

August 24, 2011

## Indian meetings – excitement and complacency **Why is everyone raising prices by 20% when everyone has a different cost base?**

### Action: NEUTRAL Bharti and IDEA post recent India meetings

Post meetings with the TRAI chairman, operators and investors in India, we note natural excitement/relief after two years of price competition, but caution against risk of rising complacency, too. 1) Conviction appears to be low on whether recent price hikes will be sustained. Usage metrics over the next 6 months will be key. The regulator is unlikely to intervene unless there is a major impact on customer spend. 2) Virtually everyone has a different spin on the NTP-11 impact. Given the complexities, NTP-11 could even be a 2012 event. Regardless, we do not expect many concessions for operators as most decisions will likely see cash-outlays. 3) Most view competition to be rational and do not expect this to change soon, although we think there is an element of herd-mentality, too. Surprisingly, all carriers attributed the recent price hikes to 'inflation' and have hiked prices by the same 20% to 1.2p, despite having arguably different cost bases. 4) 3G excitement is intact and concerns on it cannibalising voice/SMS (as seen in Indonesia) are not a near-term issue, in our view.

### TRAI chairman – will spectrum re-farming be accepted?

The TRAI chairman expects NTP-11 to be finalised soon, but said it is unclear if TRAI's proposals will be accepted in full. He also noted: 1) the industry needs a more collective focus on securing spectrum longer term; 2) the final decision on a uniform license fee is still pending; 3) for M&A, caps on market share rather than spectrum could be more critical, and an "M&A levy" is likely, but will not be material; and 4) spectrum re-farming of 900MHz is likely, and finding another 25Mhz in 1800MHz is possible.

### Bharti – India stable, Africa growing

Bharti noted that: 1) tariff hikes in India will be segmented and elasticity-driven; 2) IPOs of towers remain works in progress; 3) the priority in Africa is to gain revenue market share, then strengthen revenue growth and EBITDA growth, which should see cashflows recover beyond that; 4) some USD2.3bn of the African debt of USD8.3bn is short-term and thus will likely be partly repaid or refinanced in 2012.

### Vodafone and Unitech – more collaborative competition ahead

Vodafone expects price hikes to last 1-2 quarters but is unclear beyond that. It does not view the current proposal for spectrum charges as being pro M&A. Uninor's long-term aspirations in India stand and EBITDA is on track to break even by 2013. It noted that recent price hikes seem to be getting more airplay than what they are seeing on the ground.

Stock	Code	Rating	Price (INR)	PT (INR)	Upside/Downside
Bharti Airtel	BHARTI IN	NEUTRAL	402	430	7%
Idea Cellular	IDEA IN	NEUTRAL	93	88	-5%
RCOM	RCOM IN	REDUCE	80	90*	13%

\* Price target under review

Rating: See report end for details of Nomura's rating system.

### Anchor themes

The subscriber growth cycle is by no means over and stable competition bodes well. 3G/data should offer further growth opportunities.

### Nomura vs consensus

Our target prices are lower than consensus estimates by 7% for Bharti, 10% for RCOM and 12% for IDEA.

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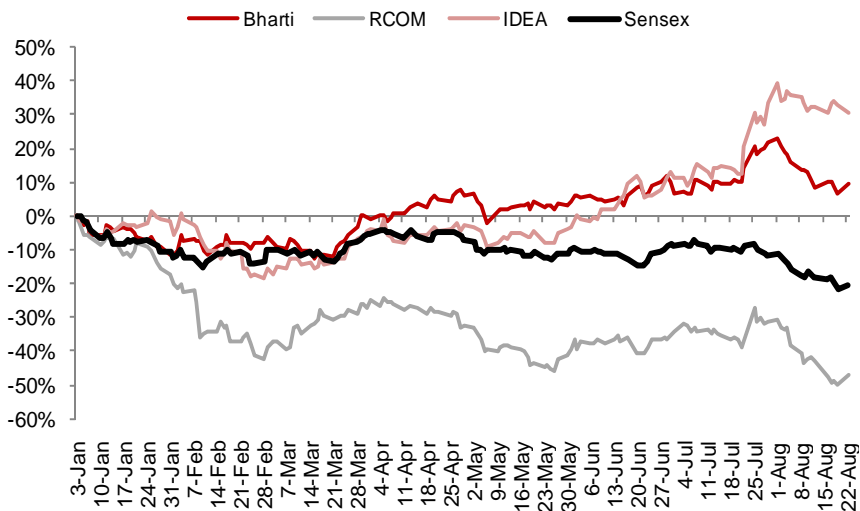
# India meetings feedback

Last week, we met with TRAI Chairman, Mr J S Sarma, and management teams from Bharti, Unitech and Vodafone. We also met various investors in India. Overall, the mood seems to be relatively more upbeat than before given the recent news flow, but are we getting too complacent again? No doubt competition should remain stable in the near term, and some even expect price hikes to continue, which we think could be a stretch. Regulations are very difficult to call – but we don't think the stocks (IDEA in particular) are really pricing in any uncertainty.

## Key takeaways

- **Little conviction on if recent price hikes will be sustained.** Operators will assess usage metrics over the next six months to decide what's next. The regulator is unlikely to intervene unless there is a significant impact on customer spend.
- **Virtually everyone has a different spin on NTP-11 impact.** Given the complexities, we think there is a reasonable chance that NTP-11 could even be a 2012 event. Regardless, we do not expect too many concessions for operators as most decisions are likely to see cash-outlays.
- **Most view competition as rational still and do not expect this to change soon either.** We think there is an element of herd mentality, too. Surprisingly, all carriers attributed the recent price hikes to 'inflation' and have hiked prices by the same 20% to 1.2p, despite having arguably different cost bases.
- **3G excitement is still intact.** Moreover, we view concerns on it cannibalising voice/SMS (as seen in Indonesia) as more of a long-term issue.

