

INDIA

India Telecoms

20 August 2007

BHARTI IN Outperform

Stock price as of 17 Aug 07	Rs	794.50
12-month target	Rs	1,025.00
Upside/downside	%	+29.0
Market cap	US\$m	36,616

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	185.2	272.3	347.1	412.1
EBITDA	bn	74.5	115.6	149.7	180.0
EBITDA growth	%	71.0	55.2	29.5	20.2
Adjusted profit	bn	42.6	69.2	94.2	113.9
EPS adj	Rs	22.46	36.51	49.67	60.06
EPS adj growth	%	87.3	62.6	36.1	20.9
PE adj	x	35.4	21.8	16.0	13.2
EV/EBITDA	x	20.8	13.4	10.4	8.6

RCOM IN Outperform

Stock price as of 17 Aug 07	Rs	493.45
12-month target	Rs	810.00
Upside/downside	%	+64.2
Market cap	US\$m	24,509

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	144.7	200.9	278.1	337.4
EBITDA	bn	57.2	85.8	124.1	151.2
EBITDA growth	%	128.6	49.9	44.7	21.9
Adjusted profit	bn	31.9	52.7	78.3	96.3
EPS adj	Rs	15.62	25.79	38.31	47.09
EPS adj growth	%	562.1	65.1	48.6	22.9
PE adj	x	31.6	19.1	12.9	10.5
EV/EBITDA	x	18.0	12.0	8.3	6.8

IDEA IN Outperform

Stock price as of 17 Aug 07	Rs	110.75
12-month target	Rs	130.00
Upside/downside	%	+17.4
Market cap	US\$m	6,976

Investment fundamentals

Year end 31 Mar		2007A	2008E	2009E	2010E
Total revenue	bn	43.4	70.2	102.9	135.3
EBITDA	bn	14.4	22.5	30.8	45.9
EBITDA growth	%	35.1	56.1	36.9	49.1
Adjusted profit	bn	4.6	9.3	13.1	23.6
EPS adj	Rs	1.94	3.53	4.97	8.97
EPS adj growth	%	106.7	82.3	40.7	80.4
PE adj	x	57.2	31.4	22.3	12.3
EV/EBITDA	x	22.0	14.1	10.3	6.9

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Great stocks going for a song!

Event

- The Indian stock market has taken a beating in the last couple of days. Indian telecom stocks are down by 6-10%, primarily due to negative sentiment in the US market. With the price fall, valuations appear attractive and provide a compelling buying opportunity. Structurally, the sector's fundamentals are only getting better and we see upside risk to our estimates for all three companies.

Impact

- After the price fall, Bharti, RCOM and Idea are trading at 21.8x, 19.1x and 31.4x FY09E EPS, respectively. On EV/EBITDA, Bharti now trades at 10.4x FY09E, RCOM at 8.3x and Idea at 10.3x.
- Indian telcos are likely to witness huge growth in the next 2-3 years, led by strong subscriber growth, coming on the back of improving affordability and massive coverage expansion. Robust subscriber growth should drive strong revenue growth, along with continued margin expansion, notwithstanding continued ARPU declines. Adjusted for growth, price to earnings growth (PEG) multiples are compelling at 0.73x for Bharti and 0.56x for RCOM.
- We believe strong acceleration in monthly subscriber net adds will continue for some time, even from the base registered in June 2007. We forecast India's wireless subscriber base to reach 255m in FY08E and 425m in FY10E (penetration of 36.8%), a CAGR of 37% between FY07 and FY10E.
- We see the first signs of pricing power in the hands of the large GSM operators, namely Bharti and Vodafone Essar. In the last 15 days, Bharti and Vodafone have hiked tariffs for prepaid subscribers in select circles. A similar hike in more circles can make a difference to EPS estimates. Although the EPS impact from these hikes is not material, they underscore a break in the trend of constantly falling ARPU, ARPM (read: tariffs for the consumer) and EBITDA per minute. We continue to forecast an ARPM decline of 19% in FY08, 17% in FY09 and 9% in FY10 for Bharti, and a more wide-ranging tariff hike could lead to positive surprises to our estimates.
- Tower sharing among operators will lead to capex moderation for all operators. Relatively smaller players like Idea and Aircel are likely to benefit significantly from sharing passive infrastructure, while tower providers like Bharti and RCOM would make money from tower rentals to those like Aircel.
- At current prices, Bharti and RCOM are trading at less than their fair values for the base businesses, let alone the upside from towers. In addition to the base business, the tower businesses of Bharti and RCOM are valued at Rs250 and Rs135 per share respectively. (See our report, *Tower truths: Caring about sharing*, of 21 June 2007 for discussion on the tower business.)

Outlook

- We believe Indian telecom stocks Bharti, RCOM and Idea should be looked at closely by investors for solid returns in 3-6 months. Bharti is flat over the last six months while RCOM is up only 6%. Bharti and RCOM are the top two stocks in our Asia-Pacific Telecom Model Portfolio, signifying upside of 60% and 64% respectively in the next 12 months, including the upside from towers.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Huge price fall provides attractive opportunities to accumulate

- **Stock prices of Bharti, RCOM and Idea down 8%, 12% and 13% respectively over 1 month:** The stock prices of the three leading Indian telecom stocks - Bharti, RCOM and Idea - are down 8%, 12% and 13%, respectively, over the last month and down 16.1%, 15.4% and 17% from their peaks attained on 25 July 2007, 20 July 2007 and 24 July 2007, respectively.
- **Bharti now at 16x PER, RCOM at 12.9x:** After the steep fall in stock prices, Bharti, RCOM and Idea are trading at PERs of 16x, 12.9x and 22.3x FY09E EPS, respectively.
- **Indian telcos are likely to witness significant EPS growth in the next two years – the fastest in Asia-Pacific** and possibly the fastest in global emerging markets – led by strong subscriber growth and margin expansion. We forecast two-year EPS CAGRs of 49%, 57% and 60% for Bharti, RCOM and Idea, respectively.
- **Adjusted for growth, all three stocks are inexpensive, trading at two-year PEG multiples of 0.73x, 0.56x and 0.95x, respectively.** At current prices, Bharti and RCOM are trading at PER multiples similar to or lower than those of the Chinese wireless telcos, China Mobile and China Unicom, which is rare for Indian telecom companies, given the much faster growth in India and the much higher ROE of Indian telecom companies.
- **PER valuations of Bharti at their lowest in seven months, RCOM's at their lowest in four months** – At current prices, Bharti is trading at its lowest one-year forward PER in the last seven months while RCOM is trading at its lowest multiple of recent months. This is in spite of the sale of part of RCOM's stake in RTIL, its tower company, over the last three months, and the likely sale of Bharti's stake in its towerco as well. We believe the low multiples and improving business outlook provide a compelling opportunity for investors to accumulate.

