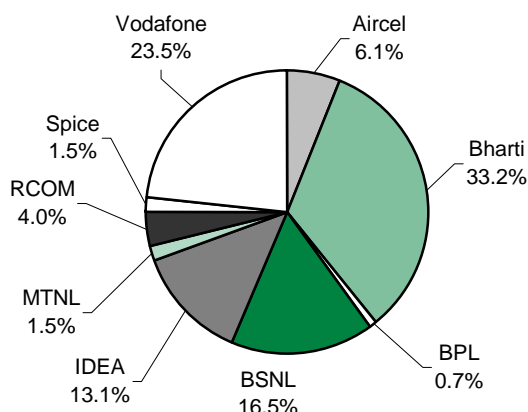


Exhibit 1: GSM Subscriber Base As Of October 2008

('000)	Circle	State	Operator								Grand total	
			Aircel	Bharti	BPL	BSNL	Idea	MTNL	RCOM *	Spice		Vodafone
			GSM	GSM	GSM	GSM	GSM	GSM	GSM	GSM	GSM	
A	Andhra		—	7,793		2,649	4,325		—	—	3,327	18,093
	Gujarat		—	3,659		2,309	3,327		—	—	7,076	16,370
	Karnataka		—	8,723		1,886	—		—	1,432	3,282	15,324
	Maharashtra		—	5,006		3,402	6,261		—	—	3,670	18,338
	TN		6,491	5,193		2,509	—		—	—	4,374	18,567
A total			6,491	30,373		12,754	13,913		—	1,432	21,729	86,692
B	Haryana		—	1,149		1,268	1,341		—	—	1,777	5,535
	Kerala		—	1,974		2,308	3,713		—	—	2,609	10,603
	MP		—	3,866		2,104	4,137		1,966	—	5	12,077
	Punjab		—	3,450		2,241	—		—	2,205	1,886	9,781
	Rajasthan		—	5,753		2,459	1,063		—	—	4,153	13,427
	UPE		—	4,989		4,577	1,458		—	—	5,279	16,302
	UPW		—	2,039		2,264	3,373		—	—	3,684	11,360
	WB		917	2,886		1,586	—		1,024	—	3,851	10,265
B total			917	26,105		18,806	15,084		2,990	2,205	23,244	89,352
C	Assam		1,490	1,201		874	—		1,199	—	30	4,794
	Bihar		1,122	6,068		2,041	74		2,374	—	26	11,705
	Himachal		99	873		614	117		594	—	—	2,297
	Jammu		482	1,291		864	—		—	—	—	2,636
	NE		834	738		574	—		409	—	16	2,571
	Orissa		697	2,402		1,168	—		1,076	—	96	5,439
C total			4,724	12,572		6,135	191		5,652	—	167	29,442
M	Chennai		2,215	2,008		1,021	—		—	—	1,460	6,704
	Delhi		—	4,317		—	2,216	1,747	—	—	3,658	11,938
	Kolkata		311	2,125		1,121	—	—	564	—	2,402	6,522
	Mumbai		—	2,700	1,808	—	178	1,996	—	—	4,043	10,726
M total			2,526	11,150	1,808	2,142	2,394	3,744	564	—	11,563	35,891
Grand total			14,659	80,200	1,808	39,836	31,583	3,744	9,206	3,637	56,704	241,377

* RCOM October 2008 subscribers assumed to be the same as Sept ember 2008 as October 2008 numbers not yet available
Source: COAI

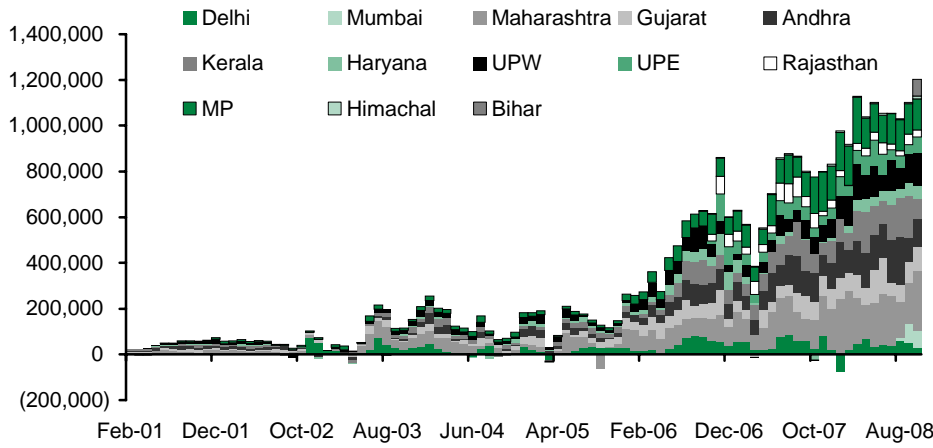
Exhibit 2: GSM Subscriber Market Share



Idea and Vodafone market share increased due to launch of operations in new circles