Fig. 1: Indian telcos: share price performance



Source: Bloomberg, Nomura research

Fig. 2: Sector valuation

Wireless	Bloomberg ticker	Rating	Currency	Local price	Mkt Cap (US\$ mn)	PE (x)			EV/EBITDA (x)			Div Yield (%)			FCF Yield (%)		
						10	11E	12E	10	11E	12E	10	11E	12E	10	11E	12E
<b>AIS</b>	ADVANC TB	Neutral	THB	115	11,379	15.4	14.8	14.4	6.9	6.6	6.5	11.3%	8.7%	6.9%	11.5%	8.1%	8.8%
<b>Axiata Group</b>	AXIATA MK	Neutral	MYR	5.0	14,173	18.0	15.7	14.5	7.2	6.7	6.1	2.0%	2.9%	4.1%	12.5%	4.7%	8.4%
<b>Bharti Airtel</b>	BHARTI IN	Neutral	INR	393	32,629	22.6	19.1	15.0	10.5	8.2	6.7	0.4%	0.8%	1.0%	-29.4%	2.0%	6.7%
<b>China Mobile</b>	941 HK	Buy	HK\$	78	215,202	11.5	10.9	10.6	4.7	4.3	4.2	3.8%	4.1%	4.3%	8.0%	6.2%	6.6%
<b>Digi.com</b>	Digi MK	Buy	MYR	30	7,803	19.7	17.7	16.2	9.5	8.7	8.3	5.5%	5.5%	5.9%	6.9%	7.1%	7.4%
<b>Far EasTone</b>	4904 TT	Neutral	NT\$	45	5,022	16.5	16.7	14.9	6.9	6.9	6.9	5.6%	5.4%	6.0%	10.0%	7.8%	9.2%
<b>Globe Telecom</b>	GLO PM	Buy	PHP	879	2,740	11.2	12.0	11.6	4.6	4.7	4.5	8.1%	7.0%	7.1%	7.1%	6.6%	7.2%
<b>Idea Cellular</b>	IDEA IN	Neutral	INR	92.3	6,668	45.1	34.6	24.7	10.8	8.9	7.8	0.0%	0.0%	0.0%	-13.5%	-2.0%	0.0%
<b>Maxis</b>	Maxis MK	Neutral	MYR	5.4	13,674	17.7	16.8	17.1	10.1	10.0	9.9	7.4%	5.9%	5.9%	6.1%	4.7%	5.8%
<b>MobileOne</b>	M1 SP	Buy	S\$	2.4	1,805	13.9	13.0	12.9	7.9	7.5	7.5	5.8%	6.2%	6.2%	3.1%	5.6%	6.9%
<b>PT XL Axiata</b>	EXCL IJ	Neutral	IDR	4,925	4,905	13.9	11.9	10.5	5.6	5.0	4.7	2.2%	3.4%	4.3%	9.7%	9.9%	12.3%
<b>Reliance Com</b>	RCOM IN	Reduce	INR	79	3,560	13.0	9.9	7.1	4.5	5.2	4.6	0.6%	2.7%	7.3%	n/m	10.4%	19.5%
<b>SK Telecom</b>	017670 KS	Buy	KRW	152,500	11,353	7.0	7.2	7.7	4.1	4.0	3.9	6.2%	6.2%	6.2%	15.2%	23.4%	22.7%
<b>Taiwan Mobile</b>	3045 TT	Buy	NT\$	79	10,287	17.0	17.6	15.5	11.2	11.4	10.5	5.3%	5.1%	5.8%	6.7%	7.0%	7.0%
<b>Total Access</b>	DTAC TB	Reduce	THB	67	5,336	15.3	13.9	16.5	6.2	5.9	6.8	5.6%	16.9%	6.1%	12.3%	6.5%	8.4%
<b>Average</b>						15.2	15.5	14.0	7.4	6.9	6.6	4.6%	5.4%	5.1%	4.7%	7.2%	9.1%
<b>Median</b>						15.3	14.8	14.5	6.9	6.7	6.7	5.5%	5.4%	5.9%	7.5%	6.6%	7.4%
<b>Integrated</b>																	
<b>China Telecom</b>	728 HK	Neutral	HK\$	4.4	48,859	20.5	17.3	14.1	4.8	4.2	4.3	1.8%	1.9%	1.9%	10.1%	9.6%	14.1%
<b>China Unicom</b>	762 HK	Buy	HK\$	13.38	43,353	n/m	n/m	20.9	5.9	4.9	4.2	0.7%	0.8%	1.4%	-2.7%	-1.1%	2.1%
<b>Chunghwa</b>	2412 TT	Neutral	NT\$	99	36,444	20.2	16.6	15.7	10.6	10.8	10.4	5.6%	5.4%	5.7%	6.4%	4.7%	5.1%
<b>KT Corp</b>	030200 KS	Buy	KRW	38,100	9,172	7.9	7.2	6.2	3.7	3.7	3.6	5.2%	5.2%	5.2%	5.5%	8.2%	9.3%
<b>LG Uplus</b>	032640 KS	Neutral	KRW	4,680	2,221	5.0	5.6	5.9	3.8	3.8	3.5	7.5%	7.5%	7.5%	9.5%	-6.5%	2.5%
<b>PLDT</b>	TEL PM	Neutral	PHP	2,338	10,293	10.5	10.7	10.8	5.9	6.0	5.9	9.6%	6.6%	6.6%	11.0%	7.9%	8.9%
<b>PT Indosat</b>	ISAT IJ	Buy	IDR	5,400	3,435	23.1	27.9	16.3	5.3	5.2	4.9	1.1%	2.8%	2.8%	1.2%	6.3%	6.6%
<b>PT Telkom</b>	TLKM IJ	Buy	IDR	7,300	16,876	12.5	12.0	11.6	4.2	3.9	3.7	4.4%	4.6%	4.8%	8.9%	12.2%	11.6%
<b>SingTel</b>	ST SP	Neutral	S\$	2.9	38,294	12.2	11.5	11.4	7.0	6.8	6.4	8.9%	6.2%	6.6%	8.7%	7.5%	6.8%
<b>SK Broadband</b>	033630 KS	Reduce	KRW	3,465	946	n/m	24.7	n/m	5.1	4.0	n/m	0.0%	0.0%	n/m	-4.9%	4.2%	n/m
<b>StarHub</b>	STH SP	Neutral	S\$	2.7	3,885	17.8	15.4	14.9	8.7	7.7	7.4	7.3%	7.3%	7.3%	8.0%	7.9%	6.5%
<b>TM</b>	T MK	Buy	MYR	4.1	4,866	27.3	30.2	27.0	5.6	5.7	5.4	12.0%	4.8%	4.8%	5.1%	2.0%	-0.3%
<b>Telstra</b>	TLS AU	Neutral	A\$	3.0	38,471	9.1	11.5	10.4	4.6	4.8	4.7	9.4%	9.4%	9.4%	14.0%	11.5%	11.3%
<b>True</b>	TRUE TB	Neutral	THB	3.9	1,905	n/m	n/m	n/m	5.3	7.1	7.2	0.0%	0.0%	0.0%	3.9%	n/m	-6.6%
<b>Average</b>						15.1	15.1	13.8	5.8	5.6	5.5	5.3%	4.5%	4.9%	6.1%	5.7%	6.0%
<b>Median</b>						12.5	13.7	12.8	5.3	5.0	4.9	5.4%	5.0%	5.2%	7.2%	7.5%	6.6%