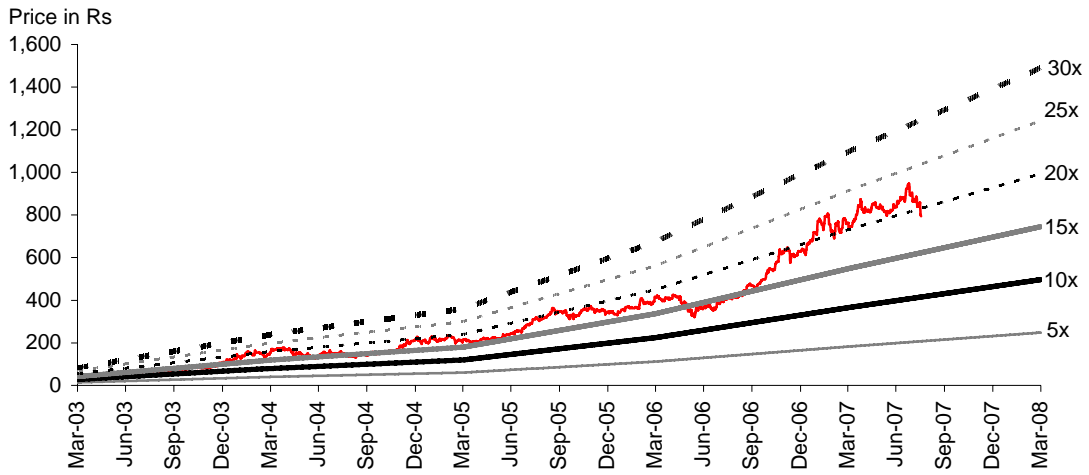
Fig 1 Asia telecom valuations – Indian telcos are among the most inexpensive on PEG

Company	Bloomberg ticker	Rec	Price (local currency)	Mkt cap (US\$m)	PER (x)			PEG (x)
					2007A	2008E	2009E	
Bharti Airtel*	BHARTI IN	Outperform	794.50	36,616	35.4	21.8	16.0	0.73
Reliance Comm*	RCOM IN	Outperform	493.45	24,509	31.6	19.1	12.9	0.56
Idea Cellular*	IDEA IN	Outperform	110.75	6,976	57.2	31.4	22.3	0.95
China Mobile	941 HK	Outperform	81.00	208,537	24.0	19.1	15.0	0.90
China Unicom	762 HK	Outperform	11.40	18,539	22.9	22.3	18.7	2.15
SK Telecom	017670 KS	Neutral	192,000	16,473	9.8	8.1	7.8	0.81
KT Freetel	032390 KS	Underperform	27,800	5,749	13.6	11.5	11.3	1.36
LG Telecom	032640 KQ	Outperform	8,660	2,537	10.1	6.3	5.3	0.26
Far EasTone	4904 TT	Outperform	37.30	4,360	11.1	12.4	12.7	-1.70
Taiwan Cellular	3045 TT	Outperform	36.00	5,433	11.0	36.5	5.9	0.31
MobileOne	M1 SP	Neutral	2.07	1,206	12.3	12.9	13.0	-5.08
AIS	ADVANC TB	Neutral	89.00	7,957	15.1	13.7	12.5	1.51
TAC	DTAC SP	Outperform	1.07	2,538	16.8	10.8	8.5	0.41
Digi.Com	DIGI MK	Outperform	19.40	4,151	17.5	13.9	11.8	0.80
Indosat	ISAT IJ	Outperform	6,550	3,756	21.6	16.0	12.4	0.67
Globe	GLO PM	Outperform	1,230	3,509	13.9	12.5	10.4	0.88
Average				284745.4	23.1	17.4	13.2	0.71

* Year end 31Dec2006 shown as 2007A in table, Year end 31Dec2007 shown as 2008E in table

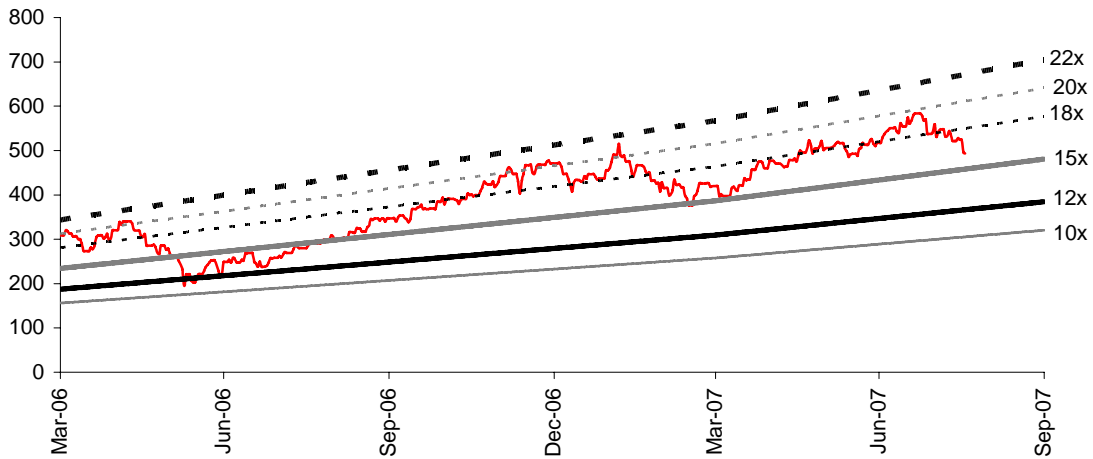
Source: Macquarie Research, August 2007

Fig 2 Bharti 1-year forward rolling PER band chart



Source: Macquarie Research, August 2007

Fig 3 RCOM 1-year forward rolling PER band chart



Source: Macquarie Research, August 2007

- While Indian telcos look expensive compared to their peer group on forward EV/EBITDA multiples, the growth in EBITDA is likely to be phenomenal. We forecast two-year EBITDA CAGRs of 42% for Bharti, 47% for RCOM and 46% for Idea. After adjusting for growth, Bharti, RCOM and Idea look inexpensive to us, trading at 'EV/EBITDA by EBITDA CAGR' of 0.50x, 0.38x and 0.48x, respectively.

Fig 4 Asia telecom valuations – Indian telcos inexpensive on growth adjusted EV/EBITDA multiples (EV/EBITDA by EBITDA CAGR)

Company	Bloomberg ticker	Rec	Price (lcy)	Mkt cap (US\$m)	EV/EBITDA (x)			EV/EBITDA by EBITDA CAGR
					2007A	2008E	2009E	2007-09E
Bharti Airtel*	BHARTI IN	Outperform	794.50	36,616	20.8	13.4	10.4	0.50
Reliance Comm*	RCOM IN	Outperform	493.45	24,509	18.0	12.0	8.3	0.38
Idea Cellular*	IDEA IN	Outperform	110.75	6,976	22.0	14.1	10.3	0.48
China Mobile	941 HK	Outperform	81.00	208,537	9.7	8.3	7.3	0.60
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SK Telecom	017670 KS	Neutral	192,000	16,473	4.3	4.1	4.1	4.43
KT Freetel	032390 KS	Under-perform	27,800	5,749	3.8	3.4	3.4	-7.76
LG Telecom	032640 KQ	Outperform	8,660	2,537	3.9	3.7	3.4	0.49
Far EasTone	4904 TT	Outperform	37.30	4,360	4.5	4.9	5.2	-0.57
Taiwan Cellular	3045 TT	Outperform	36.00	5,433	5.9	4.0	2.6	1.23
MobileOne	M1 SP	Neutral	2.07	1,206	6.5	6.8	6.9	-2.04
AIS	ADVANC TB	Neutral	89.00	7,957	6.7	6.0	5.6	0.71
TAC	DTAC SP	Outperform	1.07	2,538	6.7	5.7	4.9	0.36
Digi.Com	DIGI MK	Outperform	19.40	4,151	8.2	7.0	6.3	0.46
Indosat	ISAT IJ	Outperform	6,550	3,756	6.3	5.1	4.1	0.35
Globe	GLO PM	Outperform	1,230	3,509	5.2	4.7	4.4	0.55
Average				284,745	9.1	7.4	6.2	0.44

* Year end 31Dec2006 shown as 2007A in table, Year end 31Dec2007 shown as 2008E in table