Sources: COAI; BNP Paribas

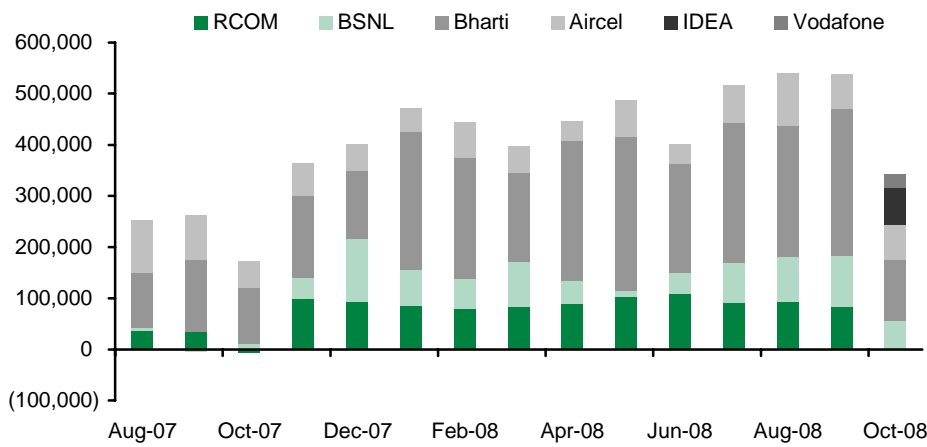
Exhibit 3: Idea Net Additions On A New High With Mumbai And Bihar



Idea crossed 1.2m monthly additions, its highest ever on the back of its launch in Mumbai and Bihar

Sources: COAI; BNP Paribas

Exhibit 4: Bihar Circle – Launch Of Idea And Vodafone



Idea and Vodafone launched operations in Bihar. Bharti net additions declined due to increased competition. RCOM numbers not yet available

Sources: COAI; BNP Paribas

Exhibit 5: GSM Subscriber Base, Net Additions And Market Share

GSM subscriber base by operator													
	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	June-08	July-08	Aug-08	Sep-08	Oct-08
Aircel	8,524,005	9,025,593	9,428,086	9,933,815	10,185,182	10,610,428	10,989,450	11,491,986	11,924,843	12,475,529	13,126,733	13,878,243	14,659,298
Bharti	50,908,636	52,961,289	55,162,944	57,417,625	59,670,174	61,984,721	64,370,434	66,825,935	69,383,716	72,078,007	74,778,477	77,479,215	80,199,747
BPL	1,201,464	1,220,611	1,239,466	1,256,534	1,276,219	1,294,762	1,313,786	1,331,261	1,378,471	1,439,956	1,517,394	1,663,904	1,807,902
BSNL	31,032,779	31,945,006	32,712,240	33,748,599	34,572,883	36,209,950	36,683,137	36,997,418	37,362,897	37,916,116	38,489,978	39,166,943	39,836,494
Idea	19,421,968	20,222,263	21,054,027	21,954,685	22,873,556	24,001,573	25,039,649	26,140,643	27,194,205	28,248,346	29,278,455	30,380,163	31,582,937
MTNL	2,825,859	2,889,726	2,954,880	3,013,199	3,121,831	3,241,851	3,283,751	3,350,437	3,437,716	3,537,248	3,639,304	3,677,782	3,743,879
RCOM*	5,342,024	5,668,707	6,001,978	6,337,835	6,675,742	7,016,205	7,358,554	7,710,522	8,080,454	8,454,979	8,829,504	9,206,127	9,581,707
Spice	3,570,276	3,661,423	3,800,633	3,942,828	4,084,205	4,210,669	4,363,117	4,497,675	4,547,870	4,197,250	3,563,130	3,599,744	3,637,129
Vodafone	37,186,630	38,562,804	39,864,881	41,145,413	42,557,072	44,126,243	45,780,415	47,466,853	49,195,098	50,950,365	52,758,792	54,624,809	56,703,506
Grand total	160,013,641	166,157,422	172,219,135	178,750,533	185,016,864	192,696,402	199,182,293	205,812,730	212,505,270	219,297,796	225,981,767	233,676,930	241,752,599