Source: Capital Nomura Securities, Nomura research. Prices as on August 22,2011

## TRAI – is there a risk of re-farming?

TRAI chairman Mr J S Sarma stated that “2007-2012 will be viewed as a difficult period for Indian telcos”, however, he believes that the finalization of current policies will set the right framework for the future. Perhaps so, but getting the framework right in a 12-player market that is undergoing 3G/4G transition with scattered licenses is no easy task, we think. Regulations will likely remain “messy” in India. The chairman expects NTP-11 to be finalised soon, but noted it is unclear if TRAI’s proposals will be accepted in full. We understand TRAI is yet to hear back from the DoT on final recommendations and proposals, and it will revert to the DoT with final comments within 30 days of receiving the final recommendations and proposals. He also noted:

- The industry is fixated on near-term issues like spectrum and license charges, while there seems to be little focus in securing more spectrum longer term. He believes the focus should be on obtaining 500Mhz of more spectrum;
- Despite the media reporting that the government will adopt a uniform license fee of 8.5%, TRAI has not received official confirmation;
- TRAI still recommends the cancelling of some licenses;
- For M&A, TRAI expects the focus to be more on market share caps rather than spectrum caps necessarily (both go hand-in-hand to some extent, we believe). A levy on M&A is also likely to be imposed, but it will not be material; and
- He thinks spectrum re-farming of 900MHz is likely, and finding another 25Mhz in 1800MHz is possible. This will not bode well for telcos if implemented due to cost pressures, in our view.

**Fig. 3: Indian telcos: quarterly summary**

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
<b>Mobile revenues (INR mn)</b>									
Bharti	81,853	80,468	79,134	81,339	85,217	84,813	87,849	91,577	94,446
RCOM	47,931	40,100	40,225	40,900	41,528	41,613	40,644	41,978	43,267
Idea	29,759	29,739	31,495	33,478	36,537	36,592	39,556	42,347	45,207
Vodafone	53,680	53,089	54,621	56,691	60,175	59,729	63,359	66,150	70,098
<b>Total mobile revenues</b>	<b>213,223</b>	<b>203,396</b>	<b>205,475</b>	<b>212,408</b>	<b>223,457</b>	<b>222,747</b>	<b>231,408</b>	<b>242,053</b>	<b>253,018</b>
<i>q-q change %</i>									
Bharti	0%	-2%	-2%	3%	5%	0%	4%	4%	3%
RCOM	6%	-16%	0%	2%	2%	0%	-2%	3%	3%
Idea	1%	0%	6%	6%	9%	0%	8%	7%	7%
Vodafone	1%	-1%	3%	4%	6%	-1%	6%	4%	6%
<b>Total mobile revenues</b>	<b>2%</b>	<b>-5%</b>	<b>1%</b>	<b>3%</b>	<b>5%</b>	<b>0%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>
<b>Top 4 revenue share</b>									
Bharti	38%	40%	38.5%	38.3%	38.1%	38.1%	38.0%	37.8%	37.3%
RCOM	22%	20%	19.6%	19.3%	18.6%	18.7%	17.6%	17.3%	17.1%
Idea	14%	15%	15.3%	15.8%	16.4%	16.4%	17.1%	17.5%	17.9%
Vodafone	25%	26%	26.6%	26.7%	26.9%	26.8%	27.4%	27.3%	27.7%
<b>Mobile EBITDA (INR mn)</b>									
Bharti	34,106	33,310	30,400	30,327	31,710	30,964	31,954	31,620	33,614
RCOM	18,489	13,132	12,545	11,815	11,989	12,100	11,792	11,490	11,727
Idea	8,599	8,095	8,141	8,636	8,884	8,788	9,483	10,752	12,040
<i>q-q change %</i>									
Bharti	32%	-2%	-9%	0%	5%	-2%	3%	-1%	6%
RCOM	11%	-29%	-4%	-6%	1%	1%	-3%	-3%	2%
Idea	6%	-6%	1%	6%	3%	-1%	8%	13%	12%
<b>Mobile EBITDA Margins</b>									
Bharti	40%	40%	38%	36%	36%	35%	35%	33%	34%
RCOM	39%	33%	31%	29%	29%	29%	29%	27%	27%
Idea	29%	27%	26%	26%	24%	24%	24%	25%	27%