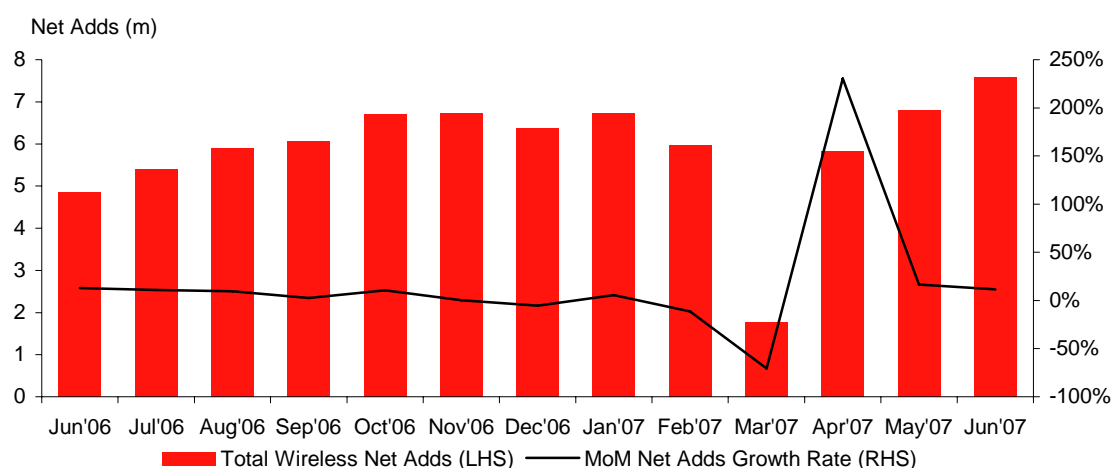
Source: Macquarie Research, August 2007

Ongoing structural improvement in industry on multiple counts being overlooked by investors

Strong acceleration in subscriber net adds continues every month

- The fundamentals of the sector are firmly in place, as exemplified by the accelerating subscriber net adds run rate, which is exactly in line with our estimates. We were the first to forecast the strong acceleration in subscriber additions (ie, 8m additions in a month) five months ago in our report, *India Telecoms: Faster, higher, stronger... and cheaper!* dated 16 March 2007.
- By our estimates, the industry added ~7.95m subscribers in July'07 (RCOM and Tata Tele's subscriber numbers for July'07 are not out yet). We forecast average monthly net additions of 8.2m subscribers for the July 2007– March 2008 period. We believe that the industry is well on its way to achieving our forecast of 254.9m subscribers by March 2008.

Fig 5 All India wireless net adds – Growth accelerating every month



Source: Macquarie Research, August 2007

Tariff hike in select circles – manifestation of pricing power of operators

- Contrary to the perception of most investors with regard to continued tariff falls, there are initial signs of pricing power for the two large GSM operators, Bharti and Vodafone Essar. A small example of this was seen over the last 15 days, when Bharti and Vodafone hiked their tariffs for prepaid subscribers in select circles. This concurrent action also suggests that both the leading GSM operators have convergent thoughts with regard to pricing. There is a possibility of other operators like Idea also following suit and raising their tariffs. A tariff hike, even on a small scale, has the potential to boost the profitability of the operators.
 - ⇒ Bharti has raised tariffs for prepaid subscribers in its original home turf, the Delhi circle. The tariff hike is primarily for on-net calls. Tariffs on Airtel to Airtel local calls have been raised to Rs1.20 per minute from Rs1 per minute earlier (20% hike). On Airtel to Airtel STD/NLD calls, the tariff has been raised to Rs2.65 per minute from Rs2 per minute earlier (32% hike). Local SMS charges have been raised to Rs1.20 per minute from Rs1 per minute earlier (20% hike).
 - ⇒ Vodafone Essar has raised its STD rates for prepaid subscribers to Rs2.65 per minute from Rs2.40 per minute earlier.
- **Assuming MoU remains the same (we assume there is no elasticity impact from this tariff hike), ARPU and ARPM of these subscribers will increase by ~5.5%.** The table below shows the impact of this hike on Bharti's Delhi subscribers' ARPU under the regular prepaid plan.

Fig 6 Bharti's tariff hike in Delhi circle – 5.5% increase in ARPU

	New tariff plan	Old tariff plan	Change (%)
Local on-net calls (30%)	1.20	1.00	20.00
Local other network calls (50%)	2.00	2.00	0.00
Long distance on-net calls (8%)	2.65	2.00	32.50
Long distance other network calls (12%)	2.65	2.65	0.00
Average outgoing tariff	1.89	1.78	6.30
Average prepaid MoU for Bharti (estimated)	431	431	0.00
<i>Incoming/outgoing ratio</i>	<i>55/45</i>	<i>55/45</i>	
Incoming MoU	237	237	0.00
Outgoing MoU	194	194	0.00
Outgoing revenue	367	345	6.30
On-net incoming calls	35%	35%	
Termination revenue	46	46	0.00
Gross ARPU	413	391	5.55
Incremental EBITDA	16.1		
ARPM	0.96	0.91	5.55

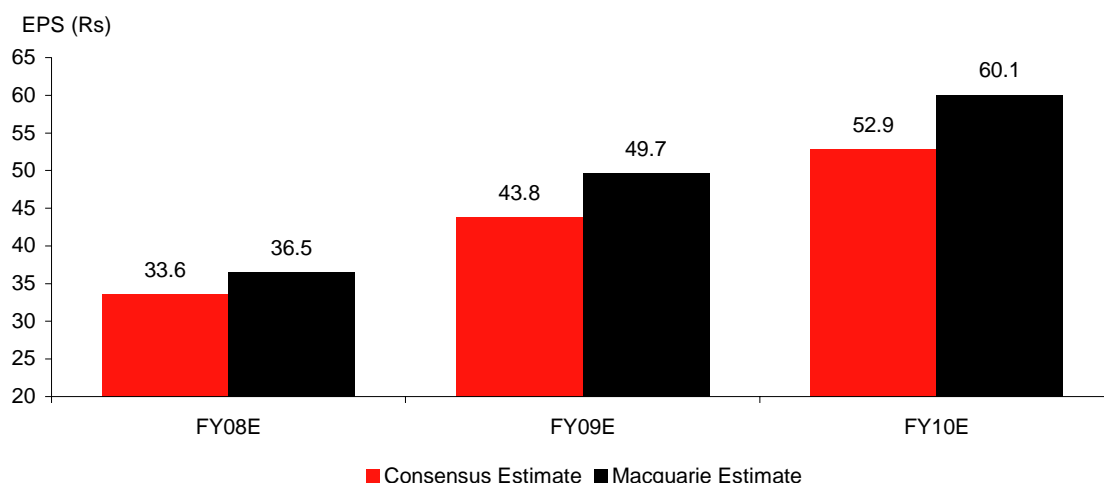
Source: Macquarie Research, August 2007

- Bharti's subscriber base in Delhi stands at 3.3m. Prepaid subscribers comprise ~89.7% of its total India subscriber base. Assuming the same proportion for Delhi, Bharti's total prepaid subscriber base in the Delhi circle currently stands at ~3m. Assuming 30% of the subscriber base is currently under the regular prepaid scheme, the tariff hike will result in a revenue increase of Rs58.7m and EBITDA increase of Rs43.4m per quarter. However, it is possible that customers of regular prepaid plans subscribe to a different plan with a different tariff structure. It is also likely that some subscribers could continue with their regular plan but reduce their usage and maintain their monthly outflow at the same level. In that case, the ARPM could change but ARPU would remain the same. In those cases, the impact of the tariff hike on revenue and EBITDA could be lower than our estimates.
- We and the street have been pricing in continued tariff (ARPM) deflation in the coming years. For Bharti, we forecast 19%, 17% and 9% declines in ARPM in FY08, FY09 and FY10. This compares with 24% and 21% declines in ARPM registered in FY06 and FY07, respectively. A tariff hike by Bharti in more circles could provide significant upside to our and the street's EPS estimates.
- We await a formal response by the regulator, TRAI, to the tariff hike. While at present outgoing call charges are under forbearance, interference by the regulator to reduce the call charges further cannot be ruled out. TRAI had called for a meeting of all the major telecom companies to discuss this issue on 17 August in Delhi. The minutes or outcome of the meeting are not available yet.