GSM market share (%)													
	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	June-08	July-08	Aug-08	Sep-08	Oct-08
Aircel	5.33	5.43	5.47	5.56	5.51	5.52	5.52	5.58	5.61	5.69	5.81	5.94	6.06
Bharti	31.82	31.87	32.03	32.12	32.25	32.22	32.32	32.47	32.65	32.87	33.09	33.16	33.17
BPL	0.75	0.73	0.72	0.70	0.69	0.67	0.66	0.65	0.65	0.66	0.67	0.71	0.75
BSNL	19.39	19.23	18.99	18.88	18.69	18.82	18.42	17.98	17.58	17.29	17.03	16.76	16.48
Idea	12.14	12.17	12.23	12.28	12.36	12.48	12.57	12.70	12.80	12.88	12.96	13.00	13.06
MTNL	1.77	1.74	1.72	1.69	1.69	1.69	1.65	1.63	1.62	1.61	1.61	1.57	1.55
RCOM*	3.34	3.41	3.49	3.55	3.61	3.65	3.69	3.75	3.80	3.86	3.91	3.94	3.96
Spice	2.23	2.20	2.21	2.21	2.21	2.19	2.19	2.19	2.14	1.91	1.58	1.54	1.50
Vodafone	23.24	23.21	23.15	23.02	23.00	22.94	22.98	23.06	23.15	23.23	23.35	23.38	23.46
Grand total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

GSM net additions by operator													
	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	June-08	July-08	Aug-08	Sep-08	Oct-08
Aircel	484,650	501,588	402,493	505,729	251,367	425,246	379,022	502,536	432,857	550,686	651,204	751,510	781,055
Bharti	2,032,972	2,052,653	2,201,655	2,254,681	2,252,549	2,314,547	2,385,713	2,455,501	2,557,781	2,694,291	2,700,470	2,700,738	2,720,532
BPL	48,107	19,147	18,855	17,068	19,685	18,543	19,024	17,475	47,210	61,485	77,438	146,510	143,998
BSNL	727,855	912,227	767,234	1,036,359	824,284	1,637,067	473,187	314,281	365,479	553,219	573,862	676,965	669,551
Idea	750,108	800,295	831,764	900,658	918,871	1,128,017	1,038,076	1,100,994	1,053,562	1,054,141	1,030,109	1,101,708	1,202,774
MTNL	53,739	63,867	65,154	58,319	108,632	120,020	41,900	66,686	87,279	99,532	102,056	38,478	66,097
RCOM*	(82,963)	326,683	333,271	335,857	337,907	340,463	342,349	351,968	369,932	374,525	374,525	375,580	375,580
Spice	88,566	91,147	139,210	142,195	141,377	126,464	152,448	134,558	50,195	(350,620)	(634,120)	36,614	37,385
Vodafone	1,529,084	1,376,174	1,302,077	1,280,532	1,411,659	1,569,171	1,654,172	1,686,438	1,728,245	1,755,267	1,808,427	1,866,017	2,078,697
Grand total	5,632,118	6,143,781	6,061,713	6,531,398	6,266,331	7,339,075	6,826,354	6,630,437	6,692,540	6,792,526	6,683,971	7,694,120	8,075,669

GSM net additions market share (%)													
	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	June-08	July-08	Aug-08	Sep-08	Oct-08
Aircel	8.61	8.16	6.64	7.74	4.01	5.79	5.55	7.58	6.47	8.11	9.74	9.77	9.67
Bharti	36.10	33.41	36.32	34.52	35.95	31.54	34.95	37.03	38.22	39.67	40.40	35.10	33.69
BPL	0.85	0.31	0.31	0.26	0.31	0.25	0.28	0.26	0.71	0.91	1.16	1.90	1.78
BSNL	12.92	14.85	12.66	15.87	13.15	22.31	6.93	4.74	5.46	8.14	8.59	8.80	8.29
Idea	13.32	13.03	13.72	13.79	14.66	15.37	15.21	16.61	15.74	15.52	15.41	14.32	14.89
MTNL	0.95	1.04	1.07	0.89	1.73	1.64	0.61	1.01	1.30	1.47	1.53	0.50	0.82
RCOM*	(1.47)	5.32	5.50	5.14	5.39	4.64	5.02	5.31	5.53	5.51	5.60	4.88	4.65
Spice	1.57	1.48	2.30	2.18	2.26	1.72	2.23	2.03	0.75	(5.16)	(9.49)	0.48	0.46
Vodafone	27.15	22.40	21.48	19.61	22.53	21.38	24.23	25.43	25.82	25.84	27.06	24.25	25.74
Grand total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* BNP Paribas estimates as October 2008 data not yet available