Source: Company data, Nomura research

Fig. 4: India telcos: operational summary

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
<b>Subscribers (mn)</b>									
Bharti	102	111	119	128	137	143	152	162	169
RCOM	80	86	94	102	111	117	126	136	143
Idea	47	51	58	64	69	74	82	90	95
Vodafone	76	83	91	101	109	116	124	135	142
<b>ARPU (INR per sub per month)</b>									
Bharti	278	252	230	220	215	202	198	194	190
RCOM	210	161	149	139	130	122	111	107	103
Idea	232	209	200	185	182	167	168	161	160
Vodafone	247	222	209	197	191	177	176	171	169
<b>Average ARPU</b>	<b>242</b>	<b>211</b>	<b>197</b>	<b>185</b>	<b>180</b>	<b>167</b>	<b>163</b>	<b>158</b>	<b>156</b>
<b>q-q change %</b>									
Bharti	-9%	-9%	-9%	-4%	-2%	-6%	-2%	-2%	-2%
RCOM	-6%	-23%	-7%	-7%	-6%	-6%	-9%	-4%	-4%
Idea	-9%	-10%	-4%	-8%	-2%	-8%	1%	-4%	-1%
Vodafone	-10%	-10%	-6%	-6%	-3%	-7%	-1%	-3%	-1%
<b>Average ARPU change</b>	<b>-9%</b>	<b>-13%</b>	<b>-7%</b>	<b>-6%</b>	<b>-3%</b>	<b>-7%</b>	<b>-3%</b>	<b>-3%</b>	<b>-2%</b>
<b>RPM (INR per min per sub)</b>									
Bharti	0.58	0.56	0.52	0.47	0.45	0.44	0.44	0.43	0.43
RCOM	0.58	0.47	0.45	0.44	0.44	0.44	0.44	0.44	0.44
Idea	0.58	0.56	0.51	0.46	0.44	0.42	0.42	0.41	0.41
Vodafone	0.75	0.70	0.66	0.61	0.58	0.57	0.57	0.56	0.55
<b>Average RPM</b>	<b>0.58</b>	<b>0.53</b>	<b>0.49</b>	<b>0.46</b>	<b>0.44</b>	<b>0.44</b>	<b>0.44</b>	<b>0.43</b>	<b>0.43</b>
<b>q-q change %</b>									
Bharti	-8%	-4%	-8%	-9%	-5%	-1%	-1%	-2%	-1%
RCOM	-4%	-18%	-5%	-3%	1%	0%	1%	0%	0%
Idea	-8%	-4%	-8%	-10%	-6%	-3%	-1%	-3%	1%
Vodafone	-8%	-7%	-6%	-8%	-4%	-2%	1%	-3%	-1%
<b>Average RPM change</b>	<b>-7%</b>	<b>-8%</b>	<b>-7%</b>	<b>-7%</b>	<b>-3%</b>	<b>-1%</b>	<b>0%</b>	<b>-2%</b>	<b>0%</b>
<b>MoU (minutes per sub per month)</b>									
Bharti	478	450	446	468	480	454	449	449	445
RCOM	365	340	330	318	295	276	251	241	233
Idea	399	375	389	398	415	394	401	397	391
Vodafone	330	319	318	325	328	311	308	307	308
<b>Average</b>	<b>393</b>	<b>371</b>	<b>371</b>	<b>377</b>	<b>379</b>	<b>359</b>	<b>352</b>	<b>349</b>	<b>344</b>
<b>q-q change %</b>									
Bharti	-1%	-6%	-1%	5%	3%	-5%	-1%	0%	-1%
RCOM	-2%	-7%	-3%	-4%	-7%	-6%	-9%	-4%	-3%
Idea	-1%	-6%	4%	2%	4%	-5%	2%	-1%	-2%
Vodafone	-2%	-3%	0%	2%	1%	-5%	-1%	0%	0%
<b>Average</b>	<b>-1%</b>	<b>-6%</b>	<b>0%</b>	<b>2%</b>	<b>1%</b>	<b>-5%</b>	<b>-2%</b>	<b>-1%</b>	<b>-1%</b>
<b>Prepaid Churn</b>									
Bharti	-22%	-21%	-25%	-29%	-17%	-13%	8%	8%	6%
Idea	7%	7%	9%	8%	8%	8%	10%	11%	10%
Vodafone	2%	3%	3%	3%	3%	4%	4%	4%	5%

Source: Company data, Nomura research

## Bharti – is the improvement sustainable?

- Bharti expects tariff increases in India to be segmented and elasticity-driven, and acknowledges that it may have to add more 'value' for certain segments of subscribers to offset tariff rises.
- IPOs of towers are still works in progress, and we do not expect these to be a 2011 event;
- In Africa, the company is placing priority on gaining revenue market share, then on revenue growth and EBITDA growth, which should see cashflows recover beyond that;
- KYC norms are proving to be a hurdle for subscriber acquisition in Africa. However, Bharti is confident that it is managing churn broadly well. We also understand that the price revisions in this market are partly to blame for the lower EBITDA run rate since acquisition.
- Some USD2.3bn of the African debt of USD8.3bn is short-term and thus will likely be partly repaid or refinanced in 2012. In either case, we think domestic Indian cashflows will be used for this.