Consensus estimates still significantly below our estimates

- Our estimates for Bharti and RCOM are significantly higher than the consensus for each of the next three years. We believe that the market continues to underestimate the execution capability of Bharti and RCOM and the improving dynamics. Historically, both companies have almost always delivered beyond the market's expectations and we believe this trend will continue.
- For Bharti, we forecast EPS of Rs36.5 for FY08, Rs49.7 for FY09 and Rs60.1 in FY10. In comparison, consensus estimates are lower at Rs33.6 for FY08, Rs43.8 for FY09 and Rs52.9 for FY10, respectively. Considering the stronger-than-forecast subscriber growth Bharti is witnessing, we believe it can easily beat our EPS estimates for the coming years.

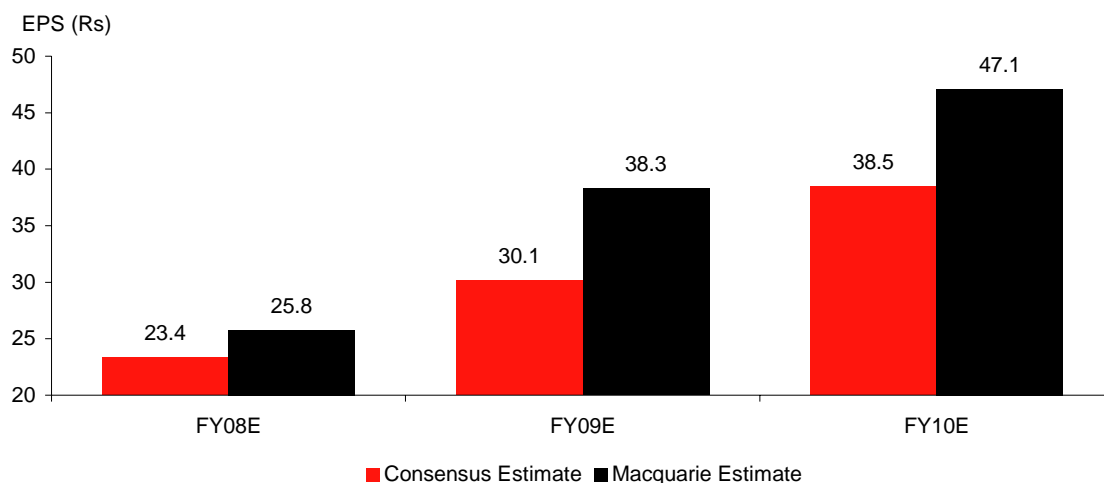
Fig 7 Bharti Airtel: Macquarie estimates vs consensus – consensus still lagging behind



Source: Macquarie Research, August 2007

- Similar to Bharti, our EPS estimates for RCOM also are significantly higher than the consensus. We forecast EPS of Rs25.8 for FY08 (10% higher than the consensus), Rs38.3 in FY09 (27% higher) and Rs47.1 in FY10 (22% higher). We strongly believe RCOM will be able to deliver a far superior performance than the market is estimating, led by the large capex programme currently underway, strong economies of scale and positive surprises in subscriber additions in the next 12-18 months.

Fig 8 RCOM: Macquarie estimates vs consensus – significantly ahead of consensus



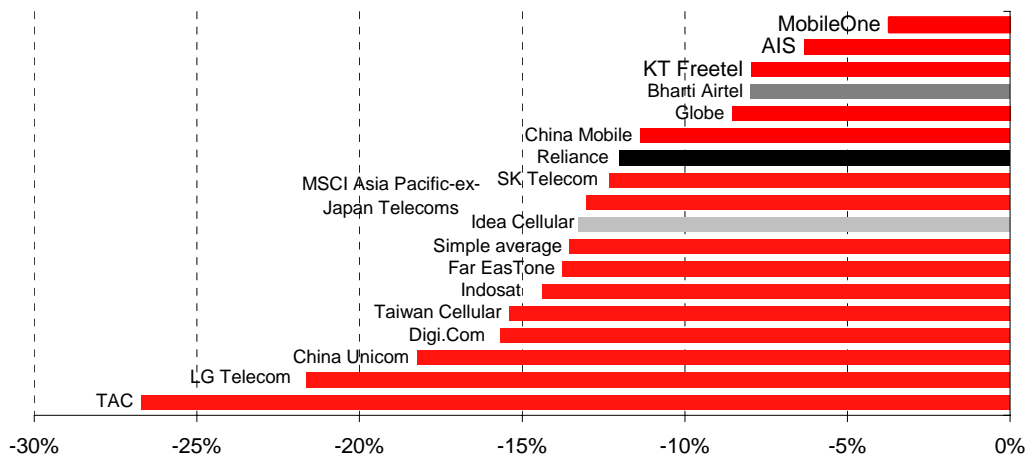
Source: Macquarie Research, August 2007

Tower business upside not priced in

- At current prices, Bharti and RCOM are trading at less than their respective fair values from the base businesses. We value the base businesses of Bharti and RCOM at Rs1,025 (29% stock upside from base business alone) and Rs675 (37% stock upside from base business), respectively. In addition to the base business, the towers businesses of Bharti and RCOM also provide a huge uplift to their fair values. According to media releases, RCOM is in talks with American Tower Company (AMT US, US\$37.20, Not rated) over the sale of a further 21% stake in its tower subsidiary, RTIL, at a valuation of US\$8.75bn.

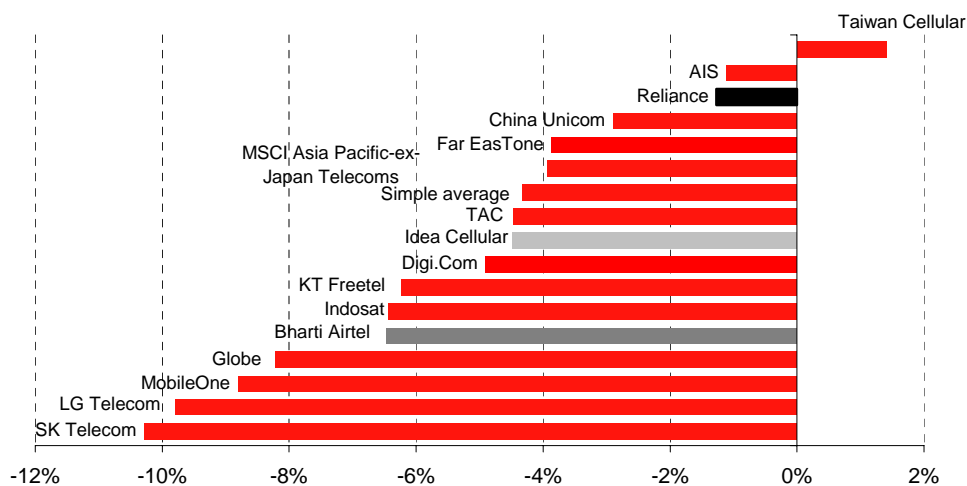
Price performance of Asian wireless telecom stocks

Fig 9 Absolute price performance of Asian wireless telecom stocks (1 month)