Source: COAI

FINANCIAL STATEMENTS

Bharti Airtel

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	185,196	270,250	376,429	460,505	528,368
Cost of sales ex depreciation	(82,124)	(116,443)	(166,088)	(199,531)	(227,578)
Gross profit ex depreciation	103,072	153,808	210,341	260,974	300,790
Other operating income	-	-	-	-	-
Operating costs	(28,181)	(40,093)	(57,560)	(72,760)	(83,482)
Operating EBITDA	74,891	113,715	152,781	188,214	217,308
Depreciation	(25,208)	(37,261)	(46,145)	(54,839)	(57,606)
Goodwill amortisation	(384)	-	-	-	-
Operating EBIT	49,299	76,454	106,636	133,375	159,702
Net financing costs	(1,439)	(2,341)	(4,280)	(1,281)	3,859
Associates	(3)	(1)	-	-	-
Recurring non operating income	1,010	2,423	2,360	2,373	2,391
Non recurring items	(9)	-	-	-	-
Profit before tax	48,858	76,535	104,715	134,467	165,952
Tax	(5,822)	(8,378)	(13,613)	(18,825)	(24,893)
Profit after tax	43,036	68,157	91,102	115,642	141,059
Minority interests	(467)	(1,150)	(3,427)	(4,613)	(5,865)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	42,569	67,007	87,675	111,029	135,194
Non recurring items & goodwill (net)	393	(0)	(0)	(0)	(0)
Recurring net profit	42,962	67,007	87,674	111,029	135,194
Per share (INR)					
Recurring EPS *	22.64	35.30	46.19	58.50	71.23
Reported EPS	22.54	35.30	46.19	58.50	71.23
DPS	-	-	-	-	-
Growth					
Revenue (%)	58.8	45.9	39.3	22.3	14.7
Operating EBITDA (%)	73.3	51.8	34.4	23.2	15.5
Operating EBIT (%)	77.5	55.1	39.5	25.1	19.7
Recurring EPS (%)	90.0	55.9	30.8	26.6	21.8
Reported EPS (%)	86.5	56.6	30.8	26.6	21.8
Operating performance					
Gross margin inc depreciation (%)	42.0	43.1	43.6	44.8	46.0
Operating EBITDA margin (%)	40.4	42.1	40.6	40.9	41.1
Operating EBIT margin (%)	26.6	28.3	28.3	29.0	30.2
Net margin (%)	23.2	24.8	23.3	24.1	25.6
Effective tax rate (%)	11.9	10.9	13.0	14.0	15.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	35.2	33.7	25.5	106.0	na
Inventory days	2.9	3.2	2.5	2.1	1.8
Debtor days	21.9	18.6	15.9	15.1	15.7
Creditor days	69.3	55.8	55.1	61.9	61.3
Operating ROIC (%)	32.8	33.3	33.7	36.3	40.9
Operating ROIC - WACC (%)	16.6	17.1	17.4	20.1	24.6
ROIC (%)	26.2	28.9	30.1	32.9	37.2
ROIC - WACC (%)	9.9	12.6	13.9	16.7	20.9
ROE (%)	37.8	37.4	32.9	30.4	27.7
ROA (%)	17.5	18.4	18.1	18.7	19.0

Revenue estimates include passive infrastructure revenue. We do not value Bharti Infratel separately

EBITDA margin decline in FY09 due to increase in license fees and higher SG&A

* Pre exceptional, pre-goodwill and fully diluted

Key Assumptions (INR m)	2007A	2008A	2009E	2010E	2011E
Wireless Subscribers - Mn	37.14	61.98	87.52	105.2	118.6
ARPU	415.6	366.3	335.5	316.5	306.7
MOU	448.3	478.2	488.9	483.4	476.8
ARPM	0.93	0.77	0.69	0.65	0.64
Wireless Network Minutes of use - Bn	152.6	284.4	438.6	559	640
Revenue By Division (INR m)	2007A	2008A	2009E	2010E	2011E
Mobile	141,443	217,861	300,948	365,923	411,836
Broadband & Telephone Services	22,454	28,484	33,536	38,395	43,395
Enterprise Services - Carrier Long Distan	34,888	43,170	55,496	63,346	69,681
Enterprise Services - Corporate	9,050	13,217	17,080	19,767	21,744
Passive Infrastructure	-	6,023	56,157	75,574	96,086
Others	804	2,431	3,728	4,374	5,030
Eliminations	(23,443)	(40,936)	(90,516)	(106,874)	(119,405)

Sources: Bharti Airtel; BNP Paribas estimates

Bharti Airtel

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	42,962	67,007	87,674	111,029	135,194
Depreciation	25,208	37,261	46,145	54,839	57,606
Associates & minorities	470	1,151	3,427	4,613	5,865
Other non-cash items	5,404	7,057	-	-	-
Recurring cash flow	74,044	112,476	137,247	170,481	198,665
Change in working capital	13,302	2,058	19,817	(3,346)	(4,100)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(89,271)	(138,468)	(140,000)	(78,286)	(73,972)
Free cash flow to equity	(1,925)	(23,934)	17,065	88,849	120,593
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(160)	2,655	(333)	-	-
Net cash flow	(2,085)	(21,280)	16,732	88,849	120,593
Equity finance	1,648	21,236	-	(4)	-
Debt finance	4,717	45,437	-	(30,000)	(30,000)
Movement in cash	4,280	45,393	16,732	58,845	90,593

We expect Bharti will turn FCF positive in FY09

Per share (INR)					
Recurring cash flow per share	39.21	59.26	72.31	89.82	104.67
FCF to equity per share	(1.02)	(12.61)	8.99	46.81	63.54

Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	34,197	56,149	56,936	61,403	64,276
Working capital liabilities	(65,818)	(89,828)	(110,432)	(111,553)	(110,326)
Net working capital	(31,621)	(33,679)	(53,496)	(50,150)	(46,050)
Tangible fixed assets	210,604	313,407	407,262	430,708	447,074
Operating invested capital	178,983	279,728	353,765	380,558	401,024
Goodwill	23,684	27,043	27,043	27,043	27,043
Other intangible assets	14,116	13,204	13,204	13,204	13,204
Investments	736	166	166	166	166
Other assets	3,887	5,041	5,041	5,041	5,041
Invested capital	221,406	325,182	399,219	426,012	446,478
Cash & equivalents	(9,468)	(54,861)	(71,593)	(130,438)	(221,030)
Short term debt	10,925	19,348	19,348	19,348	19,348
Long term debt *	41,536	77,715	77,715	47,715	17,715
Net debt	42,993	42,202	25,470	(63,375)	(183,967)
Deferred tax	2,432	2,531	2,531	2,531	2,531
Other liabilities	38,627	54,853	54,517	54,517	54,517
Total equity	135,553	222,583	310,261	421,286	556,480
Minority interests	1,801	3,013	6,440	11,053	16,918
Invested capital	221,406	325,182	399,219	426,012	446,478

* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	71.53	117.27	163.47	221.96	293.19
Tangible book value per share	51.58	96.07	142.26	200.76	271.99

Well positioned for 3G spectrum acquisition due to low debt levels and low other capex requirement

Financial strength					
Net debt/equity (%)	31.3	18.7	8.0	(14.7)	(32.1)
Net debt/total assets (%)	14.5	9.0	4.4	(9.5)	(23.7)
Current ratio (x)	0.6	1.0	1.0	1.5	2.2
CF interest cover (x)	61.7	49.9	37.7	131.5	na

Valuation					
	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	29.1	18.7	14.3	11.3	9.3
Recurring P/E @ target price (x) *	47.5	30.5	23.3	18.4	15.1
Reported P/E (x)	29.3	18.7	14.3	11.3	9.3
Dividend yield (%)	-	-	-	-	-
P/CF (x)	16.8	11.1	9.1	7.3	6.3
P/FCF (x)	neg	neg	73.3	14.1	10.4
Price/book (x)	9.2	5.6	4.0	3.0	2.2
Price/tangible book (x)	12.8	6.9	4.6	3.3	2.4
EV/EBITDA (x) **	17.0	11.2	8.3	6.5	5.2
EV/EBITDA @ target price (x) **	27.3	17.9	13.4	10.7	8.8
EV/invested capital (x)	5.8	4.0	3.2	2.8	2.4

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Bharti Airtel; BNP Paribas estimates

Reliance Communications

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	144,683	190,678	238,498	299,652	357,617
Cost of sales ex depreciation	(63,641)	(74,628)	(93,988)	(118,363)	(139,470)
Gross profit ex depreciation	81,042	116,050	144,510	181,290	218,146
Other operating income	-	-	-	-	-
Operating costs	(23,834)	(34,061)	(43,266)	(53,937)	(64,371)
Operating EBITDA	57,208	81,989	101,244	127,352	153,775
Depreciation	(24,653)	(28,054)	(35,603)	(43,082)	(46,775)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	32,555	53,935	65,641	84,270	107,000
Net financing costs	(4)	3,998	4,188	1,306	589
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	(303)	158	(640)	-	-
Profit before tax	32,248	58,091	69,189	85,576	107,589
Tax	(611)	(2,836)	(4,632)	(9,413)	(13,987)
Profit after tax	31,637	55,255	64,557	76,163	93,603
Minority interests	-	(1,244)	(2,540)	(2,540)	(2,540)
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	31,637	54,011	62,017	73,623	91,063
Non recurring items & goodwill (net)	303	(158)	640	-	-
Recurring net profit	31,940	53,853	62,656	73,623	91,063
Per share (INR)					
Recurring EPS *	15.60	24.90	28.97	34.04	42.10
Reported EPS	15.74	26.32	30.22	35.88	44.38
DPS	-	-	-	-	-
Growth					
Revenue (%)	34.4	31.8	25.1	25.6	19.3
Operating EBITDA (%)	128.5	43.3	23.5	25.8	20.7
Operating EBIT (%)	304.8	65.7	21.7	28.4	27.0
Recurring EPS (%)	549.9	59.6	16.3	17.5	23.7
Reported EPS (%)	610.9	67.2	14.8	18.7	23.7
Operating performance					
Gross margin inc depreciation (%)	39.0	46.1	45.7	46.1	47.9
Operating EBITDA margin (%)	39.5	43.0	42.5	42.5	43.0
Operating EBIT margin (%)	22.5	28.3	27.5	28.1	29.9
Net margin (%)	22.1	28.2	26.3	24.6	25.5
Effective tax rate (%)	1.9	4.9	6.7	11.0	13.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	8138.8	na	na	na	na
Inventory days	25.5	21.7	16.3	13.4	11.3
Debtor days	44.3	43.6	48.3	54.1	58.5
Creditor days	na	na	na	na	na
Operating ROIC (%)	15.4	16.0	13.5	14.5	17.2
Operating ROIC - WACC (%)	(1.0)	(0.4)	(2.8)	(1.9)	0.8
ROIC (%)	15.4	16.0	13.5	14.5	17.2
ROIC - WACC (%)	(1.0)	(0.4)	(2.8)	(1.9)	0.8
ROE (%)	19.9	23.4	22.1	21.2	21.2
ROA (%)	7.4	8.0	7.8	9.0	11.2
* Pre exceptional, pre-goodwill and fully diluted					
Key Assumptions (INR m)					
Wireless Subscribers - Mn	29.12	45.79	65.27	86.67	105.3
Towers	13,849	30,295	55,295	63,891	72,445
ARPU	370.8	343.6	278.5	261.9	253.0
MOU	503	462.9	417.9	406.7	410.5
ARPM	0.74	0.74	0.67	0.64	0.62
Revenue By Division (INR m)					
Wireless	107,276	152,135	185,560	238,725	291,390
Global	51,771	54,750	67,993	77,352	84,333
Broadband	11,441	17,868	25,278	33,755	42,424
Others	3,872	4,304	5,748	6,898	7,587
Eliminations	(29,677)	(38,379)	(46,082)	(57,077)	(68,117)