Fig. 5: Bharti: quarterly summary

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
(INR mn)	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
<b>Revenues</b>									
India	104,143	103,785	103,053	107,491	112,725	113,245	117,029	121,196	125,965
Africa	-	-	-	-	9,583	38,906	40,531	41,815	43,784
<b>Total Net Revenues</b>	<b>104,143</b>	<b>103,785</b>	<b>103,053</b>	<b>107,491</b>	<b>122,308</b>	<b>152,151</b>	<b>157,560</b>	<b>162,654</b>	<b>169,749</b>
<b>EBITDA</b>									
India	34,106	33,310	30,400	30,327	31,710	30,964	31,954	31,620	33,614
Zain Africa	-	-	-	-	1,734	8,989	7,724	10,157	11,053
<b>Total EBITDA</b>	<b>42,974</b>	<b>43,007</b>	<b>40,823</b>	<b>40,829</b>	<b>44,140</b>	<b>51,211</b>	<b>49,816</b>	<b>54,496</b>	<b>57,058</b>
- % Chg (YoY)	22%	16%	3%	2%	3%	19%	22%	33%	29%
- % Chg (QoQ)	7%	0%	-5%	0%	8%	16%	-3%	9%	5%
- % Margin	41%	41%	40%	38%	36%	34%	32%	34%	34%
<b>EBIT</b>	<b>28220</b>	<b>27763</b>	<b>24942</b>	<b>23876</b>	<b>24673</b>	<b>25421</b>	<b>22709</b>	<b>24794</b>	<b>25744</b>
<b>Reported Net profit</b>	<b>24,745</b>	<b>22,630</b>	<b>21,949</b>	<b>20,444</b>	<b>16,815</b>	<b>16,618</b>	<b>13,035</b>	<b>14,061</b>	<b>12,034</b>
- % Chg (YoY)	22%	11%	2%	-9%	-32%	-27%	-41%	-31%	-28%
<b>Underlying Net profit</b>	<b>22,369</b>	<b>23,281</b>	<b>20,592</b>	<b>19,885</b>	<b>20,155</b>	<b>14,722</b>	<b>16,809</b>	<b>14,283</b>	<b>13,234</b>
- % Chg (YoY)	5%	-11%	-14%	-20%	-10%	-37%	-18%	-28%	-34%
- % Chg (QoQ)	-10%	4%	-12%	-3%	1%	-27%	14%	-15%	-7%

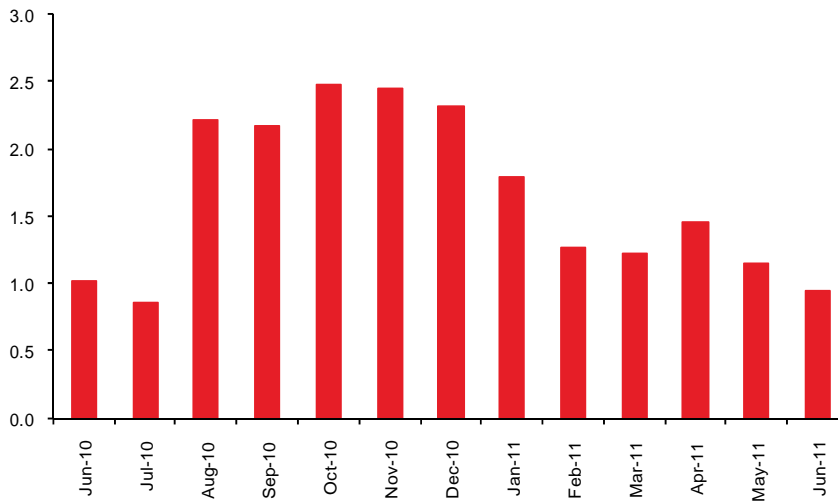
Source: Company data, Nomura research

## Unitech (Uninor) – India aspirations intact

- Unitech maintains its long-term aspirations in Indian telcos. According to the company, Uninor is currently on track to break even by 2013 on EBITDA, and we estimate monthly losses are currently at around USD40-50mn and likely flat m-m at this point.
- Competition has been stable for more than two quarters now, and even recent price hikes seem to be getting more airplay than what Uninor is seeing in the market – although this could change in the coming months.
- The company also does not expect "realised" RPM to change much this year as there are still plenty of free minute options.
- Uninor has around 21mn active subs and these are largely second SIM subs still with an average ARPU in the low INR100 range. The highest ARPU subs are in the INR200 range – hence are unlikely to be impacted by 3G.
- The key focus for the company is to increase BTS utilization (volumes), and they continue to offer around 10-15% higher dealer commissions.
- Licenses are pending in 4 circles including Delhi, JK, Assam, NE and Rajasthan – but their key focus is in the 13 existing circles, with the greatest focus on the 3 circles of UPE, UPW, and Bihar.

- The company expects limited capex going forward, with plans to build another 9k BTS this year. Total investment to date in India is around USD2.5-3bn, on our estimates.
- 3G is still in the very early stages, and at the group level, Unitech (Uninor) is more likely to take part in LTE, in our view.

Fig. 6: Uninor: net adds (mn)



Source: TRAI, Nomura research

Fig. 7: Uninor: operational and financial summary

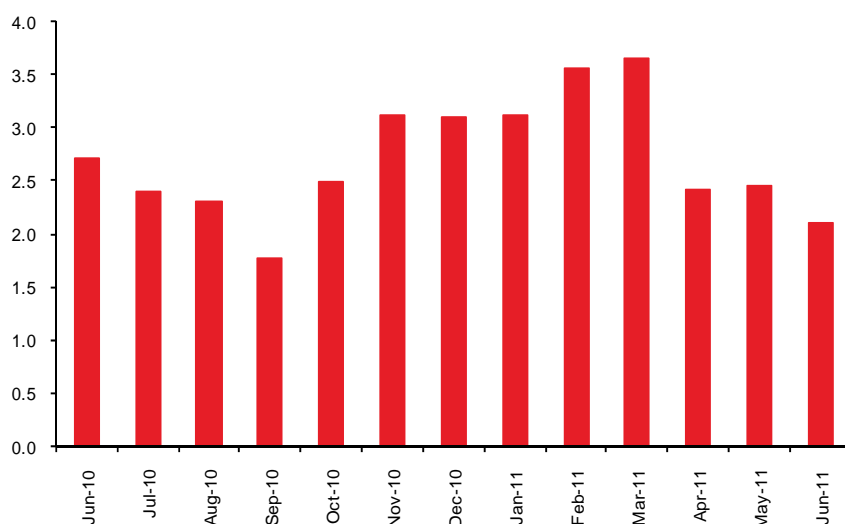
OPERATIONAL DATA	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
<b>SUBSCRIBER DATA</b>							
Subscribers ('000s)	1,008	2,155	3,873	7,918	12,255	17,439	21,430
net adds		1,147	1,718	4,045	4,337	5,184	3,991
Prepaid subs ('000s)	1,008	2,155	3,873	7,918	7,918	7,918	7,918
% prepaid	100%	100%	100%	100%	65%	45%	37%
<b>USAGE</b>							
Reported MoU (minutes)		148	209	254	252	307	308
Chg % q-q			41%	22%	-1%	22%	0%
Implied totat minutes (mn)		702	1,890	4,492	7,625	13,674	17,957
Chg % q-q			169%	138%	70%	79%	31%
<b>ARPU</b>							
Reported ARPU (NOK)		10	12	13	13	12	12
Implied ARPU (INR)		78	91	98	98	95	97
Chg % q-q			16%	8%	0%	-3%	2%
<b>RPM</b>							
Implied RPM (INR)		0.53	0.44	0.39	0.39	0.31	0.31
Chg % q-q			-18%	-11%	1%	-21%	2%
<b>FINANCIALS</b>							
Revenues (INR mn)		437	779	1,620	3,025	4,332	5,624
Chg % q-q			78%	108%	87%	43%	30%
EBITDA	(5,216)	(7,628)	(8,581)	(8,433)	(7,757)	(8,058)	(7,773)
Operating loss (INR mn)	(5,817)	(8,713)	(10,028)	(10,114)	(9,618)	(9,858)	(9,717)
margin %		-1994%	-1287%	-624%	-318%	-228%	-173%
Capex (INR mn)	9,214	5,573	2,758	1,501	2,646	2,533	1,499
Capex (US\$ mn)	205	124	61	33	59	56	33