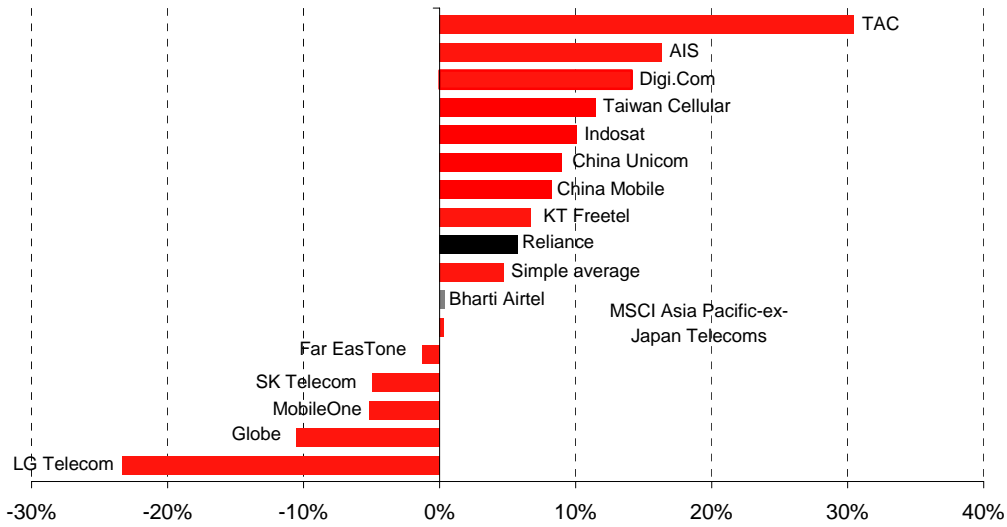
Source: Macquarie Research, August 2007

Fig 10 Absolute price performance of Asian wireless telecom stocks (3 months)



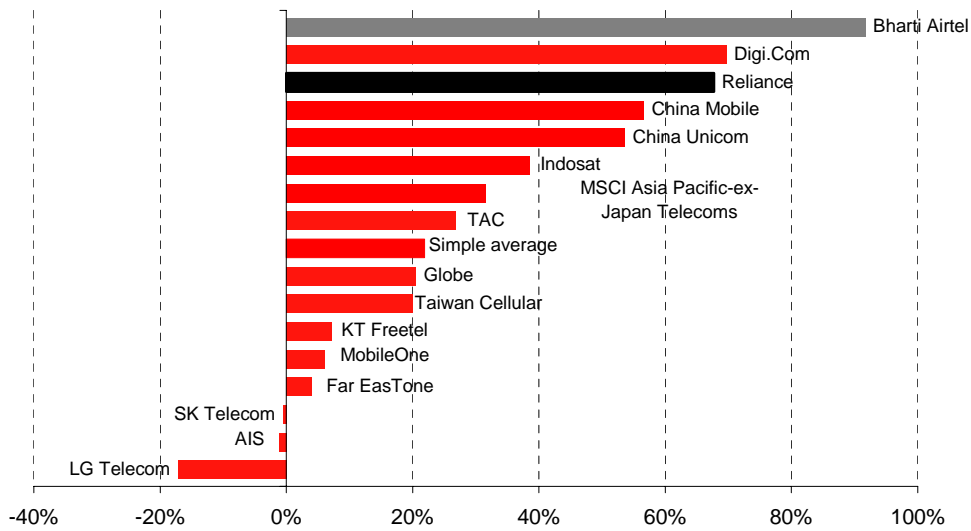
Source: Macquarie Research, August 2007

Fig 11 Absolute price performance of Asian wireless telecom stocks (6 months)



Source: Macquarie Research, August 2007

Fig 12 Absolute price performance of Asian wireless telecom stocks (12 months)



Source: Macquarie Research, August 2007

Bharti Airtel – Financial statements

Fig 13 Bharti Airtel – annual income statement, fiscal year-end March

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Revenues						
Services	78,727	114,638	184,152	271,369	346,001	410,928
Indefeasible right of use sales	209	418	436	436	436	436
Equipment	1,092	1,160	607	505	644	764
Total Revenues	80,028	116,215	185,195	272,309	347,080	412,128
Operating Expenses						
Access & Interconnect Charges	24,599	32,933	48,330	68,954	84,476	97,971
(% of total revenues)	30.7%	28.3%	26.1%	25.3%	24.3%	23.8%
Network Operations Cost	6,537	11,742	21,100	29,725	35,813	41,213
(% of total revenues)	8.2%	10.1%	11.4%	10.9%	10.3%	10.0%
Employee Costs	5,155	8,244	12,488	18,626	22,549	26,788
(% of total revenues)	6.4%	7.1%	6.7%	6.8%	6.5%	6.5%
Costs of equipment sales	1,021	1,169	589	272	347	412
(% of total revenues)	1.3%	1.0%	0.3%	0.1%	0.1%	0.1%
SG&A expenses	12,652	18,912	28,180	39,116	54,189	65,762
(% of total revenues)	15.8%	16.3%	15.2%	14.4%	15.6%	16.0%
Pre-operating cost	533	120	9	-	-	-
(% of total revenues)	0.7%	0.1%	0.0%	0.0%	0.0%	0.0%
Total Operating Expense	50,497	73,120	110,696	156,693	197,375	232,146
(% of total revenues)	63.1%	62.9%	59.8%	57.5%	56.9%	56.3%
EBITDA	29,531	43,096	74,499	115,616	149,706	179,982
EBITDA Margin	36.9%	37.1%	40.2%	42.5%	43.1%	43.7%
Interest expense	(3,114)	(2,958)	(3,044)	(3,989)	(3,990)	(4,694)
Interest income	1,119	446	1,606	2,976	7,401	14,309
Depreciation	(11,341)	(15,610)	(25,208)	(32,829)	(40,650)	(50,882)
Share of profits in associates / JV	(38)	(5)	(3)	-	-	-
Other income	479	499	1,064	601	980	980
Non operating expenses	(31)	(103)	(54)	-	-	-
Profit Before Taxes (PBT)	16,604	25,366	48,860	82,374	113,447	139,695
Income tax (expense) / benefit	(1,528)	(2,539)	(5,822)	(12,356)	(18,152)	(24,447)
Effective Tax Rate	9.2%	10.0%	11.9%	15.0%	16.0%	17.5%
Profit After Taxes (PAT)	15,076	22,827	43,038	70,018	95,295	115,248
(Profit) / loss to minority shareholders	(98)	(260)	(467)	(804)	(1,115)	(1,373)
Adjusted Net Profit	14,978	22,567	42,571	69,214	94,180	113,875
Adjusted Diluted EPS	8.0	12.0	22.5	36.5	49.7	60.1
YoY Growth (%)						
Service Revenues	65.2	45.6	60.6	47.4	27.5	18.8
Total Revenues	65.6	45.2	59.4	47.0	27.5	18.7
Operating Expenses	55.7	44.8	51.4	41.6	26.0	17.6
SG&A	66.3	49.5	49.0	38.8	38.5	21.4
EBITDA	85.9	45.9	72.9	55.2	29.5	20.2
Net Profit After Taxes	195.1	50.7	88.6	62.6	36.1	20.9
Diluted EPS	188.5	50.7	87.2	62.6	36.1	20.9
Key parameters						
ROE	28.0%	29.5%	37.4%	40.7%	37.4%	33.0%
ROCE	13.2%	14.7%	19.5%	24.1%	24.9%	25.4%
Fixed asset turnover (X)	0.86	0.82	0.88	0.92	0.95	0.99
Total asset turnover (X)	0.31	0.34	0.37	0.35	0.34	0.32