Revenue CAGR expectation over FY08-11 reduced from 26% to 23%. Growth will be driven by Wireless subscriber CAGR of 32%

We would look at EBITDA rather than EPS as RCOM capitalizes interest, has huge CWIP, low depreciation and tax expense compared to peers

We are modeling in 27% decline over FY08-11

Sources: Reliance Communications; BNP Paribas estimates

Reliance Communications

Cash Flow (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Recurring net profit	31,940	53,853	62,656	73,623	91,063
Depreciation	24,653	28,054	35,603	43,082	46,775
Associates & minorities	-	1,244	2,540	2,540	2,540
Other non-cash items	1,405	3,748	-	-	-
Recurring cash flow	57,998	86,899	100,800	119,245	140,378
Change in working capital	32,310	(33,290)	(1,643)	(42,748)	(34,076)
Capex - maintenance	-	-	-	-	-
Capex - new investment	(53,569)	(176,413)	(171,000)	(64,108)	(29,762)
Free cash flow to equity	36,739	(122,804)	(71,843)	12,389	76,541
Net acquisitions & disposals	-	-	-	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(10,790)	(3,375)	-	-	-
Net cash flow	25,949	(126,179)	(71,843)	12,389	76,541
Equity finance	-	-	-	-	-
Debt finance	63,017	95,832	(12,635)	(40,000)	(80,000)
Movement in cash	88,966	(30,347)	(84,478)	(27,611)	(3,459)

Capex will peak in FY09; company has guided for capex of USD6b; our capex assumption is ex-tower company capex of USD2b

Per share (INR)					
Recurring cash flow per share	28.85	42.35	49.12	58.11	68.41
FCF to equity per share	18.28	(59.85)	(35.01)	6.04	37.30

Balance Sheet (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Working capital assets	59,063	97,175	122,521	133,885	142,690
Working capital liabilities	(136,013)	(199,267)	(250,564)	(219,180)	(193,909)
Net working capital	(76,950)	(102,092)	(128,043)	(85,295)	(51,219)
Tangible fixed assets	330,423	522,153	676,999	698,024	681,011
Operating invested capital	253,473	420,061	548,956	612,730	629,792
Goodwill	-	-	-	-	-
Other intangible assets	-	-	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Invested capital	253,473	420,061	548,956	612,730	629,792
Cash & equivalents	(149,125)	(118,778)	(34,300)	(6,688)	(3,229)
Short term debt	51,804	9,500	2,375	2,375	2,375
Long term debt *	103,634	206,181	205,167	165,167	85,167
Net debt	6,313	96,903	173,242	160,854	84,313
Deferred tax	-	-	-	-	-
Other liabilities	43,173	42,420	44,011	44,011	44,011
Total equity	203,928	256,427	311,090	384,713	475,776
Minority interests	59	24,311	20,612	23,152	25,692
Invested capital	253,473	420,061	548,956	612,730	629,792

Huge current liabilities balance due to vendor financing. Reduction of current liabilities as capex moderates will reduce FCF

* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)					
Book value per share	101.45	124.96	151.60	187.48	231.86
Tangible book value per share	101.45	124.96	151.60	187.48	231.86

Financial strength					
Net debt/equity (%)	3.1	34.5	52.2	39.4	16.8
Net debt/total assets (%)	1.2	13.1	20.8	19.2	10.2
Current ratio (x)	1.1	1.0	0.6	0.6	0.7
CF interest cover (x)	22578.0	na	na	na	na