Source: Company data, Nomura research

## Vodafone

- Vodafone expects recent price hikes to last 1-2 quarters, but is not sure if this will be sustainable beyond that. It has increased prices in 14-15 circles, mainly for on-net plans.
- The competitive landscape looks stable and the company does not expect any change here over the coming quarters.
- On M&A, the company noted that current TRAI proposals aren't attractive, especially for >6.2MHz spectrum pricing, and it prefers to buy 'spectrum' from the government rather than operators due to the overlap of other assets (ie, networks, staff and distribution).

**Fig. 8: Vodafone: net adds (mn)**



Source: TRAI, Nomura research

**Fig. 9: Vodafone India: financial summary**

	Sep-07	Mar-08	Sep-08	Mar-09	Sep-09	Mar-10	Sep-10	Mar-11
	H108	H208	H109	H209	H110	2H10	1H11	2H11
Total service revenue	703	1,050	1,139	1,465	1,459	1,610	1,853	1,951
- % Chg HoH		49%	8%	29%	0%	10%	15%	5%
- % Chg YoY			62%	40%	28%	10%	27%	21%
Other revenue	20	49	39	46	26	19	21	30
<b>Total revenue</b>	<b>723</b>	<b>1,099</b>	<b>1,178</b>	<b>1,511</b>	<b>1,485</b>	<b>1,629</b>	<b>1,874</b>	<b>1,981</b>
- % Chg HoH		52%	7%	28%	-2%	10%	15%	6%
- % Chg YoY			63%	37%	26%	8%	26%	22%
<b>EBITDA</b>	<b>246</b>	<b>352</b>	<b>335</b>	<b>382</b>	<b>357</b>	<b>450</b>	<b>488</b>	<b>497</b>
- % Chg HoH		43%	-5%	14%	-7%	26%	8%	2%
- % Chg YoY			8%	7%	18%	37%	10%	
<b>EBITDA Margin</b>	<b>34.0%</b>	<b>32.1%</b>	<b>28.4%</b>	<b>25.3%</b>	<b>24.0%</b>	<b>27.6%</b>	<b>26.0%</b>	<b>25.1%</b>
Capital expenditure	389	641	592	759	529	324	286	524
Capex to sales	54%	58%	50%	50%	36%	20%	15%	26%
Operating free cash flow	20	(200)	(219)	(391)	(31)	24	340	93

Source: Company data, Nomura research



Fig. 10: Vodafone India: operational summary

OPERATIONAL DATA	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
<b>ARPU (INR)</b>						
<b>Total ARPU (INR)</b>	<b>197</b>	<b>191</b>	<b>177</b>	<b>176</b>	<b>171</b>	<b>169</b>
- % Chg QoQ	-6%	-3%	-7%	-1%	-3%	-1%
- % Chg YoY	-28%	-23%	-20%	-16%	-13%	-12%
<b>Prepaid</b>	<b>161</b>	<b>157</b>	<b>145</b>	<b>145</b>	<b>142</b>	<b>141</b>
- % Chg QoQ	-5%	-2%	-8%	0%	-2%	-1%
<b>Contract</b>	<b>765</b>	<b>778</b>	<b>760</b>	<b>756</b>	<b>728</b>	<b>749</b>
- % Chg QoQ	-2.5%	1.7%	-2.3%	-0.5%	-4%	3%
<b>Minutes</b>						
<b>Total Minutes ( million min)</b>	<b>93,735</b>	<b>103,209</b>	<b>104,878</b>	<b>110,623</b>	<b>119,295</b>	<b>127,626</b>
- % Chg QoQ	13%	10%	2%	5%	8%	7%
<b>Implied MoU</b>	<b>325</b>	<b>328</b>	<b>311</b>	<b>308</b>	<b>307</b>	<b>308</b>
- % Chg QoQ	2%	1%	-5%	-1%	0%	0%
<b>RPM</b>						
<b>Implied revenue per minute (INR)</b>	<b>0.60</b>	<b>0.58</b>	<b>0.57</b>	<b>0.57</b>	<b>0.55</b>	<b>0.55</b>
- % Chg QoQ	-8%	-4%	-2%	1%	-3%	-1%
- % Chg YoY	-26%	-22%	-18%	-13%	-8%	-6%
<b>Churn</b>						
<b>Prepaid</b>	<b>40%</b>	<b>40%</b>	<b>42%</b>	<b>48.1%</b>	<b>52.1%</b>	<b>58.8%</b>
<b>Postpaid</b>	<b>26%</b>	<b>25%</b>	<b>23%</b>	<b>21.1%</b>	<b>28.0%</b>	<b>21.9%</b>
<b>Blended</b>	<b>39%</b>	<b>39%</b>	<b>41%</b>	<b>47%</b>	<b>52%</b>	<b>57%</b>
<b>Revenues</b>						
<b>Service Revenues (GBP M)</b>	<b>843</b>	<b>954</b>	<b>899</b>	<b>963</b>	<b>988</b>	<b>1039</b>
- % Chg QoQ	10%	13%	-6%	7%	3%	5%
- % Chg YoY	7%	26%	28%	26%	17%	9%
<b>Service Revenues (INR M)</b>	<b>56,691</b>	<b>60,175</b>	<b>59,729</b>	<b>63,359</b>	<b>66,150</b>	<b>70,098</b>
<b>Prepaid</b>	<b>43,696</b>	<b>46,721</b>	<b>46,289</b>	<b>49,500</b>	<b>52,459</b>	<b>55,678</b>
<b>Postpaid</b>	<b>12,995</b>	<b>13,455</b>	<b>13,439</b>	<b>13,859</b>	<b>13,691</b>	<b>14,420</b>
<b>Service revenue(INR) growth rates</b>						
- % Chg QoQ	3.8%	6.1%	-1%	6%	4%	6%
- % Chg YoY	6.6%	12.1%	12.5%	16.0%	16.7%	16.5%