Source: Company data, Macquarie Research, August 2007

Fig 14 Bharti Airtel – balance sheet, fiscal year-end March

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
ASSETS						
Cash and cash equivalents	3,087	2,649	7,464	51,340	101,161	182,485
Accounts receivable, net	7,308	10,574	13,093	20,935	24,244	28,228
Unbilled receivables	2,790	3,629	4,890	6,699	8,081	9,033
Inventories	545	381	912	921	1,010	1,129
Short term investments	4,992	2,527	2,004	2,831	3,416	4,056
Deferred taxes on income	2,441	1,562	1,178	1,664	2,008	2,384
Derivative financial instruments	422	532	729	729	729	729
Restricted cash	168	189	134	134	134	134
Prepaid expenses/ current assets	4,643	9,590	13,711	21,772	26,265	30,486
Due from related parties	167	675	729	1,030	1,243	1,475
Total Current Assets	26,565	32,308	44,844	108,055	168,291	260,140
Property and equipment, net	92,597	142,411	210,602	296,273	365,566	415,162
Acquired intangible assets	15,964	14,873	14,116	14,116	14,116	14,116
Goodwill	23,247	23,687	23,684	23,684	23,684	23,684
Investment in associates and JV	160	190	182	182	182	182
Investments	511	500	500	500	500	500
Restricted cash, non-current	70	56	54	54	54	54
Deferred taxes on income	-	-	20	-	-	-
Other assets	2,400	3,218	3,887	5,492	6,625	7,867
Total Assets	161,514	217,243	297,889	448,356	579,019	721,705
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Short-term debt / current portion of long-term debt	11,237	12,892	10,925	14,334	13,079	17,114
Trade payables	7,209	14,130	16,878	42,191	54,749	66,782
Equipment supply payables	17,106	25,041	42,633	67,122	85,545	101,763
Accrued expenses	5,974	8,313	12,523	19,178	22,812	26,713
Unearned income	5,956	12,690	17,035	25,121	30,306	26,713
Unearned income- Indefeasible right to use sales	290	336	336	436	436	436
Derivative financial instruments	1,672	1,583	1,981	1,981	1,981	1,981
Due to related parties	57	50	30	30	30	35
Other current liabilities	1,743	3,361	4,295	5,945	7,071	8,317
Deferred taxes on income	131	-	14	14	14	14
Total current liabilities	51,376	78,396	106,650	176,352	216,022	249,867
Long-term debt, net of current portion	37,803	34,503	41,536	51,192	46,711	61,122
Deferred taxes on income	3,494	3,508	3,616	3,616	3,616	4,294
Unearned income- Indefeasible right to use sales	3,951	4,136	3,800	3,800	3,800	3,800
Other liabilities	3,076	3,566	4,933	6,828	8,122	9,644
Total liabilities	99,699	124,108	160,535	241,787	278,270	328,726
Minority interest	749	957	1,801	1,801	1,801	1,801
Stockholders' equity						
Common stock	18,534	18,939	18,959	18,959	18,959	18,959
Additional paid in capital	47,987	56,363	56,645	56,645	56,645	56,645
Deferred stock based compensation	(69)	(419)	-	-	-	-
Treasury stock	(331)	(216)	(134)	(134)	(134)	(134)
Retained earnings / (deficit)	(5,056)	17,511	60,083	129,297	223,477	315,708
Total stockholders' equity	61,065	92,178	135,553	204,767	298,947	391,178
Total liabilities and stockholders' equity	161,514	217,243	297,889	448,356	579,019	721,705

Source: Company data, Macquarie Research, August 2007

Fig 15 Bharti Airtel – cashflow statement, fiscal year-end March

Particulars (Rs m)	FY05	FY06	FY07	FY08E	FY09E	FY10E
Cashflows from operating activities						
Net (loss) / profit	14,978	22,567	42,571	69,214	94,180	113,875
Depreciation and amortization	11,341	15,610	25,209	32,829	40,650	50,882
Deferred tax expense	583	767	1,581	(466)	(343)	301
Share of (profits) / losses in joint venture	38	5	-	-	-	-
(Gain) / loss on sale of property and equipment	4	(25)	-	-	-	-
Interest income earned	(132)	(15)	-	-	-	-
Deferred stock based compensation	64	159	-	-	-	-
Fair value loss / (gain) on trading securities	(435)	(98)	-	-	-	-
Finance costs charged	-	79	-	-	-	-
Unrealized foreign exchange gain	(439)	1,320	-	-	-	-
Provision for impairment of receivables and advances	1,647	863	-	-	-	-
Debt origination costs amortised	41	13	-	-	-	-
Fair value loss / (gain) on derivatives and other financial expenses	(47)	(124)	1,823	-	-	-
Minority interest	98	260	-	-	-	-
Indefeasible right to use sales	(209)	(418)	-	-	-	-
Current tax impact on ESOP exercised	4	2	-	-	-	-
Proceeds from Indefeasible right to use sales	4,450	649	-	-	-	-
Changes in Working Capital:	1,302	7,295	20,645	48,572	31,651	20,529
Accounts receivable	(3,387)	(4,106)	(881)	(7,842)	(3,310)	(3,983)
Inventories	(199)	164	111	(9)	(89)	(119)
Unbilled receivables and other current assets	(2,634)	(5,852)	(4,553)	(9,870)	(5,875)	(5,173)
Trade payables	2,891	6,512	11,964	49,802	30,980	28,251
Accrued expenses	1,968	2,339	2,666	6,655	3,634	3,901
Unearned income and other current liabilities	2,663	8,237	2,641	9,836	6,311	(2,347)
Interest accrued but not due	-	-	-	-	-	-
Non-interest bearing security deposits	-	-	-	-	-	-
Employee benefit obligations	-	-	-	-	-	-
Other non-current liabilities	(724)	571	969	1,895	1,294	1,522
Non-current assets	(535)	(641)	(2,575)	(1,605)	(1,133)	(1,242)
Due to / from related parties, net	123	(518)	14	(301)	(213)	(228)
Net cash provided by/(used in) operating activities	32,152	48,320	90,237	150,138	166,086	185,640
Cashflows from investing activities						
Purchase of property and equipment	(26,982)	(57,309)	(89,271)	(118,500)	(109,944)	(100,477)
Proceeds from sale of property and equipment	531	1,092	(2,806)	(0)	(0)	0
Proceeds of short term investments	-	-	-	-	-	-
Proceeds from sale of marketable securities	-	-	-	-	-	-
Acquisition of intangible assets	(729)	(288)	-	-	-	-
Non-current investments	(391)	11	884	-	-	-
Restricted cash	(56)	(7)	56	-	-	-
Investment in joint ventures	(44)	(35)	8	-	-	-
Short term investments	(1,130)	2,564	523	(827)	(584)	(640)
Licence entry fees	(50)	-	-	-	-	-
Cash paid for acquisition of subsidiaries, net	(657)	(122)	-	-	-	-
Net cash used in investing activities	(29,938)	(54,095)	(90,606)	(119,327)	(110,528)	(101,118)
Cashflows from financing activities						
Net movement in cash credit and bank overdraft	96	1,629	-	-	-	-
Proceeds from issuance of short-term borrowings	-	4,451	(360)	3,409	(1,255)	4,035
Repayment of short-term borrowings	(4,083)	(43)	-	-	-	-
Proceeds from issuance of long-term borrowings	13,103	18,334	3,604	9,656	(4,481)	14,411
Repayment of long-term borrowings	(9,803)	(18,841)	-	-	-	-
Proceeds from exercise of stock options	103	60	820	-	-	-
Additional paid in capital	-	-	372	(0)	(0)	-
Due to related parties./ changes in minority interest	(43)	3	748	-	-	-
Dividend (including dividend tax)	-	-	-	-	-	(21,644)
Cash paid for debt issue costs	(233)	(255)	-	-	-	-
Net cash provided by/(used in) financing activities	(860)	5,337	5,184	13,065	(5,736)	(3,198)
Net (decrease) / increase in cash during the year	1,784	(438)	4,815	43,876	49,821	81,324
Add : Balance as at the beginning of the year	1,303	3,087	2,649	7,464	51,340	101,161
Balance as at the end of the year	3,087	2,649	7,464	51,340	101,161	182,485