Valuation					
	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	14.1	8.9	7.6	6.5	5.2
Recurring P/E @ target price (x) *	32.1	20.1	17.3	14.7	11.9
Reported P/E (x)	14.0	8.4	7.3	6.1	5.0
Dividend yield (%)	-	-	-	-	-
P/CF (x)	7.6	5.2	4.5	3.8	3.2
P/FCF (x)	12.1	neg	neg	36.5	5.9
Price/book (x)	2.2	1.8	1.5	1.2	1.0
Price/tangible book (x)	2.2	1.8	1.5	1.2	1.0
EV/EBITDA (x) **	8.1	6.2	6.0	5.0	3.9
EV/EBITDA @ target price (x) **	17.9	13.2	11.7	9.5	7.6
EV/invested capital (x)	1.8	1.4	1.2	1.0	0.9

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Reliance Communications; BNP Paribas estimates

Idea Cellular

Profit and Loss (INR m)					
Year Ending March	2007A	2008A	2009E	2010E	2011E
Revenue	43,873	67,376	97,734	128,999	146,712
Cost of sales ex depreciation	(19,752)	(32,085)	(53,911)	(75,103)	(80,901)
Gross profit ex depreciation	24,121	35,290	43,823	53,896	65,810
Other operating income	-	-	-	-	-
Operating costs	(9,207)	(12,603)	(16,265)	(18,232)	(20,587)
Operating EBITDA	14,914	22,688	27,558	35,664	45,223
Depreciation	(6,718)	(8,768)	(12,688)	(16,651)	(21,492)
Goodwill amortisation	-	-	-	-	-
Operating EBIT	8,195	13,920	14,870	19,013	23,732
Net financing costs	(3,051)	(2,771)	(4,523)	(3,765)	(5,145)
Associates	-	-	-	-	-
Recurring non operating income	-	-	-	-	-
Non recurring items	-	-	-	-	-
Profit before tax	5,144	11,149	10,347	15,247	18,587
Tax	(70)	(725)	(1,042)	(1,942)	(2,788)
Profit after tax	5,074	10,424	9,305	13,305	15,799
Minority interests	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Other items	-	-	-	-	-
Reported net profit	5,074	10,424	9,305	13,305	15,799
Non recurring items & goodwill (net)	-	-	-	-	-
Recurring net profit	5,074	10,424	9,305	13,305	15,799
Per share (INR)					
Recurring EPS *	2.23	3.96	3.13	4.07	4.84
Reported EPS	2.23	3.96	3.13	4.07	4.84
DPS	-	-	-	-	-
Growth					
Revenue (%)	46.7	53.6	45.1	32.0	13.7
Operating EBITDA (%)	35.7	52.1	21.5	29.4	26.8
Operating EBIT (%)	49.0	69.8	6.8	27.9	24.8
Recurring EPS (%)	79.8	77.4	(20.8)	30.1	18.7
Reported EPS (%)	186.4	77.4	(20.8)	30.1	18.7
Operating performance					
Gross margin inc depreciation (%)	39.7	39.4	31.9	28.9	30.2
Operating EBITDA margin (%)	34.0	33.7	28.2	27.6	30.8
Operating EBIT margin (%)	18.7	20.7	15.2	14.7	16.2
Net margin (%)	11.6	15.5	9.5	10.3	10.8
Effective tax rate (%)	1.4	6.5	10.1	12.7	15.0
Dividend payout on recurring profit (%)	-	-	-	-	-
Interest cover (x)	2.7	5.0	3.3	5.0	4.6
Inventory days	2.7	2.6	na	na	na
Debtor days	na	na	na	na	na
Creditor days	278.8	276.1	207.3	167.8	161.3
Operating ROIC (%)	29.7	26.0	13.1	11.1	12.0
Operating ROIC - WACC (%)	14.0	10.3	(2.6)	(4.6)	(3.7)
ROIC (%)	18.5	20.3	10.0	8.5	9.5
ROIC - WACC (%)	2.8	4.6	(5.7)	(7.2)	(6.3)
ROE (%)	30.8	36.4	10.5	9.0	9.7
ROA (%)	11.4	12.3	6.2	5.6	7.1
<i>* Pre exceptional, pre-goodwill and fully diluted</i>					
Key Assumptions (INR m)					
2007A	2008A	2009E	2010E	2011E	
Wireless Subscribers - Mn	14.01	24.00	41.73	54.15	64.86
ARPU	332.0	293.5	258.2	225.4	204.6
MOU	364.0	378.0	424.5	433.3	422.5
ARPM	0.91	0.78	0.61	0.52	0.48
Wireless Minutes on Network (Bn)	45.93	86.21	155.6	221.6	268.1
Revenue By Division (INR m)					
2007A	2008A	2009E	2010E	2011E	
Wireless	43,873	67,376	97,734	128,999	146,712