Source: Company data, Nomura research

# Appendix A-1

## Analyst Certification

I, Sachin Gupta, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

## Issuer Specific Regulatory Disclosures Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Bharti Airtel	BHARTI IN	INR 402	23-8-2011	Neutral	Not rated	
Idea Cellular	IDEA IN	INR 94	23-8-2011	Neutral	Not rated	
Reliance Communications	RCOM IN	INR 80	23-8-2011	Reduce	Not rated	

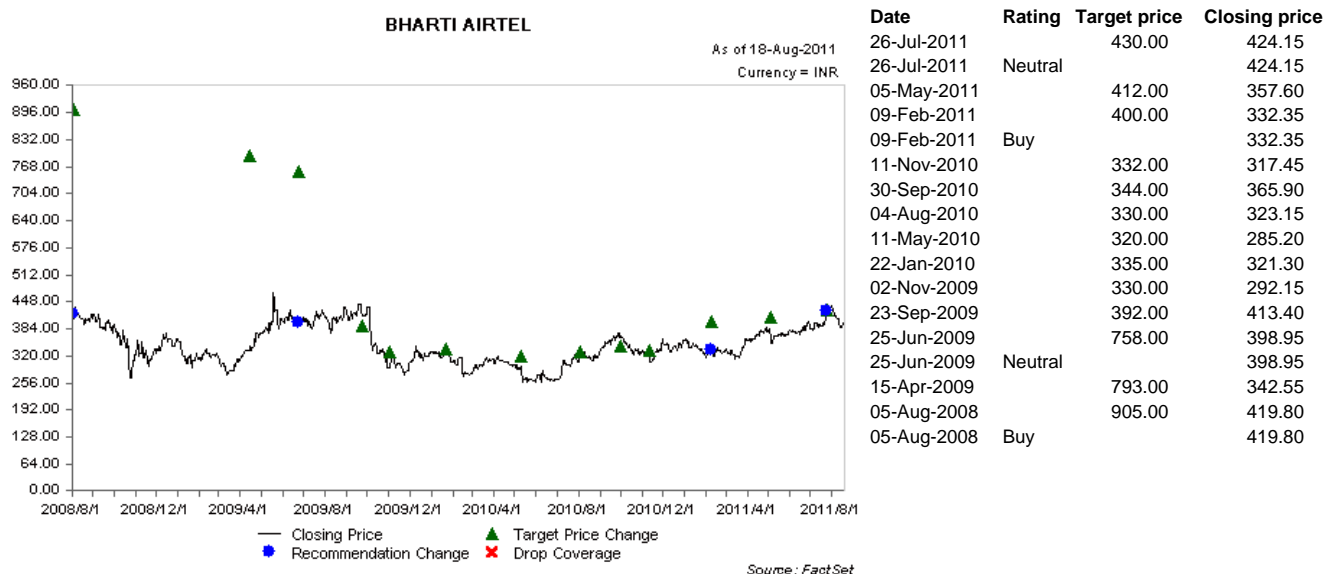
## Previous Rating

Issuer name	Previous Rating	Date of change
Bharti Airtel	Buy	26-7-2011
Idea Cellular	Reduce	14-6-2011
Reliance Communications	Buy	03-11-2009

## Bharti Airtel (BHARTI IN)

INR 402 (23-8-2011) Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

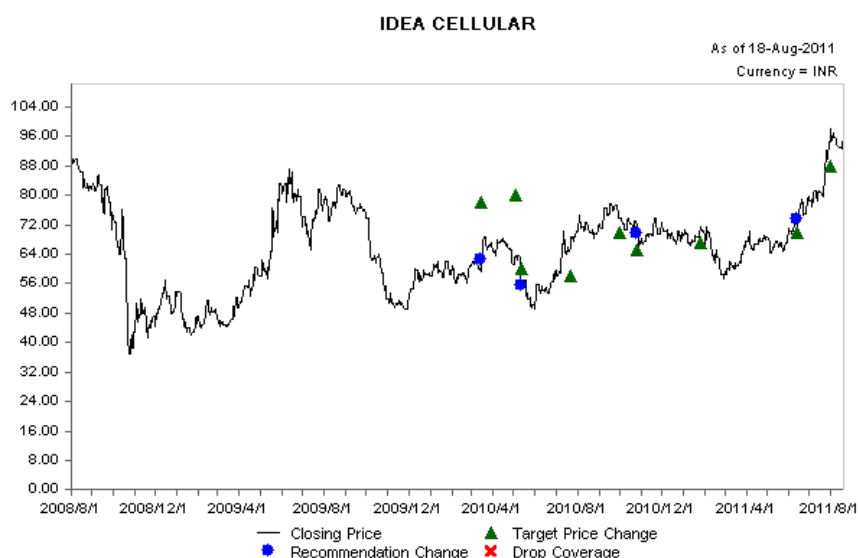
**Valuation Methodology** Our target price of INR430 is DCF-based, assuming a WACC of 9.2% and a terminal growth rate of 3%. Cash flows are discounted back to FY17F.