Source: Company data, Macquarie Research, August 2007

Reliance Communications – Financial statements

Fig 16 RCOM – annual income statement, fiscal year-end March

Particulars (Rs m)	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Revenues					
Wireless	73,643	107,276	158,217	225,869	276,202
Global Service revenues	51,855	51,771	56,584	67,432	78,154
Broadband & Telephone Service revenues	5,126	11,440	18,119	25,957	33,870
Others	3,212	3,872	4,267	5,187	5,342
Inter-segment eliminations	(26,172)	(29,677)	(36,302)	(46,363)	(56,176)
Total Revenues	107,664	144,683	200,885	278,082	337,392
Operating Expenses					
Access & Interconnect Charges	40,400	37,822	44,683	59,178	70,709
(% of total revenues)	37.5%	26.1%	22.2%	21.3%	21.0%
Network Operations Costs - (a)	15,350	16,736	22,046	30,589	37,113
(% of total revenues)	14.3%	11.6%	11.0%	11.0%	11.0%
Employee Cost - (b)	8,390	9,079	12,724	17,797	21,357
(% of total revenues)	7.8%	6.3%	6.3%	6.4%	6.3%
Selling & General Cost - (c)	18,492	23,835	35,671	46,463	56,998
(% of total revenues)	17.2%	16.5%	17.8%	16.7%	16.9%
Total Service Operating Expenses - (a+b+c)	42,232	49,649	70,441	94,849	115,468
(% of total revenues)	39.2%	34.3%	35.1%	34.1%	34.2%
Total Operating Expense	82,632	87,471	115,124	154,027	186,177
(% of total revenues)	76.8%	60.5%	57.3%	55.4%	55.2%
EBITDA	25,032	57,212	85,761	124,055	151,215
EBITDA Margin	23.2%	39.5%	42.7%	44.6%	44.8%
Net Interest	(2,891)	(4)	645	(141)	2,632
Depreciation	(16,990)	(24,653)	(28,643)	(36,879)	(43,824)
(% of total revenues)	15.8%	17.0%	14.3%	13.3%	13.0%
Profit Before Taxes (PBT)	5,151	32,555	57,763	87,036	110,023
(% of total revenues)	4.8%	22.5%	28.8%	31.3%	32.6%
Income tax expense / (benefit)	327	613	5,040	8,704	13,753
Effective Tax Rate (%)	6.3%	1.9%	8.7%	10.0%	12.5%
Profit After Taxes (PAT)	4,824	31,942	52,723	78,332	96,270
Extraordinary items	(374)	(302)	15		
Reported Net Profit	4,450	31,640	52,738	78,332	96,270
Adjusted Net Profit	4,824	31,942	52,723	78,332	96,270
PAT Margin	4.5%	22.1%	26.2%	28.2%	28.5%
Adjusted Diluted EPS	2.36	15.62	25.79	38.31	47.09
YoY Growth (%)					
Total Revenues		34.4	38.8	38.4	21.3
Access & Interconnection Charges		(6.4)	18.1	32.4	19.5
Network Operations		9.0	31.7	38.8	21.3
Employee Costs		8.2	40.1	39.9	20.0
Selling & General Costs		28.9	49.7	30.3	22.7
Operating Expenses		5.9	31.6	33.8	20.9
EBITDA		128.6	49.9	44.7	21.9
Adjusted Net Profit After Taxes		562.2	65.1	48.6	22.9
Adjusted Diluted EPS		562.2	65.1	48.6	22.9
Key parameters					
ROE (%)	4.1%	18.4%	20.6%	24.5%	24.2%
ROA (%)	2.5%	7.4%	9.3%	12.0%	12.7%
Fixed asset turnover (X)	0.50	0.41	0.45	0.53	0.59
Total asset turnover (X)	0.51	0.36	0.48	0.56	0.66

Source: Company data, Macquarie Research, August 2007

Fig 17 RCOM – balance sheet, fiscal year-end March

Particulars	FY2006	FY2007	FY2008E	FY2009E	FY2010E
ASSETS					
Cash and Cash equivalents	60,037	72,006	110,141	146,952	175,629
Inventories	4,076	4,821	5,565	7,425	10,168
Debtors	16,808	18,316	24,863	33,173	41,596
Other Current Assets	765	13,884	21,249	28,350	7,395
Loans and Advances	23,668	22,103	35,237	47,013	69,327
Total Current Assets	105,354	131,130	197,055	262,914	304,115
Fixed Assets					
Gross Block	230,531	349,442	453,483	561,541	655,688
Less: Depreciation	47,573	55,926	83,168	120,047	163,871
Net Block	182,958	293,516	370,315	441,495	491,817
Capital Work-in-progress	31,305	36,907	51,984	56,270	57,958
Goodwill		26,588	26,588	26,588	26,588
Total Fixed Assets	214,263	357,010	448,887	524,352	576,362
Investments	121	77,114	11,946	11,946	11,946
Total Assets	319,738	565,254	657,888	799,212	892,424
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities	89,956	114,334	176,181	227,066	285,642
Provisions	19,291	47,175	60,473	77,939	91,813
Total Current Liabilities	109,247	161,508	236,654	305,005	377,455
Secured Foreign Currency Loans	35,079	19,381	18,148	18,148	18,148
Secured Rupee Loans	52,106	31,755	30,255	30,255	30,255
Unsecured Loans	5,791	123,248	90,486	89,796	28,293
Total Debt	92,976	174,383	138,889	138,199	76,696
Minority interest		56	63	63	63
Stockholders' Equity	117,515	229,307	282,281	355,945	438,210
Share capital	10,223	10,223	10,223	10,223	10,223
Reserves	107,292	219,083	272,058	345,722	427,987
Total Liabilities and Stockholders' Equity	319,738	565,254	657,888	799,212	892,424
Ratios					
Net debt/equity	0.28	0.45	0.10	(0.02)	(0.23)
Gross Debt/Equity	0.79	0.76	0.49	0.39	0.18
WC/Revenues (%)	(3.62)	(21.00)	(19.71)	(15.14)	(21.74)
Net working capital days <Days of Gross Sales>	(13.20)	(76.64)	(71.95)	(55.25)	(79.34)

Source: Company data, Macquarie Research, August 2007

Fig 18 RCOM – cashflow statement, fiscal year-end March

Particulars	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Cash Flows from operating activities					
Net Profit / (Loss)	4,439	31,639	52,738	78,332	96,270
Add:					
Depreciation	16,987	24,653	28,642	36,879	43,824
Provision for Doubtful Debts	746	1,405	516		
Interest expense (net)	2,595	4	(1,997)	141	(2,632)
(Profit)/Loss on sale of assets / investments	(673)	(948)	(362)		
Tax expense / (income)	337	(99)	741		
Extraordinary items		302	(15)		
Exchange (gain) / loss	620	0	0		
Increase / (decrease) in working capital	17,304	14,916	24,664	39,303	59,925
Net cash provided by/ used in operating activities	42,355	71,871	104,927	154,654	197,388
Cashflows from investing activities					
Capex	(39,238)	(53,569)	(116,602)	(112,344)	(95,834)
Sale of fixed assets / investments	3,066	(75,723)	(49)	0	0
Interest expense (net)	(2,595)	3,186	(875)	(141)	2,632
Net cash provided by/ used in investing activities	(38,767)	(126,106)	(117,526)	(112,484)	(93,203)
Cashflows from financing activities					
Changes in Net Debt	(12,960)	66,203	(14,460)	(690)	(61,503)
Increase in share capital					
Dividends including dividend tax	0	0	0	(4,668)	(14,005)
Net cash provided by/ used in financing activities	(12,960)	66,203	(14,460)	(5,359)	(75,508)
Net (decrease) / increase in cash	(9,372)	11,968	(27,059)	36,811	28,677
Cash at the beginning of the period	69,409	60,038	137,200	110,141	146,952
Cash at the end of the period	60,037	72,006	110,141	146,952	175,629
Source: Company data, Macquarie Research, August 2007					