We have incorporated Spice financials effective 4QFY09

Reducing EBITDA margin for the next two years as company launches new circles

Sources: Idea Cellular; BNP Paribas estimates

Idea Cellular

Cash Flow (INR m)	2007A	2008A	2009E	2010E	2011E
Year Ending March					
Recurring net profit	5,074	10,424	9,305	13,305	15,799
Depreciation	6,718	8,768	12,688	16,651	21,492
Associates & minorities	-	-	-	-	-
Other non-cash items	-	4,241	-	-	-
Recurring cash flow	11,792	23,433	21,993	29,957	37,290
Change in working capital	4,389	1,791	16,052	623	1,848
Capex - maintenance	-	-	-	-	-
Capex - new investment	(22,819)	(55,726)	(73,850)	(52,000)	(42,546)
Free cash flow to equity	(6,637)	(30,503)	(35,805)	(21,421)	(3,408)
Net acquisitions & disposals	-	-	(32,639)	-	-
Dividends paid	-	-	-	-	-
Non recurring cash flows	(56)	1,519	(331)	-	-
Net cash flow	(6,693)	(28,983)	(68,775)	(21,421)	(3,408)
Equity finance	25,000	3,188	103,566	-	-
Debt finance	(1,599)	18,132	33,819	(47,639)	-
Movement in cash	16,707	(7,664)	68,611	(69,060)	(3,408)

High capex in FY09-11 as company launches operation in new circles

Infusion of USD1.6b from TM and USD640m from Providence

Per share (INR)	2007A	2008A	2009E	2010E	2011E
Recurring cash flow per share	5.18	8.89	7.40	9.17	11.42
FCF to equity per share	(2.92)	(11.57)	(12.05)	(6.56)	(1.04)

Balance Sheet (INR m)	2007A	2008A	2009E	2010E	2011E
Year Ending March					
Working capital assets	6,463	10,525	-	-	-
Working capital liabilities	(21,520)	(27,022)	(34,207)	(34,830)	(36,678)
Net working capital	(15,058)	(16,497)	(34,207)	(34,830)	(36,678)
Tangible fixed assets	49,236	89,271	187,728	223,077	244,132
Operating invested capital	34,179	72,773	153,521	188,247	207,454
Goodwill	61	61	52,757	52,757	52,757
Other intangible assets	11,864	17,892	-	-	-
Investments	-	-	-	-	-
Other assets	-	-	-	-	-
Invested capital	46,103	90,727	206,279	241,005	260,211
Cash & equivalents	(18,199)	(10,535)	(79,146)	(10,086)	(6,678)
Short term debt	7,107	10,605	13,666	-	-
Long term debt *	35,398	54,549	98,973	65,000	65,000
Net debt	24,306	54,619	33,493	54,914	58,322
Deferred tax	-	661	1,006	1,006	1,006
Other liabilities	-	-	-	-	-
Total equity	21,798	35,447	141,060	154,365	170,164
Minority interests	-	-	30,720	30,720	30,720
Invested capital	46,103	90,727	206,279	241,005	260,211

* Includes convertibles and preferred stock which is being treated as debt

Per share (INR)	2007A	2008A	2009E	2010E	2011E
Book value per share	9.51	13.45	43.19	47.27	52.10
Tangible book value per share	4.31	6.64	27.04	31.11	35.95

Financial strength	2007A	2008A	2009E	2010E	2011E
Net debt/equity (%)	111.5	154.1	19.5	29.7	29.0
Net debt/total assets (%)	28.3	42.6	10.5	19.2	19.2
Current ratio (x)	0.9	0.6	1.7	0.3	0.2
CF interest cover (x)	6.3	10.1	9.4	9.1	8.6

Significant reduction in net debt/equity strengthens balance sheet

Valuation	2007A	2008A	2009E	2010E	2011E
Recurring P/E (x) *	22.4	12.6	15.9	12.2	10.3
Recurring P/E @ target price (x) *	29.2	16.4	20.8	16.0	13.4
Reported P/E (x)	22.4	12.6	15.9	12.2	10.3
Dividend yield (%)	-	-	-	-	-
P/CF (x)	9.6	5.6	6.7	5.4	4.4
P/FCF (x)	neg	neg	neg	neg	neg
Price/book (x)	5.2	3.7	1.2	1.1	1.0
Price/tangible book (x)	11.6	7.5	1.8	1.6	1.4
EV/EBITDA (x) **	9.5	7.2	7.5	6.7	5.5
EV/EBITDA @ target price (x) **	11.8	8.8	9.1	8.1	6.6
EV/invested capital (x)	3.0	2.1	1.1	1.0	1.0

* Pre exceptional, pre-goodwill and fully diluted

** EBITDA includes associate income and recurring non-operating income

Sources: Idea Cellular; BNP Paribas estimates

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All share prices are as at market close on 11 November 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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