**Risks that may impede the achievement of the target price** Key downside risks: delayed turnaround in Africa; increased competition in India; and unfavourable regulatory conditions. Key upside risks: greater-than-anticipated stability in pricing in India and faster-than-anticipated turnaround in Africa. Tower divestment could be an upside catalyst, too.

**Idea Cellular (IDEA IN)**

**INR 94 (23-8-2011)** Neutral (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
01-Aug-2011		88.00	98.25
14-Jun-2011		70.00	73.40
14-Jun-2011	Neutral		73.40
26-Jan-2011		67.00	71.55
26-Oct-2010		65.00	69.65
26-Oct-2010	Reduce		69.65
30-Sep-2010		70.00	73.60
23-Jul-2010		58.00	68.55
13-May-2010		60.00	55.20
13-May-2010	Neutral		55.20
04-May-2010		80.00	63.55
16-Mar-2010		78.00	62.40
16-Mar-2010	Buy		62.40

For explanation of ratings refer to the stock rating keys located after chart(s)

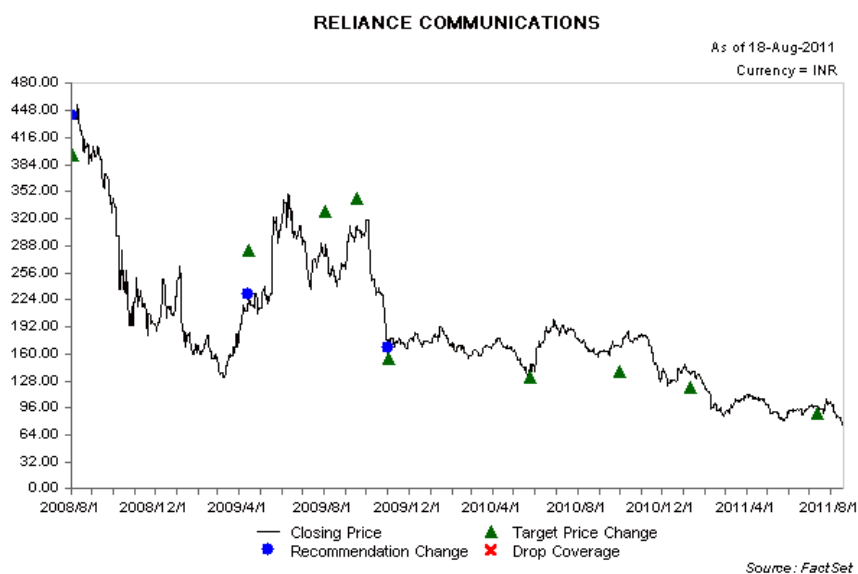
**Valuation Methodology** Our target price of INR88 is based on a WACC of 9.5% and a terminal growth rate of 4%. Cash flows are discounted back to FY17F.

**Risks that may impede the achievement of the target price** Key upside risks: A favourable resolution of regulatory issues, and faster-than anticipated industry consolidation. Key downside risks: a pickup in competition.

**Reliance Communications (RCOM IN)**

**INR 80 (23-8-2011)** Reduce (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
13-Jul-2011		90.00	98.25
11-Jan-2011		120.00	137.80
30-Sep-2010		140.00	168.25
26-May-2010		132.00	135.00
03-Nov-2009		154.00	165.90
03-Nov-2009	Reduce		165.90
18-Sep-2009		344.00	306.60
03-Aug-2009		329.00	289.90
15-Apr-2009		282.00	230.05
15-Apr-2009	Buy		230.05
05-Aug-2008		395.00	442.25
05-Aug-2008	Reduce		442.25

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** Our DCF-based target price of INR90 is driven by a WACC of 10.9% and a terminal growth rate of 3%. Cash flows are discounted back to FY17F.

**Risks that may impede the achievement of the target price** Key risks: stronger-than-anticipated execution; better-than-anticipated margin recovery; and M&A transactions.

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As at 30 June 2011.

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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

#### STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.

A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.

A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.

A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

Benchmarks are as follows: **United States/Europe**: Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: <http://go.nomuranow.com/research/globalresearchportal>); **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology.

#### SECTORS

A '**Bullish**' stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.

A '**Neutral**' stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.

A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

### Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

#### STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as  $(\text{Target Price} - \text{Current Price}) / \text{Current Price}$ , subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

A **'Buy'** recommendation indicates that potential upside is 15% or more.

A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.

A **'Reduce'** recommendation indicates that potential downside is 5% or more.

A rating of **'Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

### Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

#### STOCKS

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A rating of '2' or **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '3' or **'Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of '4' or **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '5' or **'Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

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#### SECTORS

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A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500, MSCI World Technology Hardware & Equipment; **Europe,** by sector - *Hardware/Semiconductors:* FTSE W Europe IT Hardware; *Telecoms:* FTSE W Europe Business Services; *Business Services:* FTSE W Europe; *Auto & Components:* FTSE W Europe Auto & Parts; *Communications equipment:* FTSE W Europe IT Hardware; **Ecology Focus:** Bloomberg World Energy Alternate Sources; **Global Emerging Markets:** MSCI Emerging Markets ex-Asia.

### Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

#### STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as  $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$ , subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A **'Strong buy'** recommendation indicates that upside is more than 20%.

A **'Buy'** recommendation indicates that upside is between 10% and 20%.

A **'Neutral'** recommendation indicates that upside or downside is less than 10%.

A **'Reduce'** recommendation indicates that downside is between 10% and 20%.

A **'Sell'** recommendation indicates that downside is more than 20%.

#### SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

#### Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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