Bharti Infratel (Bharti TowerCo) – Income statement

Fig 19 Bharti Infratel – income statement

Particulars (Rs m)	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Number of Towers	65,000	90,000	113,623	130,415	145,800	156,568	166,685	176,170
Total number of Occupants	83,798	134,358	193,140	249,869	312,811	372,654	431,770	494,071
Occupancy Ratio	1.29	1.49	1.70	1.92	2.15	2.38	2.59	2.80
Revenue								
Ground based Towers	16,934	32,398	51,138	69,530	87,387	105,992	124,873	145,517
Roof Top Towers	8,421	11,280	12,934	14,437	15,610	16,349	16,514	16,336
Total Revenue	25,355	43,678	64,072	83,967	102,997	122,341	141,387	161,852
Growth		72.3	46.7	31.1	22.7	18.8	15.6	14.5
Operating Cost								
Rentals	2,837	3,558	3,910	4,157	4,353	4,489	4,571	4,647
Repairs and Maintenance	3,593	5,880	8,171	10,269	12,107	13,754	15,233	16,708
Other Operating Cost	6,475	10,657	14,885	18,763	22,159	25,204	27,940	30,669
SG&A	3,043	5,241	7,368	9,236	10,815	12,234	14,139	16,185
Total Cost	15,947	25,336	34,334	42,425	49,434	55,681	61,882	68,209
EBITDA	9,408	18,342	29,738	41,541	53,563	66,660	79,505	93,643
EBITDA Margin (%)	37.1	42.0	46.4	49.5	52.0	54.5	56.2	57.9
Depreciation	8,793	15,001	20,297	23,689	26,048	28,018	29,734	31,712
As a percentage of revenue (%)	34.7	34.3	31.7	28.2	25.3	22.9	21.0	19.6
As a percentage of gross block (%)	8.5	8.8	8.6	8.1	7.7	7.4	7.1	7.0
EBIT	615	3,341	9,441	17,853	27,515	38,643	49,770	61,932
EBIT Margin (%)	2.4	7.6	14.7	21.3	26.7	31.6	35.2	38.3
Growth (%)		443.0	182.6	89.1	54.1	40.4	28.8	24.4
Interest	1,724	5,664	9,840	12,973	14,998	15,975	15,707	14,431
Interest Rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Profit before Tax	(1,109)	(2,324)	(399)	4,880	12,517	22,667	34,063	47,500
Tax	0	0	0	551	4,243	7,684	11,547	16,103
Tax Rate	0.0	0.0	0.0	11.3	33.9	33.9	33.9	33.9
PAT	(1,109)	(2,324)	(399)	4,328	8,274	14,983	22,515	31,398
Net Profit Margin	(4.4)	(5.3)	(0.6)	5.2	8.0	12.2	15.9	19.4
Number of Shares Outstanding	1,896	1,896	1,896	1,896	1,896	1,896	1,896	1,896
EPS (Rs)	(0.58)	(1.23)	(0.21)	2.28	4.36	7.90	11.88	16.56
CEPS (Rs)	4.05	6.69	10.50	14.78	18.10	22.68	27.56	33.29

Source: Macquarie Research, August 2007

Reliance Telecom Infrastructure (RCOM TowerCo) – Income statement

Fig 20 Reliance Telecom Infrastructure – income statement

Particulars (Rs m)	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Number of Towers	37,472	52,472	63,472	70,472	77,472	84,472	91,472	98,472
Total number of Occupants	40,327	71,567	103,750	134,514	166,243	200,197	237,671	274,818
Occupancy Ratio	1.08	1.36	1.63	1.91	2.15	2.37	2.60	2.79
Revenue								
Ground based Towers	7,149	15,510	24,133	32,617	40,821	49,769	60,061	71,968
Roof Top Towers	3,624	6,373	8,875	10,865	12,280	13,429	14,435	14,987
USO Fund subsidy led project	0	80	80	80	80	80	519	513
Total Revenue	10,773	21,964	33,088	43,563	53,180	63,278	75,015	87,468
Growth		103.9	50.7	31.7	22.1	19.0	18.5	16.6
Operating Cost								
Rentals	1,275	1,929	2,375	2,652	2,800	2,916	3,017	3,102
Repairs and Maintenance	1,745	3,356	4,547	5,467	6,270	7,117	8,064	9,017
Other Operating Cost	3,151	6,075	8,244	9,922	11,395	12,954	14,698	16,456
SG&A	1,293	2,636	3,805	4,792	5,584	6,328	7,502	8,747
Total Cost	7,464	13,996	18,972	22,833	26,048	29,315	33,280	37,322
EBITDA	3,309	7,968	14,117	20,730	27,132	33,963	41,735	50,147
EBITDA Margin (%)	30.7	36.3	42.7	47.6	51.0	53.7	55.6	57.3
Depreciation	4,838	9,013	11,763	12,841	13,279	14,285	15,721	17,426
As a percentage of revenue (%)	44.9	41.0	35.6	29.5	25.0	22.6	21.0	19.9
As a percentage of gross block (%)	8.6	9.0	8.9	8.4	7.7	7.4	7.3	7.2
EBIT	(1,529)	(1,045)	2,354	7,889	13,853	19,679	26,015	32,721
EBIT Margin (%)	(14.2)	(4.8)	7.1	18.1	26.0	31.1	34.7	37.4
Growth (%)		(31.6)	(325.2)	235.2	75.6	42.1	32.2	25.8
Interest	262	1,891	4,058	5,179	5,592	5,764	5,751	5,342
Interest Rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Profit before Tax	(1,791)	(2,936)	(1,704)	2,710	8,260	13,915	20,264	27,378
Tax	0	0	0	306	933	4,717	6,869	9,281
Tax Rate	0.0	0.0	0.0	11.3	11.3	33.9	33.9	33.9
PAT	(1,791)	(2,936)	(1,704)	2,404	7,327	9,198	13,394	18,097
Net Profit Margin	(16.6)	(13.4)	(5.2)	5.5	13.8	14.5	17.9	20.7
Number of Shares Outstanding	2,351	2,351	2,351	2,351	2,351	2,351	2,351	2,351
Earnings per Share (Rs)	(0.76)	(1.25)	(0.72)	1.02	3.12	3.91	5.70	7.70
CEPS	1.30	2.58	4.28	6.48	8.76	9.99	12.38	15.11

Source: Macquarie Research, August 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – expected return >+5%
 Neutral – expected return from -5% to +5%
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	46.81%	61.36%	45.30%
Neutral	39.01%	18.67%	35.80%
Underperform	14.18%	19.97%	18.90%

For quarter ending 30 June 2007

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

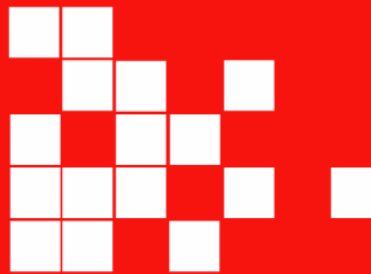
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